Report of the Comptroller and Auditor General of India on Public Sector Undertakings

Government of Karnataka

Report No.4 of the year 2013

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Preface

This Report deals with the results of audit of Government Companies and Statutory Corporations and has been prepared for submission to the Government of Karnataka under Section 19 A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time.

2. Audit of accounts of Government Companies is conducted by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act, 1956.

3. In respect of Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Western Karnataka Road Transport Corporation and North Eastern Karnataka Road Transport Corporation, which are Statutory Corporations, the Comptroller and Auditor General of India is the sole auditor. As per the State Financial Corporation's (Amendment) Act, 2000, the CAG has the right to conduct the audit of accounts of Karnataka State Financial Corporation in addition to the audit conducted by the Chartered Accountants, appointed by the Corporation out of the panels of Auditors approved by the Reserve Bank of India. In respect of Karnataka State Warehousing Corporation, the CAG has the right to conduct the audit of their accounts in addition to the audit conducted by the Chartered Accountants, appointed by the State Government in consultation with the CAG. In respect of Karnataka Electricity Regulatory Commission, the CAG is the sole auditor. The Audit Reports on the annual accounts of all these corporations are forwarded separately to the State Government.

4. The cases mentioned in this Report are those, which came to notice in the course of audit during 2011-12 as well as those which came to notice in earlier years, but were not dealt with in the previous Reports. Matters relating to the period subsequent to 2011-12 have also been included, wherever necessary.

5. The audit in relation to the material included in this Report has been conducted in conformity with the Auditing Standards issued by the CAG.

Overview

Overview

1. Overview of Government Companies and Statutory Corporations

Audit of Government Companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government Companies are audited by Statutory Auditors appointed by the CAG. These accounts are also subject to supplementary audit conducted by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2012, the State of Karnataka had 76 working Public Sector Undertakings - PSUs (70 Companies and 6 Statutory Corporations) and 14 non-working PSUs (all Companies), which employed 1.86 lakh employees. The State PSUs registered a turnover of ₹ 34,490.58 crore for 2011-12 as per their latest finalised accounts. This turnover was equal to 7.94 per cent of State Gross Domestic Product indicating the important role played by the PSUs in the economy. The PSUs had accumulated profit of ₹1,368.93 crore as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2012, the investment (Capital and long term loans) in 90 PSUs was ₹ 66,712.87 crore. Infrastructure Sector accounted for about 52.41 per cent of total investment and Power Sector about 35.55 per cent in 2011-12. The Government contributed ₹ 11,853.81 crore towards equity, loans and grants / subsidies in 2011-12.

Performance of PSUs

The working State PSUs earned a profit of ₹1,125.74 crore in the aggregate for 2011-12 as per their latest finalised accounts. The major contributors to profit were Hutti Gold Mines Company Limited (₹ 294.95 crore), Karnataka Power Corporation Limited (₹162.27 crore) and Mysore Minerals Limited (₹122.84 crore). Heavy losses were incurred by Karnataka Neeravari Nigam Limited (₹ 264.40 crore, The Mysore Paper Mills Limited (₹ 84.78 crore), The Mysore Sugar Company Limited (₹70.21 crore).

Audit noticed various deficiencies in the functioning of PSUs. A review of the latest Audit Report of the CAG shows that the there were controllable losses of ₹ 1,890.63 crore and infructuous investments of ₹ 112.95 crore were controllable with better management. Thus, there was tremendous scope to improve the functioning and enhance the profits. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for greater professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of working companies needs improvement. During the year, out of 58 accounts finalised, the Statutory Auditors had given unqualified reports for 10 accounts, qualified reports for 45 accounts, adverse reports (which meant that accounts did not reflect a true and fair position) for 2 accounts and disclaimer of opinion in one accounts. There were 107 instances of non-compliance with Accounting Standards in 31 Companies during the year. Reports of Statutory Auditors on internal control of the Companies indicated several weak areas.

Arrears in accounts and winding up

Thirty seven working PSUs had arrears of fourty two accounts as of September 2012. The arrears pertain only to the years 2010-11 and 2011-12. There were 14 non-working PSUs including seven under liquidation. The Government may take a decision on these non-working Companies.

2. Performance Audits relating to Government Companies

The Report includes Performance Reviews relating to **Karnataka Power Transmission Corporation Limited** and **Modernisation of Canal System of Bhadra Reservoir Project by Karnataka Neeravari Nigam Limited.** Executive summary of audit findings is given below:

➢ Performance Audit of Karnataka Power Transmission Corporation Limited.

The Company

The Company was incorporated in July 1999 under the Companies Act, 1956 for transmission of electricity. It transmitted 42,933.65 MUs of energy in 2007-08, which increased to 56,890 MUs of energy in 2011-12 (an increase of 32.51 *per cent)*. The Company had 963 Substations and 30,418.64 Ckm of transmission network (March 2012).

Objectives of the Performance Audit

The objectives of the Performance Audit were to assess whether the transmission system was planned and developed in an economical, efficient and effective manner; operation and maintenance were carried out efficiently and effectively; adequate mechanism for procurement of materials and inventory control was in place; there existed a proper financial management system; whether disaster management system was set up for protection; monitoring of existing/ ongoing projects and effecting corrective measures were timely and adequate.

Sampling

Of the 318 Substations constructed, 240 augmented and 399 Lines laid (between 2007 and 2012), audit test checked 48 Substations, 6 augmentation works and 48 Lines (including 42 works in progress).

Audit findings

Planning the network

The actual capital expenditure had increased from ₹ 479 crore in 2005-06 to ₹ 2,093 crore in 2007-08. However, the actual expenditure decreased to ₹ 945 crore in 2011-12. The actual expenditure had been much lower than the initially approved outlays during the last five years. The Karnataka Electricity Regulatory Commission (KERC) had made many observations on investments while issuing tariff orders every year.

Against the scenario of restricted power supply in the State, the capacity created as at the end of March 2012, compared to projections, was in excess by 1,025 MVA. The cost of creation of this excess capacity worked out to ₹ 50.32 crore.

Project management

There were delays at different stages during construction and test checked 20 Substations and 15 lines were completed indicating major deficiencies in applying for statutory clearances, in solving right of way problems, in handing over sites to contractors, in supply of materials *etc.* Many works were not commissioned even after completion. Works idled for long periods after commissioning because of non-completion of source lines, redundancy in lines and abandoning of lines. The delay resulted in loss of energy of about ₹ 352.29 crore and incurring of unnecessary interest charges of ₹ 119.66 crore (in test checked projects).

There were 321 ongoing projects as at the end of March 2012. In 42 test checked cases, 14 projects had been delayed after spending ₹ 734.89 crore. Causes attributable were similar to the ones pointed out in the preceding paragraph. In two cases UG Cable was lying idle. The Phase I of SCADA was not completed in time and Phase II is still not completed due to which Availability Based Tariff (ABT) mechanism could not be implemented in the State.

Purchase of transformers

The Company purchased 540 transformers during the period 2007-12 and 492 of them were installed. Commissioning of 357 (value of transformers: ₹ 641.52 crore) of the 492 transformers were delayed for periods ranging between 3 and 49 months.

Transmission facilities to evacuate power

Evacuation of Power from newly commissioned generating stations was found not possible as the transmission lines were not put in place. A Memorandum of Agreement had not been entered in one case. The State purchased short term power at rates ranging between ₹ 4.74 and ₹ 6.77 per unit during 2008-12, to reduce the demand supply gap.

Essential facilities

- **7 stations of 220 KV, 73 stations of 110 KV and 120 stations of 66 KV capacities were having only single transformer.**
- **Review of line loading revealed that 299 lines were loaded more than 70 *per cent* of the standards fixed by the Company.**
- **Of the 89 Nos of 220 kV Substations where Bus Bar Protection Panels had to be installed; only 64 Substations were provided with.**
- **52 lines did not maintain the lower limit of prescribed voltage range.**
- **Manual/guideline and targets for hot-line maintenance were not prepared. The proposed Hot-line Division/Sub-divisions had not been established.**
- **Six of the 16 generating stations did not have black-start facilities.**
- **In 6 major 220 KV Sub-stations DG sets were not provided/ not in working condition.**
- **709 transformers (33.51 *per cent*) out of 2,116 transformers commissioned were overloaded (beyond 90 *per cent*).**

  However, the Generation-Transmission points and Transmission-Distribution points were provided with 0.2 class meters, which was as per requirement.

Grid management

The Grid discipline of the Company was commendable. The severity of the instances of Grid violation had reduced from 1,085 numbers in 2007-08 to one instance in 2011-12.

Financial management

- **Cost on account of depreciation per unit increased from ₹ 0.03 per unit in 2007-08 to ₹0.08 in 2011-12, an increase of 167 *per cent.***
- **During the five years under review the Company had mobilized ₹ 7,855.85 crore by way of capital and borrowings and utilized only ₹ 6,972.75 crore on capital expenditure.**
- **Internal generation of funds were not sufficient to repay the borrowings fully.**
- **Return on Capital decreased from 8.85 *per cent* (2007-08) to 6.24 *per cent* (2011-12).**

Monitoring and control

The main purpose of constitution of the Technical Advisory Committee (TAC) was to ensure standardization in specifications in respect of projects and also to involve experts in the process of technical clearance. The TAC had not met after September 2009.

Conclusion

The Company transmitted 42,933.65 MUs of energy in 2007-08 using a capacity of 34,294.80 MVA. The energy transmitted in 2011-12 was 56,890 MUs with the capacity increasing up to 45,158.80 MVA, indicating creation of excess capacity.

The clearances and permissions in many cases from various statutory authorities were sought for only after the works were awarded ignoring the recommendations of the Task Force (as regards planning and execution). Substations did not become operational because of delay in completing source lines and distribution lines.

Transformers purchased at huge costs remained idle for 3 to 49 months owing to delay in implementation of the projects and improper planning. Instances of idling of underground cable procured at high prices were observed.

The Company failed to draw power from the newly commissioned generating stations for long periods, as evacuation facilities were not put in place.

Availability Based Tariff mechanism (intra-state) was yet to be implemented (September 2012), though KERC has been insisting on it time and again.

The grid discipline by frequency management of the Company was appreciable.

The cost of transmission has increased steadily without corresponding increase in revenue. The capital expenditure was less than the funds mobilised by way of infusion of capital and borrowings, indicating use of long term funds for purposes other than creation of assets. The conditions put forth by the Government of Karnataka while releasing capital were not adhered to. Non-receipt of ₹ 630.45 crore from Government of Karnataka against taken over pension/gratuity liability affected the profitability of the Company.

The internal control system had weaknesses.

Recommendations

The following recommendations are offered:

- **The construction of substations and lines should be need based, against the backdrop of scarce resources; to avoid idling and excess capacity creation. The planning and execution require reorientation to have synchronization of various aspects of implementation of the projects to facilitate taking up of issues such as forest and other statutory clearances, road cutting permissions, *etc*., well in time and resolving them before award of the works.**

- **There is need to conduct effectively the survey of the line corridors to avoid the problems like right of way during the course of construction. Adequate enquiries as to suitability of the area and encumbrance should precede the acquisition of land and hindrance free land should be available to contractors for construction of substations, alongwith the award of work.**

- **Procurement of high value items should be need based to avoid blocking up of funds on materials.**

  In all the above aspects the recommendations of the Task Force could be the roadmap.

- **The Company should speed up implementation of Availability Based Tariff mechanism (intra-state), put in place adequate Disaster Management mechanism and create infrastructure for monitoring of load (availing real time data).**

- **The Company should plan for evacuation of power from generating stations in time so as to avoid purchase of expensive power from the market and give fillip to growth.**

- **The stipulations set by the Government while releasing funds towards capital expenditure should be fulfilled. The Subcommittee on borrowings of the Company should document its decisions and follow up actions.**

(Chapter 2.1)

➢ Performance Audit on modernisation of canal system in Bhadra Reservoir Project.

The Company

The Company was incorporated in December 1998 under the Companies Act, 1956 to execute, operate and maintain irrigation projects in the State, excluding Upper Krishna Project. The Bhadra Reservoir Project (BRP) and the work of modernisation of its canal system were brought under the control of the Company in February 2004.

Objectives of the Performance Audit

The Performance Audit on the modernisation of the irrigation canals of the BRP was carried out to assess whether reasonable care was exercised in planning, in preparation of estimates, the designing was after adequate study, the contracts were awarded in a transparent manner complying with the provisions of Karnataka Transparency in Public Procurement (KTPP) Act and the guidelines of Central Vigilance Commission (CVC), works were executed as per the time schedule. It was also to assess whether the intended objective of providing sufficient water to the entire atchkat including tail end users was achieved with 61.70 tmc of water allocated as per Krishna Water Disputes Tribunal.

Audit findings

Planning

The Company was initially required to take up the modernisation of vulnerable reaches of the main and branch canal of the Bhadra Reservoir Project. Estimates were revised at a later date by including the entire stretch of the canals. As a consequence the scope of work and quantities awarded changed again and again leading to cost and time overrun.

The project was envisaged to start in June 2007 and to complete by December 2007. It was still going on, even after five years (December 2012).

The project was formulated (2001) to irrigate a command area of 1.05 lakh hectares, including the suffering tail-end atchkat of about 9,118 hectares. But, supply of water to the tail end atchkat of about 2,132 ha continued to be affected even after expending ₹ 1,003.33 crore.

Estimates of work and reporting of progress

The estimates and extent of work were not determined leading to repeated changes. The progress reported by each agency varied.

Contract management

The works, which were originally envisaged under six packages were split again and again and are now executed in 33 packages. The works included in all packages still remained incomplete.

Despite the recommendation of the Expert Committee to modernise only the vulnerable reaches of main and branch canals, the Company decided to modernise the entire stretch of main and branch canals without approval of competent authority.

Limiting the tender access only to the Category-I contractors enrolled with the Company, who satisfied the prescribed prequalification criteria resulted in foregoing the competitive rates. After calling for tenders, the scope of the work was changed with increase in quantities, in contravention of the KTPP Act. Several contracts were awarded on single tender basis under the plea of urgency. Award of the contracts at negotiated rates violated the GoK and CVC guidelines.

The Company included price variation clause in the contracts contrary to the Government directions, which afforded undue benefit of ₹ 50.18 crore to the contractors.

The Company accorded extension of time without assessing the requirement of time in each case. Despite non-completion of the work even within the extended period, liquidated damages as per the agreements of ₹ 49.22 crore was not levied.

Execution

Providing Cement Concrete (CC) lining to the entire length of 103 kms of Right Bank Canal which mainly runs through rocky strata was not justified and avoidable expenditure thus incurred could not be quantified.

In respect of silt removal, excavation of soft rock, embankment, CC lining and UCRS masonry, there was huge increase in quantities actually executed from the estimated quantities.

Non-adherence to the technical/Indian Standard (IS) specifications

The Code of practice of the Bureau of Indian Standards (BIS) prescribed certain standards for Cement Concrete lining of canals and Full Supply Depth/Freeboard. These were not adhered to/complied with, which resulted in avoidable and unfruitful expenditure of ₹ 165.66 crore.

Financial management

Delay in obtaining the clearance of the Planning Commission for the modernisation project, resulted in short receipt of the Central Assistance (Grants) of ₹ 65.29 crore.

Water management

The water management mechanism was deficient, which led to violation of crop pattern in irrigated area ranging from 66.83 *per cent* to 70.05 *per cent* of the total area irrigated.

Conclusion

We conclude that:

- **The project was envisaged to start in June 2007 and to be completed by December 2007. Even after five years (December 2012) from the scheduled completion date, the project was still in progress.**
- **Despite incurring ₹ 1,003.33 crore on modernisation, about 2,132 ha of the 'suffering' tail end atchkat of 9,118 hectares remained without water supply (September 2012).**
- **The estimates and extent of work were not determined, leading to change in scope of modernisation programme.**
- **The Company decided to modernise the entire stretch of main and branch canals ignoring the recommendation of the Expert Committee to limit it to vulnerable structures and without the approval of competent authority.**
- **Change of scope after inviting tenders was in contravention of the KTPP Act. Limiting the tender access only to the Category-I contractors enrolled with the Company, who satisfied the prescribed the pre-qualification criteria, resulted in foregoing competitive rates.**
- **Award of the contracts at negotiated rates and on single tender basis in several cases under the plea of urgency was in violation of the GoK and CVC guidelines.**
- **The works, which were originally envisaged under six packages were split again and again and are now executed in 33 packages. The Company extended time of completion (January 2011) in respect of all the contracts without levying liquidated damages for delays.**
- **The Company included price variation for works to be completed in seven months as well, in contravention of the orders of the Government of Karnataka. Adoption of lower rates as base price for calculation of price variation of cement resulted in undue benefit to the contractors.**
- **The Company ignored the specification of the Bureau of Indian Standards (BIS) by resorting to excess thickness of lining of canals and lining beyond the required height resulting in creation of excessive Free Boards. The avoidable expenditure was ₹ 165.66 crore.**
- **There was huge difference between the demands for water charges and maintenance cess registered by the Revenue Authorities and that raised by the Irrigation Officers. There was no proper monitoring mechanism.**

Recommendations

The following recommendations are offered:

- **The Government orders/ directions/ design manual of the Irrigation department, provisions of the KTPP Act and CVC guidelines should be scrupulously followed in tendering and awarding of contracts.**
- **There should be definite estimates of the quantum of work to be executed. The time frame should be clearly defined and adhered to.**
- **The management of contract and additional quantities executed, needed to be investigated.**
- **Efforts should be made to avail the full extent of Central Financial Assistance.**
- **There is need to create awareness on the prescribed crop pattern.**

(Chapter 2.2)

3. Transaction audit observations

The observations included in this Report highlight deficiencies in planning, investment and activities in the management of PSUs, which resulted in serious financial consequences. The observations are broadly of the following nature:

Unproductive investment amounting to ₹ 1.16 crore in two cases

(Paragraphs 3.8, 3.10)

Loss of revenue amounting to ₹ 81.31 crore in three cases

(Paragraphs 3.2, 3.3, 3.7)

Violation of contractual obligations/undue favours to contractors resulted in loss of ₹ 65.70 crore in two cases.

(Paragraphs 3.1, 3.4)

Fixing of lower licence fee and payment of incentive to ineligible employees were observed. Further, there were discrepancies in purchase and use of coal.

(Paragraphs 3.5, 3.6, 3.9)

Gist of some of the important audit observations is given below:

- The provisions in the MoU for exploitation of Iron Ore from the Thimmappanagudi reserves were flawed. Decision to increase the low premium on iron ore fines to mitigate the loss of revenue was delayed and implementation of the decision of the Government was further delayed by **Mysore Minerals Limited.**

  (Paragraph 3.1)

- In **Krishna Bhagya Jala Nigam Limited** the estimate prepared by the Consultants for construction of bridge-cum- barrage near Gugal village across the River Krishna did not conform to their own design and drawings. Estimate was approved without verification, higher rates applied for ineligible quantities by overstatement and bank guarantees were not enchased.

  (Paragraph 3.3)

- The **Karnataka State Small Industries Development Corporation Limited** allotted its Industrial Godowns to a private trust flouting established procedures at the instance of the then Chief Minister.

  (Paragraph 3.4)

- The ‘E-Mahile’ Scheme implemented by **Karnataka State Women’s Development Corporation** to improve the living conditions in villages did not fructify.

  (Paragraph 3.8)

Chapter - I

Overview of PSUs

Chapter - I

1. Overview of State Public Sector Undertakings

Introduction

1.1 In Karnataka, the State Public Sector Undertakings (PSUs) occupy an important place in the State economy. Government of Karnataka (GoK) undertakes commercial activities through its business undertakings referred to as Public Sector Undertakings (PSUs) which are owned, managed and controlled by the State on behalf of public at large. They are basically categorised into Statutory corporations and Government companies. Statutory corporations are public enterprises that came into existence by a special Act of the Legislature. The Act defines the powers and functions, rules and regulations governing the employees and the relationship of the Corporation with the Government. Government companies refer to companies in which not less than 51 *per cent* of the paid up capital is held by Government(s). It includes a subsidiary of a Government company. Further, as per the provisions of Section 619-B of the Companies Act 1956, a Company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and corporations controlled by Government is treated as if it is a Government company (deemed Government company).

1.2 The PSUs operate in three major sectors of the economy *viz*., Infrastructure, Power and Finance. The State PSUs had provided employment to about 1.86 lakh persons as on 31 March 2012. A sector-wise summary of the investment in the PSUs is given below:

Name of sector	Government companies[1]		Statutory corporations	Total	Investment[2] (₹ in crore)
	Working	Non-working[3]			
Infrastructure	9	-		9	34,964.03
Power	11	-		11	23,716.91
Finance	13	-	1	14	4,449.22
Others	37	14	5	56	3,582.71
Total	**70**	**14**	**6**	**90**	**66,712.87**

As on 31 March 2012, there were 90 PSUs, of which 76 were working and 14 were non-working. Of these, two Companies[4] were listed on the stock exchange(s). During the year 2011-12, one new PSU (Karnataka State Mango Development and Marketing Corporation Limited) was established.

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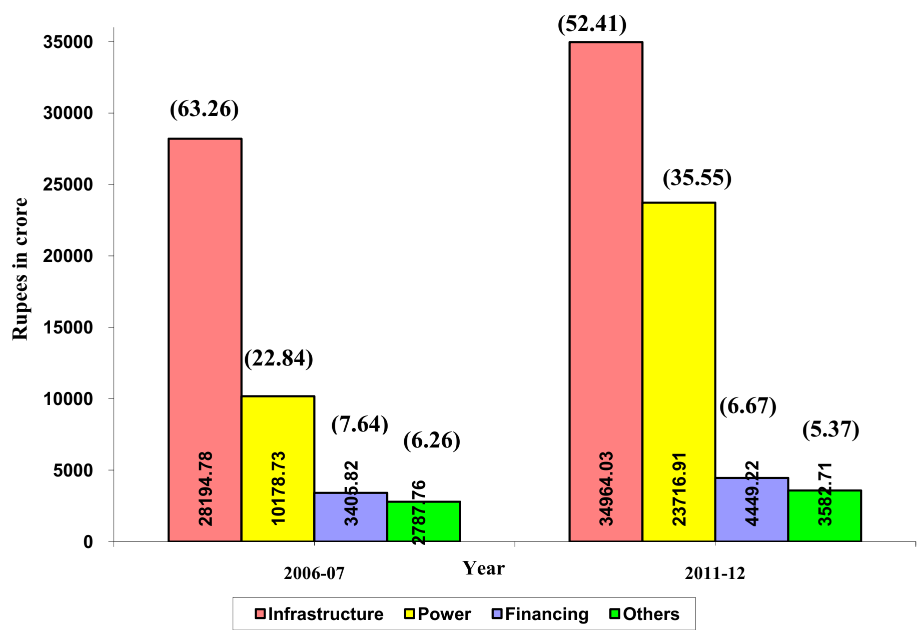
[1] **includes 619-B companies.**
[2] **investment includes capital and long-term loans.**
[3] **non-working PSUs are those which have ceased to carry on their operations.**
[4] **The Mysore Paper Mills Limited and Mysore Paints and Varnish Limited.**

1.3 The investment in various important sectors and percentage thereof at the end of 31 March 2007 and 31 March 2012 are indicated below in the bar chart. Out of total investments, the investment in power sector has seen its percentage share rising to 35.55 *per cent* in 2011-12 from 22.84 *per cent* in 2006-07.



(**Figures in brackets show the percentage to total investment)**

Accountability framework

1.4 The accounts of the Government companies/Statutory corporations for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.* by 30 September.

Statutory audit

1.5 The accounts of the State Government Companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per the provisions of Section 619 of the Companies Act, 1956.

1.6 The audit of Statutory corporations follows different pattern as provided by their respective legislations.

- Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Western Karnataka Road Transport Corporation and North Eastern Karnataka Road Transport Corporation, are Statutory Corporations in which the CAG is the sole auditor.

- As per the State Financial Corporations (Amendment) Act, 2000, the CAG has the right to conduct the audit of accounts of Karnataka State Financial Corporation in addition to the audit conducted by the Chartered Accountants, appointed by the Corporation out of the panels of Auditors approved by the Reserve Bank of India.

- In respect of Karnataka State Warehousing Corporation, the CAG has the right to conduct the audit of their accounts in addition to the audit conducted by the Chartered Accountants, appointed by the State Government in consultation with the CAG.

Role of Legislature and Government

1.7 The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government. The accounts of these PSUs are also subjected to scrutiny by the State Government.

1.8 The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Report together with the Statutory Auditors' Report and Comments of the CAG, in respect of State Government companies and Separate Audit Report in case of Statutory corporations are to be placed before the legislature as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19 A of the CAG's (Duties, Power and Conditions of Service) Act, 1971.

Stake of Government of Karnataka

1.9 The financial stake of GoK in the PSUs are of mainly three types:

- Share capital and loans – In addition to the share capital contribution, GoK also provides financial assistance by way of loans to the PSUs from time to time.

- Special financial support – GoK provides budgetary support by way of grants and subsidies to the PSUs as and when required.

- Guarantees – GoK also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

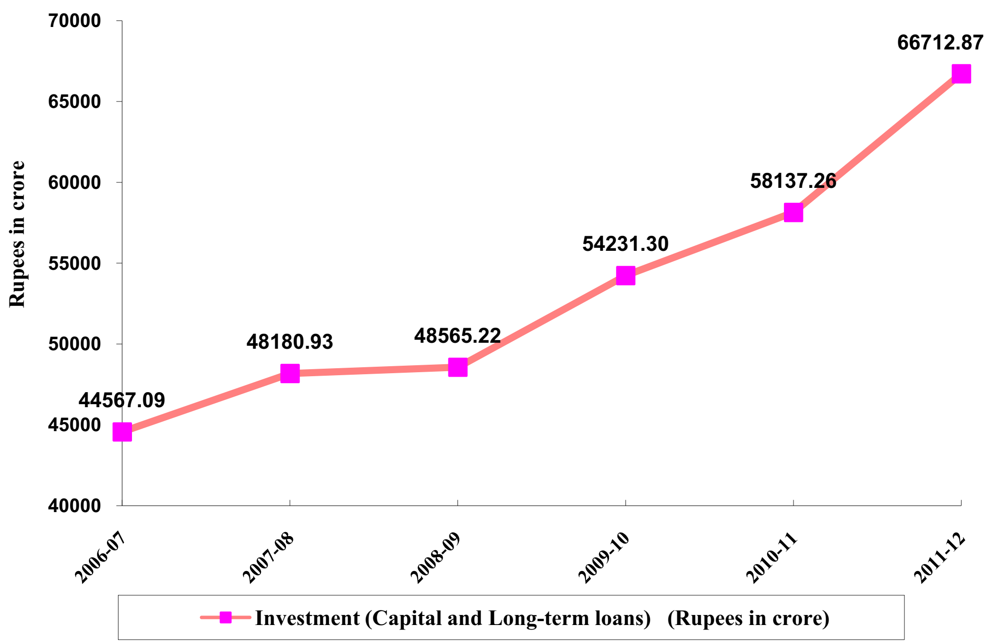
1.10 As on 31 March 2012, the investment (capital and long-term loans) in 90 PSUs (including 619-B companies) was ₹ 66,712.87 crore as per details given below:

₹ in crore

Type	Government Companies			Statutory Corporations			Grand total
	Capital	Long term loans	Total	Capital	Long term loans	Total	
Working PSUs	35,640.05	25,753.63	61393.68	1,714.16	3,008.87	4,723.03	66,116.71
Non-working PSUs	161.35	434.81	596.16	-	-	-	596.16
Total	**35,801.40**	**26,188.44**	**61,989.84**	**1,714.16**	**3,008.87**	**4,723.03**	**66,712.87**

A summarised position of Government investment in PSUs is detailed in **Annexure 1**.

1.11 As on 31 March 2012, of the total investment in PSUs, 99.11 *per cent* was in working PSUs and the remaining 0.89 *per cent* in non-working PSUs. The total investment consisted of 56.23 *per cent* towards capital and 43.77 per *cent* in long-term loans. The investment has grown by 49.69 *per cent* from ₹ 44,567.09 crore in 2006-07 to ₹ 66,712.87 crore in 2011-12 as shown in the graph below:



1.12 The capital investment as well as long-term loans increased by ₹ 16,182.67 crore and ₹ 5,963.11 crore respectively during 2007-2012. There was overall net increase in investment by ₹ 22,145.78 crore during the period.

Capital investment

1.13 As per the latest finalised accounts of the State PSUs, the capital investment was of ₹ 37,152.35 crore and the accumulated profits there against were ₹ 1,368.93 crore.

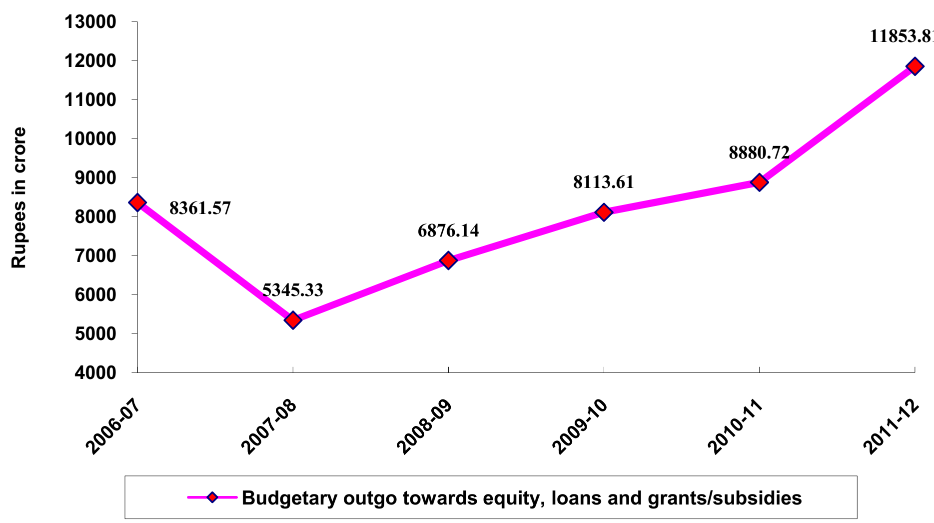
Budgetary support to PSUs

1.14 The details regarding budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of PSUs are given in **Annexure 3**. The summarised details are given below for three years ended 2011-12.

Amount: ₹ in crore

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	24	4,026.78	25	5,126.76	19	4,442.57
2	Loans given from budget	6	348.69	5	58.00	2	46.60
3	Grants/Subsidy received	27	3,738.14	32	3,695.96	34	7,364.64
4	Total outgo (Sl.No.1+Sl.No.2+Sl.No.3)[5]	42	8,113.61	45	8,880.72	42	11,853.81
5	Loans converted into equity	5	499.91	2	9.07	7	148.27
6	Loans written off	-	-	-	-	-	-
7	Interest/penal interest written off	-	-	-	-	-	-
8	Total waiver (Sl.No.6+Sl.No.7)	-	-	-	-	-	-
9	Guarantees issued	4	262.00	12	517.30	7	920.72
10	Guarantee commitment	18	3,615.88	27	3,802.38	19	3,353.86

1.15 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for the past six years are given in the graph below:



The budgetary support in respect of equity, loans and grants/subsidies increased during last five years from ₹ 5,345.33 crore in 2007-08 to ₹ 11,853.81 crore during 2011-12.

[5] **indicates actual number of PSUs.**

Guarantees for loan and outstanding guarantee commission

1.16 As per Section 5(1) of the Karnataka Ceiling on Government Guarantees Act, 1999, (as amended by Act 15 of 2002), with effect from April 2001 the Government would charge a minimum of one *per cent* as guarantee commission which shall not be waived under any circumstances. During the year 2011-12 the PSUs paid guarantee commission of ₹ 186.60 crore leaving a balance of ₹ 200.45 crore to be paid to the Government. The PSUs which had major arrears were Krishna Bhagya Jala Nigam Limited (₹ 104.02 crore), Karnataka Neeravari Nigam Limited (₹ 19.07 crore) and Rajiv Gandhi Rural Housing Corporation Limited (₹ 34.55 crore).

Absence of accurate figures of the investments in PSUs

1.17 The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2012 is stated below:

₹ in crore

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	39,529.79	35,723.25	3,806.54
Loans	3,532.91	8,007.99	4,475.08
Guarantees	3,625.52	3,353.86	271.66

1.18 Audit observed that the differences occurred in respect of 80 PSUs. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

1.19 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of the Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2012.

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1	Number of working PSUs	70	72	75	75	76
2	Number of accounts finalised during the year	69	74	73	69	59
3	Number of accounts in arrears	20	18	20	25[6]	42
4	Average arrears *per* PSU (3/1)	0.29	0.25	0.27	0.33	0.55
5	Number of working PSUs with arrears in accounts	17	16	20	24	37
6	Extent of arrears	1 to 2 years	1 to 2 years	1 year	1 to 2 years	1 to 2 years

1.20 The number of working PSUs with arrears in accounts increased from 24 as at end of September 2011 to 37 as at end of September 2012 indicating poor performance in finalization of accounts. Between September and December 2012, 31 PSUs finalized their accounts. Eight accounts of six working PSUs were still pending finalization as at end of December 2012.

1.21 In respect of arrears in finalization of accounts by non-working PSUs out of 14 non-working PSUs, liquidation process was underway in seven PSUs[7]. The arrears of these accounts ranged from five to nine years. These Companies also require to finalise their accounts for the broken period under Section 446A of the Companies Act, 1956. The remaining six PSUs had finalised their accounts for 2011-12 by September 2012. One Company was also having arrears of accounts for 2011-12.

1.22 The State Government had invested ₹ 6,337.01 crore (equity: ₹ 2,821.07 crore, loans: ₹ 86.17 crore, grants: ₹ 1,132.93 crore and subsidy: ₹ 2,296.84 crore) in 37 PSUs during the years for which accounts had not been finalised as on 30 September 2012 as detailed in **Annexure 4**.

Finalisation of accounts by Statutory corporations

1.23 All the six working Statutory Corporations had forwarded their latest accounts of 2011-12 by 30 September 2012. The audit of the accounts of all these Statutory Corporations was in progress (September 2012).

1.24 Separate Audit Reports (SARs) are audit reports of CAG on the accounts of Statutory corporations. These reports are to be laid before the Legislature as per the provisions of the respective Acts. The SARs in respect of all Statutory Corporations for the period 2010-11 had been placed in State Legislature.

[6] **as the first accounts of Karnataka Thanda Development Corporation Limited is pending finalization only one accounts is shown as arrears.**

[7] **The Mysore Acetate and Chemicals Company Limited, NGEF Limited, Karnataka Telecom Limited, The Mysore Cosmetics Limited, The Karnatak State Veeners Limited, Chamundi Machine Tools Limited and Karnataka State Textiles Limited.**

Impact of non-finalisation of accounts

1.25 Non-finalisation of accounts by 30 September is a violation of the provisions of the Companies Act, 1956.

1.26 In the absence of accounts and their subsequent audit, there is no assurance that the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature.

1.27 Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956. In view of the above state of arrears, the actual contribution of PSUs to the State Gross Domestic Product (GDP) for the year 2011-12 could not be ascertained. However, as per the latest finalized accounts the contribution of PSUs to State GDP 7.94 *per cent*.

1.28 The Administrative departments have the responsibility to oversee the activities of these entities. Government must ensure finalisation and adoption of the accounts by these PSUs within the prescribed period.

1.29 The Principal Accountant General also addressed the Chief Secretary/Administrative Departments/ Managements of the PSUs whose accounts were in arrears. The progress in liquidation of arrears of accounts has been discussed in paragraph 1.19 and 1.20 *infra*.

Performance of PSUs

Problems in assessing performance

1.30 The actual performance of the PSUs, in view of the backlog in finalisation of accounts, could not be ascertained. Thus, the performance of PSUs was assessed on the basis of their latest finalised accounts.

1.31 The financial results of PSUs, financial position and working results of working Statutory Corporations are detailed in **Annexures 2, 5 and 6** respectively**.** The ratios of PSU turnover to State GDP show the significant extent of PSU activities in the State economy. The table below provides the details of working PSUs' turnover *vis-a-vis* State GDP for the period 2007-08 to 2011-12.

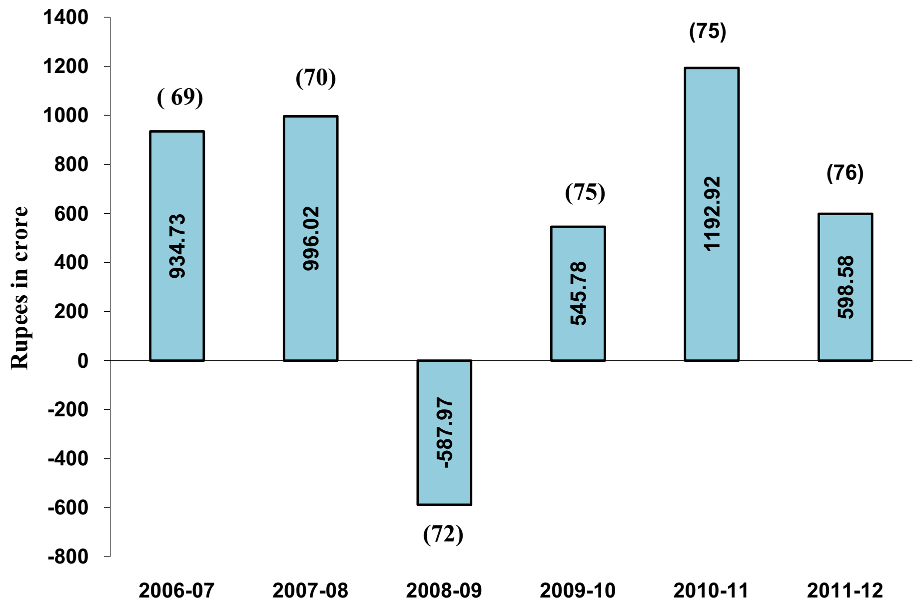
₹ in crore

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover[8]	28,218.05	32,627.68	36,369.48	41,493.51	34,490.58
State GDP	2,70,628	3,10,312	3,45,235	3,98,893	4,34,270[9]
Percentage of turnover to State GDP	10.43	10.51	10.53	10.40	7.94

[8] **turnover as per the latest finalised accounts.**

[9] **SGDP figures are as per Medium Term Fiscal Plan and figures of the State Government for 2011-12 are Advance Estimates.**

1.32 Profit earned or loss incurred by State working PSUs during 2006-07 to 2011-12 is given below in the bar chart.



Overall profit earned (loss incurred) during the year by working PSUs

(Figures in brackets show the number of working PSUs in respective years)

1.33 As per their latest finalised accounts, out of 76 working PSUs, 53 PSUs earned profit of ₹ 1,125.74 crore and 18 PSUs incurred loss of ₹ 527.16 crore. One working PSU (Karnataka State Mango Development & Marketing Corporation Limited) incorporated in March 2012 had not finalised their first accounts. Two companies[10] did not prepare profit and loss account and had only pre-operative expenditure. One Company (Rajiv Gandhi Rural Housing Corporation Limited) prepared income and expenditure account and capitalized the excess of expenditure over income. Another Company (Karnataka Vocational Training and Skill Development Corporation Limited) did not prepare Profit and Loss Account and expenses were set off against the grant received. The major contributors to profit were The Hutti Gold Mines Company Limited (₹ 294.95 crore), Karnataka Power Corporation Limited (₹162.27 crore) and Mysore Minerals Limited (₹ 122.84 crore). The heavy losses were incurred by Karnataka Neeravari Nigama Limited (₹ 264.40 crore), The Mysore Paper Mills Limited (₹ 84.78 crore) and The Mysore Sugar Company Limited (₹ 70.21 crore).

Reasons for the losses

1.34 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of the latest Audit Report of the CAG shows that there

[10] **Cauvery Neeravari Nigama Limited and Raichur Power Corporation Limited.**

were controllable losses to the tune of ₹ 1,890.63 crore and had made infructuous investment of ₹ 112.95 crore, which were controllable with better management. Year-wise details from Audit Reports, for last three years are given below:

₹ in crore

Particulars	2009-10	2010-11	2011-12	Total
Net Profit / Loss(-)	366.58	987.03	407.87	1,761.48
Controllable losses as per the CAG's Audit Report	84.37	1,160.57	1,890.63	3,135.57
Infructuous investment	173.37	72.62	112.95	358.94

1.35 The above losses pointed out in Audit Reports of the CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised (or eliminated or the profits can be enhanced substantially). The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

1.36 Some other key parameters pertaining to the PSUs are given below:

₹ in crore

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Return on capital employed (*per cent*)	4.60	4.58	1.88	3.47	4.40	4.22
Debt	23,234.20	24,078.32	24,087.55	24,704.05	25,364.38	29,197.31
Turnover[11]	25,284.68	28,218.05	32,627.68	36,369.48	41,493.51	34,490.58
Debt-Turnover ratio	0.92:1	0.85:1	0.74:1	0.68:1	0.61:1	0.85:1
Interest payments	1,593.24	1,607.58	1,556.95	1,901.19	2,269.00	2,555.79
Accumulated profits/losses (-)	935.94	1,248.48	(-) 39.93	(-) 197.93	1,007.36	1,368.93

(Above figures pertain to all PSUs except for turnover, which is for working PSUs).

1.37 There was a decrease[12] in turnover while there was an increase in debts. The decrease in return on capital employed was due to the decrease in profits of Karnataka Power Corporation Limited and Mysore Minerals Limited.

1.38 The State Government had issued (May 2003) guidelines according to which Government nominees on the Boards of Public Enterprises or Joint Ventures, where the State Government had equity holding, should insist on the declaration of minimum dividend of 20 *per cent* on share holding. As per their

[11] **turnover of working PSUs as per the latest finalised accounts as of 30 September 2012.**
[12] **due to change in exhibition of income by Karnataka State Beverages Corporation Limited.**

latest finalised accounts, 56 PSUs[13] earned an aggregate profit of ₹ 1,125.93 crore but only 13 PSUs declared dividend which amounted to ₹ 43.35 crore.

Non-working PSUs

1.39 There were 14 non-working PSUs (all Companies) as on 31 March 2012. Of these, seven PSUs have commenced liquidation process. The numbers of non-working companies at the end of each year of the past five years are given below:

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
No. of non-working companies	16	16	15	14	14

During 2011-12, three non-working PSUs[14] incurred an expenditure of ₹ 1.08 crore towards establishment costs. This expenditure was met through rent, interest and other sources by these PSUs.

1.40 The stages of closure in respect of non-working PSUs are given below:

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1	Total number of non-working PSUs	14	-	14
2	Of (1) above, the number under			
(a)	Liquidation by Court (liquidator appointed)	7	-	7
(b)	Voluntary winding up (liquidator appointed)	-	-	-
(c)	Closure *i.e.,* closing orders/ instructions issued but liquidation process not yet started.	7	-	7

1.41 The companies which have taken the route of winding up by Court order are under liquidation process for the last four to nine years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted / pursued vigorously. The Government may take a decision regarding winding up of the seven non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working.

[13] **including non-working Government companies.**

[14] **Karnataka Agro Industries Corporation Limited (₹ 0.41 crore), The Mysore Lamps Works Limited (₹ 0.44 crore), The Mysore Match Company Limited (₹ 0.23 crore).**

Accounts comments and Internal Audit

1.42 Fifty four working companies forwarded their 58 audited accounts to the Principal Accountant General (PAG) during the year 2011-12 as at September 2012. Of these, 32 accounts of 29 companies were selected for supplementary audit. The audit reports of Statutory Auditors appointed by the CAG and the supplementary audits of the CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and the CAG are given below:

Amount : ₹ in crore

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	14	138.10	8	267.07	15	1045.66
2	Increase in profit	4	11.83	4	9.88	2	2.86
3	Decrease in loss	2	5.93	1	0.03	1	1.56
4	Increase in loss	10	121.81	8	46.76	4	45.57

1.43 During the year 2011-12, the Statutory Auditors had given unqualified reports on 10 accounts, qualified reports on 45 accounts, adverse reports (which means that accounts did not reflect a true and fair position) for two accounts and Disclaimer of Opinion on one accounts. The compliance of companies with the Accounting Standards remained poor as there were 107 instances of non-compliance in 31 Companies during the year.

1.44 Some of the important comments in respect of accounts of companies are stated below:

Dr. Babu Jagjivan Ram Leather Industries Development Corporation Limited (2010-11)

- The financial statements together with the notes thereon and attached thereto failed to give a true and fair view and were not in conformity with the accounting principles generally accepted in India.

Karnataka Neeravari Nigam Limited (2010-11)

- In view of non-compliance to various accounting standards, inadequacies in internal control system, absence of confirmation and reconciliation of balances in parties' accounts *etc*., combined with non-availability of data to assess their impact on the financial statements and undetected misstatement, if any, contained therein, an opinion on the financial statements could not be expressed.

Karnataka Rural Infrastructure Development Limited (2010-11)

- Sundry Debtors pertaining to years 2003-04 to 2010-11 were not confirmed by the parties. Sundry Debtors pertained to accounting years 2003-04 to 2007-08 amounting to ₹ 23.18 crore were barred by limitation of time and the Company had made provision for doubtful debts to extent of ₹ 4.40 crore only.

Karnataka State Seeds Corporation Limited (2010-11)

- The Profit and Loss Account and Balance Sheet complied with the requirements of the accounting standards referred to in sub-section (3c) of Section 211 of the Companies Act, 1956 except for leave travel concession which was accounted on cash basis and Accounting Standard (AS)-1 - Disclosure of Accounting Policies, AS 2 – Valuation of Inventories, AS 15 – Employee Benefits, AS 19 – Lease, AS 28 – Impairment of Assets and AS 29 – Provisions, Contingent Liabilities and Contingent Assets prescribed under the Companies (Accounting Standards) Rules, 2006.

Karnataka State Coir Development Corporation Limited (2011-12)

- The net-worth of the Company had fully eroded at beginning of the financial year and the accumulated losses exceed the share capital of the company consequently affecting to the Going Concern assumption of the Company.

Hubli Electricity Supply Company Limited (2011-12)

- Trade receivable against supply of power includes ₹ 1,101 crore (Revenue ₹ 634 crore and Interest ₹ 467 crore) from consumers of Irrigation Pump sets (upto 10 Horse Power) relating to the period prior to the announcement of free power supply by State Government.

- Interest on belated payment to power suppliers was recognized on payment basis. The effect of this policy had resulted in the profit of the Company being overstated by ₹ 32.87 crore.

1.45 Similarly, all six working Statutory Corporations forwarded (upto September 2012) their seven accounts including one arrears accounts, to the Principal Accountant General during the year 2011-12. Audit of one arrears accounts of the Statutory Corporation was completed while the audit of the remaining six accounts were in progress (September 2012). The Audit Report of the CAG indicate that the quality of maintenance of accounts needs improvement. The details of aggregate money value of comments of the CAG are given below:

Amount : ₹ in crore

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	3	206.63	6	38.61	-	-
2	Increase in profit	-	-	-	-	-	-
3	Decrease in loss	-	-	-	-	-	-
4	Increase in loss	-	-	3	53.05	1	10.90

1.46 Some of the important comments in respect of the Statutory Corporations are stated below:

North Western Karnataka Road Transport Corporation (2010-11)

- In Profit and Loss Account, Income from Traffic revenue had been overstated by ₹ 16.20 crore due to incorrect accounting of the entire amount of ₹ 28.80 crore collected as Infrastructure Developmental Fee with passenger fares as traffic revenue. The Corporation also provided for ₹ 0.89 crore as Motor Vehicle (MV) Tax on the over credit to the account. This incorrect accounting has resulted in corresponding understatement of other revenues (miscellaneous receipts) and overstatement of loss for the year to the extent of MV Tax provided.

- The Government of Karnataka in its order (November 2009) merged Bijapur Division of Corporation with North Eastern Karnataka Road Transport Corporation (NEKRTC). Non provision for liability of ₹ 4.36 crore towards the share of NEKRTC against subsidy of concession of passes payable to them has resulted in understatement of current liabilities and understatement of loss.

1.47 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control /internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of 6 Companies for the year 2010-11 and 13 Companies for the year 2011-12 are given in **Annexure 7**.

Recoveries at the instance of audit

1.48 During the course of propriety audit in 2011-12, recoveries of ₹ 22.51 crore were pointed out to the Management of PSUs, of which ₹ 17.03 crore was recovered by the PSUs. Recoveries of ₹ 1.03 crore pointed out in the earlier years were effected during the year 2011-12.

Disinvestment, privatisation and restructuring of PSUs

1.49 The State Government had approved and adopted (February 2001) a comprehensive policy on public sector reforms and privatisation of public sector undertakings in the State. Accordingly, the Government identified 31 PSUs for closure, privatisation and restructuring. Five companies[15] were dissolved /amalgamated (September 2012). The position of action taken by the Government in respect of the remaining 26 companies identified for closure/ privatisation/restructuring are as follows:

Particulars	No. of companies	Government order issued	Government order not yet issued
Non-working Government Companies decided for closure	14	14[϶]	-
Working Government Companies decided for closure	3	1[¢]	2[@]
Working Government Companies decided for privatization	8	6[♥]	2[♣]
Restructuring of Working Government Companies	1	1[Ω]	-

Reforms in power sector

1.50 The State has Electricity Regulatory Commission (KERC) formed (August 1999) under the Karnataka Electricity Reform Act, 1999 with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences.

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[15] Karnataka Tungsten Moly Limited, Karnataka Agro Proteins Limited, Vishveswaraya Vidyuth Nigam Limited, Karnataka Film Industries Development Corporation Limited and Karnataka Small Industries Marketing Corporation Limited.

϶ all the non-working companies as per Annexure 1.

¢ Karnataka State Construction Corporation Limited.

@ The Karnataka Fisheries Development Corporation Limited, Karnataka State Electronics Development Corporation Limited.

♥ Karnataka Silk Industries Corporation Limited, Karnataka Soaps and Detergents Limited, The Mysore Electrical Industries Limited, Karnataka Vidyuth Karkhane Limited, Mysore Minerals Limited, Sree Kanteerava Studios Limited.

♣ The Mysore Sugar Company Limited, The Mysore Paper Mills Limited.

Ω The Karnataka State Forest Industries Corporation Limited to be merged with Karnataka Forest Development Corporation Limited.

1.51 Memorandum of Understanding (MoU) was signed in February 2000 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones in respect of five Electricity Supply Companies[16] is stated below:

Milestone	**Achievement as at March 2012**				
	BESCOM	**CESCO**	**HESCOM**	**GESCOM**	**MESCOM**
100 *per cent* electrification of all villages by 2012.	100 *per cent*	99.99 *per cent*	99 *per cent* (27 villages are yet to be electrified)	100 *per cent*	99.90 *per cent*
Commitment in the MoU to reduce the overall Transmission and Distribution (T&D) losses by 10 to 15 *per cent* with target reduction of five *per cent* every year from 2000-01.	14.46 *per cent*	16.11 *per cent*	19.99 *per cent*	22.06 *per cent* (2010-11)	13.24 *per cent* (2010-11)
100 *per cent* metering of all distribution feeders by September 2001.	Completed by December 2002.				
100 *per cent* metering of all consumers by 2004-05.	82.04 *per cent*	93.03 *per cent*	83.81 *per cent* of Bhagya Jyothi (BJ)/ Kutil Jyothi (KJ). 30.91 *per cent* of Irrigation Pup (IP) sets. Others categories: 100 *per cent*	100 *per cent* consumers metering except BJ/KJ and IP sets	98.13 *per cent*
Energy audit at 11 KV substation level by September 2001.	Not done	Commenced from June 2003	Commenced from June 2003	Done	Done
Securitisation of outstanding dues of Central PSUs to be reduced to ₹ 900 crore by 2004-05.	The dues were securitised by issue of bonds in August 2003.				

[16] **Bangalore Electricity Supply Company Limited (BESCOM), Chamundeshwari Electricity Supply Corporation (CESCO), Gulbarga Electricity Supply Company Limited (GESCOM), Hubli Electricity Supply Company Limited (HESCOM), Mangalore Electricity Supply Company Limited (MESCOM).**

Chapter - II

Performance Audits of Government Companies

Chapter - II

2. Performance Audits relating to Government Companies

2.1 Performance Audit of Karnataka Power Transmission Corporation Limited

Executive Summary

The Company

The Company was incorporated in July 1999 under the Companies Act, 1956 for transmission of electricity. It transmitted 42,933.65 MUs of energy in 2007-08, which increased to 56,890 MUs of energy in 2011-12 (an increase of 32.51 *per cent)*. The Company had 963 Substations and 30,418.64 Ckm of transmission network (March 2012).

Objectives of the Performance Audit

The objectives of the Performance Audit were to assess whether the transmission system was planned and developed in an economical, efficient and effective manner; operation and maintenance were carried out efficiently and effectively; adequate mechanism for procurement of materials and inventory control was in place; there existed a proper financial management system; whether disaster management system was set up for protection; monitoring of existing/ ongoing projects and effecting corrective measures were timely and adequate.

Sampling

Of the 318 Substations constructed, 240 augmented and 399 Lines laid (between 2007 and 2012), audit test checked 48 Substations, 6 augmentation works and 48 Lines (including 42 works in progress).

Audit findings

Planning the network

The actual capital expenditure had increased from ₹ 479 crore in 2005-06 to ₹ 2,093 crore in 2007-08. However, the actual expenditure decreased to ₹ 945 crore in 2011-12. The actual expenditure had been much lower than the initially approved outlays during the last five years. The Karnataka Electricity Regulatory Commission (KERC) had made many observations on investments while issuing tariff orders every year.

Against the scenario of restricted power supply in the State, the capacity created as at the end of March 2012, compared to projections, was in excess by 1,025 MVA. The cost of creation of this excess capacity worked out to ₹ 50.32 crore.

Project management

There were delays at different stages during construction and test checked 20 Substations and 15 lines were completed indicating major deficiencies in applying for statutory clearances, in solving right of way problems, in handing over sites to contractors, in supply of materials *etc*. Many works were not commissioned even after completion. Works idled for long periods after commissioning because of non-completion of source lines, redundancy in lines and abandoning of lines. The delay resulted in loss of energy of about ₹ 352.29 crore and incurring of unnecessary interest charges of ₹ 119.66 crore (in test checked projects).

There were 321 ongoing projects as at the end of March 2012. In 42 test checked cases, 14 projects had been delayed after spending ₹ 734.89 crore. Causes attributable were similar to the ones pointed out in the preceding paragraph. In two cases UG Cable was lying idle. The Phase I of SCADA was not completed in time and Phase II is still not completed due to which Availability Based Tariff (ABT) mechanism could not be implemented in the State.

Purchase of transformers

The Company purchased 540 transformers during the period 2007-12 and 492 of them were installed. Commissioning of 357 (value of transformers: ₹ 641.52 crore) of the 492 transformers were delayed for periods ranging between 3 and 49 months.

Transmission facilities to evacuate power

Evacuation of Power from newly commissioned generating stations was found not possible as the transmission lines were not put in place. A Memorandum of Agreement had not been entered in one case. The State purchased short term power at rates ranging between ₹ 4.74 and ₹ 6.77 per unit during 2008-12, to reduce the demand supply gap.

Essential facilities

- **7 stations of 220 KV, 73 stations of 110 KV and 120 stations of 66 KV capacities were having only single transformer.**
- **Review of line loading revealed that 299 lines were loaded more than 70 *per cent* of the standards fixed by the Company.**
- **Of the 89 Nos of 220 kV Substations where Bus Bar Protection Panels had to be installed; only 64 Substations were provided with.**
- **52 lines did not maintain the lower limit of prescribed voltage range.**
- **Manual/guideline and targets for hot-line maintenance were not prepared. The proposed Hot-line Division/Sub-divisions had not been established.**
- **Six of the 16 generating stations did not have black-start facilities.**
- **In 6 major 220 KV Sub-stations DG sets were not provided/ not in working condition.**
- **709 transformers (33.51 *per cent*) out of 2,116 transformers commissioned were overloaded (beyond 90 *per cent*).**

However, the Generation-Transmission points and Transmission-Distribution points were provided with 0.2 class meters, which was as per requirement.

Grid management

The Grid discipline of the Company was commendable. The severity of the instances of Grid violation had reduced from 1,085 numbers in 2007-08 to one instance in 2011-12.

Financial management

- **Cost on account of depreciation per unit increased from ₹ 0.03 per unit in 2007-08 to ₹ 0.08 in 2011-12, an increase of 167 *per cent.***
- **During the five years under review the Company had mobilized ₹ 7,855.85 crore by way of capital and borrowings and utilized only ₹6,972.75 crore on capital expenditure.**
- **Internal generation of funds were not sufficient to repay the borrowings fully.**
- **Return on Capital decreased from 8.85 *per cent* (2007-08) to 6.24 *per cent* (2011-12).**

Monitoring and control

The main purpose of constitution of the Technical Advisory Committee (TAC) was to ensure standardization in specifications in respect of projects and also to involve experts in the process of technical clearance. The TAC had not met after September 2009.

Conclusion

The Company transmitted 42,933.65 MUs of energy in 2007-08 using a capacity of 34,294.80 MVA. The energy transmitted in 2011-12 was 56,890 MUs with the capacity increasing up to 45,158.80 MVA, indicating creation of excess capacity.

The clearances and permissions in many cases from various statutory authorities were sought for only after the works were awarded ignoring the recommendations of the Task Force (as regards planning and execution). Substations did not become operational because of delay in completing source lines and distribution lines.

Transformers purchased at huge costs remained idle for 3 to 49 months owing to delay in implementation of the projects and improper planning. Instances of idling of underground cable procured at high prices were observed.

The Company failed to draw power from the newly commissioned generating stations for long periods, as evacuation facilities were not put in place.

Availability Based Tariff mechanism (intra-state) was yet to be implemented (September 2012), though KERC has been insisting on it time and again.

The grid discipline by frequency management of the Company was appreciable.

The cost of transmission has increased steadily without corresponding increase in revenue. The capital expenditure was less than the funds mobilised by way of infusion of capital and borrowings, indicating use of long term funds for

purposes other than creation of assets. The conditions put forth by the Government of Karnataka while releasing capital were not adhered to. Non-receipt of ₹ 630.45 crore from Government of Karnataka against taken over pension/gratuity liability affected the profitability of the Company.

The internal control system had weaknesses.

Recommendations

The following recommendations are offered:

- **The construction of substations and lines should be need based, against the backdrop of scarce resources; to avoid idling and excess capacity creation. The planning and execution require reorientation to have synchronization of various aspects of implementation of the projects to facilitate taking up of issues such as forest and other statutory clearances, road cutting permissions, *etc*., well in time and resolving them before award of the works.**

- **There is need to conduct effectively the survey of the line corridors to avoid the problems like right of way during the course of construction. Adequate enquiries as to suitability of the area and encumbrance should precede the acquisition of land and hindrance free land should be available to contractors for construction of substations, alongwith the award of work.**

- **Procurement of high value items should be need based to avoid blocking up of funds on materials.**

  In all the above aspects the recommendations of the Task Force could be the roadmap.

- **The Company should speed up implementation of Availability Based Tariff mechanism (intra-state), put in place adequate Disaster Management mechanism and create infrastructure for monitoring of load (availing real time data).**

- **The Company should plan for evacuation of power from generating stations in time so as to avoid purchase of expensive power from the market and give fillip to growth.**

- **The stipulations set by the Government while releasing funds towards capital expenditure should be fulfilled. The Subcommittee on borrowings of the Company should document its decisions and follow up actions.**

Introduction

2.1.1 The Government of India (GoI), prepared in February 2005 the National Electricity Policy (NEP) with the objective to supply reliable and quality power to all by 2012. The NEP stated that the Transmission System required adequate and timely investment besides efficient and coordinated action to develop a robust and integrated power system for the country. The Policy recognized the need for development of National and State Grid with the coordination of Central/State Transmission Utilities. Transmission of electricity and grid operations in Karnataka are controlled and managed by Karnataka Power Transmission Corporation Limited (Company), which is expected to provide an efficient, adequate and properly coordinated grid management and transmission of energy.

2.1.1.1 The Company was incorporated in July 1999 under the Companies Act 1956, and acts under the administrative control of the Energy Department, Government of Karnataka (GoK). The management of the Company is vested with the Board of Directors (BoD) comprising 15 members appointed by GoK. The day-to-day operations are carried out by the Managing Director, who is the Chief Executive of the Company, with the assistance of Director (Finance), Director (Transmission), Director (Projects), Director (Administration & Human Resources), Chief Conservator of Forests and Company Secretary.

The turnover of the Company was ₹ 1,663.01 crore in the year 2011-12, which was 0.38 *per cent* of State Gross Domestic Product (₹ 4,34,270 crore). There were 9,179 employees as on 31 March 2012. The details of transmission network are given in Paragraph 2.1.8.1 to 2.1.8.4.

The Performance Reviews on Karnataka Power Corporation Limited and Electricity Supply Companies covering generation and distribution activities were included in the Audit Report (Commercial), Government of Karnataka, of the Comptroller and Auditor General of India, for the year ended 31 March 2010 and 31 March 2011 respectively. The Reports are pending for discussion (September 2012) by the Committee on Public Undertakings.

Scope of audit

2.1.2 The present Performance Audit, conducted between January and July 2012, covers the activities of the Company between 2007-08 and 2011-12. Audit examination involved scrutiny of records of different wings at the Head Office, Transmission Billing Centre (TBC), State Load Despatch Centre (SLDC), 4 out of 15 Major Works Divisions and 8 out of 29 Transmission Lines and Substation (TL&SS) Divisions.

The selection of works in the Major Works Divisions was based on the awarded cost of the projects by adopting random sampling without replacement method. Out of 318 substations (10,548.10 MVA) and 399 lines consisting of 4,304.58 Circuit Kilometre (Ckm) constructed and 240 augmentation works

(3,715.10 MVA) undertaken during the review period, 48 Substations of 5,452.60 MVA (52 *per cent*), 48 lines measuring 1,055.77 Ckm (25 *per cent*) and 6 augmentation works having 656 MVA (18 *per cent*) were selected for detailed examination. In addition, 16 out of 101 Purchase Orders (POs) for procurement of materials, issued at Corporate Office, were examined.

Audit objectives

2.1.3 The objectives of the Performance Audit were to assess whether:

- Perspective Plan was prepared in accordance with the guidelines of the National Electricity Policy/Plan and State Electricity Regulatory Commission (SERC) and assessment of impact of failure, if any, in planning;
- the transmission system was developed and commissioned in an economical, efficient and effective manner;
- operation and maintenance of the transmission system were carried out in an optimal manner;
- Disaster Management System was set up to safeguard its operations against unforeseen disruptions;
- effective failure analysis system was set up;
- Financial Management System was effective and efficient. Timely, raising and collection of bills and filing of Annual Revenue Requirement (ARR) for tariff revision;
- an efficient and effective system of procurement of material and an inventory control mechanism was in place;
- Energy Audit System was established; and
- there was a monitoring system in place to review existing/ ongoing projects, take corrective measures to overcome deficiencies identified, respond promptly and adequately to Audit/ Internal audit observations.

Audit criteria

2.1.4 For assessing the achievement of the audit objectives, the criteria were derived from the following:

- Provisions of National Electricity Policy / Plan and National Tariff Policy;
- Perspective Plan and Project Reports of the Company;
- Standard procedures for award of contracts with reference to principles of economy, efficiency, effectiveness, equity and ethics;
- ARR filed with State Electricity Regulatory Commission (SERC) for tariff fixation, circulars, manuals and MIS reports;

- Manual of Transmission Planning Criteria (MTPC);
- Code of Technical Interface (CTI)/ Grid Code consisting of planning, operation, connection codes;
- Directions from State Government and Ministry of Power (MoP), Government of India(GoI);
- Norms/Guidelines issued by SERC and Central Electricity Authority (CEA);
- Report of the Committee constituted by the MoP recommending the 'Best Practices in Transmission';
- Report of the Task force constituted by the MoP to analyse critical elements in transmission project implementation; and
- Reports of the Regional Power Committee (RPC)/ Regional Load Despatch Centre (RLDC).

Audit methodology

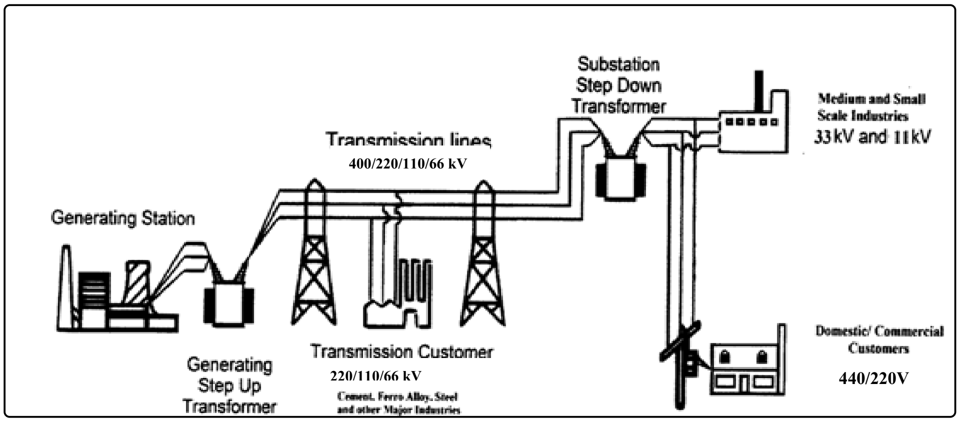
2.1.5 The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, interaction with personnel of the audited entity, analysis of data with reference to audit criteria, discussion of audit findings with the Management and issue of draft review to the Management/ Government for comments.

We reviewed the agenda notes and minutes of the meetings of the Board of Directors, annual budgets, annual accounts, records relating to borrowings, procurement, project implementation and the tariff orders of the Karnataka Electricity Regulatory Commission (KERC).

Brief description of the transmission process

2.1.6 Transmission of electricity is defined as bulk transfer of power over long distances at high voltages, generally at 66 kV and above. Electric power generated at relatively low voltages in power plants is stepped up to high voltage before it is transmitted to reduce the loss in transmission and to increase efficiency in the Grid. Substations (SSs) are facilities within the high voltage electric system used for stepping-up/ stepping-down voltages from one level to another, connecting electric systems and switching equipment in and out of the system. The step up transmission Substations at the generating stations use transformers to increase the voltages for transmission for long distances. Transmission lines carry high voltage electric power. The step down transmission Substations decrease voltages for sub-transmission and subsequent distribution to consumers. The distribution system includes transformers, lines, poles, and other equipment to supply electricity at specific voltages.

Every transmission system requires a sophisticated system of control called Grid management to ensure balancing of power generation closely with demand. A pictorial representation of the transmission process is given below:



Audit findings

2.1.7 We explained the audit objectives to the Company and the State Government during an Entry Conference held in May 2012. Subsequently, audit findings were reported to the Company and the State Government and discussed in an Exit Conference (September 2012). The Exit Conference was attended by representatives of the Company and State Government. The Company replied to audit findings (December 2012). The views expressed by the Company have been considered while finalizing this performance audit. Government replies were awaited (December 2012).

The audit findings are discussed in subsequent paragraphs.

Planning and development

National Electricity Policy/ National Electricity Plan

2.1.8.1 The transmission segment has a major role in achieving the mission 'Power for All'. The Central Transmission Utility (CTU) and State Transmission Utilities (STUs) have the key responsibility of network planning and development based on the National Electricity Plan in coordination with all agencies concerned. Assessment of demand is an important pre-requisite for planning capacity addition.

Network expansion should be planned and implemented keeping in view the anticipated transmission needs after identifying the requirements in consultation with stakeholders and taking up the implementation after due regulatory approvals. While planning new generation capacities, the requirement of associated transmission capacity would need to be worked out simultaneously in order to avoid mismatch between generation capacity and transmission facilities.

At the end of X Plan (March 2007), the transmission system in the country at 765 HVDC/400/230/220/kV stood at 1.98 lakh Ckm of transmission lines, which was planned to be increased to 2.93 lakh Ckm by end of XI Plan *i.e.,* March 2012. The National Electricity Plan assessed the total inter-regional transmission capacity at the end of 2006-07 as 14,100 MW and further planned to add 23,600 MW in XI plan, bringing the total inter-regional capacity to 37,700 MW.

Transmission network and its growth

2.1.8.2 The Company's transmission network at the beginning of 2007-08 consisted of 645 Extra High Tension (EHT) Substations with a transmission capacity of 30,895.60 MVA and 26,114.06 Ckm of EHT transmission lines. It increased to 963 Substations with a transmission capacity of 45,158.80 MVA and 30,418.64 Ckm of transmission lines as on 31 March 2012.

2.1.8.3 Details of capacity addition during the review period (2007-12)[17] were as follows:

Particulars	Substations			Lines	
	New	Augmented	MVA	Number	Ckm
Target*	387	271	22,341.20	401	4,935.23
Achievement	318	240	14,263.20	399	4,304.58
Shortfall	69	31	8,078.00	2	630.65
Percentage of shortfall**	17.83	11.44	36.16	0.5	12.78

***No targets were fixed for 2010-11. **Achievement during 2010-11 is taken as target for working out the percentage of shortfall.**

The Company did not achieve the targeted capacity additions.

The Company replied that the projects contemplated could not be completed as scheduled due to ROW problems and considerable time was consumed in according clearances by Forest, Railway and Civil Authorities.

2.1.8.4 The Company transmitted 42,933.65 MUs of energy in 2007-08 using a capacity of 9,040 MVA at 220 kV (70 *per cent* of the installed capacity of 12,915 MVA). The quantum of energy transmitted increased to 56,890 MUs in 2011-12 (an increase of 32.51 *per cent*) while the capacity rose to 13,023 MVA at 220 kV (70 *per cent* of the installed capacity 18,605 MVA). The capacity of 13,023 MVA was capable of annually transmitting 96,969 MUs against the requirement of 74,889 MUs at peak demand (10,058 MVA) recorded in 2011-12.

[17] **the particulars of voltage-wise capacity additions planned, actual additions, shortfall in capacity, *etc*., during review period are given in the Annexure–8.**

Planning of capital expenditure

2.1.8.5 The Company's planning process consisted of a perspective plan for a five year period (2007-12) in accordance with the National Electricity Plan (NEP). There was no State Electricity Plan. The Company prepares annual capital expenditure plans. The Company prepared a three year rolling plan in line with Multi-Year tariff regulations from the year 2007-08. The Company informed that the planning process involved identification of targets from proposals forwarded by various transmission Zones/ESCOMs, elected representatives, peak demand, total energy requirement, tariff wise consumption and backwardness of the location and those were discussed and finalized by the Technical Advisory Committee.

The new works, augmentation works, works spilled over to the succeeding years, *etc*., of transmission system in the five years ended March 2012 are tabulated below:

Year	Ongoing, new and augmentation works	Completed works	Works spilled over
2007-08	1,021	258	229
2008-09	548	363	185
2009-10	660	330	149
2010-11	566	244	253
2011-12	793	125	382

2.1.8.6 The outlay budgeted and actual expenditure is tabulated below:

Amount : ₹ in crore

Year	Month of approval of the budget	Appro-ved outlay	Month of approval of the revised outlay	Revi-sed outlay	Actual expenditure placed before the Board	Capex appro-ved by KERC	Actual expenditure as per KERC filings for tariff
2007-08	May 2007	2,400	-	-	-	2,400	2,093
2008-09	June 2008	4,335	August 2008	2,647	-	-	-
			February 2009	2,363	1,912	2,100	1,809
2009-10	June 2009	2,380	September 2009	2,447	-	-	-
			December 2009	2,476	-	-	-
			March 2010	1,300	1,002	2,380	1,452
2010-11	June 2010	1,692	December 2010	1,599	836	1,692	1,133
2011-12	April 2011	1,422	-	-	728[18]	1,422	945[19]

- The capital expenditure had increased from the levels of ₹ 479 crore in 2005-06 to ₹ 2,093 crore in 2007-08. The actual outlay decreased to ₹ 945 crore in 2011-12. The actual expenditure had been much lower than the initially approved outlays during the last five years.

[18] **cash outflow for the year 2011-12.**

[19] **as per filings made to KERC. Annual Performance Review for 2011-12 was yet (December 2012) to be finalised by the KERC.**

The Planning for capital expenditure was not well founded.

- KERC had noted (December 2007) that the investments as planned needed to be achieved as any material deviations would affect tariff stability. The KERC further observed that 365 works planned for completion in 2007 had not been completed even after substantial amounts were invested and did not accept the delays on account of administrative reasons related to payment of compensation attributed by the Company. The Commission also noted that there were huge differences in the information regarding energy savings in Detailed Project Reports *vis-à-vis* the actual.

- The Board was appraised (June 2008) that huge borrowings would be needed to execute such high capital expenditure plans and in such a scenario the debt equity position would not be favourable. Further, in the meeting of the BoD held in July 2008, the Principal Secretary, Finance Department informed that there was a lot of imbalance in corresponding investment in transmission *vis-à-vis* generation. The action called for study on the adequate levels of transmission system that needed to be available to cater to the existing levels of restricted demand.

- KERC also observed (November 2009) that in respect of 100 works taken up during 2007-08, the payback period was more than 20 years and about 28 works, the pay-back period was more than 35 years, which in effect was more than the life of the equipment, and was therefore not viable.

- KERC, while reviewing the performance of the Company for 2009-10, had noted (December 2010) that the achievement in respect of substations and associated lines was only 60 *per cent* and directed the Company to address issues such as land acquisition, forest clearance and right of way problems in completing the targeted works.

- While approving the tariff of 2011-12, the KERC had noted (December 2010) that in the absence of load flow studies, huge capex proposals if considered would result in front loading of tariff, which would be unfair to consumers. Further, in the Tariff Order of 2012, the Commission noted (April 2012) that the transmission charges worked out to ₹ 1.64 lakh per MW of transmission capacity. This was significantly higher than charges incurred per MW by the Transmission agencies in Gujarat (₹ 1.02 lakh) and Andhra Pradesh (₹ 0.79 lakh).

- The Statutory Auditors of the Company had observed (November 2012) that there was no system of making long-term business plan. The short term business plan consisted of Annual Plan of capital works and revenue budget as approved by the BoD. The Statutory Auditors further observed that in view of anomalies in the budget allocation during 2011-12, re-appropriation of capital budget without change in financial outlay was got approved by the Managing Director and subsequently ratified (January

2012) by the Board. But, the same *vis-à-vis* actual have not been reviewed. Further, the capital expenditure/capital invested, not put to use were not ascertainable in the absence of necessary records/physical verification report.

Some of the salient issues analysed and discussed in the performance review were:

- Network expansion should be planned and implemented keeping in view the anticipated transmission needs and after identifying the requirements in consultation with stakeholders.

- Projects should be taken up for execution after due regulatory approvals to avoid perennial delays.

- A key consideration in planning expansion of transmission infrastructure is the utility's ability to finance the costs of the investment under the regulated rate structure.

- This investment in excess of the requirement is a burden placed on the consumer. Existence of excess/idle capacity in the transmission network coupled with prevalence of overloads and low voltages in certain places reflects unscientific creation of transmission network.

Land for substations

2.1.9 The Government offered (October 2007), 377.14 acres of land at 58 locations in Bangalore Urban District to establish Substations. The Company undertook the task of obtaining revenue sketch, ensuring boundary points *etc*., and submitting detailed report on the suitability of land for construction of substations. The Company paid (March 2008) ₹ 42.46 crore to the Revenue Authorities for purchase of land at 30 locations, by availing loan from Power Finance Corporation Limited (PFC).

We observed that:

- The Company could not take possession of land at nine locations due to encroachment, non-suitability, land available in pieces *etc*. The Company requested (November 2011) the Revenue Authorities to allot alternate suitable lands. The failure to assess the suitability and ensure encumbrance of land, resulted in payment of ₹ 16 crore to the Revenue Authorities and consequential interest charges of ₹ 6.13 crore[20]. The loan of ₹ 16 crore was prepaid (September 2011).

  The Company replied that in 9 locations the lands handed over were different from the lands offered earlier and also informed that out of 9

[20] **₹ 16 crore for four years at 9.58 *per cent* (lowest weighted average cost of borrowings for period 2007-12).**

locations, alternate land was allotted in one case, while refund was yet to be received in respect of the other 8 locations (December 2012).

- The Government of Karnataka allotted (October 2007) 12 acres of land at Sunkadakatte Village in Bangalore for construction of the Substation. Company availed loan from PFC for purchase of the land. The Company paid (March / December 2008) ₹ 4.17 crore to the Government and took (June 2008) procession of the land. The Forest Department objected (June 2010), when the work of providing fencing around the land was taken up. Though a joint survey was conducted (November 2010) by the Revenue Authorities, the Forest Officials and the Company and the survey sketch was submitted (March 2011), the same was not accepted by the Forest Department. The Company did not get back the amount paid. This resulted in payment of ₹ 4.17 crore made out of borrowed funds and interest charges of ₹ 1.59 crore.

  The Company replied that when the matter was taken up with Deputy Commissioner it was informed that land belonged to Forest Department. The Deputy Commissioner had instructed to refund the amount, which was yet to be received (December 2012).

  Failure to obtain No-objection Certificate from forest department and conduct a joint survey with Revenue and Forest authorities prior to payment and taking the possession was responsible for this loss of interest and idling of capital.

Project management of transmission system

2.1.10.1 A transmission project involves various activities from concept to commissioning. Major milestones in a transmission project are (i) Project formulation, appraisal and approval phase and (ii) Project execution phase. For reduction in project implementation period, the Ministry of Power, Government of India constituted (February 2005) a Task Force on transmission projects. The Task Force recommended (July 2005) remedial action to accelerate the completion of transmission systems. The major recommendations *vis-a-vis* the deviations noticed are given below:

Recommendations of the Task Force	Deviation, effects and explanation (December 2012) of the Management
Undertake various preparatory activities such as surveys, design & testing, processing for forest and other statutory clearances, tendering activities *etc*., in advance/parallel to project appraisal and approval phase and go ahead with construction activities once transmission Line Project sanction/approval is received	The preparatory activities were not undertaken in advance/parallel to project appraisal and approval phase and for statutory clearances, which resulted in delayed completion of a large number of projects. These are discussed in Paragraph 2.1.10.4.

Recommendations of the Task Force	Deviation, effects and explanation (December 2012) of the Management
Break-down the transmission projects into clearly defined packages such that the packages can be procured and implemented requiring least coordination and interfacing and the at same time it attracts competition facilitating cost effective procurement	The Company awarded construction of Substation and transmission lines on turnkey/partial turnkey[21] basis, ignoring the packaging concept recommended by the Task Force. The Company replied that the Task Force had recommended elsewhere in the recommendations that the packages should be few and turnkey type of contracts should be preferred to avoid co-ordination problems, and hence, total turnkey was opted.
Standardize designs of tower fabrication so that six months to twelve months can be saved in project execution	The Company informed that it had adopted standard designs for transmission towers and modifications were done only when field conditions called for the same.

2.1.10.2 Of the 558 substations and 399 lines constructed/augmented between 2007 and 2012, audit test checked 54 Substations and 48 lines. There were delays at different stages in implementation in 24 substations and 25 lines of the test checked cases, indicating deficiencies in planning and execution. The Company could not commission several Substations and lines planned during 2007-12. The details in respect of the test checked projects are given below:

Capa-city (kV)	Total number of SS and lines constructed including work in progress		Analysed by Audit (Numbers)		Delay in completion in the test checked projects (Numbers)		Time overrun in test checked projects (Months)		Investment which remained unproductive in test checked projects (₹ in crore)		Benefit lost due to delay in test checked projects (₹ in crore)		Interest charges on unproductive investment (₹ in crore)	
	SS	Lines	SSs	Lines	SS	Lines	SS	Lines	SS	Lines	SS	Lines	SS	Lines
400	1	1	1	0	0	0	-	-	-	-	-	-	-	-
220	43	40	21	17	11	9	5-41	5-47	392.82	844.07	245.18	94.79	61.31	143.37
110	214	138	14	9	5	3	8-24	11-51	26.37	13.29	10.48	8.53	3.85	1.98
66	300	220	18	22	8	13	3-50	11-67	36.95	141.64	19.76	3.62	4.35	34.16
Total	**558***	**399**	**54**	**48**	**24**	**25**			**456.14**	**999.00**	**275.42**	**106.94**	**69.51**	**179.51**

SS=Substations. *including augmentation works.

[21] in turnkey projects, the contractor procures and executes all items of work. In a partial turnkey contract, the Company supplies major items such as transformers to the contractor and the balance items are procured and executed by the contractor.

Completed works

2.1.10.3 We analysed the causes for the delays in completion, commissioning and operation of the projects. The analysis in respect of test checked projects are given below:

Projects commenced and completed

2.1.10.4 The cause-wise analysis of the delays in execution of completed works is detailed below:

Causes	Type	No of works delayed	Delay: Up to 1 year	Delay: 1 to 3 years	Delay: 3 to5 years	Invest-ment which remained unproductive (₹ in crore)	Benefit lost (₹ in crore)	Interest charges on unpro-ductive invest-ment (₹ in crore)	Reference to details are given in Annexure-9 (item nos.)
1.Delay in applying for permission of Statutory Authorities									
Forest clearance	Lines	2	-	2	-	7.67	--	0.98	1,2
Permission for road cutting	Lines	8	1	7	-	178.84	3.62	26.66	3,4,5,6,7, 8a,8b,8c
2. Right of Way (ROW) problems	Sub-station	1	1	--	-	38.95	28.47	3.06	10
	Lines	6	1	3	2	83.05	49.05	22.20	7,9,11,12,13,14
3.Delay in handing over sites to contractors	Sub-stations	4	--	4	-	47.68	34.46	7.93	13,15,16, 17
4.Delay for want of material	Sub-stations	8	4	4	0	102.94	84.57	12.16	10,18,19, 20,21,22,23, 24
5. Delay in award of associated line works	Sub-stations	3	1	1	1	121.86	43.15	24.43	8(d),25, 26
6. Delay on the part of the contractors	Sub-stations	5	3	1	1	69.56	77.96	14.34	26,27, 28,29,30
	Lines	4	1	1	2	25.81	18.35	2.55	2, 8(d), 14,31
7. Others	Sub-stations	8	2	6	-	43.89	12.66	5.35	15,18,19, 20,25,32, 33,35
	Lines	3	-	3	-	-	-	-	5,13,34

The works were delayed for various reasons; most of them were controllable.

We observed delays in completion of projects for various causes. The cause-wise analysis and the Company's explanations are narrated below:

2.1.10.5 Permission of Statutory Authorities

Forest clearance: In two cases (refer Sl.No.1 of Table above and Annexure 9) the requests for forest clearances were made after 18 and 20 months from the date of approval of Detailed Project Report (DPR) and 7 to 11 months from award of work.

The Company replied that:

- In respect of Kushalnagara, the existence of forest in the corridor could not be identified at the time of survey (August 2004) as the boundary was not marked.

- In the case of Huyoganahalli Substation, the line passed through a social forest, which was converted to wild life sanctuary. The route was revised and approved (October 2008) and the work completed in November 2010.

- Forest clearances were applied for as and when the same were encountered in the approved line corridor during execution.

This was in deviation from the recommendations of Task Force, which recommended obtaining statutory clearances in advance/parallel to project appraisal and approval phase. The belated lodging of requests for clearances was not explained.

Road cutting permission: In eight cases, road cutting permissions were requested for after periods ranging from 2 to 30 months from the date of approval of DPRs and from 1 to 8 months from the award of works (refer Sl.No.1 of Table above and Annexure 9).

Specific replies of the Company to the audit contention are as follows:

- In respect of HSR to Shobha Apartment line work, the application for road cutting was submitted in July 2008 and approval received in August 2009/March 2010.

- In respect of Hoddy-EPIP line, after finalization of route, application for road cutting permission was submitted in October 2008, but clearances were received in April/November 2009.

- In respect of Attibele line works, applications for road cutting through an industrial area was made in January 2008 and permission received in March 2009/September 2009.

- In respect of DG3, DG4 lines, the route survey was conducted in March 2006 and approved in June 2006, after which the Company sought (June 2006) permission for road cutting; but BBMP accorded approval only after five months.

- In respect of laying underground cable from HSR to St.John Woods substation, cable route was approved in October 2007 and road cutting permission was received in March 2008. After approval from BBMP and local authorities for adopting trenchless method for road cutting and cross drainage, the work resumed and was commissioned in March 2009.

The belated lodging of requests for clearances were not explained. Efforts made by the Company to expedite clearances after lodging of requests were not on record. The need to seek approvals and clearances in time is emphasized.

2.1.10.6 Right of Way (ROW)

The Company faced Right of Way (ROW) problems during construction of seven lines[22], which resulted in delay by 9 to 46 months (refer Sl.No.2 of Table above and Annexure 9).

Specific replies of the Company to the points raised are as follows:

- In respect of Kadakola –Bastipura line, there were obstruction from private housing societies and KIADB which were cleared in 2008 and 2009.

- In respect of line works connecting Kothipura substation, there were several ROW problems and court cases.

- In respect of Guruvayankere–Puttur line, paper notification was issued in May 2003 requesting to file objections for line passing through their lands. Objections from many land owners were resolved but others approached various courts and final orders were issued in 2008.

- In respect of Manipal-Nittur line, the work was delayed due to ROW problems and court cases filed in various cases. The line was passing through paddy fields and river bank and work was hampered during monsoon season.

- In respect of HSR-St.John Woods the issues related to ROW are given in Paragraph 2.1.10.5 above.

In respect of three projects *viz*., Kadkola-Bastipura, Guruvayenkere-Putur and Manipal-Nittur, there were unresolved ROW problems at the time of award of work. These projects were delayed for completion for periods ranging from 11 to 24 months. Four other projects which had ROW problems were delayed for periods ranging from 9 to 46 months. The Company has no proper mechanism to address the ROW problems adequately.

2.1.10.7 Sites not handed over

In case of four projects, sites were handed over after three to five months of award of works (refer Sl.No.3 of Table above and Annexure 9).

- In respect of M.K.Hubli substation, the Company stated that the Deputy Commissioner had fixed (July 2006) the cost of land at ₹ 5 lakh per acre during land purchase committee meeting. As the cost of land fixed exceeded twice the market value, it was referred to Revenue

[22] **including one line associated with Sarjapura 220 kV Substation (item no.10 of Annexure 9).**

Department, which approved ₹ 3.5 lakh per acre. This was revised (December 2007) to ₹ 4 lakh per acre as land owners were not ready to sell their land. The Company, however, had already decided (October 2007) to pay ₹ 5 lakh per acre, but could purchase only 10 acres 23 guntas as against 13 acres 03 guntas.

- In respect of Aigili Substation the Company accepted the delay of 85 days in handing over the site, but attributed the same to objections from nearby land owners.

- In respect of Madikeri Substation, the contractor refused to accept the work as completion period in letter of intent mentioned was short, the area being under heavy rainfall. After amendment of terms, the site was handed over.

The fact remained that the projects were delayed for periods upto 36 months.

2.1.10.8 Materials not supplied

Eight Substations were delayed for periods ranging from 3 to 25 months for want of materials including transformers (refer Sl.No.4 of Table above and Annexure 9).

The Company replied:

- In the case of Ghataprabaha project, hard rock was encountered and locals objected to blasting. As such the bed work, earth mat of substation, casting of tower *etc*., were delayed. To avoid idling of equipment the transformers were supplied only after the work reached to a certain stage.

- In respect of Hattargi, Ravandur, Chikkamandya and Huyoganahalli, the Company attributed the slow progress to the contractor, apart from ROW problems. It was stated that transformers were supplied only after the substation work reached a certain stage to avoid possible damages and idling of the equipment which in turn would affect warranty.

Failure to obtain statutory clearances and solve ROW problems in time had the cascading effect on these works.

2.1.10.9 Contractors' delay

- There were delays attributable to the contractors varying between 5 and 43 months in completing nine works (refer Sl.No.6 of Table above and Annexure 9).

  Further, to ensure that the projects were completed within the stipulated time, the Company levied liquidated damages at 0.5 *per cent* per week subject to a maximum of 10 *per cent* of the value of undelivered portion of contract for delay beyond the contractual period. In three cases[23], though the reasons were attributable to the contractors such as delay in commencing the work, liquidated damages of ₹ 2.41 crore recovered were refunded (January/February 2012). The Company stated that refund of liquidated damages was made as the work was completed within the extended target date. The contention of the Company was not acceptable as the works related to substations did not have problems and only associated lines had problems; so there was no necessity to refund the liquidated damages caused due to delay by the contractor.

2.1.10.10 Other reasons

- Delays also occurred due to other reasons such as change in specifications and designs (four cases), approving layout/foundation drawings (seven cases), encountering hard rock during excavation, objection from people *etc.* (refer Sl.No.7 of Table above and Annexure 9).

Due to above reasons, there was a loss of envisaged savings in energy amounting to ₹ 352.29 crore and avoidable interest charges of ₹ 119.66 crore in respect of 20 substations and 15 lines[24].

Projects completed, but not commissioned

2.1.11 The cause-wise analysis of the delays for commissioning after completion of substation and lines are given below.

Causes	No of works delayed	Period of idling				Invest-ment which remained unprod-uctive (₹ in crore)	Benefit lost (₹ in crore)	Interest charges on unprod-uctive invest-ment (₹ in crore)	Referred to in Annexure - 9 at item nos.
		Up to 1 year	1 to 3 years	3 to5 years	More than 5 years				
1.Idling of sub-stations due to non commissioning of source lines	5	2	2	1		136.62	Included in earlier table		8(d),16, 25,26,35
2. Idling of line for want of Terminal Bay	1	1	-	-	-	15.66	-		1

We observed that:

- Though the 220 kV substation at Ananda Rao circle, Bangalore was completed in June 2007, the source line (from 220 kV NR Station to Ananda Rao circle substation) was completed only in May 2010. Further, two lines laid for connecting Ananda Rao substation to 'A'

[23] **evacuation lines of Huyoganahalli (₹ 82.03 lakh), Substation at Kushalanagara (₹ 49.39 lakh), Substation at Athani alongwith associated lines (₹ 1.10 crore).**

[24] **more than one reason for delay is applicable in the works.**

station was idle as the line between 'A' station and NRS Station was not completed for want of road cutting permission. In addition, the proposed 66 kV substations to draw power from Ananda Rao circle substation (220 kV) also did not materialise owing to non-availability of land. This also resulted in partial loading of Ananda Rao circle substation.

The Company replied that permission for road cutting was applied in February 2005, but BBMP did not allow for open trench digging and hence the matter was resolved after several meetings.

- Aigali Substation was completed in October 2007. As the source line planned from Athani to Aigali did not come up in time due to non-commissioning of link line to Athani, the Company, arranged alternate source of supply and commissioned the Substation in August 2008. The Company replied that due to re-arrangement of existing lines and the work was getting delayed and alternate arrangements were made.

- Substation at Taushi was completed in February 2008. But, the source line (Athani) to Taushi was completed and commissioned only in March 2009 due to delay in commissioning 220KV Athani Station. The Company replied the work was delayed due to ROW problems and rearrangement of existing lines to feed the station.

- In respect of source line works for NIMHANS and EDC Substations the Company replied that applications for permission for road cutting were made only after finalization of the cable route.

Projects commissioned, but idling

2.1.12 Though the Company commissioned several projects, many were idling due to various reasons such as non-synchronisation of Substations and Lines and redundancy. This had resulted in loss of envisaged savings in energy valued at ₹ 5.42 crore and avoidable interest charges of ₹ 0.41 crore. Cases noticed in test check are detailed below:

Sl. No.	Details of the Project	Causes for delay	(a) Commissioned date (b) Idle period (in months) (c) Idle investment (d) Interest on idle investment (e) Envisaged benefit foregone	Reply (December 2012) of the Company and Audit Remarks
1	66 kV Substation at Madikeri	The transformers remained idle, as distribution lines were not constructed by the Chamundeswari Electricity supply Corporation (CESC).	(a) June 2010 (b) 21 months (c) ₹ 0.90 crore (d) ₹ 0.15crore (e) ₹ 4.18 crore	The Company stated that the matter had been taken up with CESC authorities.

Sl. No.	Details of the Project	Causes for delay	(a) Commissioned date (b) Idle period (in months) (c) Idle investment (d) Interest on idle investment (e) Envisaged benefit foregone	Reply (December 2012) of the Company and Audit Remarks
2	Additional Transformer at 66 kV Substation, Chikkamandya		(a) December 2010 (b) 15 months (c) ₹ 1.41 crore (d) ₹ 0.17 crore	
3	66 kV Substation at Jyothinagara		(a) March 2011 (b) 12 months (c) ₹ 0.90 crore (d) ₹ 0.09 crore (e) ₹ 1.24 crore	
4	66 kV UG cable from Hoody to EPIP Substation	A 220 kV substation was planned for construction (January 2007) in the premises of 66 kV EPIP Substation was taken up after four years (February 2011) and laid at a cost of ₹ 28.22 crore. The 66 kV line from Hoody 220 kV Substation to EPIP Substation would be redundant once the 220KV substation work is completed.	(a) March 2010 (b) 24 months	The Company stated that the UG cable work from Hoody to EPIP Substations was taken up to cater to the increase in load and if 66 kV cables were not laid it would not have been possible to supply power required to feed EPIP Substation. The work of 220 kV substation at EPIP was taken up in February 2011 and expected to be completed by May 2013. The reply was not correct in as much as the work of 220 kV substation at EPIP, planned in January 2007, was not immediately taken up for construction, which necessitated construction of the 66 kV line from Hoody.

Projects commenced, but not completed

2.1.13 There were 321 ongoing projects of substations, lines, terminal bays and for augmentation of substations as at end of March 2012, for which Letters of Intent were issued up to March 2012.

2.1.13.1 Of the test checked projects, 42 works were under progress. Fourteen of the 42 projects[25] in progress (as at end of March 2012) faced various problems related to statutory clearances, ROW, handing over of sites, supply of transformer and award of work without ensuring supply source. In some cases the contractors failed to complete the works. The projects had been delayed

[25] **three works that were in progress as at end of December 2011, when the selection was made. As these works were completed by March 2012, the observations are included under paragraph 2.1.10.4.**

beyond the stipulated periods of completion. This resulted in loss of envisaged savings in energy amounting to ₹ 30.07 crore and avoidable interest charges of ₹ 129.36 crore.

The details of the above mentioned 14 cases are summarised below:

Sl. No.	Details of the Project	Causes for delay	(a) Scheduled completion (b) Delay in completion (in months) (c) Idle investment (d) Interest on idle investment (e) Envisaged benefit foregone	Reply (December 2012) of the Company and Audit Remarks
1	Underground (UG) Cable line from Hoody to B-Narayanapura limits To release load on transformer at Hoody Station, meet load growth and for reliable power supply around HAL.	➢ Court cases ➢ Obtaining permission from civic bodies.	(a) August 2006 (b) 67 months (c) ₹ 3.12 crore (d) ₹ 1.27 crore (e) nil	The Company has accepted the facts.
2	Bidadi to Kumbalagodu line The projects (Sl.No.2,3,4) were intended to provide power supply to 11 kV substations, to reduce interruption in 11 kV systems and to improve voltage in and around Kumbalgodu and Hejjala in Bangalore Rural District. The Company issued (5 March 2007 and 13 March 2007) two notices inviting tenders for construction of the line; one through the Chief Engineer in Transmission Zone, Bangalore and another through the Chief Engineer in Corporate Office, Bangalore. The work was awarded in August 2007 for ₹ 7.27 crore. The work was re-tendered and awarded (April 2010) after 32 months.	➢ Contract was cancelled due to issuing two tenders for the same work. ➢ The work was further delayed due to ROW problems and court cases.	(a) December 2007 and February 2008 (b) 49 month and 51 months (c) ₹ 0.74 crore (d) ₹ 0.04 crore (e) nil	Accepting the facts, the Company stated that in view of the Bidadi to Kumbalagodu line being the source line, the construction of which was in progress, transformers were not allotted to Hejjala Station to avoid idling.
3	Bidadi-Kumbalagodu line to Hejjala Substation. (Refer Sl.No.2)	➢ Non-completion of the Bidadi-Kumbalagodu line.		
4	Substation at Hejjala (Refer Sl.No.2)	➢ Non-supply of transformers by the Company ➢ Non completion of the source lines	(a) January 2008 (b) 50 months (c) ₹ 5.10 crore (d) ₹ 1.40 crore (e) ₹ 2.73 crore	

Sl. No.	Details of the Project	Causes for delay	(a) Scheduled completion (b) Delay in completion (in months) (c) Idle investment (d) Interest on idle investment (e) Envisaged benefit foregone	Reply (December 2012) of the Company and Audit Remarks
5	Re-conductoring of 110 kV Belgaum-Ghataprabha line The project envisaged dismantling the old conductor with 'Lynx ACSR' conductor. The Project was intended to maintain un-interrupted power supply to 110 kV Ghataprabha and Hidkal Dam Substations	➢ The contract was awarded without ensuring alternate source of power supply to the Substations.	(a) December 2007 (b) 51 months (c) ₹ 2.16 crore (d) ₹ 0.74 crore (e) nil	The Company stated that the re-conductoring between Belgaum and Ankalagi was carried out by feeding 110 kV power supply from Ghataprabha Station to Ankalagi substation. The reply is not acceptable as the re-conductoring commenced (May 2011) only after connecting the load of 110 kV Ghataprabha Station to 220 kV Ghataprabha Station, which was newly commissioned in December 2010.
6	UG Cable line from 220 kV East Division Compound Substation to 66 kV Subtations at M.G.Road B-Station, BMTC-Shantinagara and Austin Town in Bangalore. The works were planned to improve the power position in and around the M.G.Road area.	➢ Want of road-cutting permission, ➢ ROW issues ➢ Non-availability of space for construction of terminal bay at B-Station	(a) December 2007/January 2008 (b) 51 months (c) ₹ 19.34 crore (d) ₹ 5.50 crore (e) nil	The Company stated that it had applied for road cutting permission after finalization of cable route drawing. The Company added that all the lines were charged between July 2012 and September 2012. The fact remained that road cutting permission was sought for only after finalization of route survey by the contractor after award of work. Owing to lack of space, the Company had to design/construct a Hybrid terminal bay at B-Station subsequently (June 2012) and commissioned (July 2012) the line, which further delayed the work.
7	UG Cable line from HSR Layout Substation to Naganathapura Substation. The Project was taken up to improve voltage conditions at Hosur Road, AECS Layout, Yerrandahalli and HSR Layout.	➢ Want of road cutting permission and encroachment of land at proposed AECS Substation. ➢ ROW problems.	(a) June 2008 (b) 45 months (c) ₹ 47.75 crore (d) ₹ 16.76 crore (e) nil	The Company has accepted the facts.

Sl. No.	Details of the Project	Causes for delay	(a) Scheduled completion (b) Delay in completion (in months) (c) Idle investment (d) Interest on idle investment (e) Envisaged benefit foregone	Reply (December 2012) of the Company and Audit Remarks
8	Substation at Karaya and the associated line. The Project envisaged to release the load of Belthangadi and Puttur Substations and to improve the tail–end voltage of Karaya area.	➢ ROW problem ➢ Revision of layout drawings.	(a) September 2008 (b) 42 months (c) ₹ 6.89 crore (d) ₹ 1.97 crore (e) ₹ 3.19 crore	The Company stated that the delay was due to time taken for clearance (April 2012) of court cases filed in October 2004 in connection with dispute over certain locations. Further, there was delay in obtaining tree felling permission. The reply is not acceptable as the delay occurred due to improper planning and lack of various project preparatory activities. It was also not known why the works were awarded before clearing the court cases.
9	Double circuit line from Somanahalli- Malur Line to Jigani Substation.	➢ The Substation work was awarded without ensuring source of supply. ➢ There was delay on the part of the contractor as well.	(a) July 2008 and October 2008 respectively. (b) 44 months and 41 months (c) ₹ 32.25 crore (d) ₹ 8.77 crore (e) ₹ 13.04 crore	The Company has accepted the facts.
10	Substation at Jigani The Project was taken up to supply power to the Jigani Station and improve voltage condition in Jigani, Chandapura, Bennarghatta, Anekal and their surrounding areas			
11	The following 220 kV UG Cable lines were proposed to supply reliable power to HSR Layout and NIMHANS Substations.			
	a) HSR Layout to Cable Terminating Tower (CTT).	➢ Want of road cutting permission. ➢ In respect of lines from HSR Layout to CTT and EDC to NIMHANS Substations, permission for road cutting was applied for 12 and 6 months respectively after award of work.	(a) December 2009 (b) 27 months (c) ₹ 23.74 crore (d) ₹ 4.51 crore (e) nil	The Company has accepted the facts.
	b) East Division Compound (EDC) to NIMHANS Substation.		(a) January 2009 (b) 38 months (c) ₹ 37.72 crore (d) ₹ 9.01 crore (e) nil	
	c) HSR Layout to NIMHANS Substation		(a) January 2009. (b) 38 months (c) ₹ 73.54 crore (d) ₹ 13.46 crore (e) nil	

Sl. No.	Details of the Project	Causes for delay	(a) Scheduled completion (b) Delay in completion (in months) (c) Idle investment (d) Interest on idle investment (e) Envisaged benefit foregone	Reply (December 2012) of the Company and Audit Remarks
12	400 kV Double Circuit line from UPCL to Shanthigrama. The work envisaged to evacuate power from the UPCL generating station.	-	(a) May 2010 (b) 22 months (c) ₹ 446.52 crore (d) ₹ 64.12 crore	The Project is discussed in detail in Paragraph 2.1.15.3
13	110 kV Substation at Madavu and 110 kV line from Puttur to Madavu Substation. Provide new 33 kV source for the existing Substations at Kumbar, Kadaba and Ballare in Puttur Taluk and to reduce line loss of 33 kV lines and 11 kV feeders.	➢ Non-handing over site to the contractor. ➢ ROW problems.	(a) January 2011 (b) 14 months (c) ₹ 6.65 crore (d) ₹ 0.68 crore (e) ₹ 4.21 crore	Accepting the facts, the Company stated that the Contractor's proposal for short closure of the contract is under consideration, as the site was yet to be handed over. The Company had spent ₹ 1.23 crore on material portion for substation and ₹ 5.42 crore for line portion of work. As alternate site for substation was yet to be identified, the entire expenditure remained unfruitful.
14	Substation at Vikas Technical Park and Cable line from Somanahalli-Malur line to the Substation. Supply power to the business park in the area.	➢ Change in design of towers (terminating) from Double Circuit to Multi Circuit ➢ Non-availability of source line (Somanahalli to Malur).	(a) October 2011 (b) 5 months (c) ₹ 29.37 crore (d) ₹ 1.13 crore (e) ₹ 6.90 crore	The Company did not furnish specific reply on this issue.
	Total		**(a) -** **(b) 5-67 months** **(c) ₹ 734.89 crore** **(d) ₹ 129.36 crore** **(e) ₹ 30.07 crore**	

2.1.13.2 Of the remaining 279 ongoing works awarded for ₹ 1,633.26 crore, 142 works were delayed ranging between one to sixty eight months after incurring an expenditure of ₹ 517.57 crore. This caused additional interest charges on borrowings amounting to ₹ 123.69 crore. In 53 of these cases, the projects had been delayed for more than three years, after expending ₹ 318.51 crore.

The Company stated that the projects contemplated could not be completed as: (a) farmers/landlords raised many ROW problems though survey for the proposed line route was carried out to identify the most economic route and by avoiding forest area, and/or (b) court cases.

Installation of transformers

2.1.14.1 The Company generally awards contracts on partial turnkey basis for construction of Substations. Transformers for the work are supplied by the Company by procuring through tendering process. Orders for transformers are placed for the planned substations and transformers are allotted to the substations. The year wise details of allotment of transformers, commissioned and in progress are as given below:

Year	Type of transformer	Number of transfor-mers	Cost (₹ in crore)	Delay					Un-installed (No delay)	Amount blocked (₹ in crore)	Loss of interest (at 9.58 *per cent)* on delayed commiss-ioning (₹ in crore)
				< 3 months	3 months to 1 year	1 to 3 years	>3 years	Un-installed			
2007-08	100 MVA	32	178.37	3	12	13	2	2	-	161.18	25.15
	31.5 MVA	12	23.18	5	6	1	0	0	-	13.53	0.79
	Others	257	294.80	73	116	56	8	4	-	203.51	14.17
	Total	**301**	**496.35**	**81**	**134**	**70**	**10**	**6**	-	**378.22**	**40.11**
2008-09	150 MVA	6	44.87	0	2	2	0	2	-	14.96	6.16
	100 MVA	13	71.32	1	10	2	0	0	-	66.56	2.44
	31.5 MVA	8	15.45	3	5	0	0	0	-	9.66	0.36
	Others	71	99.43	18	32	19	2	0	-	101.90	4.88
	Total	**98**	**231.07**	**22**	**49**	**23**	**2**	**2**	-	**193.08**	**13.84**
2009-10	100 MVA	5	24.89	2	0	3	0	0	-	14.05	1.72
	31.5 MVA	8	11.79	2	2	2	0	2	-	5.64	1.13
	Others	49	72.90	8	26	11	0	4	-	60.97	4.44
	Total	**62**	**109.58**	**12**	**28**	**16**	**0**	**6**	-	**80.66**	**7.30**
2010-11	100 MVA	1	4.68	1	0	0	0	0	-	0	0.00
	31.5 MVA	3	4.23	1	2	0	0	0	-	2.82	0.15
	Others	21	17.57	7	5	2	1	6	-	10.87	0.78
	Total	**25**	**26.48**	**9**	**7**	**2**	**1**	**6**	-	**13.69**	**0.93**
2011-12	100 MVA	5	17.29	1	0	0	0	3	1	0	0.45
	Others	49	44.90	10	15	0	0	9	15	16.48	0.34
	Total	**54**	**62.19**	**11**	**15**	**0**	**0**	**12**	16	16.48	**0.79**
Grand total		**540**	**925.68**	**135**	**233**	**111**	**13**	**32**	**16**	**682.11**	**62.97**

Source : Data furnished by Project Monitoring Wing of the Company.

There were huge delays in commissioning of transformers.

We observed that:

- Out of the 540 transformers procured, 492 transformers were commissioned between 2007-08 and 2011-12. Further, commissioning of 357 of the 492 transformers were delayed for periods ranging between 3 and 49 months (value of the transformers was ₹ 641.52 crore).
  The interest charges due to delay in commissioning of the 357 transformers worked out to ₹ 49.04 crore. The remaining 48 transformers were yet to be commissioned (March 2012).

- Out of the 48 transformers, which were yet to be commissioned, 32 transformers were allotted for installation between August 2007 and December 2011, delayed its commissioning and loss of interest on the blocked up amount worked out to ₹ 13.94 crore (as on March 2012). The remaining transformers were issued in the last three months (January-March 2012).

The Company replied that commissioning of transformers was delayed due to ROW problems encountered during execution of the line works. Further, out of the 32 transformers issued between August 2007 and December 2011, the Company informed that 10 transformers had been commissioned and the remaining would be commissioned as and when the ROW problems and court cases were settled.

As could be seen there was delay in commissioning of the transformers, resulting in blocking up of funds and payment of interest charges amounting to ₹ 62.97 crore. There was deficiency in planning the procurement of transformers, as the Company continued to purchase transformers for projects which were not in line for commissioning.

Improper planning in procurement of transformer

2.1.14.2 The Company placed (June 2005) an order for four numbers 150 MVA transformers to replace the existing 100 MVA transformers at NRS-Rajajinagar (2 Nos.) and SRS-Peenya (2 Nos.) substations.

- Transformer (No.1) installed (August 2006) at NRS station failed in October 2007. This transformer was repaired (July 2009) after about two years. However, as the load on NRS station was relieved due to installation of stations nearby, it was decided (April 2010), not to upgrade NRS station. The transformer was diverted (September 2010) to Ananda Rao circle substation where it was installed (December 2011). Thus, there was a delay of 879 days in utilizing the transformer after repair.

- Transformer (No.2) received (July 2006) was not installed at NRS, but was transferred to SRS Peenya in July 2007, to replace a failed transformer (No.4).

- Transformer (No.3) was installed (July 2006) at SRS Peenya and was working since then.

- Transformer (No.4) received (September 2006) at SRS Peenya was installed (March 2007). The transformer, however, failed within three months (June 2007) and was repaired only after 1,633 days (December 2010). The transformer was idling till date (December 2012) in the stores.

The Company attributed the delay in installation of transformer (No.1) at Ananda Rao Circle substation to delay in obtaining clearance from BBMP for laying cables and after the cable was laid the transformer was installed.

As could be seen there was no realistic assessment of the need of the transformers. There were enormous delays in repair and even the repaired transformers were idling for long periods of time. Considering the purchase cost of transformer at ₹ 5 crore each, the loss of interest[26] worked out to ₹ 1.15 crore and ₹ 2.14 crore for the delays of 879 days and 1,633 days respectively.

Performance of power transformers

2.1.14.3 The table below indicates status of failure of transformers during the years 2007-08 to 2011-12 in the eight TL&SS Divisions test checked:

Year	No. of transformers at the beginning of the year	No. of transformers failed	No. of transfor-mers failed within guarantee period	No. of transformers failed within normal working life	Expenditure on repair and maintenance (₹ in lakh)[27]
2007-08	369	8	2	6	9.61
2008-09	418	4	0	4	179.06
2009-10	439	10	0	10	394.53
2010-11	514	5	0	5	134.48
2011-12	531	7	0	7	10.48

It was observed that two 150 MVA transformers costing ₹ 14.96 crore failed during 2007-08. Out of this one transformer was repaired during 2011-12 after a lapse of four years and one transformer was still not repaired (March 2012).

2.1.14.4 An analysis of the failure of transformers for the Company (as a whole) during the review period revealed that on an average 30 transformers failed in a year and 20 were being repaired. Further, on an average about 75 transformers were pending repair. As at end of March 2012, there were 1 number 150 MVA, 12 number of 100 MVA, 3 numbers of 31.5 MVA, 16 numbers of 20 MVA, 10 numbers of 12.5 MVA, 17 numbers of 10 MVA and 9 numbers (less than 10 MVA) transformers were awaiting repairs. As these were high value items, immediate action needs to be taken for repair.

The Company informed that 63 numbers of transformers were awaiting repair (December 2012).

[26] **at an average borrowing cost of 9.58 *per cent*.**

[27] **expenditure in respect of transformer failures at NRM, Karkala, Somanahalli and Peenya, NR Mohalla TLSS Divisions for 2007-12 and Hootagalli and Belgaum TLSS for 2007-08 were not furnished.**

Delay in implementation of Integrated Extended - SCADA

2.1.14.5 Integrated Extended – SCADA[28] was a common integrated solution to cater to the network, extending to the entire state of Karnataka covering the Substations of Transmission, Generation and Distribution Companies and render data to all ESCOMs for scheduling and monitoring. This system was to meet requirements such as extending ABT[29] approach to ESCOMs level through 'Intra-State ABT' by monitoring User Interfaces (UIs), Remotely Acquired Reading from ETVMs fixed at Inter Face Points (Boundary Points), to run energy billing & energy audit in more sophisticated way, to automate billing & audit and to analyse losses.

We observed that:

- The contract for SCADA works were finalised (December 2006) on single tender basis. As such the competitiveness of the price quoted by the tenderer was not ensured. The Company stated that the bids of eligible bidders were evaluated by subcommittee consisting of members of Company and external members. In view of the single bid the quoted prices were compared with rates ordered by other utilities like BSES, Rajadhani Power Limited and were comparable. Nevertheless, such a procedure was outside the procedural boundaries prescribed by KTPP Act.

- Out of 588 Substations of the Company under Phase-I, only 387 Substations were completed by December 2009. Balance works in 201 Substations were completed by March 2012. In respect of 418 Substations awarded under Phase-II, only 293 Substations were completed up to March 2012.

- The Disaster Recovery Hub at Nelamangala, planned to restore the functions of SLDC within shortest time in case of any major disaster, has not been commissioned so far (December 2012). The Company informed (December 2012) that 9 metre antenna was proposed at the Hub in DPR, but Department of Telecommunication had directed to install 7 metre at Hub and 9 metre antenna at Master Control Centre. As 7 metre antenna was in service at Master Control centre, approval for erection and commission of the same from Department of Telecommunication was awaited and hence the work was delayed.

- The Company had obtained (May 2008) additional bandwidth of 7 MHz by payment of ₹ 65 lakh for the service[30] (upto March 2009 with recurring payment of the same amount every year. Because of delay in implementation of substations/SCADA, the bandwidth obtained was not fully utilized. The Company could effectively utilize the bandwidth

[28] Supervisory Control and Data Acquisition.
[29] refer to paragraph 2.1.17.3 for ABT mechanism.
[30] to get information from Remote Terminal Units (RTUs).

only from 2010 onwards. The Company informed (December 2012) that bandwidth was in demand and allocation of bandwidth was a long drawn process involving Department of Space and Department of Telecom. Considering the requirement for all stations, the proposal was submitted and got allocated.

- The benefits envisaged under SCADA and ABT have not been achieved so far due to non-implementation of Phase –II in the Company and ESCOMS. KERC has been insisting the Company and ESCOMS to implement intra-state ABT. The Company replied that implementation of SCADA and Intra State ABT was in progress.

Mismatch between generation and transmission facilities

2.1.15.1 National Electricity Policy envisaged augmenting transmission capacity taking into account the planning of new generation capacities to avoid mismatch between generation capacity and transmission facilities. The Company failed to provide transmission facilities in time matching the plans of the Generation Companies as discussed below:

Power from Priyadarshini Jurala Hydro Electric Project (JHEP)

2.1.15.2 The JHEP was conceived (August 1978) with an agreement between Government of Karnataka and Government of Andhra Pradesh. The Project envisaged an installed capacity of six units of 39.10 MW capacities each and an annual generation of 550 Million Units (MUs), to be shared equally by the States. The MoP, GOI directed (December 1998) to formulate an agreement in consultation with the Andhra Pradesh Government of so that the project could be taken up for execution immediately.

The AP Government had approved the draft Memorandum of Agreement and sent (June 2003) it to the GoK for its approval. As per the agreement, the GoK released (May 2010) ₹ 70 crore to Power Company of Karnataka Limited (PCKL) towards 50 *per cent* cost of power blocks payable to APGENCO.

We observed that:

- The Memorandum of Agreement between the two State Governments and the Power Purchase Agreements with the APGENCO for sharing energy generated have not been entered into so far (October 2012). PCKL did not make payment to APGENCO (December 2012), as the MOA was not signed.

- Contract for power evacuation facilities was awarded in February 2010 to Vensar Construction Limited at a cost of ₹ 22.56 core with scheduled date of completion as February 2011. This was done seven years from the date after the partners had agreed to set up the required transmission lines. The line work was still in progress (December 2012). The Company has spent ₹ 20.84 crore on this project as on December 2012.

- Meanwhile, five units of the JHEP were commissioned and 729.33 MUs of energy was generated from April 2008 to July 2012. The Andhra Pradesh Regulatory Commission had fixed the tariff for the power from this Project at ₹ 2.34 per unit. During the period 2008-12, the ESCOMs procured 4,286.02 MUs of power on short-term basis and at rates ranging from ₹ 4.74 to ₹ 6.77 per unit to reduce the demand supply gap.

Thus, absence of finalising and signing MOA and establishing the power evacuation lines as planned resulted in non-availing of 364.67 MUs (50 *per cent* of 729.33 MUs).

The Company informed that GoK had accorded approval (September 2010) for the revised MOA with the modification that sharing of power had to be effective from signing of MOA, construction of dedicated lines and payment of ₹ 70 crore. However, the MOA proposed to be signed in January 2011 was not signed due to unforeseen circumstances, and the date for signing was yet to be finalized. It would not be financially prudent to release ₹ 70 crore before signing of MOA and transmission lines were ready to evacuate power. As regards construction of lines for evacuation, the Company stated that the work was awarded in February 2010 and passed through transmission lines of APTRANSCO. Further, due to restricted corridor available at Jurala village, ROW problems necessitated deviation in route; the works were in progress, at the receiving end by the Company and at the sending end by APTRANSCO (December 2012).

Evacuation of power from Udupi Power Corporation Limited

2.1.15.3 The ESCOMS entered into (December 2005) a Power Purchase Agreement (PPA) with the erstwhile Nagarjuna Power Corporation Limited (now Udupi Power Corporation Limited -UPCL) for purchase of 1,015 MW of power. As per the PPA, the units were to be commissioned between February 2010 and June 2010.

We observed that:

- The Company was required to construct 400 kV line from UPCL Substation to 400 kV PGCIL Substation at Shanthigrama to evacuate power. The corridor for this line work passed through 33.67 kms of forest. The Company applied for forest clearance only in February 2008, after delay of two years and eight months subsequent to PPA (December 2005). The forest clearance was received only in February 2011/January 2012 in two stages.

- The contract for construction of the line was awarded for ₹ 396.40 crore in November 2008 with date of completion as May 2010. The line was commissioned in August 2012. The Contractor had been paid ₹ 446.52

crore[31] as on December 2012. The liquidated damages recovered/ amount withheld was ₹ 107.92 crore.

- The Company had constructed a 220 kV line with Drake conductor from UPCL to Khemar Substation to provide start up facilities for the proposed Generating Substation of UPCL. The work was awarded in November/December 2008 and completed/commissioned in September/October 2009. As the commissioning of the proposed 400 kV line for evacuation of power was not progressing for want of forest clearance and inadequate carrying capacity of Drake Conductor, it was proposed (February 2010) to replace Drake with Moose conductor. The work for replacement was awarded in March 2010 and completed in April/May 2010. The first unit of the UPCL was synchronized to grid in June 2010 and commercial production commenced (November 2010). The Company in the absence of proper planning incurred additional expenditure of ₹ 5.04 crore[32] on replacement of drake conductor.

Mismatch between creation of transmission capacity and generation deprived the State of valuable energy.

- The second unit with a capacity of 507.5 MW was synchronized on March 2011. The 400 kV line between UPCL and PGCIL Shanthigrama Substation was commissioned in August 2012. This resulted in the Company not evacuating 507.5 MW of electricity from the second unit during the period from March 2011 to August 2012.

The Company replied that as per the terms of PPA between UPCL and ESCOMs, UPCL had to achieve financial closure within one year from date of signing the agreement, and intimate the same to the Company and ESCOMs. UPCL later claimed that they had signed financial documents in October 2006, but the same had not been intimated to them. The Company further informed that survey for line work was awarded in July 2007, tenders for the line works invited in February 2008 and forest clearance applied for in February 2008. The construction of 400kV line was delayed on account of delay in obtaining forest clearance, ROW problems, settling court cases *etc*.

The reply did not address the issues on many counts. Forest clearance was known to be a long drawn process, in view of the fact that 33.67 kms passed through forest area. The Technical Co-ordination Committee had approved the scheme for evacuation of power in June 2005. The PPA was signed in December 2005. There was a good five years before the scheduled completion of the first unit of UPCL, in April 2010. The Company, being in the business of transmission of power, including construction of lines for decades, should have shown better managerial acumen in implementing this work at a time when the power situation in the State was critical. The reply was silent about evacuation of power from the second unit of UPCL between March 2011 and

[31] **including tree cut charges of ₹ 34.93 crore.**

[32] **difference between the cost of conductors after adjusting cost of released Drake conductors.**

August 2012. Thus in the absence of evacuation infrastructure the State had to incur a huge amount of expenditure in purchase of power from the market at prices ranging from ₹ 4.73 to ₹ 14.98 per unit during 2011-12 whereas the 507.50 MW could have been availed of from UPCL at ₹ 3.12 per unit.

Performance of transmission system

2.1.16.1 The performance of the Company mainly depends on efficient maintenance of its EHT transmission network for supply of quality power with minimum interruptions. The performance of the Company with regard to operation and maintenance of the system is discussed in the succeeding paragraphs.

Transmission capacity, peak demand and excess

2.1.16.2 The Company in order to evacuate power from the Generating Stations and to meet the load growth in different regions of the State, constructs substations and lines at different EHT voltages. The voltage levels can be stepped up or down to increase or decrease voltage with minimum loss of energy in the process. The evacuation is normally done at 220 kV level. The transmission capacity (220 kV) created *vis-à-vis* transmitted capacity (peak demand met) as at the end of each year during the five years ending March 2012 were as follows:

Transmission capacity 220 kV(MVA)					
Year	**Installed Capacity (MVA)**	**After leaving 30 *per cent* towards margin**	**Peak demand after 2 years**		**Excess capacity(MVA)**
			in MW	**in MVA**	
2007-08	12,915	9,040	6,897	8,114	926
2008-09	16,365	11,455	7,815	9,194	2,261
2009-10	17,015	11,910	8,549	10,058	1,852
2010-11	17,955	12,568	9,317	10,961	1,607
2011-12	18,605	13,023	10,198	11,998	1,025

We observed that the overall transmission capacity was in excess of the requirement in all the years in comparison to the peak demand[33] likely after two years, the gestation time provided for creation of additional capacity. The existing transmission capacity excluding 30 *per cent* towards redundancy was in excess of 1,025 MVA at the end of March 2012, which worked out to ₹ 50.32 crore[34]. The Company added 5,429.20 MVA of transmission capacity during 2008-09 but added only 1,868.40 MVA during 2009-10, 2,337.50 MVA during 2010-11 and 1,228.90 MVA during 2011-12. There was excess capacity creation from 2008-09 as compared to the Electricity Projections Survey.

There was unscientific planning in creation of transmission capacity.

This investment in excess of the requirement is a burden placed on the consumer. Existence of excess/idle capacity in the transmission network

[33] **projected peak demand of 2012-13 and 2013-14 are adopted for 2010-11 and 2011-12.**
[34] **at ₹ 4.91 crore per 100 MVA Power transformer, average purchase cost for five years.**

coupled with prevalence of overloads and low voltages in certain places reflects unscientific creation of transmission network.

The Company replied that figures indicated in the table were based on restricted power supply in view of the mismatch between demand and supply and if unrestricted power supply was taken into consideration, the peak demand would be much higher. Further, the capacity could not be added at short notice and was created considering future load growth for next five years and to have sufficient spare capacity to meet contingency. Also stations were constructed to avoid low voltages due to lengthy lines.

We observed that on the one hand the overall transmission capacity was in excess of the requirement after considering required capacity two years hence and 30 *per cent* towards redundancy, as brought out in this paragraph; on the other, about 33.51 *per cent* of total transformers in the network recorded annual peak load of more than 90 *per cent* during 2011-12 as brought out in succeeding paragraph. This indicates unscientific planning.

Substations

Construction of substations without assessing load requirements

2.1.16.3 We observed that as on 31st March 2012, the total number of transformers installed was 2,116. Out of this 709 (33.51 *per cent)* transformers recorded annual peak load (2011-12) of more than 90 *per cent* and 34 transformers had peak load less than 20 *per cent*. Further, 69 transformers in 66 kV and 110 kV substations had zero loads[35] implying non-connection to feeders by ESCOMs.

The Company replied that the loads on the substations depended on the infrastructure of distribution companies to evacuate load. The reply is not tenable as the planning of substations had to be done after considering requirement of ESCOMs.

Adequacy of substations

2.1.16.4 Manual on Transmission Planning Criteria (MTPC) stipulates that the permissible maximum capacity for different substations *i.e.*, 320 MVA for 220 kV, 150 MVA for 110 kV Substation and 80 MVA[36] for 66 kV Substations. Scrutiny of the maximum capacity levels revealed that four numbers of 220 kV and nine 66 kV Substations exceeded the permitted levels in Bangalore Zone.

The Company replied that in order to meet the load demand in Bangalore Urban area, new substations were to be established for which there was scarcity

[35] **based on data furnished by Planning and Coordination section. This includes 28 transformers which are stated to have zero load and not shown by respective transmission zone, and five transformers which are dismantled.**

[36] **KERC Grid Code norm adopted as MTPC norm was not available.**

of land and corridor problem. As such the capacities of the existing substations was enhanced by providing additional transformers.

The Transmission Planning and Security Standards issued by KERC indicated that the size and number of transformers in the Substation shall be planned in such a way that in the event of outage of any single transformer, the remaining transformer(s) could still supply 80 *per cent* of the load.

It was observed that 7 substations of 220 kV, 73 substations of 110 kV and 120 substations of 66 kV capacities were having only single transformer[37]. Hence, in case of outages a second transformer was not available in these stations to take the load.

The Company replied that some substations were established with single transformers to overcome low voltage problems, restrict length of lines and considering local load conditions. As and when the load increases, second transformer would be provided.

Voltage management

2.1.16.5 The licensees using intra-state transmission system should make all possible efforts to ensure that grid voltage always remains within limits prescribed by Grid code. The bus voltages in 8 TL&SS Divisions of the 4 Zones in the test checked divisions/TL&SS during the period January 2012 to March 2012 are given below:

Voltage class (kV)	Voltage norms as per KERC Grid code (kV)	Number of substations, which varied with the KERC norm	Minimum and Maximum voltage recorded in test checked substations
220	200-245	6	185, 244
110	100-124	12	94, 121
66	60-72.50	34	49.67, 72

Variation from the norms for maintaining the minimum voltage level indicates poor quality of power supply.

The Company replied that bus voltages observed could be due to temporary network conditions such as outages in generation and transmission lines. This was a transient condition and normalcy was brought back immediately.

EHT lines

2.1.16.6 As per MTPC, the permissible line loading cannot normally be more than the Thermal Loading Limit (TLL). The TLL limits the temperature attained by the energized conductors and restricts sag and loss of tensile strength of the lines. Review of line loading revealed that the following lines were loaded more than 70 *per cent*.

[37] **of a particular voltage class.**

Category (kV)	Loading percentage and number of lines			
	70 to 80	80 to 90	90 to 100	Above 100
66	49	38	35	60
110	14	14	9	4
220	30	21	14	11
Total	**93**	**73**	**58**	**75**

Loading of the lines beyond capacity would result in voltage fluctuations, higher transmission losses and frequent interruptions/breakdowns leading to supply of poor quality power.

The Company replied that transmission line loads recorded were during peak hours and in contingencies. Normal loading of transmission lines were within limits. Whenever load on the line exceeds 70 *per cent*, action was taken for construction of new substations and lines to meet these load growth and to have sufficient spare capacity.

Bus Bar Protection Panel (BBPP)

2.1.16.7 Bus bar is used as an application for interconnection of the incoming and outgoing transmission lines and transformers at an electrical substation. Bus Bar Protection Panel limits the impact of the bus bar faults on the entire power network, which prevents unnecessary tripping and selective to trip only those breakers necessary to clear the bus bar fault. BBPP is to be kept in service for all 220 kV Substations to maintain system stability during grid disturbances and to provide faster clearance of faults on 220 kV buses.

We observed that out of 89 of 220 kV Substations (12 were single bus Substations and 77 were double bus Substations) where BBPP were required to be installed, Company provided the panel at 64 Substations and in the remaining 25 Substations the BBPP was not yet provided (September 2012). We further observed that out of 64 Substations where BBPP was available, 51 were in service, 12 had become obsolete/faulty and were yet to be repaired and at one Substation though panels were installed they were yet to be commissioned (September 2012).

The Company informed that 25 Substations, where BBPP was not provided were old stations established when providing BBPP was not in practice. These stations CT's are to be replaced by five core CTs for installing BBPP and are being done in a phased manner. In respect of 12 cases[38], the Company informed that action had already been initiated to replace the faulty relays.

Working of hot lines divisions

2.1.16.8 Regular and periodic maintenance of transmission system is of utmost importance for its un-interrupted operation. Apart from scheduled patrolling of lines, Committee for updating the Best Practices of Transmission in the country

[38] **HSR, TK Halli, A-Station, NRS, Antharasanahally, KB Cross, Kemar, Vajramatti, Humnabad, Sedum, Shahapur and Ittagi.**

for maintenance of lines prescribed Hot Line Maintenance, Hot Line Washing, Hot line Puncture Detection of Insulators, preventive maintenance by using portable earthling hot line tools, vibration measurement of the line, thermo-scanning, pollution measurement of the equipment *etc*.

The Hot Line Technique (HLT) envisages attending to maintenance works like hot spots, tightening of nuts and bolts, damages to the conductor, *etc*., of substations and lines without switching off. As on April 2007 the Company had one hot line division (Peenya) and three subdivisions (Peenya, Shimoga, Hubli) with manpower strength of 27, which increased to six subdivisions with manpower strength of 51 as on 31 March 2012.

We observed that the Company did not prepare any manual/guideline and did it have any targets for maintenance of hotlines /substations. Further, Thermo-Vision Cameras provided at Mysore and Hubli subdivisions were not in working condition.

A review meeting of Hot Line Division was conducted (January 2011) and Managing Director instructed the Research and Development Department to come out with proposal for creation of new 400 kV Hot Line subdivisions and also creation of new division and sub-divisions duly indicating area of operation, location of office, staff structure and tools and plant equipments required.

The Hot Line Division proposed (January 2011) one new Hot Line Division at Hubli, a subdivision at Hoody in Bangalore Zone and a sub-division in Gulbarga Zone. The proposal was approved in principle by the then Managing Director. The Company had not established new divisions and subdivisions as proposed (March 2012).

The Company replied that action had been taken to establish new hotline division/ subdivisions and recruitment of staff had been done, and training to work on live lines was being imparted.

Transmission losses

2.1.16.9 While energy is carried from the generating station to the consumers through the Transmission & Distribution (T&D) network, some energy is lost which is termed as T&D loss. Transmission loss is the difference between energy received from the generating station/grid and energy sent to ESCOMs. The details of transmission losses from 2007-08 to 2011-12 are given below:

Particulars	Unit	Year				
		2007-08	2008-09	2009-10[39]	2010-11	2011-12
Power received for transmission	MUs	42,933.649	44,121.982	47,783.552	50,516.391	56,890.000
Net power transmitted	MUs	41,057.776	42,223.895	45,775.880	48,271.910	54,310.000
Actual Transmission loss	MUs	1,875.873	1,898.087	2,007.672	2,244.481	2,580.000
	Percentage	4.37	4.30	4.20	4.44[40]	4.54
Target Transmission loss as per the CEA norm	Percentage	4.00	4.00	4.00	4.00	4.00
Target Transmission loss as per KERC norms	Percentage	4.06	4.03	4.00	4.00	3.98
Excess Transmission Loss	Percentage	0.31	0.27	0.20	0.44	0.56
Transmission loss in excess of KERC norm	MUs	132.767	119.971	96.33	223.824	315.778
	Rate per unit in ₹	3.774	3.676	4.012	4.534	4.534[41]
	Amount ₹ in crore	50.11	44.10	38.65	101.48	143.17

Source: Records of State Load Despatch Centre.

Transmission losses exceeded CEA and KERC norms.

The transmission loss however exceeded the CEA and KERC norms during 2007-08 to 2011-12. Compared to KERC norms, the loss to the ESCOMs was ₹ 377.51 crore.

Further, Karnataka Electricity Regulatory Commission (KERC) stipulated levy of penalty for non- achievement of the transmission losses fixed by KERC. As a result the Company had to pay penalty of ₹ 2.06 crore for the period 2008-11.

The Company furnished (December 2012) revised statistics indicating that the losses were within the norms fixed by KERC. The Company replied that transmission losses for 2010-11 and 2011-12 are calculated taking net input from state's interstate lines. For 2008-09 and 2009-10 the same was calculated after deducting SR loss[42] . Considering this, the Company informed that the transmission losses for the year 2008-09 was 3.507 *per cent*, 2009-10 was 3.489 *per cent*, 2010-11 was 3.821 *per cent* and for 2011-12 it was 3.907 *per cent* respectively.

[39] **with effect from December 2009, the Company started billing at Mega Watt per month based on installed generation capacity in proportion to allocation made to ESCOMs.**

[40] **the loss as per KERC for 2010-11 was 4.39 *per cent.***

[41] **considering rate per unit for 2010-11.**

[42] **input flow into the state grid from outside the state such as Central Generating Station, Unscheduled Interchange, bilateral purchase, STOA *etc.***

This is factually incorrect as the losses indicated in the table above are the losses considered by the KERC. It was after considering the excess losses over the norms that had imposed penalty during 2008-11[43].

Grid management

Maintenance of grid and performance of SLDC

2.1.17.1 Grid Management ensures moment-to-moment power balance in the interconnected power system to take care of reliability, security, economy and efficiency of the power system. The Karnataka State Load Despatch Centre (SLDC), a constituent of Southern Regional Load Despatch Centre (SRLDC), Bangalore, ensures integrated operation of power system in the State. The SLDC co-ordinates with six Area Load Despatch Centres (ALDCs) for data acquisition and transfer, and supervisory control of 220 kV, 110kV and 66 kV equipments. The SLDC levies and collects such fees and charges from the generating companies and licensees engaged in intra-state transmission of electricity as specified by the SERC. The Company confirmed the facts.

Infrastructure for load monitoring

2.1.17.2 Remote Terminal Units/Substation Management Systems (RTUs/SMSs) are essential for monitoring the efficiency of the transmission system and the loads during emergency in Load Despatch Centres as per the Grid norms for all Substations.

All Generators, Major IPPs and even Minor IPPs are integrated (through RTUs/ Substation Automation System with SLDC) and Real Time Data is available with SLDC. As discussed in the review *infra* the SCADA project, RTUs were proposed to be installed in all the 1,006 Substations. As at end of September 2012, implementation of SCADA facility in 108 Substations was pending completion.

The primary link between Area Load Despatch Centres (ALDCs) and Master Control Centre is through Leased Lines. Later on more advanced Technology *viz*., Multi Frequency Time Dimension and Multi Access (MFTDMA) came into existence. Though the SCADA centre had proposed (December 2009) MFTDMA Technology, a decision has not been taken so far resulting in non-monitoring of load (availing real time data) by the ALDCs, when the leased line is down. The Company replied that action is taken to complete the project.

Non implementation of ABT mechanism

2.1.17.3 Availability Based Tariff reflects all elements of tariff: capacity charges, energy charges and UI charges in respect of State Generating Stations. In the present system, both the fixed and variable costs of a generating station

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[43] **Annual Performance Review for 2011-12 is yet to be finalised by KERC (September 2012).**

Intra State ABT is yet to be implemented inspite of KERC's directions.

are charged to the beneficiaries in proportion to the actual energy drawn by them during that period. In the proposed ABT system, the fixed charge for a period is to be prorated among the beneficiaries in the ratio of their entitlement for power from that generating station.

ABT mechanism also enables dispatch of power in relation to a schedule based on the availability of allocated shares of Central Generating Stations (CGS) and State Generating Stations (SGS), with penalty for drawl of power beyond the schedule, which would bring in grid discipline.

In view of these benefits CERC and KERC were constantly insisting KPTCL and ESCOMs to implement 'Intra-State ABT'.

The SCADA works awarded during November 2009 (second phase) was pending completion (September 2012) and as such the intra-state ABT regime could not be implemented.

The Company replied that the implementation of 220 kV ABT was under progress and KERC had been intimated.

Grid discipline by frequency management

2.1.17.4 As per IE Grid Code, the transmission utilities are required to maintain Grid discipline for efficient functioning of the Grid. All the constituent members of the Grid are expected to maintain a system frequency between 49.7 and 50.2 Hertz (Hz) from May 2010. To enforce the grid discipline, the SRLDC issues three types of violation messages (A, B, C), based on severity. Message A is issued when the frequency is less than 49.7 Hz and over-drawl is more than 150 MW or 12 *per cent* of schedule whichever is less. Message B message is issued when frequency is less than 49.5 Hz and over-drawl is between 100 and 200 MWs for more than ten minutes or 200 MW for more than five minutes. Message C (serious nature) is issued 15 minutes after the issue of message B when sustained drawl is more than 100 MW or ten *per cent* of the schedule whichever is less.

We observed that Company achieved good grid discipline through the following measures discussed below. As a result, during 2011-12, there was only one Type A as compared to 911 in 2007-08. Similarly Type B and C messages decreased from 149 and 25 respectively in 2007-08 to nil in 2011-12. The following measures were in operation.

- All Generators in the State and ESCOMs were required to furnish their day-ahead availability and day-ahead requirement to SLDC.
- In real time grid operation, when the system frequency fell below or above the prescribed limits, increase of hydel generation or backing down hydel generation was resorted to. If overdrawl / under drawl persisted, then load shedding / backing down of generating stations on the basis of merit order dispatch was resorted to.

- Voice communication between load dispatch centre, generating stations, substations, visibility of real time generation and power flows was available and the same was ensured by SCADA wing of SLDC.

Southern Regional Load Despatch Center (SRLDC) has appreciated Company's continuing record of nil grid violation messages.

Disaster management

2.1.17.5 Disaster Management (DM) aims at mitigating the impact of a major break down on the system and restoring it in the shortest possible time. It is carried out by deploying Emergency Restoration System, DG sets, vehicles, fire-fighting equipments, skilled and specialized manpower.

We observed that SRLDC identified 15 major generating stations[44] in the State, out of which black-start facilities were not available in 6 generating stations[45], indicating the inadequacy in the preparedness for disaster management.

Further, Diesel Generating (DG) sets and Synchronoscope[46] form part of DM facilities at EHT Substations connecting major generating stations. The SRLDC identified (January2012) 18 major substations (220KV). The Company informed that DG sets were not in working condition in one station (MRS Shimoga). It was further informed that out of 68 other non major substations, DG sets were not in working condition/not provided in 6 substations. Hubli substation did not have Synchronoscope.

The Company informed (June /December 2012) that action was taken to rectify the DG set at Shimoga station. Further the Company replied that no station was identified as vulnerable and a committee formed for disaster management and to identify vulnerable substations.

Energy accounting and audit

2.1.18 Energy accounting and audit is necessary to assess and reduce the transmission losses. The transmission losses are calculated from the Meter Reading Instrument (MRI) readings obtained from Generation to Transmission (GT) and Transmission to Distribution (TD) Boundary metering points. As on 31 March 2012 there was 2,249 interface boundary metering points between TD (2,180 points) and GT (69 points)[47]. All the GT points and TD points were provided with 0.2 class meters. Energy accounting and audit was being done by the Company.

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[44] including one Central Generating Station and three Independent Power Producers.
[45] Raichur Thermal Power Station, Bellary Thermal Power Station and stations at Yelhanka, Kiaga, Jindal Power and Udupi Power Corporation Limited.
[46] a device that indicates the degree to which system generators or power networks are synchronized with one another.
[47] excluding 11 interface points of GT in IPP projects.

Financial management

2.1.19.1 National Electricity Policy 2005 envisaged financial turnaround and commercial viability of the Power Sector. The financial position of the Company for the five year ended 2011-12 is as under:

₹ in crore

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
A. Liabilities					
Paid up Capital (including share deposit)[48]	690.32	990.32	1175.32	1,575.32	1,675.32
Reserves and Surplus (including Capital Grants)	280.71	308.88	345.93	422.14	499.52
Borrowings (Loan Funds)	3,236.07	4,473.55	5,198.76	5,506.67	5,587.77
Current Liabilities and Provisions	5,166.12	4,704.69	4,285.79	4,441.92	4,010.05
Deferred Tax	274.29	274.29	274.29	274.29	274.29
Total	**9,647.51**	**10,751.73**	**11,280.09**	**12,220.34**	**12,046.95**
B. Assets					
Gross Block	5,469.31	6,884.31	7,808.59	9,025.51	9,959.21
Less: Depreciation	1,794.19	1,977.14	2,305.91	2,696.01	3,130.94
Net Block	3,675.12	4,907.17	5,502.68	6,329.50	6,828.27
Capital Works-in-Progress	2,540.51	2,835.20	2,922.22	2,591.29	2,522.75
Current Assets, Loans and Advances	3,426.95	3,002.51	2,838.01	3,284.10	2,688.88
Assets not in use	4.93	6.85	17.18	15.45	7.05
Total	**9,647.51**	**10,751.73**	**11,280.09**	**12,220.34**	**12,046.95**
Debt-equity ratio	**4.69**	**3.86**	**3.36**	**3.16**	**2.71**
Interest (net of interest during construction capitalised)	**278.16**	**394.65**	**483.70**	**537.33**	**496.82**
Profit before tax	**124.88**	**22.75**	**5.96**	**1.63**	**8.71**
Return on capital employed	**403.04**	**417.40**	**489.66**	**538.96**	**505.53**
Capital Employed	**4,524.24**	**6,089.14**	**7,046.44**	**7,830.63**	**8,106.20**
Percentage of return on Capital Employed	**8.85**	**6.85**	**6.95**	**6.88**	**6.24**

- The borrowings stood at ₹ 5,587.77 crore as at 31 March 2012, which was 1.7 times the debts outstanding (₹ 3,236.07 crore) as at 31 March 2008.

- The Debt Equity ratio had improved from 4.69:1 in 2007-08 to 2.71:1 in 2011-12 against the norm to be adopted for financing of capital cost of projects of 2.33:1 determined by the CERC. This improvement was due to infusion of further equity by GoK to the tune of ₹ 985 crore over a period of five years.

[48] for 2007-08 and 2008-09 share deposit included ₹ 42.86 crore and ₹ 42.95 crore under 'Adjustments pending re-notification by Government.' However, from 2009-10 onwards the same is shown under 'Current liabilities'. Hence, for comparison purposes, figures for 2007-08 and 2008-09 are re-classified. Debt equity ratio is also accordingly worked out.

- The GoK while releasing the funds (2008-12) had stipulated that the Company should prepare the design and monitoring framework for the entire capital expenditure for each project with investment above ₹ 5 crore and obtain cabinet approval. These guidelines were not adhered to.

- The Return on Capital (RoC) employed is an index of efficiency and profitability in capital investments. The RoC decreased from 8.85 *per cent* in 2007-08 to 6.24 *per cent* in 2011-12 due to decrease of profit from ₹ 124.88 crore in 2007-08 to ₹ 8.71 crore in 2011-12, coupled with increase in net fixed assets (including capital work in progress) from ₹ 6,215.63 crore to ₹ 9,351.02 crore in the same period.

- The total profit of ₹ 163.93 crore, generated during the years 2007-08 to 2011-12 was on account of withdrawal of excess provisions amounting to ₹ 533.09 crore.

The Company stated that withdrawal of excess provisions of earlier years were a normal business transaction. The recovery of full cost out of operating revenue depends on various factors like tariff revision, timing of tariff revision, significant changes in expenditure items *etc*.

Fact, however, remained that the profits in each of the years from 2007-08 to 2010-11 has to be related to withdrawal of excess provisions.

The Company further stated that though the equity infusion from State Government was not to the required extent and the debt-equity ratio was near the normative level. The impact of increase in net fixed assets was significant on the change in Return on Capital. As regards non-compliance to guidelines of GoK while releasing equity, it was stated that observations were noted for guidance and compliance in future.

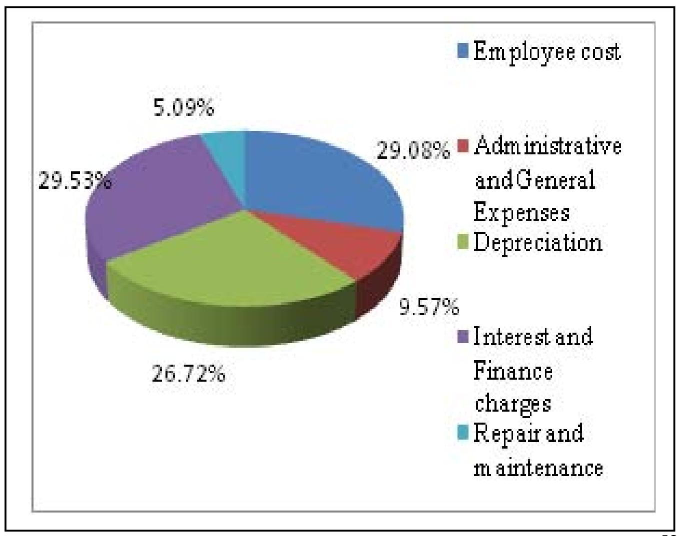
2.1.19.2 The working results of the Company during the five years ended 2011-12 are tabulated below:

₹ in crore

Sl. No.	Description	2007-08	2008-09	2009-10	2010-11	2011-12
1	**Income**					
	Revenue from transmission of power	765.99	799.02	925.55	1,215.22	1,663.01
	Other income	203.87	173.54	306.34	239.62	28.04
	Total Income	**969.86**	**972.56**	**1,231.89**	**1,454.84**	**1,691.05**
2	**Transmission**					
(a)	Installed capacity (MVA)	34,295	39,754	41,622	44,463	45,158
(b)	Energy handled (MUs)	42,934	44,122	47,784	50,516	56,890
(c)	Loss in transmission (MUs)	1,876	1,898	2,008	2,244	2,580
	Net power transmitted (b)- (c)	41,058	42,224	45,776	48,272	54,310
3	**Expenditure**					
(a)	**Fixed cost**					
(i)	Employees cost	223.41	204.09	225.13	386.80	489.27

Sl. No.	Description	2007-08	2008-09	2009-10	2010-11	2011-12
(ii)	Administrative and General expenses[49]	183.93[50]	141.47	91.99	51.19	161.07[51]
(iii)	Depreciation	138.43	185.95	358.57	406.98	449.53
(iv)	Interest and Finance charges (net after capitalisation)	278.17	394.65	483.70	537.33	496.82
	Total fixed cost	823.94	926.16	1,159.39	1,382.30	1,596.69
(b)	**Variable cost**					
	Repairs and Maintenance	21.04	23.65	66.54	70.91	85.65
	Total variable cost	21.04	23.65	66.54	70.91	85.65
(c)	**Total cost 3 (a) + (b)**	**844.98**	**949.81**	**1,225.93**	**1,453.21**	**1,682.34**
4	**Realisation (₹ per unit)**	**0.24**	**0.23**	**0.27**	**0.30**	**0.31**
5	**Fixed cost (₹ per unit)**	**0.20**	**0.22**	**0.25**	**0.29**	**0.29**
6	**Variable cost (₹ per unit)**	**0.01**	**0.01**	**0.01**	**0.01**	**0.02**
7	**Total cost (per unit) (5+6)**	**0.21**	**0.23**	**0.26**	**0.30**	**0.31**
8	**Contribution (₹ per unit) (4-6)**	**0.23**	**0.22**	**0.26**	**0.29**	**0.29**
9	**Profit (+)/Loss\(-) (₹ per unit) (4-7)**	**0.03**	**0.00**	**0.01**	**0.01**	**0.00**

2.1.19.3 The depreciation, employee cost, interest and finance charges constituted major elements of cost (over 85 *per cent* of total cost)



These costs represented 26.72, 29.08 and 29.53 *per cent* respectively of the total cost in 2011-12. The cost per unit increased by 52 *per cent* from ₹ 0.21 to ₹ 0.31 during the period 2007-08 to 2011-12. The contribution per unit, which signifies recovery of fixed cost[52] increased by 26 *per cent* from ₹ 0.23 in 2007-08 to ₹ 0.29 in 2011-12.

[49] includes power purchase cost of ₹ 22.89 crore, ₹ 71.04 crore, ₹ 8.17 crore, ₹ 1.16 crore and ₹ 0.54 crore in 2007-08 to 2011-12 respectively. This had arisen on account of revision of tariff for power purchase made prior to June 2005.

[50] includes bad and doubtful debts and miscellaneous losses written off ₹ 116.47 crore.

[51] includes interest on belated payment for power purchase ₹ 108.21 crore. During 2007-08 to 2011-12 interest on belated payments for power purchase was included in interest and finance charges.

[52] fixed cost included depreciation, interest and finance charges, employee cost and administrative and general expenses.

Depreciation cost increased by 167 *per cent* to ₹ 0.08 per unit in 2011-12 from ₹ 0.03 per unit in 2007-08. During this period the increase in quantum of energy transmitted was only 32 *per cent*, which indicated that investment on development of transmission infrastructure was far in excess of requirement. The Company replied that average depreciation rate from 2009-10 increased to 4.82 *per cent* from 3.01 *per cent*. We observed that even after factoring in the increase in rates of depreciation, the depreciation cost doubled between 2007-08 and 2011-12.

Non reconciliation of receivables and payables

2.1.19.4 The payables and receivables as depicted in the books of the Company and in ESCOMs in each of the years 2007-08 to 2010-11 are tabulated below.

₹ in crore

Year	Receivables from ESCOMs as per KPTCL books	Payable to KPTCL as per books of ESCOMs	Payables to ESCOMs as per KPTCL books	Receivables from KPTCL as per books of ESCOMs
2007-08	21.02	265.52	44.21	701.16
2008-09	34.51	192.39	103.94	547.62
2009-10	27.23	191.87	119.30	610.03
2010-11[53]	148.05	191.60	118.64	542.94

Payables and receivables between Company and ESCOMs showed huge differences.

The payables and receivables showed significant variations warranting reconciliation, as it could have wide ramifications.

The Company replied that reconciliation work has been taken up and all efforts would be made to reconcile by the time accounts for 2012-13 are finalized.

Transmission charges

2.1.19.5 The GoK had ordered (May 2005) that each ESCOM shall open a current ESCROW Account with the banks for clearing the bills of the Company towards transmission charges.

Accordingly, the Company executed (July 2005) a tripartite agreement with each ESCOM and the Banks (ESCROW Agent), which maintained the collection account of respective ESCOMs. The details of transmission charges, average monthly outstanding dues, and interest burden on the Company during 2007-08 to 2011-12 were as under:

[53] **Accounts for 2011-12 of ESCOMs are under finalization (September 2012).**

Year	Outstanding amount at the beginning of the year (1 April)	Average monthly outstanding dues during the year	Outstanding amount at the end of the year (31 March)	Average interest rate of borrowings (*per cent*)	Additional interest burden (₹ in crore)
	(₹ in crore)				
2007-08	110.89	2.90	144.80	9.58	13.87
2008-09	144.80	2.98	180.30	10.71	19.31
2009-10	180.30	4.94	243.27	9.78	23.79
2010-11	243.27	1.74	234.40	9.91	23.23
2011-12	234.40	1.41	144.00	11.28	16.24
Total additional interest burden					**96.45**

The terms of ESCROW agreement entitles the Company to recover dues on first charge basis. Nevertheless, revenue recoverable accumulated year after year. The Company borrowed funds to meet its capital expenditure plans. The Company could have reduced its interest burden by ₹ 96.45 crore timely recovery of transmission charges.

The Company stated that the right to recover transmission charges on first charge basis was not enforced since ESCOMs were Government Companies.

Fund management

2.1.19.6 The financial management of the Company included borrowings for capital works, debt servicing, billing and collection of transmission charges. Billing and revenue collection have been with separately in Paragraph 2.1.19.5. Details of funds obtained through borrowings and capital infusion by the Government *vis-à-vis* capital expenditure and servicing of debt are indicated in the table below:

₹ in crore

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Infusion of share capital by the Government	0	300.00	185.00	400.00	100.00	985.00
Borrowings	1,492.56	1,513.78	1,408.45	1,913.06	543.00	6,870.85
Total	**1,492.56**	**1,813.78**	**1,593.45**	**2,313.06**	**643.00**	**7,855.85**
Capital assets	2,500.61	1,709.69	1,011.31	885.98	865.16	6,972.75
Repayment of borrowings	376.54	276.30	683.24	1,605.15	461.89	3,403.12
Total	**2,877.15**	**1,985.99**	**1,694.55**	**2,491.13**	**1,327.05**	**10,375.87**

Internal generation of funds were insufficient for repayment of borrowings fully.

The Company had mobilized ₹ 7,855.85 crore by way of capital and borrowings during the five years under review. It utilized ₹ 6,972.75 crore as capital expenditure. Balance amount of ₹ 883.10 crore had gone for debt servicing. Internal generation of funds were insufficient for repayment of borrowings fully.

2.1.19.7 In the scheme of unbundling the erstwhile KPTCL, Government of Karnataka had taken over the liability of pension and gratuity to retired and in service employees amounting to ₹ 4,702 crore as on 31 May 2002. Though the Government was required to make arrangement for funding the Pension and Gratuity Trust to this extent, it decided to make payment on 'as you go' basis for settlement of its share of employees terminal benefits. Even this liability was not discharged in full in any of the years and balance receivable was ₹ 630.45 crore as on 31 March 2012. The Trust had been meeting the shortfall from the amounts paid by the Company and ESCOMs to meet the accrued liabilities to be paid in future years. Since the Company was contributing to the Trust funds more than its liability every year, the profitability and liquidity of the Company was affected.

Tariff fixation

2.1.19.8 Transmission service charges are the main source of generation of funds. The transmission tariff as approved by Karnataka Electricity Regulatory Commission (KERC) from time to time is payable by all the users of transmission network.

As per the provisions of KERC (terms and conditions for determination of transmission tariff) Regulations 2006, the Company files an ARR with the KERC to meet the cost pertaining to the transmission business for each financial year, which would be permitted to be recovered through tariffs and charges by the Commission. The Company is required to file the Annual Revenue Requirement (ARR) each year with the KERC, 120 days before the commencement of the first financial year of Multi Year Tariff (MYT) period.

The details about filing of ARR are in the table below.

MYT for	Due date for filing	Actual date of filing	Delay in days	Date of approval	Effective date
2007-08 to 2009-10	30.11.2006	30.11.2006	Nil	06.07.2007	1.07.2007
2007-08 to 2009-10 (Revised)[54]	-	-	-	31.12.2007	1.07.2007
2009-10 (Revised)[55]	-	30.06.2009	-	25.11.2009	1.12.2009
2010-11 to 2012-13	30.12.2009	13.08.2010	227	7.12.2010	1.01.2011

The Company delayed the filing of ARR for MYT 2010-13 by 227 days beyond the due date of filing. This resulted in delayed collection of Tariff for the year 2010-11 from January2011 onwards, which otherwise could have been from April 2010. Consequently, the Company claimed lesser transmission charges of ₹ 143.52 crore between April 2010 and December 2010, which

[54] as per the orders of Appellate Tribunal for Electricity (ATE) dated 04.12.2007, KERC issued (December 2007) revised order for 2007-08.

[55] as per the order (May 2008) of ATE, KERC issued revised (November 2009) order for 2009-10 apart from Annual Performance Review for 2007-08 and 2008-09.

would otherwise have been available for meeting its Capital Expenditure programmes in 2011-12 and would have saved interest on borrowings to the tune of ₹ 16.19 crore[56] in the year.

The Company replied that the GoK had requested KERC to allow time till 30 June 2009 for filing ERC, which was allowed by them.

The impact on finances of the Company was real and the financial compulsions demanded that ARR should be filed in time.

2.1.19.9 The ARR proposals made by the Company and approved by the Commission are given below:

Year	Transmission tariff					
	Total capacity as per filing of the Company	**Revenue Require-ment as per filing of Company (₹ in crore)**	**Total Capacity as per KERC (MW)**	**Revenue Require-ment revised by KERC (₹ in crore)**	**Revised Tariff by KERC (per MW per Month)**	**Dis-allowed revenue require-ment (₹ in crore)**
2007-08	41,408.40 (MU)	817.90	7,249	713.95	89,699	103.95
2008-09	45,055.01 (MU)	1,061.19	7,726	819.05	95,869	242.14
2009-10	49,254.60 (MU)	1,098.08	9,249	942.25	1,02,427	155.83
2010-11	11,572 .00(MW)	1,452.60	11,572	1,201.44	95,646	251.16
2011-12	13,477.00 (MW)	1,956.27	13,477	1,542.13	95,356	414.14

KERC undertakes the Annual Performance Review (APR) considering the actual expenditure incurred and revenue earned as per audited financial statements, subsequent to approval of MYT.

The major disallowances of expenditure by the KERC for the period 2007-08 to 2001-12 are:

- Power purchase cost of ₹ 103.25 crore. The Company, however, adjusted an amount of ₹ 98.06 crore against the amounts payable to ESCOMs, thus, passing on the burden to them.
- Operation and Maintenance expenses beyond the norms fixed by the KERC of ₹ 158.64 crore.
- Interest on power purchase dues of ₹ 438.81 crore relating to the period up to June 2005 accounted during 2007-08 to 2011-12, for which the Company has demanded subsidy from the Government.

Material management

2.1.20.1 The key functions in material management are laying down inventory control policy, procurement of materials and disposal of obsolete inventory. The Company had not formulated any procurement policy and adopted its laid

[56] **considering the average borrowing cost of 11.28 *per cent* for 2011-12.**

down procedures for finalizing the quantities of material to be procured considering the stock position.

Purchase and idling of underground cable

2.1.20.2 The work of construction of substations at Dobbaspet was awarded in May 2007 and commissioned in March 2009. The Company without taking cognizance of the above work, awarded (September 2008) another work for laying 17.49 kms of 1,000 sq.mm cable from SRS Peenya Substation to Widia Substation for ₹ 27.49 crore to a firm on total turnkey basis. The firm supplied (February 2009) 17.46 kms of cable and its accessories valued at ₹ 24.29 crore.

The Company realizing the fact of laying underground cable from SRS Peenya to Widia substation would be redundant, cancelled (February 2009) the above work and decided (February 2009) to divert the cable to another work (NRS to A-station-tower 28). The work was awarded (May 2010) to the same firm without calling for tenders, which was completed (May 2012). Thus, the underground cable was idling for the period from February 2009 to May 2010. Thus, procuring UG Cables for a work without requirement resulted in idling of materials and payment of interest of ₹ 1.85 crore[57] on borrowed funds.

The Company confirmed the facts.

2.1.20.3 The Company placed (June 2007/March 2008) an order for supply of 32.703 kms of 630 sq.mm cable (at 66 kV voltage class) for ₹ 25.39 crore for execution of works of Vrishabavathi Valley line in Bangalore. The Contractor supplied 31.86 kms of cables in March 2008.

We observed that the Company already had decided (July 2006) to use only 1,000 sq.mm underground cable at 66 kV voltage class in Bangalore urban areas. The Company further decided (September 2009) to use 1,000 sq.mm cable for the above work, in place of 630 sq.mm cable. Since the decision to use only 1,000 sq.mm underground cable in Bangalore urban areas was already in force, the purchase of 630 sq.mm cable lacked justification. The material received (March 2008) was lying idle (March 2012) resulting in unnecessary payment of interest charges of ₹ 4.82 crore on borrowed funds.

The Company replied that the cable procured for Vrishabavathi Valley would be utilized for three works, which had been awarded in August 2012.

Consumption of materials

2.1.20.4 The details of consumption and closing stock of materials for the period 2007-08 to 2011-12 are detailed below:

[57] loss of interest on 16.62 kms upto May 2010 (proposed to be used by EPI for the new work) and 0.84 kms, which was not utilised upto March 2012.

₹ in crore

Year	Consumption (per annum)	Consumption (per month)	Closing stock	Closing stock in terms of months' consumption (*per cent*)
2007-08	2,091.42	174.29	107.15	61.48
2008-09	1,320.53	110.04	111.55	101.37
2009-10	781.66	65.14	101.14	155.27
2010-11	599.85	49.99	106.09	212.22
2011-12	581.04	48.42	108.30	223.48

The closing stock in terms of number of months' consumption increased from 61.48 *per cent* in 2007-08 to 223.48 *per cent* in 2011-12. The Company, however, has not fixed standard minimum level or re-order level of material requirement.

The Company stated that it was necessary to have 5 *per cent* stock as contingency materials and observation was taken note of for fixing standard minimum level for re-order level of material requirement.

Non-moving and scrap materials in stores

2.1.20.5 The value of non-moving, surplus, obsolete, unserviceable and scrap material[58] for last five years is given below:

₹ in crore

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Surplus/obsolete/ unserviceable/ scrap	2.14	2.89	6.41	6.01	13.08
Non-moving (not used for more than three years)	Not available	Not available	13.86	14.80	18.65
Total	**-**	**-**	**20.27**	**20.81**	**31.73**

The value of the scrap and obsolete materials in stock was on increasing trend between 2007-08 and 2011-12.

The Company replied that when the rate quoted was below the rates fixed by Metal and Scrap Trading Corporation, it leads to re-tendering and delay in disposal of scrap.

Monitoring and control

2.1.21.1 The performance of the substations and lines on various parameters like maximum and minimum voltage levels, breakdowns, voltage profiles should be recorded /maintained as per the Grid code standards.

[58] as per the ERP statements.

The Company collects and consolidates the peak load of substations and loading of lines. The field Divisions of TL&SS units compile the monthly MIS reports indicating the performance of the units as well as equipments installed. These reports however are not evaluated at corporate level.

While approving the T&D schemes, the Company envisaged benefits in terms of reduction in line losses, improvement in voltage levels and the load growth to be achieved by the new schemes. The benefits actually accrued have not been analysed by the Company.

The Company stated that post analysis work of 60 of the 300 substations constructed between 2007 and 2010, was entrusted to a private agency. The agency had completed analysis of 30 substations and observed that Benefit Cost Ratio was 3.43, justifying the investment made.

Technical Advisory Committee meetings

2.1.21.2 As per the direction (May 2003) of BoD a Technical Advisory Committee (TAC) was constituted in May 2003 with a view to ensure standardization in specifications in respect of projects and also to involve experts in the process of technical clearance. The TAC was reconstituted in April 2009.

We observed that the TAC had not held meetings after September 2009 defeating the very purpose of its constitution.

The Company stated that TAC was only an advisory committee and not mandatory. Only the proposals cleared by the TAC were to be included in the Annual Plan of Works. The works for inclusion in annual program were approved by the Board.

The fact remains that the expertise of the TAC has not been utilsed from September 2009.

Internal Controls and Internal Audit

2.1.21.3 Internal control is a process designed for providing reasonable assurance for efficiency of operations, reliability of financial reporting and compliance with applicable laws and statutes and detection of errors and frauds. The deficiencies noted are discussed below:

Absence of internal controls in finance wing

2.1.21.4 The Company availed both long term and short term loans from financial institutions (FIs) and commercial banks regularly for meeting its capital expenditure and repayment of borrowings. The borrowings as at end of 2011-12 stood at ₹ 5,587.77 crore.

We observed that periodical data and analysis as to the fund requirement at the point of availing loan, details of projects for which loans were required *etc*., were not maintained. Further, deliberations/negotiations held with banks, prevailing rates of interest, justification for selecting a particular bank *etc*., were not placed before the approving authority[59]. Action taken on the decisions of the Borrowing Subcommittee was not deliberated in the subsequent meetings as part of compliance mechanism.

The Company replied (July 2012) that efforts would be made to place the details and justification of selection before the Borrowing subcommittee in future.

Audit Committee

2.1.21.5 The Company constituted an Audit Committee (AC) as required under Section 292A of the Companies Act, 1956. As per the terms of reference specified (June 2001/December 2005) by the BoD, AC should discuss with the Auditors periodically about the Internal Control System and the scope of audit including observations of the auditors, review of the half-yearly and Annual Financial Statements before submission to the Board, ensure compliance of internal control systems, financial and risk management policies and fraud and fraudulent risks *etc*.,

We observed:

- Though notices were reportedly sent to Statutory Auditors to attend AC meetings held as per section 292A (5) of the Act, the Auditors had not attended the three meetings held between September 2007 and March 2009).
- The Annual Accounts for the financial year 2010-11 was placed directly before the Board of Directors without review by the AC. Thus the provisions contained in Section 292A (6) of the Companies Act, 1956 was not followed. The Accounts of 2011-12 were placed before the Board after approval by AC.

The Company, while confirming the facts informed that in order to expedite the process of submission of accounts to statutory auditors and AG auditors and to adopt the audited accounts thereupon within the scheduled date of 30th September, the accounts had been directly taken to the Board without any willful intention to overlook the review of same by audit committee. The Company further stated that observation was noted and it would ensure that annual accounts are reviewed by audit committee before placing it to Board.

Acknowledgment

We acknowledge the co-operation extended by the Energy Department, GoK and the Company in facilitating the conduct of performance audit.

[59] as per the delegation of powers, Borrowing subcommittee and Managing Director/ Director (Finance) are the approving authority for long term and short term loans respectively.

Conclusion

- **The Company transmitted 42,933.65 MUs of energy in 2007-08 using a capacity of 34,294.80 MVA. The energy transmitted in 2011-12 was 56,890 MUs with the capacity increasing up to 45,158.80 MVA, indicating creation of excess capacity.**

- **The clearances and permissions in many cases from various statutory authorities were sought for only after the works were awarded ignoring the recommendations of the Task Force (as regards planning and execution). Substations did not become operational because of delay in completing source lines and distribution lines.**

- **Transformers purchased at huge costs remained idle for 3 to 49 months owing to delay in implementation of the projects and improper planning. Instances of idling of underground cable procured at high prices were observed.**

- **The Company failed to draw power from the newly commissioned generating stations for long periods, as evacuation facilities were not put in place.**

- **Availability Based Tariff mechanism (intra-state) was yet to be implemented (September 2012), though KERC has been insisting on it time and again.**

- **The grid discipline by frequency management of the Company was appreciable.**

- **The cost of transmission has increased steadily without corresponding increase in revenue. The capital expenditure was less than the funds mobilised by way of infusion of capital and borrowings, indicating use of long term funds for purposes other than creation of assets. The conditions put forth by the Government of Karnataka while releasing capital were not adhered to. Non-receipt of ₹ 630.45 crore from Government of Karnataka against taken over pension/gratuity liability affected the profitability of the Company.**

- **The internal control system in the area of operation of Subcommittees and in financial decisions had weaknesses.**

Recommendations

The following recommendations are offered:

- **The construction of substations and lines should be need based, against the backdrop of scarce resources; to avoid idling and excess**

capacity creation. The planning and execution require reorientation to have synchronization of various aspects of implementation of the projects to facilitate taking up of issues such as forest and other statutory clearances, road cutting permissions, *etc*., well in time and resolving them before award of the works.

- **There is need to conduct effectively the survey of the line corridors to avoid the problems like right of way during the course of construction. Adequate enquiries as to suitability of the area and encumbrance should precede the acquisition of land and hindrance free land should be available to contractors for construction of substations, alongwith the award of work.**

- **Procurement of high value items should be need based to avoid blocking up of funds on materials.**

  In all the above aspects the recommendations of the Task Force could be the roadmap.

- **The Company should speed up implementation of Availability Based Tariff mechanism (intra-state), put in place adequate Disaster Management mechanism and create infrastructure for monitoring of load (availing real time data).**

- **The Company should plan for evacuation of power from generating stations in time so as to avoid purchase of expensive power from the market and give fillip to growth.**

- **The stipulations set by the Government while releasing funds towards capital expenditure should be fulfilled. The Subcommittee on borrowings of the Company should document its decisions and follow up actions.**

2.2 Performance Audit on the Modernisation of Canal System of Bhadra Reservoir Project by Karnataka Neeravari Nigam Limited

Executive Summary

The Company

The Company was incorporated in December 1998 under the Companies Act, 1956 to execute, operate and maintain irrigation projects in the State, excluding Upper Krishna Project. The Bhadra Reservoir Project (BRP) and the work of modernisation of its canal system were brought under the control of the Company in February 2004.

Objectives of the Performance Audit

The Performance Audit on the modernisation of the irrigation canals of the BRP was carried out to assess whether reasonable care was exercised in planning, in preparation of estimates, the designing was after adequate study, the contracts were awarded in a transparent manner complying with the provisions of Karnataka Transparency in Public Procurement (KTPP) Act and the guidelines of Central Vigilance Commission (CVC), works were executed as per the time schedule. It was also to assess whether the intended objective of providing sufficient water to the entire atchkat including tail end users was achieved with 61.70 tmc of water allocated as per Krishna Water Disputes Tribunal.

Audit findings

Planning

The Company was initially required to take up the modernzation of vulnerable reaches of the main and branch canal of the Bhadra Reservoir Project. Estimates were revised at a later date by including the entire stretch of the canals. As a consequence the scope of work and quantities awarded changed again and again leading to cost and time overrun.

The project was envisaged to start in June 2007 and to complete by December 2007. It was still going on, even after five years (December 2012).

The project was formulated (2001) to irrigate a command area of 1.05 lakh hectares, including the suffering tail-end atchkat of about 9,118 hectares. But, supply of water to the tail end atchkat of about 2,132 ha continued to be affected even after expending ₹ 1,003.33 crore.

Estimates of work and reporting of progress

The estimates and extent of work were not determined leading to repeated changes. The progress reported by each agency varied.

Contract management

The works, which were originally envisaged under six packages were split again and again and are now executed in 33 packages. The works included in all packages still remained incomplete.

Despite the recommendation of the Expert Committee to modernise only the vulnerable reaches of main and branch canals, the Company decided to modernise the entire stretch of main and branch canals without approval of competent authority.

Limiting the tender access only to the Category-I contractors enrolled with the Company, who satisfied the prescribed prequalification criteria resulted in foregoing the competitive rates. After calling for tenders, the scope of the work was changed with increase in quantities, in contravention of the KTPP Act. Several contracts were awarded on single tender basis under the plea of urgency. Award of the contracts at negotiated rates violated the GoK and CVC guidelines.

The Company included price variation clause in the contracts contrary to the Government directions, which afforded undue benefit of ₹ 50.18 crore to the contractors.

The Company accorded extension of time without assessing the requirement of time in

each case. Despite non-completion of the work even within the extended period, liquidated damages as per the agreements of ₹ 49.22 crore was not levied.

Execution

Providing Cement Concrete (CC) lining to the entire length of 103 kms of Right Bank Canal which mainly runs through rocky strata was not justified and avoidable expenditure thus incurred could not be quantified.

In respect of silt removal, excavation of soft rock, embankment, CC lining and UCRS masonry, there was huge increase in quantities actually executed from the estimated quantities.

Non-adherence to the technical/Indian Standard (IS) specifications

The Code of practice of the Bureau of Indian Standards (BIS) prescribed certain standards for Cement Concrete lining of canals and Full Supply Depth/Freeboard. These were not adhered to/complied with, which resulted in avoidable and unfruitful expenditure of ₹ 165.66 crore.

Financial management

Delay in obtaining the clearance of the Planning Commission for the modernisation project, resulted in short receipt of the Central Assistance (Grants) of ₹ 65.29 crore.

Water management

The water management mechanism was deficient, which led to violation of crop pattern in irrigated area ranging from 66.83 *per cent* to 70.05 *per cent* of the total area irrigated.

Conclusion

We conclude that:

- **The project was envisaged to start in June 2007 and to be completed by December 2007. Even after five years (December 2012) from the scheduled completion date, the project was still in progress.**

- **Despite incurring ₹ 1,003.33 crore on modernisation, about 2,132 ha of the 'suffering' tail end atchkat of 9,118 hectares remained without water supply (September 2012).**

- **The estimates and extent of work were not determined, leading to change in scope of modernisation programme.**

- **The Company decided to modernise the entire stretch of main and branch canals ignoring the recommendation of the Expert Committee to limit it to vulnerable structures and without the approval of competent authority.**

- **Change of scope after inviting tenders was in contravention of the KTPP Act. Limiting the tender access only to the Category-I contractors enrolled with the Company, who satisfied the prescribed the pre-qualification criteria, resulted in foregoing competitive rates.**

- **Award of the contracts at negotiated rates and on single tender basis in several cases under the plea of urgency was in violation of the GoK and CVC guidelines.**

- **The works, which were originally envisaged under six packages were split again and again and are now executed in 33 packages. The Company extended time of completion (January 2011) in respect of all the contracts without levying liquidated damages for delays.**

- **The Company included price variation for works to be completed in seven months as well, in contravention of the orders of the Government of Karnataka. Adoption of lower rates as base price for calculation of price variation of cement resulted in undue benefit to the contractors.**

- **The Company ignored the specification of the Bureau of Indian Standards (BIS) by resorting to excess thickness of lining of canals and lining beyond the required height resulting in creation of excessive Free Boards. The avoidable expenditure was ₹ 165.66 crore.**

- **There was huge difference between the demands for water charges and maintenance cess registered by the**

Revenue Authorities and that raised by the Irrigation Officers. There was no proper monitoring mechanism.

Recommendations

The following recommendations are offered:

- **The Government orders/ directions/ design manual of the Irrigation department, provisions of the KTPP Act and CVC guidelines should be scrupulously followed in tendering and awarding of contracts.**

- **There should be definite estimates of the quantum of work to be executed. The time frame should be clearly defined and adhered to.**

- **The management of contract and additional quantities executed, needed to be investigated.**

- **Efforts should be made to avail the full extent of Central Financial Assistance.**

- **There is need to create awareness on the prescribed crop pattern.**

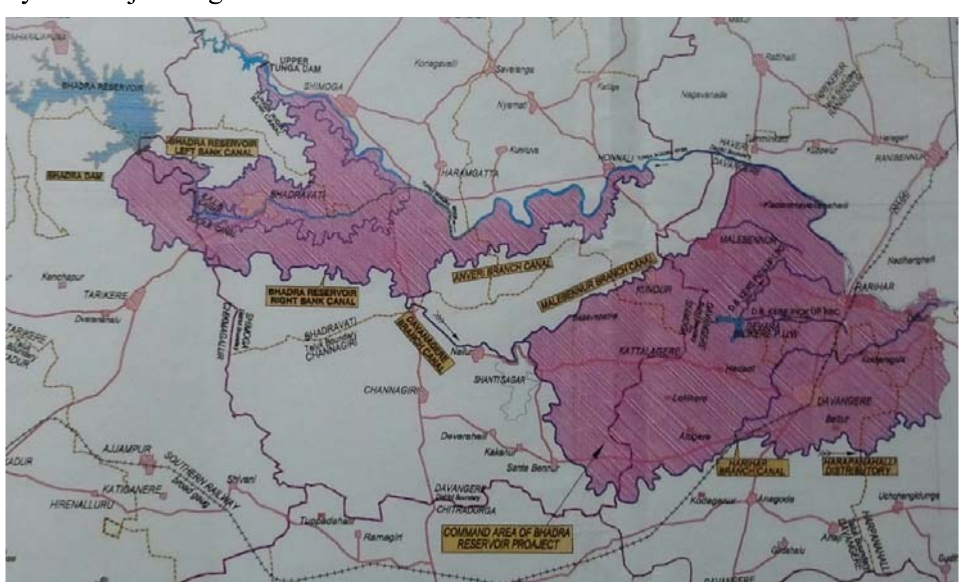
Introduction

2.2.1 Karnataka Neeravari Nigam Limited (Company) was incorporated in December 1998 under the Companies, Act 1956. The main objectives of the Company *inter alia,* are to:

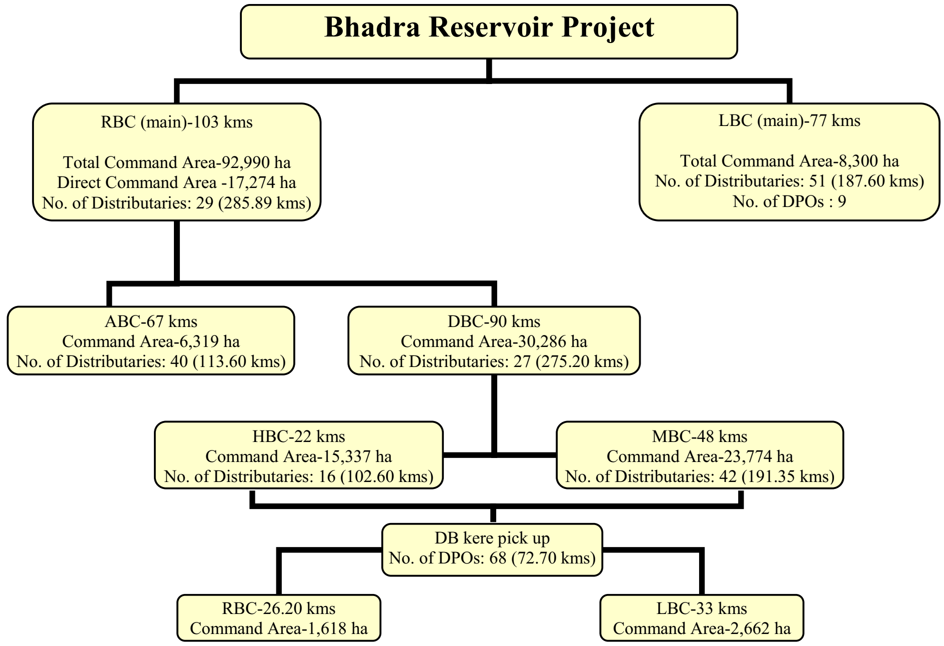
- Plan, investigate, estimate, build, operate and maintain irrigation projects and the works of Command Area Development Authority in any part of the State of Karnataka in the Krishna Basin (excluding the Upper Krishna Project),
- Prepare Detailed Project Reports (DPR) and estimates of such irrigation projects and build them after obtaining necessary approvals and sanctions,
- Resettle and rehabilitate people affected by the building of irrigation projects,
- Build or cause to be built dams, barrages, reservoirs, irrigation canals and distributaries, power houses, electricity transmission lines, *etc*.

Bhadra Reservoir Project and canal system

2.2.2 The River Bhadra originates from the Varaha Hills in the Western Ghats of Karnataka and joins River Tunga at Kudli near Shimoga and from there it is known as Tungabhadra which is a major tributary of River Krishna. The Bhadra Reservoir Project (BRP) was constructed across River Bhadra between 1947 and 1959 for irrigating the arid regions of Shimoga, Chikmagalur and Davanagere districts. The project was to irrigate an area of 1,05,570 hectares (ha). The Canal system of the Project was completed and the water was provided for irrigation from 1966 onwards. The Krishna Water Disputes Tribunal (KWDT) had allocated 61.70 Thousand Million Cubic Feet (tmc) of water to the Project (1972). The map of the command area irrigated by the Project is given below:



The Graphical representation of the Canal Network and Command Area of BRP is given as under:



[60]

The Command Area Development Authority (CADA), Shimoga, a Statutory Body, deals with development of the Command Area, creates awareness of the conservation of land and water, constructs Field Channels and Field Drains, establishes / facilitates the Water Users Co-operative Societies (WUCS) to promote a decentralized and self regulated management system for the efficient water distribution and is bestowed with the task of reclamation of water logged and saline areas.

Organizational setup

2.2.3 The modernisation of canal system of the Bhadra Reservoir Project was one amongst the many projects executed by the Company. The Superintending Engineer, Bhadra Project Circle is in charge of this project, under the control of the Chief Engineer, Upper Tunga Project Zone, Shimoga, who in turn reports to the Managing Director of the Company.

The Bhadra Project Circle has Bhadravathi, Davanagere and Malebennur divisions under its control, each headed by an Executive Engineer and having ten sub-divisions.

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[60] **RBC – Right Bank Canal**
LBC – Left Bank Canal
ABC – Anvery Branch Canal
DB kere – Devara Belekere
DBC – Davanagere Branch Canal
HBC – Harihar Branch Canal
MBC – Malebennur Branch Canal
DPO – Direct Pipe Outlet

Scope and methodology

2.2.4 The present Performance Audit covered the modernisation of canal system of Bhadra Reservoir Project. The records of the Corporate Office, Office of the Chief Engineer, Superintending Engineer and all the three divisions involved in execution of the Project, covering the period from 2006-07 to 2011-12, were test checked in audit.

We scrutinized the minutes and agenda papers of meetings of the Board of Directors (Board) and Technical Sub-committee (TSC), correspondence with the administrative department, instructions of GoK and GoI pertaining to the relevant activity, Detailed Project Reports, estimates, contract documents for collection of data and gathering of evidence. We also interacted with the Management to elicit their views and opinions on issues.

Audit objectives

2.2.5 The objectives of the Performance Audit were to assess whether:

- Planning and designing were after adequate study.
- Detailed estimates were prepared in compliance with the design parameters.
- The financial requirements were projected realistically, identifying the sources of funds and its availability ensuring proper fund flow.
- The contracts were awarded in a transparent manner and executed with due quality control.
- The intended objective of providing adequate water to irrigate the entire atchkat including tail end users with reduced usage of water was achieved.
- There existed monitoring controls to ensure that the farmers follow the prescribed cropping pattern and avoid unauthorised atchkat.
- Levy and collection of water charges were as prescribed.

Audit criteria

2.2.6 The Audit criteria considered for assessing the achievement of the audit objectives were derived from the following sources:

- Guidelines issued by Water Resources Department (WRD) of the Government of Karnataka, Central Water Commission (CWC) and other Ministries.
- Survey report on conception, specifications and targets in the Detailed Project Report (DPR), Annual Work Programmes / Annual plans,

Investigation / survey reports, external consultancy reports, estimates and Indian standards / specifications.

- Notice Inviting Tenders (NIT), agreement conditions, schedule of rates, bill of quantity complying with the parameters for similar works undertaken by the Company, other Public Sector Undertakings in the irrigation sector and the Department of Water Resources.
- Provisions / instructions / guidelines *etc.*, of the Company and Karnataka Transparency in Public Procurement (KTPP) Act and KTPP Rules.
- Reports of Monitoring Cell at Corporate office / Project level and instructions / directions by the Company to the field offices on water discharge for the Project.
- Directions of Agricultural Department / Water Users Co-operative Societies to maintain cropping pattern.

Audit findings

2.2.7 The objectives of the Performance Audit with reference to the audit criteria were explained to the Company during an 'Entry Conference' held in June 2012. The audit findings were reported to the Management, which were discussed in an Exit Conference held on 19 Nov 2012. The Exit Conference was attended by the Principal Secretary, Water Resources Department, Government of Karnataka and the Managing Director of the Company. The views expressed by the Government/Management (December 2012) have been considered while finalizing the Performance Audit. The audit findings are discussed in subsequent paragraphs.

Planning

2.2.8.1 Planning is a significant aspect in timely implementation of any project, as it involves realistic and exact scope of the works through preparation of proper estimates, conducting field survey, identifying all the technical items / components of the work and framing appropriate terms and conditions of tender. In addition it involves formulating/adopting a definite strategy to reap the envisaged benefits as per plan.

The original design (in 1960) of the canal system of the Project did not contemplate any lining and water was being released for nearly 300 days in a year except during the period of canal closure for about 60-75 days. The main canals, branch canals and connected distributaries were unlined and there was a heavy seepage loss. Further, most of the structures were in dilapidated condition due to continuous usage. In the command area of the Project there was violation of cropping pattern, unauthorized atchkat, large base period[61]

[61] leakages and losses in the system.

and hence, the utilization of water was at an average of 74 tmc against the 61.70 tmc of allotted water.

The Government of Karnataka constituted (December 2001) an Expert Committee headed by Shri.D.C.Kulkarni (Retired Chief Engineer) to study the possibilities of modernising Bhadra Canal System during irrigation period. The Expert Committee, after extensive survey of the Project, recommended (August 2003) modernisation of the canal system, which *inter alia*, included:

- Providing Cement Concrete (CC) lining to vulnerable reaches of the main and branch canals;
- Providing CC lining to distributaries and repair works to masonry/concrete.

The Expert Committee also recommended that these works were to be executed during 'off' period. Repair to concrete slabs and beams could be tackled anytime. These works were to be estimated initially and were to be tackled phase-wise in tune with the availability of funds.

The modernisation work of the Project was transferred (February 2004) to the Company for implementation after accepting the recommendations of the Expert Committee.

Based on the recommendations of the Expert Committee an estimate for ₹ 471 crore was prepared (January 2005). The Board directed (June 2005) that the estimate be submitted to the Government for approval. Pending approval thereof, repair of structures and lining of vulnerable reaches of the main and branch canal costing ₹ 82 crore were executed between June and November 2006. This included ₹ 47 crore for rehabilitation of aqueducts, tunnels, cross regulator cum escape and ₹ 35 crore towards Cement Concrete lining in critical reaches. The Government accorded approval for these works in January 2007.

The Company further decided (November 2006) to take up the balance work estimated to cost ₹ 389 crore in six packages during 2007-08, so as to complete the modernisation by June 2008.

Technical consultancy

2.2.8.2 The Board approved (August 2007) the entrustment of the work of survey, investigation, preparation of drawings and Draft Tender Proposals (DTP) to a Consultant. The agreement was entered into with the consultant in November 2007.

We observed that:

- The Consultant had completed (January to April 2007) the survey work much before the decision (August 2007) of the Board to entrust the consultancy work. The reasons for entrustment of survey work to the Consultant prior to the decision of the Board were not available on record.

- The Consultant had carried out the study of cross section of the existing main canals at 90 metre intervals. As per the subsequent commercial offer (May 2007), the Consultant had proposed to conduct the survey at 50 metre intervals. Further, Paragraph 2.2 of Annexure 'D' of the Agreement (November 2007) had stipulated that the cross section levels of the main canals should be taken at close intervals to bring out the true picture of the canal as it existed. The cross section level was also to be taken at close intervals particularly where there was sudden change in the side slope or in levels. The Consultant had not adhered to his offer.

The Company, however, paid (April 2008) ₹ 1.12 crore to the Consultant, despite the above inconsistencies.

The Government stated (December 2012) that as tenders for modernisation were invited for all the works so as to fix the contractors for all packages before the closure of the canals and considering the time constraints it was decided to engage the service of consultant for which *post facto* approval was accorded to the techno-commercial offer, based on which agreement was entered in November 2007.

We observed that techno-commercial offer of the Consultant was received only in May 2007 after the work was completed in April 2007. Hence the question of obtaining *post facto* approval did not arise. Further, when approval for award of work was sought, the Board was not informed of the completion of the work. Analysis of cross sections specifying field conditions was not available to substantiate the statement that there were special circumstances for ignoring the guidelines in the Indian Standards, manuals, circulars *etc*.

We further observed that the TSC had discussed (August 2008) and noted that extra financial implications and increase in cost were mainly due to adoption of incorrect parameters of canal.

Estimates, Extent of work, Approvals

2.2.8.3 The particulars of proposals, estimates and details of work are tabulated below:

Particulars of proposals and estimates	Month of preparation of estimate	Estimated amount (₹ in crore)	Details of work			Remarks
			Main canal (kms)	Distributaries (kms)	Structures (numbers)	
Initial DPR	January 2005	471.00	254.45	1,188.42	5,486	This estimate was based on SR 2004-05 for the vulnerable reaches.
Modified estimate	March 2007	702.60	466.20	1,360.00	5,486	Balance work excluding ₹ 82 crore and the additional items of work such as cross drainage were included and

Particulars of proposals and estimates	Month of preparation of estimate	Estimated amount (₹ in crore)	Details of work			Remarks
			Main canal (kms)	Distributaries (kms)	Structures (numbers)	
						the estimate was recast at the rate of SR 2006-07.
Further revision	January 2008	951.00	466.20	1,229.00	3,314	In compliance to the observation of CWC, the detailed estimate was prepared by the Consultant based on SR 2007-08 for which administrative approval was accorded (February 2008).
Latest revised cost	March 2012	1,091.77	466.20	1,506.30	3,676	The probable cost as per the Monitoring Report of the CWC, for which no estimate has been prepared.

We observed that the length of distributaries and the number of structures varied in each estimate as indicated in the table above. It was evident that the Company had no definite knowledge of the length of the distributaries and number of structures in the canal system for modernisation. Consequently, the scope and quantum of works awarded to contractors changed time and again.

The estimated cost of work now stands at ₹ 1,188.29 crore[62], as against the estimate of ₹ 471 crore for modernisation of vulnerable reaches of main and branch canals, entire stretch of distributaries and structures.

The Government stated that the initial proposal was to modernise vulnerable reaches of main canal and distributaries and reconstruction of structures, which were in a dilapidated condition at an estimated cost of ₹ 471 core. As decided in the meeting held in December 2006 under the Chairmanship of the Chief Minister, the modernisation of entire canal network was taken up at an estimated cost of ₹ 951 crore. Since the changes in length and number of structures were accounted in the estimate of ₹ 951 crore itself before re-tendering the work, the contention of audit that Company had no definite knowledge needed review.

The reply is factually incorrect for (a) a decision to modernisation of the entire stretch of canals was not a subject of discussion in the meeting held in December 2006. It was emphasized in the meeting that tendering process should be over before 1 June 2007 to take up the work immediately and execute all works by December 2007, (b) the estimate of ₹ 951 crore was the third in the series of estimates and the number of structures varied each time (c) the work was tendered and re-tendered before the estimate was revised to ₹ 951 crore, and (d) in the latest revised cost of March 2012 the length of distributaries and number of structures changed again.

[62] **latest estimated cost ₹ 1,091.77 crore *plus* work already done ₹ 82 crore plus value of work done in rescinded contractors ₹ 14.52 crore.**

Contract management

2.2.9.1 Efficient contract management includes safeguarding interest of the organization by ensuring strict compliance of the terms and conditions of the contract.

As stated, the TSC discussed (November/December 2006) that the balance works costing ₹ 389 crore could be taken up for execution during the subsequent year (2007-08). The works were decided to be executed within 8 months and it was suggested that water in the canal could be stopped for Rabi season of 2007 and the works executed between 15 November 2007 and June 2008.

The TSC also recommended that the works could be taken up for execution on regular tender basis by making packages of about ₹ 50 crore each. The amount put to tender was of ₹ 389.15 crore spilt into six packages[63] ranging between ₹ 73.60 crore and ₹ 57.56 crore.

The pre-qualification-cum-tender notification was issued (December 2006) inviting percentage tenders from Category I Contractors appearing in the selected list of contractors of the Company, who satisfied the pre-qualification criteria, under two cover system. The TSC further directed that necessary action should be taken to see that the tenders were finalized, so that the agencies had sufficient time for mobilization and could start the works by November 2007, soon after stoppage of water in the canal. The funds were planned to be tied up in three years (2006-09).

Our observations are discussed in succeeding paragraphs:

Increasing the extent of modernisation without authority

Change in scope of modernisation was devoid of sanction.

2.2.9.2 The Expert Committee recommended to take up modernisation of the vulnerable reaches of the main and branch canals of 254.45 kms. The Company, accordingly, invited (December 2006) tenders. Subsequently, the Company modified (April 2007) the tender by including the entire stretch of main and branch canals of 466.20 kms in the course of tender process, increasing the cost to ₹ 702.60 crore.

There was no approval of the Board of the Company or Government for change in the scope of modernisation which was at variance with the recommendations of the Expert Committee. Therefore, the modernisation of the entire stretch of main and branch canals was, *prima facie,* not need based and was deficient since it was devoid of official sanction.

[63] **the number of packages periodically increased over time and all the 33 packages are in progress. The changes from 6 to 33 packages over time and details of cost are given in Annexure- 10.**

The Company stated that the decision was to get the assistance under Accelerated Irrigation Benefit Programme under Prime minister's relief package announced during 2006. It was to reduce the consumption of water by 10 tmc by modernising the canals for optimum usage of water and to extend the benefit to farmers of tail end reaches. The project was cleared by Central Water Commission. Hence, the actions of the Company to modernise the entire canal could not be concluded *prima facie* as not need based.

The reply is silent about the authority on whose direction the estimate was revised to include modernisation of entire stretch of main and branch canals from the earlier estimate for modernisation of only vulnerable reaches as recommended in the Report of the Expert Committee. Moreover, it was recorded in the Report that upon completion of modernisation of vulnerable reaches of main and branch canals and lining the distributaries, there would be reduction of 10 tmc of water. Therefore, modernisation of the entire stretch of main and branch canals as funds were available under Central Scheme lacks justification.

Change in scope of work after calling for tenders

2.2.9.3 The pre-qualification-cum-tender notification (22 December 2006) for works to be awarded on percentage[64] basis, *inter alia,* stipulated that the work was to be completed in eight months. The contractors could request for tender documents upto 31 January 2007 to satisfy the pre-qualification criteria. Completion of pre-qualification process and issue of blank documents were to be done by 30 March 2007 and pre-bid meeting was to be held on 16 April 2007. The last date for submission of tenders in two part bid (Technical and Financial) was 15 May 2007.

Change in scope of work after calling for tenders reduced transparency.

However, in the meeting held (26 December 2006) by the then Chief Minister, the Minister for Rural Water Supply and Sugar stated that work of modernisation needed to be taken up only during monsoon season, else, the work not needed to start at all. The Minister for Water Resources directed that a programme be designed in such a way that suitable modifications were made in the tender process, finalization of contractors for work be done before 1 June 2007 and all works be taken up immediately thereon and completed before December 2007.

The Company issued (27 December 2006) a corrigendum reducing the time limit for execution of work to seven months. Further, the last date of submission of tenders was revised to 28 March 2007. In another corrigendum (24 January 2007) the time limit for submission of tenders was revised to 9 April 2007.

[64] **where the tenderer quotes an overall percentage above or below the amount put to tender.**

In the TSC meeting (23 March 2007), it was informed that 23 contractors qualified for bidding for the six packages. The TSC also informed that detailed estimates had been prepared expanding the scope of modernisation works, which worked out to ₹ 702.60 crore.

A third corrigendum (12 April 2007) was issued increasing the amount put to tender to ₹ 702.60 crore and work packages was split into 12. And, the contractors shortlisted earlier for the six packages, created on the basis of the estimate of ₹ 389 crore, were declared eligible to participate in all the subdivided works within each package. The last date for submission of technical and financial bids was 26 April 2007 and date of opening was 2 May 2007.

We observed that even-though there was substantial increase in scope of work and amount put to tender, the Company restricted the tender only to the contractors, who had pre-qualified for the six packages in the earlier tender notification (December 2006).

It was further observed that the change in scope of work from vulnerable reaches to the entire stretch, led to manifold increase in comparison to the quantities already tendered. The Clause 12(5) of the KTPP Act, stipulates that the tender documents shall indicate the quantity proposed to be procured in the tender, and the Tender Accepting Authority shall be ordinarily permitted to vary the quantity finally ordered only to the extent of twenty five *per cent* either way of the requirement indicated in the tender documents. The provision in the KTPP Act was overlooked.

Further, it is prudent that in case where the specification or scope of work in a tender have undergone major change before tender is finalized, a fresh tender should be called for, giving sufficient notice to the tenderers.

The Government stated that since there was no change made against the quantities mentioned in the Schedule B of tender documents issued to the pre-qualified bidders as per technical bid of the 12 packages there is no contravention of the KTPP Act.

The contention of the Government that the quantities had not increased in this revision was not tenable as the estimate for ₹ 389 crore was for modernisation of only vulnerable reaches of main and branch canals (254.45 kms) but the estimate for ₹ 702.60 crore was for modernisation of entire canal (466.20 kms) and distributaries. The reply is also not factually correct, as the huge increase in quantities is discussed in Paragraph 2.2.10.3.

Lack of transparency in award of works

2.2.9.4 In response to the third corrigenda (April 2007) for twelve packages, the Company received (May 2007) offers for ten packages from the pre-qualified contractors. Evaluation of tender (Technical and Financial) was done on 8 and 11 May 2007. The contracts were finalized in June 2007 with stipulation to complete the work by December 2007. Seven packages had elicited only single offer each and these single bid offers were accepted.

The GoK had issued (December 2002) guidelines for conducting negotiations before award of contract. It was recognized that negotiations even with the lowest bidder defeats the very ethics of competitive bidding and should not be resorted to solely for the purpose of reduction of rates. The guidelines stipulated that negotiation solely for the purpose of obtaining lower prices would be appropriate only in exceptional circumstances. In such cases also, the first option was to reject all the tenders and invite fresh tenders.

The Central Vigilance Commission guidelines (March 2007) also stipulate that there should normally be no post-tender negotiations. If at all negotiations are warranted under exceptional circumstances the Company should record and document, the justification and details of such negotiations, if any. The Company could negotiate with lowest bidder(s) for bare minimum quantity for urgent requirements if the re-tendering is unavoidable. Negotiations should be held only under exceptional circumstances.

We observed that

- The Company did not reject the single bids and accepted the tenders at negotiated rates, on grounds of speedy execution of the modernisation. The works were not completed (December 2012), even after a lapse of five years, defeating the very purpose of single tenders in the guise of saving time.

- The records of details of such negotiations, documents showing the name and designations of the authorized officers, who conducted negotiations, details of bidders who participated in the negotiations, records of discussions and the justification for decisions were not made available to audit.

- The 10 packages were awarded (June/July 2007) to the contractors after revising the estimates of all the 12 packages upward: first the estimate amount was revised applying the Schedule of Rates (SR) of 2007-08, which was effective from 2 April 2007. Further, on the demand of the bidders, the cost of cement items was reworked applying the prevailing market prices of cement of ₹ 225 per bag, as against ₹ 190 per bag in SR 2007-08. The Company agreed for five *per cent* extra on such revised total cost. It is to be noted that, in effect, the percentage increase worked out to an increase between 7.44 *per cent* and 34.90 *per cent* above the amount put to tender.

- Competitiveness was curtailed by limiting the tender opportunity to Category-I contractors enrolled with the Company and eliminating furthermore by setting pre-qualification criteria and again eliminating more through two-bid system.

The Company replied that it had categorized the different agencies as per empanelled procedure adopted looking into the capacity of executing the works, turn over, machineries they have *etc.,* and were classified under different categories and based on the value of works to be executed. These agencies were exempt from pre-qualification under normal circumstances. Pre-qualification was made mandatory as Bhadra modernisation works required special skills and capability, as the cost was very high and were to be executed within specific time period. Wide publicity was given as per KTPP Act and there was thumping response to the notification. 127 bids (20 to 23 per package) satisfied the prequalification criteria for six packages. Hence, there was no curtailment of competition in tenders.

As far as violation of CVC guidelines were concerned, the Company stated that bid amounts were 42 *per cent* to 87 *per cent* higher than the amounts put to tender. Heavy fluctuations in rates of steel and cement, possible increase in cost of construction material, difficulty in conveying material to site were stated to be the reason. Moreover, Government had already taken a decision to ground (start) the works by completely stopping water in canal during June 2007 to December 2007. Hence, based on Finance Department circular (December 2002), 5 *per cent* above the updated Schedule of Rates was admitted. Deliberations before approving the tenders were not only to reduce the price but to ground the works duly following well established procedures set by Government/Company. While entrusting works for non responsive tenders/rescinded works, the balance cost had been worked out based on the prevailing Schedule of Rates at the time of approval of tenders and premium of tender had been decided considering well established procedures of Government/Company.

The reply was not acceptable as the same set of 20 to 23 pre-qualified contractors bid for every package. Hence, the argument of the Government that the Company received good response was misleading. Moreover, of the 12 packages, single bids were received for seven packages and there was no response for two packages.

When the tenders were invited (December 2006), the works were programmed to be completed by June 2008. After inviting tenders the cost of work nearly doubled to ₹ 702.60 crore; while the time limit for completion (by December 2007) was reduced to half. Such a large work was being executed through selected contractors by splitting the packages again and again to suit the contractors' capability. This curtailed competition and increased dependency and cost. The fact remained that the Company could have resorted to open tenders paving the way for more competition. The cost of the project had gone up to ₹ 1,188.29 crore, due to increase in quantities and cost of construction material.

In their eagerness to start the works and complete them, the Company had consented for rates at a premium, accepting market rates of cement and inclusion of price variation clause for works to be completed within seven months as against Government guidelines. As could be seen, these actions did not derive the intended objective of completing the works within seven months. The project was incomplete even after five years (December 2012).

Non-verification of tender capacity of the contractors

2.2.9.5 The Government of Karnataka had, *inter-alia,* instructed (December 2002) that the pre-qualification documents and the tender documents following two-cover System should have stipulations to check the aggregate of the qualifying criteria of the individual contracts, when the bidder was lowest for more than one contract and also check the available tender capacity of the contractor.

We observed the following:

- There was no such provision in the pre-qualification document or tender document to check the 'Tender Capacity' of the tenderer by taking into account the maximum value of the works completed in a year, the value of the balance commitment of works *etc*.

- The Company awarded (June 2007) two packages to GVPR Engineers Limited (GVPR) amounting ₹ 73.49 crore and ₹ 85.02 crore respectively. The stipulated date of completion was December 2007. Decision was taken to release water in Left Bank Canal (LBC) and Right Bank Canal (RBC) from 5 December 2007. Even though water was not let-out in the canals where GVPR was entrusted with the work, it failed to complete the work within the stipulated time (December 2007). The work was still pending completion (September 2012).

  Further, against a tender notification (October 2010) GVPR was awarded (December 2010) another contract amounting to ₹ 71.31 crore with a stipulated date of completion (March 2011) of three months from the date of agreement. This work was rescinded after executing works valued at ₹ 2.78 crore.

- IVRCL Infrastructure and Projects Limited (IVRCL) was awarded (June/July 2007) work for ₹ 95.90 crore and another work for ₹ 106.83 crore. The Company rescinded (October 2010) the second contract after executing work of ₹ 5.81 crore.

- SSJV Projects Private Limited (SSJV) was awarded (September 2007) four contracts totaling to ₹ 90.73 crore. The contracts were rescinded subsequently without risk and cost to the contractor (discussed in detail in Paragraphs 2.2.9.7 and 2.2.10.7).

- Amrutha Constructions Private Limited (Amrutha Constructions) was awarded (December 2010/December 2011) two packages for ₹ 152.27 crore. The work was in progress (September 2012).

In all the above cases, two or more contracts were entrusted to the same contractor without evaluating the tender capacity of the contractors, in violation of the instruction of the Government of Karnataka. This had resulted either in delay in execution of contracts or rescinding the contracts without risk and cost.

The Company replied that IVRCL had completed one package, GVPR had almost completed two of the three packages and Amrutha Constructions had completed the two packages. In respect of works entrusted to SSJV, GVPR and IVRCL, where the agencies had failed to complete the work were due to practical problems *viz*., seepage in initial reaches of canal, unprecedented heavy rain during 2007-08, and early release of water for protecting standing crops. The Company further stated that only qualified/categorized agencies only were allowed to participate in all the tenders following the KTPP Act and the eligible contractors cannot be denied in participating in tenders. The Company further stated that the other alternate left was to rescind the contracts of incomplete works looking into the merits/demerits in each case as per conditions of the contract.

The reply of the Company was not acceptable as evident from the facts that the cost of each of the 12 packages were in the range of ₹ 50 crore to ₹ 75 crore, only to suit the capability of the contractors empanelled with the Company to execute the works. The Company had stated that they intended to complete the work in seven months. By awarding more than one work to many contractors, the stated intentions of splitting packages were defeated. It also affected timely completion of the project, as also cost overrun.

Price Variation clause

PV clause was included in tenders in violation of Government order.

2.2.9.6 In the TSC meeting (December 2006), it was noted that the Government had issued directions (November 2004) for inclusion of Price Variation clause where works costing more than ₹ 1 crore and period of completion was 12 months or more. The TSC further noted that in the instant tender the period between receipt of tender (May 2007) and completion date (June 2008) was more than 12 months and also keeping in view that the major portion of the modernisation work consisted of cement and steel, it was suggested that price variation clause would be included in the tender with base indices as on date of opening of tender.

The Board decided (14 December 2006) to recommend to the Government to close the canal for 8 months from November 2007 to June 2008 and work out alternate arrangements to be made for meeting water requirements of the farmers. The Board further approved the additional conditions [65] and price variation clause in the tenders.

We observed that initially the decision was to complete the works by June 2008 and accordingly PV clause was allowed to be incorporated. After the meeting held (26 December 2006) by the then Chief Minister, the work was directed to be completed by December 2007 (less than 12 months). However, the Company included the Price Variation Clause in the agreements, which was in violation of instructions (November 2004) of the Government of Karnataka for inclusion of PV clause only for the works which complete in 12 months or more.

We also observed that the Company sanctioned extension of time for completion of works regularly, for all the packages, without penalty, up to January 2011. Payments towards price variation were granted to the contractors for works executed throughout the period as per the PV clause. The directions of the Government were not complied with. The payment for price variation in respect of 16 packages amounted to ₹ 50.18 crore.

The Company had not incorporated price variation clause in the tenders invited after December 2008, which proved that the earlier action to include the clause was incorrect.

The Company replied that the PV clause was included after obtaining approval from the competent authority. The Company also stated that inclusion of PV clause was an added advantage since closing the contract of different packages after expiry of contract period would be disadvantageous when compared to the payment made through PV clause. Contracts were continued beyond 12 months as the reasons for the delays were not attributable to the agencies and also considering the fact that average annual increase of the cost was 15 *per cent*.

The justification lacks rationale due to the fact that inclusion of PV clause for works with completion period less than 12 months was in violation of Government order/directions. Further, when the completion of work was compressed to seven months timeframe, the inclusion of PV clause in the agreement was not brought to the notice of the Board for its decision. As on date (September 2012), all the 33 contracts were still in progress beyond the contract period, out of which only 16 include PV clause. Inclusion of the clause has also proved to be a cause to execute the work as per the schedule of the contractor with no risk and cost to them. The remaining 17 contracts without PV clause are being executed without any enhanced rates and the

[65] **agency to submit a detailed execution plan and fortnightly programme and works to be constantly monitored by the Chief Engineer and in case of slippages, penalty/ liquidated damages as indicated in the agreement to be levied.**

argument that minimum annual increase of 15 *per cent* of the cost would have been there was unjustified.

Works for which the contractors evinced no interest

2.2.9.7 Two packages, amounting to ₹ 68.78 crore and ₹ 56.76 crore respectively, for which no quotations were received against the pre-qualification-cum-tender notice of December 2006 (Corrigenda of April 2007) were split into seven packages, each with re-cast tender cost of about ₹ 20 crore and re-tendered in May 2007. Tenders were received only for five of the seven packages and agreements were entered into (September 2007) with price variation clause.

We observed that this time, the tenders were open to all Category-I contractors of the Company and no other pre-qualification criteria was specified. The pre-qualification criteria set in May 2007 were ignored for these packages.

We also observed that the one contractor SSJV was awarded four (September 2007) out of the seven packages totaling to ₹ 90.73 crore on single tender basis and works were scheduled to be completed by March 2008. SSJV was not one of the pre-qualified contractors of the tender of December 2006 (including the three Corrigenda upto April 2007). Two contracts were awarded at 6.48 *per cent* and 6.55 *per cent* below and two at 5 *per cent* above the amounts in the tender recast by adopting the latest market price of cement and steel. Price Variation Clause was included in all the agreements.

We observed that SSJV executed works costing ₹ 5.93 crore upto December 2007 (in three months time) and the progress of work was slow. Further, consequent to release of water in the canal in December 2007, the contractor stopped the work. The Company had adopted a different set of standards for this tender and did not assess the capacity of the contractor to execute all the four packages simultaneously. This defeated the very purpose of splitting up the works. The contracts were rescinded (November 2009) without risk and cost to the contractor.

The four rescinded contracts were again split into ten packages: one package amounting to ₹ 53.44 crore for main canal and nine other packages for distributaries and structures for amounts ranging between ₹ 2 crore and ₹ 5 crore each and tenders were invited in August 2009 from the Category-I contractors enrolled with the Company. Five packages were awarded during December 2009 to June 2010. These contracts were awarded at 6.97 *per cent* to 15 *per cent* above the amount in the tender revised by considering the updated rate analysis to SR 2007-08 by adopting rates of labour and material of Public Works (P&IWTD) of SR 2009-10 of Shimoga Circle.

The balance 5 packages were retendered (January 2010) and awarded in December 2010/February 2011. These five packages were awarded at prices, which were 10 *per cent* to 14.45 *per cent* above the recast amounts as per the

WRD SR of 2010-11 including 25 *per cent* weightage. Price variation was not included in these contracts.

2.2.9.8 Similarly, the two packages out of above mentioned seven packages for which offers were not received in the tender of May 2007 were again split into ten packages of about ₹ 5 crore each and tendered (August 2007). Eight works were awarded in September 2008. These eight were awarded at 5 *per cent* above the amount put to tender, recast with SR 2007-08.

Two of above mentioned 10 were again tendered (October 2008) and awarded in June 2010. These were awarded at prices, 14.90 *per cent* above the amount put to tender, recast by SR 2008-09 by adopting rates of labour and material of Public Works (P&IWTD) of SR 2008-09. Price Variation Clause was included in these ten contracts.

The issues discussed above and the lapses of KNNL are brought out below in nutshell:

Issues	Lapses
Modernisation of the entire stretch of main and branch canals *vis-à-vis* vulnerable reaches	Modernisation of entire stretch of main and branch canals is not supported by the Expert Committee, decision of the Board or GoK.
Change of scope of work after inviting tenders	This was in contravention of the KTPP Act.
The tender was limited only to the Category I contractors enrolled with the Company, who satisfied the prescribed pre-qualification criteria.	Competitive rates were foregone.
Awarded most of the works on single tender basis	7 of 10 packages were awarded on single tender basis, without exercising option for rejection, in violation of the GoK and CVC guidelines.
Award of contracts at negotiated rates	Negotiations were held with contractors and works awarded at different rates, disregarding the quoted percentages, in violation of the GoK and CVC guidelines.
Multiple contracts to contractors	Inspite of splitting and re-splitting works, multiple contracts were awarded to some contractors. Many of the contracts were rescinded subsequently due to lack of progress.
Price Variation	Price Variation Clause was included contrary to the GoK directives.

2.2.9.9 The cumulative effect of the above mentioned splitting of works and delay in completion resulted in cost overrun as tabulated below:

Name of Package	Original packages (Estimated cost) December 2006		Split of original package (Revised cost) April 2007		Final position of packages[66]		Total expenditure up to October 2012
	No.	₹ in crore	No.	₹ in crore	No.	₹ in crore	
LBC Main Canal, Distributary and Structures	1	57.56	1	68.78	10	108.03	93.57
RBC Main Canal, Distributary and Structures	1	73.60	3	187.56	15	381.25	292.24
MBC, Distributary and Structures	1	61.70	1	73.17	1	95.90	84.99
DBC 0-30 kms, Distributary and Structures	1	60.45	2	96.45	2	127.51	122.37
DBC 30-90 kms, Distributary and Structures	1	68.11	2	110.79	2	148.32	127.39
ABC, HBC and DB Kere pick up, Distributary and structures	1	67.73	3	165.85	3	230.01	213.21
Total	**6**	**389.15**	**12**	**702.60**	**33**	**1,091.02**	**933.77**

The Company stated that progress was hampered due to heavy rainfall, early release of water in the proposed closure period, agitation by farmers on some local issues, practical /technical problems, non-response from bidders. The modernisation involved 2,000 kms network of canals, 3,600 structures requiring renovation/reconstruction costing ₹ 951 crore was a huge task and with all efforts the works were commenced during 2007-08 and about ₹ 220 crore could be spent. The Company added that the main reasons for failure to complete the work was rescinding/repackaging/retendering/refixing the agencies as major stumbling block was non-availability of clear working period in subsequent closure periods and these problems were not attributable to the contractors. The approval has been obtained from GoI for completion of project by 2013.

We are of the view that the initial decisions, planning, tendering and award of works were against this backdrop.

Execution

Physical progress

2.2.10.1 The details of the length of the main and branch canals, distributaries and number of structures planned for execution *vis-à-vis* the progress achieved and the short fall in physical progress as on 31 March 2012 were as follows:

[66] **the packages were with reference to different tender notifications.**

Canal	Programme			Progress			Shortfall		
	A	B	C	A	B	C	A	B	C
LBC	77.00	189.60	325	77.00	120.86	122	0	68.74	203
RBC	98.60	289.39	1,106	90.00	196.86	326	8.60	92.53	780
MBC	48.00	191.35	585	48.00	191.35	585	0	0	0
ABC	66.70	120.35	250	65.00	114.00	242	1.70	6.35	8
HBC	20.54	188.21	549	20.45	178.75	407	0.09	9.46	142
DBC	90.00	441.70	753	82.57	364.85	600	7.43	76.85	153
DBKP	58.51	85.70	108	58.51	85.70	108	0	0	0
Total	**459.35**[67]	**1,506.30**	**3,676**	**441.53**	**1,252.37**	**2,390**	**17.82**	**253.93**	**1,286**
Short fall in percentage							**3.88**	**16.86**	**34.98**

A. Main and branch canal (in kms). B. Distributary and minors (in kms). C. Structures (in numbers).

The work of modernisation of canal, estimated to be completed by December 2007 was still in progress (December 2012), even after a lapse of five years.

We observed that

- The modernisation should have been completed by December 2007 was still in progress (December 2012) even after five years. The Company should have prescribed definite action plan for completion by enforcing the conditions of the contracts strictly for execution. The contractors, however, were given extension time and again till 31 January 2011.

- While approving the first extension to contractors from January 2008 to December 2008, the Board stated that the targeted progress was not achieved due to heavy rains during the year 2007-08 and letting of water in the canal from 5 January 2008. The Board, while giving further extension of time up to January 2011 noted that there was shortage of materials and demand for construction materials had increased. Removal of silt and drying the canal for concrete works and bringing the canal back to original shape was also projected as reasons for further extension of time.

- The Company implemented the execution of modernisation works of ₹ 82 crore in the year 2006-07 and ₹ 217.31 crore in 2007-08 without fixing physical and financial targets. In the subsequent years, the Company fixed physical and financial targets, which were never achieved.

- Between 2006-07 and 2011-12 the Company spent ₹ 1,003.33 crore (March 2012) and the work was still in progress (September 2012). As on 31 March 2012, 17.32 kms of main and branch Canals, 253.93 kms. Of distributaries and minors and 1,286 structures were yet to be modernised/repaired. The modernisation is now projected to cost ₹ 1,188.29 crore.

The Government agreed that there was shortfall in some years due to the reasons, which were not attributable either towards management or the contractors.

[67] excludes 4.30 kms of tunnel work for which modernisation work has not been undertaken.

Reporting of the proposals and progress

2.2.10.2 The actual physical progress achieved and physical progress reported to CWC as on 31 March 2012 are given in the table below:

Particulars of work	Length of canals and number of structures in existence in the Project	Proposed for modernisation to CWC		Progress achieved as on 31 March 2012		
		As per initial decision	As per the latest proposal under AIBP	As per progress report of Chief Engineer	As per AIBP Report	Diff-erence
Main Canal (km)	466.20	466.20	459	453	442	11
Distributaries (km)	1,229	1,360	1,506.30	1,528	1,252	276
Structures (Numbers)	3,314	5,486	3,676	2,509	2,390	119

We observed that:

- The figures reported by the Chief Engineer to the Company varied from the figures certified by the Central Water Commission under the AIBP.
- The extent of work done *vis-à-vis* the payment made has to be reconciled to determine the exact quantum of work executed.

The Government stated (December 2012) that physical progress reported and the figures certified by AIBP are not at variance. Documents in the possession of audit, however, revealed that there were variations in the figures.

Excess quantities executed

2.2.10.3 The table below indicates quantities estimated for vulnerable reaches *vis-à-vis* for the entire stretch of main and branch canals.

Item	Estimated quantities for vulnerable reaches (₹ 471 crore)	Estimated quantities for entire stretch of canals (₹ 951 crore)	Actual quantities executed (including Extra Financial Implications(EFI) wherever details available)	Difference between the quantities for vulnerable reaches and entire stretch of canals (3-2) (Percentage in brackets)	Excess quantities executed with reference to the quantities estimated for the entire length (4-3) (Percentage in brackets)
(1)	(2)	(3)	(4)	(5)	(6)
Excavation in ordinary soil (m^3)	4,00,591	30,88,893	27,70,990	26,88,302 (671.08)	-
Excavation in soft rock (m^3)	22,365	4,32,010	2,98,282	4,09,645 (1,831.63)	-
Excavation in hard rock (m^3)	-	4,92,365	2,58,854	4,92,365 (NA)	-
Embankment (m^3)	12,89,629	31,88,752	37,57,619	18,99,123 (147.26)	5,68,867 (17.84)
CC lining-manual (m^3)	3,397	38,390	57,670	34,993 (1,030.11)	19,280 (50.22)
CC lining-paver (m^2)	3,25,063	63,09,949	60,32,002	59,84,886 (1,841.15)	-
UCRS masonry (m^3)	37,014	1,71,824	2,23,656	1,34,810 (364.21)	51,832 (30.17)
Silt removal (m^3)	85,417	11,43,778	13,22,315	10,58,361 (1,239.05)	1,78,537 (15.61)

- Owing to change of scope of work, the estimated quantities increased by percentages between 147.26 and 1,841.15. The quantities actually

The variation between actual quantities as compared to estimated quantities for various items of work ranged from 147 *per cent* to 1,841.15 *per cent*.

executed over the estimate for the entire stretch of the canals ranged between 15.61 *per cent* and 50.22 *per cent*. The quantities actually executed in respect of silt removal, excavation of soft rock, embankment, CC lining and UCRS masonry recorded phenomenal increase.

- In the Report of modernisation of canal system on which the estimate for modernisation was prepared, it was envisaged that the utilization (average) of 74 tmc water could be reduced to 61.70 tmc, the allocated water as per the KWDT and bring the potential back to 1,05,570 ha with the quantities in the initial estimate for ₹ 471 crore.

  We opine that the decision to execute additional quantities beyond the ones envisaged in the initial estimate lacked justification and therefore, needed investigation.

Multifold increase in Un-coarsed Rubble Stone Masonry (UCRS)

2.2.10.4 The Company estimated UCRS quantity of 8,370 cum for the reach of RBC 0 to 60 km and 4,306 cum for the reach of 61 to 103 kms in the estimate of ₹ 951 crore. Against this quantity, 8,729 cum in the reach of 0 to 60 km was executed (August 2008) by IVRCL, which was rescinded (October 2010). Despite the fact that IVRCL had already executed the UCRS masonry of more than the estimated quantities (8,729-8,370 = 359 cum), a quantity of 56,671 cum was further put to tender, against which 59,568 cum (₹ 16.18 crore) was executed by three different agencies (packages 2A1, 2A2, 2A3) in addition to CC lining of the entire stretch, as on March 2012.

No reason was on record for executing such additional quantities to the extent of 612 *per cent* over and above the originally estimated quantities. It is relevant to state that in the reach of 61 to 103 km, no UCRS masonry was executed against the estimated quantity of 4,306 cum, as on March 2012.

The reply of the Company/Government is awaited.

Structures modernised

2.2.10.5 The table below indicates the numbers of structures planned for modernisation and actually executed till March 2012.

Name of the canal	Number of structures proposed in the estimate of ₹ 471 crore	Number of structures in the revised estimate costing ₹ 951 crore	Number of structures as per subsequent plans	Number of structures completed as on 31 March 2012
LBC	262	305	325	122
RBC	1,057	947	1,106	326
ABC	990	247	250	242
MBC	1,506	497	585	585
DBC & HBC	1,227	1,215	1,302	1,007
DB Pickup Dam	269	103	108	108
Measuring device	156	-	-	-
Dam & allied works	19	-	-	-
Total	**5, 486**	**3,314**	**3,676**	**2,390**

The Expert Committee had noted that by modernising the structures a quantum of 101 cusecs seepage losses could be avoided and the work needed to be undertaken on top-priority.

The estimated number of structures for modernisation were changed from estimate to estimate (5,486 to 3,314 to 3,676). However, only 2,390 of 3,676 structures had been completed till 31 March 2012. The reply of the Company/ Government is awaited.

Cement Concrete lining of rocky strata

2.2.10.6 The Expert Committee had recommended (August 2003) modernisation of the canal system, which, *inter alia*, included providing Cement Concrete (CC) lining to *vulnerable reaches* of the main and branch canals.

As regards Right Bank Canal (a main canal), the Expert Committee had stated that the canal runs in rocky strata for its full length of 103 kms. The Committee estimated the total wetted perimeter as 27.98 lakh sq.mtrs consisting of rock parts (23.76 lakh sq.mtrs) and soil parts (4.22 lakh sq.mtrs). Further, the Technical Consultants, appointed for survey and preparation of estimates, had also suggested lining of 38.98 kms, out of 103 kms of RBC.

Usually, the stretch containing rock needs no lining. If block-jointed rock had created rough surfaces, when excavated, the bed and sides can be smoothened to reduce the hydraulic roughness.

The Company had contracted for lining of the entire stretch of the canal to various contractors for a quantity of 28.93 lakh sq.mtrs by providing and laying *in-situ* vibrated M15 grade ready mix cement concrete using 20 mm down size coarse aggregate using pavers. The contractors had executed (July 2012) 24.36 lakh sq.mtrs. The work was still in progress. (September 2012).

We observed that the decision to line the entire length of 103 kms of RBC, which mainly runs through rocky strata, was not justified and avoidable expenditure thus could not be quantified. The reply of the Company/ Government is awaited.

Termination of contracts

2.2.10.7 As there was no response to Package 1 (LBC and its distributaries), it was split into four packages and tenders were invited afresh (May 2007). These packages were awarded (September 2007) to SSJV Projects Private Limited (SSJV) for ₹ 90.73 crore, with stipulation to complete the works by March 2008. As water was released to the canal on 5 December 2007, the time available was 90 days, during which period the progress achieved was only ₹ 5.93 crore. The Contractor requested (May 2008) for extension of time of six months excluding monsoon and advance of ₹ 2 crore per package, which were not accepted. After 18 months all the four contracts were rescinded (November 2009), without risk and cost.

The Chief Engineer split the works into 10 packages and tendered them in August 2009 and TSC approved (August 2009) the decision to split the works. The works were awarded to different contractors between December 2009 and June 2010 for a total contract value of ₹ 108.03 crore, with stipulation to complete the works in nine months.

We observed that on the one hand the Company had refused extension of time for six months to the contractor and on the other took no action to restart the work for almost 1½ years from the date of request of the earlier contractor. This resulted in delay in completion of the works and extra expenditure of ₹ 23.23 crore[68].

2.2.10.8 The work of modernisation relating in the reach 0 to 60 km of RBC (Package-2A) was entrusted (July 2007) to IVRCL Private Limited, for a contract value of ₹ 106.83 crore. The agency stopped (December 2007) the works after executing works valued at ₹ 5.81 crore on account of releasing of water in the canal on 5 December 2007.

The Board decided (December 2007) that wherever the contractors did not agree in writing to complete the work at the tendered rates if the canal was closed for a period of three months other than monsoon period, the Chief Engineer was authorized to close the contracts on 'as is where is basis'.

IVRCL, however, requested for extension of time of contract, with six months continued closure of canal without letting water into it, for completion of the balance works. The Company, however, did not immediately take decision to rescind the contract. The contract was terminated in October 2010, after a lapse of 33 months, without risk and cost.

The balance work amounted to ₹ 101.02 crore at the tendered cost. Additional quantities required for completion of work due to earlier defective estimation was ₹ 47.74 crore. The balance and additional works were split into three packages (2A1, 2A2 and 2A3) for invitation of tender (October 2010). The Company received offers for two packages (2A1 and 2A3), which were awarded in December 2010. Tenders for the other package (2A2) were invited (August 2011) and contract was awarded (November 2011). The total contract value in respect of these three packages amounted to ₹ 223.58 crore. These contracts did not provide for Price Variation clause but included weightage of 25 *per cent* towards CC lining works, with stipulation to complete the work in a period of three months. The extra burden due termination of contracts without risk and cost and delay in decision amounted to ₹ 50.80 crore.[69]

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[68] **₹ 108.03 crore *less* (₹ 90.73 crore *less* ₹ 5.93 crore).**

[69] **considering the proportionate cost of award in the retender, excluding additional works.**

As stated above, the Package 2A1 related to the work of 0 to 20 km, which was entrusted (December 2010) to GVPR for a contract price of ₹ 71.31 crore. The contract provided for additional 25 *per cent* weightage for CC lining works carried out within one full closure period as prescribed in the Schedule of Rates of 2010-11. The agency could not complete one full closure period since only one month was available during the closure period of 2010. GVPR after executing works valued at ₹ 2.78 crore stopped (December 2010) the work on account of releasing of water in the canal and requested (June 2011) for extension of time upto December 2011 with 25 *per cent* weightage for the items of CC lining on the grounds that one full canal closure period was not provided as per the agreement. This was not accepted by the Company. The contract was terminated (September 2011) without risk and cost in violation of the terms of the contract.

Tenders were invited (September 2011) for balance work of the Package and was entrusted to another contractor (Hayagreeva Infrastructure Projects) for ₹ 77.74 crore, inclusive of 25 *per cent* weightage for CC lining works. While the request of GVPR for extension and weightage of 25 *per cent* was not allowed, the agreement with the second contractor to complete the balance work in December 2011 stipulated to be completed by January 2012 was inclusive of 25 *per cent* weightage on CC lining works. The avoidable extra expenditure on account of such improper decisions amounted to ₹ 9.21 crore.

Thus, improper decisions and inordinate delays resulted in avoidable extra expenditure of ₹ 60.01 crore (*i.e.,* ₹ 50.80 crore + ₹ 9.21 crore).

The Government stated that due to practical difficulties faced during execution and following of departmental procedure in rescinding and re-entrustment of contract there was considerable delay which was not attributable to mismanagement and the main aim was to complete the modernisation work at least in the extended period.

The contention of the Government was not acceptable since the rescinding of contract without risk and cost was contrary to the terms of contract and there was no justification for the delays of 18 months and 33 months in rescinding the respective contracts of LBC and RBC.

Inadmissible payments for price variation of Cement

2.2.10.9 The Price Variation Clause was included in the agreement to compensate for the increase in prices of all components during the course of execution. The period from when the price variations have to be allowed was, therefore, very important, as change in base period would lead to excess payment.

The Company entrusted ten works during June 2007 at five *per cent* above the SR of 2007-08 recast with price of cement prevailing during May-June 2007. The price of cement as per the SR of 2007-08 effective from 2 April 2007 was ₹ 190 per bag, which was increased to₹ 225 per bag, the price prevailing during May to June 2007 and this was factored in at the time of acceptance of tenders. In other words, the contractors were already paid for the increase in price of Cement during May-June 2007 through the recast amount.

The Company, however, allowed the variation in price of cement taking the base rate as ₹ 190 per bag instead of ₹ 225 per bag. Hence, the price escalation should have been allowed from July 2007. This had resulted in extending undue benefit of ₹ 7.66 crore to the contractors.

The Government replied that the tenders were entrusted during June 2007. The market rates of cement during that period was considered to arrive at the updated cost for realistic comparison purpose of the quoted percentage so as to justify the decision of finalizing the tender premium and these calculations were not part of agreements and that the PV of cement was made as per tender document.

Tenders were awarded (June 2007) after computing the rates for individual items by considering the market price of cement prevailing in the quarter of May to June 2007. The payments were made based on these rates. Price variation was therefore applicable only from quarter commencing from July 2007. Hence, the contention that updated cost was used only for comparison purpose was factually incorrect.

Cement Concrete lining

2.2.10.10 The Code of Practice for Cement Concrete **(**CC) lining on canals published by the Bureau of Indian Standards (BIS) - IS 3873 of 1993, had prescribed the following thickness of CC lining based on canal capacities.

Capacity of canal in cumecs	Depth of water in meters	Thickness of lining in mm
0 to 5	0 to 1	50 to 60
5 to 50	1 to 2.5	60 to 75
50 to 200	2.5 to 4.5	75 to 100

The actual discharge of water in the distributaries and canals varied from 0.03 cumecs to 33.72 cumecs and the depth ranged from 0.25 mtrs to 3.90 mtrs. The Company, deviating from the prescribed standards, provided CC lining of thickness of 100 mm for work executed mechanically through pavers and of 75 mm for manually executed works to the canals, distributaries and minors, irrespective of the carrying capacity and depth. This resulted in excess lining than the prescribed thickness. The extra thickness amounted to 54.39 lakh sq. mtrs. of mechanically executed CC lining and 3.66 lakh cum of manually executed CC lining. Had the Company adopted the thickness of lining as per IS standards, the expenditure could have been reduced by ₹ 106.45 crore.

The Government replied that IS 3873:1993 specifies minimum thickness of CC lining to the canals with reference to the carrying capacity of canal and depth of water and could be increased depending upon the soil strata, canal characteristics, climatic conditions, structural stability, overturning of sides, durability *etc*., and that the minimum thickness specified can be relied upon for new canals, but adoption of such thickness for old aged canal would be too risky and unpredictable. Further, it was stated that the Expert committee suggested for 10 cm thick CC lining and hence 10 cm thick CC lining is adopted for bigger canals where mechanical pavers could be used and 7.5 cm thickness is adopted for minor and small channels which would be done manually and thus the decision taken in this regard was not a violation of IS specification as it was commensurate with the field requirement.

The reply was not acceptable for the following reasons.

- The IS code recommends increased thickness in case of freezing climate only and the area where the CC lining was executed did not fall under that category and hence not applicable in relation to climatic conditions.
- Adequate backing of good quality soil as per norms was provided behind the CC lining to counter the swelling pressure in the soil strata.
- The IS specification stipulated was for all canal characteristics, structural stability and durability and was applicable for all canals whether new or old.

Full Supply Depth and Free Board

2.2.10.11 The lining provides smooth surface thereby causing less resistance to the flow of water. The capacity is a function of velocity; higher the velocity, greater the carrying capacity of the canal and consequently, it reduces canal section required. The capacity of a canal is increased by lining it.

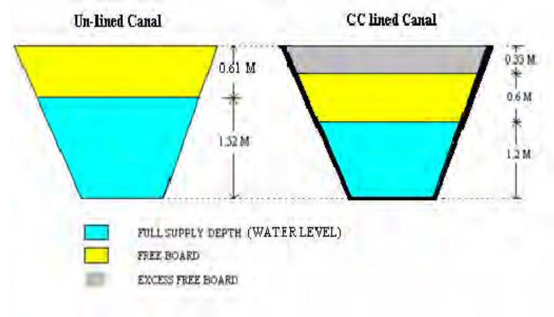
The existing sections were designed with reference to those required for unlined canal and accordingly, the Full Supply Depth[70] (FSD) and Free Board[71] (FB) were worked out. When unlined canals were taken up for lining, the option was to line the canals without changing the section or to reduce the section of the canal. In first option, original section was retained for lining without changing the bed width, height of the FSD would decrease as the carrying capacity in a canal is the function of velocity of water. The lining is to be restricted to reduced FSD plus FB as per norms.

We observed that though the original sections of the canals and distributaries were retained, side lining height was not reduced by working out revised FSD. It was done up to original FSD plus FB level leading to execution of unwarranted side lining above the revised FSD levels and hence expenditure thereon was avoidable.

[70] water level in the canal at its designed discharge.
[71] the minimum vertical distance provided above FSD in the water way of the canal.

Supply of more water is also not possible, as the quantum is allotted and restricted by the award of the KWDT.

An illustrative diagram indicating change in water level between the unlined and lined canal having same cross section and at a designed discharge is shown alongside:



The avoidable expenditure[72] with reference to Bureau of Indian Standards 3973 of 1993 worked out to ₹ 59.21 crore.

The Government replied that in view of the age of the canal the guidelines in IS and manuals might have to be ignored or deviated under special circumstances and hence the technical norms were not considered. It was also stated that drastic reduction in FSD was also not thought of since all the outlets existing at canal to canal junctions were already fixed with respect to the originally designed FSDs and drastic reduction in FSD would reduce the outflow of water leading to failure of irrigation.

The Technical Advisory Committee, Irrigation Projects of the GoK had opined (April 2010) that the FSD had to be reduced in case of lining an unlined canal while approving the proposals of modernisation of distributaries of Tungabhadra Left Bank Canal. The carrying capacity of canal up to FSD was for carrying the required discharge and additional FB was prescribed only to accommodate additional quantities of water due to storm. Hence, higher FB was not required as per technical parameters laid down, whether they relate to old or new channels. Analysis of cross sections was not available to substantiate the statement that there were special circumstances for ignoring the guidelines in the IS, manuals, circulars *etc*.

Alteration of measurements

2.2.10.12 The works relating to Left Bank Canal from 0 to 77 Km and its distributaries in four packages were awarded (September 2007) to SSJV Projects Private Limited (SSJV) with stipulation to complete the work by March 2008. The works, *inter alia*, included excavation in ordinary soil (EOS) and removal of silt. The Contractor executed works such as jungle clearance, excavation, silt removal *etc*. The Contractor stopped the work in November 2007 as water was allowed in the canal. The SSJV requested for extension of time (May 2008) for six months excluding monsoon period. The Company did not agree to this request and rescinded the contracts (November 2009). It was reported that pre-measurements were taken on various dates during October and November 2007.

[72] as per 'Manning's Formula' by taking value of 'N' as 0.018 for CC lining surface, where 'N' represents roughness index of the surface.

However, the Superintending Engineer of the Project issued (January 2009) a notice to SSJV to depute their representative on 12 January 2009 to take final measurements. As SSJV did not respond, final measurements were taken *ex-parte* on 12 January 2009. The final measurements revealed that SSJV had executed some portion of work in Packages 1a and 1b, but had not executed any work in respect of Packages 1c and 1d. On the basis of the final measurements, the total amount payable to the Contractor in four contracts worked out to ₹ 3.37 crore. The actual payment till then (December 2008) was ₹ 3.24 crore.

Meanwhile, the Company altered its decision of January 2009 regarding the quantities of work executed stating that the pre-measurements were recorded during October / November 2007 in the Measurement Books issued to the Section Officer during August 2009 and modified the quantities of work executed. SSJV was paid (September 2010) a further amount of ₹ 1.15 crore in respect of Packages 1(a) and 1(b) and ₹ 1.54 crore in respect of Packages 1(c) and 1(d). Thus, SSJV was paid a total amount of ₹ 5.93 crore as per pre-measurements.

The final measurements taken by the Company was ignored for effecting payments to the SSJV. Thus, the payment of ₹ 2.69 crore was not as per the final measurements taken by the Company.

The balance works were segregated into 10 packages and entrusted to different contractors during 2009-10. The quantities for which payments were made to the SSJV were also included (December 2009) in the package awarded later, which showed that SSJV was paid for quantities not executed by them.

The Government replied that in the course of finalization of first agency the quantities *viz*., jungle clearance, silt removal and earth work excavation (stripping) were not fully accounted while working out the balance quantities (which was actually executed and recorded by the concerned authorities). The Government further added that the above items, which were executed during 2007, had to be carried out once again due to prolonged period of almost two years in taking up the balance works.

The reply was not acceptable as the Superintending Engineer had recorded (January 2009) the actual measurements based on which the balance quantities were derived. Hence, pre-measurements stated to have been recorded in November 2007 appeared to be unreliable. The statement of the Government that two years had passed and execution of same work again had resulted in extra financial burden on the Company.

Liquidated damages

Inspite of delay in completion of work, liquidated damages of ₹ 49.22 crore had not been levied.

2.2.10.13 In accordance with Clause 2d of the conditions of the contract, penalty equal to one *per cent* of the estimated cost of the balance work assessed according to the programme, for every day that the quantity of work remains incomplete, was leviable; provided that the total amount of penalty to be levied did not exceed 7.5 *per cent* of the estimated cost of the entire work.

We observed that Company had extended completion time up to January 2011 in respect of all the 33 contracts. The Company, however, has not levied liquidated damages till date (August 2012) for period after January 2011 which worked out to ₹ 49.22 crore.

The Company stated that delay in progress of works owing to stoppage of work by the farmers for providing RCC lining, unprecedented heavy rains, insufficient canal closure periods and difficulty in conveying of materials. These factors could not be attributed to the contractors or the Company.

The reply was not acceptable as audit had commented the non-levy of liquidated damages from the period from January 2011 onwards.

Financial management

Funding of the project

2.2.11.1 The provision for all capital works of the Company are made by the GoK in the budgets. The Company allocates such funds to different Projects under execution.

During the year 2005-06, the GoI introduced a scheme for providing Central Assistance through Prime Minister's Special Rehabilitation Package under the Accelerated Irrigation Benefit Programme (AIBP).

Central Government Assistance

2.2.11.2 The scheme under AIBP operative from 2006-07, provided for financial grant of 90 *per cent* of expenditure of works of irrigation in identified drought prone districts and 25 *per cent* for other districts.

Out of the three districts covering command area, Chikmagalur (5,067 hectares) was drought prone and the remaining command area of Davanagere (79,262 hectares) and Shimoga (21,241 hectares) was not drought prone. The central assistance eligible was 28.12 *per cent*[73] of works component for the whole Project on an average.

[73] considering proportionate command area.

To obtain central assistance, the proposals of Projects were required to be submitted to various authorities of GoI, CWC, Ministry of Water Resources (MoWR) and Planning Commission - for their clearance / acceptance.

The year-wise details of the annual work programme proposed to CWC, budgetary allocation, Central Assistance(CA) recommended, released and shortage/excess thereof during the period from 2007-08 to 2011-12 are as under:

₹ in crore

Year	Proposed Programme to CWC and Planning Commission	Budgetary allocation	Recommended Central Assistance	Actual Expenditure	Eligible Central Assistance at 28.12 *per cent*	Central Assistance released	Difference in Central Assistance Excess (+) Shortage (-)
2007-08	NA	239.00	-	217.31	61.107	-	-61.107
2008-09	352.09	271.21	99.009	121.49	34.163	99.009	+ 64.846
2009-10	400.00	257.54	47.640	239.30	67.291	41.929	- 25.362
2010-11	340.00	255.00	56.125	143.50	40.352	Nil	-40.352
2011-12	208.00	200.00	58.490	198.99	55.956	52.641	- 3.315
Total			**261.264**	**920.59**	**258.869**	**193.579**	**-65.290**

We observed that:

- The Company had submitted (July 2005) the DPR of the Project for techno-economic examination to the CWC. The DPR was examined and the comments of the Central Ground Water Board (CGWB) were forwarded to the Project authorities. The revised estimate of the Project was furnished (July 2007) to the CWC for clearance by the Technical Advisory Committee of the Ministry. The Secretary, MoWR indicated (July / August 2007) that the position was far from satisfactory and directed that the proposals for central assistance be forwarded at the earliest. In response, the Company submitted an estimate for ₹ 957.66 crore to the CWC in January 2008, after complying with their comments. The CWC cleared the estimate for ₹ 951 crore during February 2008. The Government accorded (February 2008) administrative approval and the proposal was cleared (March 2008) by the Planning Commission by limiting the Project cost to ₹ 932 crore, with stipulation to complete the Project by 2009-10.

  As could be seen there was delay in obtaining clearance for central assistance. By the time the approval was accorded by the Planning Commission, the year 2007-08 had closed.

  Further, though the works component of the entire Project was eligible for assistance, the proposals of the Company for the year 2007-08 included only Chikmagalur and Shimoga Districts. Thus, the Company lost the central assistance of ₹ 61.11 crore for the year 2007-08. Between the years 2008 and 2012, the Company received CA of ₹ 193.58 crore against the eligible amount of ₹ 197.77 crore, resulting in short receipt of ₹ 4.18 crore. The total Central Assistance foregone was ₹ 65.29 crore, as there was no commitment for reimbursement of the same from the GoI as on date (September 2012).

- As could be seen from table above, the Financial Progress achieved was far less than the budgetary allocation during the year 2008-09 to 2010-11, indicating that the programmes were not drawn scientifically. Further, the entire modernisation was decided (November /December 2006) to be completed by June 2008, which was again decided (December 2006) to be completed by December 2007. While the physical progress was targeted to be completed by December 2007, the financial programme was spread over many years.

The Government accepted the fact that since the investment clearance of the Planning Commission was received on 31 March 2008, the AIBP proposal could not be processed for Central Assistance by MOWR for the year 2007-08, as the funds allotted under AIBP to the State was exhausted. Further, there was a short fall of expenditure in comparison to the programme (proposed to CWC) in the years 2008-09 and 2009-10, which resulted that no CA could be received in 2010-11.

The fact remained that the Government could not receive the CA to the full extent due to various deficiencies attributable to the Company.

Water management

2.2.12.1 The success of an irrigation project depends upon supplying the allocated water to all parts of the command area including tail end reaches and ensuring that the command area is not adversely affected due to water logging.

Notifications were issued by the Superintending Engineer before the commencement of each season as to the extent of command area for each distributary and the types of crops to be grown therein with the date(s) of supply of water. The farmers of the notified area were required to adhere to the notified cropping pattern and were liable for payment of water rates. Growing of non-notified wet crops such as paddy, sugarcane and garden crops against notified semi-dry crops in any area adversely affects the irrigation in lower reaches of the main canals/distributaries as wet crops consume more water. The cropping pattern violation and unauthorized irrigation attract penalty in the form of penal water rates at five times and 15 times the normal water rates respectively.

The Government informed that there was no failure on the part of the department while levying the water rates and the details were submitted to Revenue authorities and also Water Users Co-operative Societies, whose responsibility was to collect the charges.

Crop pattern (CP)

2.2.12.2 The year wise details of the notified crop pattern, extent of total area irrigated and area irrigated with cropping pattern violations during the period from 2006-07 to 2010-11 of the project are as follows:

area in ha

Year	Total area irrigated	Area in which there was crop violations	*Per cent*	Irrigated area as per prescribed crop pattern	*Per cent*
2006-07	1,81,253	1,21,144	66.84	60,109	33.16
2007-08*	93,413	63,615	68.10	29,798	31.90
2008-09	1,97,016	1,31,668	66.83	65,348	38.50
2009-10	1,90,446	1,31,706	69.16	58,740	33.17
2010-11	1,95,941	1,37,259	70.05	58,682	29.95

*** One season of rabi crop only.**

Violation of cropping pattern continued over the years.

The violation of crop pattern in irrigated area ranged from 66.83 *per cent* to 70.05 *per cent* of the total area irrigated. This was one of the main reasons for higher consumption of water than the allocation and suffering atchkat in tail end reaches.

The Government agreed to the fact of crop violation and stated that the issue was being controlled by creating awareness among the farmers.

Crop loss

2.2.12.3 The TSC had decided (November / December 2006) that the modernisation works be executed within 8 months and for this purpose it was suggested that water in the canal could be stopped for Rabi season of 2007 and works taken up for execution between 15 November 2007 and June 2008. The Board decided (December 2006) to recommend the same to the Government. However, in the meeting held (December 2006) by the then Chief Minister it was decided to complete the works before December 2007.

Failure to complete the works by December 2007 resulted in crop loss of ₹ 248.76 crore and foregoing socio-economic benefits of ₹ 100.64 crore to the farmers as detailed below:

Crop grown	Average area irrigated during previous three seasons (ha)	Yield per hectare (in quintals)	Rate per quintal (in ₹) during 2006-07	Crop loss (₹ in crore)	Farming expenditure (in ₹ per hectare)	Total expenditure (₹ in crore)	Benefit lost (₹ in crore)
(a)	**(b)**	**(c)**	**(d)**	**(e)=(b)*(c)*(d)**	**(f)**	**(g)=(b)*(f)**	**(h)=(g)-(e)**
Paddy	57,350	43	639	157.58	17,792	102.04	55.54
Sugarcane	7,860	1000	116	91.18	58,625	46.08	45.10
Total				**248.76**		**148.12**	**100.64**

It is also relevant to note that many Rabi and Khariff seasons passed by though the works of modernisation continued for the next five years.

The Government contested the issue of crop loss on the grounds that none of the major projects of such magnitude could be completed as planned due to funding and practical local difficulties connected with the release and stoppage of water based on local conditions. The benefits of modernisation in the long run were more when compared to loss of one crop which had been forgone by end user voluntarily. Even though paddy had not been grown in this period, the farmers had safeguarded the existing sugarcane crop and in addition, they had grown semi-dry crops in the area using rain water. There might not be loss to the extent assessed by audit.

It is evident from the reply that it was not possible to complete the work in one closure period (June to December 2007). The fact remained that there was crop loss and in the absence of data regarding output of the other crops grown during this period, the loss could be quantified only on paddy and sugarcane.

Targeted objectives vis-à-vis achievement

2.2.12.4 The Project was taken up to reduce seepage losses, to reduce the water utilization to the allocated 61.70 tmc and irrigate 1,77,337 hectares of area in both seasons (including supply of water to the suffering atchkat of 9,118 hectares).

We observed that during 2010-11:

- Command area irrigated was only 1,59,651 (in both seasons) and the consumption of water was 69.06 tmc.
- Against the area of 9,118 hectares of acthkat at the tail end of the canal, which suffered for want of water before modernisation, 2,132 hectares was still suffering for want of water (September 2012).

Thus, the utilization of water, which was on an average of 74 tmc before modernisation was taken up had reduced to only 69.06 tmc. This was much higher than the allocation of 61.70 tmc under KWDT Award and one of the objectives of modernisation to reduce the usage of water remains unachieved.

The Government stated that works were nearing completion and suffering atchkat was being reduced. Action was taken to irrigate the balance suffering atchkat.

Water logging

2.2.12.5 Agricultural land is considered waterlogged when soil pores in crop root zone are saturated by a rise of sub-soil water-table. In course of time, such land turns saline or alkaline becoming unfit for cultivation. The main cause of water logging is application of water supplied for irrigation to crops much beyond the expo-transpiration requirement and inadequate drainage and deficient maintenance of canal network.

We observed that as per the data of the CADA, 34,688 hectares of irrigable land was affected due to water logging, salinity and alkalinity, before modernisation was taken up, as at end of March 2006. As at end of March 2012, the land affected due to these reasons were 23,218 hectares. Compared to the Command area of 1.05 lakh hectares, this land constituted 16.85 *per cent* of the total command area and required reclamation.

We observed that the issue of water logging, salinity and alkalinity affected areas were not appraised to the Government, when the modernisation of the project was taken up. Only the tail end atchkat of 9,118 hectares, suffering for want of water was considered. The targeted irrigable area including the tail end atchkat and the quantum of water drawn have to be viewed in this context.

The Government stated that once the modernisation work was completed the target of limiting the utilisation to 61.70 tmc would be achieved and over-utilisation of water in command area would be reduced, which automatically would control water and salinity effects.

Water Users' Co-operative Societies (WUCS)

2.2.12.6 GoI formulated National Water Policy 2002, which envisaged formation of WUCS by farmers for handing over water management to ensure equitable distribution of water to all parts of the command area. The Working Group on Water Resources for the XI Plan (2007-12) had recommended (December 2006) that Water Users Associations should be involved in planning, budgeting, implementation and management of irrigation systems and hand over the systems to them to ensure optimum utilization of irrigation potential created.

As per the details furnished by CADA, though 270 WUCS were registered, only 153 have executed the Memorandum of Understanding with Water Resources Department of which only 97 have taken over water management (March 2012). The remaining command area was deprived of the mechanism of WUCS.

The Government informed that CADA was taking all necessary steps to form the balance WUCS. Action was also being taken to actively involve the existing WUCS in water management.

Demands by the revenue authorities

2.2.12.7 According to the provisions of Karnataka Irrigation (Levy of Water Rates) Rules 1965, the Irrigation Officers were responsible for raising the demand of water charges and maintenance cess prescribed against each farmer and forward the same to the Revenue Authorities concerned of the taluk/village for registering and recovering the same from the farmers benefitted through irrigation. The taluk offices are required to maintain watch register of demand, collection and balance (DCB) and forward the extract to Irrigation Officers periodically.

We observed from the DCBs of Revenue Department and demands stated to have been raised by the Irrigation Officers of three divisions during 2006-11, that there was difference (₹ 104.80 crore[74]) between the demands registered by the Revenue Authorities and those stated to have been raised by the Irrigation Officers as given below:

₹ in crore

Division	Taluk	Water charges and cess demanded	Water charges and cess registered by Revenue Authorities	Difference	Collection
Davanagere	Davangere Harihar Channagiri	39.63	7.79	31.84	4.14
Malebennur	Bhadravathi Honnali	27.35	1.66	25.69	1.83
Bhadravathi	Shimoga Bhadravathi Tarikere	23.47	23.47	0.00	3.06
Total		**90.45**	**32.92**	**57.53**	**9.03**

The Government stated that the observations were noted and that as per the Levy of Water Rates, rules 1965, the demand raised is being collect by the Revenue Authorities till date.

Results of survey of the beneficiaries

2.2.12.8 We held a field survey (August 2012) of the beneficiaries located in the initial, middle and tail end reaches of the Project to assess the impact of modernisation and obtained the following response:

- After modernisation there was no increase of yield per acre in the initial and middle reaches. In tail end reaches there was moderate increase of yield.
- All the farmers including tail end reaches are cultivating wet crops like paddy, sugar cane and garden crops in both Khariff and Rabi seasons as sufficient water was accessible to them.
- The present tariff of water rates was affordable.

[74] **including ₹ 47.27 crore, which was the difference in the opening balance/closing balances in Davangere Division for 2009-10/2010-11.**

- Violating the cropping pattern was to grow wet crops on account of availability of water and higher benefits.

This results in excess consumption of water than that allocated.

Acknowledgment

We acknowledge the co-operation extended by Water Resources Department, Government of Karnataka and the Company in facilitating the conduct of audit.

Conclusion

We conclude that:

- **The project was envisaged to start in June 2007 and to be completed by December 2007. Even after five years (December 2012) from the scheduled completion date, the project was still in progress.**
- **Despite incurring ₹ 1,003.33 crore on modernisation, about 2,132 ha of the 'suffering' tail end atchkat of 9,118 hectares remained without water supply (September 2012).**
- **The estimates and extent of work were not determined, leading to change in scope of modernisation programme.**
- **The Company decided to modernise the entire stretch of main and branch canals ignoring the recommendation of the Expert Committee to limit it to vulnerable structures and without the approval of competent authority.**
- **Change of scope after inviting tenders was in contravention of the KTPP Act. Limiting the tender access only to the Category-I contractors enrolled with the Company, who satisfied the prescribed the pre-qualification criteria, resulted in foregoing competitive rates.**
- **Award of the contracts at negotiated rates and on single tender basis in several cases under the plea of urgency was in violation of the GoK and CVC guidelines.**
- **The works, which were originally envisaged under six packages were split again and again and are now executed in 33 packages. The Company extended time of completion (January 2011) in respect of all the contracts without levying liquidated damages for delays.**
- **The Company included price variation for works to be completed in seven months as well, in contravention of the orders of the Government of Karnataka. Adoption of lower rates as base price for**

calculation of price variation of cement resulted in undue benefit to the contractors.

- **The Company ignored the specification of the Bureau of Indian Standards (BIS) by resorting to excess thickness of lining of canals and lining beyond the required height resulting in creation of excessive Free Boards. The avoidable expenditure was ₹ 165.66 crore.**

- **There was huge difference between the demands for water charges and maintenance cess registered by the Revenue Authorities and that raised by the Irrigation Officers. There was no proper monitoring mechanism.**

Recommendations

We recommended that:

- **The Government orders/ directions/ design manual of the Irrigation department, provisions of the KTPP Act and CVC guidelines should be scrupulously followed in tendering and awarding of contracts.**

- **There should be definite estimates of the quantum of work to be executed. The time frame should be clearly defined and adhered to.**

- **The management of contract and additional quantities executed, needed to be investigated.**

- **Efforts should be made to avail the full extent of Central Financial Assistance.**

- **There is need to create awareness on the prescribed crop pattern.**

Chapter - III

Transaction Audit Observations

Chapter - III

3. Transaction Audit Observations

Important audit findings emerging from test check of transactions in the State Government Companies and Statutory Corporations are included in this Chapter.

Government Companies

Mysore Minerals Limited

3.1 Loss of revenue

The provisions in the MoU for exploitation of Iron Ore from the Thimmappanagudi reserves were flawed. Decision to increase the low premium on iron ore fines to mitigate the loss of revenue was delayed and implementation of the decision of the Government was further delayed.

The Government of Karnataka (GoK) decided and intimated (July 1996) that the requirement of iron ore by Jindal Vijayanagar Steel Limited (JSW)[75] would be met by leasing Kumaraswamy Blocks A, D and E mines in Sandur, Bellary District. Any shortfall to reach 110 million metric tonne would be made good out of Thimmappanagudi reserves, leased to Mysore Minerals Limited (Company).

GoK further decided (September 1996) that the Company and JSW would finalise a Memorandum of Understanding (MOU) by September 1996. The MOU was signed (January 1997) and a Joint Venture Company, known as Vijayanagar Minerals (Private) Limited (VMPL), was incorporated (April 1998). As per MOU, the Company was to hold equity of 30 *per cent* in VMPL, while the balance 70 *per cent* equity was to be held by JSW. The cost of the developmental work done by the Company in Thimmappanagudi was evaluated and treated as contribution of the Company towards equity capital, which was agreed to at ₹ 1.74 crore. This partnership was purely on 'commercial basis' keeping in view the interest of both the parties.

The MOU stipulated that the JSW was to bring in such mining leases as might be granted by GoK and the Company was to bring in Thimmappanagudi Iron Ore Mines (TIOM) as their contribution to the Joint Venture company. Further, against the annual capacity development of 8 million tonnes (fines and lumps), JSW would purchase 3.5 million tonnes of iron ore fines and the Company would have a share of 1.5 million tonne of iron ore lumps at the

[75] **presently known as JSW Steel Limited.**

transfer price (lower than market price) to be decided by joint venture partners. VMPL was free to sell the quantity in excess of 3.5 million tonnes of fines and 1.5 million tonnes of lumps with the first option of refusal by the Company. The Company was entitled to get a premium on the despatch of ore raised from Thimmappanagudi Iron Ore Mines (TIOM) at the rate of six *per cent* and 10 *per cent* respectively for fines and lumps, on the market price.

We observed that JSW had not brought its own mines to VMPL and ore was extracted purely from TIOM even as on date (September 2012). The MOU had neither set any time frame for JSW to bring in mine leases/rights available to it, nor provided for review of the terms and conditions in event of non-fulfilment of obligations by parties.

We further observed that the proposed share- holders' agreement which could have created an obligation for fulfillment of the provisions in the MOU had not been signed yet (September 2012).

During 2000-2001 to 2009-10, 9.25 million tonnes of Iron ore fines valued at ₹ 1,052.89 crore was mined from TIOM, for which the Company got an amount of ₹ 63.17 crore by way of premium at the rate of six *per cent* on the market price; and JSW got a benefit to the tune of ₹ 876.90 crore[76], because ore was supplied to them at transfer price.

We observed that the non-availability of a matching mine from JSW had resulted in sole exploitation of the mines of the Company, coupled with a low premium of 6 *per cent* on iron ore fines and the Company was also deprived of the lumps it was entitled from the JSW mines. The one-sided agreement put the Company to grave financial loss. Only in March 2009, the Company proposed to the Board, enhancement of the premium to 31 *per cent.* The Company also appraised (March 2009) to the Board that Lokayukta had suggested (December 2008) comprehensive review of all long term agreements in its report. The Board directed the Company to take up the issue with the Government seeking suitable advice in the matter. The Company took up the matter (July 2009) with GoK after delay of four months, with a proposal to call upon JSW for renegotiating the MOU with regard to the pricing of iron ore fines or to terminate the MOU in the event of their not coming forward for negotiations. GoK advised (August 2009) the Company to hold negotiations with JSW and intimate the outcome. A joint meeting of the Company and JSW was held (November 2009), wherein increasing the premium payable on iron ore fines from six *per cent* to 50 *per cent* with effect from 1 April 2009 was put forth, for which JSW did not furnish proper response.

The Board later decided (February 2010) that JSW should pay the Company 60 *per cent* on the Company's market prices as premium on Iron Ore Fines produced from TIOM. GoK accorded (17 March 2010) approval for enhancement to 50 *per cent*. The delay in deciding the quantum of increase in

[76] calculated based on the prevailing market prices *minus* the transfer price during the same period.

premium resulted in supply of 1.42 million tonnes of fines between 1 April 2009 to 16 March 2010 at the earlier fixed premium of six *per cent* resulting in loss of revenue of ₹ 54.25 crore.

We further observed that the enhancement of premium to 50 *per cent* payable to Company was to come into force with immediate effect. The Company, however, gave effect to the enhancement only from 1 April 2010, instead of from 17 March 2010, which resulted in further loss of ₹ 7.29 crore[77] on 73,495 tonnes of iron ore fines despatched between 17 March 2010 and 31 March 2010.

Thus, the Company suffered loss of ₹ 61.54 crore due to delay in increasing the premium and also by not safeguarding its interest while drafting the MOU, despite being afforded several opportunities for course correction.

Government stated (August 2012) that the best commercial practice followed by the highest commercial organizations /industries was that any new fixation of price or implementation of the decision was normally done from the beginning of financial year, which would eventually avoid unnecessary litigations.

The inevitable enhancement of premium was not mooted for a long time. The process of enhancement, started in March 2009, was delayed at different stages and finally, Government accorded approval for increase in March 2010, which was further belatedly implemented.

Mysore Minerals Limited

3.2 Non-levy of Forest Development Tax

Forest Development Tax on iron ore amounting to ₹ 71.17 crore was not collected from purchasers, as mandated in the Karnataka Forest Act.

The Karnataka Forest Act, 1963 was amended (March 1989) by inserting Section 98A for levy of Forest Development Tax (FDT) applicable with effect from February 1978. FDT was leviable on forest produce disposed of by the Corporations owned or controlled by the State Government. No tax was payable to the Government, which was not levied and collected by the Corporation during the period from 14 February 1978, the deemed date of insertion of the provision in the Act, till the commencement of the Karnataka Forest (Amendment) Act 1988.

The Mysore Minerals Limited (Company), however, did not commence collection and payment of FDT till 26 August 2008. The Principal Chief Conservator of Forests, Bangalore had clarified (March 1995) that the Company was liable to collect and pay FDT at specified rates with effect from 16 March 1989 as per the amendment to Section 98A of the Forest Act. The

[77] **73,495 tonnes * ₹ 2,255* 44** ***per cent.***

Company argued against levy of the same citing a judgement (July 1996) of the High Court relating to FDT on royalty, which the High Court later said, was related to FDT on sale of forest produce.

The Deputy Conservator of Forests, Bellary Division issued (November 2006) a demand notice to the Company for ₹ 11.16 crore at 8 *per cent* on the value of iron ore sold between 2000-01 and 2004-05. The Company obtained (January 2007) a stay order from the High Court of Karnataka and the claim was withdrawn.

Modifying the interim orders on a barrage of writ petitions challenging the notification of 16 August 2008 further amending Section 98A of the Act, which included all lease holders of mines and quarries situated in forest area as bodies notified by Government, the High Court pronounced (May 2009) that the parties to the writ should pay arrears of 50 *per cent* of tax levied.

The Government discussed the issue and directed (December 2009) the Company to withdraw the writ petition and calculate the FDT at 8 *per cent* and interest thereon, if any, for the period 1 April 2000 to 26 August 2008 jointly with Forest Department. Accordingly the Company withdrew (April 2010) the writ petition filed in the High Court.

The payment of FDT had become inevitable on withdrawal of the writ petition and vacation of stay by the High Court. The accrued total tax liability for the period from 1 April 2000 to 26 August 2008 at 8 *per cent* was ₹ 71.17 crore[78]. The Company represented to GoK to set aside the FDT payable for the period up to 26 August 2008. The Finance Department, however, observed that it would be difficult to amend the Act passed in 1978 or to give up the claims *in toto*. The Company remitted ₹ 35 crore, 50 *per cent* of the tax in February 2011. With effect from 27 August 2008, 50 *per cent* of the tax is collected from purchasers and paid to Government.

We further observed that as per Clause 5.0 of the Memorandum of Understanding (MOU) of January 1997 between the Company and Jindal Vijayanagar Steel Limited a Joint Venture company (Vijayanagar Mineral Private Limited -VMPL). VMPL was responsible for collection and payment of FDT on account of mining in the areas coming under Thimmappanagudi Iron Ore Mines (TIOM). Despite this categorical assertion in the MOU, the Company deposited (February 2011) on behalf of VMPL ₹ 7.63 crore as FDT on 81.03 lakh MT of iron ore of TIOM, mined and sold (2001-2009) by VMPL. VMPL being a joint venture was registered as a Company and the liability which had arisen on account of its activities was not discharged by them. The Company, however, raised a claim on VMPL on 31 March 2012.

[78] **eight *per cent* on ₹ 889.56 crore (value of 222.63 lakh metric tonnes of ore).**

Failure to act upon the provision inserted in the Forest Act for levy of FDT resulted in undue benefit of ₹ 71.17 crore to the purchasers of iron ore. The Company has already remitted ₹ 35 crore to the Government and is liable to pay ₹ 36.17 crore. As the quantity of 81.03 lakh MT of iron ore of TIOM was mined and sold by VMPL, the Company had no liability towards FDT on this quantity. The remittance of ₹ 7.63 crore to the Department to discharge the liability of VMPL lacked justification.

The Government stated (October 2012) that they would be in a position to recover 85 *per cent*[79] of the FDT liability. The Company also stated that ₹ 2.97 crore had already been recovered. The fact, however, remains that major portion of the FDT and the amount payable by the VMPL was also to be recovered (October 2012).

Krishna Bhagya Jala Nigam Limited

3.3 Avoidable extra expenditure and excess payments

The estimate prepared by the Consultants for construction of bridge-cum-barrage near Gugal village across the River Krishna did not conform to their own design and drawings. Estimate was approved without verification, higher rates applied for ineligible quantities by overstatement and bank guarantees were not enchased.

The Technical Sub-Committee (TSC) of the Krishna Bhagya Jala Nigam Limited (Company) approved (March 2002) the design, drawings, estimates and draft tender papers prepared by the Karnataka Power Corporation Limited (KPCL), the Consultants, for construction of bridge-cum-barrage near Gugal village in Deodurda Taluk, across the River Krishna.

The work was estimated to cost ₹ 35.60 crore. Tenders were invited and work was awarded (November 2002) to Contractor for ₹ 21.21 crore, (40.41 *per cent* below the estimated cost put to tender). The stipulated period of completion was 12 months (including monsoon) from the date of award of the work.

The design and estimates were to be examined by the officers /officials before placing for approval of Technical Subcommittee/Board. However, during the course of execution of the work, the Company observed (October 2004) that the estimate and the construction being carried out did not conform to the designs and drawings prepared by KPCL. The variances reported were that the gap between the piers was taken as 20 metres against 10 metres specified in the designs and drawings and the number of piers should, therefore, have been 81 and not 38 in the estimate, the quantities for abutment and deck-slabs beyond barrage portion were not included in the estimate, designed grade of concrete for the piers was not provided, change in size of gates was overlooked, cost of

[79] **already recovered by the Company: ₹ 2.97 crore; undertakings obtained from the buyers: ₹ 53.17 crore; credit balance available with the Company: ₹ 3.98 crore and amount recoverable from 118 buyers: ₹ 11.05 crore.**

grouting not included, increase in length of approach roads not considered, provision for control blasting not factored in.

Considering the additional requirements the Board approved (February 2005) increase in cost and the additional financial implication of ₹ 19.54 crore. Supplementary Agreement for executing the work at a total cost of ₹ 40.75 crore was entered into in March 2005. The factors affecting the delay in work were discussed in the TSC meeting held in June 2005. The TSC recommended (September 2006) considering the revised rates for concrete and steel items executed / to be executed after November 2004 and Board accorded approval (November 2006) with financial implication of ₹ 10.69 crore. Second Supplementary Agreement for the revised rates and increase in the cost to ₹ 45.43 crore[80] was entered into in March 2007.

We observed (July 2010) that:

- The omissions and inconsistencies in the estimates and the rectifications carried out later resulted in the cost increasing from ₹ 21.21 crore to ₹ 40.76 crore and further to ₹ 45.43 crore. The designs, drawing and estimates submitted by the Consultants were placed for approval and put to tender without scrutiny. The original estimate was thus flawed and prone to variations.
- The agreement provided that the rates quoted by the contractor were applicable for extra quantities up to 125 *per cent* of the estimates. For quantities beyond 125 *per cent*, the rates of the items in the current Schedule of Rates plus/minus overall tender premium/discount were applicable. The Board, however, decided to pay current Schedule of Rates for works executed beyond November 2004 without deduction of 40.41 *per cent* discount offered by the contractor, which resulted in extra expenditure of ₹ 4.13 crore.
- The quantities of items of concrete and steel executed up to November 2004 were understated in the document placed (November 2006) before Board for approval. The variation between the actual quantities executed and that placed before the Board in respect of cement and steel varied from 38 *per cent* to 64 *per cent* respectively. The quantities executed after November 2004, for which revised rates were proposed to be paid, were thus overstated in the second supplementary agreement and were paid at higher rates, resulting in excess payment of ₹ 1.99 crore to the contractor.
- Audit had commented on this overpayment in July 2010. The Company was in possession of valid Bank Guarantees for ₹ 2.97 crore at that point of time. The Company issued notice to the contractor for recovery of the excess payment only about a year after, in June 2011. By then, the validity of all the bank guarantees had expired.

[80] **in view of an upcoming mini hydro scheme, the works of dummy piers, steel and gate items *etc*., were deleted from the scope of barrage work resulting in value of work reducing from ₹ 40.75 crore to ₹ 34.74 crore. Thus, the revised cost in the Second Supplementary Agreement was ₹ 45.43 crore (₹ 34.74 crore *plus* ₹ 10.69 crore).**

- It was directed (March 2011) that responsibility is fixed for submission of the proposal and estimate to the higher authorities without examination and for the extra financial burden. The Executive Director ordered (March 2011) disciplinary action on the Officers concerned for the loss by overstating quantities for application of higher rates. The Company replied (June 2012) that they had relied on the estimates prepared by the Consultants.

The avoidable extra expenditure and excess payment caused to the Company worked out to ₹ 6.12 crore.

The Government, accepting the contention of audit, stated (October 2012) that disciplinary action had been initiated against the officers / officials responsible for the lapses. Civil suits against the retired officers would be initiated. The Government also stated that bank guarantees for ₹ 2.95 crore had been renewed. The Government further informed that when notice was issued, the Contractor approached Court and obtained stay for recovery of dues under the contract; vacation of the stay by the Court was awaited (October 2012).

Karnataka State Small Industries Development Corporation Limited

3.4 Irregular allotment

The Company allotted its Industrial Godowns to a private trust flouting established procedures at the instance of the then Chief Minister.

Karnataka State Small Industries Development Corporation Limited (Company) establishes industrial estates, constructs industrial sheds, forms industrial plots with infrastructure and allots them to entrepreneurs. The plots/sheds, the allotment of which are subsequently cancelled or resumed from the allotted entrepreneurs or surrendered are termed as 'stray plots and sheds'.

The Company has laid down procedures for allotment of industrial sheds and plots to entrepreneurs. The Allotment Rules 2004, as amended (June 2007), stipulates that for allotment of stray plots and sheds, the General Manager (Industrial Estates) shall prepare zone-wise list of available industrial plots and sheds and obtain approval of the Managing Director. The list is to be published on the website of the Company thereafter, in the newsletter of the Karnataka Small Scale Industries Association and displayed in the Notice-boards of the offices of the Company in whose jurisdiction the plots or sheds exist. The entrepreneurs would have to apply for the plots within 15 days from the date of uploading or publishing the availability of plots or sheds. A subcommittee of the Board of Directors constituted for the purpose, allots the plots or sheds thereafter, valued at guidance value/norms fixed by the Company.

With a view to utilise certain properties held in its possession, the Company decided to develop them for commercial exploitation under Public Private Partnership (PPP). This was to earn income without any investment while retaining the properties.

The Company issued (March 2010) a notification seeking offers from interested parties for development of lands at various prime locations, which included the Godowns - G1 and G2 measuring 11,336 square feet located at Rajajinagar Industrial Area. The Company had set a number of criteria for submitting Expression of Interest (EoI) for the plots and sheds. The Company received offers for four properties including the Godowns at Rajajinagar. The offers were placed (June 2010) before Technical Subcommittee. The Subcommittee approved the offer of Marado Infrastructure at a rent of ₹ 1.50 lakh per month for the godowns at Rajajinagar, for 30 years.

There was no EoI from Jnana Bharathi Prakashana (JBP), a Trust, except a letter (November 2009) to the then Chief Minister. The Chief Minister invoked (August 2010) the powers conferred on Governor under Article 87 of the Article of Association of the Company and ordered for allotment of the Godowns to the JBP. The Secretary, Commerce & Industries Department directed (August 2010) the Company to allot the Godowns G1 and G2 to JBP. In August 2010, the Company allotted the Godowns G1 and G2 to the Trust, which was not amongst the bidders against the notification and which did not satisfy eligible criteria set for potential applicants.

The Company offered (August 2010) 1,053.15 square meters at a tentative cost of ₹ 4.81 crore (consisting of value of the land: ₹ 4.24 crore *plus* cost of godowns : ₹ 0.57 crore; excluding ₹ 0.48 crore, being the 10 *per cent* on the value of the land to be added if the allotment was to non-Small Scale Industries units). But, the Government ordered (October 2010) that the allotment of Godowns be made at 50 *per cent* of guidance value. In response, the Company submitted a note (October 2010) to the Chief Minister seeking direction as to the rate at which the building was to be valued, since the Government Order specified only the guidance value of land. The Chief Minister, however, ordered (October 2010) allotment at 50 *per cent* of the guidance value of land, stating that the godowns were 30 years old.

File noting of the Chief Minister (October 2010)

File has been examined. As the godowns are more than 30 years old, it is instructed to take action as already indicated in Para 265(1).

Para 265(1) referred here states that Government has already decided to allot land at 50 *per cent* of the guidance value.

The Company issued (October 2010) allotment letter to JBP revising the price to ₹ 1.13 crore from ₹ 4.81 crore as intimated earlier. As per the existing guidelines, the value of property was assessed by the Company at ₹ 5.29 crore. This had resulted in undue favour to the Trust to tune of ₹ 4.16 crore at the expense of the Company. JBP submitted (November 2010) application with required fees, SSI certificate, Trust deed, *etc*.

We observed that a Trust was allotted prime property meant for industrial use, solely based on the orders of the then Chief Minister violating the laid down procedures. JBP had registered itself as a SSI unit just a month before the allotment. The benefits accruing to the State as a result of such undervaluation were not on record.

Government stated (July 2012) that due to decontrol policy of Government of India in respect of many essential raw materials like cement, paraffin, wax, *etc*, the godowns were not being utilised properly at present and hence, Government had decided to allot this unutilized plot to a particular institution at concession rates.

This is a case of transfer of asset of the Company to a private Trust at a much reduced price. The cost fixed by the Company was in accordance with the guidelines prescribed by the BoD and there was no provision to reduce the price and there was no precedence as well.

The Allotment Rules 2004 of the Company, approved by the Government, has laid down certain procedures for allotment of sheds and plots. These rules do not support the action of the Company.

A joint inspection conducted (August 2012) revealed that the godowns were kept idle and used for storing some materials.

Karnataka State Tourism Development Corporation Limited

3.5 Undue benefit

The conditions envisaged in the decision of the Cabinet for development of land for Golf Course was ignored. The recommendations made by two other Committees appointed by the Government on fixing of license fee for the land made available to Karnataka Golf Association were not implemented.

The Government of Karnataka (GoK) transferred (May 1980) 124 acres of land at Challaghatta in Bangalore, to the Karnataka State Tourism Development Corporation Limited (Company) on lease for 30 years at a nominal rent to be decided, to enable the Company to formulate suitable scheme for the development and maintenance of the Golf Course and for providing tennis ranch, motel, *etc*.

The Company constituted a Governing Council. The Karnataka Golf Association (KGA) was to act as agent of the Governing Council in planning the Golf Course Complex. The Company, in turn, granted license to KGA for a period of 30 years through a mutual agreement entered into in August 1980. This agreement, *inter-alia*, had provided that the income from the Golf Course and other amenities referred to would accrue to the benefit of the Company and the KGA was not entitled to any benefits there from.

The agreement was revised (July 1986) by deleting the clauses relating to entitlement of the Company to the income from the golf course and other amenities. KGA was to pay a rent at a nominal rate of ₹ 1 per acre per annum. The modified agreement had allowed KGA to take all financial decisions and reap benefits without being passed on to the Company.

The Committee on Public Undertakings (COPU) recommended in February 1992 that the inclusion of one sided provision favouring KGA in the agreement and deletion of provisions favouring the Company might be probed and necessary action be taken against those found responsible. The COPU also recommended re-examination of both the agreements by the Law Department. The Company could have terminated the agreement exercising the option available or restored the favourable clause.

But for omission of the clauses in the original agreement (August 1980) as to the income of the project, in the revised agreement (July 1986), the cash and bank balances of KGA (a major portion of which was investment in fixed deposits with the banks) as on 31 March 2011, which stood at ₹ 43.72 crore[81] would have accrued to the Company.

[81] as per the latest accounts of 2010-11 filed with the Registrar of Societies.

The Government had not taken action on the recommendations (1992) of the COPU till September 2005 and constituted a Committee. The Committee approved (December 2005) a proposal of the Company to recover annual rent from 1 April 2000 at the rate of ₹ 1 lakh per acre. This decision, intimated to KGA in February 2006, was deferred by KGA. The rent to the tune of ₹ 14.88 crore from 1 April 2000 was, thus, not recovered (March 2012).

The COPU again discussed the issue and recommended (July 2009) that the Government should recover realistic income from the KGA. The COPU had also stated that the practice of handing over valuable land of the Government to private parties at dismally low costs had to be stopped.

GoK constituted (May 2010) another Committee to examine the request (November 2009) of the KGA for renewal of the license, keeping in view the fact that the agreement was expiring in August 2010. The Committee recommended charging license fee at a rate within the range of 25 *per cent* to 50 *per cent* of the rent fixed for the adjacent land leased to the Royal Orchid Hotel. The Government has not decided on the matter yet (November 2012).

Meanwhile, the Income Tax (IT) Department, while assessing (December 2009) the income tax of the Company for assessment year 2007-08, included additional income of ₹ 1.61 crore for the year on the land given to KGA and demanded tax. The value of rent was arrived at by considering rent of ₹ 1.11 lakh per acre per annum on the adjacent land leased by the Company to the Royal Orchid Hotel. Similarly, for each of the subsequent two assessment years, tax of ₹ 1.61 crore was demanded[82]. The appeals of the Company against these demands were pending with the IT department (November 2012).

Thus, due to the modification of the agreement the cash and bank balance of ₹ 43.72 crore did not accrue to the Company. The Company did not collect license fee of ₹ 14.88 crore, chargeable from 1 April 2000 at the rate of ₹ 1 lakh per acre, consequent to non- implementation of the decisions of the Committees constituted by GoK. Various recommendations of the COPU and the Sub-committees constituted by the Government on the matter were not implemented. Meanwhile, the Company was running up tax liabilities for uncollected rent.

The matter was issued to the Government in June 2012; their reply was awaited (December 2012).

[82] December 2010 / December 2011.

Karnataka Power Corporation Limited

3.6 Payment of incentive for services not rendered

The Karnataka Power Corporation Limited granted incentive of one month's pay on completion of the first Unit of BTPS, to all its employees, including those on deputation to other organisations, for the services not rendered by them.

Karnataka Power Corporation Limited (Company) entrusted (December 2003) the engineering, design, procurement, construction and financing of Unit-I of Bellary Thermal Power Project (BTPS) in Bellary District with a capacity to generate 500MW to Bharat Heavy Electricals Limited (BHEL).

As per the contract, BHEL was to perform all works and services required in connection with the design, engineering, supply of equipment, procurement (including all transportation services in connection therewith), construction erection, start-up, commissioning, testing and takeover of the Plant including conducting the performance test providing all materials, equipment, machinery tools, layout, transportation, administration and other service required to complete the facility in all respects upto the taking over and ensure the performance as guaranteed, for a total lump-sum fixed price basis. BHEL was liable to pay liquidated damages for failure to meet any guaranteed completion date or to get bonus for readying the project for take over earlier to the scheduled date.

The first unit of the project was to be completed and transmission started by December 2006 as per the contract. However, the transmission commenced only in March 2008, after a delay of 15 months.

There was no contractual obligation on the part of the Company to pay incentive to its employees on completion of any project.

Between June 2008 and January 2009, the Employees' Union of the Company made several requests to the Company and the then Chief Minister, GoK, to pay a month's pay as incentive on the occasion of inauguration (March 2008) of the BTPS. The GoK forwarded the letters directing the Company to examine the issue and take suitable action. The Company rejected (November 2008) the demand as there was no contractual obligation for grant of incentive in this case. GoK was informed (December 2008) accordingly.

The Employees' Unions further submitted (May 2009) to the Chief Minister of GoK[83] for payment of incentive. In response, the Chief Minister declared (26 May 2009) one month's pay as incentive to all the employees of the Company 'in recognition of the services rendered by the employees in completion of the BTPS Unit I'. The Board authorised (August 2009) the Managing Director to release incentive equal to one month's pay to all the employees on the rolls of

[83] **Chief Minister is also the Chairman of the Company.**

the Company as on 26 May 2009. Incentive to the tune of ₹ 16.50 crore[84] was paid to all its employees in all units including those on deputation to other organisations.

The Government replied (October 2012) to audit observation on the above payment that the incentive was to maintain industrial peace and harmonious relations with the Unions/employees. The Company added that it was most essential to keep the morale of the workforce at the highest level to accomplish the ambitious expansion activities drawn up.

The reply of the Government was not justified in the view of the following:

- BHEL performed all works and services required to complete the facility in all respects. The employees of the Company had not rendered services to receive the said incentive.
- Such outflow of funds increases the borrowings for capital expenditure, as like all projects, BTPS was also funded through heavy borrowings. The ultimate consumer bears such largesse in the form of capitalization of interest on borrowings.

The Hutti Gold Mines Company Limited

3.7 Parking of funds in violation of guidelines

The Company violated the guidelines of the Government and did not observe the provisions in Companies Act in investment of surplus funds. The delay in redemption resulted in loss of ₹ 4.02 crore.

According to the guidelines (April 1997) of the Karnataka State Bureau of Public Enterprises (KSBPE), every investment decision should be approved by the Board of Directors (Board) or Finance/Investment Committee constituted by the Board and that no investment should be made by a public sector enterprise in public and private mutual funds where there were equity based operations which were inherently risky.

Section 292 of the Companies Act, 1956 stipulates that every resolution of the Board delegating the power shall specify the total amount up to which the funds may be invested, and the nature of the investments which may be made by the delegated authority.

The Hutti Gold Mines Company Limited (Company) had been investing its surplus funds in public and private mutual funds having exposure to equity, since 2003-04.

The Board, approved (June 2003) the Investment Policy for deployment of surplus funds as contained in KSBPE guidelines. Further, the Board also decided that no surplus funds would be invested in inter-corporate deposits, mutual funds in equities and inter-corporate loans. The Company, however,

[84] including ₹ 0.12 crore paid to those on deputation.

with the approval of the Managing Director**,** continued (2003 to 2007) to make investment in mutual funds with equity exposure disregarding both Government guidelines and Board directions.

The Company requested (October 2007) the Government to allow it to invest in mutual funds to derive maximum benefit from the available surplus. The Government directed (April 2008) the Company to examine the proposal as per KSBPE guidelines.

We observed that:

- The value of the investments as on 5 May 2008[85] was ₹ 44.34 crore. As the investments were in violation of the KSBPE guidelines, the Company should have exited from the mutual funds immediately. The Company, however, took 8 to 17 months to exit from the funds. The Company could realise only ₹ 43.47 crore. The delay in redemption, waiting for the stock market to improve, resulted in a loss of ₹ 0.88 crore.

- The Company could have earned interest of ₹ 3.14 crore[86], by investing the proceeds of ₹ 44.34 crore in fixed deposits, considering the period up to the actual date of redemption.

- Resolutions delegating power specifying the total amount up to which funds could be invested and the nature of the investments which might be made by the delegated authority as per the provisions in the Companies Act, 1956, were not brought to the Board and got approved before investing the funds.

Continued investment of funds in equity linked mutual funds even after the receipt of Government directives to follow the KSPBE guidelines resulted in loss of ₹ 4.02 crore.

The Government stated (November 2012) that from March 2008 onwards, the stock market started collapsing and therefore, the Company exercised cautious approach and waited till improvement of market conditions.

The fact, however, remains that the Company continued to stay invested violating the guidelines of KSBPE and the directions of the Government. Thus, the contention of the Government that the Company exercised cautious approach and waited till improvement of market conditions was not correct and justified.

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[85] **after considering one week's time from date of Government directions**.

[86] **calculated at rate of interest ranging from 7 to 8.75 *per cent* prevailing at the time for periods ranging from 107 to 527 days of delay in exit from mutual fund.**

Karnataka State Women's Development Corporation

3.8 Poor implementation of a scheme to uplift the lives of women

The 'E-Mahile' Scheme implemented to improve the living conditions in villages did not fructify.

Karnataka State Women's Development Corporation (Company) had formulated a scheme called as E-Mahile for assisting women members of the 'Sthree Shakthi Groups' in 10 districts. It was proposed to provide financial assistance to setup IT enabled information and service centres in the State of Karnataka.

Yashaswini Nagara Hagu Grameena Abhivruddhi Parishat (YNGAP), an NGO based in Davangere, was selected as the nodal agency for setting up the kiosks, without inviting tenders. YNGAP submitted (May 2007) a proposal to start comprehensive information centres throughout Karnataka. The Board of Directors (BoD) approved (September 2007) the proposal to start 30 centres each in ten districts, with the condition that YNGAP was to furnish a bank guarantee of ₹ 5 lakh to the Company and to enter into an agreement to the effect that it would repay the margin money with interest at 4 *per cent* per annum to the Company.

The Company entered (February 2008) into a Memorandum of Understanding (MoU) with YNGAP to start 300 E-Mahile centres in ten districts with 30 centres in each district.

The cost of the gadgets to be given to the beneficiaries was ₹ 1.80 lakh. Out of which margin money of ₹ 25,000, repayable in 30 instalments with interest at 4 *per cent* per annum, and subsidy of ₹ 10,000 was to be provided by the Company to beneficiaries. The beneficiary was to bring in ₹ 9,000 as margin money and the balance amount of ₹ 1.36 lakh was the loan component from the banks. The project component included computer, printer, digital camera, LCD projector, internet connection, *etc*. YNGAP provided (March 2008) training to 175 selected beneficiaries and loan applications of 168 beneficiaries were forwarded to banks for sanction of loan.

Tripartite Agreements were entered into (July 2008) by the beneficiaries, banks and YNGAP; according to which the beneficiary was to approach the bank with letters issued by YNGAP for financial assistance for setting up E-Mahile centre, with an undertaking to open account with the bank by depositing ₹ 500 as initial deposit. The beneficiary was to repay the loan in monthly instalments and complete the repayment within three years. Further, YNGAP was to collect and remit the monthly instalment from the beneficiary to the bank and if the beneficiary was unable to remit the monthly instalment, YNGAP was to remit the monthly instalment to the bank.

The banks sanctioned loan to 106 beneficiaries for establishing E-Mahile centres. The Company released (March 2008) margin money and subsidy amounting to ₹ 37.10 lakh in respect of 106 beneficiaries to the banks concerned. And the banks released the amount of ₹ 1.80 lakh (including the loan sanctioned by them) in respect of each of the beneficiary to M/s.Jain Computers and M/s.India 2020, the suppliers of equipments, through YNGAP.

We observed that 106 centres spread over 11 districts were to be supplied equipments. Three centres were supplied only 25 *per cent* of the specified equipment (based on value), 20 centres got to the extent of 25 to 50 *per cent*, 56 got 50 to 75 *per cent* and 27 got more than 75 *per cent*. YNGAP had thus, failed to ensure supply of equipments to 79 of the 106 beneficiaries (December 2012), even though entire amount was released in advance. Further, the equipment supplied was faulty and sub-standard.

The beneficiaries could not generate revenue and as a result, they could not repay the loans. It was decided (August 2009) to inform the bankers not to sanction further loans. As YNGAP failed to supply the equipments to the centres, the beneficiaries were deprived of the assured monthly income of ₹ 3,000. Hence, the very purpose of the scheme was defeated.

The Company filed (March 2010) a police complaint against Secretary of YNGAP for violation of the terms of MoU. The case was pending settlement (September 2012).

We observed (May 2012) that:

- The selection of the nodal agency was not done in a transparent manner and scrutinising its capability and creditworthiness. The YNGAP approached (May 2007) the Director, Women and Child Development Department, Government of Karnataka, with a project report and the BoD approved (September 2007) it, without further verification. In fact, it was indicated that YNGAP was selected for the project as no other NGO had come forward.

- Though the approval of the BoD was subject to the conditions that a bank guarantees of ₹ 5 lakh was to be furnished by the YNGAP and the agency had to enter into an agreement with the Company for repayment of the margin money with interest at four *per cent* per annum, these conditions were not included in the MoU.

- After getting ₹ 1.91 crore (including Company funds and Bank loans), the agency provided substandard materials to the beneficiaries.

- The beneficiaries could not earn the assured amount of ₹ 3,000 per month. The MoU contained a clause to the effect that beneficiaries would have to be paid by YNGAP in the event of them failing to earn the assured monthly revenue. YNGAP did not fulfil this commitment.

- Similarly, the tripartite agreement entered into (July 2008) by the beneficiary, bank and YNGAP, provided that YNGAP was to remit the monthly instalment to the bank in case the beneficiary failed to repay. As this contractual obligation was not met by YNGAP, the beneficiaries became defaulters.

This resulted in the margin money and subsidy of ₹ 37.10 lakh, released to the beneficiaries by the Company, not achieving the expected result. Further, instead of improving the socio-economic conditions of women, the Company made them defaulters to bank loans, due to its lapses.

We conducted (August 2012) a beneficiary survey covering 12 of the 106 beneficiaries. It was found that of the 15 items of equipment to be supplied to each centre, non-supply ranged from four to nine items of equipment in 11 out of the 12 centres surveyed (one beneficiary could not be traced in the given address). None of the 12 centres was functioning. It was also observed that the beneficiaries were unable to seek employment elsewhere for their livelihood as their original certificates and marks cards were deposited with the banks as security for loan.

The Government, while accepting the issues raised by Audit, added (November 2012) that a case had been filed against the Secretary of YNGAP for non-performance of duties and responsibilities as per the MoU.

Karnataka Power Corporation Limited

3.9 Purchase and use of coal at Raichur Thermal Power Station

The Company lifts coal from Singareni Collieries Company Limited (SCCL), Mahanadi Coalfields Limited (MCL), Western Collieries Limited (WCL) and South Eastern Coalfields Limited (SECL). The Fuel Supply Agreements (FSA) with collieries delineate the required quality of coal. New FSAs concluded in 2009 in line with the new coal distribution policy of the Ministry of Coal, GOI are currently in force. The Coal Transport Agreements (CTA) with other agencies govern the transport of coal. Besides, Coal is also imported. Raichur Thermal Power Station (RTPS) discontinued procurement of washed coal from May 2009.

Non-lifting of quantities allotted and consequential imports

3.9.1 The table below indicates coal linkage fixed, quantity lifted and quantity imported in the three years ended on 31 March 2012.

Quantity in lakh MTs

Sl.No.	Particulars	2009-10	2010-11	2011-12
1	Coal linkage fixed	71.20	75.83	76.25
2	Quantity of coal lifted	56.59	53.00	64.05
3	Shortfall (1-2)	14.61	22.83	12.20
4	Percentage of unlifted quantity	20.52	30.11	16.00
5	Quantity of coal imported	8.98	11.33	12.18
6	Consumption of coal	71.21	64.40	78.81
7	Weighted average rate of imported coal (₹)	4,927.63	4,278.77	5,525.31
8	Weighted Average rate of indigenous coal (₹)	2,180.94	2,296.73	2,497.00
9	Difference (₹) (7-8)	2,746.69	1,982.04	3,028.31

The percentage of unlifted quantity of coal increased from 20.52 in 2009-10 to 30.11 in 2010-11. And the import of coal increased from 13.70 *per cent* in 2009-10 (8.98 lakh MTs) to 15.98 *per cent* in 2011-12 (12.18 lakh MTs) for blending in the ratio of 80:20.

The failure to lift the entire quantity allotted constrained the Company to import coal at high cost. The Company stated (August 2012) that it was pursuing regularly with the coal supply companies to supply coal as per the linkage quantity and with Railways to provide sufficient number of empty rakes for movement of coal.

Variation in grades

3.9.2 Use of envisaged grade of coal ensures optimizing generation of power and economizing cost of generation. The coal in collieries was classified into six grades based on their corresponding Useful Heat Value (UHV). The price of coal decreased on a graduated scale as the grade of coal slipped from B to G.

As per Clause 6.1 of the agreements with coal companies, sampling of coal was to be carried out jointly by the seller and purchaser (RTPS) or the agency appointed on behalf of the purchaser, at the loading end. Analysis was to be carried out independently at their respective laboratories. In case no sample was collected at the loading end, sampling and analysis done only at the unloading point was to be the basis for determining the grade for that particular rake and payment regulated accordingly.

The grades of coal as reported at loading end *vis-a-vis* at unloading end for the years 2009-10 to 2011-12 are tabulated below:

Source	Year	No. of rakes recei-ved	Grades as per loading end (number of rakes)					Grades as per unloading end (number of rakes)				
			D	E	F	G	<G	D	E	F	G	<G
SCCL	2009-10*	89	57	32					14	44	31	
	2010--11	450	333	114	3				89	277	81	3
	2011-12**	380	314	65	1				4	200	156	20
MCL	2009-10*	73			73					60	13	
	2010--11	280			280					205	74	1
	2011-12**	240			240					58	160	22
WCL	2009-10*	136	64	72					6	37	89	4
	2010--11	547	140	406	1				14	135	301	97
	2011-12**	490	120	370						24	225	241
		2,685	**1,028**	**1,059**	**598**				**127**	**1,040**	**1,130**	**388**

*** for 3 months from January 2010 to March 2010.**
**** for 9 months from April 2011 to December 2011.**

We observed that the grades of coal of all the three collieries recorded at their loading and unloading ends at RTPS showed wide variation, in all the years. Against 1028 rakes of Grade 'D' coal loaded and despatched, not a single rake was found to be of Grade 'D'. Though no Grade 'G' and '<G' coal was sent to RTPS, 1,518 rakes were of those grades.

The extra payment considering the grades at unloading end worked out to a massive ₹ 424.25 crore. Further, lower grade coal results in increased consumption of coal, in increase in generation cost and possibility of damage to the Power Plant.

The Company stated (August 2012) that complaints had been made with Coal Controller with regard to poor quality of coal being supplied with a request to direct the coal supply companies to supply coal of declared grade only.

The fact remained that the Company had received coal of lower grade year after year. The reply was silent about the analysis of the referee samples kept under the joint custody of seller and purchaser at the loading end, analysis of the samples at the RTPS in the presence of the seller and buyer in designated laboratories and independent analysis of the samples at loading end as provided in FSAs. In case the grades of coal supplied were inferior over a period of six months, the seller had to take steps to re-assess the grade of coal. This Company had been taking up this issue with various authorities, but grades of coal were not reassessed till date (December 2012).

Excess mill rejections

3.9.3 In the mills of a Power Station, external materials such as stones, shales and oversized coal get rejected and are collected separately. The RTPS had fixed a norm of 0.5 *per cent* of coal fed into the mills for mill rejects.

On a review of the coal consumption and rejection, it was observed that the rejections in the three years up to 2011-12 were in excess of the norms prescribed as tabulated below.

Year	Consump-tion Quantity (lakh MTs)	Rejection		Diff-erence (MTs)	Average rate per MT (in ₹)	Loss (₹ in crore)
		Actual (MTs)	Allowed as per norms (MTs)			
2009-10	71.21	39,972	35,604	4,368	2,488.12	1.09
2010-11	64.40	55,334	32,198	23,136	2,529.69	5.85
2011-12	78.81	1,17,966	39,405	78,561	2,920.61	22.95
Total				**1,06,065**		**29.89**

The excess mill rejection as compared to norm was increasing year after year. This was further evidence of deterioration in quality of coal supplied. The excess mill rejections of 1.06 lakh MTs over and above the norm resulted in loss of ₹ 29.89 crore. The Company stated (August 2012) that action was being taken to reduce the quantity of mill rejects by segregating stones, shales and oversized coal at the tippling point.

Bonus for lower grades

3.9.4 The Fuel Supply Agreement (FSA) entered (April 2009) into with the Singareni Collieries Company Limited (SCCL) stipulated, *inter-alia,* that the price of coal supplied was based on the grade/quality determined at the loading point (sampling to be conducted jointly). SCCL was required to supply 65 *per cent* of 'E' and above grade coal and 35 *per cent* of 'F' and 'G' grade coal. When 'E' and above grade coal supplied in a year exceeded 65 *per cent*, SCCL was entitled to bonus of ₹ 50 per MT.

The table below indicates the total quantity received from SCCL and bonus paid in the last three years ended 31 March 2012.

Quantity in lakh MTs, Amount : ₹ in crore

Year	Total Quantity received from SCCL	Quantity received from SCCL				Bonus payable @ ₹ 50 per MT	
		E Grade and above	*Per cent*	F and G grades	*Per cent*	Qty.	Amount (₹)
2009-10	22.73	22.69	99.83	0.04	0.17	7.92	3.96
2010-11	20.32	20.32	100	-	-	7.11	3.63
2011-12	23.61	23.61	100	-	-	7.89	4.27

As per the test results in RTPS, the actual quantity of coal of 'E' and above grade supplied was 0.55 lakh MTs, 3.46 lakh MTs and 7.02 lakh MTs in 2009-10, 2010-11 and 2011-12 respectively. RTPS, however, considered the entire quantity supplied as 'E' grade based on the joint sampling done at the loading points and paid ₹ 11.86 crore as bonus. The Company has not been exercising the option for testing the referee samples on a regular basis to contest the bonus claims.

Transportation charges at higher rates

3.9.5 Coal from different collieries of SCCL, MCL and WCL is transported in railway wagons and freight is a major component of cost of coal. Freight is determined by the Railways.

The Company appointed (May/June 2009) Karam Chand Thapar Limited (KCT) and Nair Coal Services Limited (NCS) for transportation of coal from MCL and WCL to RTPS by all rail route at ₹ 88.35 to KCT and ₹ 57.36 to NCS per MT including service charges (₹ 8.49 and ₹ 13.24 per MT respectively). The contracts were to expire in April/May 2010. Meanwhile, the Company concluded (April 2010) the tenders for the next one year, wherein the rates were reduced by ₹ 33.21 and ₹ 25.25 per MT (excluding service charges). Though the existing rates were higher than the rates concluded for the next year 2011-12, the Company extended the existing contract up to June 2010 and delayed finalising the contract. During the extended period, the Company paid at the existing higher rate for transportation of 1.50 lakh MT and 3.73 lakh MT to KCT and NCS respectively, which resulted in extra expenditure of ₹ 1.03 crore.

The Company stated (November 2012) that in the new work orders placed freight payment did not come under the scope of coal transporting agencies. The Company had to switch over to the *e-payment* scheme for freight charges and more time was required for execution of tripartite agreement with railways and bank.

Through advance action, the Company could have overcome the procedural delays in the execution of tripartite agreement and avoided the extra expenditure as a result of extending the tenure of the previous contract. The Company could have also exercised the option of direct payment to the railways.

Sales tax on surface transportation charges

3.9.6 Central Sales Tax at 2 *per cent* on sale price of coal including surface transportation charges from colliery head to rail head is charged by MCL and SCCL for the coal supplied. According to the Central Sales Tax Act, 1956, sale price shall mean the amount payable to a dealer as consideration for the sale of any goods inclusive of any sum charged for anything done by the dealer in respect of the goods at the time of or before the delivery thereof other than the cost of freight or delivery or the cost of installation, in case where such cost is separately charged. We observed that SCCL and MCL were levying sales tax on surface transportation charges, whereas it was not levied by WCL. This had resulted in excess payment of ₹ 1.98 crore on procurement of coal. The Company stated (August 2012) that the issue would be brought to the notice of Coal India Limited to address the collieries for early clarification.

Issues in imports

KTPP Act not followed

3.9.7 Clause 12(5) of Chapter IV of Karnataka Transparency in Public Procurement Rules stipulated that tender documents shall indicate the quantity proposed to be procured in the tender and the tender accepting authority shall be ordinarily permitted to vary the quantity finally ordered to the extent of twenty five *per cent* either way of the requirement indicated in the tender documents.

The Company did not incorporate the Quantity Variation Clause (QVC) in the following Purchase Orders as allowed by the KTPP Act, resulting in import of coal at higher rates through subsequent tenders. The following table indicates the ordered quantity, procurable quantity with QVC, excess expenditure because of procurement of the quantity through subsequent tender, *etc*.

Quantity in lakh MTs

Sl. No.	Month of Purchase order	Quantity ordered	Procurable Quantity if QVC (+/-25 *per cent*) included	Rate/ MT (₹) of purchase	Whether the supply in progress when the next tender was called	Rate/ MT of sub-sequent PO (₹)	Excess amount paid (₹ in crore)
1	September 2010	5	6.25	3,291	Yes	4,193	11.28
2	June 2011	10	8.75	4,193	Yes	4,345	0

The supply against the Purchase Order of September 2010 was still not completed when the one in June 2011 was placed. Failure to include a clause for quantity variance in the tenders as allowed by the KTPP Act led to extra expenditure of ₹ 11.28 crore.

The Company stated (August 2012) that import of coal was on a different footing and could not be considered/processed as in the case of domestic tenders for procurement of goods and services from manufacturers. The Company did not explain its action for not considering the inclusion of clause for quantity variance as per the Act, which was earlier included in the Purchase Orders and which would have been beneficial to the Company.

The Company purchases coal from merchant importers by inviting tenders for supply of imported coal. The bidders quote the rate at which they would supply the coal of necessary specification. Hence, it cannot exempt itself from application of the Act.

Penalty refunded

3.9.8 The Company entered (August 2008) into a contract with a Supplier for supply and delivery of six lakh MTs of imported coal at a cost of ₹ 7,572.13 per MT (all inclusive). The terms, *inter-alia,* included delivery schedule of one lakh MT in each 30 days block period from 13 August 2008, failing which a penalty of five *per cent* of the landed cost after adjusting a tolerance of five *per cent* shortage in each 30 days block period would be levied. The supplier did not adhere to the delivery schedule and the Company imposed a penalty of ₹ 12.31 crore and recovered ₹ 5.41 crore. The supplier, however, requested for waiver of penalty on the ground that Company had requested for staggering the delivery from October 2008 to February 2009 and for sending only one rake per day. The supplier stated that delivery schedule was re-scheduled and extended up to May 2009. Acting upon this request and considering that there were difficulties in storing and blending the imported coal, the Superintending Engineer waived the penalty and approved refund of amount recovered and waiver of the amount recoverable.

We observed that the contract (August 2008) itself had stipulated that the delivery should begin in August 2008 and be completed by February 2009; the delivery schedule was one lakh MT in 30 days block period and even one rake (59 wagons containing 3,894 MT) per day worked out to more than one lakh MT for 30 days; and even the delivery schedule, extended up to May 2009, was not adhered to by the supplier. The Company, without considering the following inaccuracies, waived the penalty:

Further, the waiver was not approved by the Technical Committee (TC) or the Board of Directors (BoD), even though the General Manager (Finance) had specifically opined that the request of the supplier for waiver of penalty should be placed before the TC and the BoD for review and direction. However, the penalty was waived by attributing delay to conditions enforced by the Company and not to the agency.

The Company stated (November 2012) that Railways were asked to provide only one empty rake daily for supply of imported coal due to problems faced at site in unloading imported coal as well as indigenous coal on account of system constraints and also to utilise the available rakes for lifting of allotted indigenous coal. The Supplier was therefore, requested to dispatch only one rake per day. It was also stated that storing of large quantity of imported coal in the coal yard was not advisable so as to avoid spontaneous combustion of coal.

We observed that the total quantity of coal procured in 2008-09 was 72.97 lakh MTs and the import constituted only 6.35 lakh MTs, a small portion. The imported coal of 6 lakh MTs was ordered to be supplied at one lakh MTs every month. We further observed that the arrival of coal at discharge port was more or less one lakh MT every month in two instalments commencing from September 2008. Under these circumstances the argument put forth that the Company regulated supply of imported coal to better utilise rakes and avoid piling up was not supported by the facts. This argument that storing of large quantity of imported coal would have resulted in spontaneous combustion of coal was also not valid as the Company had a capacity to store 6.25 lakh MT. If the Company had system constraints to handle it, it was not also clear as to why such quantity was contracted to be imported over a period of six months.

The waiver of penalty amounting to ₹ 12.31 crore was therefore, not justified and was unauthorised.

We concluded that:

- **RTPS failed to lift the allotted quantities of coal, which resulted in imported of high cost coal.**
- **Records revealed that the grades of coal of all the three collieries reported at the loading ends varied widely from the test results at RTPS, in all the years. The RTPS had always been getting inferior quality of coal. The analysis of the referee samples kept under the joint custody of seller and purchaser at the loading ends, analysis of the samples at the RTPS in the presence of the seller and buyer in**

designated laboratories and the independent analysis of the samples at loading ends were not done. The rejection in mills was more than the norms reflecting poor quality.

- **The RTPS considered the entire quantity supplied by SCCL as 'E' grade, based on the joint sampling done at the loading points for payment of bonus, though coal supplied was of lower grades.**
- **The RTPS has been paying sales tax on surface transportation charges despite clear decisions to the contrary.**
- **The waiver of penalty leviable from a coal supplier for not adhering to the delivery schedule was not justified and was unauthorised.**

Statutory Corporations

Karnataka State Road Transport Corporation

3.10 Infructuous expenditure

Up-gradation of the bus-station in Shimoga, when it was being expanded, resulting in infructuous expenditure of ₹ 79.36 lakh.

The Karnataka State Road Transport Corporation (Corporation) proposed (November 2004) to upgrade 33 bus stations under the Infrastructure Development Plan and requested Government of Karnataka (GoK) to release grants. The Board of Directors (Board) approved (December 2004) the infrastructure development project. GoK released (March 2005) ₹ 12 crore to the Corporation.

The Board approved (December 2004/May 2005) the proposal for up-gradation of the existing bus-station at Shimoga, which was constructed in 1968. The work involved concreting of parking area, construction of modern toilet block *etc*. Tenders were invited (March 2006) and the work was awarded at ₹ 1.91 crore. The Corporation entered into an agreement (March 2007) with Contractor, in which it was stipulated that the work should be completed in eight months. The contractor commenced the work in July 2007 and the work was stopped in May 2008. The total cost incurred was ₹ 1.50 crore.

Meanwhile, under the Chairmanship of the then Deputy Chief Minister, a decision was taken (May 2006) to expand the bus station by shifting the adjacent bus depot to an alternate site. The Board decided (June 2006) to entrust the task of preparation of a comprehensive plan and project report to a Consultant. The Board approved the construction of the new bus station in August 2008. Tenders were invited (September 2008) and contracts were awarded (January 2009) for construction of new bus station (₹ 19.20 crore). The work was completed in October 2011.

During the construction of new bus station, a part of the concreted area and certain structures built during up-gradation were demolished. The newly built toilet block was retained. The cost of the demolished portion was ₹ 79.36 lakh.

Government stated (September 2012) that the District Administration and Minister (in charge of the District) were changing their proposals every time causing confusion to the Corporation, and as a result the Corporation took up the minimum developmental works at Shimoga Bus Station.

We observed that by May/June 2006 a decision had already been taken to expand the existing bus station by using the land where the bus depot was situated. It was also decided to entrust the preparation of detailed plan and project report to consultants. The above facts revealed that there was certainty in the implementation of the proposal. Thus, there was no reason for the Corporation to enter (March 2007) into an agreement with the contractor as extension of the tender floated in March 2006 thereby commencing the work in July 2007, without dovetailing with the master plan for expansion of the bus station, which envisioned removal of structures contemplated for creation in the agreement. The Corporation could have avoided the expenditure of ₹ 79.36 lakh incurred on the demolished work, with proper planning.

Follow-up action on Audit Reports

3.11 Explanatory notes outstanding

3.11.1 The Comptroller and Auditor General of India's Audit Reports represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. Finance Department, Government of Karnataka had issued instructions (January 1974) to all Administrative Departments to submit explanatory notes indicating a corrective/remedial action taken or proposed to be taken on Paragraphs and Reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Audit Reports for the years 2009-10 and 2010-11 were presented to the State Legislature in March 2011 and March 2012 respectively. As at September 2012, six departments[87], which were commented upon, had not submitted explanatory notes for ten out of 27 Paragraphs/Reviews, which appeared in the Audit Reports.

Outstanding compliance with reports of Committee on Public Undertakings (COPU)

3.11.2 As per the instructions, the compliance (Action Taken Notes-ATN/ Action Taken Report - ATR) with recommendations of COPU was required to be furnished within six months of placement of the Report in the Legislature. Replies to one Report of the COPU presented to the State Legislature in December 2011 had not been received as on September 2012.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.12 Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of one month. Department-wise break-up of Inspection Reports and audit observations outstanding as on 31 March 2012 is given in **Annexure 11.**

Similarly, Draft Paragraphs and Reviews on the working of Public Sector Undertakings are forwarded to the Principal Secretary/Secretary of the Administrative Department concerned demi-officially, seeking confirmation of facts and figures and their comments thereon within a period of six weeks.

[87] three Paragraphs each of Transport and Energy Departments; one Paragraph each of Commerce and Industries, Rural Development and Panchayat Raj, Water Resources and Home Department.

Two Review and twelve Paragraphs were forwarded to various departments during June to September 2012. Government had not furnished replies in respect of one paragraph pertaining to Tourism Department and Performance audit pertaining to Energy Department, as at end of December 2012. Both the Performance Reviews have been discussed in Exit Conferences with the Government. The views of Government/Department have been taken into consideration while finalising the Reviews/Paragraphs, wherever replies have been received.

It is recommended that (a) the Government should ensure that a procedure exists for action against the officials who fail to send replies to Inspection Reports/Draft Paragraphs and ATNs to the recommendations of COPU as per the prescribed time schedule, (b) action to recover loss/outstanding advances/ overpayment is taken within prescribed time, and (c) the system of responding to audit observations is revamped.

BANGALORE **(ANITA PATTANAYAK)**
The **Principal Accountant General**
Economic and Revenue Sector Audit,
Karnataka

COUNTERSIGNED

NEW DELHI **(VINOD RAI)**
The **Comptroller and Auditor General of India**

Annexures

Annexure 1

Statement showing particulars of up- to-date paid-up capital, loans outstanding and manpower as on 31 March 2012 in respect of Government Companies and Statutory Corporations.

(Referred to in Paragraph 1.10)

Figures in column 5 (a) to 6 (d) are Rupees in crore

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorp-oration	Paid-up Capital$				Loans** outstanding at the close of 2011-12				Debt equity ratio for 2011-12 (Previous year)	Manpower (No. of employees) (as on 31.3.2012)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Gover-nment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
A. WORKING GOVERNMENT COMPANIES													
AGRICULTURE AND ALLIED SECTOR													
1	Karnataka State Agro Corn Products Limited (KSACPL)	Agriculture & Horticulture	Apr. 73	2.23	-	0.50-	2.73	24.32	-	-	24.32	8.91:1 (2.46:1)	42
2	Karnataka State Agricultural Produce Processing and Export Corporation Limited (KAPPEC)	Agriculture & Horticulture	Apr. 96	0.50	-	-	0.50	-	-	-	-	-	16
3	Karnataka Togari Abhivridhi Mandali Limited (KTAML)	Agriculture & Horticulture	May 02	5.00	-	-	5.00	-	-	-	-	-	5
4	The Karnataka Fisheries Development Corporation Limited (KFDC)	Animal Husbandry and Fisheries	Oct. 70	16.16	-	-	16.16	0.75-	-	-	0.75	0.05:1 (0.05:1)	138
5	Karnataka Sheep and Wool Development Corporation Limited (KSAWDCL)	Animal Husbandry and Fisheries	Dec. 01	6.05	-	-	6.05	-	-	-	-	-	75
6	Karnataka Compost Development Corporation Limited (Subsidiary of Company at C-1) (KCDCL)	Agriculture & Horticulture	Aug.75	-	-	0.50	0.50	-	-	3.46	3.46	6.92:1 (4.56:1)	29
7	Karnataka Cashew Development Corporation Limited (KCDC)	Forest Ecology & Environment	Feb. 78	7.15 (3.00)	0.44	-	7.59 (3.00)	-	-	-	-	(1.03:1)	112
8	Karnataka Forest Development Corporation Limited (KFDCL)	Forest Ecology & Environment	Jan. 71	9.31	-	-	9.31	-	-	-	-	-	683
9	The Karnataka State Forest Industries Corporation Limited (KSFIC)	Forest Ecology & Environment	Mar. 73	2.67	-	-	2.67	-	-	0.55	0.55	0.21:1 (0.04:1)	180
10	Karnataka State Seeds Corporation Limited (KSSCL)	Agriculture & Horticulture	Aug.73	1.43	0.62	1.63 (0.12)	3.68 (0.12)	0.16	-	-	0.16-	0.04:1	274
11	Food Karnataka Limited (FKL)	Agriculture & Horticulture	April 03	-	-	0.10	0.10	-	-	-	-	-	-

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorp-oration	Paid-up Capital[$]				Loans[**] outstanding at the close of 2011-12				Debt equity ratio for 2011-12 (Previous year)	Manpower (No. of employees) (as on 31.3.2012)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Gover-nment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
12	Karnataka State Mango Development and Marketing Corporation Limited (KSMDMCL)	Agriculture & Horticulture	Jan 12	0.01			0.01						
	Sector-wise total			**50.51 (3.00)**	**1.06**	**2.73 (0.12)**	**54.30 (3.12)**	**25.23**	**-**	**4.01**	**29.24**	-	**1554**
FINANCING SECTOR													
13	The Karnataka Handloom Development Corporation Limited (KHDCL)	Commerce & Industries	Oct. 75	46.68	5.20	-	51.88	14.40	-	1.54	15.94	0.31:1 (0.31:1)	831
14	Karnataka State Handicrafts Development Corporation Limited (KSHDCL)	Commerce & Industries	Mar. 64	2.84	1.21	-	4.05	0.68	-	0.60	1.28	0.32:1 (0.33:1)	208
15	D. Devaraj Urs Backward Classes Development Corporation Limited (DUBCDCL)	Social welfare	Oct. 77	166.71 (30.00)	-	-	166.71 (30.00)	-	-	78.85	78.85	0.47:1 (0.55:1)	72
16	Karnataka State Women's Development Corporation (KSWDC)	Women & Child Development	Sep. 87	10.42 (0.56)	2.98	-	13.40 (0.56)	-	-	-	-	-	71
17	Dr.B.R. Ambedkar Development Corporation Limited (BRADCL)	Social welfare	Mar. 75	117.31 (19.84)	79.99 (3.00)	-	197.30 (22.84)	-	-	194.40	194.40	0.99:1 (0.76:1)	269
18	Karnataka Scheduled Tribes Development Corporation Limited (KSTADC)	Social welfare	July 06	9.47	5.69	-	15.16	-		43.94	43.94	2.90:1 (9.51:1)	21
19	The Karnataka Minorities Development Corporation Limited (KMDC)	Social welfare	Feb. 86	150.99 (51.21)	-	-	150.99 (51.21)	-	-	28.12	28.12	0.19:1 (0.21:1)	42
20	Karnataka State Industrial Investment and Development Corporation Limited (KSIIDC)	Commerce & Industries	July 64	367.00 (17.00)	-	197.63	564.63 (17.00)	3.90	2.68	199.90	206.48	0.37:1 (0.42:1)	100
21	Karnataka Urban Infrastructure Development and Finance Corporation Limited (KUIDFC)	Urban Development	Nov. 93	6.06	-	2.00	8.06	-	-	--	-	-	460

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorp-oration	Paid-up Capital[$]				Loans[**] outstanding at the close of 2011-12				Debt equity ratio for 2011-12 (Previous year)	Manpower (No. of employees) (as on 31.3.2012)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Gover-nment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
22	Sree Kanteerava Studios Limited (KSL)	Information, Tourism & Youth Services	Mar. 66	0.82	-	0.06	0.88	0.70	-	--	0.70	0.81:1 (1.09:1)	8
23	Karnataka Asset Management Company Private Limited (KAMCPL)	Finance	April 98	-	-	0.50	0.50	-	-	-	-	-	5
24	Karnataka Trustee Company Private Limited (KTCPL)	Finance	April 98	-	-	0.01	0.01	-	-	-	-	-	1
25	Karnataka Thanda Development Corporation Limited (KTDCL)	Social Welfare	Feb. 09	0.01	-	-	0.01	-	-	-	-	-	-
	Sector-wise total			**878.31 (118.61)**	**95.07 (3.00)**	**200.20**	**1173.58 (121.61)**	**19.68**	**2.68**	**547.35**	**569.71**	**-**	**2088**
INFRASTRUCTURE SECTOR													
26	Karnataka State Construction Corporation Limited (KSCCL)	Public works	Sep. 68	2.05	-	-	2.05	5.53	-	-	5.53	2.70:1 (2.70:1)	139
27	Karnataka Rural Infrastructure Development Limited (KRIDL)[1]	Rural Development & Panchayat Raj	Aug. 74	12.25	-	-	12.25	-	-	46.40	46.40	3.79:1 (4.81:1)	1003
28	Karnataka State Police Housing Corporation Limited (KSPHCL)	Home	June 85	0.12	-	-	0.12	-	-	144.14	144.14	1201.17:1 (1393.83:1)	258
29	Rajiv Gandhi Rural Housing Corporation Limited (RGRHCL)	Housing	April 2000	3.00	-	-	3.00	597.40	-	328.52	925.92	308.64:1 (330.66:1)	37
30	Karnataka Road Development Corporation Limited (KRDCL)	Public works	July 99	1016.59 (756.59)		50.00 (50.00)	1066.59 (806.59)	219.91	-	147.77	367.68	0.34:1 (0.31:1)	66
31	Krishna Bhagya Jala Nigam Limited (KBJNL)	Water Resources	Aug. 94	7001.15 (123.27)s	-	109.13	7110.28 (123.27)	-	-	733.08	733.08	0.10:1 (0.04:1)	2282
32	Karnataka Neeravari Nigam Limited (KNNL)	Water Resources	Nov. 98	12051.13 (3635.51)	-	207.03	12258.16 (3635.51)	6105.44	-	57.50	6162.94	0.50:1 (0.03:1)	3308

[1] **formerly Karnataka Land Army Corporation Limited.**

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorp-oration	Paid-up Capital$				Loans** outstanding at the close of 2011-12				Debt equity ratio for 2011-12 (Previous year)	Manpower (No. of employees) (as on 31.3.2012)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Gover-nment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
33	Cauvery Neeravari Nigama Limited (CNNL)	Water Resources	June 03	5770.86 (4670.81)	-	143.84 (143.84)	5914.70 (4814.65)	2.94	-	202.50	205.44	0.03:1 (1.29:1)	2264
34	Bangalore Airport Rail Link Limited (Subsidiary of Company at A-20) (BARL)	Infrastructure Development	Mar. 08	5.70 (0.76)	-	0.05	5.75 (0.76)	-	-	-	-	-	11
	Sector-wise total			**25862.85 (9186.94)**	**-**	**510.05 (193.84)**	**26372.90 (9380.78)**	**6931.22**	**-**	**1659.91**	**8591.13**	**-**	**9368**
	MANUFACTURING SECTOR												
35	Dr. Babu Jagjivan Ram Leather Industries Development Corporation Limited (LIDKAR)[2]	Commerce & Industries	Oct. 76	6.85	-	-	6.85	11.36	-	-	11.36	1.66:1 (1.66:1)	84
36	Karnataka Soaps and Detergents Limited (KSDL)	Commerce & Industries	July 80	31.82	-	-	31.82	8.35	-	-	8.35	0.26.:1 (0.26:1)	792
37	Karnataka State Coir Development Corporation Limited (KSCDCL)	Commerce & Industries	Feb. 85	3.01	-	-	3.01	0.41	-	0.05	0.46	0.15:1 (0.15:1)	50
38	Karnataka State Small Industries Development Corporation Limited (KSSIDC)[3]	Commerce & Industries	April 60	25.92	-	0.10	26.02	12.70	-	-	12.70	0.49:1 (0.52:1)	351
39	The Mysore Paper Mills Limited (MPM)	Commerce & Industries	May 36	183.00 (106.03)	-	41.92	224.92 (106.03)		-	83.55	83.55	0.37:1 (1.65:1)	3693
40	Karnataka Vidyuth Karkhane Limited (KAVIKA)	Commerce & Industries	Oct. 76	5.62	-	-	5.62	7.84	-	-	7.84	1.40:1 (1.40:1)	208
41	The Mysore Electrical Industries Limited (MEI)	Commerce & Industries	Feb. 45	7.67	-	1.76	9.43	28.54	-		28.54	3.03:1 (3.07:1)	187
42	NGEF (Hubli) Limited (Subsidiary of Company at C-10) (NGEFH)	Commerce & Industries	Dec. 88	-	-	3.20	3.20	-	-	-	-	-	146

[2] **formerly Karnataka Leather Industries Development Corporation Limited.**
[3] **Karnataka Small Industries Marketing Corporation Limited (KSIMC) has been amalgamated with KSSIDC with effect from 01 April 2010.**

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorp-oration	Paid-up Capital$				Loans** outstanding at the close of 2011-12				Debt equity ratio for 2011-12 (Previous year)	Manpower (No. of employees) (as on 31.3.2012)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Gover-nment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
43	Karnataka State Electronics Development Corporation Limited (KEONICS)	Information Technology	Sep. 76	17.37	-	-	17.37	-	-	-	-	-	187
44	Karnataka Silk Industries Corporation Limited (KSIC)	Commerce & Industries	Apr. 80	58.00	-	-	58.00	-	-	-	-	- -	741
45	Karnataka Silk Marketing Board Limited (KSMB)	Commerce & Industries	Nov. 79	31.45	-	-	31.45	12.00	-	-	12.00	0.38:1 (0.38:1)	96
46	Karnataka State Textile Infrastructure Development Corporation Limited (KSTIDCL)[4]	Commerce & Industries	Feb. 94	2.22	-	-	2.22	-	-	-	-	-	12
47	Mysore Minerals Limited (MML)	Commerce & Industries	May 66	5.95	-	0.05	6.00	-	-	-	-	- -	1230
48	Karnataka EMTA Collieries Limited (KECL)	Energy	Mar 11	-	-	0.05	0.05	-	-	-	-	-	-
49	The Hutti Gold Mines Company Limited (HGML)	Commerce & Industries	July 47	2.20	-	0.76	2.96	-	-	-	-	- -	3712
50	The Mysore Sugar Company Limited (MYSUGAR)	Commerce & Industries	Jan. 33	16.83	-	0.93	17.76	142.42	-	42.21	184.63	10.40:1 (13.53:1)	828
51	The Mysore Paints and Varnish Limited (MPVL)	Commerce & Industries	Nov. 47	0.95	-	0.09	1.04	-	-	-	-	-	66
52	Karnataka State Beverages Corporation Limited (KSBCL)	Finance	June 03	12.00	-		12.00	2.53	-	-	2.53	0.21:1 (0.21:1)	483
53	Mysore Sales International Limited (Subsidiary of Company at A-20) (MSIL)	Commerce & Industries	Mar. 66		-	42.73 (39.07)	42.73 (39.07	5.00	-	0.24	5.24	0.12:1 (0.18:1)	307
54	Marketing Consultants and Agencies Limited (Subsidiary of Company at A-53) (MCA)	Commerce & Industries	Sep. 72	3.46 (3.46)	-	3.57	7.03 (3.46)		-	-	-	-	31
	Sector-wise total			**414.32 (109.49))**	**-**	**95.16 (39.07)**	**509.48 (148.56)**	**231.15**	**-**	**126.05**	**357.20**	**-**	**13204**

[4] **formerly Karnataka State Powerloom Development Corporation Limited.**

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorp-oration	Paid-up Capital$				Loans** outstanding at the close of 2011-12				Debt equity ratio for 2011-12 (Previous year)	Manpower (No. of employees) (as on 31.3.2012)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Gover-nment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
POWER SECTOR													
55	Karnataka Power Corporation Limited (KPC)	Energy	July 70	2906.97 (625.00)	-	-	2906.97 (625.00)	-	-	7896.39	7896.39	2.72:1 (1.64:1)	6042
56	Karnataka Renewable Energy Development Limited (KREDL)	Energy	Mar.96	0.50	-	-	0.50	-	-	-	-	(5.44:1) -	55
57	Karnataka Power Transmission Corporation Limited (KPTCL)	Energy	July 99	1675.32 (552.06)	-	-	1675.32 (552.06	6.53	-	4533.58	4540.11	2.71:1 (3.17:1)	9179
58	Bangalore Electricity Supply Company Limited (BESCOM)	Energy	Apr. 02	546.92	-	-	546.92	50.97	-	934.11	985.08	1.80:1 (2.37:1)	10574
59	Hubli Electricity Supply Company Limited (HESCOM)	Energy	Apr. 02	707.53	-	-	707.53	66.97	-	1033.98	1100.95	1.56:1 (1.80:1)	7337
60	Mangalore Electricity Supply Company Limited (MESCOM)	Energy	Apr. 02	172.07	-	-	172.07	7.55	-	387.22	394.77	2.29:1 (2.42:1)	4051
61	Chamundeshwari Electricity Supply Corporation Limited (CHESC)	Energy	Dec.04	263.01 (105.71)	-	-	263.01 (105.71)	24.76	-	257.50	282.26	1.07:1 (1.50:1)	5249
62	Gulbarga Electricity Supply Company Limited (GESCOM)	Energy	Apr. 02	464.20 (159.06)	-	-	464.20 (159.06)	15.48	-	472.65	488.13	1.05:1 (1.35:1)	5131
63	KPC Bidadi Power Corporation Private Limited (Subsidiary of Company at A-55) (KPCB)	Energy	Apr. 96	-	-	0.05	0.05	-	-	11.19	11.19	223.8:1 (184.60:1)	7
64	Power Company of Karnataka Limited (PCKL)	Energy	Aug. 07	-	-	20.05	20.05	152.12	-	-	152.12	4.48:1 24.88:1	32
65	Raichur Power Corporation Limited (RPCL)	Energy	Apr. 09	-	-	762.50 (36.60)	762.50 (36.60)	-	-	346.79	346.79-	-	29
	Sector-wise total			**6736.52 (1441.83)**	**-**	**782.60 (36.60)**	**7519.12 (1478.43)**	**324.38**	**-**	**15873.41**	**16197.79**	**-**	**47686**
SERVICE SECTOR													
66	Karnataka Food and Civil Supplies Corporation Limited (KFCSCL)	Food Civil Supplies & Consumer Affairs	Sep. 73	3.25	-	-	3.25	3.00	-	-	3.00	0.92:1 (1.23:1)	1279

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorp-oration	Paid-up Capital$				Loans** outstanding at the close of 2011-12				Debt equity ratio for 2011-12 (Previous year)	Manpower (No. of employees) (as on 31.3.2012)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Gover-nment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
67	The Karnataka State Tourism Development Corporation Limited (KSTDC)	Information, Tourism & Youth Services	Feb. 71	6.41	-	-	6.41	4.00	-	1.56	5.56	0.87:1 (0.31:1)	286
68	Jungle Lodges and Resorts Limited (JLR)	Information, Tourism & Youth Services	Mar. 80	0.50	-	0.42	0.92	-	-			(1.42:1)	489
	Sector-wise total			**10.16**	**-**	**0.42**	**10.58**	**7.00**	-	**1.56**	**8.56**		**2054**
MISCELLANEOUS SECTOR													
69	Karnataka Vocational Training and Skill Development Corporation Limited(KVTSDCL)	Employment and Training	Sept. 08	0.04	-	-	0.04	-	-	-	-	-	25
70	Karnataka Public Lands Corporation Limited (KPLCL)	Revenue	Dec. 08	0.05	-	-	0.05	-	-	-	-	-	24
	Sector-wise total			**0.09**	**-**	**-**	**0.09**	**-**	**-**	**-**	**-**	**-**	**49**
	TOTAL A (All sector-wise Government Companies)			**33952.76** **(10859.87)**	**96.13** **(3.00)**	**1591.16** **(269.63)**	**35640.05** **(11132.50)**	**7538.66**	**2.68**	**18212.29**	**25753.63**		**76003**
B. WORKING STATUTORY CORPORATIONS													
AGRICULTURE AND ALLIED SECTOR													
1	Karnataka State Warehousing Corporation (KSWC)	Co-operation	Nov.57	16.75 (12.85)	3.90	-	20.65 (12.85)	33.18	-	-	33.18	1.61:1 (6.24:1)	431
	Sector-wise total			**16.75** **(12.85)**	**3.90**	**-**	**20.65** **(12.85)**	**33.18**	-	**-**	**33.18**	**-**	**431**
FINANCING SECTOR													
2	Karnataka State Financial Corporation (KSFC)	Finance	Mar.59	792.71 (212.29)	-	38.64	831.35 (212.29)	-	-	1874.58	1874.58	2.25:1 (2.74:1)	1110
	Sector-wise total			**792.71** **(212.29)**	**-**	**38.64**	**831.35** **(212.29)**	**-**	**-**	**1874.58**	**1874.58**		**1110**
SERVICE SECTOR													
3	Karnataka State Road Transport Corporation (KSRTC)	Transport	Aug.61	242.79	48.10	1.00	291.89	07.00	-	235.01	242.01	0.83:1 (0.78:1)	36448
4	Bangalore Metropolitan Transport Corporation (BMTC)	Transport	Aug.97	157.72 (53.12)	-	-	157.72 (53.12)	-	-	372.98	372.98	2.36:1 (1.98:1)	32953

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorp-oration	Paid-up Capital$				Loans** outstanding at the close of 2011-12				Debt equity ratio for 2011-12 (Previous year)	Manpower (No. of employees) (as on 31.3.2012)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Gover-nment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
5	North Western Karnataka Road Transport Corporation (NWKRTC)	Transport	Nov.97	281.43 (139.12)	-	-	281.43 (139.12)	-	-	308.40	308.40	1.10:1 (1.34:1)	21215
6	North Eastern Karnataka Road Transport Corporation (NEKRTC)	Transport	Aug. 2000	131.12 (31.97)	-	-	131.12 (31.97)	0.13	-	177.59	177.72	1.36:1 (0.74:1)	17586
	Sector-wise total			**813.06 (224.21)**	**48.10**	**1.00**	**862.16 (224.21)**	**7.13**		**1093.98**	**1101.11**		**108202**
	TOTAL B (all sector-wise Statutory Corporations)			**1622.52 (449.35)**	**52.00**	**39.64**	**1714.16 (449.35)**	**40.31**		**2968.56**	**3008.87**		**109743**
	Grand total (A + B)			**35575.28 (11309.22)**	**148.13 (3.00)**	**1630.80 (269.63)**	**37354.21 (11581.85)**	**7578.97**	**2.68**	**21180.85**	**28762.50**		**185746**
C. NON WORKING GOVERNMENT COMPANIES													
AGRICULTURE AND ALLIED SECTOR													
1	Karnataka Agro Industries Corporation Limited (KAIC)	Agriculture & Horticulture	Sep. 67	55.90 (48.36)	-		55.90 (48.36)	68.98	-	-	68.98	1.23:1 (0.88:1)	-
2	The Mysore Tobacco Company Limited (Subsidiary of Company at C-1) (MTC)	Agriculture & Horticulture	Apr .37	0.61	-	0.17	0.78	1.54	-	-	1.54	1.97:1	-
3	Karnataka Pulpwood Limited (Subsidiary of Company at A-8) (KPL)	Forest ecology & Environment	Feb. 85	13.91 (13.91)	-	1.25	15.16 (13.91)	2.89	-	-	2.89	0.91:1 (0.20:1)	-
4	The Karnatak State Veneers Limited (Subsidiary of Company at A-9) (KSVL)	Forest ecology & Environment	Aug. 74	-	-	1.00	1.00	-	-	1.00	1.00	1.00:1 (1.00:1)	167
5	The Mysore Match Company Limited (Subsidiary of Company at A-9) (MMCL)	Forest ecology & Environment	May 40	0.01	-	0.04	0.05	0.23		-	0.23	4.60:1	-
	Sector-wise total			**70.43 (62.27)**	**-**	**2.46**	**72.89 (62.27)**	**73.64**	**-**	**1.00**	**74.64**	**-**	**167**
MANUFACTURING SECTOR													
6	The Mysore Lamp Works Limited (MLW)	Commerce & Industries	Aug. 36	10.76	-	1.05	11.81	96.89		3.50	100.39	8.50:1 (8.32:1)	-
7	Vijayanagar Steel Limited (VSL)	Commerce & Industries	Dec. 82	12.91	-		12.91	0.58	-	-	0.58	0.04:1 (0.04:1)	-

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorp-oration	Paid-up Capital$				Loans** outstanding at the close of 2011-12				Debt equity ratio for 2011-12 (Previous year)	Manpower (No. of employees) (as on 31.3.2012)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Gover-nment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
8	The Mysore Cosmetics Limited (Subsidiary of Company at A-53) (MCL)	Commerce & Industries	Mar. 66	0.01 (0.01)	-	0.15	0.16 (0.01)	-	-	-	-	-	-
9	The Mysore Chrome Tanning Company Limited (Subsidiary of Company at A-53) (MCT)	Commerce & Industries	Mar. 40	-	-	0.76	0.76	0.12	-	0.29	0.41	0.54:1 (0.54:1)	-
10	NGEF Limited (NGEF)	Commerce & Industries	Apr. 65	41.99	-	4.52	46.51	227.24	-	-	227.24	4.89:1 (4.89:1)	-
11	Karnataka Telecom Limited (Subsidiary of Company at C-10) (KTL)	Commerce & Industries	July 85	0.78	-	2.22	3.00	-	-	-	-	-	-
12	Chamundi Machine Tools Limited (CMTL)	Commerce & Industries	Oct. 75	0.63	-		0.63	2.50	-	1.00	3.50	5.56:1 (5.51:1)	-
13	Karnataka State Textiles Limited (KSTL)	Commerce & Industries	Dec. 84	0.50	-		0.50	14.94	-	-	14.94	29.88:1 (29.88:1)	14
14	The Mysore Acetate and Chemicals Company Limited (MACCL)	Commerce & Industries	Dec. 63	9.96	-	2.22	12.18	13.11	-	-	13.11	1.08:1 (1.08:1)	78
	Sector-wise total			**77.54 (0.01)**	**-**	**10.92**	**88.46 (0.01)**	**355.38**	-	**4.79**	**360.17**	**-**	**92**
	TOTAL C (All sector-wise Government Companies)			**147.97 (62.28)**	**-**	**13.38**	**161.35 (62.28)**	**429.02**	-	**5.79**	**434.81**	**-**	**259**
	Grand Total (A + B + C)			**35723.25 (11371.50)**	**148.13 (3.00)**	**1644.18 (269.63)**	**37515.56 (11644.13)**	**8007.99**	**2.68**	**21186.64**	**29197.31**	**-**	**186005**

Above includes Section 619-B companies at Sl. No. A 10, 11, 23, 24, 64 and 65.

$ **Paid-up capital includes share application money.**

** **Loans outstanding at the close of 2011-12 represent long-term loans only.**

Annexure 2

Summarised financial results of Government Companies and Statutory Corporations for the latest year for which accounts were finalized.

(Referred to in Paragraph 1.31)

Figures in column 5 (a) to (10) are Rupees in crore

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-): Net Profit/ Loss before Interest & Depreciation	Interest	Deprecia-tion	Net Profit/ Loss (x)	Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+) / Loss (-)	Capital employed @	Return on capital employed $	Percen-tage return on capital employed
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
A. WORKING GOVERNMENT COMPANIES														
AGRICULTURE AND ALLIED SECTOR														
1	KSACPL	2010-11	2011-12	-2.97	-	0.21	-3.18	-	-0.32	2.73	-12.98	-0.67	-3.18	-
2	KAPPEC	2011-12	2012-13	3.82	-	0.05	3.77	11.01	-	0.50	9.13	59.49	3.77	6.34
3	KTAML	2009-10	2010-11	0.29	-	0.02	0.27	0.36	-	5.00	1.03	9.06	0.27	2.98
4	KFDC	2010-11	2011-12	1.71	0.14	0.49	1.08	73.39	-	16.16	-7.52	22.45	1.22	5.43
5	KSAWDCL	2009-10	2010-11	-0.62	-	-	-0.62	0.77	-	6.05	-4.10	14.39	-0.62	-
6	KCDCL	2011-12	2012-13	0.21	0.12	0.06	0.03	4.95	-1.73	0.50	-1.03	5..23	0.15	2.87
7	KCDC	2010-11	2011-12	1.82	0.52	0.46	0.84	4.06	-	4.59	-4.71	4.59	1.36	29.63
8	KFDCL	2011-12	2012-13	9.14	-	0.98	8.16	56.42	-	9.31	65.45	132.12	8.16	6.18
9	KSFIC	2010-11	2011-12	1.63	-	0.23	1.40	20.72	-0.37	2.67	8.98	12.47	1.40	11.23
10	KSSCL	2010-11	2011-12	7.58	0.20	1.31	6.07	164.55	-2.28	3.68	14.45	60.64	6.27	10.34
11	FKL	2011-12	2012-13	0.16	-	0.01	0.15	0.32	-0.05	0.10	1.59	9.81	0.15	1.53
12	KSMDMCL	First accounts not finalised						-						
	Sector-wise total			**22.77**	**0.98**	**3.82**	**17.97**	**336.55**		**51.29**	**70.29**	**329.58**	**18.95**	**5.75**
FINANCING SECTOR														
13	KHDCL	2011-12	2012-13	6.21	8.36	0.44	-2.59	137.21	-0.12	51.88	-74.70	96.65	5.77	5.97
14	KSHDCL	2010-11	2011-12	1.64	-	0.36	1.28	40.39	-	4.05	13.90	19.25	1.28	6.65
15	DUBCDCL	2011-12	2012-13	3.93	2.15	0.16	1.62	##	-	166.71	-33.15	323.35	3.77	1.17
16	KSWDC	2010-11	2011-12	1.38	-	0.06	1.32	##	-0.47	12.84	6.06	37.90	1.32	3.48
17	BRADCL	2011-12	2012-13	15.22	5.99	0.22	9.01	##	-	197.30	11.79	595.27	15.00	2.52
18	KSTADC	2009-10	2011-12	4.14	0.75	0.05	3.34	4.77	-	5.47	9.66	76.89	4.09	5.32
19	KMDC	2010-11	2011-12	-2.11	1.63	0.17	-3.91	##	-0.38	150.99	-28.18	180.70	-2.28	-

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+) / Loss (-)	Capital employed @	Return on capital employed $	Percen-tage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Deprecia-tion	Net Profit/ Loss (x)							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
20	KSIIDC	2010-11	2011-12	45.28	19.17	4.19	21.92	10.06	0.15	626.97	-397.16	391.07	41.09	10.51
21	KUIDFC	2011-12	2012-13	0.34	-	0.34	-	4.81	-	8.06	13.98	772.47	-	-
22	KSL	2011-12	2012-13	0.53	-	0.03	0.50	1.26	-	0.88	0.54	3.09	0.50	16.18
23	KAMCPL	2011-12	2012-13	0.28	-	0.02	0.26	0.54	-	0.50	0.85	1.38	0.26	18.84
24	KTCPL	2011-12	2012-13	0.04	-		0.04	0.04	-	0.01	0.10	0.12	0.04	33.33
25	KTDCL	2010-11	2011-12	0.89	-	0.01	0.88	##	-	0.01	0.76	2.66	0.88	33.08
	Sector-wise total			**77.77**	**38.05**	**6.05**	**33.67**	**199.08**		**1225.67**	**-475.55**	**2500.80**	**71.72**	**2.86**
INFRASTRUCTURE SECTOR														
26	KSCCL	2010-11	2012-13	1.17	0.48	0.04	0.65	39.76	-	2.05	24.16	31.75	1.13	3.56
27	KRIDL	2010-11	2011-12	27.21	-	0.65	26.56	599.51	-18.78	12.25	38.50	-988.26	26.56	2.69
28	KSPHCL	2010-11	2011-12	26.97	1.27	0.38	25.32	##	-	0.12	12.07	260.83	26.59	10.19
29	RGRHCL	2011-12	2012-13	-	-	-	£	##	-	3.00	-	1093.07	-	-
30	KRDCL	2011-12	2012-13	42.37	29.13	3.93	9.31	##	-	1066.59	-107.58	321.14	38.44	11.97
31	KBJNL	2011-12	2012-13	73.90	20.55	79.76	-26.41	15.17	-	7110.28	-277.45	9544.33	-5.86	-
32	KNNL	2010-11	2011-12	-232.40	2.03	29.97	-264.40	6.24	-43.62	12258.16	-264.40	9730.62	-262.37	-2.70
33	CNNL	2011-12	2012-13	-	-	-	$	-	-	5914.70	-	7280.82	-	-
34	BARL	2010-11	2011-12	-2.14	-	0.01	-2.15	##	-	5.75	-3.17	18.37	-2.15	-
	Sector-wise total			**-62.92**	**53.46**	**114.74**	**-231.12**	**660.68**		**26372.90**	**-577.87**	**27292.67**	**-177.66**	**-**
MANUFACTURING SECTOR														
35	LIDKAR	2010-11	2011-12	-0.52	1.21	0.05	-1.78	4.68	-	6.85	-26.19	-5.95	-0.57	-
36	KSDL	2011-12	2012-13	21.48	0.67	0.64	20.17	211.84	-4.62	31.82	49.46	101.94	20.84	20.44
37	KSCDCL	2011-12	2012-13	-0.56	0.04	0.40	-1.00	3.48	-0.10	3.01	-5.57	6.26	-0.96	-
38	KSSIDC	2010-11	2011-12	35.81	0.06	1.56	34.19	137.93	-	24.66	65.09	119.15	34.25	28.75
39	MPM	2010-11	2011-12	-55.21	19.18	10.39	-84.78	328.85	-	118.89	-194.03	239.85	-65.60	-
40	KAVIKA	2011-12	2012-13	7.29	3.79	0.17	3.33	105.24	-	5.62	-3.38	83.87	7.12	8.49
41	MEI	2011-12	2012-13	4.18	2.24	0.12	1.82	35.68	-2.30	9.43	-20.94	66.48	4.06	6.11
42	NGEFH	2011-12	2012-13	-2.93	0.67	0.17	-3.77	9.81	-	3.20	2.70	3.72	-3.10	-
43	KEONICS	2011-12	2012-13	8.47	0.01	0.87	7.59	137.90	-	17.37	39.33	71.62	7.60	10.61

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+) / Loss (-)	Capital employed @	Return on capital employed $	Percen-tage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Deprecia-tion	Net Profit/ Loss (x)							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
44	KSIC	2011-12	2012-13	16.94	0.04	0.39	16.51	76.43	0.36	58.00	-19.71	92.70	16.55	17.85
45	KSMB	2011-12	2012-13	-3.67	000	0.02	-36.9	43.11	-	31.45	-32.09	13.85	-3.69	-
46	KSTIDCL	2011-12	2012-13	1.48	000	0.11	1.37	24.45	-	2.22	8.64	13.46	1.37	10.18
47	MML	2011-12	2012-13	133.60	0.15	10.61	122.84	166.29	-100.30	6.00	897.77	903..50	122.99	13.61
48	KECL	2011-12	2012-13	-0.08	000	000	-0.08	-	-	0.05	-0.08	-0.04	-0.08	-
49	HGML	2011-12	2012-13	309.28	000	14.33	294.95	510.19	-	2.96	772.34	852.54	294.95	34.60
50	MYSUGAR	2009-10	2011-12	-38.97	30.00	1.24	-70.21	36.34	-	8.74	-339.33	-79.14	-40.21	-
51	MPVL	2011-12	2012-13	2.22	0.24	0.06	1.92	15.14	-0.56	1.04	16.06	16.77	2.16	12.88
52	KSBCL	2011-12	2012-13	38.75	0.07	1.18	37.50	850.38	-	12.00	83.95	63.50	37.57	59.17
53	MSIL	2010-11	2011-12	9.89	0.26	1.32	8.31	267.78	2.41	31.47	130.19	153.24	8.57	5.59
54	MCA	2011-12	2012-13	12.85	000	0.26	12.59	112.00	-	7.03	40.61	70.67	12.59	17.82
	Sector-wise total			**500.30**	**58.63**	**43.89**	**397.78**	**3077.52**		**381.81**	**1464.82**	**2787.99**	**456.41**	**-**
POWER SECTOR														
55	KPC	2011-12	2012-13	1337.79	771.10	404.42	162.27	5201.30	2.50	2906.97	3540.65	13298.90	933.37	7.02
56	KREDL	2011-12	2012-13	29.83	0.18	1.50	28.15	27.27	-4.94	0.50	59.18	89.44	28.33	31.67
57	KPTCL	2011-12	2012-13	955.06	496.82	449.53	8.71	1663.01	-207.82	1675.32	182.15	8106.00	505.53	6.24
58	BESCOM	2010-11	2011-12	347.20	199.45	145.55	2.20	8245.68	-	504.42	-350.68	4965.57	201.65	4.06
59	HESCOM	2011-12	2012-13	413.35	280.81	92.79	39.75	3868.32	-32.87	707.53	-684.04	1011.92	320.56	31.68
60	MESCOM	2011-12	2012-13	189.05	119.18	61.31	8.56	1545.31	-	172.07	58.85	1041.00	127.74	12.27
61	CHESC	2010-11	2011-12	154.65	119.58	47.17	-12.10	1754.91	1.56	182.30	-308.38	799.63	107.48	13.44
62	GESCOM	2010-11	2011-12	266.08	173.89	67.90	24.29	2202.19	-667.84	410.20	-155.30	1495.02	198.18	13.26
63	KPCB	2011-12	2012-13	0.05	-	0.03	0.02	-	-	0.05	-5.5	15.08	0.02	0.13
64	PCKL	2011-12	2012-13	0.44	-	0.01	0.43	-	-	20.05	0.71	103.19	0.43	0.42
65	RPCL	2011-12	2012-13	-	-		$$	-	-	725.90	--	583.18	-	--
	Sector-wise total			**3693.50**	**2161.01**	**1270.21**	**262.28**	**24507.99**		**7341.91**	**2337.59**	**31509.13**	**2423.29**	**-**
SERVICE SECTOR														
66	KFCSCL	2010-11	2011-12	8.91	3.17	0.55	5.19	744.72	-15.14	3.25	27.29	181.29	8.36	4.61

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+) / Loss (-)	Capital employed @	Return on capital employed $	Percen-tage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Deprecia-tion	Net Profit/ Loss (x)							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
67	KSTDC	2009-10	2010-11	-0.78	1.55	1.67	-4.00	32.69	-6.93	6.41	-6.43	20.48	-2.45	-
68	JLR	2011-12	2012-13	10.46	0.29	2.36	7.81	40.38	-0.41	0.92	41.25	42.37	8.10	19.12
	Sector-wise total			**18.59**	**5.01**	**4.58**	**9.00**	**817.79**		**10.58**	**62.11**	**244.14**	**14.01**	**-**
MISCELLANEOUS SECTOR														
69	KVTSDCL[5]	2010-11	2011-12	0.19	-	0.19	-	-	-	0.04	-	71.48	-	-
70	KPLCL	2010-11	2011-12	0.38	-	0.12	0.26	-	-	0.05	0.40	0.38	0.26	68.42
	Sector-wise total			**0.57**	**-**	**0.31**	**0.26**	**-**	**-**	**0.09**	**0.40**	**71.86**	**0.26**	**-**
	TOTAL A (All sector-wise Government Companies)			**4250.58**	**2317.14**	**1443.60**	**489.84**	**29599.61**		**35384.25**	**2881.80**	**64736.17**	**2806.98**	**4.34**
B. WORKING STATUTORY CORPORATIONS														
AGRICULTURE AND ALLIED SECTOR														
1	KSWC	2010-11	2011-12	24.13	4.34	2.89	16.90	39.34	-1.74	10.65	61.58	197.32	21.24	10.76
	Sector-wise total			**24.13**	**4.34**	**2.89**	**16.90**	**39.34**		**10.65**	**61.58**	**197.32**	**21.24**	**-**
FINANCING SECTOR														
2	KSFC	2010-11	2011-12	174.18	143.91	8.34	21.93	198.68	-6.60	678.21	-553.75	2471.96	165.84	6.71
	Sector-wise total			**174.18**	**143.91**	**8.34**	**21.93**	**198.68**		**678.21**	**-553.75**	**2471.96**	**165.84**	**-**
SERVICE SECTOR														
3	KSRTC	2010-11	2011-12	272.03	19.04	190.94	62.05	1768.99	-149.23	291.89	43.15	750.06	81.09	10.81
4	BMTC	2010-11	2011-12	175.11	9.69	115.07	50.35	1211.24	-14.12	157.96	641.63	1389.57	60.04	4.32
5	NWKRTC	2010-11	2011-12	75.82	29.34	76.92	-30.44	904.76	-10.90	238.56	-355.55	652.38	-1.10	-
6	NEKRTC	2010-11	2011-12	79.66	13.20	78.51	-12.05	767.96	-3.76	229.48	-338.90	48.10	1.15	2.39
	Sector-wise total			**602.62**	**71.27**	**461.44**	**69.91**	**4652.95**		**917.89**	**-9.67**	**2840.11**	**141.18**	**-**
	Grand total (B)			**800.93**	**219.52**	**472.67**	**108.74**	**4890.97**		**1606.75**	**-501.84**	**5509.39**	**328.26**	**5.96**
	Grand total (A+B)			**5051.51**	**2536.66**	**1916.27**	**598.58**	**34490.58**		**36991.00**	**2379.96**	**70245.56**	**3135.24**	**4.46**

[5] **the company is engaged in providing services through Skill on the directions of Government of Karnataka as per the approved schemes from time to time and it is on a non-profit basis. Grants received through various departments are recognized as income and credited to the income and expenditure account to the extent of actual amount of grants spent during the year.**

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+) / Loss (-)	Capital employed @	Return on capital employed $	Percen-tage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Deprecia-tion	Net Profit/ Loss (x)							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
C. NON WORKING GOVERNMENT COMPANIES														
AGRICULTURE AND ALLIED SECTOR														
1	KAIC	2011-12	2012-13	-7.59	12.46	0.03	-20.08	-	-6.15	55.90	-221.70	-3.90	-7.62	-
2	MTC	2011-12	2012-13	0.25	0.61	0.01	-0.37	-	-	0.78	-13.86.	-10.34	0.24	-
3	KPL	2011-12	2012-13	0.01	-	-	0.01	-	-	15.16	-20.87	0.09	0.01	-
4	KSVL	2004-05	2005-06	-0.44	--	0.01	-0.45	-	-	1.00	-8.85	0.26	-0.45	-
5	MMCL	2011-12	2012-13	-0.07	-	-	-0.07	-	-	0.05	-0.36	-	-0.07	
	Sector-wise total			**-7.84**	**13.07**	**0.05**	**-20.96**	**-**		**72.89**	**-265.64**	**-13.89**	**-7.89**	**-**
MANUFACTURING SECTOR														
6	MLW	2011-12	2012-13	-4.18	6.06	0.06	-10.30	-	-14.01	11.81	-245.54	-99.92	-4.24	-
7	VSL	2011-12	2012-13	-0.01	-	-	-0.01	-	-	12.91	-0.04	3.68	-0.01	-
8	MCL	2003-04	2004-05	-0.79	-	-	-0.79	-	-	0.16	-3.12	-0.23	-0.79	-
9	MCT	2010-11	2011-12	0.13	-	-	0.13	-	-	0.76	-9.52	-8.36	0.13	-
10	NGEF	2002-03	2003-04	-157.48	-	-	-157.48	-	-	46.51	-408.85	98.21	-157.48	-
11	KTL	2003-04	2004-05	0.05	-	-	0.05	-	-	3.00	-36.11	-29.23	0.05	-
12	CMTL	2006-07	2007-08	-0.01	-	-	-0.01	-	-	0.63	-7.97	-3.71	-0.01	-
13	KSTL	1998.99	1999-00	-0.88	-	-	-0.88	-	-	0.50	-8.91	4.32	-0.88	-
14	MACCL	2002-03	2003-04	-0.42	-	0.04	-0.46	-	-	12.18	-25.33	0.09	-0.46	-
	Sector-wise total			**-163.59**	**6.06**	**0.10**	**-169.75**	**-**	**-**	**88.46**	**-745.39**	**-35.15**	**-163.69**	**-**
	TOTAL C (Non working Government Companies)			**-171.43**	**19.13**	**0.15**	**-190.71**	**-**	**-**	**161.35**	**-1011.03**	**-49.04**	**-171.58**	**-**
	Grand total (A+B+C)			**4880.08**	**2555.79**	**1916.42**	**407.87**	**34490.58**	**-**	**37152.35**	**1368.93**	**70196.52**	**2963.66**	**4.22**

**Impact of accounts comments include the net impact of comments of Statutory Auditors and the CAG and is denoted by (+) increase in profit/ decrease in losses and (-) decrease in profit/ increase in losses.**

@ **Capital employed represents net fixed assets (including capital works-in-progress)** *plus* **working capital except in case of finance companies/ corporations where the capital employed is worked out as a mean of aggregate of the opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).**

$ Return on capital employed has been worked out by adding profit and interest charged to profit and loss account.

$$ No profit and loss account prepared, only pre-operative expenditure.

£ Excess of expenditure over income capitalised. No profit and loss account prepared.

No turnovers as the companies are engaged in development or social work.

(x) Net profit/loss includes adjustment for prior period income / expenses but excludes appropriations and tax provisions.

Annexure 3

Statement showing grants and subsidy received / receivable, guarantees received, waiver of dues, loans written off and loans converted into equity during the year and guarantee commitment at the end of March 2012.

(Referred to in Paragraph 1.14)

Figures in column 3 (a) to 6 (d) are Rupees in crore

Sl. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year@		Waiver of dues during the year			
		Equity	Loans	Central Government	State Govern-ment	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
A. WORKING GOVERNMENT COMPANIES													
AGRICULTURE & ALLIED SECTOR													
1	KSACPL		17.60										
2	KAPPEC			3.56(G)			3.56(G)						
3	KFDC			9.12(G)			9.12(G)						
4	KSAWDCL			0.01(G)	3.52(G)		3.53(G)						
5	KCDC	3.00 (S)		0.46(G)			0.46(G)						
6	KSSCL				10.37(G)		10.37(G)						
7	KSMDMCL	0.01(S)											
	Sector-wise total	**3.01**(S)	**17.60**	**13.15(G)**	**13.89(G)**		**27.04(G)**						
FINANCING SECTOR													
8	KHDCL			0.25(PS)	0.25(PS) 7.51(S)		0.50(PS) 7.51(S)		14.98				
9	KSHDCL				0.50(G) 0.15(S)		0.50(G) 0.15(S)						
10	DUBCDCL	24.00(S)			116.14(PS)		116.14(PS)	20.00	78.85				
11	KSWDC	0.56(S)			43.56(G)		43.56(G)	0.20	0.88				
12	BRADCL	8.34(S)			199.35(G)		199.35(G)	72.23	193.77				
13	KSTADC	5.65(S) 5.69(CG)			73.00(G)		73.00(G)	10.04	36.31				
14	KMDC				55.28(G) 2.00(S)		55.28(G) 2.00(S)						

Sl. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year@		Waiver of dues during the year			
		Equity	Loans	Central Government	State Govern-ment	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
15	KSIIDC								193.14		17.00[6]		17.00
16	KTDCL				40.00(PS)		40.00(PS)						
	Sector-wise total	**38.55**(S) **5.69(CG)**		**0.25(PS)**	**371.69(G)** **9.66(S)** **156.39(PS)**		**371.69(G)** **9.66(S)** **156.64(PS)**	**102.47**	**517.93**		**17.00**		**17.00**
INFRASTRUCTURE SECTOR													
17	KRIDL								46.40				
18	KSPHCL				42.47(G) 60.00(PS) 10.00(PGS) 1.00(S)		42.47(G) 60.00(PS) 10.00(PGS) 1.00(S)		144.14				
19	RGRHCL				1252.60(PS)		1252.60(PS)		326.30				
20	KRDCL	30.00(S)			450.00(G)		450.00(G)						
21	KBJNL				1013.99(G)		1013.99(G)	512.00	733.08				
22	KNNL	2431.98(S)			8.47(G)		8.47(G)		124.99				
23	CNNL	761.72(S)			3.51(G)		3.51(G)		202.50				
	Sector-wise total	**3223.70**(S)			**1518.44(G)** **1.00(S)** **1312.60(PS)** **10.00(PGS)**		**1518.44(G)** **1.00(S)** **1312.60(PS)** **10.00(PGS)**	**512.00**	**1577.41**				
MANUFACTURING SECTOR													
24	LIDKAR				6.92(G) 2.23(S)		6.92(G) 2.23(S)						
25	KSCDCL				0.81(G)		0.81(G)						
26	KSSIDC				6.89(G) 2.23(S)		6.89(G) 2.23(S)				1.36[7]		1.36

[6] **guarantee fees adjusted as Share Capital.**
[7] **due to merger of Karnataka Small Industries Marketing Corporation with the Company.**

Sl. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year@		Waiver of dues during the year			
		Equity	Loans	Central Government	State Govern-ment	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
27	MPM	5.00(S)							85.00		101.03		101.03
28	KAVIKA				636.65(S)		636.65(S)						
29	KEONICS	0.50(S)		0.27(G)	2.25(G)		2.52(G)						
30	KSMB								12.93				
31	MYSUGAR								38.84				
32	MSIL										11.26		11.26
	Sector-wise total	**5.50**(S)		**0.27(G)**	**16.87(G)** **641.11(S)**		**17.14(G)** **641.11(S)**		**136.77**		**113.65**		**113.65**
POWER SECTOR													
33	KPC	625.00(S)											
34	KPTCL	100.00(S)			1.50(S)		1.50(S)		23.70				
35	BESCOM	42.50(S)				1.56(G)	1.56(G)		1.11				
36	HESCOM	68.96(S)			26.74(G)	23.03(G)	49.77(G)	106.25	183.00		4.89		4.89
37	MESCOM	12.00(S)			311.78(S)		311.78(S)				2.73		2.73
38	CHESC	80.71(S)			15.36(G) 7.18(PS) 661.19(G)		15.36(G) 7.18(PS) 661.19(G)						
39	GESCOM	89.50(S)			13.22(G) 864.68(PS) 982.64(PGS)	10.96(G)	24.18(G) 864.68(PS) 982.64(PGS)						
	Sector-wise total	**1018.67**(S)			**716.51(G)** **313.28(S)** **871.86(PS)** **982.64(PGS)**	**35.55(G)**	**752.06(G)** **313.28(S)** **871.86(PS)** **982.64(PGS)**	**106.25**	**207.81**	**-**	**7.62**	**-**	**7.62**
SERVICE SECTOR													
40	KSTDC				3.82(G)		3.82(G)						
41	JLR			6.02(G)	4.01(G)		10.03(G)						
	Sector-wise total			**6.02(G)**	**7.83(G)**		**13.85(G)**						

Sl. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year@		Waiver of dues during the year			
		Equity	Loans	Central Government	State Govern-ment	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
MISCELLANEOUS SECTOR													
42	KVTSDCL				1.74(G)	0.71(G)	2.45(G)						
43	KPLCL				0.01(G)		0.01(G)						
	Sector-wise total				**1.75(G)**	**0.71(G)**	**2.46(G)**						
	TOTAL A (All sector-wise Government Companies)	**4289.43**(S) **5.69(CG)**	**17.60**	**19.44(G)** **0.25(PS)**	**2646.98(G)** **965.05(S)** **2340.85(PS)** **992.64(PGS)**	**36.26(G)**	**2702.68(G)** **965.05(S)** **2341.10(PS)** **992.64(PGS)**	**720.72**	**2439.92**	**-**	**138.27**	**-**	**138.27**
B. WORKING STATUTORY CORPORATIONS													
1	KSWC		29.00(SG)								10.00		10.00
	Sector-wise total		**29.00(SG)**								**10.00**		**10.00**
FINANCING SECTOR													
2	KSFC	153.14(S)						200.00	913.94				
	Sector-wise total	**153.14**(S)						**200.00**	**913.94**				
SERVICES SECTOR													
3	KSRTC			22.78(G)	29.99(G) 113.49(S)		52.77(G) 113.49(S)						
4	BMTC			38.29(G)	12.60(G) 64.10(S)		50.89(G0 64.10(S0						
5	NWKRTC			0.32(G0	25(G) 104.93(S)		25.32(G) 104.93(S)						
6	NEKRTC			-	26.80(G) 42.21(S)		26.80(G) 42.21(S)						
	Sector-wise total			**61.39(G)**	**94.39(G)** **324.73(S)**		**155.78(G)** **324.73(S)**						
	TOTAL B (all sector-wise Statutory Corporations)	**153.14**(S)		**61.39(G)**	**94.39(G)** **324.73(S)**		**155.78(G)** **324.73(S)**	**200.00**	**913.94**	-	**10.00**		**10.00**

Sl. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year@		Waiver of dues during the year			
		Equity	Loans	Central Government	State Govern-ment	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
	Grand total (A + B)	4442.57(S) 5.69(CG)	46.60(SG)	80.83(G) 0.25(PS)	2741.37(G) 1289.78(S) 2340.85(PS) 992.64(PGS)	36.26(G)	2858.46(G) 1289.78(S) 2341.10(PS) 992.64(PGS)	920.72	3353.86		148.27	-	148.27
C. NON WORKING GOVERNMENT COMPANIES													
	Nil												
	TOTAL (A+B+C)	4442.57(S) 5.69(CG)	46.60(SG)	80.83(G) 0.25(PS)	2741.37(G) 1289.78(S) 2340.85(PS) 992.64(PGS)	36.26(G)	2858.46(G) 1289.78(S) 2341.10(PS) 992.64(PGS)	920.72	3353.86		148.27	-	148.27

@ Figures indicate total guarantees outstanding at the end of the year.

Note: Figures are provisional and as furnished by the companies in respect of companies that have not finalised their accounts for 2011-12.

For column 3(a) and 3(b) S=State Government, CG=Central Government.

For column 4(a) to 4(d) G = Grants, S = Subsidy, PS = Project Subsidy, PGS = Programme Subsidy.

Annexure 4

Statement showing the investments made by the State Government in PSUs whose accounts are in arrears at the end of March 2012.

(Referred to in Paragraph 1.22)

₹ in crore

Sl. No.	Name of PSU	Year up to which accounts finalised	Paid up capital as per latest finalised accounts	Year	Investment made by the State Government during the years for which accounts are in arrears				
					Equity	Loans	Grants	Project subsidy	Subsidy
A. WORKING GOVERNMENT COMPANIES									
AGRICULTURE AND ALLIED SECTOR									
1	KSACPL	2010-11	2.73	2011-12		17.60			
2	KTAML	2009-10	5.00	2010-11 2011-12					
3	KFDC	2010-11	16.16	2011-12					
4	KSAWDCL	2009-10	6.05	2010-11 2011-12			10.81		
5	KCDC	2010-11	4.59	2011-12	3.00				
6	KSFIC	2010-11	2.67	2011-12					
7	KSSCL	2010-11	3.68	2011-12			10.37		
8	KSMDMCL	first accounts not finalised		-	0.01				
FINANCING SECTOR									
9	KSHDCL	2010-11	4.05	2011-12			0.50		0.15
10	KSWDC	2010-11	12.84	2011-12	0.56		43.56		
11	KSTADC	2009-10	5.47	2010-11 2011-12	5.65		146.00		
12	KMDC	2010-11	150.99	2011-12			55.28		2.00
13	KSIIDC	2010-11	626.97	2011-12					
14	KTDCL	2010-11	0.01	2011-12				40.00	
INFRASTRUCTURE SECTOR									
15	KSSCL	2010-11	2.05	2011-12					

Sl. No.	Name of PSU	Year up to which accounts finalised	Paid up capital as per latest finalised accounts	Year	Investment made by the State Government during the years for which accounts are in arrears				
					Equity	Loans	Grants	Project subsidy	Subsidy
16	KRIDL	2010-11	12.25	2011-12					
17	KSPHCL	2010-11	0.12	2011-12			42.47	60.00	11.00
18	KNNL	2010-11	12258.16	2011-12	2431.98		8.47		
19	BARL	2010-11	5.75	2011-12					
MANUFACTURING SECTOR									
20	LIDKAR	2010-11	6.85	2011-12			6.92		2.23
21	KSSIDC	2010-11	24.66	2011-12			6.89		2.23
22	MPM	2010-11	118.89	2011-12	5.00				
23	MYSUGAR	2009-10	8.74	2010-11 2011-12	9.02	39.57			
24	MSIL	2010-11	31.47	2011-12					
POWER SECTOR									
25	BESCOM	2010-11	504.42	2011-12	42.50				
26	CHESC	2010-11	182.30	2011-12	80.71		676.55	7.18	
27	GESCOM	2010-11	410.20	2011-12	89.50		13.22	864.68	982.64
SERVICE SECTOR									
28	KFCSCL	2010-11	3.25	2011-12					
29	KSTDC	2009-10	6.41	2010-11 2011-12			15.75		
MISCELLANEOUS SECTOR									
30	KVTSDCL	2010-11	0.04	2011-12			1.74		
31	KPLCL	2010-11	0.05	2011-12			0.01		
B. WORKING STATUTORY CORPORATIONS									
AGRICULTURE AND ALLIED SECTOR									
1	KSWC	2010-11	10.65	2011-12		29.00			

Sl. No.	Name of PSU	Year up to which accounts finalised	Paid up capital as per latest finalised accounts	Year	Investment made by the State Government during the years for which accounts are in arrears				
					Equity	**Loans**	**Grants**	**Project subsidy**	**Subsidy**
FINANCING SECTOR									
2	KSFC	2010-11	678.21	2011-12	153.14				
SERVICE SECTOR									
3	KSRTC	2010-11	291.89	2011-12			29.99		113.49
4	BMTC	2010-11	157.96	2011-12			12.60		64.10
5	NWKRTC	2010-11	238.56	2011-12			25.00		104.93
6	NEKRTC	2010-11	229.48	2011-12			26.80		42.21
	Total				**2821.07**	**86.17**	**1132.93**	**971.86**	**1324.98**

Annexure 5
Statement showing financial position of Statutory Corporations.
(Referred to in Paragraph 1.31)

Working Statutory Corporations

1. Bangalore Metropolitan Transport Corporation, Bangalore

₹ in crore

Particulars	2009-10	2010-11	2011-12 (provisional)
Liabilities			
Paid up capital	157.71	157.96	157.71
Reserve and surplus (including capital grants but excluding depreciation reserve)	806.82	913.83	897.52
Borrowings (loan funds)	276.43	313.79	373.26
Current liabilities and provisions	243.80	182.94	192.41
Total	**1484.76**	**1568.52**	**1620.90**
Assets			
Gross block	1305.66	1395.07	1596.52
Less: Depreciation	419.63	531.54	621.00
Net fixed assets	886.03	863.53	975.52
Capital works-in-progress (including cost of chassis)	451.81	543.92	488.21
Investments	14.20	20.16	0
Current assets, loans and advances	132.72	140.91	157.17
Accumulated losses	0	0	0
Total	**1484.76**	**1568.52**	**1620.90**
Capital employed	**1226.71**	**1365.42**	**1427.76**

Annexure 5
Statement showing financial position of Statutory Corporations.
(Referred to in Paragraph 1.31)

2. Karnataka State Road Transport Corporation, Bangalore

₹ in crore

Particulars	2009-10	2010-11	2011-12 (provisional)
Liabilities			
Paid up capital	291.89	291.89	291.89
Reserve and surplus (including capital grants but excluding depreciation reserve)	95.48	161.30	156.39
Borrowings (loan funds)	274.75	227.89	242.01
Current liabilities and provisions	262.28	333.89	370.67
Total	**924.40**	**1014.97**	**1060.96**
Assets			
Gross block	1340.28	1603.74	1820.26
Less: Depreciation	732.79	844.96	972.17
Net fixed assets	607.49	758.78	848.09
Capital works-in-progress (including cost of chassis)	142.72	105.07	61.99
Investments	0.05	0.05	0.05
Current assets, loans and advances	155.23	151.07	150.83
Accumulated losses	18.91	0.00	0.00
Total	**924.40**	**1014.97**	**1060.96**
Capital employed[8]	**638.93**	**678.25**	**688.74**

[8] **excluding deferred revenue expenditure.**

Annexure 5
Statement showing financial position of Statutory Corporations.
(Referred to in Paragraph 1.31)

3. North Western Karnataka Road Transport Corporation, Hubli

₹ in crore

Particulars	2009-10	2010-11	2011-12 (provisional)
Liabilities			
Paid up capital	212.78	238.55	281.42
Reserve and surplus (including capital grants but excluding depreciation reserve)	44.12	48.08	53.10
Borrowings (loan funds)	317.79	319.79	308.40
Current liabilities and provisions	204.93	218.22	278.67
Total	**779.62**	**824.64**	**921.59**
Assets			
Gross block	593.90	629.49	724.98
Less: Depreciation	327.62	355.40	396.51
Net fixed assets	266.28	274.09	328.47
Capital works-in-progress (including cost of chassis)	17.44	25.10	37.46
Current assets, loans and advances	170.79	169.90	176.67
Accumulated losses	325.11	355.55	378.99
Total	**779.62**	**824.64**	**921.59**
Capital employed	**249.58**	**235.04**	**252.41**

Annexure 5
Statement showing financial position of Statutory Corporations.
(Referred to in Paragraph 1.31)

4. North Eastern Karnataka Road Transport Corporation, Gulbarga

₹ in crore

Particulars	2009-10	2010-11	2011-12 (provisional)
Liabilities			
Paid up capital	204.23	229.48	131.12
Reserve and surplus (including capital grants but excluding depreciation reserve)	43.07	47.97	170.93
Borrowings (loan funds)	187.36	172.39	177.72
Current liabilities and provisions	348.48	385.79	429.09
Total	**783.14**	**835.63**	**908.86**
Assets			
Gross block	590.64	645.96	727.94
Less: Depreciation	306.06	358.05	412.19
Net fixed assets	284.58	287.91	315.75
Capital works-in-progress (including cost of chassis)	34.70	50.66	45.95
Investments	0.05	0.05	0.05
Current assets, loans and advances	70.74	158.10	123.92
Accumulated losses	393.07	338.91	423.19
Total	**783.14**	**835.63**	**908.86**
Capital employed[9]	**41.54**	**44.66**	**53.76**

[9] **excludes ₹ 66.21 crore being the excess of liabilities over assets transferred from NWKRTC.**

Annexure 5
Statement showing financial position of Statutory Corporations.
(Referred to in Paragraph 1.31)

5. Karnataka State Financial Corporation, Bangalore

₹ in crore

Sl. No.	Particulars	2009-10	2010-11	2011-12 (provisional)
A.	**Liabilities**			
	Paid up capital	509.06	619.06	619.06
	Share application money	143.34	59.15	212.29
	Reserve fund and other reserves and surplus	54.93	47.68	46.79
	Borrowings			
	i) Bonds and debentures	696.39	790.20	872.67
	ii) Fixed deposits	38.59	112.52	110.33
	iii) Industrial Development Bank of India and Small Industries Development Bank of India	911.87	936.46	895.28
	iv) Loan towards Share capital- Industrial Development Bank of India	0	0	0
	v) Others (including State Government)	106.90	171.48	25.07
	Other liabilities and provisions	382.29	299.92	398.35
	Total	**2843.37**	**3036.47**	**3179.84**
B.	**Assets**			
	Cash and bank balances	115.41	224.16	259.72
	Investments	564.96	500.59	500.74
	Loans and advances	1440.42	1620.42	1742.38
	Net fixed assets	60.12	52.81	51.46
	Other assets	86.84	84.74	82.88
	Miscellaneous expenditure	575.62	553.75	542.66
	Total	**2843.37**	**3036.47**	**3179.84**
C.	**Capital employed[10]**	**2287.66**	**2471.96**	**2655.53**

[10] **Capital employed represents the mean of the aggregate of opening and closing balances of paid-up capital, loans in lieu of capital, seed money, debentures, reserves (other than those which have been funded specifically and backed by investments outside), bonds, deposits and borrowings (including refinance).**

Annexure 5
Statement showing financial position of Statutory Corporations.
(Referred to in Paragraph 1.31)

6. Karnataka State Warehousing Corporation, Bangalore

₹ in crore

Sl. No.	Particulars	2009-10	2010-11	2011-12 (provisional)
A.	**Liabilities**			
	Paid-up capital	10.65	10.65	20.65
	Reserves and surplus	54.62	61.58	62.17
	Borrowings (Government)	18.41	18.41	4.20
	(Others)	174.02	117.30	162.88
	Trade dues and current liabilities (including provisions)	88.42	82.87	106.92
	Total	**346.12**	**290.81**	**343.97**
B.	**Assets**			
	Gross block	153.66	175.25	218.98
	Less: Depreciation	18.97	21.86	25.28
	Net fixed assets	134.69	153.39	193.70
	Capital work-in-progress	11.37	34.54	38.45
	Investments	-	-	-
	Current assets, loans and advances	200.06	102.88	111.82
	Total	**346.12**	**290.81**	**343.97**
C.	**Capital employed**[11]	**257.70**	**207.94**	**237.05**

[11] **Capital employed represents net fixed assets, (including capital work-in-progress) *plus* working capital.**

Annexure 6
Statement showing working results of Statutory Corporations.
(Referred to in Paragraph 1.31)

1. Bangalore Metropolitan Transport Corporation, Bangalore

₹ in crore

Sl. No.	Description	2009-10	2010-11	2011-12 (provisional)
1	Total revenue	1129.62	1327.55	1498.77
2	Operating revenue[12]	1012.29	1211.24	1386.25
3	Total expenditure	**1065.20**	**1276.72**	1481.67
4	Operating expenditure[13]	1047.95	1250.04	1450.85
5	Operating profit/loss (-)	(-)35.66	(-)38.80	(-)64.60
6	**Profit for the year**	**65.13**[Σ]	**50.83**	**21.42**
7	Accumulated profit	625.21	641.63	663.05
8	Fixed costs			
	Personnel costs	357.08	464.84	583.54
	Depreciation	103.41	115.07	119.37
	Interest	1.39	9.69	12.3
	Other fixed costs	26.99	27.34	39.39
	Total fixed costs	**488.87**	**616.94**	**754.60**
9	Variable costs			
	Fuel and lubricants	417.36	501.82	543.81
	Tyres and tubes	16.97	32.18	37.44
	Other Items/spares	35.39	50.00	58.06
	Taxes (Motor vehicle tax, Passenger tax, *etc.*)	56.23	67.10	77.35
	Other variable costs	50.38	8.68	6.26
	Total variable costs	**576.33**	**659.78**	**722.92**
10	Effective KMs operated (in lakh)	4383.16	**4544.68**	4633.49
11	Earnings *per* KM (₹)(1/10)	25.77	29.21	32.35
12	Fixed cost *per* KM (₹) (8/10)	11.15	13.57	16.29
13	Variable cost *per* KM (₹) (9/10)	13.15	14.52	15.60
14	Cost *per* KM (₹) (12+13)	24.30	28.09	31.98
15	Net earnings *per* KM (₹) (11-14)	1.47	1.12	0.37
16	Traffic revenue[14] (₹ in crore)	1012.29	1211.23	1386.25
17	Traffic revenue *per* KM (₹) (16/10)	23.09	26.65	29.92
18	Return on capital employed[15]	66.52	6.04	33.72
19	Percentage on capital employed	5.42	4.40	2.36

[12] **Operating revenue includes traffic earnings, passes and season tickets, re-imbursement against concessional passes, fare realised from private operators under 'KM Scheme', *etc.***

[13] **Operating expenditure include expenses relating to traffic, depreciation on fleet, repair and maintenance, electricity, welfare and remuneration, licences and taxes and general administration expenses.**

[Σ] **After net prior period (credits) of ₹ 0.71 crore.**

[14] **Traffic revenue represents sale of tickets, advance booking, reservation charges and contract services earnings.**

[15] **worked out without considering prior period adjustments, and hence varies with Annexure-2.**

Annexure 6
Statement showing working results of Statutory Corporations.
(Referred to in Paragraph 1.31)

2. Karnataka State Road Transport Corporation, Bangalore

₹ in crore

Sl. No	Description	2009-10	2010-11	2011-12 (provisional)
1	Total revenue	1746.36	2078.64	2318.63
2	Operating revenue[16]	1592.86	1866.37	2226.99
3	**Total expenditure**	**1697.51**	**2016.63**	**2299.22**
4	Operating expenditure[17]	1628.52	1947.72	2221.90
5	Operating profit/loss (-)	(-)35.66	(-)81.35	5.09
6	**Profit/loss for the year[18]**	**48.85**	**62.05**	**19.41**
7	Accumulated profit/loss (-)	(-)18.91	43.14	62.56
8	Fixed costs			
	Personnel costs	493.85	627.65	703.46
	Depreciation	176.82	190.94	209.91
	Interest	25.13	19.04	19.33
	Other fixed costs	80.69	92.48	101.21
	Total fixed costs	**776.49**	**930.11**	**1033.91**
9	Variable costs			
	Fuel and lubricants	671.57	784.92	907.06
	Tyres and tubes	66.09	77.07	95.72
	Other items/ spares	99.70	126.97	145.59
	Taxes (Motor vehicle tax, Passenger tax, *etc.*)	83.67	97.56	116.83
	Other variable costs	0	0	0.00
	Total variable costs	**921.03**	**1086.52**	**1265.20**
10	Effective KMs operated (in lakh) (own + hired)	8428.26	8707.67	9242.56
11	Earnings *per* KM (₹)(1/10)	20.72	23.87	25.09
12	Fixed cost *per* Km (₹) (8/10)	9.21	10.68	11.19
13	Variable cost *per* KM (₹) (9/10)	10.93	12.48	13.69
14	Cost per KM (₹) (3/10)	20.14	23.16	24.88
15	Net earnings *per* KM (₹)(11-14)	0.58	0.71	0.21
16	Traffic revenue (₹ in crore)	1515.06	1768.99	2113.50
17	Traffic revenue *per* km (₹) (16/10)	17.98	20.32	22.87
18	Return on capital employed[19]	73.98	81.09	38.74
19	Percentage on capital employed	11.58	11.95	5.62

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[16] Operating revenue includes traffic earnings, passes and season tickets, re-imbursement against concessional passes, fare realised from private operators under 'KM Scheme', *etc.*

[17] Operating expenditure include expenses relating to traffic, repair and maintenance, electricity, welfare and remuneration, licences and taxes, general administration expenses and depreciation on fleet.

[18] excludes net prior period adjustments.

[19] worked out without considering prior period adjustments, and hence varies with Annexure-2.

Annexure 6
Statement showing working results of Statutory Corporations.
(Referred to in Paragraph 1.31)

3. North Western Karnataka Road Transport Corporation, Hubli

₹ in crore

Sl. No	Description	2009-10	2010-11	2011-12 (provisional)
1	Total revenue	961.46	1032.59	1159.07
2	Operating revenue[20]	847.40	904.76	1018.65
3	**Total expenditure**	**1019.28**	**1063.04**	**1182.50**
4	Operating expenditure[21]	968.38	1009.78	1125.29
5	Operating profit/loss (-)	(-)120.98	(-)105.02	(-)106.64
6	**Profit/loss for the year**	**(-) 57.82**	**(-)30.45**	**(-)23.43**
7	Accumulated profit/loss (-)	(-)325.11	(-)355.55	(-)378.99
8	Fixed costs			
	Personnel costs	339.59	302.33	428.51
	Depreciation	88.34	76.92	78.22
	Interest	31.70	28.53	29.35
	Other fixed costs	0	0	0
	Total fixed costs	**459.63**	**407.88**	**536.08**
9	Variable costs			
	Fuel and lubricants	389.52	407.89	450.31
	Tyres and tubes	37.88	42.05	44.37
	Other items/spares	89.07	160.86	177.93
	Taxes (Motor vehicle tax, Passenger tax, *etc.*)	43.18	44.46	48.51
	Other variable costs	0	0	0
	Total variable costs	**559.65**	**655.26**	**721.12**
10	Effective KMs operated (in lakh) (own +hired)	5241.34	4800.93	4946.74
11	Earnings *per* KM (₹)(1/10)	18.34	21.51	23.43
12	Fixed cost *per* Km (₹) (8/10)	8.77	8.49	10.84
13	Variable cost *per* KM (₹) (9/10)	10.68	13.65	14.58
14	Cost *per* KM (₹) (3/10)	19.45	22.14	23.90
15	Net earnings *per* KM (₹) (11-14)	(-) 1.11	(-) 0.63	(-) 0.47
16	Traffic revenue (₹ in crore)	828.14	903.07	1018.65
17	Traffic revenue *per* km (₹)(16/10)	15.80	18.81	20.59
18	Return on capital employed[22]	(-) 26.12	(-) 1.92	5.92
19	Percentage on capital employed	-	-	2.35

[20] **Operating revenue includes traffic earnings, passes and season tickets, re-imbursement against concessional passes, fare realised from private operators under 'KM Scheme', *etc.***

[21] **Operating expenditure include expenses relating to traffic, repair and maintenance, electricity, welfare and remuneration, licences and taxes, general administration expenses and depreciation on fleet.**

[22] **worked out without considering prior period adjustments, and hence varies with Annexure-2.**

Annexure 6
Statement showing working results of Statutory Corporations.
(Referred to in Paragraph 1.31)

4. North Eastern Karnataka Road Transport Corporation, Gulbarga

₹ in crore

SL. No	Description	2009-10	2010-11	2011-12 (provisional)
1	Total revenue	663.35	864.38	980.63
2	Operating revenue[23]	618.90	804.24	953.55
3	**Total expenditure**	**697.20**	**876.43**	998.43
4	Operating expenditure[24]	670.15	843.20	963.45
5	Operating profit/loss (-)	(-)51.25	(-)38.96	(-) 9.90
6	**Profit/loss for the year (-)**	**(-)33.85**	**(-)12.05**	**(-) 18.07**
7	Accumulated profit/loss (-)	(-)326.84	(-)338.90	(-) 356.97
8	Fixed costs			
	Personnel costs	221.78	281.33	333.07
	Depreciation	69.33	78.52	79.90
	Interest	14.00	13.20	18.51
	Other fixed costs	22.11	27.16	30.17
	Total fixed costs	**327.22**	**400.21**	**461.65**
9	Variable costs			
	Fuel and lubricants	276.23	355.52	404.78
	Tyres and tubes	28.06	43.06	50.78
	Other items/ spares	26.09	32.97	33.13[25]
	Taxes (Motor vehicle tax, Passenger tax, *etc.*)	32.50	40.10	48.09
	Other variable costs	7.10	4.57	-
	Total variable costs	**369.98**	**476.22**	**536.78**
10	Effective KMs operated (in lakh) (own +hired)	3836.30	4294.94	4465.86
11	Earnings *per* KM (₹)(1/10)	17.29	20.13	21.96
12	Fixed cost *per* Km (₹) (8/10)	8.53	9.32	10.34
13	Variable cost *per* KM (₹) (9/10)	9.64	11.09	12.02
14	Cost *per* KM (₹) (3/10)	18.17	20.41	22.36
15	Net earnings *per* KM (₹)(11-14)	(-)0.88	(-) 0.28	(-) 0.40
16	Traffic revenue (₹ in crore)	600.49	767.96	911.34
17	Traffic revenue *per* km (₹) (16/10)	15.65	17.88	20.41
18	Return on capital employed[26]	(-) 19.98	1.03	0.44
19	Percentage on capital employed	-		0.81

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[23] **Operating revenue includes traffic earnings, passes and season tickets, re-imbursement against concessional passes, fare realised from private operators under 'KM Scheme', *etc.***

[24] **Operating expenditure include expenses relating to traffic, repair and maintenance, electricity, welfare and remuneration, licences and taxes, general administration expenses and depreciation on fleet.**

[25] **includes other variable costs.**

[26] **worked out without considering prior period adjustments, and hence varies with Annexure-2.**

Annexure 6
Statement showing working results of Statutory Corporations.
(Referred to in Paragraph 1.31)

5. Karnataka State Financial Corporation, Bangalore

₹ in crore

Sl. No.	Particulars	2009-10	2010-11	2011-12 (provisional)
1	**Income**			
	a) Interest on loans	182.14	198.68	203.82
	b) Other income	20.54	20.49	23.09
	Total (1)	**202.68**	**219.17**	**226.91**
2	**Expenses**			
	a) Interest on long term and short term loans	132.53	137.80	151.96
	b) Other expenses	73.45	87.24	71.28
	Total (2)	**205.98**	**225.04**	**223.24**
3	Profit/ loss (-) before tax (1-2)	(-)3.30	(-)5.87	3.67
4	Total return on capital employed	129.23	131.93	155.63
5	Percentage of return on capital employed	5.65	5.34	5.86

Annexure 6
Statement showing working results of Statutory Corporations.
(Referred to in Paragraph 1.31)

6. Karnataka State Warehousing Corporation, Bangalore

₹ in crore

Sl. No.	Particulars	2009-10	2010-11	2011-12 (provisional)
	Income			
1	a) Warehousing charges	25.20	23.33	47.06
	b) Other income	21.30	28.12	5.64
	Total	**46.50**	**51.45**	**52.70**
	Expenses			
2	a) Establishment charges	10.46	12.93	15.60
	b) Other expenses	19.25	21.61	22.19
	Total	**29.71**	**34.54**	**37.79**
3	Profit before tax	16.79	16.91	14.91
4	Provision for tax	5.05	8.12	12.50
5	Amount available for dividend	11.74	8.79	2.41
6	Dividend for the year	1.48	1.56	1.56
7	Total return on capital employed	20.55	21.25	20.12
8	Percentage of return on capital employed	7.97	10.22	8.05

Annexure 7
Statement showing major comments made by the Statutory Auditors on possible improvements in the internal audit/ internal control systems.
(Referred to in Paragraph 1.47)

PSU	Year	Comments
Karnataka Vocational Training and Skill Development Corporation Limited (KVTSDCL)	2010-11	➢ No Internal Audit system in vogue.
Gulbarga Electricity Supply Company Limited (GESCOM)	2010-11	➢ System of Internal Audit was ineffective. ➢ No system of identifying project-wise work in progress.
North Western Karnataka Road Transport Corporation (NWKRTC)	2010-11	➢ No independent internal audit wing. ➢ Audit could not ensure whether physical verification of Fixed assets (other than buses) was conducted during the year as the relevant registers were not maintained.
Karnataka Rural Infrastructure Development Limited (KRIDL)	2010-11	➢ Internal Audit System to be redesigned to be more effective. ➢ Software on Inventory and Tax modules not utilised due to lack of trained staff.
Karnataka Neeravari Nigam Limited (KNNL)	2010-11	➢ Internal Audit needs strengthening to avoid excess payment to contractors, non-provision for liability, non-deduction/short deduction of statutory levies, for consistency in calculation of royalty, *etc*.
Chamundeshwari Electricity Supply Corporation Limited (CHESC)	2010-11	➢ Internal Audit system was very weak.
The Karnataka Handloom Development Corporation Limited (KHDCL)	2011-12	➢ Audit Committee has not met during the year for want of quorum.
Food Karnataka Limited (FKL)	2011-12	➢ No Internal Audit system exists.
Karnataka Asset Management Company Private Limited (KAMCPL)	2011-12	➢ No audit committee has been formed.
Karnataka Silk Industries Corporation Limited (KSIC)	2011-12	➢ The Company has no approved Information Technology (IT) strategy. The accounting software in use was not fool-proof as editing/ alteration of the recorded transaction were allowed.
The Mysore Electrical Industries Limited (MEI)	2011-12	➢ Internal control needs to be strengthened in the areas of inventory management, debtors control, turnkey projects, production schedules, execution of orders and material procurements. ➢ The Company has no approved IT strategy.
Mysore Minerals Limited (MML)	2011-12	➢ Reconciliation of debtors has not been done for many years. ➢ The Company has no documented policy for control of fraud. ➢ No steps are been taken to meet the Corporate Social Responsibility requirements.
Rajiv Gandhi Rural Housing Corporation Limited (RGRHCL)	2011-12	➢ Audit Committee has not met during the year. ➢ Certain irregularities were noticed by the Company in respect of disbursement of the program funds. The system of physical inspection and number of inspections being carried out should be increased and strengthened. ➢ Present systems/Controls on disbursement of funds from gram panchayat accounts and direct remittances to the beneficiaries are inadequate.

PSU	Year	Comments
Karnataka State Coir Development Corporation Limited (KSCDCL)	2011-12	➢ Though not even 25 *per cent* of the production facilities have been utilised, investments are made during the year for an ambitious venture *viz*., in Plant and Equipments. ➢ No inventory regulation mechanism.
Karnataka Compost Development Corporation Limited (KCDCL)	2011-12	➢ Receipt of Grants of ₹ 0.20 crore from State Government has not been accounted. ➢ Interest accrued on long outstanding loans and advances has not been recognised in the books of accounts. ➢ The Company has no earmarked funds to meet gratuity and leave encashment liabilities. ➢ Internal Audit was not commensurate with the size of the organisation. ➢ No IT Strategy/Plan.
Karnataka Forest Development Corporation Limited (KFDCL)	2011-12	➢ No Cost Records are maintained. ➢ Internal Audit was not commensurate with the size of the organisation. ➢ No IT Strategy. ➢ Audit Committee was not functional.
Mangalore Electricity Supply Company Limited (MESCOM)	2011-12	➢ Internal Audit Wing needs to be strengthened in areas like technical audit, materials, inventory, stores and for adherence to various tax and labour laws.
Raichur Power Corporation Limited (RPCL)	2011-12	➢ Contracts are awarded on single bidder basis and is not using vendors list available with sister concern like KPTCL/ESCOMs.
Karnataka Power Corporation Limited (KPC)	2011-12	➢ Internal control needs to be strengthened in Inventory management (thermal generating stations), Revenue and Contract management.

Annexure-8

Statement showing the targets and achievements in respect of new substation, lines and augmentation works during 2007-08 to 2011-12.

(Referred to in Paragraph 2.1.8.3)

Year	New Stations				Augmentation of stations				Transmission lines			
	Target		Achievement		Target		Achievement		Target		Achievement	
Voltage (kV)	Nos	MVA	Nos	MVA	Nos	MVA	Nos	MVA	Nos	CKMs	Nos	CKMs
2007-08												
400	0	0	0	0	1	315.00	0	0.00	-	-	-	-
220	14	2680.00	5	590.00	9	965.00	5	350.00	13	152.070	7	108.190
110	47	1090.00	45	870.00	42	540.00	18	204.50	48	544.210	47	505.920
66	89	1284.90	75	1001.50	48	440.80	44	383.20	89	593.420	80	496.040
Total	**150**	**5054.90**	**125**	**2461.50**	**100**	**2260.80**	**67**	**937.70**	**150**	**1289.700**	**134**	**1110.150**
2008-09												
400	-	-	-	-	-	-	-	-	-	-	1	0.330
220	14	3068.50	14	3175.00	7	665	4	350.00	14	315.800	15	291.350
110	28	560.00	32	605.00	21	230	22	220.00	28	299.940	41	412.400
66	58	796.20	55	845.80	22	299.1	17	233.40	58	492.340	67	535.340
Total	**100**	**4424.70**	**101**	**4625.80**	**50**	**1194.1**	**43**	**803.40**	**100**	**1108.080**	**124**	**1239.420**
2009-10												
400	-	-	-	-	-	-	-	-	-	-	-	-
220	6	1481.10	3	610.10	4	350.00	4	350.00	6	69.250	6	69.250
110	18	350.00	15	310.10	19	270.00	19	270.00	19	262.330	19	262.330
66	26	551.10	12	155.50	22	172.90	22	172.90	18	179.460	18	179.460
Total	**50**	**2382.10**	**30**	**1075.50**	**45**	**792.90**	**45**	**792.90**	**43**	**511.040**	**43**	**511.040**
2010-11												
400	Targets not available		-	-	Targets not available		1	315.00	Targets not available		-	-
220			6	1215.50			0	0			8	329.500
110			5	70.00			16	170.00			11	131.980
66			25	447.30			12	119.70			36	227.690
Total			**36**	**1732.80**			**29**	**604.70**			**55**	**689.170**
2011-12												
400	-	-	-	-	2	1000.00	0	0	2	664.000	-	-
220	6	1593.50	1	208.00	0	0.00	1	10.00	6	283.127	4	317.730
110	25	460.00	16	280.00	31	405.00	26	325.00	25	258.202	20	266.850
66	20	314.30	9	164.50	14	121.50	29	241.40	20	131.915	19	170.220
Total	**51**	**2367.80**	**26**	**652.50**	**47**	**1526.50**	**56**	**576.40**	**53**	**1337.244**	**43**	**754.800**
Grand total**	**351**	**14229.40**	**318**	**10548.10**	**242**	**5774.30**	**240**	**3715.10**	**346**	**4246.064**	**399**	**4304.580**

Source: Data received from MIS (by mail). ** Actual achievement for the year 2010-11 is added for finding out the percentage of achievement.

Annexure 9

Statement showing the particulars of test checked substations and lines where there was delay in construction during the five years ended 31 March 2012

(Referred to in Paragraphs 2.1.10.4 to 2.1.10.10, 2.1.11, 2.1.12)

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	Reference to table in the text
1.	**220 KV Kushalanagara-Basthipura line.** The application for obtaining forest clearance was delayed. The forest clearance was obtained in May 2010/February 2011. One circuit of 220 KV line from Bastipura costing of ₹28.22 crore was idle charged as the Terminal Bay at Bastipura was not completed.	July 2005	August/ December 2006	April / December 2007	NA	August 2007	March 2011	Included in Sl. No 27			Item 1of para 2.1.10.4
2.	**66 KV lines from 220 KV Huyoganahalli Substation to Jakkanahalli and Santhebachahalli.** The project was taken up to improve the power supply and voltage profile at Huyoganahalli, Jakkanahalli and Santhebachahalli. There was delay in applying for forest clearance. The line route was changed to avoid delay in forest clearance. The contractor delayed the commencement of work by eight months. Even though there were delays in construction of three lines from Huyoganahalli and one terminal bay at Santhebachahalli, attributable to the contractor, liquidated damages of ₹ 0.82 crore was refunded.	Decem-ber 2005	Septem-ber 2006	September 2007	NA	March 2007	July 2008 to November 2010 (different lines)	7.67	0	0.98	Item 1, 6 of para 2.1.10.4

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			Reference to table in the text
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	
3.	**66 KV Underground (UG) cable from HSR Layout to Shoba Apartment.** The Project was taken up to improve the power supply to the surrounding areas of Bellandur- Ring Road and to reduce the load of HSR substation. Applying for road cutting permission was delayed.	February 2007	October 2007	NA	July 2008	April 2008	January 2012	19.04	3.62	5.15	Item 1of para 2.1.10.4
4.	**66 KV UG cable from Hoody to EPIP Substation.** The project was taken up to improve the reliability of power around EPIP industrial area in Bangalore East and to meet the future load growth of surrounding areas of EPIP. There was delay in obtaining road cutting permission. The UG cable was laid without considering the upcoming 220 KV Substation at EPIP causing redundancy of the line constructed.	February 2007	Septem-ber 2008	NA	October 2008	March 2009	March 2010	19.19	0	1.79	Item 1of para 2.1.10.4 Item 4 of para 2.1.12
5.	**UG cable from NH7 to 66 KV Substation at Attibele.** The work was taken up to improve voltage conditions around Attibele. Approval for route survey/drawings was delayed. Road cutting permission from KIADB and NHAI was applied for after the award of work and even after the scheduled date of completion.	Septem-ber 2006	June 2007	NA	January 2008, October 2008 and June 2009	December 2007	December 2010	8.97	0	1.28	Item 1, 7 of para 2.1.10.4

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			Reference to table in the text
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	
6.	**66 KV UG Cable from DG3, DG4 line to HBR Layout substation.** The project was taken up to improve the voltage in the surrounding areas of HBR layout and to reduce interruption on 11 KV systems. Railway clearance and road cutting permission were requested for after award of work.	April 2005	January 2006	NA	June 2006 and May 2007 (Railway clearance)	October 2006	February 2008	5.31	0	0.64	Item 1of para 2.1.10.4
7.	**66 KV UG cable from HSR Layout Substation to St. John Wood Substation.** The project was taken up to reduce the load on the existing Substations at Adugodi and Jayadeva Hospital premises. There was delay in obtaining road cutting permission. Permission to cut road was sought 5 months after the award of work and 2 months before the scheduled date of completion.	April 2005	July 2007	NA	November 2007	January 2008	February/ March 2009	2.73	0	0.19	Item 1, 2 of para 2.1.10.4
8.	**Laying of 220 KV UG cables and establishing 220 KV Substation at Ananda Rao circle** The project was taken up to provide reliability and stability of power supply to 220KV Ananda Rao Circle Substation and East Division Compound (EDC) Substation.										
	(a) **Ananda Rao Circle Substation to EDC Substation**. Source line to EDC (4.02 kms)	Decem-ber 2006	January 2008	NA	July 2008	January 2009	December 2010	27.19	0	3.92	Item 1 of para 2.1.10.4

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commission	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	Reference to table in the text
	The work got delayed due to delay in obtaining road cutting permission.										
	(b) **HAL Substation to EDC Substation.** Alternate Source line for EDC (7.90 kms.) The work was delayed due to delay in **seeking** road cutting permission.	Decem-ber 2006	January 2008	NA	July 2008	January 2009	October 2011	67.46	0	12.13	Item 1 of para 2.1.10.4
	(c) **NRS Substation to Ananda Rao Circle Substation .** Source line for Ananda Rao Circle Substation (4.116 kms.) The work was delayed because of delay in seeking and obtaining road cutting permission.	Novem-ber 2004	Decem-ber 2008	NA	February 2005	December 2009	May 2010	28.95	0	1.56	Item 1 of para 2.1.10.4
	d) **220 KV Substation at Ananda Rao Circle.** The project was taken up to improve the power position around Central Bangalore and to provide power supply to the proposed four numbers of 66 KV substations. The project was delayed due to delay in commencement of work by contractor. The Substation remained idle for 34 months even after completion due to non-construction of source line and currently the substation had poor load. The 66 KV UG cables (2 nos) laid between 220 KV Ananda Rao Circle Substation and A-Station was idle due to non-completion of 66 KV UG Cable between NRS and A-Station.	Novem-ber 2004	May 2005	NA	NA	Oct 2006	June 2007 (comple-tion) May 2010 (commi-ssioning)	42.35	31.71	11.03	Item 5,6 of para 2.1.10.4 Item 1 of 2.1.11

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			Reference to table in the text
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	
9.	**220 KV Kadakola- Bastipura line.** This line was proposed to improve the voltage profile of Mysore and surrounding areas. The project was delayed due to ROW issues and Court cases. There was delay in obtaining forest clearance as it was received in May/June 2008 and July 2009, which was requested for in January 2005.	February 2005	February 2006	January 2005	NA	Aug 2006	January 2010	9.16	0	2.71	Item 2 of para 2.1.10.4
10.	**220 kV Substation at Sarjapura and associated Loop-In-Loop-Out (LILO) line.** The project was taken up to improve voltage conditions around Sarjapura, Dommasandra, Chandapura and Attibele and reduce overloading of 66KV Hoody-Dommasandra-Chandrapura line. The project was delayed due to non-supply of transformer and ROW problem. Owing to non-commissioning of evacuation lines, the load on the 220 kV substation was only 12 *per cent.*	Septem-ber 2006	April 2007	NA	NA	April 2008	March 2009	38.95	28.47	3.06	Item 2, 4 of para 2.1.10.4
11.	**220 kV DC line from Tubinkere to Kothipura, 220 kV MC line from Kothipura to Bidadi and 220 kV Substation at Kothipura.** The project was taken up to meet the load growth of Ramnagara, Channapatna	July 2006	February 2007	NA	NA	February 2008	January 2012	52.49	40.74	16.73	Item 2 of para 2.1.10.4

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			Reference to table in the text
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	
	and Melehalli and to provide alternate source of supply to the 220 kV Bidadi substation. It was delayed due to ROW problem and court cases.										
12.	**220 KV DC line from Guruvayanakere Substation to Puttur Substation.** The project was taken up to reduce the load on transmission line and transformers at BC Road and Puttur substations and to improve voltage profile of Puttur. ROW problem caused the delay.	June 2003	Septem-ber 2005	NA	NA	November 2006	November 2008	9.14	3.99	1.64	Item 2 of para 2.1.10.4
13.	**110 kV Single Circuit Manipal-Nittur line and up-gradation of Brahmavara Substation.** The project was taken up to reduce the load on Brahmavara Substation, create facility for addition of load at Brahmavara and improve voltage. There was delay in approval for additional tower and there were ROW issues. Handing over the site and Substation layout diagram were delayed.	Decem-ber 2006	June 2007	NA	NA	Line: December 2007 & Substation: January 2008	December 2009	4.48	4.32	0.56	Item 2, 3, 7 of para 2.1.10.4

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commission	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	Reference to table in the text
14.	**66 kV Kushalnagara-Madikeri line.** The project was taken up to improve the power position of Madikeri Taluk. Delay in commencement of work, slow progress by the contractor and ROW issues delayed the Project.	May 2004	June 2007	NA	NA	December 2007	Line: September 2008 Substation: June 2010	7.78	0	0.56	Item 2, 6 of para 2.1.10.4
15.	**220 kV Substation and associated Lines at M.K.Hubli.** The project was taken up to improve voltage conditions around Bidi, Khanapur, Mache and MK Hubli and reduction in overloading of the existing 110 kV lines. There was delay in acquiring and handing over of site. The area of allotted site was inadequate, which necessitated revision of layout plan according to available site.	January 2007	October 2007	NA	NA	October 2008	November 2010	35.51	18.67	5.99	Item 3,7 of para 2.1.10.4
16.	**Up-gradation of Aigali Substation to 110 kV and construction of associated line.** The Project was taken up to reduce load on the feeder and to improve the voltage regulation at Aigali and surrounding area. The project was delayed owing to delay in handing over site and supply of transformer. The completed substation was idle for 10 months as source line	March 2006	August 2006	NA	NA	March 2007	October 2007 (completed) August 2008 (commissioned)	7.41	1.84	0.69	Item 3 of para 2.1.10.4 Item 1 of 2.1.11

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commission	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	Reference to table in the text
	was not available. The Substation was commissioned by arranging alternate source line from Savalagi substation.										
17.	**66 kV Substation at Madikeri.** The project was taken up to improve the power position of Madikeri Taluk. Handing over of land was delayed, as the contractor did not accept the letter of intent. The transformer was idle for 21 months after commissioning, waiting for construction of 11kV lines by CESC.	May 2004	Septem-ber / Decem-ber 2005	NA	NA	September 2006/June 2007	June 2010	4.76	13.95	1.25	Item 3 of para 2.1.10.4 Item 1 of 2.1.12
18.	**220 kV Substation and associated line at Ghataprabha.** The project was taken up to improve voltage condition around Gokak and Ghataprapha and reduce overloading of 110 kV lines. There were delays in approving road formation, plan changes in the tower design and supply of transformers.	November 2006	October 2007	NA	NA	October 2008	December 2010	52.99	53.48	8.58	Item 4,7 of para 2.1.10.4
19.	**Up-gradation of 110 kV Substation at Hattargi and construction of associated LILO line.** The Project was taken up to reduce the length of 11 kV lines, 11kV line losses and voltage regulation at tail ends. Major changes were made in tower design subsequent to awarding work. Allotment and supply of transformer was delayed. The completed Substation was idling for six months for non-completion of line	May 2006	February 2007	NA	NA	September 2007	September 2008	4.03	1.33	0.29	Item 4,7 of para 2.1.10.4

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	Reference to table in the text
20.	**66 kV Substation at Ravandur.** The Project was taken up to bring down the 11kV line loss, regulating the tail end voltage, reduce interruption in power supply and to relieve the load of Bettadapura and Periapattana substations. The causes were delayed approval of drawings and supply of materials.	March 2006	Aug 2006	NA	NA	March 2007	December 2008	2.00	0.87	0.22	Item 4,7 of para 2.1.10.4
21.	**220 kV Substation at Huyoganahally.** The Project was taken up to release the load of 220/66 kV Substation at Tubinakere, to reduce line losses and to reduce interruptions. The transformer capacity was changed from 60MVA to 100MVA after award of work, which caused delayed supply of transformer.	Decem-ber 2005	Aug 2006	NA	NA	August 2007	May 2008	9.95	7.16	0.60	Item 4 of para 2.1.10.4
22.	**66 kV Substation at BTM IV Phase.** The project was taken up to meet the load growth in and around the BTM IV phase area. The Contractor, who was awarded the Project on Turn Key basis, did not procure transformer in time.	Septem-ber 2005	February 2006	NA	NA	November 2006	December 2008	6.18	1.57	0.34	Item 4 of para 2.1.10.4
23.	**Providing additional transformer at 66 kV substation at Chikkamandya.** The project was taken up to cater the increased load requirement around Chikkamandya.	Septem-ber 2009	February 2010	NA	NA	August 2010	December 2010	1.25	0	0	Item 4 of para 2.1.10.4 Item 2 of para 2.1.12

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	Reference to table in the text
	There was delay in allotment of transformer. The transformer remained idle for 15 months after commissioning on account of non-construction of 11 kV lines by CESC.										
24.	**220 kV Substation and associated line at Vajamangala.** The project was taken up to release the load on the overloaded Hootagalli substation, reduce line losses and to improve the voltage conditions in the area. The capacity of transformer to be installed was changed from 100MVA to 75 MVA after commencement of work.	February 2007	March 2008	NA	NA	Mar 2009	Nov 2010	26.54	20.16	2.13	Item 4 of para 2.1.10.4
25.	**220 kV Substation at NIMHANS.** The project was taken up to release load on Audugodi and Koramangala Substations, to meet the future load growth in Audugodi and Koramangala areas and ensure reliability of power supply around NIMHANS, Koramangala and Audugodi industrial areas. The construction was delayed for approval of layout and foundation drawings. The completed Substation was idle for 46 months, as the source lines were still under construction.	Novem-ber 2003	June 2006	NA	NA	May 2007	May 2008	13.18	0	5.36	Item 5,7 of para 2.1.10.4 Item 1 of 2.1.11

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			Reference to table in the text
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	
26.	**220 KV Substation at East Division Compound.** The project was taken up to improve the power position around MG road area and to reduce the transmission loss at 66KV. The project was delayed due to delay in commencement and slow progress of work by the contractor. The completed Substation was idle for 9 months due to delay in award and non-construction of source line from Ananda Rao circle substation. The substation has low load due to non-completion of 3 nos. of associated 66 KV lines.	May 2006	June 2007	NA	NA	September 2008	March 2010 (comple-tion) December. 2010 (commiss-ioned)	66.33	11.44	8.04	Item 5,6 of para 2.1.10.4 Item 1 of 2.1.11
27.	**220 kV Substation at Kushalanagara.** The Project was taken up to improve the power position of Kodagu District and to reduce the load on Hotagalli Substation. The construction was delayed by the contractor. Even though the delay was attributable to the contractor, the LD of ₹ 0.49 crore recovered was refunded. The load on the Substation is low as construction of Kushalanagara-Peeriyapattana line to draw power from the Kushalnagara Substation was not completed.	July 2005	August 2006	NA	NA	August 2007	March 2011	65.00	76.48	14.16	Item 6 of para 2.1.10.4
28.	**110 kV Substation Salethur.** The Project was taken up to regulate voltage at tail end of 11KV feeders, reduce losses and transfer of load from	August 2006	April 2007	NA	NA	November 2007	November 2008	1.69	1.13	0.06	Item 6 of para 2.1.10.4

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	Reference to table in the text
	Konaje Vittla and BC Road substations. The project delayed due to delay in commencement of work and slow progress of work by contractor.										
29.	**66 kV Substation at Chunchanakatte.** The Project was taken up to reduce 11kV losses and interruption in power supply to the area, release load of KR Nagar and Saligrama Substations and to improve voltage profile in Chunchanakatte area. The work was delayed by the contractor.	March 2006	Novem-ber 2006	NA	NA	July 2007	January 2008	1.13	0.16	0.05	Item 6 of para 2.1.10.4
30.	**66 kV Substation at Hampapura**. The Project was taken up to transfer load from HD Kote, Bilikere and Hootagalli Substations, for voltage regulation at tail end of these feeders. The work was delayed by the contractor.	March 2006	January 2007	NA	NA	August 2007	March 2008	1.74	0.19	0.07	Item 6 of para 2.1.10.4
31.	**Construction of LILO from 220kV Mahalingapur- Kudachi line and Establishing of 220 kV Substation at Athani.** The Projects were taken up to improve the voltage conditions at Athani, Jambagi, Haliyal, Satti, Agali and Taushi and to reduce overloading of lines. The contractor delayed the project. Rain was attributed to be the reason. Though monsoon period was covered in the period of completion of work, LD of ₹ 1.10 crore was refunded.	January 2006	August 2006	NA	NA	August 2007	December 2008	25.81	18.35	2.55	Item 6 of para 2.1.10.4

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			Reference to table in the text
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	
32.	**66kV Substation at St. John Wood.** The project was taken up to reduce the load on the existing Substations at Adugodi and Jayadeva Hospital premises. There were delays in revision of layout, earth mat design, finalization of drawings and inspection of materials offered for inspection.	April 2005	February 2007	NA	NA	September 2007	May 2009	14.79	0.29	1.02	Item 7 of para 2.1.10.4
33.	**220 kV Substation at HAL.** The Project was taken up to release the load on 220/66 kV transformer at Hoody Substation, to meet the future load growth and for reliability of power supply around HAL 'B' Station and Adugodi Industrial Area. There was change in specification of wave traps and delay in removal of the 66 kV Overhead Line Hoody 1 and 2.	October 2003	August 2005	NA	NA	April 2007	December 2008	22.75	9.38	3.49	Item 7 of para 2.1.10.4
34.	**66 kV Single Circuit tap line to Ravandur from KR Nagar - Kushalnagar line.** The Project was taken up to bring down the 11kV line loss, regulating the tail end voltage, reduce interruption in power supply and to relieve the load of Bettadapura and Periapattana substations. There were delays in conducting check survey and in submission of drawings by contractor, for approval.	March 2006	August 2006	NA	NA	February 2007	September 2008	Included in Sl. No 20			Item 7 of para 2.1.10.4

Sl. No.	Brief description of work and cause of delay	Month of						Rupees in crore			
		Appr-oval of DPR	Award of work	Forest clear-ance sought	Road cutting permi-ssion was sought	Scheduled com-pletion	Actual com-pletion/ commiss ion	Invest-ment which remained unproduc-tive	Benefits lost	Interest charges on unproduct-ive investment	Reference to table in the text
35.	**110 kV Substation and associated line at Taushi.** The Project was taken up to reduce load on the feeder and to improve the voltage regulation at Taushi and surrounding areas. The Substation was idle for 13 months after construction, as the commissioning of the source line from Athani was delayed.	March 2006	August 2006	NA	NA	March 2007	February 2008 (completed) March 2009 (commi-ssioned)	6.35	2.99	0.84	Item 7 of para 2.1.10.4 Item 1 of para 2.1.11

NA=Not applicable

Annexure 10

Statement showing the package-wise details in the modernisation works of canal system of Bhadra Reservoir Project

(Referred to in Paragraph 2.2.9.1)

Dec 2006*	₹ in crore	Apr 2007	₹ in crore	May 2007	₹ in crore	Aug 2007	₹ in crore	Oct 2008	₹ in crore	Aug 2009	₹ in crore	Jan 2010	₹ in crore	Oct 2010	₹ in crore	Aug 2011	₹ in crore	Sep 2011	₹ in crore	Contractor (name in brief)	Progress achieved as on 31 October 2012	
																					Packages	₹ in crore
1	57.56	1	No bid	1a	20.85	Awarded to SSJV Projects (Rescinded) - Progress achieved and payment made : ₹5.93 crore				1LBC	63.48									MY.Kattimani	1LBC	57.22
										1a1	No bid	1a1	5.27							SM.Biradar	1a1	3.68
										1a2	3.37									AM.Hiremath	1a2	0.90
				1b	21.06					1b1	No bid	1b1	7.42							Mehaboob Ali Dakhani	1b1	3.98
				1c	25.97					1c1	4.54									SM.Biradar	1c1	3.09
										1c2	3.13									PK.Shivaram	1c2	2.94
										1c3	5.45									Veerangowda patil	1c3	4.63
				1d	22.86					1c4	No bid	1c4	4.90							PK.Shivaram	1c4	3.05
										1d1	No bid	1d1	5.57							SV.Bandi	1d1	3.35
										1d2	No bid	1d2	4.90							PK.Shivram	1d2	4.80
2	73.60	2a	106.83	Awarded to IVRCL (Rescinded) - Progress achieved and payment made : ₹5.81 crore										2a1	71.31	(Rescinded) ^		2a1	77.74	Hiagreeva infra	2a1	43.57
														2a2	#	2a2	81.09			Amrutha Constructions	2a2	68.38
														2a3	71.18					-do-	2a3	44.01
		2b	67.35																	SM.Anand	2b	65.62
		2c	No bid	2c1	23.32															Ashok B. Guttedar	2c1	18.16
				2c2	No bid	2c2	No bid	2c2	7.72											BD.Mulimani	2c2	4.79
						2c3	5.49													SC.Biradar	2c3	4.66
						2c4	5.45													GG.Biradar	2c4	1.64
						2c5	6.10													Mehaboob Ali Dakhani	2c5	6.20
						2c6	5.65													SC.Biradar	2c6	5.42
				2c3	No bid	2c7	5.67													Mehaboob Ali Dakhani	2c7	5.99
						2c8	5.38													AM.Hiremath	2c8	4.23
						2c9	No bid	2c9	6.49											Mehaboob Ali Dakhani	2c9	4.18
						2c10	6.93													Amaragundappa A Meti	2c10	2.81
						2c11	5.69													AM.Hiremath	2c11	3.99
3	61.70	3	95.90																	IVRCL	3	84.99
4	60.45	4a	66.30																	K.Shivarao (Raghu infra)	4a	64.70
		4b	61.21																	GVK Reddy	4b	57.67
5	68.11	5a	74.83																	A.Krishna reddy	5a	68.31
		5b	73.49																	GVPR	5b	59.08
6	67.73	6a	85.02																	GVPR	6a	70.66
		6b	91.71																	ND.Waddar	6b	92.58
		6c	53.28																	Ramkay infra	6c	49.97
																				33 packages		**919.25**
Add: Progress achieved and paid in rescinded contracts																						**14.52**
Total Progress achieved																						**933.77**

As on 31 October 2012, Latest recast tendered amount was ₹ 1,091.02 crore**,** Progress achieved was ₹ 933.77 crore and amount paid for progress achieved by the rescinded contractors was ₹ 14.52 crore.

***** The tender notification of December 2006 represents only the amount put to tender since no tenders were awarded and it was split into 12 packages subsequently in Corregenudm-3 (April 2007).

^ Awarded to GVPR (Rescinded) – Progress achieved and payment made was ₹ 2.78 crore. # Awarded to GVPR, but backed out of contract.

Annexure 11
Statement showing the department-wise outstanding Inspection Reports (IRs)
(Referred to in Paragraph 3.12)

Sl. No.	Name of the Department	No. of PSUs	No. of outstanding I.Rs.	No. of outstanding Paragraphs	Year from which outstanding
1	Agriculture and Horticulture	6	8	20	2005-06
2	Animal Husbandry, Fisheries and Forest	5	6	43	2007-08
3	Commerce and Industries	26	45	255	2003-04
4	Home and Transport	5	69	220	2003-04
5	Co-operation	1	1	33	2006-07
6	Information, Tourism and Youth Service	3	5	24	2005-06
7	Irrigation	3	201	625	2003-04
8	Public Works	2	4	19	2005-06
9	Energy	10	205	1220	2003-04
10	Social Welfare and Labour	4	8	52	2005-06
11	Food and Civil Supplies	1	3	20	2006-07
12	Rural Development and Panchayat Raj	1	3	28	2005-06
13	Finance	8	12	48	2006-07
14	Housing	1	2	19	2008-09
15	Information and Technology	1	2	25	2007-08
16	Urban Development	2	2	21	2006-07
17	Employment and Training	1	1	8	2008-11
	Total	**80**	**577**	**2680**	**-**