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.

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[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**