Overview

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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)