सत्यमेव जयते

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

for the year ended March 2013

Government of Karnataka

Report No.4 of the year 2014

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Preface

This Report of the Comptroller and Auditor General of India has been prepared for submission to the Government of Karnataka under Article 151 of the Constitution for being laid before the State Legislature.

The report for the year 2012-13 contains significant results of the compliance and performance audits of the Public Sector Undertakings of all the Departments of the State Government.

The cases mentioned in this Report are among those, which came to notice in the course of test audit (2008-13) of accounts during the period 2012-13 and also those which had come to notice in earlier years but could not be reported in previous Audit Reports. Matters relating to the period subsequent to 2012-13 have also been included, wherever necessary.

Audit has been conducted in conformity with Auditing Standards issued by the Comptroller and Auditor General of India, based on the Auditing Standards of the International Organisation of Supreme Audit Institutions.

Chapter 1 of this Report covers profile of the audited entities, authority for audit, planning and conducting of audit and responses of the department to draft paragraphs. Highlights of audit observations included in this Report have also been brought out in this Chapter.

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 Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2013, the State of Karnataka had 79 working Public Sector Undertakings - PSUs (73 Companies and 6 Statutory Corporations) and 14 non-working PSUs (all Companies), which employed 1.87 lakh employees. The State PSUs registered a turnover of ₹ 37,867.13 crore for 2012-13 as per their latest finalised accounts. This turnover was equal to 7.21 *per cent* of the State Gross Domestic Product indicating the important role played by the PSUs in the economy. The PSUs had accumulated profit of ₹ 1,388.01 crore as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2013, the investment (capital and long term loans) in 93 PSUs was ₹ 69,810.45 crore. Infrastructure Sector accounted for about 54.27 *per cent* of the total investment and Power Sector about 33.18 *per cent* in 2012-13. The Government contributed ₹ 15,058.73 crore towards equity, loans and grants/subsidies in 2012-13.

Performance of PSUs

The working State PSUs earned a profit of ₹ 1,144.33 crore in the aggregate and incurred loss of ₹ 549.04 crore for 2012-13 as per their latest finalised accounts. The major contributors to profit were The Hutti Gold Mines Company Limited (₹ 257.13 crore) and Karnataka Power Corporation Limited (₹ 171.20 crore). Heavy losses were incurred by Karnataka Neeravari Nigama Limited (₹ 235.37 crore), The Mysore Paper Mills Limited (₹ 76.86 crore) and Chamundeshwari Electricity Supply Corporation Limited (₹ 116.27 crore).

Audit noticed various deficiencies in the functioning of PSUs. Cases discussed in the subsequent Chapters of this Report show that there were controllable losses to the extent of ₹ 1,075.66 crore and infructuous investment of ₹ 524.48 crore. The losses could have been minimized or profits enhanced substantially with better management. 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 81 accounts finalised, the Statutory Auditors had given unqualified reports on 26 accounts, qualified reports on 49 accounts, adverse reports (which means that accounts did not reflect a true and fair position) for four accounts and Disclaimer of Opinion on two accounts. The compliance of companies with the Accounting Standards remained poor as there were 98 instances of non-compliance in 34 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 six working PSUs had arrears of 40 accounts as at end of September 2013. The arrears pertain to the years 2011-12 and 2012-13 only. 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 observations emanating from the Performance Audits of **'Construction of roads and bridges by Karnataka Road Development Corporation Limited'** and **'Procurement, storage and release of essential commodities by Public Sector Undertakings'.** Executive summaries of the audit findings are given below:

- **Performance Audit on 'Construction of roads and bridges by Karnataka Road Development Corporation Limited'**

The Company

The Company incorporated to construct, erect, build, re-model, repair, execute, develop, improve and maintain express routes, roads and bridges is fully owned by the Government.

Objectives of the Performance Audit

The objectives of the Performance Audit were to assess whether the conceptualization of projects for execution was done properly after adequate study; the process of acquisition of land was speedy; there was transparency in inviting tenders; the projects with private participation were undertaken after fair and objective assessment of the critical elements of financial viability; the projects were managed effectively to achieve the intended results; and the monitoring and controls were adequate and effective.

Audit findings

Brief outlines of our findings are as follows.

Targets and achievements

Major roads for a length of 404.67 Kms were targeted for completion during the five year period 2008-13. The Company had achieved only 86.47 Kms within the scheduled time. Similarly, the Company had completed only four of the nine major bridges as per the schedule. As regards the Projects proposed for implementation with private participation, only Wagdhari to Ribbanpally Road has since been completed (August 2012) and Dharwad-Alnavar-Ramnagar Road is facing the problem of forest clearance. And the Chikkanayakanahalli – Tiptur -Hassan Road was abandoned by the contractor and is now under litigation.

Roads and major bridges

Changes in designs, wrong assumptions, inept estimations and delayed executions

Design changes after award of contracts, wrong estimates and failure to initiate the process of land acquisition resulted in time and cost over run in many cases. Some of them are as follows.

- **In Mysore-Bantwal Road (Package B), the design was changed from two lane (7 metres) to intermediary lane (5.5 metres) and additional works were entrusted to the contractor after award of the contract. Source of material as mentioned in the DPR was not actually available.**
- **Works of Mysore-Bantwal Road (Package-C), approach road to Mangalore Airport and construction of grade separator at Harohalli, Bidadi were awarded without acquisition of land. These works were delayed. Outer Ring Road around Hassan town is still not completed (2013) even after 4 years.**
- **Wrong assumptions in the DPR of bridge on Sagar-Pattagoppa road led to increase in cost of the work by ₹ 6.59 crore and in delay of 3 ½ years.**

Phase bridges

Tendering and award of works

There were irregularities in calling tenders and award of works, instances of non-adherence to the terms of the contracts and reduction in scope of contracts.

Fixation of high pre-qualification criteria created entry barrier. Consequently, competition was curtailed in bidding of contracts. As a result only three contractors *viz.*, L&T Limited, Gammon India Limited and Nagarjuna Construction Company

Limited (NCCL) had qualified for the tenders in all the three phases.

Letters of Intent/Agreements, were issued/entered into without designs and drawings and Bill of Quantities. Payments were made based on certification, without check measurements by the Company in violation of the Government Order (January 2005).

Only 345 out of 496 bridges were completed in Phase II, III and IV within the stipulated contract period. Though the delay in construction of the balance bridges was attributable to contractors, the Company had not levied liquidated damages amounting to ₹13.26 crore.

Projects with private participation

Even though the GoK had announced the proposal of taking up the projects in the State budget for 2005-06 with private participation, the actual implementation of the projects took almost five years.

The Company had proposed to float a Special Purpose Vehicle (SPV) for executing the projects on BOT/BOOT basis. The SPV was to raise resources through commercial borrowings and the State Government was to fund viability gap. The SPV was to collect toll as well. The Government, however, issued order for construction of the roads on BOT basis, without forming SPV, allowing the private partners to toll and appropriate the revenue to themselves during the concession period of 30 years.

Critical elements of financial viability

The concession periods of projects were not determined on project-specific basis giving due consideration to traffic volume, projected traffic and level of service.

Considering the Net Present Value (NPV) of net operating income after tax of ₹ 208.15 crore, ₹ 61.01 crore and ₹ 616.51 crore for Wagdhari-Ribbanpally Road, Dharwad-Alnavar-Ramnagar Road and Chikkanayakanahalli-Tiptur-Hassan Road respectively, the Company should have insisted for shorter concession period, especially in respect of Chikkanayakanahalli-Tiptur-Hassan Road, where the NPV was very high.

Concessionaire raised loans from banks far in excess of project cost

The private partners had projected the cost of the projects to the bankers much higher than the costs approved by the Planning Commission for all the three projects. This had facilitated them to avail more loan (₹ 185.27 crore in total) than required.

Acquisition of land

Notification for acquisition of land under Section 4(1) of the Land Acquisition Act, 1894 was issued 6 months after the date of financial closure of Dharwad-Ramnagar Road. Similarly, the notification for the Chikkanayakanahally-Tiptur-Hassan Road was issued 2 months after the date of financial closure.

Financial Closure

Penalties amounting to ₹ 0.40 crore and ₹ 1.19 crore were not recovered from GVRMP Whagdhari – Ribbanpally Tollway Private Limited and GVRMP Dharwad – Ramnagar Tollway Private Limited respectively for delayed financial closure.

Observations on specific roads having private participation

Wagdhari-Ribbanpally Road

The major portion of the road had only 100 mm of GSB material in the earthen shoulder portion against 200mm as specified in the agreement. The wearing course executed was not as per the scope of work, as the concessionaire had used lower grade '60/70 grade' bitumen (VG 30) in place of Polymer Modified Bitumen.

Dharwad- Ramnagar Road

The project cost was not re-estimated even though scope of work was downsized. The Concessionaire had completed the road in one stretch running through the forest with 5.5 metres carriageway with varying soft shoulders, against the design of 7.5 metres. Owing to this the actual cost and the VGF required should have been reworked. Either the concession period should have been reassessed or the toll reduced.

Chikkanayakanahalli- Hassan Road

Road with Rigid pavement was ₹ 210.74 crore 'with shoulders'. The concession period was proposed to be 20 years after construction period. The decision of the Board of Directors to offer the construction of the road with rigid pavement with concession period of 30 years, in contravention of the proposal of the Technical Committee had resulted in foregoing revenue from the 21st year to 30th year to the concessionaire.

Monitoring of projects

The two tier monitoring mechanism suggested by the Planning Commission for overseeing the implementation of agreed terms and delivery of specified services of the concessionaire agreement has not been implemented.

Funding

We observed that the Company has not been able to generate funds from the envisaged sources and was entirely dependent on budgetary support of the Government.

Even the allotted funds were not fully utilized in any of the years because of the works lingering on.

Conclusion

We concluded that:

- **There were many instances of faulty preparation of estimates, design changes, delay in land acquisition and getting forest clearances, which resulted in time and cost overrun in execution of road and bridge works.**
- **For Phase bridges, the estimates and the designs were prepared by the executing contractors that too after award of contracts, instead of the Company preparing them. The conditions in the contracts were changed subsequent to award of the contract resulting in undue advantage to the contractors. The pattern of quotations indicated bid rotation.**
- **The Company was entirely dependent on the budgetary support of the Government. It did not generate funds from the envisaged sources though the primary purpose of setting up the Company was independent mobilization of funds.**
- **The Company proposed (June 2006) to float special purpose vehicle (SPV) for executing the road projects on BOT/BOOT basis by raising resources through commercial borrowings and to collect toll. However, the Government issued orders for construction of roads through PPP on BOT basis, without forming SPV, allowing the private partner to toll and appropriate the entire revenue to themselves for 30 years. The opportunity for the Government to obtain a return on investment has been lost.**
- **The PPP Projects attracted a lukewarm response. Of the three projects taken up till date (December 2013), two are lingering on after 2 to 3 years.**
- **There were changes in design and use of materials after the three PPP projects were awarded and such expenditure was not factored in the cost of the project. We observed that in view of the likelihood of tolling being reduced on Dharwad-Ramnagar Road, on account of restriction of the road width, there would be significant impact on the project financials.**
- **The decision of the Board of Directors to offer the construction of the Chikkanayakanahalli- Hassan Road with rigid pavement with concession period of 30 years, in contravention of the suggestion of the Technical Committee, had resulted in the Company foregoing revenue from the 21st year to 30th year to the concessionaire.**
- **The two tier monitoring mechanism as envisaged by the Planning Commission has not been put in place. Independent Engineers for supervising the projects were appointed seven months after the stipulated date.**
- **Electronic Data interchanges for analyzing traffic census and sampling are yet to be created.**

Recommendations

We recommend that:

- **As the Company was set up as a Special Purpose Vehicle, it should function accordingly and should generate and expend its own funds for achieving its objectives.**
- **Estimates and design of the roads and bridges projects prepared by Consultants**

and Contractors did not match with actuals. Therefore, these need to be examined and evaluated independently before approval.

- **The practice of entrusting the task of designing and estimating the projects after award of works should be eschewed.**
- **Survey of land and the process of acquisition should be started in advance, once Detailed Project Reports are finalised. An institutional mechanism to co-ordinate the entire process of land acquisition and various clearances is required to be put in place to avoid delays and overruns.**
- **The possibility of executing projects under Joint Venture model through a revenue sharing mode between Company and private partner needs to be explored.**
- **The two-tier monitoring mechanism suggested by the Planning Commission for overseeing the implementation of the agreed terms and delivery of specified services of the concessionaire agreement needs to be implemented at the earliest.**
- **The Electronic Data Interchange for efficient and transparent regulation and management needs to be put in place at the earliest.**

(Chapter 2.1)

Performance Audit on 'Procurement, storage and release of essential commodities by Public Sector Undertakings'

Introduction

Food management in the State Sector has three basic components: procurement of food grains from farmers affording them remunerative prices, distribution of food grains particularly to the vulnerable sections of the society at affordable prices and maintenance of food buffers for food security and price stability. The Decentralised Procurement Scheme (DCP), empowering the States to procure food grains, was introduced in 1997-98. The State of Karnataka came into the scheme in the year 2004-05. The Public Sector Undertakings which undertake the procurement, storage and distribution of food grains in the State are Karnataka Food and Civil Supplies Corporation Limited (KFCSC) and Karnataka State Warehousing Corporation (KSWC)

Profiles of the institutions involved

KFCSC is responsible for procurement of paddy and other coarse grains through Minimum Support Price (MSP) operations and from Central Pool; maintaining the Targeted Public Distribution System(TPDS) and implementing other allied schemes of the Governments such as Sampoorna Grameena Rojgar Yojana, Flood Relief Scheme and Mid-day Meal Scheme.

KSWC is the agency to store food grains and other commodities. KSWC also acts as a procuring agency under the MSP operation as and when directed by the Government of Karnataka. KFCSC is the major user of the storage facilities.

Objectives of the Performance Audit

The performance audit was conducted to ascertain whether estimation of requirements of food grains and its procurement, allotment and off-take were adequate and as per the policies; the activities were efficient and effective; essential commodities were released in time and as per the directions/orders of Government/agencies; and monitoring and internal control systems were adequate, appropriate and efficient.

Requirement of essential commodities

The GoI allotted food grains to the State for 31.29 lakh Below Poverty Line (BPL), including Anthyodaya Anna Yojana (AAY) families. The allotment was at the rate of 29 Kgs of rice for every family.

The GoK, however, had identified BPL cardholders (including AAY) by adopting its own criteria and the number of cardholders determined was 106.13 lakh cardholders as at end of March 2009 and 98.34 lakh cardholders as at end of March 2013. The GoK supplied food grains to the cardholders who were not in the BPL category (as defined by the Planning Commission), categorizing them as 'Extra BPL' (EBPL)

GoK reduced the quantity of supply of rice to BPL card holders (excluding AAY families) from 29 Kgs per cardholder to a maximum of 20 Kgs.

Procurement of rice

Production in the State *vis-à-vis* procurement

The performance of KFCSC, the sole agency vested with the responsibility of MSP operations and procurement of levy rice was poor. It succeeded in procuring only 4.712 (2.37 *per cent*) lakh MTs, against the production of 198.45 lakh MTs in the years from 2008-09 to 2012-13. This situation had resulted in drawing bulk of the requirements from the Central Pool of food grains for supplying to the families coming under BPL and AAY. The production in the State was sufficient to meet the requirement of TPDS.

Procurement of Custom Milled Rice

Hulling and distribution

Hulling was never completed within the dates prescribed by GoI in any of the last four years ended 2012-13. The delays in hulling ranged from 5 months in 2009-10 to 13 months in 2011-12. Hulling for 2012-13 was yet to be completed (December 2013). The distribution of rice to the TPDS after receipt of rice was also delayed.

Economic cost *vis-a-vis* actual

One of the objectives of the DCP was to reduce the cost of procurement and thereby, reduce the subsidy burden on Governments. Our analysis indicated that the procurement of paddy by KFCSC was not economical.

Compared with the economic cost fixed by the GoI of ₹ 18.34 for 2009-10 and ₹ 18.38 for 2010-11 for a Kg of rice for procurement in the

State, the actual cost at the point of release to TPDS was ₹ 22.30 and ₹ 28.79 respectively. The increase in cost was on account of high interest charges incurred for holding stock and excessive charges paid for transportation, milling and storage. The MSP operations in the decentralised set up had only increased the subsidy burden.

The FCI had booked the cost of procurement and distribution of rice as ₹18.27 and ₹ 19.83 per Kg in 2009-10 and 2010-11.

Mill Point Levy Rice

Poor collection

A quantity of 58.70 lakh MTs of paddy was milled in the year 2011-12 and 56.42 lakh MTs in 2012-13, assessed on the basis of the quantum of electricity consumed. In terms of extant of the Levy Order, the millers and dealers were required to make available 13.03 lakh MTs and 12.11 lakh MTs of rice for levy in the two years, which is 33.33 *per cent* of the quantity milled.

The GoK lowered the target for supply of Levy rice to 3 lakh MTs for 2011-12 and 3.5 lakh MTs for 2012-13. The GoK reduced (December 2012) the target for 2012-13 further to 1.5 lakh MTs. The Levy Order, however, did not have a provision to reduce the targets for levy collection.

The actual collection of rice from millers during 2011-12 was only 2.03 lakh MTs and in 2012-13, it was even lesser at 0.59 lakh MTs. There were no initiatives to ensure compliance with the Levy order in terms of the rice procurement from the dealers, in any of the years.

Extra cost on account of failure to meet the levy target

Procurement of targeted quantity of levy rice would have made the State less dependent on the Central Pool (FCI) and reduced the cost of TPDS.

The total quantum of mill point levy rice not collected and/or not offered was 22.52 lakh MTs in 2011-12 and 2012-13. The additional cost incurred for procurement of this quantity from Central Pool was about ₹ 948.61 crore.

Procurement of Maize

Cost of transportation of maize

KFCSC procured 4.22 lakh MTs of maize directly from farmers during 2008-09 and 2009-10 and KSWC procured 1.30 lakh MTs during 2009-10. The quantity of maize procured was sold by FCI through tenders.

The transportation charges paid by KFCSC were 45 *per cent* more than the rates fixed by GoI in 2008-09 and 311 *per cent* in 2009-10. The excess cost incurred worked out to ₹ 9.09 crore

The cost of transportation incurred by KFCSC in 2009-10 was very high (₹ 56.94 per quintal) in comparison to costs of KSWC and KSCMF (₹ 29.73 and ₹ 46.90 per quintal respectively) who were also involved in similar operations in the same year.

Storage

Storage in private godowns

KFCSC had not been initiating action to reserve space in Government owned warehouses for storage of their procurements. KFCSC hired private godowns for storing the food grains.

Distribution

Determination of eligible families for supply of food grains

The State supplied food grains to the cardholders, who were not coming under the BPL category as per the Planning Commission, categorizing them as 'Extra BPL category' (EBPL).

The GoK identified 31.24 lakh cards as excess or fictitious in January 2011. Prior to 2011 these cards were part of the BPL/EBPL categories.

The number of APL cardholders identified by GoK in the State ranged between 52.98 lakh during 2008-09 and 34.99 lakh during 2012-13. While GoI had been supplying rice for supply to APL families as per their assessment on regular basis, those supplies did not reach the APL families.

Supply of Rice, Wheat and Sugar

The GoI had allotted food grains for distribution to BPL and AAY cardholders approved by them at the rate of 35 Kgs per family per month (29 Kgs rice and 6 Kgs wheat per family per month) from April 2002 onwards. GoK had, however, adopted different parameters for distribution of food grains. This system restricted the eligibility of BPL families to a maximum of 23 Kgs.

Electronic weigh bridges at wholesale points

The Commissioner (FCS&CA) directed (June 2010) all the wholesale nominees of the state to install electronic weigh bridge within a period of three months; otherwise, their wholesale trade license was liable to be cancelled. KFCSC has not installed so far stating (June 2013) that no fund was released by the GoK for the purpose.

System lapses in procurement, storage and distribution

We observed that there were system deficiencies in the procurement, storage and distribution processes, which resulted in misappropriation of stock and shortages of food grains. The Company had no system of monitoring the quantity received at procurement centres, quantity handled, quantity of stock/bags loaded in trucks at procurement centres and reconciliation of quantities received at storage point with loaded quantities. The system of checking the quality of food grains procured was also deficient.

Internal Control and Internal Audit

The KFCSC has not devised appropriate Management Information System to generate and disseminate reliable consolidated information of its activities. There were no manuals relating to procurement, accounting and audit. Physical verification of stock procured under MSP Operations was not conducted periodically.

Conclusion

We conclude that:

- **The procurement of rice by KFCSC, the sole procuring agency in the State under DCP and levy schemes, was poor. This had resulted in drawing almost the entire quantity of its requirements from the Central Pool.**
- **The cost of operations had always been on the higher side when compared with the economic cost fixed by GoI, as also with reference to the costs of procurement of FCI.**
- **Hulling and release of food grains were delayed. The various elements of cost such as cost of transportation, cost of carrying inventory, charges for storage and other charges exceeded the limits prescribed by the GoI substantially. There were no efforts to keep the costs in check and keep it at economic level.**
- **The targeted quantity of rice and sugar were not procured from Rice Millers, Dealers and Sugar Mills.**
- **Lack of adequate monitoring and internal control in procurement, storage and release activities resulted in misappropriation, shortage, and procurement of grains of poor quality.**
- **Management Information System in the Company was deficient. Manpower Management, Internal Control System and Monitoring by Management were also deficient.**

Recommendations

We recommend that:

- **The KFCSC should strengthen its procurement mechanism by improving the Decentralised procurement activities to maximise the procurement of rice produced in the State. The Levy Order, 1999 should be enforced.**
- **KFCSC should control the cost of transportation, hulling, and carrying of inventory. In the context of ensuring food security to the people, the abnormal increase in controllable cost is a huge burden on the exchequer.**
- **Hulling of paddy must be completed within stipulated time. The releases of food grains under TPDS should not be delayed.**
- **The system of periodical checking of the quantity and quality of food grains needs improvement. The system of monitoring the records on the arrivals at procurement centres and transfers to storage points needs to be strengthened.**
- **All eligible BPL families should get the quota of food grains as fixed by the GoI. Identification of all eligible beneficiaries through a verifiable and transparent system and weeding out of fictitious cardholders should be a regular feature.**

(Chapter 2.2)

3. Compliance 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 ₹ 147.90 crore.

(Paragraphs-3.1.12, 3.2.7.1, 3.2.7.7, 3.3.3.1, 3.3.3.2, 3.3.4.1, 3.3.4.2, 3.3.4.3, 3.5, 3.8)

Violation of contractual obligations/undue favours to contractors resulted in loss of ₹ 488.42 crore.

(Paragraphs-3.1.10, 3.1.14, 3.2.7.2, 3.2.7.8, 3.2.7.9, 3.3.4.4, 3.3.5.3, 3.3.5.6, 3.4, 3.7)

Non-recovery of dues amounting to ₹ 82.84 crore.

(Paragraphs-3.1.11, 3.1.16, 3.1.17, 3.9.5, 3.9.6, 3.9.7)

Extra avoidable expenses amounting to ₹ 368.78 crore.

(Paragraphs-3.1.9, 3.2.7.3, 3.2.7.4, 3.2.7.5, 3.2.8.2, 3.2.8.3, 3.2.8.4, 3.2.11.1, 3.2.11.2, 3.2.11.3, 3.2.11.4)

Extra expenditure on account of other factors amounting to ₹ 406.39 crore.

(Paragraphs-3.1.13, 3.1.18.1, 3.2.5, 3.2.8.1, 3.3.8, 3.6, 3.10)

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

- The terms of the agreement between **Karnataka Power Corporation Limited** (Company) and Eastern Mining Trading Agency forming the Joint Venture Company called Karnataka EMTA Coal Mines Limited (KECML) for exploitation of captive coal blocks did not safeguard the financial interests of the Company. The Company's share of the coal reserves was valued at ₹ 1.30 crore. A conservative estimate of the value of coal reserves done by Audit was ₹ 9272.58 crore. The generation company paid for superior grade of coal, though the grade of coal in the mines was lower. This resulted in undue financial benefit to EMTA to the extent of ₹ 187.87 crore. The Company had no definite knowledge of cost of mining reported by the joint venture partner. The EMTA had been claiming the entire revenue as cost of mining, leaving a meager balance as profit of the JV. The deposit for mine closure and environment protection measures was not created.

  (Paragraph 3.1)

- On a study of *Implementation of Rajiv Gandhi Grameen Vidyuthikaran Yojana* by **Electricity Supply Companies,** we observed that ESCOMs had prepared DPRs and estimates for works without conducting proper survey and based on outdated data. The projects in X Plan were completed with a delay of 18 to 30 months, while the implementation in XI Plan was still lingering on. Closure proposals were submitted without providing electricity to public places such as schools, hospitals and panchayats. Quantities in excess of requirements and norms were consumed in the projects, increasing costs by ₹ 53.21 crore. ESCOMs incurred additional expenditure of ₹ 71.73 crore on service connections. Monitoring of the projects was not as per the guidelines. The intended goal of providing power for all by 2009 was not achieved even after lapse of four years from targeted date.

(Paragraph 3.2)

- There were many irregularities, inconsistencies and shortfalls in acquisition of land, development of industrial estates and allotment of plots and sheds. Properties were transferred or sold without safeguarding the interests of the institution in **Karnataka State Small Industries Development Corporation,** which had resulted in doubtful recovery of ₹ 13.39 crore.

(Paragraph 3.3)

- The Tungabhadra Minerals Private Limited, a Joint Venture of **Mysore Minerals Limited** and V.M.Salgaocar Brothers Private Limited, Goa, formed to set up iron ore based industry using the ore from the mines of the former, was allowed to mine and sell raw ore. The private partner extracted undue financial advantage, breaching the terms of the agreement. The failure of the Company to take timely action in resuming the leases resulted in loss of ₹ 220.33 crore.

(Paragraph 3.4)

- The **Karnataka State Financial Corporation** was not successful in recovering overdue amount from the borrowers, though it was empowered by law. In many cases, the Corporation delayed the process of recovery even after obtaining favorable court decisions.

(Paragraph 3.9)

Chapter - I

Overview

Chapter - I

1. Overview of State Public Sector Undertakings

Introduction

1.1 In Karnataka, the State Public Sector Undertakings (PSUs) have an important place in the economy. Government of Karnataka (GoK) undertakes commercial activities in these PSUs, which are owned, managed and controlled by the State. They are basically categorized into Statutory Corporations and Government companies. Statutory Corporations are public enterprises that have come into existence by Special Acts of the Legislature. The Acts define 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 Company. Further, 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 (Government Companies and Statutory Corporations) operate mainly in three major sectors of the economy *viz*., Infrastructure, Power and Finance. The State PSUs had provided employment to about 1.87 lakh persons as on 31 March 2013. A sector-wise summary of the investment in the PSUs is given below:

Table 1.1 : Sector-wise summary of the investment in the PSUs

Name of sector	Government companies[1]		Statutory corporations	Total	Investment[2] (₹ in crore)
	Working	Non-working[3]			
Infrastructure	11	-		11	37,883.01
Power	11	-		11	23,161.84
Finance	13	-	1	14	4,890.00
Others	38	14	5	57	3,875.60
Total	**73**	**14**	**6**	**93**	**69,810.45**

As on 31 March 2013, there were 93 PSUs, of which 79 were working and 14 were non-working. Of these, two Companies[4] were listed on the stock exchange(s). During the year 2012-13, three new PSUs (Tadadi Port Limited, Hubli-Dharwad BRTS Company Limited and Karnataka State Coal Mining Company Limited) were established.

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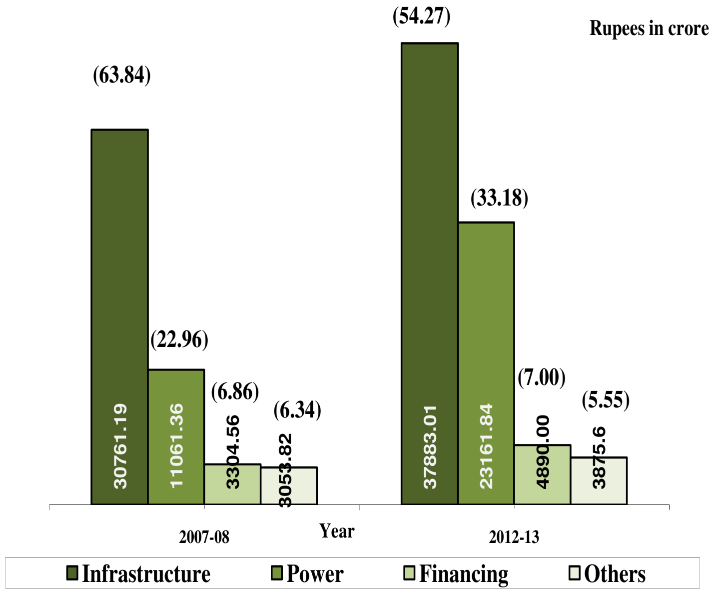
[1] **Includes 619-B companies.**
[2] **Investment includes capital and long-term loans.**
[3] **Non-working PSUs are those which have ceased to carry on their operations.**
[4] **The Mysore Paper Mills Limited and Mysore Paints and Varnish Limited.**

1.3 The investment in various important sectors and percentage thereof at the end of 31 March 2008 and 31 March 2013 are indicated below in the bar chart. Out of total investments, the investment in power sector has seen its percentage share rising to 33.18 *per cent* in 2012-13 from 22.96 *per cent* in 2007-08.



(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 Boards 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 investments in the PSUs. For this, the Annual Reports 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 19A 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 is 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 2013, the investment (capital and long-term loans) in 93 PSUs (including 619-B companies) was ₹ 69,810.45 crore as per details given below:

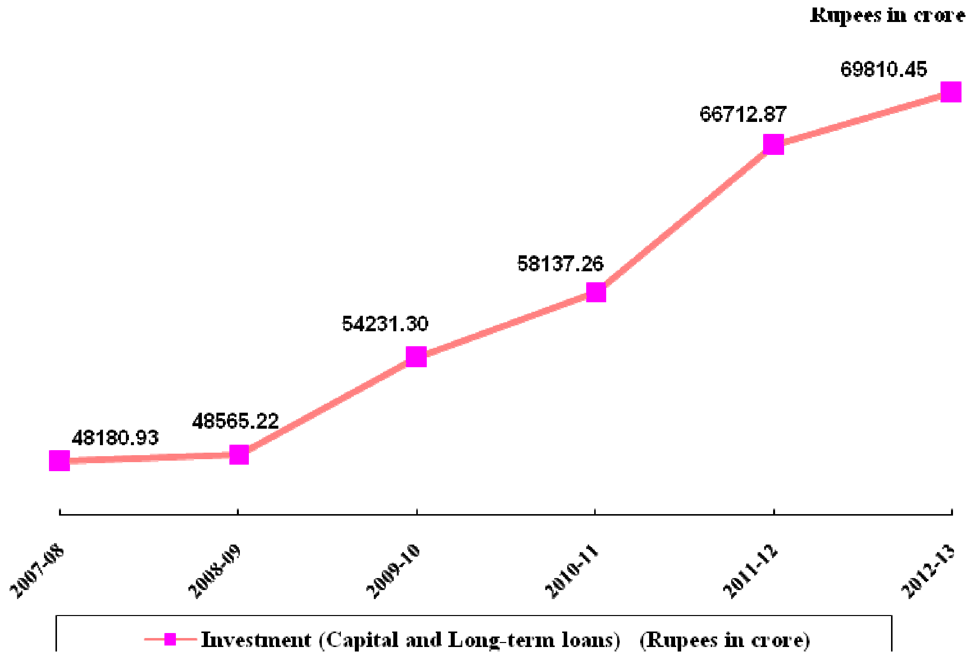
Table 1.2: Investment (capital and long-term loans) in PSUs

(₹ in crore)

Type	Government Companies			Statutory Corporations			Grand total
	Capital	Long term loans	Total	Capital	Long term loans	Total	
Working PSUs	40,415.37	23,517.73	63,933.10	1,799.44	3,480.92	5,280.36	**69,213.46**
Non-working PSUs	161.35	435.64	596.99	-	-	-	**596.99**
Total	**40,576.72**	**23,953.37**	**64,530.09**	**1,799.44**	**3,480.92**	**5,280.36**	**69,810.45**

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

1.11 As on 31 March 2013, of the total investment in PSUs, 99.14 *per cent* was in working PSUs and the remaining 0.86 *per cent* in non-working PSUs. The total investment consisted of 60.70 *per cent* towards capital and 39.30 *per cent* in long-term loans. The investment has grown by 44.89 *per cent* from ₹ 48,180.93 crore in 2007-08 to ₹ 69,810.45 crore in 2012-13 as shown in the graph below:



1.12 The capital investment as well as long-term loans increased by ₹ 18,273.55 crore and ₹ 3,355.97 crore respectively during 2008-2013. There was overall net increase in investment by ₹ 21,629.52 crore during the period.

1.13 As per the latest finalised accounts of the State PSUs, the capital investment was of ₹ 38,005.61 crore and the accumulated profits there against were ₹ 1,388.01 crore.

Budgetary support to PSUs

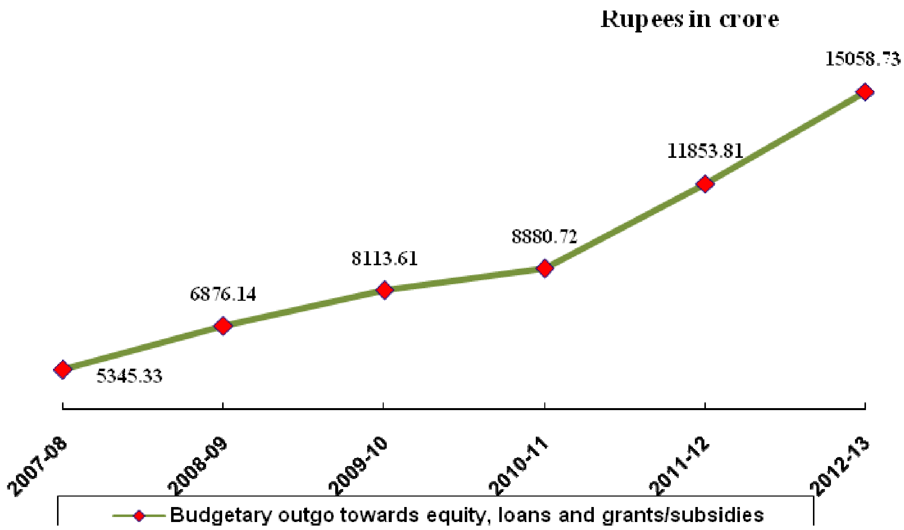
1.14 The details regarding budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of PSUs are given in **Annexure 3**. The summarised details are given below for three years ended 2012-13.

Table 1.3: Details regarding budgetary support to PSUs

(Amount: ₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	25	5,126.76	19	4,442.57	23	4,660.59
2	Loans given from budget	5	58.00	2	46.60	3	11.08
3	Grants/Subsidy received	32	3,695.96	34	7,364.64	36	10,387.06
4	**Total outgo (Sl.No.1+Sl.No.2+Sl.No.3)[5]**	**45**	**8,880.72**	**42**	**11,853.81**	**51**	**15,058.73**
5	Guarantee commission converted into equity	2	9.07	7	148.27	1	101.50
6	Loans written off	-	-	-	-	-	-
7	Guarantee commission written off	-	-	-	-	1	2.19
8	Guarantees issued	12	517.30	7	920.72	7	557.19
9	Guarantee commitment	27	3,802.38	19	3,353.86	20	3,500.88

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 ₹ 6,876.14 crore in 2008-09 to ₹ 15,058.73 crore in 2012-13.

Guarantees for loan and guarantee commission outstanding

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 2012-13 the PSUs paid guarantee commission of ₹ 142.61 crore. The Government converted guarantee commission due from Krishna Bhagya Jala

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

Nigam Limited of ₹ 101.50 crore into equity and waived off ₹ 2.19 crore due from Mysore Paper Mills Limited. The guarantee commission outstanding to be paid to the Government by all PSUs was ₹ 76.68 crore. The PSUs which had major arrears were, Karnataka Neeravari Nigam Limited (₹ 19.64 crore) and Rajiv Gandhi Rural Housing Corporation Limited (₹ 37.60 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 2013 is stated below:

Table 1.4: Equity, loans and guarantees outstanding as per records of Finance Accounts and PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1	2	3	4 = 2-3
Equity	43,571.38	40,427.37	3,144.01
Loans	2,392.00	7,722.01	(-) 5,330.01
Guarantees	3,522.30	3,500.90	21.40

1.18 We observed that the differences occurred in respect of 74 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, the 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 2013.

Table 1.5: Position relating to finalization of accounts of working PSUs

Sl.No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1	Number of working PSUs & Statutory Corporations	72	75	75	76	79
2	Number of accounts finalised during the year	74	73	69	59	81
3	Number of accounts in arrears	18	20	25	42	40
4	Average arrears *per* PSU (3/1)	0.25	0.27	0.33	0.55	0.51
5	Number of working PSUs with arrears in accounts	16	20	24	37	36
6	Extent of arrears	1 to 2 years	1 year	1 to 2 years	1 to 2 years	1 to 2 years

1.20 The number of working PSUs with arrears in accounts increased from 16 as at end of September 2009 to 36 as at end of September 2013 indicating poor performance in finalization[6] of accounts.

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]. These accounts are in arrears for periods ranging from six to ten years. These Companies are also required to finalise their accounts for the broken period under Section 446A of the Companies Act, 1956. The remaining seven PSUs had finalised their accounts for 2012-13 by September 2013.

1.22 The State Government had invested ₹ 12,280.63 crore (equity: ₹ 4,118. 13 crore, grants: ₹ 1,321.70 crore and subsidy: ₹ 6,840.80 crore) in 36 PSUs during the years for which accounts had not been finalised as on 30 September 2013 as detailed in **Annexure 4**.

Impact of non-finalisation of accounts

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

1.24 In the absence of accounts and their 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.

1.25 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 2012-13 could not be ascertained. However, as per the latest finalized accounts the contribution of PSUs to State GDP was 7.21 *per cent*.

1.26 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.

Performance of PSUs

Problems in assessing performance

1.27 The actual performance of the PSUs, in view of the backlog in finalisation of accounts, could not be ascertained.

1.28 The financial results of PSUs, financial position and working results of working Statutory Corporations are detailed in **Annexure 2, 5 and 6**

[6] **Between October and December 2013, 22 PSUs finalized their 22 accounts. 18 accounts of 14 working PSUs were still pending finalization as at end of December 2013.**

[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.**

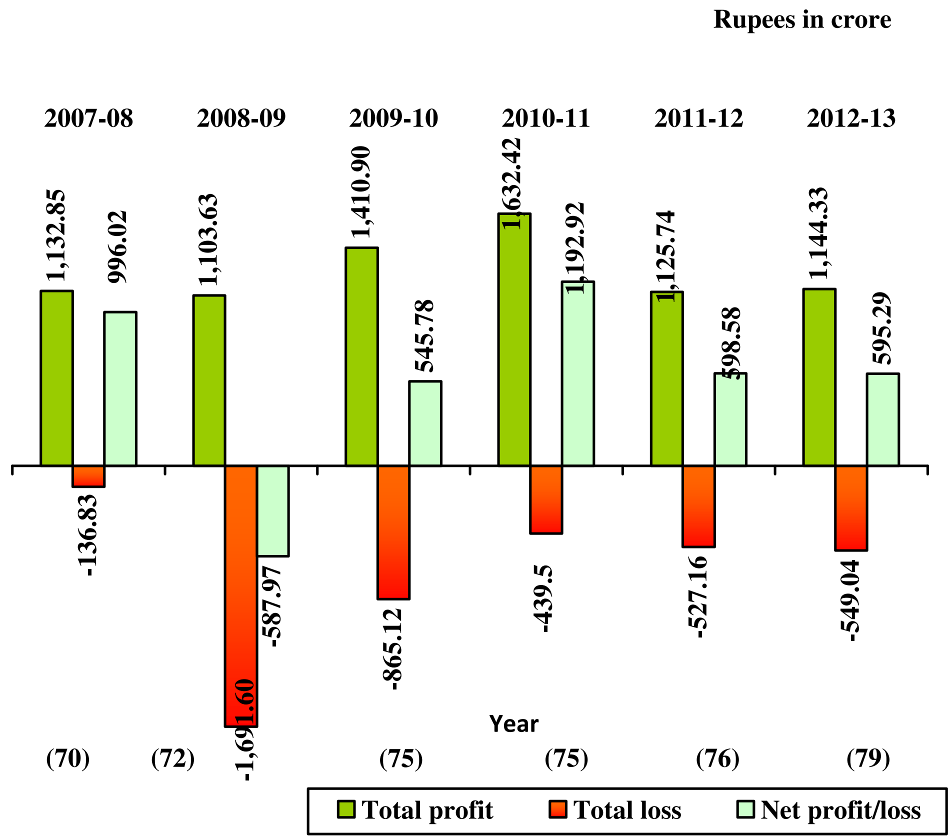
respectively. The ratios of PSU turnover to State GDP show the significant extent of PSU activities in the State economy. The table below provides the details of working PSUs' turnover *vis-a-vis* State GDP for the period 2008-09 to 2012-13.

Table 1.6: Details of working PSUs' turnover *vis-a-vis* State GDP

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Turnover[8]	32,627.68	36,369.48	41,493.51	34,490.58	37,867.13
State GDP	3,10,312	3,37,516	3,98,893	4,58,903	5,25,444[9]
Percentage of turnover to State GDP	10.51	10.78	10.40	7.52	7.21

1.29 Profit earned or loss incurred by working PSUs during 2007-08 to 2012-13 is given below in the bar chart.



The total profits earned, losses incurred and the net profit/loss of the working PSUs for the period 2007-08 to 2012-13.

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

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[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 2012-13 are Advance Estimates.**

1.30 As per their latest finalised accounts, out of 79 working PSUs, 49 PSUs earned profit of ₹ 1,144.33 crore and 23 PSUs incurred loss of ₹ 549.04 crore. One working PSU (Hubli-Dharwad BRTS Company Limited) incorporated in May 2012 had not finalised their first accounts. Three 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. One Company (Karnataka Urban Infrastructure Development and Finance Corporation Limited) recorded zero profit by claiming management fee equal to the net administrative expenses incurred.

The major contributors to profit were The Hutti Gold Mines Company Limited (₹ 257.13 crore) and Karnataka Power Corporation Limited (₹ 171.20 crore). The heavy losses were incurred by Karnataka Neeravari Nigama Limited (₹ 235.37 crore), The Mysore Paper Mills Limited (₹ 76.86 crore) and Chamundeshwari Electricity Supply Corporation Limited (₹ 116.27 crore).

Reasons for the losses

1.31 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, their operations and monitoring. Cases discussed in the subsequent Chapters of this Report show that there were controllable losses to the extent of ₹ 1,075.66 crore and infructuous investment of ₹ 524.48 crore. The losses could have been minimized or profits enhanced substantially with better management. Year-wise details from Audit Reports, for last three years are given below:

Table 1.7: Controllable losses and infructuous investment commented in Audit Reports

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	Total
Net Profit / Loss(-)	987.03	407.87	413.72	1,808.62
Controllable losses as per the CAG's Audit Report	1,160.57	1,890.63	1,075.66	4,126.86
Infructuous investment	72.62	112.95	524.48	710.05

1.32 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 situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

[10] Cauvery Neeravari Nigama Limited, Raichur Power Corporation Limited and Karnataka State Mango Development and Marketing Corporation Limited.

Capital employed, Debt, turnover and dividend

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

Table 1.8: Key parameters pertaining to PSUs

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Return on capital employed (*per cent*)	4.58	1.88	3.47	4.40	4.22	4.77
Debt	24,078.32	24,087.55	24,704.05	25,364.38	29,197.31	27,434.29
Turnover[11]	28,218.05	32,627.68	36,369.48	41,493.51	34,490.58	37,867.13
Debt-Turnover ratio	0.85:1	0.74:1	0.68:1	0.61:1	0.85:1	0.72:1
Interest payments	1,607.58	1,556.95	1,901.19	2,269.00	2,555.79	2,557.69
Accumulated profits/losses (-)	1,248.48	(-) 39.93	(-) 197.93	1,007.36	1,368.93	1,388.01

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

1.34 There was increase in turnover as compared to the previous year, contributed mainly by improvement in turnover of the Transport Corporations, Power Sector Companies, Karnataka Food and Civil Supplies Corporation Limited, Mysore Sales International Limited and Karnataka Rural Infrastructure Development Limited. The reduction in Debt is mainly due to reclassification of long term loans (previous year) to short term loans during the year 2012-13 by Karnataka Power Corporation Limited.

1.35 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 latest finalised accounts, 53 PSUs[12] earned an aggregate profit of ₹ 1,145.55 crore. But, only 17 PSUs declared dividend, which amounted to ₹ 50.09 crore.

Non-working PSUs

1.36 There were 14 non-working PSUs (all Companies) as on 31 March 2013. 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:

[11] **Turnover of working PSUs as per the latest finalised accounts as of 30 September 2013.**
[12] **Including non-working Government companies.**

Table 1.9: Number of non-working companies

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
No. of non-working companies	16	15	14	14	14

During 2012-13, seven non-working PSUs[13] incurred an expenditure of ₹ 1.52 crore towards establishment costs. This expenditure was met through rent, interest and other sources by these PSUs.

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

Table 1.10: Stages of closure of non-working PSUs

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

1.38 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.

Comments on Accounts and Internal Audit

1.39 Sixty seven working companies forwarded their 81 audited accounts to the Principal Accountant General (PAG) during the year 2012-13 as of 30 September 2013. Of these, 45 accounts of 42 companies were selected for supplementary audit. Remaining 36 accounts were issued Non-review certificates. 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:

[13] **Karnataka Agro Industries Corporation Limited (₹ 0.18 crore), The Mysore Tobacco Company Limited (₹ 0.29 crore), Karnataka Pulpwood Limited (₹ 0.01 crore), The Mysore Match Company Limited (₹ 0.01 crore), The Mysore Lamps Works Limited (₹ 0.97 crore), Vijayanagar Steel Limited (₹ 0.04 crore), The Mysore Chrome Tanning Company Limited (₹ 0.02 crore)**

Table 1.11: Details of aggregate money value of comments

(Amount : ₹ in crore)

Sl. No.	Impact of comments	2010-11		2011-12		2012-13	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	8	267.07	15	1045.66	5	78.31
2	Increase in profit	4	9.88	2	2.86	5	3.33
3	Decrease in loss	1	0.03	1	1.56	10	1.97
4	Increase in loss	8	46.76	4	45.57	9	228.28

1.40 During the year 2012-13, the Statutory Auditors had given unqualified reports on 26 accounts, qualified reports on 49 accounts, adverse reports (which means that accounts did not reflect a true and fair position) on four accounts and Disclaimer of Opinion on two accounts. The compliance of companies with the Accounting Standards remained poor as there were 98 instances of non-compliance in 34 companies during the year.

1.41 Some of the important comments of the Statutory Auditors on the accounts of companies are stated below:

Karnataka Minorities Development Corporation Limited (2011-12)

- The accounts do not give a true and fair view in conformity with the accounting principles generally accepted in India proper books of accounts as required by law have not been kept by the Company and the Balance Sheet and the Statement of Profit & Loss are not in agreement with the books of accounts and they do not comply with the Accounting Standards referred to in Subsection (3C) of Section 211 of the Companies Act, 1956.

Karnataka Scheduled Tribes Development Corporation Limited (2010-11 and 2011-12)

- The financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India.

Karnataka Public Lands Corporation Limited (2011-12)

- The Balance Sheet and Profit and Loss Account do not comply with the Accounting Standards, do not give the information required by the Companies Act, 1956, and do not give a true and fair view in conformity with the accounting principles generally accepted in India.

- The Company is showing a share capital of ₹ 5 lakh which should be shown as share application money received as the procedures of issuing the share capital had not been done by the Company.

- The functioning of the Company as a separate legal entity is doubtful as it is working as a Division of the Government Department.

Karnataka Sheep and Wool Development Corporation Limited (2011-12)

- Specific grant funds (to an extent of ₹ 1.46 crore) have been diverted for other purposes without approvals.

- Advances given for construction in earlier years amounting to ₹ 1.39 crore has not been capitalized for want of bills.

D.Devraj Urs Backward Classes Development Corporation Limited (2012-13)

- The Company has accounted the loans in its books without obtaining loan documents from 1,105 beneficiaries out of 47,511. There is no proper documentation and acknowledgement of debt from majority of borrowers. As such the classification of loans amounting to ₹ 163.09 crore as good and provision for doubtful debts at 5 *per cent* are not proper.

Mysore Paper Mills Limited (2011-12)

- The Company has contravened the terms of issue of bonds of ₹ 50 crore raised during July 2010 and used it for purposes other than for which it was raised without informing the State Government, trustees of the bond holders and the bond holders.

Karnataka Thanda Development Corporation Limited (2011-12)

- We are unable to express our opinion on the genuineness of payments amounting to ₹ 64.39 lakh, as these payments have to be made to parties other than those who have raised invoices.

- We are unable to express our opinion on the genuineness of the payments amounting to ₹ 10 lakh as these funds were transferred to the personal Savings Bank account of the General Manager.

- Multiple cheques were issued to clear the payment of bills exceeding ₹ 5,000 and were withdrawn by parties other than to whom the payments were purportedly made.

Karnataka Rural Infrastructure Development Limited (2011-12)

- Receivables pertaining to Accounting Years 2003-04 to 2008-09 amounting to ₹ 20.87 crore are barred by the limitation of time and has not been provided in the financials resulting in overstatement of receivables and profits of the Company for the year.

- ₹ 3.20 crore receivable from various firms, ₹ 37.33 lakh from employees and ₹ 72.09 lakh from others (name of parties not available) are overdue for long time for want of information. The Company has not provided for the same which has resulted in overstatement of advance (receivable) and profits of the Company for the year.

Karnataka Neeravari Nigam Limited. (2011-12)

- Treatment of sale of rubbles as direct income instead of eliminating the same from cost of the fixed assets is not in compliance with Accounting Standard 10 on Accounting for Fixed assets and has resulted in overstatement of assets and other income by ₹ 6.20 crore.

Karnataka Cashew Development Corporation Limited (2012-13)

- Interest amounting to ₹ 1.24 crore on the loan of ₹ 3 crore borrowed from the Government of Karnataka was reversed without obtaining the approval of the Government.

- The Corporation has not remitted the lease rent amounting to ₹ 1.93 crore payable to the Karnataka Forest Department since 1987 and no provision has been made in the accounts in respect of the interest that it may be called upon to pay on the above default.

1.42 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 of India 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 13 Companies are given in **Annexure 7**.

Finalisation of accounts by Statutory Corporations

1.43 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.

Audit of the accounts six Statutory Corporations for the year 2011-12 were completed during the year 2012-13. The SARs in respect of all Statutory Corporations for the period 2011-12 had been placed in State Legislature.

Five out of six Statutory Corporations forwarded (up to September 2013) their accounts for the year 2012-13 to the Principal Accountant General. The audit of the accounts of all these Statutory Corporations was in progress (September 2013). One Statutory Corporation (Karnataka State Warehousing Corporation) had not forwarded their accounts of 2012-13 till September 2013.

1.44 The SARs on the accounts finalised indicated that the quality of maintenance of accounts needed improvement. The details of aggregate money value of comments of the CAG are given below:

Table 1.12: Details of aggregate money value of comments on the accounts of Statutory Corporations

(Amount : ₹ in crore)

Sl. No.	Impact of comments	2010-11		2011-12		2012-13	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	6	38.61	-	-	4	35.39
2	Increase in profit	-	-	-	-	-	-
3	Decrease in loss	-	-	-	-	-	-
4	Increase in loss	3	53.05	1	10.90	2	21.37

1.45 Some of the important comments on the accounts of the Statutory Corporations are stated below:

Karnataka State Road Transport Corporation (2011-12)

- The Authorities of Central Excise & Customs had raised the demand of Service Tax to the extent of ₹ 6.38 crore considering the casual/chartered services operated by the Corporation under 'Rent a cab service' under relevant sections of the Finance Act, 1994 against which the Corporation had filed appeal with the Service Tax Department. The appeals filed are pending at various stages. This fact has not been disclosed suitably in the notes forming part of Financial Statements.

- The Income Tax authorities have cancelled the status of Charitable Institution of the Corporation and demanded ₹ 77.31 crore for the Assessment Years (AY) 2009-10. The Corporation has filed an appeal in the High Court of Karnataka and the Court directed them to pay ₹ 23.19 crore pending finalization of appeal. The Corporation had adjusted/paid ₹ 12.32 crore and treated it as deposit, leaving a balance ₹ 10.87 crore. The above facts have not been disclosed in the Notes to Accounts.

North Eastern Karnataka Road Transport Corporation (2011-12)

- Advance to suppliers includes ₹ 0.24 crore paid to Karnataka Land Army Corporation Limited towards purchase of capital assets, which is pending adjustment for more than ten years. Even though the recovery of the amount is doubtful provision for it is not made.

- The Corporation had done actuarial valuation for gratuity liability during 2008-09 for ₹ 125.79 crore, but provision is not made.

North Western Karnataka Road Transport Corporation (2011-12)

- Sundry Debtors include ₹ 7.08 crore receivable from Karnataka State Road Transport Corporation (KSRTC), whereas the reconciliation undertaken between Corporation and KSRTC fixed it at ₹ 5.10 crore. This has resulted in overstatement of Sundry Debtors by ₹ 1.98 crore.
- The Corporation has not assessed and provided for gratuity and leave encashment in the accounts as required in AS-15, which stipulates providing for the liability on actuarial basis.

Recoveries at the instance of Audit

1.46 During the course of compliance audit of PSUs in 2012-13, recoveries of ₹ 12.70 crore were pointed out to the Managements, of which ₹ 6.75 crore was recovered by them. Recoveries of ₹ 1.50 crore pointed out in the earlier years were also effected during the year 2012-13.

Further, based on the observations raised during the audit of 'Captive mining in Coal blocks' for which a Joint Venture (JV) Company *viz*., Karnataka EMTA Coal Mines Limited (KECML) was formed between Karnataka Power Corporation Limited (KPCL) and EMTA Limited, recoveries were effected in the following cases:

- KECML supplied (February/ March 2012) eight rakes of coal from alternate sources to KPCL and payment of ₹ 2.59 crore was made based on the coal analysis report of SGS Limited. On mutual agreement, KPCL arranged (March 2013) analysis of the samples of these eight rakes at Central Power Research Institute (CPRI), Bangalore. As per CPRI report, the value of coal worked out to ₹ 1.88 crore only. When pointed out in audit, the excess payment of ₹ 0.71 crore was recovered in August 2013.

- In accordance with Central Excise Valuation (determination of price of excisable goods), Rules, 2000, KPCL was not liable to reimburse the excise duty on surface transportation charges on the coal supplied. KPCL, however, had reimbursed excise duty of ₹ 18.84 lakh during March 2011 to March 2013. At the instance of audit (May 2013) an amount of ₹ 14.95 lakh was recovered (August 2013) from KECML.

Disinvestment, privatisation and restructuring of PSUs

1.47 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[14] were dissolved /amalgamated as on September 2013. The position of action taken by the Government in respect of the remaining 26 companies identified for

[14] **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.**

closure/ privatisation/restructuring are as follows:

Table 1.13: Status of disinvestment / restructuring of PSUs

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]	-

During October 2005, the Government adopted a comprehensive Policy on Public Sector Enterprises Reforms, which enunciated an assessment on a case-to case basis including mechanism for its implementation by incorporating the earlier reform process. After the study, appropriate specific solution was to be considered. The present status of the recommendations of study on case-to-case basis of PSUs is awaited (December 2013).

Reforms in power sector

1.48 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.

1.49 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

϶ **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.**

milestones in respect of five Electricity Supply Companies[15] is stated below:

Table 1.14: Status of Power Sector Reforms

Milestone	Achievement as at March 2013				
	BESCOM	**CESCO**	**HESCOM**	**GESCOM**	**MESCOM**
100 *per cent* electrification of all villages by 2012.	100 *per cent*	100 *per cent*	99 *per cent*	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.	14.20 *per cent*	15.07 *per cent*	19.88 *per cent*	18.97 *per cent*	11.88 *per cent*
Hundred *per cent* metering of all consumers by 2004-05	Metering in respect of all other categories of consumers except that of Irrigation Pump (IP) sets was completed. Metering in case of IP sets, the achievement was 9.70 *per cent*[16].	The overall percentage of achievement of metering in respect of all categories of consumers was 93.24 *per cent*	Metering of all categories of consumers, except Kutir Jyothi/ Bhgaya Jyothi consumers and IP sets, was completed. The achievements were 84.05 *per cent*[17] in respect of Kutir Jyothi/ Bhgaya Jyothi consumption and 33.92 *per cent*[18] in IP sets.	Metering of all other categories of consumers, except in respect of Kutir Jyothi/ Bhagya Jyothi was completed.	The overall percentage of achievement of metering in respect of all categories of consumers was 98.14 *per cent.*
Energy Audit at 11kV substation level by September 2001	Undertaken in Channagiri as a pilot project.	Is being conducted on R-APRDP town Distribution Transformer Centres	Done	Done	Done

(Source : Information furnished by ESCOMs; Annual Accounts of ESCOMs)

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[15] **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).**

[16] **Of the total number of 6,52,209 IP sets, 63,265 were metered.**

[17] **Of the total number of 7,66,250 KJ/BJ consumers, 6,44,030 were metered.**

[18] **Of the total number of 5,50,538 IP sets, 1,86,724 were metered.**

Chapter - II

Performance Audits of Government Companies

Chapter - II

2. Performance Audits relating to Government Companies

2.1 Performance Audit on the 'Construction of roads and bridges by Karnataka Road Development Corporation Limited'.

Executive Summary

The Company

The Company incorporated to construct, erect, build, re-model, repair, execute, develop, improve and maintain express routes, roads and bridges is fully owned by the Government.

Objectives of the Performance Audit

The objectives of the Performance Audit were to assess whether the conceptualization of projects for execution was done properly after adequate study; the process of acquisition of land was speedy; there was transparency in inviting tenders; the projects with private participation were undertaken after fair and objective assessment of the critical elements of financial viability; the projects were managed effectively to achieve the intended results; and the monitoring and controls were adequate and effective.

Audit findings

Brief outlines of our findings are as follows.

Targets and achievements

Major roads for a length of 404.67 Kms were targeted for completion during the five year period 2008-13. The Company had achieved only 86.47 Kms within the scheduled time. Similarly, the Company had completed only four of the nine major bridges as per the schedule. As regards the Projects proposed for implementation with private participation, only Wagdhari to Ribbanpally Road has since been completed (August 2012) and Dharwad-Alnavar-Ramnagar Road is facing the problem of forest clearance. And the Chikkanayakanahalli – Tiptur -Hassan Road was abandoned by the contractor and is now under litigation.

Roads and major bridges

Changes in designs, wrong assumptions, inept estimations and delayed executions

Design changes after award of contracts, wrong estimates and failure to initiate the process of land acquisition resulted in time and cost over run in many cases. Some of them are as follows.

- **In Mysore-Bantwal Road (Package B), the design was changed from two lane (7 metres) to intermediary lane (5.5 metres) and additional works were entrusted to the contractor after award of the contract. Source of material as mentioned in the DPR was not actually available.**
- **Works of Mysore-Bantwal Road (Package-C), approach road to Mangalore Airport and construction of grade separator at Harohalli, Bidadi were awarded without acquisition of land. These works were delayed. Outer Ring Road around Hassan town is still not completed (2013) even after 4 years.**
- **Wrong assumptions in the DPR of bridge on Sagar-Pattagoppa road led to increase in cost of the work by ₹ 6.59 crore and in delay of 3 ½ years.**

Phase bridges

Tendering and award of works

There were irregularities in calling tenders and award of works, instances of non-adherence to the terms of the contracts and reduction in scope of contracts.

Fixation of high pre-qualification criteria created entry barrier. Consequently, competition was curtailed in bidding of contracts. As a result only three contractors *viz.*, L&T Limited, Gammon India Limited

and Nagarjuna Construction Company Limited (NCCL) had qualified for the tenders in all the three phases.

Letters of Intent/Agreements, were issued/entered into without designs and drawings and Bill of Quantities. Payments were made based on certification, without check measurements by the Company in violation of the Government Order (January 2005).

Only 345 out of 496 bridges were completed in Phase II, III and IV within the stipulated contract period. Though the delay in construction of the balance bridges was attributable to contractors, the Company had not levied liquidated damages amounting to ₹ 13.26 crore.

Projects with private participation

Even though the GoK had announced the proposal of taking up the projects in the State budget for 2005-06 with private participation, the actual implementation of the projects took almost five years.

The Company had proposed to float a Special Purpose Vehicle (SPV) for executing the projects on BOT/BOOT basis. The SPV was to raise resources through commercial borrowings and the State Government was to fund viability gap. The SPV was to collect toll as well. The Government, however, issued order for construction of the roads on BOT basis, without forming SPV, allowing the private partners to toll and appropriate the revenue to themselves during the concession period of 30 years.

Critical elements of financial viability

The concession periods of projects were not determined on project-specific basis giving due consideration to traffic volume, projected traffic and level of service.

Considering the Net Present Value (NPV) of net operating income after tax of ₹ 208.15 crore, ₹ 61.01 crore and ₹ 616.51 crore for Wagdhari-Ribbanpally Road, Dharwad-Alnavar-Ramnagar Road and Chikkanayakanahalli-Tiptur-Hassan Road respectively, the Company should have insisted for shorter concession period, especially in respect of Chikkanayakanahalli-Tiptur-Hassan Road, where the NPV was very high.

Concessionaire raised loans from banks far in excess of project cost

The private partners had projected the cost of the projects to the bankers much higher than the costs approved by the Planning Commission for all the three projects. This had facilitated them to avail more loan (₹ 185.27 crore in total) than required.

Acquisition of land

Notification for acquisition of land under Section 4(1) of the Land Acquisition Act, 1894 was issued 6 months after the date of financial closure of Dharwad-Ramnagar Road. Similarly, the notification for the Chikkanayakanahally-Tiptur-Hassan Road was issued 2 months after the date of financial closure.

Financial Closure

Penalties amounting to ₹ 0.40 crore and ₹ 1.19 crore were not recovered from GVRMP Whagdhari – Ribbanpally Tollway Private Limited and GVRMP Dharwad – Ramnagar Tollway Private Limited respectively for delayed financial closure.

Observations on specific roads having private participation

Wagdhari-Ribbanpally Road

The major portion of the road had only 100 mm of GSB material in the earthen shoulder portion against 200mm as specified in the agreement. The wearing course executed was not as per the scope of work, as the concessionaire had used lower grade '60/70 grade' bitumen (VG 30) in place of Polymer Modified Bitumen.

Dharwad- Ramnagar Road

The project cost was not re-estimated even though scope of work was downsized. The Concessionaire had completed the road in one stretch running through the forest with 5.5 metres carriageway with varying soft shoulders, against the design of 7.5 metres. Owing to this the actual cost and the VGF required should have been reworked. Either the concession period should have been reassessed or the toll reduced.

Chikkanayakanahalli- Hassan Road

Road with Rigid pavement was ₹ 210.74 crore 'with shoulders'. The concession period was proposed to be 20 years after construction period. The decision of the Board of Directors to offer the construction of the road with rigid pavement with concession period of 30 years, in contravention of the proposal of the Technical Committee had resulted in foregoing the revenue from the 21st year to 30th year to the concessionaire.

Monitoring of projects

The two tier monitoring mechanism suggested by the Planning Commission for overseeing the implementation of agreed terms and delivery of specified services of the concessionaire agreement has not been implemented.

Funding

We observed that the Company has not been able to generate funds from the envisaged sources and was entirely dependent on budgetary support of the Government.

Even the allotted funds were not fully utilized in any of the years, because of the works lingering on.

Our conclusions and recommendations are given at the end of the Performance Audit Report.

Overview

2.1.1 The Karnataka Road Development Corporation Limited (Company) was incorporated (July 1999) under the Companies Act, 1956. The objectives of the Company were to construct, erect, build, re-model, repair, execute, develop, improve and maintain, express routes and roads and bridges, sideways, tunnels, *etc*., either under the Build Own Transfer (BOT) or Build Own Operate Transfer (BOOT) or Build Own Lease Transfer (BOLT) schemes or otherwise in a manner which will facilitate the above mentioned works and also facilitate the BOT entrepreneur to decide, levy and collect toll/service charges.

In Karnataka, the construction, improvement and maintenance works of National Highways (NH), State Highways (SH), Major District Roads (MDRs) are carried out by Communications and Buildings Wing of Public Works Department (PWD), Karnataka State Highways Improvement Project (KSHIP), National Highways Department and the Company. The Gram Panchayat Engineering Division and Karnataka Rural Road Development Agency, coming under the Ministry of Rural Development and Panchayat Raj, are responsible for maintenance of rural roads and development of roads under Prime Minister Gram Sadak Yojana (PMGSY) respectively.

Organizational setup

2.1.2 The Management of the Company is vested with the Board of Directors (BoD) consisting of 12 Directors including the Chairman, and Managing Director. The Managing Director is the full time Director. There are five field offices at Gulbarga, Mysore, Hubli, Hassan and Davanagere, each headed by an Executive Engineer/Assistant Executive Engineer. The Company functions under the administrative control of Public Works, Ports and Inland Water Transport (PWP &IWT) Department.

Scope of Audit

2.1.3 The performance audit covers the construction of 16 Roads[19], 13 Major bridges, 496 Phase bridges and 3 roads under Public Private Participation (PPP) mode, altogether costing ₹ 2,900.19 crore, executed during 2008-13.

The construction of Phase bridges under Phase[20] II, III and IV were reviewed on sample basis. The Company had divided the Phase bridges into four packages, of which audit test checked Package 2 and 4 in each of the Phases-II, III and IV, which were selected adopting judgmental sampling considering monetary value. The roads and the major bridges were reviewed *in toto.* The three roads taken up for construction under PPP were also reviewed.

[19] **Excludes two roads for which tenders were under finalization.**

[20] **Phase I was completed during November 2001 and hence has not been included in scope of audit.**

Audit Objectives

2.1.4 The objectives of the performance audit are to assess/ascertain whether:

- Conceptualization and planning for execution of projects as well as designing and estimates were done properly after adequate study.
- The process of acquisition of required land was timely, observing all the relevant acts and procedures.
- There was transparency in inviting tenders and awarding contracts and the execution of the projects was in conformity with the design parameters, terms of the tenders and agreements.
- The PPP projects provided fair and objective assessment of public resources and are being managed responsibly and effectively to achieve the intended results.
- There existed monitoring controls to ensure that the roads and bridges were constructed as planned.
- The financial requirements were met from envisaged sources, budgets were prepared realistically and funds were utilized as per plan.

Audit Criteria

2.1.5 The Audit criteria adopted for assessing the achievement of the audit objectives were derived from:

- Guidelines/ norms/instructions issued by PWD, Government of Karnataka (Government), provisions in various Acts of the Government/GoI made applicable in the State, the policies of Governments, relevant publications of Indian Road Congress (IRC), specifications of Ministry of Road Transport & Highways (MoRTH) on roads and CVC guidelines;
- Detailed Project Reports (DPR), detailed investigation / survey reports, external consultancy reports, Notice Inviting Tenders (NIT), agreements, and Schedule of Rates (SR); and
- Periodical reports of Monitoring Cell at Corporate Office / project and instructions / directions of the Company to the field offices.

Audit Methodology

2.1.6 We scrutinized the guidelines/norms/rules/acts of the PWD/GoK/MoRTH; minutes and agenda papers of the meetings of the BoD and Technical Committee, correspondence with Administrative Departments of the GoK, inter-departmental communications, Consultants' Reports, DPRs, Survey Reports, investigations and estimates, contract documents, progress reports, running account bills and Measurement Books.

An Entry conference was held in April 2013 to appraise the Government and the Management about the objectives of the Performance Audit. The audit findings were reported to the Government/Management and discussed during an Exit conference held on 24 October 2013. Both the Entry and Exit conferences were attended by Principal Secretary to the Government, PWP&IWT Department and the Principal Accountant General.

Pavement Composition / Road Construction Process

2.1.7 The roads have two characteristics: carriageway width and surface quality. Carriageway width is classified under four categories: (a) Single Lane: 3.75 metres, (b) Intermediate Lane: 5.5 metres, (c) Two Lanes: 7 to 7.5 metres and (d) Four Lanes: 14 to 15 metres. Road surface can be of cement concrete (CC), black top (BT) or water bound macadam (WBM).

The work involved in road construction consists of (a) filling of earth as per the alignment/design (b) construction of sub-grade (c) construction of granular sub-base (GSB) (d) laying of wet mix macadam (WMM) (e) laying of dense bituminous macadam (DBM) and (f) laying of bituminous concrete (BC).

Audit Findings

2.1.8 The audit findings are discussed in the succeeding paragraphs. The views expressed by the Government and Management have been considered while finalizing the Performance audit report.

Planning

2.1.9 The proposal for improvements to the State Highways and construction/re-construction of bridges are received from Government, Government agencies, Public Sector Undertakings and elected representatives. The Company appoints Detailed Project Report (DPR) Consultants for preparation of DPRs, by prioritizing the proposals received. The DPRs are, thereafter, forwarded to the Government for approval and funding. After receipt of approvals and budgetary allocation the works are tendered. A Technical Cell under the aegis of a Chief Engineer assists the consultants in evaluation of the DPRs and tenders[21]. Project Management Consultant (PMC), appointed subsequently after award of contracts, supervise the works till completion.

Short closure of DPRs

2.1.9.1 The Company had undertaken (2000-01 onwards) preparation of Feasibility reports / DPRs for construction of Roads and Bridges and as at the end of March 2009 there were 50 DPRs under various stages of preparation.

In June 2009, the BoD decided that all the works for which DPRs were prepared cannot be taken up simultaneously due to non-availability of funds. The Company therefore, decided (September 2009) to terminate the process of preparation of DPRs.

[21] **From 2012 onwards, Tender Scrutinizing Committee has been formed for this activity.**

We observed that tenders were called in respect of 12 out of 50 works for which DPRs were prepared. The Company had incurred expenditure of ₹ 2.49 crore for preparation of 22 DPRs and 11 feasibility reports[22], which became wasteful.

The Government stated (November 2013) that expenditure was not wasteful as the DPRs could be used in future. The reply is not acceptable as the Company had not taken up road works under PPP mode or under regular methods of execution utilizing these DPRs in the past five years. The possibility of the DPRs becoming outdated owing to changed conditions and improved technologies because of efflux of time cannot be ruled out. The Company has also not forwarded these DPRs/feasibility reports to PWP&IWT Department for their use.

Execution of projects from budgetary funds

2.1.10 Roads and Major Bridges

Targets and achievements

2.1.10.1 The Government of Karnataka allotted roads and major bridges to the Company for construction with allocation of funds from budgets. The table below indicates the roads and major bridges targeted for completion in each of the years 2008-09 to 2012-13, achievements in the respective years and the year in which the target of each year was fulfilled.

Table 2.1.1: Targets and achievements of road works

Year	Parti-culars	Target set for completion in the year in numbers (Kms in brackets)	Achievement in numbers (Kms in brackets) within scheduled period of completion	Our remarks
2008-09	Roads	4 (145.00)	1 (42)	34.80 Kilometres (Kms) completed in June 2010; 8 Kms by January 2011 and 60.20 Kms by March 2012.
	Bridges	2	1	One was completed only in May 2011
2009-10	Roads	2 (103.10)	-	50.10 Kms was completed in April 2013 and 53.00 Kms was not taken up due to dispute
	Bridges	1	1	-
2010-11	Roads	2 (10.20)	1 (1.80)	8.40 Kms was completed in July 2011
	Bridges	2	1	One bridge is still under construction.
2011-12	Roads	1 (42.67)	1 (42.67)	-
	Bridges	3	1	Two bridges were completed in November 2012 and August 2012
2012-13	Roads	3 (103.70)	-	5 Kms was completed in April 2013.
	Bridges	1	-	The bridge is still under construction.
Total		**404.67**	**86.47**	

(Source: Progress reports of the Company)

[22] **No expenditure was incurred on the balance five feasibility reports.**

- Out of 404.67 Kms of major roads targeted for completion during the five year period 2008-13, the Company had achieved only 86.47 Kms within the scheduled time.
- Completion of 166.50 Kms of roads was delayed, which ranged up to two years from the scheduled dates.
- The works of 98.70 Kms were still in progress (December 2013). A road of length of 53 Kms proposed for completion in 2009-10 had not started as commented in Sl.No.3 of Table 2.1.2.
- The Company had completed only four of the nine major bridges within the scheduled time; three were completed with delays ranging up to two years. The balance two bridges were under progress (December 2013).

Execution of projects

2.1.11 The factors which affected the construction of roads and bridges, the consequential events and the effect of which as observed by us are described in the following paragraphs. Complete details of works are given in the **Annexure-8.**

Table 2.1.2: Factors which affected the progress of works in test checked cases

Sl. No	Name of the work	Factors which affected the construction	Consequential events	Audit Remarks
Major Roads (Sl No. refers to Sl No. in Annexure No.8)				
1	Mysore-Bantwal Road (Package B).	• Changed the design after award of work. • Additional works entrusted after award of contract. • Source of material as mentioned in the DPR was not actually available.	• Carriage way was reduced from 2 lane (7 metres) to intermediate lane (5.5 metres) for length of 22.30 Kms. • The Contractor cited that source of raw materials as mentioned in the DPR were not available in the site.	• Road length of 22.30 Kms is not as per the original design. • Cost of the work increased by ₹ 30.04 crore, due to deficiencies in estimates. • Work was delayed by 2 years and 9 months.
2	Improvement to existing road from Peeranwadi up to Goa Border (Chorla).	• Land was not acquired in time.	• A detailed survey done in December 2008, one year after the award of work, revealed that the requirement of forest area was only 4.62 hectares, against the assessed requirement of 30 hectares requested for earlier. • In view of non-availability of forest land the Government approved (December 2011) construction and blacktopping the road to the width of 5.5 meters.	• The Company has constructed a 5.5 metre road for ₹ 96.88 crore against a 7.5 metre road, which was to cost only ₹ 75.59 crore. • The re-designed work was entrusted to the same party (April 2011) through a supplementary agreement without calling for tenders.
3	Outer Ring Road around Hassan town.	• Land not acquired in time.	• The identified alignment was passing through 'Barudalubore' reserve	• Fresh notifications for non-forest lands as per new alignment have not been issued.

Sl. No	Name of the work	Factors which affected the construction	Consequential events	Audit Remarks
Major Roads (Sl No. refers to Sl No. in Annexure No.8)				
			forest area. The notification issued (from January 2008) for acquiring 137.14 acres had to be withdrawn.	• The matter of awarding the work without acquiring land is under investigation of Karnataka Lokayukta on the directions (November 2008) of the Government. • The contractor claimed (April / September 2010) compensation and issued (August 2011) a legal notice claiming ₹ 43.50 crore towards loss and damages suffered due to non-Performance of contract.
4	Widening and Improvements to Mysore-Bantwal Road (Package C)	• Additional works were entrusted after award of contract. • The land required was 18 acres against 12.36 acres of land assessed in the DPR.	• The last stretch of land required for 26 Kms length of road was handed over to the contractor only in March 2013; three years and 4 months after award of contract.	• Cost of the work increased by ₹ 14.83 crore. • The work which was scheduled for completion in June 2012 is still under construction (December 2013). • Extension of time was granted (July 2013) up to May 2014 without penalty and with price adjustment.
5	Mangalore airport Road.	• Land not acquired in time. • Work was entrusted without DPR.	• The Contractor had stopped the work (June 2013) as his demand for additional rates was not decided upon.	• 1.40 acres of land required is not acquired yet (December 2013).
6	Grade separator at Harohalli, Bidadi.	• Land not acquired in time.	• Karnataka Industrial Area Development Board had issued preliminary notification for acquisition of land only in November 2011 and final notification was not issued.	• Work was not taken up due to land acquisition problems.
Major Bridges (Sl No. refers to Sl No. in Annexure No.8)				
7	Sagarkatte Bridge.	• Changed the design after award of work. • Work was entrusted without DPR.	• The width of carriage way was reduced to 7.5 metres from 12 metres as a cost reduction measure. The width of the approach road was retained at 12 metres.	• Estimate was revised 6 times. The estimate went up from ₹ 22.30 crore in December 2006 to ₹ 35.82 crore in April 2013. • The bridge has not been completed even after lapse of five years (December 2013). • The amount of ₹ 14.81 crore spent on embankment for approach road, foundation, sub-structure and superstructure has remained idle. • The Contractor had stopped the work in December 2012. • During a joint-inspection by the audit team and Management, it was noticed (June 2013) that the area was abandoned with no security and personnel at the Project site.
8	Bridge at Sagara-Pattaguppa	• Wrong assumptions in the DPR.	• The bridge was designed considering Full Reservoir Level of 565.397 metres as	• Cost of the work increased by ₹ 6.59 crore. • The work was delayed by 3 ½

Sl. No	Name of the work	Factors which affected the construction	Consequential events	Audit Remarks
Major Roads (Sl No. refers to Sl No. in Annexure No.8)				
	Road.		against 566.380 metres, resulting in increase in height of the bridge by 0.983 metres. • Deck slab width of 7.5 metres was considered in DPR, against the required width of 8.5 metres.	years.
9	Bridge across Krishna River.	• Changed the design after award of work. • Land not acquired in time.	• Raised the height of the bridge by 1.20 metres (considering the proximity of Almatti Dam) to maintain a safe clearance at abutments / bearings. • The land was handed over to the Contractor only (March 2012) after 609 days[23] from the award of contract.	• The cost has increased from ₹ 38.99 crore to ₹ 43.29 crore. • The work was to be completed by January 2013. Extension of time has been demanded up to July 2014.
10	Bridge at Honnalli.	• Contractor abandoned work.	• During discussions with the officials of the Company, it emerged that the contractor had stopped the works since January/February 2013. • During site visit (June 2013), we noticed that the work site was inundated	• The physical and financial progress of bridges on Hospet Shimoga Road (Honnalli) as on the date of stoppage (February 2013) was 13.36 *per cent* and ₹ 2.91 crore respectively, and that of Hariahara-Ranebennur Road (Harihara) (January 2013) was 6.34 *per cent* and ₹ 1.26 crore respectively.
11	Bridge at Harihara.			

Non imposition of Liquidated damages

2.1.11.1 The work of widening and improvements to Mysore-Bantwal Road (Package C), awarded in December 2009, was scheduled to be completed in June 2012. Similarly, the works of construction of bridges on Hospet-Shimoga Road and Harihara-Ranebennur Road, awarded in June 2011, were scheduled to be completed in June 2013.

Bridge on Hosepet -Shimoga Road at Honnali (June 2013)

These works were still in progress (December 2013). The Company failed to levy liquidated damages (LD) on the contractors, though the terms of contract provided for levy of LD for delay in completion of works. The LD for the three works worked out to ₹ 12.54 crore[24].

[23] **The extra days to be given to contractor were considered as 263 days.**

[24] **Mysore-Bantwal Road (Package C) - ₹ 8.38 crore; Bridges on Hospet-Shimoga Road and Harihara-Ranebennur Road - ₹ 4.16 crore.**

Phase bridges

2.1.12 The Government of Karnataka (GoK) approved (February 2005/January 2006/April 2007) the construction of 1,185 bridges in three phases[25] (Phase II, III, IV) at an estimated cost of ₹ 691.40 crore. As per the decision of the BoD (April 2006/February 2007) and Government order (April 2007), the Company transferred those works (385 out of 1185 bridges), whose estimated cost was less than ₹ 25 lakh individually to Public Works, Port and Inland Water Transport (PWP&IWT) Department. The Company, had, however, approved the estimate of ₹ 557.21 crore (including tender premium) for execution of only 496 bridges. The Company did not obtain consent/approval of the Government for incurring ₹ 557.21 crore for construction of significantly lesser number of bridges. The details of works in Phase II, III and IV are given under.

Table 2.1.3: Details of works of Phase bridges
(Figures in brackets indicate cost - ₹ in crore)

Phase	Number of bridges approved by Government and cost	Number of bridge works tendered and awarded	Number of bridges under execution and estimated cost	Number of bridges completed and actual expenditure as at March 2013
II	366 (197.40)	262	256[26] (243.84)	254 (211.00)
III	360 (210.00)	218	169 (224.67)	167 (193.08)
IV	459 (284.00)	320	71 (88.70)	70 (83.92)
Total	**1,185 (691.40)**	**800**	**496 (557.21[27])**	**491 (488.00)**

(Source: Monthly Monitoring Reports, Government orders, Running bills)

Award of works

2.1.13 The Company invited (February 2005/January 2006/June 2007) tenders for taking up of 800 bridge works in four packages representing 27 districts[28] of the State, in each of Phase II, Phase III and Phase IV. Each phase was divided into four packages, consisting of districts according to the Revenue Divisions of the State. The details of the tendering, quotations and award of works are indicated in **Annexure-9.**

The BoD of the Company, after the award of works, decided (October 2009) to reduce the scope of contract to 496 bridges and also decided to withdraw the 304 un-started bridges and transfer them to the PWP&IWT Department.

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[25] **Phase I was completed in November 2001.**
[26] **This figure is taken as per Running Account bills submitted by the contractors. However, as per MMR, it was reported as 255 bridges.**
[27] **The estimated cost included tender premium as submitted by the contractors and approved by the Company.**
[28] **Package 1: Bidar, Gulbarga, Raichur, Yadgir, Bellary, Koppal.**
Package 2: Bagalkot, Bijapur, Belgaum, Dharwad, Haveri, Gadag, Chickodi, Uttara Kannada.
Package 3: Bangalore, Kolar, Tumkur, Chitradurga, Davenagere, Shimoga.
Package 4: Mysore, Mandya, Kodagu, Hassan, Dakshina Kannada, Chikmangalore, Chamarajnagar.

Irregularities in calling tenders and award

2.1.13.1 We observed that:

- The Government, while entrusting the works, had directed (February 2005/January 2006/April 2007) the Company to prepare detailed estimates for construction of bridges. However**,** the Notices Inviting Tenders were issued (February 2005/January 2006/June 2007) without detailed estimates and without designs and drawings. The amounts put to tender[29] were not determined by the Company; they were based on line estimates by PWP&IWT Department. Consequently, the Company had no knowledge of exact cost of the works. The Letters of Intent (LoI)/ Agreements, which were issued /entered, were without designs and drawings and Bill of Quantities (BOQ).

- In the absence of design and drawings, estimated quantities and the exact amount put to tender, the contracts were finalised based on the premium quoted by the contractors (percentage tender). There were no benchmarks against which the bids could be compared.

- The designs and drawings and estimates were prepared by the contractors after award of works.

- The Government Order on the bridge works did not specify adoption of National Highway Schedule of Rates (NHSR) for their execution. The Company, however, invited the tenders with a condition that the rates should be quoted based on the NHSR. Over and above this, the contract terms also provided for payment of price variation for Cement, Steel and Bitumen.

The Government replied (November 2013) that the number of bridges in each phase was more and the bridges were scattered and located in remote places. Owing to non availability of staff, the design and estimates were also to be got done by contractors only. In order to avoid delays these works were also entrusted to the contractor. As regards adoption of NHSR for estimates and payments, the Company stated that the Government had given their approval.

The fact remained that the Company had no role in preparation of the estimates and certification of their correctness. Those were done by the construction contractors themselves, after award of the contracts. Allowing the NHSR for construction of bridges in rural roads and located in remote places had only escalated the cost of construction without benefits.

[29]**Total amount put to tender for 800 bridges (Phase II - ₹ 178.88 crore; Phase III - ₹ 183.17 crore; Phase IV - ₹ 219.79 crore).**

Violation of Government notification

2.1.14 Government issued (January 2005) an order stipulating that in respect of works contracts of value more than ₹ 25 lakh, the contractors should be made responsible for submitting bills supported by hard copies of detailed measurements of works. It further stipulated that the Assistant Engineer in direct charge of the work should take independent measurements of the works and enter the same in the electronic spreadsheets and make computations thereof. The provisions contained in the Government Order were to be incorporated in the conditions of contract of tender documents.

We observed that:

- The Company had not incorporated the provisions of the Government Order in the tender conditions of the bridge works taken up in phases, even though BOQ was not mentioned in the work award. Contrary to the Government Order, the terms of contract provided for interim payment based on the completion of milestones as specified in the contract.

- The Running Account Bills were certified by the Project Management Consultants and the Project Engineers of the Company. The bills were admitted without taking measurements independently by the Divisional Engineer concerned. Payments were made based on certification without check measurement by the Company, on the approval of the Managing Director. The Company paid[30] (March 2013) an amount of ₹ 475.43 crore for works and ₹ 12.57 crore towards survey and soil investigation so far based on running bills submitted, based on percentage of completion.

The Government stated (November 2013) that measurements as recorded in the site book would be submitted along with final bill.

The reply is not acceptable as the contractors had not submitted (December 2013) final bills for any of the packages, though the works were completed. As a result, the Company had no mechanism to ensure the actual quantities executed in respect of completed bridges until final bills together with measurement books are submitted by the contractors.

Non-adherence to the terms of contract

2.1.15 The agreements stipulated that the rates as stated under Schedule of items of BOQ and approved by the Company should be firm and binding during the tenure of the contract and should not be subject to any escalation, whatsoever, notwithstanding any changes in the list of materials, labour and/or quantity variation.

[30] **As per the bills passed for payments.**

It was also stipulated that the contractors should submit the estimated cost for each bridge based on actual site survey and soil investigation and design and approval to be obtained from the Company within three months of the effective date of contract.

We observed that the estimates were to be submitted by August 2005 for Phase-II, November 2006 for Phase-III, January/March 2008 for Phase IV. The contractors, however, submitted estimates spread over a period of four years adopting the NHSRs relevant to the years in which the estimates were prepared, taking advantage of the rate increases. In all, submission of designs and estimates were delayed in case of 160 bridges.

The Government stated (November 2013) that the estimates were prepared and approved based on the NHSR of the contract period of three years and no estimates were approved beyond the contract period.

The reply is not acceptable as the contracts had stipulated that the estimates were to be prepared and got approved within 3 months from the dates of the contracts. The contracts did not make any allowance for delays in preparation of estimates. Therefore, application of the rates of the periods in which the estimates were prepared was in violation of the contracts.

Reduction in scope of contracts

2.1.16 The Company awarded the works for construction of 800 bridges in three phases (split into four packages in each phase) with a stipulation to complete them within 36 months from the date of agreement. The BoD, while reviewing the progress of works, noted that progress shown by the contractors was very slow and they were not making any effort to complete the works and hence decided (October 2009) to withdraw bridges, which were not started, from the scope of the contract in all the three phases. The unstarted bridges (304 numbers) were transferred (November 2009) to PWP&IWT Department. As on the date of withdrawl of bridges (October 2009), the contractors had completed 347 out of 800 bridges[31] in all the three phases.
We observed that:

- The contractors should have completed 262 bridges in Phase II and 218 in Phase III as of May 2008 and August 2009 respectively. Against which the contractors had completed only 214 in Phase II and 123 in Phase III respectively as on the date of withdrawl (October 2009). The Company, therefore, dropped 55 of balance 143 bridges taken up in both the phases.
- In respect of Phase IV, as on the date of withdrawal (October 2009) the contractors had completed only 10 out of 320 bridges. The Company, therefore, dropped the construction of 249 bridges and the balance 71 bridges (including 10 completed bridges) were retained.

[31] **214 of 262, 123 of 218 and 10 of 320 bridges in Phase II, III and IV respectively.**

- As a result of withdrawing the 304 bridges from the scope of the contract, an expenditure of ₹ 5.67 crore paid towards survey and soil investigation in respect of 268 bridges had become infructuous.

  The Government stated (November 2013) that the soil and survey investigation reports were handed over to PWP&IWT Department to use the data when they take up these bridges.

  The soil and survey investigation was done by the contractor to whom works were awarded, immediately after the award of works between 2005 and 2007. There is no evidence to suggest that these reports were handed over and were being considered for use.

- Clause 4.38.1 and 4.38.3 of General Condition of Contract provided for levy of liquidated damages at 0.5 *per cent* of the balance work for every month of delay till its completion, subject to maximum of 7.5 *per cent* of the contract price.

  Though only 345[32] out of 496 bridges were completed in phase II, III and IV within the stipulated contract period and the delay in construction of balance bridges were attributable to contractors, the Company had not levied penalty as per the contract terms. The value of balance works as at the stipulated date of completion was ₹ 176.77 crore[33] and the liquidated damages at the rate of 7.5 *per cent* amounting to ₹ 13.26 crore should have been levied.

  The Government stated (November 2013) that action would be taken to levy the penalty in the final bills as per the terms of contract.

Curtailment of competition

2.1.17 The GoK issued (August 2005) a Standard Tender Document (STD), for adoption from September 2005 for tendering and award of works. According to which, the works valuing between ₹ 50 lakh and above but less than ₹ 1 crore should be executed through an open tender on Item Rate Basis adopting two cover tender system, without allowing price adjustment. The prequalification criteria of tenderers should be in accordance with Clause 3 of the STD.

We observed that:

- Out of 496 bridge works taken up, the value of 324 bridges individually cost less than ₹ 1 crore. The minor bridge works were however, clubbed together and made into packages in each phase.

- The price adjustment was not to be allowed if the value of work was less than ₹ 1 crore. As the value of each package was more than ₹ 1 crore, the Company allowed price adjustment giving undue advantage to the contractors.

[32] 212 bridges as of April 2008 in phase II (progress as of May 2008 not available); 123 bridges as of August 2009 in phase III; 10 bridges as of October 2010 in phase IV.

[33] The cost represents average estimated cost of bridges in each phase which were not completed within the contract period.

- A comparison of pre-qualification criteria fixed by the Company *vis-à-vis* the STD is as under.

Table 2.1.4: Pre-qualification criteria fixed by the Company *vis-à-vis* the STD

Sl. No	Criteria	As per Clause 3 of STD for the works valued less than ₹ one crore	As fixed by the Company
1	Minimum financial turnover.	Two times of estimated annual payments of the contract in at least two financial years.	Average annual construction turnover of ₹ 100 crore in any two years of the last five financial years.
2	Work experience.	Satisfactory completion of at least one similar work (90 *per cent* of contract value) as prime contractor.	Should have completed atleast 25 bridges in single contract with a total value of ₹ 30 crore or more.
3	Execution of minimum quantities of similar works.	80 *per cent* of the peak annual rate of contract.	Excavation : 80,000 cum Concrete: 15,000 cum Pre-stressed concrete: 2,000cum

- Consequent to fixation of high prequalification criteria, all the 5,346 (approximate) Class-I contractors who were registered with Karnataka Public Works Department became ineligible for participation and the competition was curtailed. Only three contractors *viz*., L&T Limited, Gammon India Limited and Nagarjuna Construction Company Limited (NCCL) qualified for the tenders in all the three phases.

- The provisions of the Competition Act, 2002 as amended by the Competition(Amendment) Act, 2007 (the Act) states that bid rigging means agreement between enterprises which has the effect of eliminating or reducing competition for bids.

  Only two firms bagged all the packages in the Phases II[34], III and IV. Gammon India Limited bagged Packages 1 and 4 and NCCL Packages 2 and 3. The facts suggest that there existed bid rigging.

The Government stated (November 2013) that the main reasons for taking up the bridges in packages was to avoid delay in preparation of individual estimates and tender processing and to enable completion of all the bridges within the stipulated period of three years. The reply is not acceptable as there were delays in preparation of estimates and completion. Further, there is no evidence to suggest that works would be delayed if they were entrusted to individual Class-I contractors.

[34] Detailed records were not made available to audit.

Bridges not completed

2.1.18 We noticed that two bridges were not completed, a bridge had no approach road and another one was not constructed as per requirement. These cases are discussed below:

Bridges on old National Highway at Bellur cross and on Madikeri-kutta road across Lakshmantheertha River

(Bridge on Madikeri-Kutta road across Lakshmantheertha river- photo dated May 2013)

We observed that the works of two bridges *viz.*, a bridge on old National Highway at Bellur cross and a bridge on Madikeri-Kutta road across Lakshmantheertha river was entrusted (August 2006/December 2007) to Gammon India Limited under Phase III and IV respectively at an estimated cost of ₹ 3.10 crore. The construction of the bridge on old National Highway at Bellur cross should have been completed by August 2009 and bridge on Madikeri-kutta road across Lakshmantheertha river by October 2010. The progress achieved was 41 *per cent* and 35 *per cent* respectively (June 2013). The Company had incurred an expenditure of ₹ 1.15 crore on these works (November 2013).

Bridge on Shirahatti - Belvanike road

Photo dated June 2013

2.1.19 The bridge located on Shirahatti - Belavanike Road at Km.1.00 was completed (June 2011) at a cost of ₹ 0.60 crore. However, the bridge had no approach road. The PWP&IWT Department agreed (February 2009) to construct the approach road. To a communication from the Company the PWP&IWT Department confirmed (August 2011) that they had received an amount of ₹ 0.50 crore from the District Commissioner for the approach road.

The approach roads were, however, not taken up for construction (November 2013) even after a lapse of four years.

Bridge on Guttal – Itagi road

2.1.20 The bridge was completed (September 2008) under Phase II at a cost of ₹ 1.54 crore. The Divisional Engineer of the Company reported (October 2008) that the existing bridge would be submerged during the flood and cause inconvenience to the road users to cross the bridge. The technical opinion obtained (October 2008) from Civil Technologies (India) Private Ltd stated that the existing deck slab needed to be raised by two metres to facilitate the flood discharge. Since the deck slabs have not been raised the bridge will be inundated during floods.

The Government replied (November 2013) that the proposal for raising the structure was dropped as it was uneconomical. Further, it was replied that only during heavy floods, the bridge would submerge.

The reply is not acceptable as the Divisional Engineer had stated that during flood in October 2008 the villagers were unable to cross the bridge and the vehicular traffic had stopped. Further, it was also mentioned that there was pressure from local MLA and villagers to raise the level of the bridge.

Execution of projects under Public Private Partnership

Policy framework

2.1.21 The Government of India formulated (January 2006) the policy on Public Private Partnership (PPP) in infrastructure projects recognizing the concept of Viability Gap Funding (VGF). The scheme aims at supporting infrastructure projects that are economically justified but fall short of financial viability. The quantum of financial support to be provided under this scheme shall be in the form of capital grant at the stage of project construction. A catalytic grant assistance up to 20 *per cent* of capital cost was envisaged. Apart from this, an additional grant up to 20 *per cent* can be provided by the sponsoring Ministry or the State Government. In line with this, the New Infrastructure Policy 2007 of the GoK was pronounced.

Formulation and implementation

2.1.22 In the Budget Speech 2005-06, the Deputy Chief Minister announced improvements to three roads - Wagdhari to Ribbanpally Road, Dharwad-Alnavar-Ramnagar Road and Chikkanayakanahalli-Tiptur-Hassan Road - through the Company under tolling/BOT system.

The Company proposed (June 2006) to float special purpose vehicle (SPV) with Infrastructure Leasing & Financial Services (IL&FS) for executing the above mentioned project on BOT/BOOT basis. The SPV would raise the resources from commercial borrowings, the State Government would fund viability gap, if any and SPV would be permitted to collect toll.

We observed that:

- The Government issued orders (August 2006) for construction of roads through PPP on BOT basis, without forming SPV.

- The private partner was allowed to toll and appropriate the entire revenue to themselves for 30 years.

We further observed that:

- The actual implementation of the projects took almost five years from the year of announcement. There had been delays at every stage: conception of the projects, approvals, clearances from State Level Committee and Planning Commission and tendering.

- The cost of ₹ 722.11 crore, submitted for final approval of the Planning Commission for the above three projects was far higher than the initial cost of ₹ 610.20 crore proposed for in-principle approval of the Planning Commission. The increase in cost was ₹ 111.91 crore, which resulted in higher outflow of ₹ 44.76 crore by way of Viability Gap Funding (VGF), which is an additional burden on the budget of both Central and State Government.

- Wagdhari to Ribbanpally Road has since been completed (August 2012), Dharwad-Alnavar-Ramnagar Road is facing forest clearance issues. Chikkanayakanahalli-Tiptur-Hassan Road was abandoned by the contractor and is under litigation.

The Government replied (November 2013) that though the projects were announced in budget speech 2005-06, the preliminary preparations relating to pre and final feasibility studies, traffic studies, revenue model *etc*., in the implementing institution levels were not done and hence, the delay.

We observed that the preparation of DPRs of all the three projects executed was completed between September 2006 and July 2007, yet the finalization of tenders took place only in 2009-10.

Selection of Concessionaires

2.1.23 Tender notification was issued in September 2006 by inviting applications to select qualified contractors to invite bids for the works of Dharwad-Alnavar-Ramnagar Road and in August 2007 for Chikkanayakanahalli-Tiptur-Hassan and Wagdhari-Ribbanpally Road. No qualified firms submitted their financial bids.

The Company failed to attract bidders for its projects even after updating the prices of the estimate to the latest schedule of rates, *albeit*, many firms qualified for bidding.

We observed that

- GVR-RMN-Prathyusha, the successful private partner for both Wagdhari-Ribbanpally Road and Dharwad-Alnavar-Ramnagar Road, and Abhijeeth Infrastructure Limited for Chikkanayakanahalli-Tiptur-Hassan Road were not RFQ participants.

- Lack of adequate land, perceived difficulty in getting forest clearance and the hesitation of financial institutions to lend for such projects were the reasons attributed for poor response.

Critical elements of financial viability

2.1.24 The critical elements that determine the financial viability of a PPP project are traffic volumes, concession period and capital costs.

Traffic volume, growth and concession period

2.1.24.1 Long term forecasting of traffic on a project road is required for design of highway and assessing the economic and financial viability of the proposed investment. Further, the Model Concession Agreement finalized by the Planning Commission, states that the guiding principle for determining a project specific concession period is the carrying capacity of the respective highway at the end of the proposed concession period. As such, the concession period is determined on a project-specific basis depending on the volume of present and projected traffic.

The table below indicates the growth estimates, number of lanes proposed and the level predicted for the three roads over the concession period.

Table 2.1.5: Growth estimates and level of service of PPP projects

<table>
<tr><th>Particulars</th><th colspan="2">Wagdhari-Ribbanpally Road</th><th>Dharwad-Alnavar-Ramnagar Road</th><th colspan="2">Chikkanayakanahalli -Tiptur-Hassan Road</th></tr>
<tr><td>Traffic growth estimate projected in financial module (per cent)</td><td colspan="2">7</td><td>6</td><td colspan="2">5</td></tr>
<tr><td>Number of lanes</td><td colspan="2">2</td><td>2</td><td colspan="2">2</td></tr>
<tr><td>Concession period (in years) and year up to which concession agreement will be in force.</td><td colspan="2">30
(2041)</td><td>30
(2041)</td><td colspan="2">30
(2042)</td></tr>
<tr><td rowspan="4">Year in which the level of service (LOS) reaching ‘D’ or ‘E’</td><td>Section-1</td><td>2015</td><td rowspan="4">Estimate remains within LOS ‘C’ throughout concession period.</td><td>Section-1</td><td>-</td></tr>
<tr><td>Section-2</td><td>2020</td><td>Section-2</td><td>2022</td></tr>
<tr><td>Section-3</td><td>2020</td><td rowspan="2">Section-3</td><td rowspan="2">2019</td></tr>
<tr><td>Section-4</td><td>-</td></tr>
</table>

We observed that:

- As per the Planning Commission the acceptable traffic growth rate was 5 *per cent,* whereas the traffic growth projection in case of Wagdhari-Ribbanpally Road was 7 *per cent* and Dharwad-Alnavar-Ramnagar Road was 6 *per cent.*

- Level of Service (LOS) is defined as a qualitative measure describing operational conditions within a traffic stream and their perception by drivers/passengers, such as speed, travel time, freedom to manoeuvre traffic interruptions, comfort, convenience and safety. The Indian Road Congress (IRC) Code 64-1990 recommends under normal circumstances, use of LOS ‘B’ is adequate for design of rural highway. At LOS ‘B’ level, volume of traffic will be around 0.5 times the maximum capacity and this is taken as design service volume for the purpose of adopting design values. However, in the PPP projects, the Consultants had proposed to adopt the LOS as ‘C’. Under LOS ‘C’, traffic would experience congestion and inconvenience during peak hours.

- Even LOS 'C' was not maintained for the entire period of the concessionaire agreement. As could be seen from Table 2.1.5 above, three of the four sections of Wagdhari-Ribbanpally Road would cross LOS 'C' between 2015 and 2020 and become LOS 'D'/LOS 'E'. Similarly, two of the three sections of Chikkanayakanahalli-Tiptur-Hassan Road would become LOS 'D'/LOS 'E' between 2019 and 2022. The concession periods for the above roads extend till 2041 and 2042. The projects would experience conditions close to unstable flow. Owing to high density of traffic, the drivers would be severely restricted in their freedom to select desired speed, maneuvering traffic would be extremely difficult, comfort and convenience extremely poor and driver frustration generally high.

- Even though the DPR of Chikkanayakanahalli-Tiptur-Hassan Road provided for construction of additional lanes in two sections of the road in the years 2018 and 2021 to mitigate traffic congestion, the same was not incorporated in the Concession Agreement. The DPR of the other two roads did not have provision for addition of lanes.

Capital costs and concession period

2.1.24.2 The table below shows the estimated cost of the PPP projects, VGF, Investment by the Developer and period of tolling allowed.

Table 2.1.6: Financial parameters of PPP projects

₹ in crore

Name of the project	Wagdhari-Ribbanpally Road	Dharwad-Alnavar-Ramnagar Road	Chikkanayakanahalli-Tiptur-Hassan Road
Total investment required – estimated cost of the project	238.58	230.29	238.45
Viability Gap Funding by Company	90.66	82.90	92.99
Developer's contribution	50.60	69.58	92.99
Debt portion of the private partner	97.32	77.81	52.47
Investment by the Developer	147.92	147.39	145.46
NPV of the net revenue from the investment (*Per cent* adopted for discounting in brackets)	208.15 (10)	61.01 (12)	616.51 (12)
Period of tolling allowed to private partners as per Concessionaire Agreement	30 years	30 years	30 years

(Source : Financial module submitted to Planning Commission)

We observed that:

- The Net Present Value (NPV) of net operating income after tax of the projects would be ₹ 208.15 crore, ₹ 61.01 crore and ₹ 616.51 crore for Wagdhari-Ribbanpally Road, Dharwad-Alnavar-Ramnagar Road and Chikkanayakanahalli-Tiptur-Hassan Road respectively. This is indicative of high returns and Company should have insisted for shorter concession period, especially in respect of Chikkanayakanahalli-Tiptur-Hassan Road, where the NPV was very high.

- The initial investment projected for Wagdhari-Ribbanpally Road was ₹ 276.64 crore with concession period of 30 years. The project cost was scaled down to ₹ 242.75 crore by the Planning Commission. However, the Company did not reassess the concession period.

- For Chikkanayakanahalli-Tiptur-Hassan road, the BoD of the Company resolved to adopt rigid pavement option of ₹ 210.74 crore towards capital cost. The Consultants had agreed to suggestions of Technical Committee for a concession period of 20 years. The BoD decided to offer the construction of the road with rigid pavement with concession period of 30 years, in contravention of the suggestion. This is discussed in detail in Paragraph 2.1.30.

2.1.25 Concessionaire raising loans from the banks far in excess of project cost

Table 2.1.7: Details of project cost *vis-à-vis* funding by Financial institutions.

(₹ in crore)

Particulars	Wagdhari-Ribbanpally Road	Dharwad-Alnavar-Ramnagar Road	Chikkanayakanahalli-Tiptur-Hassan Road
Project cost approved by Planning Commission	238.58	230.29	238.45
Upfront VGF component	45.33	41.45	92.99
Proposed Developer's equity	50.60	69.58	92.99
Debt portion of the Developer	142.65	119.26	52.47
Cost projected to bankers by private partners for securing loan	314.31	270.84	318.98
VGF projected to bankers by private partners	49.98	48.34	92.99
Amount of loan sanctioned	213.73	152.92	133.00
Excess sanction	71.08	33.66	80.53
Financial Institution	SBI and consortium banks	Canara Bank and consortium banks	SBI and Infrastructure Finance Company Limited

(Source: Common loan agreement with financial institutions)

We observed that:

- The private partners had projected the project cost to the bankers much higher than the cost approved by the Planning Commission for all the three projects. This had facilitated the private partners to avail more loan (₹ 185.27 crore for three projects).

  In the event of the private partner defaults in the payments of loan, the bankers would take over the tolling as per the loan agreement, with the concomitant effect of increasing the tolling beyond the concession period of 30 years.

- Further, in respect of Chikkanayakanahalli-Tiptur-Hassan road, the concessionaire had projected the cost of the project as ₹ 318.98 crore to the Financial Institutions though the cost of the project was ₹ 238.45 crore. The Chartered Accountant appointed by the concessionaire had certified (November 2012) that the expenditure incurred till November 2012 was ₹ 144. 65 crore. This represented 45.35 *per cent* of the total projected cost (₹ 318.98 crore). However, as per records of the Company, the physical progress achieved was only 17.92 *per cent and* as per Audit Report of the Auditor (M/s. Mott MacDonald,) appointed by the Financial Institution, the overall progress achieved was 19.90 *per cent*. In the absence of monitoring of physical progress *vis-à-vis* the drawal of funds from the banks, the possibility of diversion of funds by the concessionaire cannot be ruled out.

Acquisition of land

2.1.26 As per the Article 4 (Clause 4.1 and 4.2) – Conditions precedent of the Concession Agreement the Government shall have provided to the Concessionaire the 'Right of way' to the site to the extent of 90 *per cent* of the total area of the site prior to appointed date. In the event the Government does not fulfill the condition, the Government shall pay to the Concessionaire damages at the rate of 0.1 *per cent* of the performance security for each day's delay subject to maximum of 20 *per cent*.

As per Article 10 (Clause 10.3) of the Concession Agreement, the Government shall provide and grant the Right of Way to the concessionaire in respect of all land included in the Appendix (10 *per cent* of the area of the site) within 90 days of the appointed date[35]. In the event of delay it shall pay the concessionaire damages at the rate of ₹ 50 per day for every 1,000 sq.mtrs or part thereof.

The lands are to be acquired under Land Acquisition Act 1894. Preliminary notifications under Section 4(1) are issued duly notifying the land proposed to be acquired. Final notifications for acquisition of land are issued under Section 6(1) of the Act. Generally, the time period between the preliminary notification and final award is about three years.

We observed that:

- The preliminary notification for acquisition of Land for Dharwad-Ramnagar Road was issued (October 2011) after a delay of six months from the appointed date (March 2011). The final notifications under Section 6(1) of the Act were still under issue, for land in some villages.

- Similarly, in respect of Chikkanayakanahalli-Tiptur-Hassan Road notification under Section 4(1) was issued (March 2012) after two months of appointed date (January 2012). Final notifications under Section 6 (1) are yet to be issued (December 2013).

[35] **Appointed date refers to date of financial closure.**

- Though it takes three years on an average for completion of the acquisition process, the Government had issued preliminary notifications after delays as stated above. The areas of the sites as specified in the designs have not been handed over to the concessionaires till date (September 2013). As a result, the liability of the Government to the concessionaire as on December 2013 is ₹ 4.96 crore in case of the two roads.

The Government stated (November 2013) that the Company was depending on the respective revenue departments for acquiring the land and the process of land acquisition is very much elaborative. It was also stated that the Company was planning to create an exclusive cell for expediting the land acquisition process.

Financial Closure

2.1.27 As per Article 24 of the concession agreement entered, the financial closure has to be achieved within 180 days from the date of the Agreement and in the event of delay, the concessionaire shall be entitled to a further period not exceeding 120 days subject to an advance payment of damages to Government in a sum calculated at the rate of 0.1 *per cent* of the performance security for each day of delay by the concessionaire.

- The Concession Agreement with the Concessionaire GVRMP Whagdhari-Ribbanpally Tollway Private Limited was executed in June 2010. The Concessionaire achieved the financial closure on 7 January 2011 after a delay of 32 days for which a penalty of 3.2 *per cent* of Performance Guarantee of ₹ 12.39 crore amounting to ₹ 39.65 lakh had to be levied. The claim has not been preferred on the concessionaire till date (December 2013).

- The Concession Agreement with the Concessionaire GVRMP Dharwad Ramnagar Tollway Private Limited was executed in June 2010. The Concessionaire achieved the financial closure on 16 March 2011, with a delay of 100 days for which a penalty of 10 *per cent* of Performance Guarantee of ₹ 11.88 crore amounting to ₹ 1.19 crore has to be levied. The claim has not been preferred on the concessionaire till date (December 2013).

The Government stated (November 2013) that the financial closure for both the projects was achieved in December 2010, which was within six months of concession agreement (June 2010).

The reply is factually incorrect as the mere sanction of loan does not convey financial closure. Financial closure is stated to happen only when financial documents have been executed, which in case of these two projects was done in January 2011 and March 2011 respectively.

Wagdhari-Ribbanpally Road Project

Granular Sub Base of the road

2.1.28.1 As per the provisions of the Concession Agreement (Part II Schedule B Annexure I Clause 2.3) the detailed pavement design of carriageway shall be done in accordance with the standards mentioned in Schedule-D. Accordingly, the thickness of the Granular Sub Base (GSB) for carriageway, approaches of all structures, paved shoulders, *etc*., from Km. 0 to Km.141.34 shall be 200 millimetre (mm).

However, the Concessionaire had provided only 100 mm of GSB material in the earthen shoulder portion. A review meeting was chaired by the Managing Director of Company in August 2011 and after discussion it was decided that the GSB work executed till then was not to be disturbed. It was also agreed that further GSB work in the remaining chainage (93.51 to 141.34 Kms) should be executed with 200 mm thick for full width.

We observed that the Concessionaire had changed the composition of pavement without prior approval of the Government. The Company had thus, failed to ensure the quality of the road (up to 93.50 Kms) and the reduction in this project cost.

The Government stated (November 2013) that DPR provided for 100 mm GSB for shoulders and accordingly project cost was calculated. The reply is contrary to the facts. The concession agreement stipulated provision of 200 mm GSB for the entire stretch of the road.

Modified Bitumen in the wearing course

2.1.28.2 Use of Modified Bitumen for wearing course was specified in the Concessionaire Agreement. The Concessionaire was asked to use Polymer Modified Bitumen (PMB)-40 for bituminous concrete works as per IRC SP-53. The Developer refused to use PMB-40 as it was not in line with the contract conditions.

As per MoRTH (Government of India) use of modified bitumen was compulsory for wearing courses. The wearing course executed was not as per the scope of work, as the concessionaire used the lower grade '60/70 grade' bitumen (VG30), which is less expensive. The approved project cost was ₹ 238.58 crore. The VGF was 40 *per cent* of the approved cost. With the reduction in cost, the corresponding VGF should have been lesser. Also it had resulted in compromising the quality of carriageway.

The Government stated (November 2013) that there was an anomaly in the provisions of concession agreement on specification of bitumen for wearing course and the Technical Committee took a decision to leave the matter to the Independent Engineer. The reply is not in order as the concessionaire had used 60/70 grade bitumen without obtaining opinion of Independent Engineer and the use of this grade was not in line with provisions of concession agreement as well.

Dharwad- Ramnagar Road

Change in design and scope of work

2.1.29 The 'in principle' approval by Government of India to the proposal to improve the Dharwad-Alnavar-Ramnagar Road (SH-34) was accorded in March 2008, at a cost of ₹ 193 crore (SR 2007-08). The cost of the project was revised to ₹ 237.60 crore (including shifting of utilities) based on then current SR (2009-10).

In the project, road having a length of 60.4 kilometers was proposed to have a minimum two lane carriageway with one metre wide paved shoulders. The road was designed with curve improvements to attain a speed of 100 Kilometre per hour (Kmph). A new bypass of 3.7 Kms length from Km.9.050 to Km. 12.750 was also proposed. The main carriage way was to be of seven metres, paved shoulders of two metres, earthen shoulders of three metres and foot-path-cum-drain of three metres. The proposed Right of way as per Concession agreement for road of this measurements was 30 metres.

The proposed road passed through Nagargali Reserve Forest and it was anticipated that there would be impact on flora and fauna. The road also passed through water bodies like tanks and seasonal streams.

Though the project report was ready by 2006 the concession agreement was signed in June 2010 and the Company requested for diversion of forest land five years later in May 2011, after notice inviting tenders was issued (September 2006). The Forest Department refused (November 2011) to part with land.

The matter of construction of road in the forest reaches was discussed in the meeting held in November 2011 convened by the Additional Chief Secretary, Forest Ecology and Environment, Department, GoK. It was resolved to recommend black topping of a width of 5.5 metre in 25 Kms stretch of the road passing through forest areas in Dharwad and Belgaum. The State Government approved (November 2011) black topping of 5.50 metres with 60 centimetre concrete drain without shoulders.

SNC-LAVALIN Infrastructure Private Limited, the Independent Engineers, in their letter (December 2011), comparing the DPR alignment and actual execution alignment, pointed out that there could be variations of quantities and actual length of the project, as the reaches in the reserved forest area were still undecided. Therefore, variations of quantities would attract Article 16 of the agreement dealing with change in scope of work after finalization of the project corridor.

Article 16 stipulated that if Government decided to proceed with the change of scope, it should convey its preferred option to the Concessionaire, and the parties should with assistance of the Independent Engineer, thereupon make good faith efforts to agree upon the time and cost for implementation thereof. This procedure was not followed though the changes were known to the Company. The Concessionaire was allowed to undertake the work though there was reduction in scope at the originally estimated cost.

The Company has so far released ₹ 35.60 crore, the share of the Central Government, inspite of reduction in scope of work. The financial interest of the State was not safeguarded as estimate of cost of the road as per the alignment now under implementation was not prepared, the VGF was not revised and the concession period was not adjusted.

The Government stated (November 2013) that action would be taken after completion of works, as per the provisions of concession agreement.

Tolling not possible on account of restricting the road width

2.1.29.1 A 5.5 metre road without shoulders does not come within the scope of Development of State Highways and Major District Roads user fee Notification (May 2009) and subsequent corrigendum (February 2011). The user fee rates notified under the above order were applicable only to roads with a width of 7.0 metre carriage way with 2 metre paved shoulder and 2 metre soft shoulder.

Therefore, only reduced toll rates are applicable for the road[36] (60.40 Kms), which would have significant impact on the project's financial viability. This would lead to increase in concession period. The Concessionaire has completed the road in the forest reaches with 5.5 metre carriageway with varying soft shoulders.

Shifting of water supply pipelines and sewage drains

2.1.29.2 The Divisional Engineer of the Company had requested (February 2010) the Karnataka Water Board, Dharwad for shifting the water supply pipelines away from the width of the road. The Company deposited (June 2010) an amount of ₹ 62.45 lakh with the Karnataka Water Board, Dharwad. The work of shifting the pipelines was executed at a cost of ₹ 44.41 lakh. When the work of RCC open drain was taken up, it was noticed most of the pipeline length was below RCC drain and inside the road width. The entire pipeline was removed and re-laid at a cost of ₹ 28.20 lakh. Thus, the faulty work carried out by the Karnataka Water Board resulted in an extra cost of ₹ 28.20 lakh to the Company.

[36] **Dharwad-Alnavar-Ramnagar Road - Toll will be applicable for 35.40 Kms (60.40 Kms–25.00 Kms)**

Chikkanayakanahalli –Tiptur - Hassan Road

Selection of design and concession period

2.1.30 The Technical Committee of the Company in its meeting held in May 2006 while deliberating the feasibility report prepared by the Consultants (Consulting Engineering Services (India) Private Limited, Bangalore) for Chikkanayakanahalli-Tiptur-Hassan road asked the Consultants to work out the initial cost of the road with flexible and rigid pavements for design life periods and concession periods. The Report of the Technical Committee of the Company had the following options, which were placed before the BoD Meeting in August 2006.

- Road with Flexible pavement was ₹ 171.81 crore 'with shoulders'. The concession period was proposed to be 20 years after construction period.
- Road with Rigid pavement was ₹ 210.74 crore 'with shoulders'. The concession period was proposed to be 20 years after construction period.

The BoD of the Company resolved to adopt rigid pavement option with shoulders amounting to ₹ 210.74 crore with concession period of 30 years. It was approved by the Government (October 2007).

The decision of the BoD to offer the construction of the road with rigid pavement with concession period of 30 years, in contravention of the suggestion of the Technical Committee had resulted in foregoing the revenue from the 21st year to 30th year to the concessionaire.

Exemption from Customs duty

2.1.30.1 Abhijeet Toll Roads (Karnataka) Limited stated (April 2012) that the EPC (Erection, Procurement, and Commissioning) of Chikkanayakanahalli-Tiptur-Hassan road executed by it was awarded to Abhijeeth Projects Limited. Abhijeeth Projects Limited imported a paver equipment[37] from Germany at ₹ 4.79 crore and requested the Company to issue letter to them for exemption from payment of customs duty[38]. The amount of exemption to be claimed was ₹1.24 crore.

The Company issued a letter to Deputy Commissioner of Customs, Chennai port to release the equipment without payment of duty, though the import of such equipment by the Construction Company was not part of the contract and the fact of import was not intimated by the bidder at the time of negotiations. This had resulted in loss of revenue to the GoI, in the form of Customs duty.

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[37] Slip Form Paver with self loading DBI along with central Tie-Bar Inserter equipments.
[38] As per Notification of March 2002- Condition – 40.

Milestones penalty

2.1.30.2 The Concessionaire for the Chikkanayakanahalli-Tiptur-Hassan road was contracted in January 2012 and completion of construction of road was fixed for January 2014. The progress achieved by the Concessionaire for the first and second mile stones as on December 2012 is given in table below.

Table 2.1.8: Progress achieved by the Concessionaire in Chikkanayakanahalli –Tiptur - Hassan Road

Sl. No.	Project Milestone	Mile Stone I (July 2012)		Upto Milestone II (January 2013)	
		Required	Achieved	Required	Achieved
1	Project Road (Kms)	15.244	2.283	38	2.283
2	Bridges and Cross Drainage structures	20	32	49	32

We observed that as per the audit report of Mott Macdonald, the Auditor for Consortium of Banks led by State bank of India (SBI), the overall progress achieved was 19.9 *per cent,* against the milestone of 76.5 *per cent*. Milestone penalty to be levied from 6 July 2012 to 10 June 2013 (delay of 337 days) worked out to ₹ 3.99 crore.

The Government stated (November 2013) that there was a litigation in the court against the forfeiture of the performance security.

Fee and expense to the Independent Engineers

2.1.31 As per Clause 2 (Schedule-P of Part II) of Concession Agreement, the Company shall endeavour that payments to the independent engineer on account of fee and expenses do not exceed two *per cent* of the total project cost. Payments not exceeding such two *per cent* shall be borne equally by the Company and the Concessionaire, and any payments in excess thereof shall be borne entirely by the Company.

We observed that:

- While inviting tenders for availing the services of Independent Engineer, the Company did not include the limiting clause for fee and expenses. Consequently, Consulting Engineering Services (I) Private Limited was appointed (May 2011) as Independent Engineer for Wagdhari- Ribbanpally Road for a fee of ₹ 5.50 crore, which was in excess of two *per cent* of TPC by ₹ 72.84 lakh,

- Similarly, Span Consultants Private Limited was appointed (May 2011) as the Independent Engineer for the Dharwad – Ramnagar road, at an amount of ₹ 5.71 crore, which was ₹ 1.10 crore more than the ceiling amount of two *per cent* of TPC.

The excess cost of ₹ 1.83 crore fixed over and above the ceiling limit for both the projects had to be borne by the Company.

The Government replied (November 2013) that it was not mandatory to limit the Independent Engineers' charges to two *per cent.* The reply is not acceptable as the Company should have endeavoured as a prudent financial measure to limit the payment to two *per cent* so as to minimize the expenditure.

Monitoring of the projects

2.1.32 We observed that:

- The Planning Commission had prescribed the two tier monitoring mechanism for overseeing the implementation of the agreed terms in and delivery of specified services of the concessionaire agreement. This has not been implemented.

- As per the Concession Agreement (Article 23.1) the Government shall appoint a consulting engineering firm to be independent engineer not later than 90 days from the date of the agreement. The Independent Engineers for supervising the works of the Wagdhari – Ribbanpally road and Dharwad – Ramnagar road were appointed in May 2011 after the delay of 7 months. The delayed appointment resulted in lack of supervision of works in the initial period of the contracts.

- The Concession agreement (Article 22.4) states the Concessionaire shall install, operate and maintain a computer system with round-the-clock connections to the networks of the Government and other related entities for exchange of data and information useful or necessary for efficient and transparent regulation and management of traffic. For this purpose, it shall follow such protocol for Electronic Data interchange as the Government may specify. No such interchange was provided nor insisted upon by the Company (December 2013).

Resource mobilization

Sources

2.1.33 The sources of funding as envisaged by the Government and the present position are detailed below:

Table 2.1.9: Sources of funding envisaged and their present position

Envisaged sources	Present position
1. Budgetary provisions for specific projects.	The Company is in receipt of funds for various projects through fund allocated to Karnataka Public Works Department (KPWD).
2. Grants in aid received from the State Government.	Company was in receipt of Grant-in-aid from various departments to execute specific works
3. Loans from market and financial institutions.	The Company takes loans from HUDCO for execution of projects and the repayment is made through budgetary allocations of the Government.
4. Toll collection on roads transferred to the Company by the Government.	The Company has not been allowed to collect toll from any road.

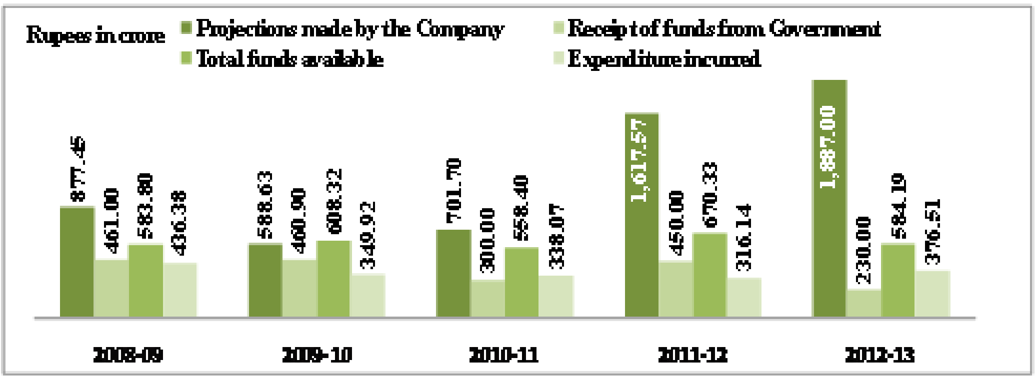
Envisaged sources	Present position
5. Income from land adjacent to the road projects.	No such lands were allocated.
6 Commercial exploitation of the lands transferred to the Company	No such lands were allocated.
7. Levy of tax/duty for provision of infrastructural facilities.	No such levy charges are collected.

We observed that the Company has not been able to generate funds from the envisaged sources and was entirely dependent on the budgetary support of the Government.

It is pertinent to note that the Expenditure Reform Commission, GOK in its Third Report (May 2011) had reiterated the recommendations made by it in its First Report (Jan 2010), wherein it questioned the relevance of the Company and its continuance in the context of its failure to mobilize funds independently. The Commission deliberated that the Company was established as a Special Purpose Vehicle (SPV) for the purpose of raising money from HUDCO and other sources and was supposed to service the same through imposing toll on roads. In reality, the borrowings of the organization were serviced by the Government.

Budgets

2.1.34 The Company prepares annual action plan for each year detailing the ongoing works and fresh works proposed to be taken up and likely expenditure for that year and sends it to KPWD for budgetary allocation. The funds projected by the Company, funds received from KPWD and the expenditure incurred during the five years ended in 2012-13 are illustrated graphically below:



We observed that:

- The budgetary allocation and actual expenditure were not commensurate with the projections. Even the allotted funds were not fully utilized in any of the years, because of works lingering, as commented in Paragraph 2.1.11 *infra*.

- In addition to the regular works, the Company also undertook works for Departments of the Government receiving special grants. The Company received a total of ₹ 739.32 crore as grants[39] during the last five years and spent only ₹ 418.85 crore, as at end of March 2013.

- The Company kept the unutilized funds of ₹ 649.49 crore in term deposits in nationalized banks as at the end of March 2013. Despite parking money in fixed deposits, the Company availed (November 2012) a loan of ₹ 189.20 crore at an interest of 11 *per cent* from HUDCO for funding two road projects[40]. The Company had drawn ₹ 23.20 crore and paid interest on borrowings in excess by ₹ 42.53 lakh[41] (up to December 2013) of the interest accrued on term deposits.

Karnataka Road Fund

2.1.35 The GoK constituted a High-level Task Force (HLTF) in 1999, which recommended setting up of a dedicated and non-lapsable Road Fund (the Karnataka Road Fund) to be administered by an autonomous Road Fund Board.

The Government of Karnataka created Karnataka Road Fund only in March 2009 and contributed ₹ 250 crore to a Personal Deposit Account. Mysore Minerals Limited[42] was to contribute ₹ 250 crore to the Road Fund. Instead, Mysore Minerals Limited contributed ₹ 50 crore in the equity of the Company as at June 2013.

The Company withdrew ₹ 240 crore from Personal Deposit account for meeting PPP expenses after obtaining approval of the GoK. The Company accounted the same as specific grants received from the Government. The expenditure out of this grant upto June 2013 was ₹ 25.31 crore and the balance was held in term deposits by the Company.

Acknowledgements

2.1.36 We acknowledge the co-operation extended by the Departments of the Government of Karnataka and the Company in facilitating the conduct of audit.

Conclusions

We concluded that:

- **There were many instances of faulty preparation of estimates, design changes, delay in land acquisition and getting forest clearances, which resulted in time and cost overrun, in execution of road and bridge works.**

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[39] For Tourism Projects, PPP Projects, Mangalore Airport road Projects, Special Development Plan.

[40] Sandur-Hospet and Kudlagi-Sandur-Tornagal roads.

[41] Calculated at 2 *per cent* for twelve months (December 2012 to December 2013) on ₹ 23.20 crore.

[42] A Public Sector Undertaking held by the Government o f Karnataka.

- **For Phase bridges, the estimates and the designs were prepared by the executing contractors that too after award of contracts, instead of the Company preparing them. The conditions in the contracts were changed subsequent to award of the contract resulting in undue advantage to the contractors. The pattern of quotations indicated bid rotation.**

- **The Company was entirely dependent on the budgetary support of the Government. It did not generate funds from the envisaged sources though the primary purpose of setting up the Company was independent mobilization of funds.**

- **The Company proposed (June 2006) to float special purpose vehicle (SPV) for executing the road projects on BOT/BOOT basis by raising resources through commercial borrowings and to collect toll. However, the Government issued orders for construction of roads through PPP on BOT basis, without forming SPV, allowing the private partner to toll and appropriate the entire revenue to themselves for 30 years. The opportunity for the Government to obtain a return on investment has been lost.**

- **The PPP Projects attracted a lukewarm response. Of the three projects taken up till date (December 2013), two are lingering on after 2 to 3 years.**

- **There were changes in design and use of materials after the three PPP projects were awarded and such expenditure was not factored in the cost of the project. We observed that in view of the likelihood of tolling being reduced on Dharwad- Ramnagar Road, on account of restriction of the road width, there would be significant impact on the project financials.**

- **The decision of the Board of Directors to offer the construction of the Chikkanayakanahalli- Hassan Road with rigid pavement with concession period of 30 years, in contravention of the suggestion of the Technical Committee, had resulted in the Company foregoing revenue from the 21st year to 30th year to the concessionaire.**

- **The two tier monitoring mechanism as envisaged by the Planning Commission has not been put in place. Independent Engineers for supervising the projects were appointed seven months after the stipulated date.**

- **Electronic Data interchanges for analyzing traffic census and sampling are yet to be created.**

Recommendations

We recommend that:

- **As the Company was set up as a Special Purpose Vehicle, it should function accordingly and should generate and expend its own funds for achieving its objectives.**

- **Estimates and design of the roads and bridges projects prepared by Consultants and Contractors did not match with actuals. Therefore, these need to be examined and evaluated independently before approval.**

- **The practice of entrusting the task of designing and estimating the projects after award of works should be eschewed.**

- **Survey of land and the process of acquisition should be started in advance, once Detailed Project Reports are finalised. An institutional mechanism to co-ordinate the entire process of land acquisition and various clearances is required to be put in place to avoid delays and overruns.**

- **The possibility of executing projects under Joint Venture model through a revenue sharing mode between Company and private partner needs to be explored.**

- **The two-tier monitoring mechanism suggested by the Planning Commission for overseeing the implementation of the agreed terms and delivery of specified services of the concessionaire agreement needs to be implemented at the earliest.**

- **The Electronic Data Interchange for efficient and transparent regulation and management needs to be put in place at the earliest.**

2.2 Performance Audit on '*Procurement, storage and release of essential commodities by Public Sector Undertakings*'.

Executive Summary

Introduction

Food management in the State Sector has three basic components: procurement of food grains from farmers affording them remunerative prices, distribution of food grains particularly to the vulnerable sections of the society at affordable prices and maintenance of food buffers for food security and price stability. The Decentralised Procurement Scheme (DCP), empowering the States to procure food grains, was introduced in 1997-98. The State of Karnataka came into the scheme in the year 2004-05. The Public Sector Undertakings which undertake the procurement, storage and distribution of food grains in the State are Karnataka Food and Civil Supplies Corporation Limited (KFCSC) and Karnataka State Warehousing Corporation (KSWC).

Profiles of the institutions involved

KFCSC is responsible for procurement of paddy and other coarse grains through Minimum Support Price (MSP) operations and from Central Pool; maintaining the Targeted Public Distribution System(TPDS) and implementing other allied schemes of the Governments such as Sampoorna Grameena Rojgar Yojana, Flood Relief Scheme and Mid-day Meal Scheme.

KSWC is the agency to store food grains and other commodities. KSWC also acts as a procuring agency under the MSP operation as and when directed by the Government of Karnataka. KFCSC is the major user of the storage facilities.

Objectives of the Performance Audit

The performance audit was conducted to ascertain whether estimation of requirements of food grains and its procurement, allotment and off-take were adequate and as per the policies; the activities were efficient and effective; essential commodities were released in time and as per the directions/orders of Government/agencies; and monitoring and internal control systems were adequate, appropriate and efficient.

Requirement of essential commodities

The GoI allotted food grains to the State for 31.29 lakh Below Poverty Line (BPL), including Anthyodaya Anna Yojana (AAY) families. The allotment was at the rate of 29 Kgs of rice for every family.

The GoK, however, had identified BPL cardholders (including AAY) by adopting its own criteria and the number of cardholders determined was 106.13 lakh cardholders as at end of March 2009 and 98.34 lakh cardholders as at end of March 2013. The GoK supplied food grains to the cardholders who were not in the BPL category (as defined by the Planning Commission), categorizing them as 'Extra BPL' (EBPL).

GoK reduced the quantity of supply of rice to BPL card holders (excluding AAY families) from 29 Kgs per cardholder to a maximum of 20 Kgs.

Procurement of rice

Production in the State *vis-à-vis* procurement

The performance of KFCSC, the sole agency vested with the responsibility of MSP operations and procurement of levy rice was poor. It succeeded in procuring only 4.712 (2.37 *per cent*) lakh MTs, against the production of 198.45 lakh MTs in the years from 2008-09 to 2012-13. This situation had resulted in drawing bulk of the requirements from the Central Pool of food grains for supplying to the families coming under BPL and AAY. The production in the State was sufficient to meet the requirement of TPDS.

Procurement of Custom Milled Rice

Hulling and distribution

Hulling was never completed within the dates prescribed by GoI in any of the last four years ended 2012-13. The delays in hulling ranged from 5 months in 2009-10 to 13 months in 2011-12. Hulling for 2012-13 was yet to be

completed (December 2013). The distribution of rice to the TPDS after receipt of rice was also delayed.

Economic cost *vis-a-vis* actual

One of the objectives of the DCP was to reduce the cost of procurement and thereby, reduce the subsidy burden on Governments. Our analysis indicated that the procurement of paddy by KFCSC was not economical.

Compared with the economic cost fixed by the GoI of ₹ 18.34 for 2009-10 and ₹ 18.38 for 2010-11 for a Kg of rice for procurement in the State, the actual cost at the point of release to TPDS was ₹ 22.30 and ₹ 28.79 respectively. The increase in cost was on account of high interest charges incurred for holding stock and excessive charges paid for transportation, milling and storage. The MSP operations in the decentralised set up had only increased the subsidy burden.

The FCI had booked the cost of procurement and distribution of rice as ₹18.27 and ₹ 19.83 per Kg in 2009-10 and 2010-11.

Mill Point Levy Rice

Poor collection

A quantity of 58.70 lakh MTs of paddy was milled in the year 2011-12 and 56.42 lakh MTs in 2012-13, assessed on the basis of the quantum of electricity consumed. In terms of extant of the Levy Order, the millers and dealers were required to make available 13.03 lakh MTs and 12.11 lakh MTs of rice for levy in the two years, which is 33.33 *per cent* of the quantity milled.

The GoK lowered the target for supply of Levy rice to 3 lakh MTs for 2011-12 and 3.5 lakh MTs for 2012-13. The GoK reduced (December 2012) the target for 2012-13 further to 1.5 lakh MTs. The Levy Order, however, did not have a provision to reduce the targets for levy collection.

The actual collection of rice from millers during 2011-12 was only 2.03 lakh MTs and in 2012-13, it was even lesser at 0.59 lakh MTs. There were no initiatives to ensure compliance with the Levy order in terms of the rice procurement from the dealers, in any of the years.

Extra cost on account of failure to meet the levy target

Procurement of targeted quantity of levy rice would have made the State less dependent on the Central Pool (FCI) and reduced the cost of TPDS.

The total quantum of mill point levy rice not collected and/or not offered was 22.52 lakh MTs in 2011-12 and 2012-13. The additional cost incurred for procurement of this quantity from Central Pool was about ₹ 948.61 crore.

Procurement of Maize

Cost of transportation of maize

KFCSC procured 4.22 lakh MTs of maize directly from farmers during 2008-09 and 2009-10 and KSWC procured 1.30 lakh MTs during 2009-10. The quantity of maize procured was sold by FCI through tenders.

The transportation charges paid by KFCSC were 45 *per cent* more than the rates fixed by GoI in 2008-09 and 311 *per cent* in 2009-10. The excess cost incurred worked out to ₹ 9.09 crore.

The cost of transportation incurred by KFCSC in 2009-10 was very high (₹ 56.94 per quintal) in comparison to costs of KSWC and KSCMF (₹ 29.73 and ₹ 46.90 per quintal respectively) who were also involved in similar operations in the same year.

Storage

Storage in private godowns

KFCSC had not been initiating action to reserve space in Government owned warehouses for storage of their procurements. KFCSC hired private godowns for storing the food grains.

Distribution

Determination of eligible families for supply of food grains

The State supplied food grains to the cardholders, who were not coming under the BPL category as per the Planning Commission, categorizing them as 'Extra BPL category' (EBPL).

The GoK identified 31.24 lakh cards as excess or fictitious in January 2011. Prior to 2011 these cards were part of the BPL/EBPL categories.

The number of APL cardholders identified by GoK in the State ranged between 52.98 lakh during 2008-09 and 34.99 lakh during 2012-13. While GoI had been supplying rice for supply to APL families as per their assessment on regular basis, those supplies did not reach the APL families.

Supply of Rice, Wheat and Sugar

The GoI had allotted food grains for distribution to BPL and AAY cardholders approved by them at the rate of 35 Kgs per family per month (29 Kgs rice and 6 Kgs wheat per family per month) from April 2002 onwards. GoK had, however, adopted different parameters for distribution of food grains. This system restricted the eligibility of BPL families to a maximum of 23 Kgs.

Electronic weigh bridges at wholesale points

The Commissioner (FCS&CA) directed (June 2010) all the wholesale nominees of the state to install electronic weigh bridge within a period of three months; otherwise, their wholesale trade license was liable to be cancelled. KFCSC has not installed so far stating (June 2013) that no fund was released by the GoK for the purpose.

System lapses in procurement, storage and distribution

We observed that there were system deficiencies in the procurement, storage and distribution processes, which resulted in misappropriation of stock and shortages of food grains. The Company had no system of monitoring the quantity received at procurement centres, quantity handled, quantity of stock/bags loaded in trucks at procurement centres and reconciliation of quantities received at storage point with loaded quantities. The system of checking the quality of food grains procured was also deficient.

Internal Control and Internal Audit

The KFCSC has not devised appropriate Management Information System to generate and disseminate reliable consolidated information of its activities. There were no manuals relating to procurement, accounting and audit. Physical verification of stock procured under MSP Operations was not conducted periodically.

Our conclusions and recommendations are given at the end of the Performance Audit Report.

Introduction

2.2.1 Food management in the State Sector has three basic components: procurement of food grains from farmers affording them remunerative prices, distribution of food grains particularly to the vulnerable sections of the society at affordable prices and maintenance of food buffers for food security and price stability. The instruments for food management are the Minimum Support Price (MSP), fixing of quota for compulsory procurement of food items – the levy and Central Issue Price (CIP). The Decentralised Procurement (DCP) Scheme empowering the States to procure food grains was introduced in 1997-98. The State of Karnataka came into the scheme in the year 2004-05. The Public Sector Undertakings (PSUs) which undertake the procurement, storage and distribution of food grains[43] in Karnataka are Karnataka Food and Civil Supplies Corporation Limited (KFCSC) and Karnataka State Warehousing Corporation (KSWC).

Profiles of the institutions

2.2.2 KFCSC was incorporated in September 1973 as a wholly owned Government Company with the primary objective of procuring, lifting and distributing food grains under the Targeted Public Distribution System (TPDS) and implementing other allied schemes of the Governments such as Sampoorna Grameena Rojgar Yojana (SGRY), Flood Relief Scheme, and Mid-day Meal Scheme. Market intervention to stabilize the prices so as to provide protection to the growers of paddy and other coarse grains through Minimum Support Price (MSP) operations was also the responsibility of the KFCSC. The management of the KFCSC is vested in a Board of Directors (BoD) with Chairman and nine Directors. KFCSC has 29 District Offices (DOs), 194 Wholesale Points (WSP) and 178 retail points.

KSWC was established to store food grains and other commodities and consequent on enactment of the Warehousing Act, 1962, KSWC was deemed to have been established under Section 2 (k) of the said Act. KSWC also acts as a procuring agency under the MSP operation as and when directed by Government of Karnataka (GoK). The Management of the KSWC is vested in a BoD with Managing Director, Chairman and nine Directors. KFCSC is the major user of the storage facilities.

Scope of Audit

2.2.3 The present performance audit, conducted between April and September 2013 covered the procurement and distribution activities carried out by the KFCSC and the activities relating to storage undertaken by KSWC, during the period 2008-09 to 2012-13.

[43] **Essential commodities for the purposes of this Performance Audit are paddy, rice, maize, wheat and sugar dealt by the two Public Sector Undertakings and intended primarily for Targeted Public Distribution System.**

In KFCSC, we perused the records in Head Office at Bangalore and in 9[44] of the 29 District Offices, as also the records in 14 of 74 wholesale points coming under the selected districts. The selection for test check district officers was done applying stratified method based on turnover. The wholesale points were selected on random basis. In KSWC, 5 of the 7 Regional Offices were selected linking them to the utilization of the storage capacity and which are in the districts subjected to audit in KFCSC. In these regional offices, 19 of the 36 warehouse centers were selected for check based on pre-set criteria[45].

Audit Objectives

2.2.4 The performance audit was conducted to ascertain whether the:

- Estimation of requirements of essential commodities in the State and its procurement, allotment and off-take were adequate and as per the policies, procedure and directions of GoI/GoK.
- Operational activities of the godowns were efficient and effective and as per rules, procedures and guidelines.
- Essential commodities were released in time and as per the directions/orders of Government/agencies.
- Financial management was effective.
- Manpower Management, Monitoring and Internal Control System were effective.

Audit Criteria

2.2.5 The Audit criteria were derived from the following sources:

- Policies of the Governments, Acts, Orders and Guidelines of the GoI/GoK for procurement and allotment of food grains;
- Projections by the Government and other agencies;
- Annual targets fixed for procurement and milling of paddy; and
- Purchase orders, Agreements for handling, hulling and transportation.

Audit Methodology

2.2.6 We examined the files/records related to procurement including MSP operations, storage and distribution of food grains and the relevant orders and guidelines issued by the GoI/GoK.

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[44] **Shimoga, Davanagere, Gulbarga, Yadgir, Mandya, Bellary, Haveri Hassan and Bangalore.**

[45] **MSP Operations, capacity, stock of KFCSC and misappropriations noticed by the management.**

An Entry conference was held in May 2013 to appraise the GoK and the Management of the objectives of the Performance Audit. The audit findings were reported to the GoK/Management and discussed in an exit conference held on 6 November 2013. The Exit conference was attended by the Principal Secretary to the Government, Food, Civil Supplies and Consumer Affairs (FCS&CA) Department and the Commissioner (FCS&CA), and the Principal Accountant General.

Overall position of procurement and releases of food grains

2.2.7 The procurement and release of food grains made by KFCSC and KSWC for the period 2008-09 to 2012-13 were as follows:

Table 2.2.1: Procurement and release of food grains

(Quantity in lakh MTs)

Food grains	Opening Stock (April 2008)	Purchase/ transfers during 2008-13	Total	Releases / transfer during 2008-13	Closing Stock (31 March 2013)
Rice	0.15	79.68[46]	79.83	79.63	0.20
Wheat	0.05	13.26[47]	13.31	13.23	0.08
Maize	0.00	5.52	5.52	5.47	0.05
Ragi	0.00	0.37	0.37	0.37	0.00
Sugar	0.01	3.54	3.55	3.48	0.07

(Source: Annual accounts of KFCSC. Note: Quantity less than 1,000 MTs ignored.)

Audit Findings

2.2.8 The audit findings are discussed under three major headings: procurement, storage and release.

Requirement of essential commodities

2.2.9 In order to cater to the requirement of beneficiaries under Targetted Public Distribution System (TPDS), the State had to procure food grains under DCP Scheme (Custom Milled Rice and Mill Point Levy rice). The FCI supplied the balance quantity from the Central pool.

The GoI allotted food grains to the State for 31.29 lakh Below Poverty Line (BPL), including Anthyodaya Anna Yojana (AAY) families[48]. The allotment was at the rate of 29 Kgs of rice for each family every month. In addition, specific quantity was allotted every month to meet the requirement of Above Poverty Line (APL) cardholders.

The number of BPL families (including AAY) as per the Planning Commission, number of cardholders as per the GoK, and the requirement of food grains are given below:

[46] **Includes CMR, Mill point levy rice and allotment by FCI.**

[47] **Represents procurement from FCI.**

[48] **Beneficiaries belonging to Scheduled Caste, Scheduled Tribe, agricultural labourers, families headed by widows, and persons above 60 years of age not having social security.**

Table 2.2.2: BPL cardholders and requirement of food grains

(Card holders in lakh numbers. Quantity in lakh MTs)

Year	No of BPL families (including AAY) as per Planning Commission	No of BPL cardholders (including AAY) as per GoK	Rice		Wheat		Sugar	
			Require-ment for BPL families including AAY as per GoI norms[49]	Require-ment for BPL families including AAY as per GoK norms[50]	Require-ment for BPL families including AAY as per GoI norms	Require-ment for BPL families including AAY as per GoK norms	Require-ment for BPL families including AAY as per GoI norms[51]	Require-ment for BPL families including AAY as per GoK norms
2008-09	31.29	106.13	36.93	26.77	7.64	4.25	2.55	1.27
2009-10	31.29	98.43	34.25	24.92	7.09	3.98	2.36	1.18
2010-11	31.29	96.34	33.53	24.34	6.94	3.87	2.32	1.16
2011-12	31.29	96.01	33.41	24.34	6.91	3.89	2.30	1.15
2012-13	31.29	98.34	34.22	24.81	7.08	3.94	2.36	1.11

The GoK, however, had identified BPL cardholders (including AAY) by adopting its own criteria and the number of cardholders varied between 106.13 lakh cardholders as at end of March 2009 to 98.34 lakh cardholders as at end of March 2013. The GoK supplied food grains to the cardholders who were not coming under the BPL category (as defined by the Planning Commission). These additional cardholders were categorized as 'Extra BPL category' (EBPL).

GoK reduced the quantity of supply of rice to BPL Card holders (excluding AAY families) from 29 Kgs. per cardholder to a maximum of 20 Kgs per month.

Considering the BPL (including EBPL) category beneficiaries identified by the State, the requirement is given in the above Table 2.2.2. The distribution of rice and other foodgrains are brought out in paragraph 2.2.16 *infra*.

Procurement

Procurement of Rice

2.2.10 The procurement of rice in the State is effected in two different ways. These are Custom Milled Rice (CMR) through MSP operations and Mill Point Levy of rice.

Custom Milled Rice: In order to ensure availability of Minimum Support Price[52] (MSP) to farmers and to maximise procurement, GoI introduced

[49] Considering 29 Kgs for BPL (including AAY) cardholders.

[50] Considering 29 Kgs for AAY cardholders and maximum of 20 Kgs for BPL cardholders as fixed by the GoK

[51] Considering four members per card at 500 grams per member as fixed by GoI.

[52] MSP is fixed by the GoI based on rates recommended by the Commission for Agricultural Costs and Prices (CACP), which takes into consideration cost of cultivation and remunerative prices to farmers on their products. While determining MSP, the CACP considers the cost of production, trends in domestic and international market prices, stock position, changes in agricultural terms of trade, inter-crop price parity, prices fixed in previous years *etc*.

(1997-98) Decentralised Procurement (DCP) Scheme. GoK had been a DCP state since Khariff Marketing Season (KMS) 2004-05. The main objectives of the DCP were to eliminate the over-dependence on Food Corporation of India (FCI) for public distribution of food grains, to free FCI from the task of procurement of food grains and to reduce the subsidy burden, as the economic cost of rice procured directly by the States would be lower than the economic cost of FCI.

As per directions of GoK, KFCSC (sole agency) procures paddy. KFCSC formulates operational guidelines for procurement of paddy and coarse grains before commencement of each KMS. KFCSC opens procurement centers in various districts, mainly at APMC yards, giving wide publicity. The paddy is procured after certification by the graders appointed by the Agriculture Department. KFCSC then invites tenders for milling the paddy and the resultant rice is termed as Custom Milled Rice (CMR). The CMR is accounted as part of the Central Pool.

Mill Point Levy rice: As per the Karnataka Rice Milling Regulation and Rice and Paddy Procurement (Levy) Order, 1999, every miller or dealer shall sell to the GoK or its designated agent 33.33 *per cent* of the quantity of each variety of rice conforming to specifications, obtained from hulling of the paddy on its account every day. Alternatively, the miller/dealer could sell a fixed quantity of rice in such installments as agreed with the Department by giving an Undertaking in writing setting out the quantity, variety *etc.*

Production in the State *vis-à-vis* procurement

2.2.10.1 The details of production, requirement, procurement, and allotment of rice for public distribution are tabulated below:

Table 2.2.3: Details of production, requirement, procurement and allotment of rice

(Quantity in lakh MTs)

Year	Production of rice in the State	Requirement of rice in the State for public distribution[53]	Procurement of CMR and Mill point levy rice by KFCSC	Allot-ment of GoI from FCI	Total procurement available for distribution
2008-09	40.31	33.04	0.002	17.52	17.52
2009-10	38.76	33.50	0.10	19.91	20.01
2010-11	42.97	32.66	0.45	20.60	21.05
2011-12	39.53	33.37	3.50	19.64	23.14
2012-13	36.88	31.25	0.66	22.08	22.74
Total	**198.45**	**163.82**	**4.712**	**99.75**	**104.46**

(Source : Agriculture Department, Allotment Orders, Procurement Section Records of the KFCSC, Economic Survey and Workings by Audit,).

We observed that:

- The performance of KFCSC, the sole agency in the State vested with the responsibility of MSP operations and procurement of levy rice, was poor. The KFCSC succeeded in procuring only 4.712 lakh MTs, as

[53] **Considering 29 Kgs each for AAY cardholders, 20 Kgs each for BPL cardholders (maximum) and actual allotment by GoI for APL card holders.**

against the production of 198.45 lakh MTs in five years from 2008-09 to 2012-13, which was mere 2.37 *per cent* of the requirement.

- This situation had resulted in drawing bulk of the requirements of food grains from the Central Pool to feed the families coming under BPL and AAY, though the State had sufficient production to meet the requirement of public distribution system. This had resulted in additional costs towards transportation of rice from various other States to Central Pool and for onward transfer to the State, which is brought out in Paragraph 2.2.11.1 in detail.

Procurement of Custom Milled Rice

2.2.10.2 The Purchase Manager in charge of procurement centre undertakes the procurement operation and was required to maintain stock register at the time of procurement and enter daily transaction into stock register with name of the persons from whom procurement was made, date of procurement and quantity procured. The procurement officer should enter the number of bags and quantity in the truck chit while sending the stock to storage centers and the details were to be recorded at unloading ends as well. The details of paddy procured and CMR obtained for the procurement seasons 2008-09 to 2012-13 are given below:

Table 2.2.4: Details of paddy procured and CMR received

(Quantity in MTs)

Procure-ment season	Procure-ment	Paddy sent for hulling	Shortage of paddy	Quantity of CMR received	Shortfall in receipt of CMR considering the norm of 67 *per cent* [54] of the quantity of paddy
2008-09	367	367	0	246	0
2009-10	15,454	15,327	127	9,963	0
2010-11	34,811	34,627	184	23,200	0
2011-12	2,29,451	2,20,007	9,445	1,47,249	156
2012-13	21,764	19,865	Hulling was not completed.	12,908	Hulling is in progress

(Source: Records of Procurement Section of KFCSC; Fully revised estimates of area, production and productivity of agricultural crops of the Department of Economics and Statistics, Agriculture Department).

On a test check of the records[55] during KMS 2011-12 when maximum procurement of paddy was made in procurement centers, we observed that:

- The number of bags and quantity were not entered immediately in the daily transaction stock registers at the procurement centers. The details were recorded based on truck chits received back from the storage points.
- The number of bags received at the storage points varied from the number of bags loaded to the trucks from the procurement centers.

[54] **Since the quality of paddy procured during Rabi Marketing Season (RMS) was not of the Fair Average Quality (FAQ), test hulling was conducted in six districts (Bellary, Koppal, Raichur, Shimoga, Davangere, Yadgir) and conversion rate fixed (May 2010) at 65 *per cent,* as against 67 *per cent* for Khariff Marketing Season 2009-10.**

[55] **Stock receipts, transport bills, truck chits and related documents.**

In Hirekerur and Hanagal procurement centres of Haveri District, the quantity loaded (March 2012) in 51 trucks was 17,112 bags as per the truck chits. Whereas, the quantity recorded at unloading points (storage centre) was 16,075 bags. The short receipt of 1,037 bags was not explained.

In Shimoga District, the quantity loaded (January 2012/April 2012/March 2013) in 52 trucks was 11,823 bags as per the truck chits. Whereas, the quantity recorded at unloading points (storage centres) was 11,463 bags. There was a short receipt was 360 bags.

- In three District Offices[56], test check of payment to farmers during 2011-12 revealed that payments (₹ 75.63 lakh) to farmers in 69 cases were made after delays ranging from 10 to 45 days from the date of procurement, which was in contravention of the guidelines. The guidelines issued in October 2011 stipulated that payment had to be made the next day after day of procurement.

Hulling and distribution

2.2.10.3 KFCSC entered into agreements with rice mills for hulling paddy procured under the DCP Scheme. The mills were required to deliver the Custom Milled Rice (CMR) at the pre-determined quantity of 67 *per cent* of paddy hulled.

We observed that the terms of the hulling agreements, entered into by the District Offices (Shimoga, Davanagere, Yadgir and Mandya) with rice mills, were not uniform. The agreement of each district had different terms and conditions regarding number of days allowed for hulling and levy of penalty for non-delivery of CMR within the stipulated period.

The details of season-wise procurement of paddy, actual date of completion of hulling and month of final release to TPDS are tabulated below:

Table 2.2.5: Details of procurement of paddy, its hulling and final release to TPDS

Season	Procurement period	Quantity of paddy Procured (in MTs)	Due dates for completion of hulling as per GoI directives	Actual dates of completion of hulling	Delay in hulling (months)	Month of final release to TPDS
KMS	October 2008 to March 2009	366.65	No date fixed	July 2009	-	April 2011
RMS and KMS	June 2009 March 2010	15,454.28	October 2010	March 2011	5	November 2011
KMS	October 2010 to March 2011	34,810.74	August 2011	July 2012	11	October 2012
KMS	October 2011 to March 2012	2,29,451.46	July 2012	August 2013	13	August 2013
KMS	October 2012 to March 2013	21,764.32	September 2013	Hulling not completed (December 2013)	-	Still under issue

(Source: Compiled from the procurement section records)

[56] **Davanagere, Yadgir and Mandya.**

We observed that:

- The hulling was not completed within the due dates as prescribed by GoI, in any of the last four years (2009-10 to 2012-13). Though the procurement season was October to March of every year, the KFCSC had finalised the tenders only between March and November every year during 2009-10 to 2012-13. Finalization of tender and entering into hulling agreements delayed delivering CMR within the stipulated time. The delays ranged between 5 months (in 2009-10) and 13 months in 2011-12. Hulling for 2012-13 is yet to be completed (December 2013).
- Even after hulling, releases of rice to the TPDS were delayed by seven months in 2009-10 and two months in 2010-11.
- In Yadgir and Mandya Districts, registers were not maintained to monitor the release of paddy for hulling and delivery of CMR.

The Government replied (December 2013) that KFCSC provided stock position of rice every month and on the basis of the declared stock, food grains were allotted in the following month. The reply is a statement of the procedure followed in issue of rice and does not address the specific issues of delays in hulling and issue to TPDS.

Economic cost *vis-a-vis* actual

2.2.10.4 *Economic cost:* The provisional rate of Custom Milled Rice delivered to the Central Pool during each season in respect of each State (or its agencies) consists of Minimum Support Price, incentive bonus, statutory charges, 'mandi' labour charges, custody and maintenance charges, interest charges, milling charges and cost of gunny bags and administrative charges. This is issued by the Department of Food and Public Distribution, GoI. The rates for Raw rice (Common, Grade A) and Par-boiled rice are separately fixed and intimated by GoI.

Data on cost of procurement: Once the entire rice for the season is issued under TPDS, the accounts of procurement, storage, transportation and other incidentals are audited by a Statutory Auditor and forwarded to GoI for settlement.

The actual cost of procurement has been determined only for the years 2008-09 to 2010-11[57]. The compilation of data relating to costs of 2011-12 and 2012-13 are not prepared yet (December 2013) as the rice procured in these years are yet to be fully distributed under TPDS. The procurement in 2008-09 was minimal at 246 MTs only and therefore not considered for our analysis.

[57] The figures for 2010-11 are yet (December 2013) to be audited by the Statutory Auditor appointed for this purpose.

The details of economic costs for interest, milling and storage fixed by GoI *vis-à-vis* the actuals for the two years 2009-10 and 2010-11 are given below:

Table 2.2.6: Details of economic cost of rice *vis-à-vis* actuals

	2009-10			2010-11		
Total paddy procured (MTs)	15,424.90			34,810.70		
Total rice procured (MTs)	9,963.40			23,199.80		
	Economic cost	**Actual**	**Increase**	**Economic cost**	**Actual**	**Increase**
	Rate per Kg of rice (₹)			**Rate per Kg of rice (₹)**		
MSP for the Custom Milled Rice	14.93	15.49	0.56	15.04	15.41	0.37
Cost towards interest charges on acquisition and distribution	0.92	2.65	1.73	0.84	9.90	9.06
Milling charges including transportation, handling and gunny bag charges	1.22	3.01	1.79	1.27	2.07	0.80
Storage, custody and maintenance charges	0.21	0.30	0.09	0.23	0.50	0.27
Other costs	1.06	0.85	(-) 0.22	1.00	0.91	(-) 0.09
Total	**18.34**	**22.30**	**3.96**	**18.38**	**28.79**	**10.41**
Cost incurred by FCI	**NA**	**18.27**	**NA**	**NA**	**19.83**	**NA**

(Source: Records of claim preferred by KFCSC; Annual accounts of FCI. NA=Not available)

We observed that:

- The GoI had factored interest charges for six months considering two months for storage and four months for distribution. The limit fixed for interest charges for acquisition was ₹ 0.92 (per Kg of rice) in 2009-10 and ₹ 0.84 per Kg in 2010-11. Against this, the KFCSC had incurred ₹ 2.65 per Kg in 2009-10 and ₹ 9.90 per Kg in 2010-11.
- The storage, custody and maintenance charges per Kg of rice incurred by KFCSC were ₹ 0.30 and ₹ 0.50 against ₹ 0.21 and ₹ 0.23 fixed by the GoI for 2009-10 and 2010-11 respectively.

Consequently, the actual costs of procurement were ₹ 22.30 and ₹ 28.79 for a Kg. of rice respectively for 2009-10 and 2010-11, compared with the total (economic) cost of ₹ 18.34 and ₹ 18.38 fixed by the GoI for respective years. The total increase in cost in excess of the limit fixed by the GoI, for procurement of 3.32 lakh MTs in 2009-10 and 2010-11 was ₹ 28.10 crore. The excess cost was due to delay in hulling of paddy and distribution of rice as brought out in the Table 2.2.5.

We reviewed the costs incurred by the FCI in the same periods (2009-10 and 2010-11) for purposes of comparison. The FCI had booked a cost of ₹ 18.27 and ₹ 19.83 per Kg in their accounts for procurement and distribution of rice in 2009-10 and 2010-11 respectively. It could be seen that these costs were much lesser than the costs incurred by the KFCSC in the corresponding years, which were ₹ 22.30 and ₹ 28.79 per Kg respectively.

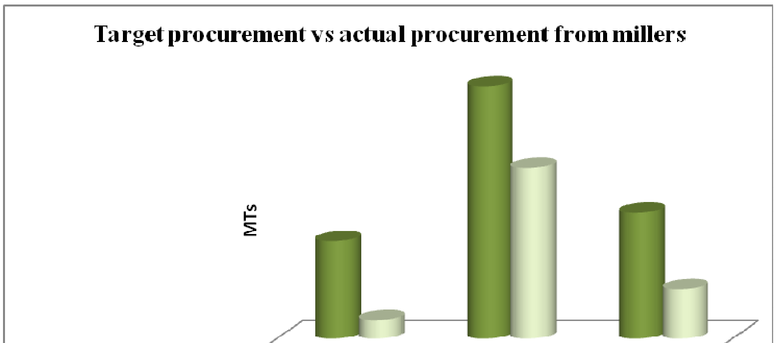
Thus the procurement of paddy under DCP Scheme by the KFCSC was not economical, leading to increasing the subsidy burden on GoI. The objective of reducing the burden of subsidy through decentralized procurement was defeated.

Procurement of Mill Point Levy rice

2.2.11 As per the Karnataka Rice Milling Regulation and Rice and Paddy Procurement (Levy) Order, 1999, every miller or dealer shall sell to the GoK or its designated agent 33.33 *per cent* of the quantity of each variety of rice conforming to specifications, obtained from hulling of the paddy on its account every day. The quantum was to be fixed on the basis of electricity consumed by the millers in the previous year. Alternatively, the miller/dealer could also sell a fixed quantity[58] of rice in such installments as agreed with the Department by giving an Undertaking in writing setting out the quantity, variety *etc*. The rice was procured at the rates fixed by GoI.

Up to 2010-11, FCI was collecting levy rice from the millers. GoK appointed (April 2011) KFCSC as agency for procurement of levy rice from the licensed millers and dealers in the State.

The targets fixed by the GoK for mill point levy and actual procurement for the period 2010-11[59] to 2012-13 are given in the graph alongside.



	2010-11	2011-12	2012-13
Target (MTs)	115623.00	300000.00	150000.00
Procurement (MTs)	22220.02	202762.28	58782.86

We observed that:

- GoK had not taken any action to ensure procurement of rice from the dealers the quantity as provided in the Levy Order, in any of the years.
- The Levy Order stipulated that the miller had to make available 33.33 *per cent* of the quantity of each variety of rice obtained from hulling of paddy. In the year 2010-11, 58.70 lakh MTs of paddy was milled and in the year 2011-12 a total of 56.42 lakh MTs, computed on the basis of the quantum of electricity[60] consumed. The millers had to make

[58] As per circular of November 1999, 18 *per cent* of estimated production was considered as target for 1999-2000, and the same has not been modified since. The Commissioner, Food Department had clarified (September 2013) that the applicable percentage of rice to be supplied was 18 *per cent*, in case an 'Undertaking' was provided as per Levy Order.

[59] Prior to 2010-11, FCI was the agency for collection of levy rice in Karnataka. Further, target fixed for 2010-11 was 2.50 lakh MTs, out of which FCI collected 1.34 lakh MTs and balance was to be collected by KFCSC. During the years 2008-09 and 2009-10 FCI collected 1.07 lakh MTs and 0.69 lakh MTs respectively.

[60] The norm for assessment of rice milled is consumption of electricity at the quantum of 40 units for milling a MT of paddy.

available[61] 13.03 lakh MTs and 12.11 lakh MTs of rice respectively in these two years.

The GoK, however, lowered the target to 3 lakh MTs for 2011-12 and 3.5 lakh MTs for 2012-13 in line with a decision taken in the Food Secretaries' meeting. Conceding to the representations of the Karnataka State Rice Millers Association, the GoK reduced (December 2012) the target of 2012-13 further to 1.5 lakh MTs. There was no provision in the Levy Order to reduce the targets for levy collection.

- Even these reduced targets were not achieved. The collection of levy rice in 2011-12 was only 2.03 lakh MTs and 0.59 lakh MTs in 2012-13.
- The Commissioner (FCS&CA) informed (August 2013) the Government that the approximate additional cost for non-collection of the 0.90 lakh MTs (1.5 lakh MTs-0.59 lakh MTs) was ₹ 45 crore and requested (September 2013) the Government for orders regarding recovery at 33.33 *per cent* for 2012-13. But no orders were issued by the GoK.
- The Deputy Director of Food of the respective districts was empowered to take possession of the stocks in the premises of millers to the extent of shortfall plus ten *per cent* thereof; but these powers were never invoked. There were no records to indicate that action was initiated against defaulting millers and dealers in accordance with the Levy Order.

Extra cost on account of failure to meet the levy target

2.2.11.1 Procurement of targeted quantity of levy rice would have made the State less dependent on the Central Pool (FCI) and reduced the cost of Targeted Public Distribution System. The table below gives the difference in cost of levy rice and the average cost of procurement of FCI during 2011-12[62].

Table 2.2.7: Economic cost of levy rice *vis-à-vis* cost of procurement of FCI

Description	₹ per Kg
Economic cost of levy rice from millers in Karnataka	19.07
Average cost of procurement of rice by FCI *plus* additional cost of transportation[63] for supply to Karnataka	23.28
Extra cost	4.21

(Source: Provisional economic cost sheet of GoI for levy rice of Karnataka; Annual Report of FCI for average cost of procurement of rice; Confirmation received from FCI for transportation cost from point of origin to Karnataka.)

[61] After adjustment for custom milled paddy of 0.35 lakh and 2.20 lakh during 2010-11 and 2011-12 respectively and considering 33.33 *per cent* of paddy (or 22.33 Kgs rice of every 100 Kgs paddy milled) as millers had not entered into agreements.

[62] The accounts of FCI for 2012-13 was yet to be uploaded on their website.

[63] The average cost of transportation of FCI was ₹ 79.47 per quintal (Source: Annual Reports of FCI), whereas, the cost of transportation from State of Origin to Karnataka by FCI was ₹ 285 per qtl (Source : As provided by FCI).

The additional cost incurred for procurement of 22.52 lakh MTs[64] from Central Pool during 2011-12 and 2012-13 was about ₹ 948.61 crore.

Depriving beneficiaries of superior variety of rice

2.2.12 As per Rice Levy Order 1999, every miller or dealer shall sell to the State Government or its designated agent 33.33 *per cent* of the quantity of *each variety of rice* conforming to specifications, obtained from hulling of the paddy on his account, every day. KFCSC was receiving Grade-A and Common varieties of rice, which satisfied the 'Fair Average Quality' specified by FCI, under levy.

We observed that more than ninety[65] *per cent* of the land under rice cultivation in the State produces high yielding/hybrid varieties (non-traditional). Yet, KFCSC succeeded in procuring only a quantity of 2.28 lakh MTs of Grade-A rice, while the quantity of Common Grade rice procured was 3.57 lakh MTs during 2008-13. This demonstrated the failure of the Government to make available better quality of rice to the poor under TPDS.

Procurement of Maize

2.2.13 On the directions of GoI the GoK also carries out operations for procurement of maize under MSP scheme. The economic cost of procurement of maize is fixed by GoI. The agencies involved in the procurement process in the State are two Public Sector Undertakings and an agency in co-operative sector. The PSUs conducting the operations for procurement of maize are KFCSC and KSWC. Karnataka State Cooperative Marketing Federation (KSCMF) is the agency in the co-operative sector.

The KFCSC was entrusted with the procurement operations in 2008-09 and 2009-10. KSWC also procured maize in 2009-10. The maize so procured was stored in the godowns of KSWC and also in that owned by private agencies.

KFCSC procured 4.22 lakh MTs of maize directly from farmers during 2008-09 and 2009-10 and KSWC procured 1.30 lakh MTs during 2009-10. The quantity of maize procured was sold by FCI through tenders.

System lapses in procurement of Maize

2.2.13.1 KSWC procured (2009-10) maize at Harapanahalli in Davanagere District and stored a quantity of 7,514.60 MTs valued at ₹ 6.39 crore in godown at Hospet. FCI could lift only 6,444.82 MTs and shortage of 1,069.78 MTs was reported. The KSWC filed (December 2012) a complaint with the police and initiated a departmental enquiry against the erring employee, which was in progress (October 2013).

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[64] **13.03 lakh MTs *less* 2.03 lakh MTs for 2011-12 *plus* 12.11 lakh MTs *less* 0.59 lakh MTs for 2012-13. 22.52 lakh MTs x 421.23 per qtl = ₹ 948.61 crore.**

[65] **Source: Fully Revised Estimates of area, production and yield by Department of Economics and Statistics; Agriculture Department.**

On a test check of 200 truck chits produced to audit, we observed that :

- In 52 cases, against the loaded quantity of 9,957 bags of 95 Kgs each, only 9,135 bags were shown as stored at godowns resulting in shortage of 822 bags.
- In 7 cases, as against the loaded quantity of 1,251 bags of 95 Kgs, 1,688 bags were shown as receipt resulting in excess of 437 bags.
- Trucks had arrived at Hospet (85 Kms) after a delay of 4 to 20 days of loading from Harapanahalli.

The KSWC had no system of monitoring the quantities received at procurement centres, quantity handled and quantity of stock/bags loaded to trucks at procurement centres. There was no system of reconciliation of quantities received at storage point with loaded quantities. These system failures paved the way for misappropriation of stocks.

Cost of transportation

2.2.13.2 One of the elements of the economic cost was the cost incurred for transporting the maize from procurement centres to storage points.

The rates fixed by the GoI and the actual cost incurred by KFCSC, KSWC KSCMF for transportation of maize during 2008-09 and 2009-10 are detailed under:

Table 2.2.8: Actual cost towards transportation of maize by various agencies

(Rate per quintal in ₹)

Year	Rate fixed by GoI	Actual charges of		
		KFCSC	KSWC	KSCMF
2008-09	22.16	32.04	-	47.89
2009-10	13.85	56.94	29.73	46.90

(Source: Economic cost sheet and final claims of PSUs)

We observed that:

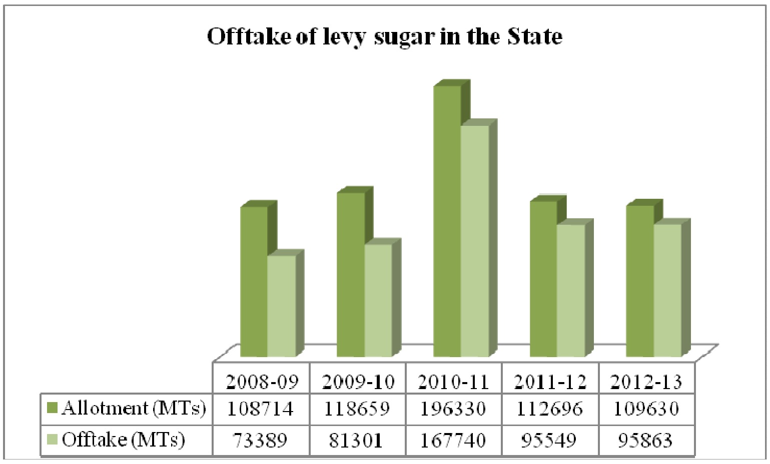
- The charges paid by KFCSC were 45 *per cent* more than the rates fixed by GoI in 2008-09 and 311 *per cent* in 2009-10. The excess cost incurred worked out to ₹ 9.09 crore[66].
- The cost of transportation of KFCSC in 2009-10 was very high (₹ 56.94 per quintal) in comparison to costs of KSWC and KSCMF (₹ 29.73 and ₹ 46.90 per quintal respectively) also involved in similar operations in the same year.

[66] **2.74 lakh MTs x (₹ 32.04-₹ 22.16 per MT) for 2008-09 *plus* 1.48 lakh MTs x (₹ 56.94-₹ 13.85 per MT) for 2009-10= ₹ 9.09 crore.**

Procurement of Sugar

2.2.14 In terms of the Essential Commodities Act, 1955, the domestic producer of Sugar should supply certain fixed percentage of Sugar produced at a price determined by GoI, fixed from time to time. The GoI issues district-wise allotment orders for procurement of levy sugar every month.

The procurement in the State was undertaken by the KFCSC and the Taluk Agricultural Produce Co-operative Marketing Societies. The details of allotment and actual procurement of Sugar are given alongside.



As against the target of 6.46 lakh MTs during 2008-13, only 5.14 lakh MTs was only collected/offered resulting in short procurement of 1.32 lakh MTs. The shortfall in procurement included 0.39 lakh MTs of KFCSC. The shortfall in procurement was mainly due to stock of Sugar being unavailable in factories for lifting (79 cases), non-release by factories (119 cases) and non-lifting by wholesalers (36 cases)[67].

As per Section 7 of Essential Commodities Act, 1955, default attracted penalty in the form of fine and imprisonment. The Commissioner (Cane Development) had not initiated any action against the defaulting mills for not depositing the levy sugar as per the target fixed.

Non-procurement of levy sugar as per the target not only resulted in violation of levy order by the sugar mills but also defeated the objective of providing sugar at subsidized rates to ration card holders.

Storage

2.2.15 The food grains procured by the KFCSC/KSWC are stored in godowns owned and operated by KSWC, CWC and Private agencies. For release under TPDS, the Commissioner allocates food grains and sugar to each district. On the basis of allotment order, the District Managers obtain release orders from FCI. These grains are stored at the wholesale points of KFCSC.

KFCSC had not been initiating action to reserve space for storage of their procurements in advance. This resulted in requests for godown space being made to KSWC when the actual procurement was underway by which time KSWC had allotted most of its available space to other clients. Failure to

[67] Data related to the period July 2009 to March 2013.

initiate action in advance to reserve space in Government owned godowns resulted in KFCSC hiring private godowns.

System lapses and other related issues

2.2.15.1 Instances of shortages when food grains were stored are given below:

Paddy stored in private godown

2.2.15.2 The KFCSC procured 1.05 lakh MTs of paddy in Shimoga district during KMS 2011-12. The KFCSC hired private godowns to store the paddy, stating non-availability of KSWC/CWC godowns. 72,841 MTs (69.22 *per cent*) of paddy was under the control of one private agency[68]. A quantity of 15,000 MTs was stored in Covered and Plinth (CAP) storage (open yard) on the recommendations (February 2012) of DC, Shimoga. The Private Warehousing Agency had given (January 2011) an undertaking to store this quantity under CAP storage without any storage loss. KFCSC had instructed them to follow the guidelines prescribed by FCI for CAP storage.

The paddy was being issued for hulling. During an inspection in March 2013, shortage in quantity of paddy stored was noticed and it was estimated at 8,500 MTs. The total shortage as at end August 2013 as per the hulling statement was 7,757.61 MTs valued at ₹ 11.03 crore.

We observed that in view of the delay in finalising agreement for hulling and to prevent the likely damage due to impending monsoon rains, the private agency was instructed to shift the grains from CAP storage to inside the godowns. The private agency claimed a bill for shifting only for 11,988.83 MTs though 15,000 MTs was stored in CAP storage. Raising of bills for a lower quantity was a conspicuous indication of shortage. This was not given adequate attention by KFCSC. This issue of shortage was brought to the notice of the BoD only in December 2013.

Receipt and storage of maize

2.2.15.3 KFCSC procured 29,541.62 MTs of maize at Bellary procurement centre (2008-09). A quantity of 5,224.36 MTs was stored in private godowns. Against this only 2,861.21MTs was released and the balance quantity of 2,363.16 MTs valued ₹ 2.10 crore was found not available (August 2010). A fact finding team, which investigated the issue found (August 2010) that 2,363.16 MTs of maize was not procured at all. Payments were made based on bogus grain vouchers in certain cases. Payments were admitted without signatures of farmers/ procurement in-charge in certain other cases. The case was referred to Lokayukta (March 2011) and was pending (December 2013).

We observed that a team of officers of the KFCSC which visited the procurement centre in June 2009 had reported about absence of details of payment to farmers in the payment register, non-obtaining certificate from

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[68] **Suraksha Warehousing Corporation Limited.**

SWC/CWC for the quantity stored, absence of periodical physical verification of stocks and non-reconciliation of bank accounts, during compilation of accounts related to MSPO. Inspite of lapses in system being reported, KFCSC failed to initiate action until August 2010, by which time huge shortages had occurred.

2.2.15.4 KFCSC procured 1,48,388.85 MTs of maize and stored in KSWC and CWC godowns. FCI was to call tenders for sale of this quantity through open auction. FCI issued (September 2010 and December 2010) release order for the entire quantity of maize to parties, against which only 1,41,532.01 MTs was released and the balance 6,856.84 MTs valued ₹ 5.24 crore was shown as storage loss.

CWC, while furnishing the explanation to the KFCSC for the shortage stated (September 2011) that the stocks were not up to the mark, there was excess percentage of damaged grains, and that damaged grains became powder. FCI, in a letter to the Food , Civil Supplies and Consumer Affairs Department, GoK complained (September/October 2010) that maize procured in Shimoga and Davangere (approximately 1 lakh MTs) were found to be beyond rejection limit of GoI's specifications and fetched the lowest rates in the market because of poor quality.

We observed that the system of checking the quality of food grains procured was deficient as is evident from the reports of Central Warehousing Corporation (CWC) and FCI.

We further observed that KSWC preferred (September 2011) claim with the insurer an amount of ₹ 1.15 crore[69] being the loss incurred on account of misappropriation. The insurer rejected the claim stating (December 2011) that there was delay in preferring the claim by the Company. Civil case has been filed against the agencies for recovery of shortage, which is under progress (December 2013).

Non-preference of claims in time with the insurer

2.2.15.5 The KSWC had procured maize up to March 2010 and releases were completed only in July 2011. The total shortage of maize was 5,224.77 MTs.

A quantity of 2,565.72 MTs was misappropriated by the Warehousing Managers of KSWC. 1,069.78 MTs in Harapanahalli (as brought out in paragraph 2.2.13.1) and 1,495.94 MTs in the Davanagere during storage of maize. KSWC had initiated a Departmental enquiry, which was in progress (December 2013).

We observed that KSWC preferred (September 2011) claim with the insurer[70] for an amount of ₹ 1.26 crore being the loss incurred on account of misappropriation at Davanagere. The insurer rejected the claim stating (December 2011) that there was delay in preferring the claim by the Company.

[69] 1,306.46 MTs of procured by KFCSC and stored KSWC godowns at Shimoga.
[70] Fidelity Floater Policy.

The Company failed to prefer claims with insurer within the admissible time (14 days).

Distribution

2.2.16 The GoI makes allocation of food grains to the GoK at Central Issue Price (CIP)[71] for Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS), after considering the CMR/Levy rice. The CMR and Levy rice procured by the State are stored in the warehouses and are part of the Central Pool.

The allocation of food grains under TPDS is made on the basis of 1993-94 poverty estimates of the Planning Commission and the population estimates of the Registrar General of India as on 1 March 2000 or the number of such families actually identified and ration cards issued to them by the GoK, whichever is less. The number of BPL cardholders (including AAY) in the State as per Planning Commission was 31.29 lakh, for which allocation was made. GoI allotted food grains to APL families also.

Determination of eligible families for supply of food grains

2.2.16.1 The GoI envisaged review of BPL and AAY list every year for deletion of ineligible families and inclusion of eligible families. The GoI prescribed certain norms for identification of BPL families. The GoK had, however, identified BPL cardholders (including AAY) by adopting its own criteria. The number of BPL cardholders in the State varied between 106.13 lakh cardholders as at end of March 2009 and 98.34 lakh as at end of March 2013.

We observed that:

- The State supplied food grains to the cardholders, who were not coming under the BPL category as per the Planning Commission, categorizing them as 'Extra BPL category' (EBPL).
- The GoK identified 31.24 lakh cards as excess or fictitious in January 2011. Prior to 2011 these cards were part of the BPL/EBPL categories.
- The number of APL cardholders identified by GoK in the State ranged between 52.98 lakh during 2008-09 to 34.99 lakh during 2012-13. While GoI had been supplying rice for APL families as per their assessment on regular basis, APL families had not got any food grain.

[71] Rate at which the GoI sells the food grains to the State, for issue under TPDS.

Supply of rice, wheat and sugar

2.2.16.2 The allotment and offtake of rice, wheat and sugar for TPDS in the State during the five years 2008-09 to 2012-13 are given below:

Table 2.2.9: Allotment and offtake of rice, wheat and sugar.

(Quantity in lakh MTs)

Food grain	Description	2008-09	2009-10	2010-11	2011-12	2012-13
Rice	Total Allotment	**17.52**	**20.01**	**21.05**	**23.14**	**22.73**
	BPL families	10.86	10.87	11.93	13.44	12.35
	APL families	6.66	9.14	9.12	9.70	10.38
	Total Offtake	**17.13**	**19.44**	**20.24**	**22.47**	**21.97**
	BPL families[72]	14.86	16.80	17.13	19.31	18.38
	Supplies to other Schemes/APL families	2.27	2.64	3.11	3.16	3.59
Wheat	Total Allotment	2.95	3.47	3.73	2.92	3.84
	Total Offtake	2.88	3.21	3.46	2.87	3.76
Sugar	Total Allotment	1.09	1.19	1.96	1.13	1.10
	Total Offtake	0.73	0.81	1.68	0.96	0.96

(Source : Workings by Audit, Allotment Orders, Procurement Section Records of the KFCSC/Department, Economic Survey).

- Though the GoI had allotted food grains for distribution to BPL and AAY cardholders approved by them at the rate of 35 Kgs per family per month (29 Kgs rice and 6 Kgs wheat per family per month), from April 2002 onwards, the GoK had adopted a 'unit' system for distribution restricting the eligibility of BPL families to a maximum of 23 Kgs[73].

- The GoI supplied the quantities allotted to AAY and BPL families at the Central Issues Prices (CIP). The GoK supplied the food grains to AAY and BPL families (as per the Planning Commission's allotment) at State Issue Price, which is lower than the CIP. Supplies to BPL beneficiaries termed as EBPL which were not recognized by the GoI, were also supplied at the State Issue Price. The difference between the Central Issue Price and State Issue Price for issues to EBPL category during the period 2008-09 to 2012-13 amounted to ₹ 1,661.20 crore[74] which was an extra burden on the State Exchequer.

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[72] **Offtake under BPL and AAY and diversion from APL to EBPL category.**

[73] **The scale of issue of rice and wheat as per the Gok**

Rice	Wheat
AAY : 29 Kgs per card	**AAY : 6 Kgs per card**
BPL : 1 person = 1 unit 1 unit = 4 Kgs; 2 units = 8 Kgs 3 units = 12 Kgs; 4 units = 16 Kgs 5 units and above = 20 Kgs	**BPL : 1 person = 1 unit 1 and 2 units = 1 Kg 3 units = 2 Kgs 4 and above = 3 Kgs**

[74] **Being difference between CIP and rate issued to beneficiaries for five years (2008-13) on 27.05 lakh MTs of rice and 2.65 lakh MTs of wheat.**

- As per the norm of GoI, the minimum per head per month quantum of levy sugar to be distributed was 500 grams, with effect from February 2001. The State, however, was issuing 1 Kg per card per month irrespective of the number of members in the family.

  The KFCSC was not lifting the entire quantity of sugar allotted from the sugar mills. Thus, even the reduced quantum of sugar specified by the GoK was not supplied to the beneficiaries.

- The food grains procured under various schemes were lying with the Company for unusually long periods of time, as per its books of accounts. There was reportedly a balance of 999.22 MTs of rice and 168.43 MTs of wheat not utilised under Sampoorna Grameena Rojgar Yojana (SGRY) scheme. This scheme was closed in 2007-08. 448.94 MTs of rice and 25.64 MTs of wheat meant for flood relief in 2009-10; 45.49 MTs of rice and 8.48 MTs of wheat at DO, Mandya meant for Zilla Panchayat; 15.32 MTs of rice meant for distribution under schemes such as Food For Work, Jawahar Rojgar Yojana, and Employment Assurance Scheme were not issued, though schemes were closed.

The Commissioner informed (December 2013) that supply of rice to a category known as EBPL with the rice allotted for APL category families was done by the GoK from December 1997 onwards. The Department/ GoK, however, did not furnish any records to show the basis for creation of a new category (EBPL) and has the approval of competent authorities to provision of APL rice to them at BPL rates. The rationale for adoption of reduced entitlement and connected records were also not made available to audit.

System lapses in distribution

2.2.16.3 Instances of lapses in the system when food grains were given for distribution are given below:

Sl.No	Facts of the case	System lapses / Our observations
1	There was illegal sale of TPDS rice in *Chikkanayakanahalli WSP* and the Depot Manager was caught by Lokayukta (September 2012). Stock verification revealed that there was shortage of stock of 95.62 MTs of rice, 8.81 MTs of wheat and 0.57 MTs of Sugar. A show cause notice was issued (December 2012) directing the official to repay ₹ 15.57 lakh, but the amount has not been paid so far (December 20013)	• As per the guidelines issued (November 2010) by KFCSC, the District Managers were bound to visit all wholesale, retail and other Depots twice in a month, and submit reports. In this case the District Manager had visited the wholesale deport only twice (April and August 2012) after the delinquent Depot Manager took over charge (January 2012). • The Depot Manager concerned was earlier dismissed (May 2006) from service. The Board of Directors reinstated him in June 2006 with a condition that the official should not be Depot Manager. It was, however, seen that as per the orders of the Chief Minister he was transferred (September 2010) to Arasikere WSP and posted as Depot Manager.

Sl.No	Facts of the case	System lapses / Our observations
2	In *Mysore WSP,* there was shortage of stock of rice (March 2013), wheat and Sugar valued at ₹ 78.24 lakh. Criminal cases were lodged in April 2013 against the godown manager. Departmental enquiry was yet to start (October 2013).	• Depot Manager of the Mysore WSP in his monthly tour diary had not recorded any difference between the book balance and the physical stock. • Internal Auditors, who had conducted audit for each month failed to report it.
3	In *Sandur WSP* there was shortage (November 2012) of stock (TPDS and Mid Day Meal rice *etc.*) of ₹ 41.33 lakh[75]. Departmental enquiry, started in March 2013, was yet to be finalised (December 2013).	• The official was working as Depot Manager at Sandur, WSP for more than four years in violation of the guidelines (April 2006), which limited the tenure to a maximum of one year. • The misappropriation that took place over a period of six months was not reported. Shortages were not reported in the tour diary of the District Manager.
4	In *Siraguppa WSP* during stock verification, shortage was noticed and the value of shortage was assessed at ₹ 22.06 lakh[76].	

Wholesale points

2.2.17 The KFCSC had 194 wholesale points. The KFCSC lifted food grains allotted under TPDS by 10th of every month. The retail outlets, which distributed food grains under TPDS to the cardholders lifted the food grains before 20th of every month.

On inspection of wholesale points at Haveri, Shimoga and Hassan Districts, the following were observed:

- As per the policy of the KFCSC, the issue of stocks should be on FIFO method. In Haveri and Shimoga the truck loads were directly unloaded in the retailers' vehicles in violation of the policy. The 'First In' stocks, continued to lie in warehouses while 'Last In' stocks got transferred to retailers.

- In Hassan Rural West the stock of wheat was 336.19 quintals as per the stock register. There was excess physical stock of 10 quintals

Electronic weigh bridges at wholesale points

2.2.17.1 The Commissioner (FCS&CA) directed (June 2010) all the wholesale nominees of the state to install electronic weigh bridge within a period of three months; otherwise, their wholesale trade license was liable to be cancelled.

[75] Rice: 4,307.21 quintals, wheat: 697.15 quintals, levy sugar:81.65 quintals, 244 ltrs of palm oil, 7.81 quintals of MDM toor dal and other uncontrolled commodities.

[76] Includes other PDS items and non-remittance of sale proceeds of ₹ 16,747.

The BoD decided (June 2010) to install electronic weigh bridges in 10 own wholesale points, in addition to 39 places where construction of new godowns had been planned. The GoK was requested (August 2010) to provide financial assistance of ₹ 5.88 crore.

We observed that no progress was made to install the electronic weight bridge, in spite of reminders from GoK. KFCSC replied (June 2013) that no fund was released by the GoK for the purpose (December 2013).

Fund Management

Reimbursement of subsidy claims

2.2.18.1 Under the Decentralised Procurement Scheme (DCP), GoI determines state-specific Economic Cost[77] of food grains and the difference between the Economic Cost and sales realisation at Central Issue Price (CIP) under TPDS and Other Welfare Schemes (OWS) is passed on to the KFCSC as food subsidy.

In terms of GoI's instruction, 95 *per cent* of food subsidy claimed quarterly by the KFCSC was to be released in advance by GoI as provisional subsidy and balance five *per cent* representing final claims was reimbursable on submission of audited Annual Accounts of each KMS to GoI not later than four months after the accounts of the relevant KMS were audited by the Statutory Auditors. The position of claims in respect of CMR and Mill Point Levy rice are given below:

2.2.18.2 The details of submission of final claims for reimbursement of cost of CMR procured under MSP operations are given below:

Table 2.2.10 : Details of submission of final claims for CMR

Particulars	Date of submission of final claim	Amount receivable (₹ in crore)	Delay in submission[78]
2008-09	5.09.12	51.87	2 years 6 months
2009-10	18.02.13	61.23	2 years
2010-11	Pending	Yet to be finalised	1 year 4 months
2011-12	Pending	Yet to be finalised	4 months
2012-13	Hulling not yet completed (December 2013)		
Total		**113.10**	

(Source: As per information furnished by the Company)

There were undue delays in submission of final claims of 2008-09 and 2009-10 ranging from 2 years to 2 ½ years resulting in the Company not being able to avail of funds of ₹ 113.10 crore from GoI. Final bills of 2010-11 and 2011-12 had not been finalised till date (October 2013). The final bills were preferred only after the entire quantity of food grains procured for each season was fully released.

[77] **Acquisition cost including incidental expenses, administrative overheads, handling, storages *etc*.**

[78] **After allowing a period of one year after the completion of procurement operations.**

2.2.18.3 Cost of mill point levy rice is claimed separately. The Company had claimed ₹ 450.27 crore as per provisional costing sheet for the period 2010-11 and 2011-12. The Company received ₹ 430.73 crore, leaving a balance of ₹ 19.54 crore (December 2013).

Sugar Price Equalisation Fund (SPEF)

2.2.18.4 KFCSC lifted Sugar every month at price fixed and as per the allotment made by the GoI, from various sugar factories and transported the quantities to wholesale points for distribution under TPDS at the issue price of ₹ 13.50 per Kg. KFCSC had to initially bear the difference in the cost of sugar procured and issue price along with handling, transportation cost, *etc*. The difference was subsequently reimbursed to the KFCSC by way of subsidy from Sugar Price Equalization Fund[79] (SPEF) of GoI, through FCI.

We observed that the final audit of 2011-12 and 2012-13 is yet to be completed (October 2013) and as such, claims for this period were yet to be preferred.

Revolving Fund

2.2.18.5 The GoK had created a Revolving Fund (RF) and made available working capital for procurement operations under MSP operations 2009-10. The RF was placed under the control of Karnataka State Agricultural Marketing Board (KSAMB). The fund is available for use by KFCSC and KSWC.

KSWC had drawn funds out of the RF for its MSP operations during 2004-05, 2005-06 and 2009-10. Out of ₹ 265.33 crore drawn, KSWC had repaid only ₹ 243.33 crore and balance of ₹ 22 crore along with interest of ₹ 23.02 had not been refunded till date (December 2013).

Finance Department/KSAMB had been regularly reminding KSWC for immediate settlement of all dues to the RF. The main reason for non-payment of the amount was that the KSWC had spend excess amounts on interest, transportation and handling costs and final settlement was yet to be done by GoI.

Price Equalization and Stabilization Fund (PESF)

2.2.18.6 Based on directions (December 1995) of GoK, a Price Equalization and Stabilization Fund (PSEF) was created (November 1996). As per the Order, KFCSC had to remit the surplus income after meeting all the revenue expenditure.

We observed that between 1996-97 and 2012-13, there were 'book adjustments' to the PESF with deposits of ₹ 93.98 crore and withdrawals for an equal amount. Such adjustments did not have the approval of the PESF Committee. Though the issue of non obtaining approval of PESF committee

[79] Established by GoI from which the differential cost of levy sugar is reimbursed to wholesale nominees.

had been repeatedly pointed out by the statutory auditors in their reports, no action was taken to obtain the approval of the Committee (December 2013).

Manpower

2.2.19 We observed that:

- In KSWC, as against the sanctioned staff strength of 940, only 405 (43 *per cent*) were in position. The Company, while discussing this issue at the Executive Committee meetings had noted that in many centres due to non-availability of Officers, Junior clerks are placed as incharge warehouse managers and were not competent to carryout warehousing activities in a businesslike manner.

- In KFCSC, as at end of August 2013, the post of DGM (PRO/MKT/CS) was lying vacant since August 2010, DGM (L&D&IT) since February 2012 and Company Secretary since December 2002. The Sr.DGM was looking after all operations and also in charge post of General Manager since April 2013.

- The Managing Director of KFCSC was changed frequently, with tenures ranging from 8 days to 18 months. Between 2008 and 2012, ten Managing Directors served the KFCSC.

- KFCSC had issued (April 2006) guidelines for appointment of Depot Managers, which stated that appointment of any official to wholesale points was to be restricted to a maximum limit of one year, after which the official was to be posted for office work. It was observed that the Depot Managers continued to serve from 15 months to 15 years in 105 Depots in violation of the guideline. Further, Junior Assistants, though not eligible were posted as Depot Managers in the absence of sufficient number of Office Managers and Senior Assistants. This situation had arisen mainly because of a non-recruitment of required staff.

Internal Control and Internal Audit

2.2.20 Internal Control System helps the management to achieve the organizational objectives efficiently and effectively. We observed the following deficiencies:

MIS data and monitoring: The KFCSC has not devised an appropriate MIS to generate reliable consolidated information of activities.

Manuals: There were no manuals relating to procurement, accounting and audit.

Reconciliation with Bank Accounts: The Shimoga District Office did not prepare Bank Reconciliation Statements (BRS) in the last three years 2009-10 to 2011-12. The reconciliation was completed only after appointment of M/s Ramesha & Company, Chartered Accountants, who submitted their report in October 2012. Further, in the BRS of KFCSC for the year 2012-13, the bank pass sheet had shown excess debit of ₹ 1.55 crore for cheques issued by the KFCSC.

Stock verification: Physical verification of stock procured under MSPO was not conducted periodically.

Difference in stock: The closing balance of stock (quantitative details) as on 31 March 2011 was not tallying[80] with the opening balance of stock as on 1 April 2011 in the annual accounts of the KFCSC.

Delegation of Powers: A test check in seven Districts showed that the DMs had issued cheques for amounts beyond the limit prescribed under delegation of powers in 75 instances. In Shimoga, DM issued multiple cheques splitting payment usurping the powers delegated to senior officials, in 15 cases.

Computerization : An MoU[81] was signed (October 2006) between the KFCSC and FCI to implement Integrated Information System for Food Grains Management (IISFM) project, which aimed to put in place an online MIS to give the stock position of food grains kept in central pool, in any given depot at any given point of time. A simplified application of depot module was created in (September 2010). The Project has not been implemented fully (December 2013). In some districts, data was not at all entered, while in other districts, entries were made only in one or two depots.

Acknowledgement

2.2.21 We acknowledge the co-operation extended by the Departments of the GoK and the Companies in facilitating the conduct of audit.

Conclusions

We conclude that:

- **The procurement of rice by KFCSC, the sole procuring agency in the State under DCP and levy schemes, was poor. This had resulted in drawing almost the entire quantity of its requirements from the Central Pool.**

- **The cost of operations had always been on the higher side when compared with the economic cost fixed by GoI, as also with reference to the costs of procurement of FCI.**

- **Hulling and release of foodgrains were delayed. The various elements of cost such as cost of transportation, cost of carrying inventory, charges for storage and other charges exceeded the limits prescribed by the GoI substantially. There were no efforts to keep the costs in check and keep it at economic level.**

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[80] **The difference in respect of rice was (126.17 MTs), wheat (288.35 MTs), ragi (0.30 MTs) and sugar (60.30 MTs).**

[81] **Copy of MoU was not available in the file produced to audit.**

- **The targeted quantity of rice and sugar were not procured from Rice Millers, Dealers and Sugar Mills.**

- **Lack of adequate monitoring and internal control in procurement, storage and release activities resulted in misappropriation, shortage, and procurement of grains of poor quality.**

- **Management Information System in the Company was deficient. Manpower Management, Internal Control System and Monitoring by Management were also deficient.**

Recommendations

- **The KFCSC should strengthen its procurement mechanism by improving the Decentralised procurement activities to maximise the procurement of rice produced in the State. The Levy Order, 1999 should be enforced.**

- **KFCSC should control the cost of transportation, hulling, and carrying inventory. In the context of ensuring food security to the people, the abnormal increase in controllable cost is a huge burden on the exchequer.**

- **Hulling of paddy must be completed within stipulated time. The releases of food grains under TPDS should not be delayed.**

- **The system of periodical checking of the quantity and quality of food grains needs improvement. The system of monitoring the records on the arrivals at procurement centres and transfers to storage points needs to be strengthened.**

- **All eligible BPL families should get the quota of food grains as fixed by the GoI. Identification of eligible beneficiaries through a transparent verifiable mechanism and weeding out of fictitious cardholders should be a regular feature.**

Chapter - III

Compliance Audit Observations

Chapter - III

3. Compliance Audit Observations

Important findings emerging from audit that highlight deficiencies in planning, investment and activities of the Management in the State Government Companies and Statutory Corporations, which had financial consequences, are included in this Chapter. These include observations on unproductive investment, violation of contractual obligations, undue favours to contractors, extra/avoidable expenditure, non-recovery of dues and cases where the intended objective of the Schemes of the Government were not achieved.

Government Companies

Karnataka Power Corporation Limited

3.1 Mining in captive coal blocks

Introduction

3.1.1 The Karnataka Power Corporation Limited (Company), incorporated in July 1970, has a total installed capacity of 6,498.90 Mega Watt (MW) as at 31 March 2013. The Government of Karnataka (GoK) accorded permission to set up two Units of 500 MW coal fired power stations at Bellary in April 1998 and June 2002. The first Unit in Bellary Thermal Power Station (BTPS) was commissioned in March 2008 and the second in March 2012.

On the request of the Company for exclusive coal blocks to run the 2 units of 500 MW at BTPS, the Ministry of Coal, Government of India allotted its (November 2003) captive coal blocks at Baranj I to IV, Manoradeep and Kiloni in Wardha Valley region of Maharashtra. The Company invited tenders for the formation of a Joint Venture (JV) Company for development and operation of the captive blocks. On the basis of the offers received, the Company entered into a JV with M/s. Eastern Minerals & Trading Agency (EMTA) and a JV Company with the name 'Karnataka EMTA Coal Mines Limited' (KECML) was formed in September 2002.

Audit Objectives

3.1.2 The objectives were to assess whether the clauses in the Joint Venture agreement were as enunciated in the tender, all infrastructural facilities were put in place, the Company was paying for the right quality of coal, adequate quantity of coal as per requirement was supplied and cost of extraction was well defined.

Scope of Audit

3.1.3 The present audit covers the joint venture arrangement for extraction, quality, pricing and supply of coal from the captive mines to the Units of BTPS.

Audit findings

3.1.4 Findings of the Audit on formation and operation of the captive mines are enumerated in the following paragraphs.

Formation of the Joint Venture

3.1.5 The setting up of a new Thermal Power Station at Bellary was discussed in the meeting of the Board of Directors (BoD) held in December 2001. It was also deliberated by the BoD in the same meeting that as a result of de-regulations in the coal sector, entrepreneurs had come forward to develop dedicated mines at Western Coal Fields Limited (WCL)/Singareni Collieries Company Limited (SCCL) and supply washed coal. The BoD, therefore, authorised the Managing Director to float tender for development of dedicated coal mines at WCL for supply of washed coal to site.

The Technical Committee after discussion (January 2002) recommended that the Managing Director might address the GOI for allotment of coal block either at WCL or at Mahanadi Coal Fields (MCL), Talcher and invite expression of interest from leading mining companies for development and operation of mines as per the scope of work; through a JV wherein the lead company having mining experience was to hold 49 *per cent* of the equity share capital, KPCL to hold minimum 26 *per cent*[82] and the balance by others. Accordingly, the Company approached (January 2002) the Ministry of coal for allotment of coal block.

The Central Electricity Authority (CEA) recommended (February 2002) to the Ministry of Coal that the request of the Company for allotment of a suitable coal block at WCL be considered to minimise the cost of fuel and in case suitable coal block was found not available at WCL, a coal block might be allotted at MCL.

The Company issued (February 2002) Notice Inviting Expression of Interest (NIE) in all leading newspapers. Requests for issue of tender documents were received from seven parties. All were issued tender documents. Only two parties finally submitted their offers. Eastern Minerals & Trading Agency (EMTA), Kolkata was adjudged the lowest (L1) having quoted price at ₹ 1,761.07 per metric tonne (MT), against ₹ 1,813.76 per MT quoted by Sainik Transporters Private Limited, New Delhi. After negotiations with EMTA, the final landed cost was agreed to at ₹ 1,650.47 per MT, inclusive of railway freight, washing charges, delivery charges and other applicable taxes. A Joint

[82] **Section 3.3 a (iii) of the Coal Mines (Nationalisation) Act, 1973 mandates that the State utility should hold at least 26 *per cent* equity in the JV.**

Venture Company with the name 'Karnataka EMTA Coal Mines Limited' (KECML) was formed in September 2002.

The Ministry of Coal allocated (November 2003) Baranj I to IV, Manoradeep and Kiloni captive coal blocks (six coal blocks) located in Wardha Valley region of Maharashtra State of WCL command area as captive sources for 1,000 MW capacity of BTPS.

The Company entered into a Fuel Supply Agreement (FSA) with KECML in May 2007 for exclusive supply of coal at 2 million MT ± 10 *per cent* per annum to the Company. The agreement was made effective for an initial period of 25 years.

Inconsistencies and shortcomings in pre-tender process

3.1.5.1 We observed inconsistencies / shortcomings in the process of calling for tenders for formation of a JV, on pre-qualification criteria and on declaration of the grade[83] of coal before allotment of coal blocks. Our findings are enumerated in the following paragraphs.

- The NIE for formation of JV was invited (February 2002) much before the coal blocks were actually allotted (November 2003) to the Company and before the grade of coal was known. The tender, however, specified the grade as 'D'.

  One of the tenderers, who expressed interest in the project, stated that it was not possible to access the geological and other data from any institution or statutory body without information about the coal block(s) likely to be allotted. In the circumstances, they contended that any serious contender for such a large project would find it impossible to submit any competitive bid within such a short time. It was evident that in the absence of critical data competitive bidding for the project was thus nullified.

- The Screening Committee, Ministry of Coal while discussing (August 2003) the possibility of allotment of coal blocks had inquired as to how KPCL could have proceeded on a presumption and issued tender documents with relation to something that did not belong to them yet. The KPCL stated that it was done in anticipation of allocation of blocks and to save time.

- The BoD had noted (April 2002) that only Sainik Transporters Private Limited, New Delhi met the pre-qualifications conditions. The other tenderers, including the EMTA, did not meet the prequalification criteria. The BoD, however, resolved (April 2002) that notwithstanding the pre-qualification specified in the NIE all the seven bidders be permitted to submit their offers in two parts (technical and financial).

[83] **Coal (non-coking) was graded from 'A' to 'G'. Grade 'A', being coal with the highest Gross Calorific Value, was superior and Grade 'G' the lowest.**

- The BoD also resolved (April 2002) that only WCL command area be specified for allotment of coal block and the Managing Director be authorised to finalise the JV arrangement based on the outcome of the bid. This decision was taken inspite of a request made (February 2002) to the CEA/Ministry of Coal for allotment of coal block at MCL, if suitable block was not available at WCL.

Inconsistencies between tender documents and JV agreement, and their implementation

3.1.6 Audit findings arising out of the review of tender documents, JV agreement between the Company and EMTA and the implementation of terms and conditions subsequent to entering of JV are discussed in the succeeding paragraphs:

Scope of work

3.1.6.1 The tender document stipulated that the *JV partner had to develop and operate captive mines* using latest mining techniques with the Company.

We observed that:

When the JV agreement was entered, the terms (Article 2 (3) (4) of JV Agreement) stipulated that for achieving the objective of development of captive mines, production of coal and supply, transport and delivery of such coal, *EMTA on behalf of KECML* shall*, inter alia,* take up mining, raising, stacking, sizing and transportation of coal.

The entire mining operations were sub-contracted to EMTA through an agreement between KECML and EMTA. In effect, KECML was just a shell company.

The basis of the above arrangement as to the cost of mining is not clearly explained. In this arrangement the JV was merely booking expenses based on claims received from EMTA and had no basis of knowing the actual cost of mining. Consequently, KPCL had no definite knowledge of the transactions and cost incurred thereon.

3.1.6.2 The tender document stipulated that Coal Washery was to be established at the pit head and supply of coal of the required specification.

This condition was incorporated in the JV Agreement (Article 5 (2) (a)) which stipulated that EMTA was to ensure establishment of coal washery at the pit head so that the coal to be supplied met the required specification of Company. The Company was not required to pay any additional charges for washing of coal.

We observed that EMTA had not established a Washery at pithead. Instead, it made an agreement (December 2008) with Gupta Coalfields and Washeries Limited, a third party Washery, for washing coal.

We also observed that the Company had decided (December 2008) to discontinue washing of coal of other collieries and terminated an existing agreement with the same firm (discussed in detail in Paragraph 3.1.12).

3.1.6.3 The tender stipulated that tenderer would arrange for transportation of coal from captive mine/ washery to BTPS by 'All Rail' mode and deliver at BTPS. The successful bidder was to liaise with the concerned railway authorities and organize railway siding at pit head/ washery area for movement of coal.

In the JV agreement it was stipulated (*Article 5 (2) (c) of JV Agreement)* that EMTA shall maintain liaison with the railway authorities concerned and organize railways siding at nearest distance from mines/washery area for movement of coal by rail .

We observed that the railway siding at pithead has not been established. The railway siding was 7 Kms away from the pithead. The mined coal was transported to a washery (situated 13.6 Kms from the pithead) and to the railway siding by trucks for a total distance of 20.8 Kms.

The Government stated (August 2013) that absence of railway siding, though contemplated originally, was due to factors beyond the control of the Management. The Government also stated that had the siding been established at pithead, the distance to BTPS would have increased.

The reply is not acceptable as the JV agreement stipulated the payment of transportation charges by the Company only up to a distance of 800 Kms. The Company was therefore not required to bear the transportation charges beyond 800 Kms. Further, washing in a private washery was never contemplated at the time of agreement; in fact, it was a subsequent development.

Price determination

3.1.6.4 The tender document stipulated that for supply of coal as per specification, the tenderer shall quote the rate per tonne in Price Schedule. The price quoted on 'per metric tonne' basis shall be firm and shall be inclusive of all taxes and duties, etc., as applicable for delivery up to BTPS.

In the JV, it was stipulated *(Article 6 (1) (a) of JV Agreement)* that the Company should purchase the entire quantity of specified coal supplied to BTPS at a price of ₹1,650.47 per tonne, which was based on the price of CIL after allowing 5 *per cent* discount as indicated in the Price schedule.

We observed:

- At the time of inviting tenders, the grade of coal was not known. Inspite of this the tender specified the rates to be quoted for Grade 'D' coal. Subsequent results of the quality of mine show that the quality of grade of coal was Grade 'E'/'F' as brought out in Paragraph 3.1.10.

- These are captive mine blocks owned by the Company and operated through a JV. The cost of operation of mining from these blocks depends on factors related exclusively to them. However, in the absence of cost details of mining in captive blocks, it is not clear whether adoption of list price of CIL was appropriate/justified.

Price variation

3.1.6.5 The tender document (under price scheme) stipulated that whenever there was a variation as per CIL price list in base price, surface transportation charges and sizing charges, the same would be made applicable from time to time to arrive at new rate.

In the JV the condition (Article 6 (3D) (b) of JV Agreement) on Price included was whenever there was a variation as per CIL price list under price schedule on base price, process charges, crushing charges and surface transportation charges the same rates would be applicable; but a discount of 15 *per cent* would be applicable on the differential price instead of 5 *per cent* discount.

As observed in the paragraph above on price determination, it is not known whether automatic adoption of the CIL price and the increases from time to time without a reference to the actual cost of mining in the captive blocks is in the interest of the Company.

Share capital

3.1.7 As per Paragraph 3 of the amendment to the Coal Mines Nationalisation Act, a company engaged in end-use (Generation Company) could mine coal from a captive block through an associated coal company formed with the sole objective of mining coal and supplying the coal on exclusive basis to the end-user company, provided the end-user company has at least 26 *per cent* equity ownership in the associated coal company at all times.

The Technical Committee of the BoD in its meeting held in January 2002 resolved that the Company should hold minimum of 26 *per cent* of the equity and the lead company should hold minimum of 49 *per cent.* The balance could be offered to others.

Accordingly, the tender document issued in May 2002 had stipulated that the Company shall at all times hold 26 *per cent* of the paid up equity capital of the JV and the bidder shall at all times hold 49 *per cent* of the paid up equity capital. The remaining 25 *per cent* shall be offered to consortium partners/ public/ financial institutions/ banks/ mutual funds. In case of shortfall in subscription, such shortfall shall be subscribed by bidder or their nominees.

The tender document stated that the Company's right on the coal block shall be valued at ₹ 1.30 crore and such value shall be treated as consideration for allotment of 13,00,000 equity shares considered to be 26 *per cent* of the equity of the Company.

We observed that:

- Though 25 *per cent* was to be offered to consortium partners/ public/ financial institutions/ banks/ mutual funds by the JV, no action was taken to do so.

- The JV agreement (Article 1) signed with EMTA, the successful bidder, stipulated that 76 *per cent* of the shares in the limited company to be formed shall be held and maintained at all times by the partner(s) of EMTA. In view of the provisions in the tender document and the JV agreement, EMTA subscribed to the balance 25 *per cent* taking its stake to 74 *per cent,* leaving the Company with a minority stake.

- Though initially the Company's right on the 'KPCL Coal mines' was valued at ₹ 1.30 crore and considered as 26 *per cent* of the paid up share capital at the tender stage, the Company did not reassess the value of the coal blocks after its allotment. A conservative estimate of the value of the coal reserves in the blocks worked out to ₹ 9,272.58 crore[84].

The Government stated (August 2013) that although effort was made by EMTA to invite the associates for making private placement to subscribe 25 *per cent* of the paid up capital, the effort did not yield any positive result. The Company added that those were only deliberations and were not minuted.

There was nothing on record to show that 25 *per cent* of the paid up capital was offered to public, financial institution *etc*., as stated by the Government. On the contrary, the action suggests a pre-determined decision to offer majority stake to EMTA.

[84] **Considering the average cost price of all grades of CIL open cast mines for 2010-11 and financing cost as stated by Ministry of Coal and reported in the Audit Report No.7 on the Performance Audit of 'Allocation of Coal blocks and augmentation of coal production' of the Comptroller and Auditor General of India for the year ended March 2012. The extractable reserves was assessed as 126.50 million MTs in coal blocks allocated to Company.**

Mining Plan

3.1.8 The coal blocks were grouped into two sectors: Sector A (Baranj III, Baranj IV and Kiloni) and Sector B (Baranj I, Baranj II and Manoradeep), and planned for opencast mining; one in each sector simultaneously. Ministry of Coal, Government of India approved (December 2004) the mining plan of KECML for Integrated Baranj Opencast Coal mining project with Geological reserves of 156.91 million MTs and extractable reserves of 103.064 million MT. The annual coal production was targeted at 2.5 million MT per annum with a total mine life of 42 years. This plan was intended to supply coal from the blocks to the Unit I of the two-unit project, each of 500 MW capacity, at Bellary.

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Railway siding

Subsequently, the mining plan was revised enhancing the targeted coal production to 5 million MT per annum, mineable reserves to 126.5 million MTs and total project life to 27 years. The Ministry of Coal approved the revised mining plan in August 2011.

Failure to draw coal from captive coal blocks for BTPS- Unit II

3.1.9 Against the request of the Company for coal to its 2 x 500 MW Thermal Power Project at Bellary, the Screening Committee of the Ministry of Coal identified coal blocks under the command area of the WCL for exclusive use of the above-said power projects. The JV agreement had stipulated (September 2002) extraction of coal at 2 million MT per annum, +/- 10 *per cent* required for the Unit-I. The 500 MW Unit I was commissioned in March 2008. The quantity indicated therein was to be increased to 5 million MT in the event of the Unit –II of 500 MW coming up. The Unit –II was commissioned in March 2012 and continuous generation started in August 2012.
We observed that:

- KECML had not submitted a revised mining plan for increasing the coal production to 5 million MT from the Kiloni, Manoradeep and Baranj I-IV captive coal blocks for Unit-II of BTPS.

- The Company had to rely on other sources for supply of coal at BTPS Unit-II. Accordingly, the Company signed (July 2012) an MOU with

MCL for supply of coal on a tapering linkage basis[85] for a quantity of 9.9 lakh MT, at an add-on price of 40 *per cent* over the applicable price for such supplies. MCL supplied 7.1 lakh MT for ₹ 300.86 crore during August 2012 to September 2013.

- The Company also procured a quantity of 3.56 lakh MT of coal for ₹ 172.83 crore on short term MOU basis from SCCL during April 2013 to September 2013. Between June 2012 and March 2013, 0.93 lakh MT of coal costing ₹ 30.34 crore received from SCCL for RTPS was diverted to BTPS to facilitate continuous operation of BTPS Unit-II.

Thus, in spite of availability of coal at their disposal and arrangements for mining, the Company procured coal from other sources at higher price resulting in extra expenditure of ₹ 185.37 crore[86] for the period from June 2012 to September 2013**,** depriving the consumer of low cost power.

The Government stated (August 2013) that due to existence of an ordnance factory and restriction in extraction of coal, the mineable reserves were limited to 103.064 MT as per the initial approved mining plan, which would suffice for the entire life of the 500 MW Unit. It was also stated that at no point of time, during the course of above developments, Company was informed that separate coal linkage[87] for BTPS Unit -II would not be provided.

The reply is not acceptable since the Standing Linkage Committee had rejected (May 2006) the proposal for grant of long term linkage for BTPS Unit-II considering that coal block had already been allotted to KPCL. Moreover, it was duly incorporated in JV agreement that the quantity would be increased to 5 million MT in the event of the Company taking up expansion in BTPS and RTPS.

Quality of coal

3.1.10 The Company stipulated that the quoted price under Price Schedule should be based on the 'D' grade coal supplied by the Coal India Limited though the coal was of 'E'/'F' grade as is evident from the following :

- As per the inspection report (December 2009) of Coal Controller's Organisation, Ministry of Coal on the Integrated Baranj Open Cast Mine, the result of coal sample analysis indicated 'F' grade coal having Useful Heat Value (UHV) ranging from 2,400 kcal/kg to 3,360 kcal/kg.
- Annual Grade Declaration of coal seams for the years 2010-11 to 2012-13 in respect of Integrated Baranj Opencast Mines of KECML shows that the notified grade of coal was 'E'.

[85] Tapering Linkage is the short-term linkage, which is provided to those coal consumers who have been allocated captive coal blocks for meeting the coal requirements of their linked end use plants.
[86] Considering the average cost of supply of ₹ 2,747.72 per MT from KECML during June 2012 to September 2013.
[87] Coal Linkage refers to the allocation of coal on permanent basis by the Standing Linkage Committee of the Ministry of Coal for a thermal project.

- The Company intimated (April 2013) Coal Controller (Ministry of Coal), that the quality of the coal was 'F' Grade in 2008-09 and 'E' Grade during 2009-10 to 2011-12.
- The washed coal sample analysis done by the Central Power Research Institute at the instance of the Company indicate the GCV (adb) of the coal supplied were of grade lower than 'D' (discussed in Paragraph 3.1.11).
- Test analysis reports of coal supplied by KECML during the period 2008-09 to 2012-13 revealed that the yearly average GCV (arb)[88] of the entire supply (washed coal) was in the range between 4,200 kcal/kg to 4,600 kcal/ kg and the GCV (adb)[89] was below 5,000 kcal/kg. Thus, even the washed coal was of Grade 'E'.
- That the grade of coal supplied by the KECML was lower than stipulated as is clear from the facts that even after washing the grade had not improved (discussed in paragraph 3.1.12) and the consumption of coal was in excess of the norms (discussed in Paragraph 3.1.13).

The estimated undue financial benefit to EMTA (up to March 2013) as a result of making payment for Grade 'D' coal when supplies was of for Grade 'E' / 'F was ₹ 187.87 crore[90]'. As the FSA is for 25 years, the incorrect pricing will lead to huge financial burden to the Company, which obviously will be passed on to the ultimate consumer of power.

The Government stated (August 2013) that the analysis results of SGS Private Limited have shown that more than 95 *per cent* of the rakes had met the quality specification of grade 'D' coal. Moreover, the FSA between KECML and KPCL is for washed coal and quality of raw coal is therefore, not material. It also stated that the Baranj coal meets the specification of superior grade 'D' high moisture non-coking coal and the weighted GCV of top and bottom section of coal seams in Baranj is of the order of 5,000 Kcal/kg on equilibrated basis.

The reply was contrary to the confirmation made to the Coal Controller that the grade of coal available at the captive coal blocks was 'F/E'. Moreover, in the inspection report of the Coal Controller Organisation, the annual grade declaration of the coal seams of Baranj Opencast Mines of KECML was of Grade 'F'. Further, the coal sample analysis reports of Central Power Research Institute indicate that the coal supplied to BTPS Unit was of grade lower than 'D'.

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[88] **GCV(arb) means Gross Calorific Value on as received basis in kcal/kg.**

[89] **GCV (adb) means Gross Calorific Value on 'Air dried basis' in kcal/kg as per IS1350.**

[90] **Coal India Limited notified base price of 'D' grade coal from Western Coalfields Limited (WCL) at the commencement of supply (September 2008) at ₹ 1,210 per MT and 'E' grade coal at ₹ 990 per MT. The present base price of 'D' grade coal based on GCV, at WCL, was revised to ₹ 1,370 per MT. The base price of 'E' grade coal was ₹ 1,060 per MT.**

Analysis of Central Power Research Institute (CPRI)

3.1.11 As per Clause 7(b) of Article 5 of the JV Agreement (September 2002), a third party agency shall be appointed jointly by the parties of the agreement for sampling and analysis of coal received at BTPS. Further, Clause 7(d) and (e) provided that an independent inspection agency shall supervise and certify the quality of coal received at BTPS and the result of analysis certified by the independent agency shall be binding to all concerned for all commercial purpose. In the absence of certification by the independent inspection agency for any rake, the Company shall not be liable for payment for such rake.

A third party agency, SGS India (Pvt.) Limited was appointed (June 2008) by tri-party agreement to undertake the task of sampling and analysis of coal received at BTPS. The analysis reports of SGS stated that the coal received at BTPS were mostly of the specified quality required to be supplied by KECML.

We observed that Article 5 (7) (d) of the JV Agreement provided for an independent inspection agency to supervise and certify the quality of coal received at BTPS. Further, in the absence of certification by the independent inspection agency for any rake, the Company was not liable for payment for such rake. But, no such agency was appointed and the Company relied on the analysis reports of the SGS to make payments to KECML.

We further observed that the Company had undertaken the coal sample analysis on random basis through Central Power Research Institute (an autonomous institute under the GoI), Bangalore during October 2010 to September 2011. A review of the coal analysis results of CPRI revealed that the GCV (adb) of most of the coal samples analysed by CPRI were much below the GCV (adb) furnished by the SGS, putting into doubt the results furnished by SGS. It was noticed in analysis of samples of coal drawn from 62 rakes done by CPRI during the above period that the GCV (adb) of 51 rakes (82 *per cent*) were below 4,300 kcal/kg and corresponding GCV (arb) was below 3,900 kcal/kg.

As per Article 6.1.3 (C) (II) (d), if the GCV (arb) is below 4,000 kcal/kg, the purchaser shall not be required to make payment for such supplies including freight and other incidental charges. Considering the reports of the CPRI, payment of ₹ 43.51 crore for the supplies of coal in 51 rakes was not warranted.

The Government replied (August 2013) that the reports of CPRI cannot be considered as conclusive as long as the methodology of sampling and testing are at variance with those adopted by SGS. The reply is not acceptable as the test results of CPRI, which is an independent test laboratory of GoI, were an indication of the lower grade of coal being received. As such, the Company should have put remedial measures for quality control in place, including appointment of an independent inspection agency for supervision and certification of quality of coal.

Washing of coal

3.1.12 Article 5 (2) (a) of the JV agreement (September 2002) provided for establishment of Washery at pithead by the supplier and supply washed coal of required specification. But, the pricing schedule did not provide for any break-up details for coal washing charges. Obviously, the agreed quoted price of ₹ 1,650.47 per MT was inclusive of washing charges**.**

We observed that KECML engaged (December 2008) an agency, M/s Gupta Coalfields and Washeries Limited (GCWL), Nagpur for washing the coal at ₹ 90 per MT. The washing of coal was however discontinued from June 2012.

We further observed that:

- Ministry of Environment & Forest (MOEF) guidelines (1997 and 1998) stipulated for washing of ‘F’ grade coal transported beyond 1,000 Kms only. Therefore, if the extracted coal is of ‘E’ or ‘D’ grade, washing of coal was not necessary and the same can be supplied after crushing to the required size. In the letter addressed (January 2009) to KECML, the Company reiterated the same and opined that the cost incurred on washing would be a waste, as the captive mines were only 800 Kms away from BTPS.

- As per the coal analysis report (November 2003) furnished by BHEL, the boiler designer, the parameters of coal raised from the mine would normally meet designed coal requirement for supply of coal with UHV between 4,200 and 4,500 and washing of coal would not be required. The test reports of SGS indicate the average GCV of washed coal supplied up to May 2012 was 4,486 kcal/kg whereas it was 4,418 kcal/kg during the subsequent (non-washing) period up to March 2013.

- It is relevant to state that the inclusion of clause for washing had resulted in fixation of price of coal with only a 5 *per cent* discount to the listed price of CIL compared to discounts ranging from 15 *per cent* to 20.50 *per cent* obtained in Joint Ventures entered by other State Power Sectors[91].

The clause in the Agreement for washing coal resulted in avoidable payment of ₹ 64.40 crore (at ₹ 90 per MT) for the period from January 2009 to May 2012.

The Company did not recover washing charges from KECML up to May 2012 and started recovery of washing charges at ₹ 90 per MT from June 2012. In reply to the reasons called for by the Company for non-washing of the coal, KECML stated (July 2012) that the quality of coal extracted at the captive mines was found to be in conformity with the stipulated quality requirement and further washing of such coal did not add any significant value and would result in unnecessary loss of coal.

The Government replied (August 2013) that in view of the experience at RTPS, KECML was informed that washed coal may not give the intended benefits. Hence, the Company wanted to know the grade of coal that would be available so as to take a decision regarding washing of coal for BTPS. The Government

[91] **Damodar Valley Corporation, Kolkata (20.50 *per cent*), West Bengal Electricity Board (19.50 *per cent*) and Punjab Electricity Board (15 *per cent*).**

further stated that the Company was insisting for washing the coal to ensure uniform quality.

The reply is not acceptable as the grade of coal mined from its captive mines was ostensibly of the grade that did not require washing. Even the coal procured from WCL and MCL for RTPS was not washed from December 2008 onwards. KECML had also stated (July 2012) that the coal did not require washing. Therefore, the insistence of the Company to wash coal from its captive mines without deriving additional benefits and incurring unnecessary expenditure is devoid of justification.

Excess consumption of coal

3.1.13 Consumption of coal depends upon its quality and calorific value and has a direct impact on the total energy generated. The consumption of coal, the power generated and other details relating to the period 2008-09 to 2012-13 in BTPS-Unit-I are given in table below:

Table 3.1.1: Consumption of coal and power generated at BTPS

Sl. No	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1	Units Generated (MU)	1,198.86	2,860.83	2,635.67	3,087.13	2,990.59
2	Coal consumed (MT)	8,02,386	17,74,457	16,98,982	21,59,399	21,02,394
3	Power generated per kg of coal (kwh) (1/2)	1.494	1.612	1.551	1.430	1.422
4	Actual Per unit consumption (kg/Kwh) (2/1)	0.669	0.620	0.645	0.699	0.703
5	Average GCV(arb) obtained as per SGS Report (kcal/kg)	4,512	4,584	4,499	4,371	4,418
6	Gross Station Heat Rate (kcal/kwH)	2,450	2,450	2,450	2,450	2,450
7	Actual GCV of coal consumed (kcal/kg)=(3x 6)	3,661	3,950	3,801	3,503	3,485
8	Specific Coal consumption (Coal required to generate one unit of power) =(6/5)	0.543	0.534	0.545	0.561	0.555
9	Coal required as per the above norms (MT) (1x8)	6,50,977	15,29,021	14,35,295	17,30,375	16,58,430
10	Excess consumption (MT) (2-9)	1,51,409	2,45,436	2,63,687	4,29,024	4,43,964
11	Average Rate per MT (₹)	1,998.78	2,256.42	2,377.27	2,408.47	2,658.89
12	Value of excess coal consumption (₹ in crore) (10 x 11)	30.26	55.38	62.69	103.33	118.05

(Source: Data as furnished by the Company)

We observed that:

- Considering the heat value of 4,500 kcal/kg (arb) and Gross Station Heat rate of 2,450 kcal/kwh, the coal required to produce one unit of power was 0.545 kg. The actual consumption of coal remained more than the requirement for generating power in all the years. The consumption of coal per unit gradually increased from 0.620 kg in 2009-10 to 0.703 kg in 2012-13.

- As per the test reports of SGS, the average GCV (arb) of coal received during 2008-13 ranged from 4,371 to 4,584. From the above table (Table 3.1.1 Row.7), it could be seen that the GCV (arb) of coal consumed during the period ranged between 3,484 and 3,949. Wide variation in GCV between the coal consumed and the SGS reports puts the reliability of the test reports of SGS in doubt.

At a time, when the power industry is confronting with challenges of providing electricity at affordable rates, the inability of the Company to ensure the quality of coal resulted in excess consumption of 15.34 lakh MT of coal during 2008-09 to 2012-13 valued at ₹ 369.70 crore, which defeated the very purpose of providing cheaper power to the consumers.

The Government replied (August 2013) that the Station Heat Rate (SHR) does not remain constant for reasons such as ageing of the plant, operation of the Unit not at rated capacity, diminishing of Turbine Efficiency and diminishing of Boiler Efficiency. The Station Heat Rate could go higher resulting in higher quantity of coal consumption. The SHR of 2,450 kcal/kwH was at an ideal operating condition.

The fact remained that the consumption of coal primarily depends upon its Gross Calorific Value. As confirmed by the Company to the Coal Controller, as well as the analysis results of coal samples done by Central Power Research Institute, indicated that lower grade coal was supplied increasing the consumption. Further, factors such as ageing of the plant were not relevant because BTPS was a new project.

Generation of rejects

3.1.14 Rejects and middling are generated depending on the type of coal being washed. The Section 3(3) of the Coal Mines' (Nationalisation) Act, 1973 permitted that the coal obtained from a captive block shall be used entirely and exclusively for the specified and approved end use by the allotted Company. The Ministry of Coal was informed (October 2003) by the Company that the middling, tailings and rejects were proposed to be used for power generation.

The conditions of allocation of coal block in November 2003, *inter-alia,* included that if the coal was being washed; tailings, middling or rejects, as the case may be, from washery should be used for captive consumption only by the Company. No coal should be sold, delivered, transferred or disposed of except for the stated captive mining purpose (power generation) and with the previous approval of the Central Government in writing.

The MOU between KECML and Gupta Coalfields and Washeries Limited (GCWL) (December 2008) for washing of coal stipulated that the rejects should be the joint property of KECML and GCWL and it should be disposed/sold jointly at mutually agreed terms subject to compliance of rules/ regulations/ guidelines of Ministry of Coal, if applicable.

A Study Report indicates that washing of D-Grade coal generates rejects and middling of F and G-grade, and such low quality coal was also being used in power generation in India.

We observed that no provision was made for supply of rejects/middling to the Company, despite the fact that they held the right on the captive coal blocks and the coal reserve was meant for captive consumption in their power plants,. But, the KECML entered into the MOU with GCWL to dispose of the rejects without the concurrence of the Company and in contravention of the provisions in the Act and the assurance given to the Ministry of Coal.

The total coal produced at Baranj Open Cast Mines between 2008-09 and 2012-13 (up to June 2012[92]) was 82.78 lakh MTs and the minimum quantity of rejects as per MOU at 10 *per cent* was 8.28 lakh MTs. The value of the rejects, middling and tailings appropriated by the Washery and the KECML worked out to ₹ 52.37 crore[93].

Analysis of the working results of KECML

3.1.15 The working results of KECML for the last five years are given in **Annexure-10**. On review of certain items of expenditure booked in the Annual Accounts of KECML for the period from 2008-09 to 2012-13 the following are observed:

Charges for mining operation and dispatch of coal

3.1.15.1 As per the Note forming part of accounts 'Charges for mining operation and dispatch of coal' includes the *amount payable to EMTA towards development and operation of coal mines vis-à-vis dispatch of coal in terms of the agreement. The revenue expenses including remuneration of statutory work personnel, other direct and indirect expenses incurred by KECML are recovered from EMTA by way of adjustment with these expenses.*

The JV had sub-contracted the mining to EMTA, but, the decision to outsource the work to the joint venture partner (EMTA) was not taken upfront. The competitiveness of the cost of mining was undermined and there was no true discovery of price. Because there was no fixed raising cost projected by EMTA, the Company had no control over the costs claimed by the sub-contractor. The KECML paid ₹ 1,065 crore as 'Charges for mining operation' during 2008-09 to 2012-13 to EMTA.

The Company was not in possession of the details of this expenditure as well though the representatives of the Company were on the Board of KECML and the Company had legally bound access to all books of accounts at all times, as per the Article 11 (7) of the Joint Venture Agreement.

We further observed that the expenses such as consumption of explosives, washing charges, transport charges, *etc*., which are in the nature of charges for mining operation are also accounted separately in the books of account of

[92] Washing was discontinued from June 2012.
[93] Rejects were valued at the CIL price for G-grade coal of the respective years.

KECML over and above the operational charges. Accounting of this expenditure again, lacked justification.

The Government stated (August 2013) that keeping in view the provisions of JV agreement and agreement between KECML and EMTA all the expenditure for mining operation was either being incurred by EMTA or the same was being reimbursed by EMTA to KECML, if not directly, then by reducing service charge of EMTA for 'mining operation and despatch of coal' being raised on KECML. The reply further stated that in effect all the profit and loss items including expenditure of KECML were transferred to EMTA by some means or other. After giving effect to this in the accounts of KECML, the effective profitability of KECML was always brought to 1 *per cent* of the turnover.

The reply shows that the terms of JV agreement, in effect, allowed the EMTA to siphon off the entire revenue of KECML to the extent of leaving only 1 *per cent* of the turnover as profit. The EMTA was draining out the revenue of KECML through its sub-contract.

Direct Operational Expenses- Surface Transportation Charges

3.1.15.2 The transportation charges booked in the annual accounts of KECML is more than the actual payments made by the Company towards surface transportation charges (STC) as detailed in the table below:

Table 3.1.2 : Details of Transportation Charges

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Quantity supplied (lakh MT)	7.69	20.84	20.87	21.96	25.14
Rate of STC (₹ per MT)	28.5	40.4	40.4	40.4	40.4
Actual STC (₹ in crore)	2.19	8.42	8.43	8.87	10.16
Charges booked in accounts (₹ in crore)	8.5	22.22	24.59	27.11	26.63
Booked in excess (₹ in crore)	6.31	13.8	16.16	18.24	16.47

(Source: KECML accounts, Price schedule of JV and Invoices raised by KECML)

As the STC are included in the price and paid, accounting it in the books of KECML, resulted in KECML absorbing an expenditure ₹ 70.98 crore, which had adversely affected the profitability of KECML.

Railway Freight for dispatch of coal

3.1.15.3 The Company reimburses the freight on actual basis limited to the amount payable for a distance of 800 km as agreed upon by the parties to the JV Agreement. The difference in freight charges due to variation in the distance should be the liability of EMTA alone. The excess freight charge of ₹ 153.75 crore[94] for 2008-13 absorbed by KECML affected its profitability.

[94] **₹ 10.28 crore for 2008-09, ₹ 22.92 crore for 2009-10, ₹ 29.07 crore for 2010-11, ₹ 36.66 crore for 2011-12, ₹ 54.82 crore for 2012-13.**

Other related issues

Non-adherence to delivery schedule

3.1.16 In accordance with Clause 5.1 of FSA, KECML has to supply coal in quantities up to 2 million tonnes +/- 10 *per cent* per annum. The quantity may increase depending on the requirement of the purchaser. The quantity to be supplied in each month has to intimate separately by the Company at the beginning of the each quarter. As per Clause 10.4 of the FSA, the Company shall impose penalty at a rate of 5 *per cent* of the landed cost of undelivered quantity of coal.

The Company, except for the years 2008-09 and 2009-10, intimated KECML the monthly quantities to be supplied by them, which was also confirmed by them. Between September 2008 and March 2013, KECML failed to supply the monthly scheduled quantity on 26 occasions. Consequently, an amount of ₹ 10.09 crore was demanded from the KECML as penalty (upto October 2012), against which the Company recovered (February/October 2011) ₹ 4.50 crore and the balance of ₹ 5.59 crore (August 2013) was recoverable.

However, as per Clause 10.4 of the FSA, the Company should have demanded penalty of 5 *per cent* of the landed cost of undelivered quantity of coal, which worked out to ₹ 12.51 crore (up to March 2013). Balance of ₹ 2.42 crore was yet to be demanded (October 2013).

The Government replied (August 2013) that as per legal opinion action is taken to consider penalty with (-) 10 *per cent* target quantity of delivery schedule. The reply was not acceptable as the FSA did not support this argument, as the quantity to be supplied can be increased and any shortfall attracts penalty.

Demurrage and other charges

3.1.17 Article 6.1.3(C)(d) of FSA provided that the coal to be supplied to BTPS should be of the size of 0 to 25mm with fines (up to 2 mm) not exceeding 20 *per cent*. The pricing schedule attached to the agreement included crushing charges for supply of the specified size of coal.

We observed that the size of coal received by rail at BTPS during September 2008 to March 2013 was oversized and lumpy, delaying the unloading of rakes. The Company paid ₹ 30.16 crore as demurrage charges to the Railways. It also incurred ₹ 3.69 crore for manual unloading, hiring of machineries, *etc*., for unloading lumpy coals, between May 2012[95] and March 2013. The Company did not, however, prefer any claims for re-imbursement of demurrage and other charges paid till April 2012, though the presence of lumps in coal was brought to the notice of KECML from the initial period of the supply.

Only after May 2012, the Company preferred claim of ₹ 6.02 crore for the period May 2012 to November 2012 and recovered ₹ 4.63 crore[96] from

[95] **It was only from May 2012, that the Company was maintaining this information.**
[96] **Demurrage charges ₹2.99 crore and incidental charges ₹ 1.64 crore.**

KECML (May 2013). The balance amount of ₹ 27.83 crore was yet to be claimed from the supplier.

It is relevant to note that the Company had paid ₹ 54.17 crore for crushing coal during September 2008 to March 2013 to KECML.

The Government replied (August 2013) that demurrage charges paid to Railways for delayed unloading, were not only due to receipt of lumpy coal, but on account of wet coal, equipment failures at site, bunching of rakes as well. The Company has no cause-wise details of the delay in unloading and therefore, the arguments put forth are not based on verifiable data.

Environmental Planning and Management

3.1.18 Exploitation of minerals creates enormous environmental challenges. The Government of India formulated the National Mineral Policy in 1993, emphasising the need to minimise adverse effect of mineral development on forest, environment and ecology. It also directed implementation of forestation programmes concurrently with acquisition of land and comprehensive programme for backfilling and biological reclamation of the mining areas.

The Company, being a beneficiary of the Government of India policy, in getting coal mines allotted for its captive consumption, is required to undertake certain obligation, in this regard as well.

August 2013

Overburden dumped

Afforestation

Article 2, Clause 4(o) stipulates that EMTA on behalf of the KECML prepare environmental management plan and obtain approval from MoEF. Further, Article 9, Clause 16 under Obligations of Parties, EMTA has to ensure compliance of all statutory laws related to coal mining activities including safety aspects, which includes protection and environmental laws indemnifying KPCL in all respects.

The terms of reference for preparation of environment management plan is stated to be under consideration of Ministry of Environment and Forests (August 2013). It is ascertained that afforestation in an area of 98.15 Ha lease area, including Boundary area of Ordinance Factory, Mine dump area (Baranj IV), Mines entry gate, Railway siding, *etc*., are being carried out.

KECML reported (August 2013) that out of 83 Ha in Baranj IV, an area of 70.56 Ha was being excavated. Overburden of 34.397 M.Cum was removed from the Baranj IV mining area up to the end of March 2013 and was first dumped in lease area (Dump A) to the extent of 27.77 Ha in line with the approved mining plan. Back filling of mined areas is in progress.

3.1.18.1 Under Environmental Protection Act, a Company has to leave the mining site in a safe condition. As per the guidelines (August 2009) of Ministry of Coal, the Mine Closure Plan duly approved by competent authority and opening of Escrow Account was essential to be executed before obtaining permission to open the mine. Further, guidelines issued by Ministry of Coal in January 2013 for preparation of mine closure plan stipulated that if the mine owners failed to deposit the annual amount required to be deposited, the Government could withdraw the mining permission.

The Revised Mine Closure Plan was approved by Ministry of Coal in June 2011. As per the Mine Closure Plan, KECML had to open an Escrow Account (a current account) with any scheduled bank with the Coal Controller Organisation (CCO) as exclusive beneficiary, and to deposit every year mine closure cost as computed by CCO in that account. For opening and maintaining the escrow account, a tripartite agreement should be executed among the Mining Company, CCO and the concerned bank.

KECML had to deposit ₹ 202.64 crore in 27 years, (being the life of the mine's period) in the account towards mine closure cost. Considering the year wise deposit, the KECML had to deposit a total amount of ₹ 20.48 crore till September 2013. The tripartite agreement and opening of escrow account have not yet been concluded and no amount has been deposited till date (December 2013).

The Government stated (August 2013) that necessary action towards opening of escrow account for depositing the mine closure cost had already been initiated.

3.1.18.2 In respect of the residue part, for coal washeries where rejects are dumped or mineral processing plant where wastes are dumped, companies have to take special care of these dumps. They need to ascertain that leaching or the heavy metals present in the residue do not contaminate either the ground or surface water. The details of treatment of residue parts were not furnished to us.

Monitoring

3.1.19 As per Article 9.11 of the JV agreement a monitoring group consisting of four persons shall be formed for the purpose of monitoring the various activities, both during pre-implementation period and post implementation period, to assess the progress of works of the coal mines/ supply of coal to Company. The monitoring group shall consist of two nominees of Company and two from EMTA.

We observed that such a mechanism for periodical monitoring is non-existent after the mining has been started.

The Company stated (December 2013) that it had already initiated action to place one officer of the rank of Executive Engineer at the mines area in order to have effective monitoring of the various activities pertaining to mining and dispatch of coal.

Conclusion

We conclude that:

- **The objective of generating cheaper power by using fuel from own mines, thereby providing electricity to consumers at lesser cost, was not achieved.**
- **The objective of formation of the JV Company was defeated as the JV Company functioned as a shell company, as the entire mining operations were sub-contracted to EMTA.**
- **The conditions in the JV agreement on scope of work of the JV company vary widely from what were announced through the Notice Inviting Tenders. The stake of partners in the JV company also changed from what was originally decided. The Company assessed its right on the KPCL Coal Mines at ₹ 1.30 crore, which was considered as 26 *per cent* of the share capital, though a conservative estimate shows the value of coal reserves to be of the extent of ₹ 9,272.58 crore.**
- **Washery and railway siding at pithead were not constructed by EMTA as per the terms of the JV agreement.**
- **The payment for the coal was made at a higher rate, which was determined presuming higher grade of coal at the time of tendering itself when the coal blocks were not even allotted. Later events showed that quality of coal in the mines allotted was inferior. The estimated undue financial gain to EMTA, on the supply of lower grade coal during the period of five years was ₹ 187.87 crore.**
- **The price of coal was linked to the listed price of Coal India Limited and the increases announced by them from time to time were admitted by the Company without any relation to the actual cost incurred on mining from the captive mines. Because there was no fixed raising cost projected by EMTA, the Company had no control over the costs claimed by them.**
- **The Company failed to get supplies of coal for the second unit of the two 500 MW Units in BTPS from its captive mines as stated in the letter of the GoI allocating the mines and procured coal from other sources at higher prices to meet its requirements, resulting in extra expenditure of ₹ 185.37 crore.**
- **The Company is still to furnish the details of Environmental Management Plan. KECML has not deposited the amount of ₹ 20.48 crore to Escrow account till December 2013 towards mine closure, as required.**
- **There was no effective monitoring mechanism to oversee the activities of KECML for safeguarding the interest of the Company.**

Electricity Supply Companies

3.2 Implementation of 'Rajiv Gandhi Grameen Vidyuthikaran Yojana' by Electricity Supply Companies

Introduction

3.2.1 The Government of India (GoI) approved[97] a new scheme 'Rajiv Gandhi Grameen Vidyuthikaran Yojana (RGGVY)' – Scheme for Rural Electricity Infrastructure and Household Electrification for the attainment of the national common minimum programme goal of providing access to electricity to all households in five years. The guidelines were issued by Ministry of Power in March 2005. This Scheme merged the existing 'Accelerated Electrification of one lakh Villages and one crore Households' and the 'Minimum Needs Programme' for rural electrification. The Scheme was implemented through the Rural Electrification Corporation (REC). GoI issued (February 2008) another notification to continue the RGGVY Scheme during the XI Plan (2007-12) specifying that the goals should be achieved by 2009.

Under the scheme, GoI provided 90 *per cent* funds required for the Scheme as grants[98], while 10 *per cent* was to be funded through budgetary resources of the implementing agencies or through borrowings from financial institutions/ banks/REC.

In Karnataka, the Scheme was implemented in 17 Districts (projects) and 7 Districts during X and XI Plan respectively. For implementing the Scheme, the Electricity Supply Companies[99] (ESCOMs) concerned prepared District-wise Detailed Project Reports (DPRs) and submitted them to REC. REC communicated the approval of the projects, after getting approval from the Monitoring Committee at Ministry of Power.

Scope of Audit

3.2.2 We covered the implementation of the Scheme in 7 Districts: 4 in X Plan[100] and 3 in XI Plan[101] by four ESCOMs. Audit examination involved scrutiny of records at Corporate Offices and the Divisions of the ESCOMs concerned.

We had also selected 17 Blocks (Taluks) in the seven projects through random sampling procedure and five villages were selected from each Block (Total 85 villages).

[97] Government of India letter dated 18 March 2005.

[98]Grant in respect of BPL households was 100 *per cent*.

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

[100] Bijapur, Gadag, Kolar, and Raichur.

[101] Belgaum, Kodagu and Uttara Kannada.

Audit Objectives

3.2.3 The objectives of the audit examination were to assess whether the BPL households were provided with connection free of cost and whether the envisioned objectives of the Scheme were achieved. Audit exercise was also directed to study whether the Detailed Project Reports (DPR) were adequate, accurate and realistic and included all the necessary parameters, execution of works was in compliance with the guidelines and there was an effective mechanism for monitoring.

Targets and achievements of the Scheme

Rural Electrification Plan

3.2.4 The States had to finalise and notify their Rural Electrification (RE) Plans within six months as per MoP's guidelines (February 2008).

We observed that the RE Plan was notified after 46 months (June 2012) from the due date (August 2008). The Government stated (March 2013) that the State notified the RE plan in June 2012 after the draft was approved (October 2011) by Ministry of Power, GoI.

Preparation of Detailed Project Reports

3.2.5 ESCOMs were required to prepare Detailed Project Reports (DPR) for each of the Districts (Projects) proposed to be covered under the Scheme as per the project formulation guidelines issued by REC. The DPRs were required to be submitted to REC through GoK for funding under the Scheme.

We observed that:

- The ESCOMs did not conduct proper field survey prior to preparation of DPRs to determine access to electricity of households, infrastructure available for transmission *etc*. They relied on the Census data of 2001, which was not updated at the time of commencement of project in 2006-07. This resulted in exclusion of households, which required electrification and inclusion of villages/households in the DPRs, which were already electrified.
- In Kolar, Kodagu and Uttara Kannada, electrification works valued at ₹ 6.45 crore[102] were carried out during the course of execution without prior sanction from REC.
- In Bijapur, it was seen that only 29,723 BPL households were required to be electrified as against the estimate of 48,899 BPL households which were proposed to be electrified. The balance households were already electrified prior to implementation of the scheme.

[102] **789 BPL households in 56 villages in Kolar, valued at ₹ 1.10 crore (BESCOM); works valuing ₹ 2.22 crore in Kodagu (CESCO); works valuing ₹ 3.13 crore in Uttara Kannada (HESCOM).**

- In Uttara Kannada, the number of BPL households increased from the projected 19,657 to 34,715. Out of 19,657 BPL households, HESCOM electrified 17,975 households. HESCOM had requested (March 2011) for revised approval for the enhanced BPL households for electrification. The approval is yet to be received. Electrification of the balance 16,740 BPL households has not been taken up (December 2013).

Achievements *vis-a-vis* targets

3.2.6 The targets and achievement of five ESCOMs under the scheme during X and XI Plans as at 31 March 2013 are given in the **Annexure-11.**

3.2.6.1 We observed the following on the implementation under X Plan:

- The test checked four projects under X Plan were completed with a delays ranging from 18 to 30 months. The reasons attributed for the delay were unrealistic estimation based on out-dated data, resulting in variation in actual quantities executed.

- The ESCOMs had achieved electrification of BPL holders to the extent of 100.12 *per cent*. The achievement of CESCO in electrification of BPL households was 124.96 *per cent* and HESCOM recorded electrification of 114 *per cent* more than the projections made in Haveri district, as both the ESCOMs had failed to include the needy beneficiaries in the DPR[103].

- Only 37.64 *per cent* of 'rural households other than BPL households' of the target were electrified in X Plan, indicating lop-sided implementation of the scheme. The reasons for shortfall were not on record.

3.2.6.2 We observed the following on the implementation under XI Plan:

- The overall progress of electrification of BPL households was 91.34 *per cent*, while that of rural households (other than BPL households) was as low as 36.39 *per cent*.

- Electrification of 'Rural households other than BPL households' was 4.34 *per cent* of the target in HESCOM, whereas it was 173.28 *per cent* in MESCOM.

- In Kodagu and Uttara Kannada, the works were still pending (March 2013) even after five years from the scheduled dates of completion.

  CESCO attributed (March 2013) the reasons for delay in completion in Kodagu to topography of the region (hilly terrain) and non-furnishing of list of BPL households by the Gram Panchayats. The reply indicates

[103] **CESCO electrified 30,109 and 60,062 BPL households, as against sanctioned households of 8,760 and 41,565 in Mandya and Hassan districts respectively.**

poor pre-project appraisal, as existing topography, infrastructure necessity and verification of census data were ignored while entrusting the contract and fixing the contract period of one year.

- In Kodagu, the works were awarded (March 2007) much before sanction (August 2009).

3.2.6.3 The details of infrastructure created as at 31 March 2013 under the scheme in test checked projects are detailed below:

Table 3.2.1: Details of infrastructure created in test checked projects under RGGVY

Project	LT Lines (Kms)			HT lines(Kms)		
	Estimate	Actual	Percentage of actual to the estimate	Estimate	Actual	Percentage of actual to the estimate
Bijapur	332.50	1,539.68	463.06	532.70	383.57	72.00
Gadag	160.50	195.40	121.74	306.80	64.81	21.12
Kolar	551.65	664.65	120.48	335. 65	96.00	28.60
Raichur	406.99	788.85	193.83	606.00	219.25	36.18
Belgaum	1,286.25	1,209.54	94.04	651.05	429.77	66.01
Kodagu	600.00	808.55	134.76	650.00	283.61	43.63
Uttara Kannada	1081.56	1081.92	100.03	548.99	380.51	69.31
Total	**4,419.45**	**6,288.59**	**142.29**	**3,295.54**	**1,857.52**	**56.36**

(**Source: DPRs, Progress reports and Closure Reports**)

We observed that:

- There were huge variations in creation of infrastructure from the projections.
- In 7 districts 6,288.59 Kms of LT lines were actually created against the estimate of 4,419.45 Kms. On the other hand, only 1,857.52 Kms of HT lines were created against the estimated 3,295.54 Kms. This indicated that the infrastructure requirements and field conditions were not assessed adequately before the preparation of the DPRs. The wide variations in quantities had also caused delays in completion of works.

Project management

3.2.7 ESCOMs had awarded contracts on turnkey basis and entered into agreements with the successful bidders for creation of infrastructure and electrification of rural households. The deficiencies in contract management in the projects are discussed below:

Non-inclusion specifications in the contract

3.2.7.1 We observed that the ESCOMs failed to adhere to the stipulated material specifications in the guidelines issued by REC for 'cross arms', 'guy wires' *etc*., resulting in additional financial burden of ₹ 1.44 crore[104].

Amendment of conditions after award of contract

3.2.7.2 Clause 5 of special conditions of contract (February 2006) between HESCOM and the successful bidders for implementation of the scheme in five Projects[105] under X Plan provided for payment of price variation (PV) claims only if 'AAAC conductor' was used in the works.

We observed that at the request of the contractors for price variation for 'ACSR conductor', the terms of contract were amended (November 2007), resulting in undue payment of ₹ 2.53 crore.

REC rejected (December 2007) the proposal of GESCOM to allow price variation for ACSR conductor stating that the prices were firm as per the terms of contract. Accordingly, GESCOM rejected (September 2008) the request of contractor to amend the conditions of contract. This practice could have been followed by HESCOM as well.

Abnormal consumption of Reinforced Cement Concrete (RCC) Poles

3.2.7.3 As per the sanctioned DPR and terms of contracts for implementation of the scheme under X Plan, 'RCC Poles' were to be used at a span of 50 meters for running LT lines.

We observed that:

- ESCOMs, however, had executed LT lines placing Poles at an average span of 35 meters. ESCOMs attributed (March 2013) practical field conditions like zigzag roads, scattered houses, deviation of lines, *etc*., for the reduction in span. Erecting poles at an average width of 35 meters without conducting adequate study of topography and location lacks justification.

- Even after considering 35 meters as width between poles as the bench mark, the consumption of poles was abnormally more. ESCOMs had utilized 2,67,552 poles against the actual requirement of 2,18,579 poles for drawing 7,650.58 Circuit kilometers of 'LT line single phase', at an average span of 35 meters. The number of poles used was 48,973 more than required. The additional cost of ₹ 22.14 crore[106] incurred on these poles has not been approved by REC (December 2013).

[104]CESCO: ₹ 0.26 crore, HESCOM: ₹ 1.18 crore.
[105]Bagalkot, Bijapur, Dharwad, Gadag and Haveri.
[106] Cost related to 14 of the 17 projects implemented under X Plan. Three projects (Bidar, Bijapur, Bellary) were excluded since the consumption of poles was within the limits. Since XI Plan projects are under progress and consolidated data was not compiled by the ESCOMs, the same was not considered.

Abnormal consumption of ACSR Conductor

3.2.7.4 ESCOMs had prepared the estimates for various items of work based on the number of households projected to be electrified. Erection of 'LT line single phase' was one of the requirements under the contract which was directly proportional to the number of households that were to be electrified.

We observed that though the number of households (including BPL households) electrified was much less[107] than the projections (21 *per cent* to 89 *per cent* of projections) under X Plan, the consumption of conductor for drawing 'LT line single phase' was abnormal, which ranged from 135.53 *per cent* to 765.32 *per cent* more than the estimated (sanctioned) quantities. The cost of additional quantity of conductor used was ₹ 22.68 crore[108]. This needs to be investigated.

Excess usage of material

3.2.7.5 The additional expenditure on account of excess usage of material in Uttara Kannada project was ₹ 8.39 crore. HESCOM stated (October 2013) that the reasons for increase in LT/HT lines were due to execution of works as per field conditions, existence of zig-zag and curved roads, scattered houses and topography of Uttara Kannada. The reply is not acceptable as Technical Audit and Quality Control wing of HESCOM had observed that HT lines were laid in places not needed, the span of poles was not as per requirements and double cross arms and double insulators were used on single poles unnecessarily.

Wasteful expenditure on transformer metering

3.2.7.6 The contracts for execution of the Scheme in the seven selected Projects included supply and erection of 25 KVA Distribution Transformer Centres (DTCs), along with meters. The purpose of installing DTC meters was to compare the consumption of power as per the meter recording *vis-à-vis* the actual billing under that installation, so as to assess the theft of power through unauthorised connections, use of power at higher load than that sanctioned *etc*.

We observed that a total of 4,019 DTCs at a total cost of ₹ 4.75 crore (represents cost of meters alone) were installed (2006-13) in seven Projects. In 425 villages surveyed, DTCs were either not in working condition or not put to use, rendering the expenditure unfruitful.

ESCOMs stated (January 2013/March 2013) that the meters had gone out of order due to over loading and action was being taken to rectify the defective meters. They had also stated that energy audit is not being done in rural areas due to lack of qualified staff.

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[107] Achievements ranged from 21 to 89 *per cent* of projections excepting five projects *viz*., Mandya, Raichur, Bagalkot, Bijapur, Haveri, where achievements were 100 and more.

[108] Cost related to 12 projects implemented under X Plan. Bangalore Rural, Chitradurga, Davangere, Koppal and Dharwad were not included as the consumption was within the estimation.

Unfruitful expenditure

3.2.7.7 With a view to provide additional safety for the energy meter from exposure to weather and to keep them tamper-proof, BESCOM decided (July 2006) to replace the wooden Meter Boards provided in the estimate of Kolar Project with Sheet Moulding Compound (SMC) Meter Protection Boxes. BESCOM procured (December 2006) 15,000 SMC Meter Protection Boxes for Kolar project at a cost of ₹ 0.48 crore.

We observed during beneficiary survey that the SMC Meter Boxes were fixed keeping the shutters open and the meters exposed to weather in Bagepalli, Mulbagal, and Sidlaghatta of Kolar Project, defeating the purpose of its procurement.

BESCOM stated (March 2013) that action had been taken to fix the seal to the meter boxes.

Non- recovery of cost of materials supplied to contractor

3.2.7.8 The Detailed Work Awards (DWA) issued (April/March 2007) in respect of Belgaum and Uttara Kannada Projects stipulated that HESCOM should supply 'CFL bulbs' and 'SMC meter boxes' to the contractors and the cost of these materials was to be deducted from the bills of contractors.

We observed that materials valued at ₹ 2.34 crore supplied to the contractors had not been recovered from their bills. HESCOM stated (October 2013) that Official Memorandum was issued to deduct the cost towards SMC meter boxes and CFL bulbs in respect of works of Belgaum and Uttara Kannada projects. Recovery status was not intimated to audit.

Payments in violation of contract conditions

3.2.7.9 The terms of contract for Belgaum, Raichur and Uttara Kannada Projects stipulated that contractors should quote service tax (ST) wherever applicable, separately in their bids and claim with a documentary proof for having paid to the authorities concerned.

We observed that ST of ₹ 1.66 crore[109] was paid, though the contractors had neither indicated the ST portion separately in their bids nor submitted documentary proof of payment of the ST along with bills. The Executive Engineers of the respective Divisions, who were the bill passing authorities, paid the ST to the contractors in violation of contract terms.

HESCOM in its reply stated (October 2013) that the payments made to the contractors had been recovered in Belgaum project. In case of Uttara Kannada project, Official Memorandum had been issued and the recovery was under process.

[109] **Belgaum division – ₹ 0.46 crore; Raichur division - ₹ 0.54 crore; Karwar division - ₹ 0.16 crore; Sirsi division - ₹ 0.50 crore**

Monitoring

Third party inspection of project implementation

3.2.8. With a view to augmenting implementation capacities for the programme, REC had concluded Memoranda of Understanding (MOUs) with NTPC, POWERGRID, NHPC and DVC to make available the project management expertise and capabilities of the organizations to states wishing to use services of the CPSUs for Project monitoring and supervision of quality of works during construction.

GoK communicated (December 2006) the approval for engaging the services of NTPC Electricity Supply Company Limited (NESCL) on behalf of National Thermal Power Corporation Limited (NTPC) for supervision of works under RGGVY in Karnataka during X Plan. Accordingly, Quadripartite Agreement amongst REC, ESCOMs[110], GoK and NTPC was concluded (October 2006).

NESCL, however, withdrew (February 2009) from the assignment stating that it had completed inspection of 30 *per cent* of the total works executed under the Scheme, as agreed mutually by ESCOMs in the meeting[111] held in November 2008.

ESCOMs appointed (August 2009/December 2009/October 2010) alternate agencies[112] for undertaking third party inspection (TPI). Since the works under X Plan were completed by August/September/December 2009 and the defect liability period had lapsed by the time TPI reports were submitted, all the three ESCOMs were forced to bear the cost for rectification of defects pointed out.

We observed that though ESCOMs had option to appoint other agencies such as NTPC, POWERGRID, NHPC and DVC, they had appointed NESCL as sole TPI agency without ensuring the capability of NESCL to complete the assignment.

The observations on delay in appointment of TPI, failure of ESCOMs to take action on TPI reports are as under:

Appointment of TPI delayed

3.2.8.1 The contract for execution of village electrification works in Bijapur was entrusted (January 2006) to GVPR Engineers Limited, Hyderabad. Electrification of 29,723 BPL households was done and infrastructure like LT/HT lines, Distribution Transformer Centres was created, at a total cost of ₹ 27.67 crore. The project was completed in December 2008.

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[110] **BESCOM, GESCOM and HESCOM**

[111] **The minutes of the meeting held on 5.11.2008 are not placed in the file made available to audit and hence the correctness of the statement could not be verified.**

[112] **REC Power Development Corporation Limited (REC PDCL) by BESCOM, National Power Training Institute (NPTI) by GESCOM and HESCOM.**

Internal Audit wing of HESCOM noticed (March 2010) that payments were made to the contractors without creation of assets in Indi Division. It was found that 3,992 out of 6,311 installations along with infrastructure, stated to have been created at cost of ₹ 4.09 crore, were fictitious upon verification by an exclusive team formed (March 2010) for the purpose.

We observed that HESCOM had appointed the alternate TPI only in October 2010, after lapse of nineteen months from the date of withdrawal (February 2009) of NESCL. As a result, the works were not subjected to third party inspection immediately after completion of works (December 2008). The delay had led to the misappropriation of funds. We further observed that the outstanding bills of GVPR Engineers were only ₹ 0.60 crore, against the amount of ₹ 4.09 crore to be recovered.

Reports of TPI not acted upon

3.2.8.2 National Power Training Institute (NPTI), the alternate TPI agency monitoring the X Plan projects in GESCOM, submitted the inspection reports in February 2011 after a lapse of one year from the due date of February 2010.

We observed in test checked project (Raichur) that TPI had pointed out the shortages of materials to the tune of ₹ 1.57 crore. The major variations were occurred in 'Guy sets' and 'LT/HT Span' and 'RCC Poles'. The shortages pointed out by TPI had not been recovered from the contractor.

3.2.8.3 TPI reports of Bijapur and Gadag Projects (HESCOM) pointed the shortages in quantities with reference to billed quantities to the extent of ₹ 3.51 crore.

We observed that the cost of the shortages was not recovered. The bank guarantees furnished by the contractors had lapsed in October 2008. Though these bank guarantees were to be renewed upto December 2009 and March 2010 as per contract terms, HESCOM did not renew them. Failure to recover the cost of shortages resulted in undue favour of ₹ 3.51 crore to contractors.

3.2.8.4 The TPI noticed defective works in BESCOM. The contractor was liable for replacing the defective works at his own cost as per the contract terms. Instead of getting the defects rectified by the contractor, the BESCOM incurred (November 2010) ₹ 12.78 crore for rectification. BESCOM did not invoke the performance guarantee submitted by the contractor.

We observed that the bank gurantees valued ₹ 30.51 crore obtained from the contractor towards performance guarantee, which were valid until September/December 2011, were returned in March 2012 without invoking. Thus, non-invoking of contract terms resulted in avoidable expenditure and undue favour to contractors to the extent of ₹ 12.78 crore.

Lack of reliability of data

3.2.9 The guidelines for village electrification works under the Scheme required the representative/head of the Gram Panchayat (GP) to furnish a certificate declaring that the village was electrified as per norms, which was to form the basis for submission of closure report to the Government for claiming subsidy.

We observed variations in the number of beneficiaries reported in GP certificate from actual quantities executed, for which bills were admitted as given below:

Table 3.2.2: Service connections as per billed quantities and GP certificates

Block	Village	Service connections as per billed quantities	Service connections as per GP certificates
Bagepalli	Ramojipalli	11	59
	Kanampalli	51	20
	Pedduru	17	26
Joida	Joida	79	26
Karwar	Kadra	83	74
	Ghadsi	100	77

(Source: Bills passed by the divisions, Closure reports and GP certificates)

The GP certificates were countersigned by the Assistant Executive Engineer of the respective Blocks. We could not ascertain the veracity of number of BPL beneficiaries benefitted under the Scheme and expenditure incurred thereon, as no reconciliation was on record.

Closure of scheme without completion of the envisaged works:

3.2.10 As per the guidelines for the Scheme, one of the conditions to declare a village as electrified was that electricity was provided to public places such as schools, panchayat offices, health centres, dispensaries, community centres, *etc*.

The ESCOMs had proposed to electrify 2451 Schools, 230 Health centres and 107 Panchayat offices under X and XI Plans (Test checked seven projects).

We observed that contracts for such works were not awarded (December 2013) and there were no records to prove that the public places were electrified. The villages, however, were declared as 'electrified'.

Fund Management

3.2.11 In respect of electrification of BPL households, 100 *per cent* capital subsidy subject to maximum of ₹ 1,500 and ₹ 2,200 per household under X and XI Plan respectively was allowed. This subsidy would be released[113] in three installments: 50 *per cent* as advance on the request of implementing agency, 40 *per cent* based on actual number of service connections proposed to be released under the Scheme and the balance at the time of closure of the Project.

Additional cost

3.2.11.1 The actual cost per service connection, which ranged between ₹ 2,119 to ₹ 3,533, exceeded the specified limits. The overall additional cost incurred by the ESCOMs was ₹ 71.73 crore[114], which is a burden on other consumers, as the extra cost would be factored for determination of tariff of electricity.

It is relevant to point out that the cost of providing service connection in the neighbouring State of Tamil Nadu was ₹ 1,429 up to December 2008 and ₹ 1,733 thereafter.

Claim of subsidy

3.2.11.2 GESCOM and HESCOM provided 1,21,559 (four projects[115]) and 1,50,394 (five projects[116]) service connections to BPL households under X Plan and the total subsidy admissible under the Scheme in respect of these service connections at ₹ 1,500 per household worked out to ₹ 18.23 crore and ₹ 22.56 crore respectively. GESCOM and HESCOM were eligible to receive ₹ 16.41 crore and ₹ 20.30 crore, being 90 *per cent* of the total cost incurred. However, GESCOM had received (2005-08) only ₹ 4.03 crore and HESCOM (2007-08) ₹ 8.89 crore mainly because of non-submission/delay in submission of claims for subsidy. Since this expenditure was met out of borrowed funds, ESCOMs had to bear interest burden which worked out to ₹ 5.71 crore[117] for the period April 2010 to March 2013.

Avoidable interest burden

3.2.11.3 ESCOMs were to submit, *inter-alia,* certain documents[118] to REC while seeking release of second installment of subsidy.

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[113] Initially, during X Plan works, the conditions for release of BPL subsidy was that it would be released in two installments; 50 *per cent* each. However, considering the fund constraints of ESCOMs, REC revised (August 2009) this stipulation wherein 90 *per cent* of the BPL subsidy was released in first two installments.

[114] Cost related to 22 projects, 17 under X Plan and 5 under XI Plan.

[115] Bidar, Bellary, Koppal and Raichur.

[116] Bijapur, Bagalkot, Dharwad, Gadag and Haveri.

[117] Calculated at 8 *per cent* per annum.

[118] Reconciliation of data regarding status of village electrification including un-electrified habitations, schedule for establishment of franchisee arrangement, individual block maps of districts indicating the proposed electric networks.

We observed that ESCOMs did not comply with these conditions. The ESCOMs had to avail (September/November 2006) bridge loan of ₹ 66.90 crore[119] from REC and incurred interest charges of ₹ 4.62 crore.

ESCOMs replied (January/March 2013) that bridge loan was availed to avoid delay in execution of works, inability to pay contractors bills. The replies were silent on reasons for non-compliance with the conditions of release. The need for bridge loan had arisen because of non-compliance with the conditions of release.

Delay in submission of closure proposals

3.2.11.4 As per the guidelines issued by REC, the project completion reports should be furnished by the implementing agencies in accordance with the formats prescribed by REC for release of final instalment of the subsidy under the Scheme. The details of completion of projects, submission of closure proposals along with claims of balance cost are detailed below.

Table No. 3.2.3: Details of completion of projects and submission of closure proposals

ESCOM	Date of Completion	Date of submission of closure Reports (original/ revised)	Balance cost (₹ in crore)
BESCOM	September 2009	May 2010/July 2012	20.76
CESCO	December 2009	March 2010/May 2012	34.23
GESCOM	August 2009	July 2011/ May 2012-to August 2013	19.60
HESCOM	December 2008/March 2009	March, June 2011/ May 2012, April 2013	26.35

Though the works taken up under X Plan were completed in the second half of financial year 2009-10, the closure reports, initially submitted (between March 2010 and July 2011) by the ESCOMs, were not accepted by the REC.

We observed that:

- REC did not accept the closure proposals (May 2010) of BESCOM and CESCO citing reasons such as non-submission of 100 *per cent* completion reports, consolidated Gram Panchayat certificates, list of BPL households electrified, certificate from Chartered Accountants and failure to update data on RGGVY Website
- The closure proposals submitted (July 2011) by GESCOM were not accepted (December 2011) by REC stating that they were very sketchy and formats were not prepared as per the requirement. REC sought (December 2011) certain documents such as block maps indicating infrastructure created, consolidated TPI agency reports and their compliance.

[119] BESCOM: loan ₹ 22.50 crore, interest ₹ 0.90 crore; CESCO : loan ₹ 13.60 crore, interest ₹ 1.01 crore; GESCOM : loan ₹ 14.10 crore, interest ₹ 1.48 crore, HESCOM: loan ₹ 16.70 crore, interest ₹ 1.23 crore.

- The revised closure reports, submitted by the BESCOM (July 2012), CESCO (May 2012), GESCOM (April/August 2013) and HESCOM (May 2012/April 2013) were pending with REC (December 2013).

The ESCOMs claimed an amount of ₹ 100.94 crore[120] towards final instalment of subsidy from MoP. Abnormal delays in submission of closure proposals forced the ESCOMs to go for borrowings. Considering average rate of interest at 8 *per cent* per annum, the interest burden on the subsidy of ₹ 100.94 crore not released worked out to ₹ 30.28 crore for the period from April 2010 to December 2013.

The closure reports under XI plan have not been prepared as the works are still in progress (October 2013).

Conclusion

We conclude that the Rural Electricity Plan, which was notified after completion of XI Plan period, did not serve as road map for achieving the objectives of the Scheme. The intended goal of providing power for all by 2009 was not achieved even after lapse of four years from targeted date. The projects in X Plan were completed after a delay of 18 to 30 months, while the implementation in XI Plan was still lingering on. This had happened because the ESCOMs had prepared DPRs and estimates for works without conducting proper survey and based on outdated data.

We also conclude that quantities of materials used in works were consumed in excess of requirements and norms, increasing cost of the projects/scheme. ESCOMs submitted closure proposals of the Scheme without providing electricity to public places such as schools, hospitals and panchayats, envisaged to be electrified as part of the implementation. Third Party Inspection of the works was a requirement and the ESCOMs had failed to take action on their Reports in many cases.

[120] **BESCOM - ₹ 20.76 crore; CESCO-₹ 34.23 crore; GESCOM-₹ 19.60 crore; HESCOM-₹ 26.35 crore**

Karnataka State Small Industries Development Corporation Limited

3.3 Acquisition of land, development of Industrial Estates and allotment of plots and sheds

Introduction

3.3.1 Karnataka State Small Industries Development Corporation Limited (Company) was established (April 1960) with the objective of assisting, financing, protecting and promoting Small Scale Industries in the State. The Company is engaged in acquisition and development of land for allotment to small scale entrepreneurs. The Company was also constructing industrial sheds for allotment to the needy entrepreneurs either on outright sale, hire purchase or rent basis. During the last five years (2008-13), the Company had developed 1,362 plots and 510 sheds in 24 Industrial Estates in the State.

Scope and Objectives of Audit

3.3.2 The audit was conducted to assess whether (i) the acquisition of land was done as per laid down policies, (ii) the work of development of land was awarded and executed within a time frame; and (iii) allotments were as per the rules and regulations.

We covered the activities[121] of the Company for the five years ended March 2013. In nine[122] out of 13 divisions, total of 20 Industrial estates out of the 65 developed during 2007-08 to 2012-13 were test checked. The findings are detailed in succeeding paragraphs.

Acquisition

3.3.3 There is no documented policy for acquisition of land. However, the Company acquires land through Karnataka Industrial Area Development Board (KIADB)[123] and Revenue Department. The KIADB acquires land and allots it to the Company. The Company also identifies private lands suitable for establishing Industrial Estates and forwards the proposals to KIADB, who in turn acquires the land and hands over the possession. The Company deposits 40 *per cent* of the guidance value before the initial notification and balance 60 *per cent* before the final notification.

The Company also identifies Government land and informs the Deputy Commissioner (DC), who after obtaining approval from Revenue Department, acquires the land and allots it to the Company.

[121] Excluding issues taken up *suo motu* by Committee on Public Undertakings.
[122] Bangalore Urban, Bangalore Rural, Tumkur, Bellary, Gulbarga, Hubli, Mangalore, Mysore, Shimoga.
[123] KIADB was established under an Act (1966) of the State Government. In pursuance of its objective, it acquires land, both Government and private, develops them into industrial areas and make them available to entrepreneurs.

The table below indicates the details of land acquired during the last five years from 2008-09 to 2012-13.

Table 3.3.1: Land acquired and cost incurred

Year	Land acquired (in acres)	Value (₹ in crore)
2008-09	35.52	26.76
2009-10	48.56	150.78
2010-11	122.31	88.08
2011-12	512.54	1,171.16
2012-13	Nil	Nil

(Source : Information furnished by the Company)

We observed that the requests of the Company for allotment of land have been pending for long, either with the KIADB or with the Revenue Department. The Company had to ask for refund of the advance money in many cases for different reasons. These are elaborated as under:

- Proposals for acquisition of 1,325.45 acres of land in 14 locations requested by the Company between 2008 and 2013 are pending before KIADB (as at November 2013). Of this, in respect of four locations[124] advance of ₹ 5.87 crore were paid (2008-13). Further, 13 proposals for acquisition of 566.20 acres of land made prior to 2008 are also pending.

- The Company had requested (2002-13) KIADB for refund of ₹ 2.66 crore in respect of seven locations[125], as there were demand for higher compensation by land owners, land was less in actual measurement *etc*. The refund was yet to be made (November 2013).

- The proposals of the Company for acquisition/allotment of 1,511 acres land in 20 cases were pending before Revenue Department for various periods from August 2006.

The Company accepted (August 2013) the audit observation and stated that in order to accelerate the land acquisition work and to have more land it had requested the Government to bring an amendment to the relevant Act so that lands could be acquired by having its own Land Acquisition Officer vested with acquisition powers.

[124] **Aland (₹ 2.80 lakh), Mangoor (₹ 69.09 lakh), Chitapoor(₹ 3.30 crore), Koppal (₹ 1.85 crore). This excludes locations where refund is claimed by the Company.**

[125] **Hassan (₹ 36.75 lakh), Hanagal (₹ 20.98 lakh, Hosakote (₹ 44.50 lakh), Chamarajanagar (₹ 0.93 lakh), Tagachagere (₹ 36.10 lakh) and Humnabad (₹ 4.36 lakh), Narasapur (₹ 1.22 crore). Of this, advances for land at Tagachagere and Narasapur were paid during the review period (2008-13).**

Acquisition of land already encroached

3.3.3.1 The Government of Karnataka had allotted (October 2007) 38 acres of land at Sreermanahalli to the Company. The Officers of the Company visited (December 2007) and recommended that the land was suitable for establishing industrial estate and there was no mention of any encroachment to the land. Encroachments on the land were, however, reported in the inspection report (February 2008) of the Company officials. Ignoring this, the Company paid (March 2008) ₹ 11.11 crore, but possession of land was not handed over. The DC apprised (August 2008) the Government of the encroachment and litigation in 15 acres of land and recommended for allotment of alternate land to the Company. Accordingly, 26.25 acres of land was given (September 2011) at Muthugadahalli and Madappanahalli, for ₹ 4.07 crore. The land has not been developed till date (June 2013).

The Company requested (October 2008) for refund of ₹ 7.04 crore, which is yet to be received (2013). The action of the Company in making payment for a land when it was aware that it had encroachment and litigation problems resulted in blocking up of Company's funds of ₹ 7.04 crore and loss of interest of ₹ 5.93 crore.

The Company stated (August 2013) that it trusted that the Government would have removed the encroachments, since the land belonged to the Government. The reply does not explain why the Company had made payments even after noticing the encroachments.

Acquisition of forest land without getting clearance

3.3.3.2 The Company acquired (August 2006) 10 acres of land at N.R.Pura for ₹ 2.10 lakh through the Revenue Department and developed (2008-09) an Industrial Estate consisting of 50 plots at a cost of ₹ 1.40 crore. Only two plots have been allotted till date (June 2013) after development work was completed. We observed that the Forest Department informed (February 2012) that the land had been classified during the year 1930 as minor forest and belonged to Forest department. Thus, the expenditure of ₹ 1.40 crore was wasteful.

Development of Industrial Estates

3.3.4 Lands acquired by the Company are developed into industrial estates by creating infrastructure facilities like roads, power, water supply, sewerage for allotment to small scale entrepreneurs. The contracts are awarded to private contractors for developing the industrial estates. The details of industrial estates developed during 2008-09 to 2012-13 are given below:

Table 3.3.2: Details of Industrial estates developed

Year	Extent of lands developed (acres)	Period in which lands were acquired and the extant of land in acres	No. of industrial estates developed out of land mentioned in Column (2)	Plots/sheds[126] (Number)		Development expenditure (₹ in crore)
1	2	3	4	5	6	7
2008-09	73.77	Within 5 years : nil	8	Plots	320	4.96
		5 to 10 years : 51.14				
		20 to 25 years : 5.00		Sheds	42	
		25 to 30 years : 17.63				
2009-10	59.54	Within 5 years : nil	4	Plots	162	10.89
		5 to 10 years : 33.27				
		10 to 15 years : 16.27		Sheds	Nil	
		15 to 20 years : 10.00				
2010-11	152.78	Within 5 years : 25.00	7	Plots	336	20.61
		15 to 20 years : 57.19				
		25 to 30 years : 38.59		Sheds	438	
		35 to 40 years : 32.00				
2011-12	123.67	Within 5 years : 102.42	5	Plots	544	20.31
		5 to 10 years : 11.25				
		25 to 30 years : 10.00		Sheds	30	
2012-13	Nil	Nil	Nil	Plots	Nil	Nil
				Sheds		

(Source : Information furnished by Company)

We observed the following:

- The Company had developed 409.76 acres of land during the last five years (2008-13). Of this lands only to the extent of 127.42 acres were developed within five years of its acquisition, 95.66 acres within five to ten years, 88.46 acres within 10 to 25 years and 98.22 acres after 25 years of its acquisition.
- There was no acquisition or development of land during 2012-13.

This indicated that company did not have a Policy for the development of acquired lands.

Information Technology Park at Belgaum

3.3.4.1 The Government of Karnataka allotted (2006) 41.34 acres of land at Desur, Belgaum exclusively for development of a IT Park within two years of allotment. The Company paid ₹ 10.64 lakh for the land.

The work of development of the IT Park was awarded in January 2008. The work was completed in August 2009. Meanwhile, the Board of Directors (BoD)

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[126] For details of allotment of these plots, refer to paragraph 3.3.5.1.

issued (April 2008) directions to conduct a demand survey to identify potential IT Companies; but the response was poor.

The Company issued notifications (July 2010) about the availability of 64 plots. As the response was poor, the BoD approved (August 2011) de-reservation of the IT Park for non-polluting general industries. The response was still poor and only 14 plots have been sold for a total price of ₹ 2.85 crore as on June 2013.

We observed that:

- Facilities for an IT Park such as power distribution network, water, telecommunication, common service facilities, technological back up services, drainage, ample parking space, pollution control facilities, marketing outlets and provision for adequate security were not available in this industrial estate.

- The Finance Department of the Company had cautioned (October 2007) that the amount spent on the project would be blocked, as IT industries required different type of additional infrastructure, which was not available at Belgaum. Without considering the observation of the Finance Department, the IT Park the work was awarded in January 2008.

Failure to provide the necessary infrastructure for IT park has not yielded the desired result of setting up IT park even after spending ₹ 7.74 crore.

Industrial Estates at Gundlupet and Chamarajanagar

3.3.4.2 The Company took up (February 2008) the development of two Industrial Estates at Gundlupet and Chamarajanagar, which was proposed to be financed by Government under the Integrated Infrastructure Development (IID) scheme. The scheme envisaged providing developed sites with infrastructural facilities[127].

The GoK expressed doubts (February 2008) over the availability of funds for works. Yet, the Company went ahead with the development of the industrial estates. The works were declared completed between October and December 2008 after investing ₹ 1.74 crore.

The two Industrial Estates had 56 and 46 plots respectively. In Gundlupet, 40 of the 56 plots have been allotted (up to December 2013). These are without electricity, as the proposal for supply of electricity to the Industrial estate was applied for by the Company only during June 2013. In Chamarajanagar, 27 out of 46 plots have been allotted (December 2013).

The development of these Industrial Estates without financial support of the GoK and necessary infrastructural facilities lacked justification.

[127] **Such as power distribution network, water, telecommunication, drainage and pollution control facilities, roads, marketing outlets, common service facilities and technological back up services *etc.***

Industrial estate at Basava Kalyana, Bidar district

3.3.4.3 An industrial estate at Basava Kalyana, Bidar District covering five acres of land was acquired (June 2007) for ₹ 16.20 lakh. The development works for forming the industrial estate was awarded for ₹ 0.51 crore in July 2010 and completed in July 2011. The estate, which contained 31 plots, was developed at a cost of ₹ 42.68 lakh. Though development works were completed in March 2011, notification inviting prospective purchasers has not been made (December 2013).

The Company replied (August 2013) that causes of delay in notification was that the formalities of fixation of land rate, furnishing of sketches from engineering department and allotment could not be initiated immediately. The Company further stated that action had been taken to issue notification for allotment.

Irregular award of development work

3.3.4.4 Against its tender notifications (October 2012) for formation of a new Industrial Estate on 143.24 acres of land at Nelamangala, Bangalore, the Company received bids from four parties. The amount put to tender for development of the land was ₹ 21.57 crore. The technical bid was to be opened on 18 December 2012 or on subsequent working day. A bidder (SR Constructions) withdrew his offer on 17 December 2012. Despite this, the Company opened (19 December 2012) all the four technical bids including the withdrawn bid and two were found qualified (Jampana Constructions and SR Constructions).

The Company, however, opened (5 January 2013) financial bid of only Jampana Constructions. Jampana Constructions had quoted ₹ 33.66 crore, which was 56.04 *per cent* above the amount put to tender. The Company issued (February 2013) work order for ₹ 27.93 crore, 29.50 *per cent* above the estimated cost, reportedly based on negotiations. The records of the negotiations with the contractor were not made available to audit.

We observed that:

- Clause 9 (i) of Schedule of Contract stipulated that the tender had to be rejected if the rates were above 25 *per cent* of the estimate. Inspite it being a single tender and 56.04 *per cent* above the amount put to tender, the offer was not rejected. The Company informed that they held negotiation with the single responsive bidder and the rate was brought down to 29.50 *per cent* over the estimated cost.

- The Technical Subcommittee (TSC) of the Company in their meeting (10 January 2013) chaired by Managing Director (MD) took the view that the rate quoted by Jampana Constructions was high and therefore decided to refer the matter to the BoD. In a note (21 January 2013) submitted to the Company Secretary, the MD wanted to withdraw the proceedings of TSC meeting quoting Section 13 of KTPP Act[128] and to treat the meeting as 'null and void'. The BoD decided (29 January 2013) that TSC should meet again without the MD and take an appropriate decision. The TSC meeting was held again (12 February 2013) *without* the MD and with the same members as in previous TSC meeting in attendance. The TSC decided to issue work order to Jampana Constructions. The proposal was not submitted to the Board.

- By not rejecting the single tender, which was beyond 25 *per cent* of the estimate and the failure of the BoD in taking cognizance of the high rates quoted by the agency resulted in excess expenditure of ₹ 6.33[129] crore.

The Company replied (August 2013) that rate agreed was 24.50 *per cent* and 5 *per cent* towards service tax, which was introduced from July 2012 onwards.

The reply is not acceptable due to the following reasons. Of four tenders, two were not techno-commercially acceptable and therefore, rejected. The third tenderer withdrew his offer before opening of the bids. Thus, the offer of Jampana Construction was a single tender. It was 56.04 *per cent* above the amount put to tender as well. The Company, therefore, should have cancelled the tender, as per guidelines of the Central Vigilance Commission. Instead, the Company negotiated with the single tenderer and accepted the offer.

Further, as the tenders were called for after introduction of service tax, the contention of the Company about service tax lacked justification.

Allotment of sheds and plots

3.3.5 After development of the estates, the Company invites applications from entrepreneurs interested in starting small scale industries, through print/electronic media. The cost of plots is fixed taking into account the guidance value, the expenditure incurred for creation of necessary infrastructure and necessary charges. The cost incurred on the industrial estate for its acquisition, development, other administration charges etc., are computed and equitably distributed to the plots/sheds and unit cost is arrived at.

The Company framed 'Allotment Rules' in 2004, which was adopted by the Board in March 2005 for allotment of Industrial Sheds/Plots. These rules are amended from time to time. Broadly, the allotments are made by the State level and District level Allotment committees, on the basis of the recommendations made by the Management. The company allots the plots/sheds either on lease-cum-sale basis or hire purchase basis.

In case of allotment on lease-cum-sale, the buyers are to pay 99 *per cent* of the cost and enter into a lease-cum-sale agreement and absolute sale deed is issued

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[128] **Section 13 of Karnataka Transparency in Public Procurements Act, 1999 provides that where the tender accepting authority consists of single officer who is due to retire within next six months, he shall not act to accept the tender.**

[129] **Work order amount ₹ 27.93 crore less amount put to tender ₹ 21.60 crore = ₹ 6.33 crore.**

at the end of lease period on payment of balance 1 *per cent*. Under hire purchase, the allottees enter into a hire purchase agreement upon payment of 10 *per cent* of value of plot/shed and balance (alongwith interest) is paid in instalments (generally about 60 instalments). Absolute sale deeds are issued at the end of instalment period.

Sheds and Plots

3.3.5.1 The following table indicates the sheds and plots waiting allotment as on April 2008, developed and allotted in respective years from 2008-09 and the sheds and plots waiting allotment as on 31 March 2013.

Table 3.3.3: Details of sheds and plots developed and allotted

Year	Developed prior to 2008-09 and remaining vacant, and developed in the years		Allotted (between 2008-09 and 2012-13)		Vacant (as at March 2013)	
	Sheds	Plots	Sheds	Plots	Sheds	Plots
Sheds and Plots unallotted at the beginning of 2008-09	260	980	215	593	45	387
2008-09	42	320	42	232	0	88
2009-10	0	162	0	113	0	49
2010-11	438	336	428	262	10	74
2011-12	30	544	29	348	1	196
2012-13	Work orders were issued for seven Industrial Estates; works are in progress.					

(Source : information furnished by the Company)

We observed that:

- Out of the total 5,573 sheds and 7,164 plots developed by the Company since incorporation, 56 sheds and 794 plots remained vacant as on 31 March 2013. Of these 45 sheds and 387 plots were developed prior to 2008-09.
- Facilities to suit the requirements for particular types of industries were not envisaged while developing the estates
- Infrastructural requirements such as electricity, water supply, motorable roads, and skilled workforce were ignored while planning estates.
- The Company did not have a procedure of conducting demand survey
- The Company did not have a marketing strategy to lease/sell the sheds and plots.

The Company stated (August 2013) that plots are developed and infrastructure work taken up based on demand assessed by Divisional offices through newspapers and potential for infrastructure in districts through district SSI Associations, Directorate of Industries & Commerce and other agencies. The reply was devoid of evidence of such action having been taken in the files produced to audit. The Company also stated that based on audit suggestions suitable strategy would be evolved to ensure the occupancy of plots/sheds.

Execution of Sale Deeds in contravention of the allotment rules

3.3.5.2 The Allotment Rules, *inter alia*, stipulated that the successful allottee of a plot is required to construct factory building and start the industry within a maximum period of two years (Industrial Estates in Bangalore Rural and Urban) and within three years in other industrial estates, from the date of allotment of plot. The sale deed of the plot could be given only after two years (Bangalore Rural and Urban) and five years in other estates after construction of factory and initiation of production. In case of non-construction of the building within the stipulated period, allotment would be cancelled and the amount paid would be forfeited. In October 2005, the Board imposed a condition of mandatory lease period of six years on all allotments made from 1 April 2005 before sale deed was given and for no reason could the period of lease be waived.

However, on the recommendation (February 2010) of the then Chief Minister, the Company executed (April 2010) a sale deed transferring 1,037.53 sq.m to Manjunatha Enterprises, before fulfilling the above-mentioned requirements.

A note initiated by General Manager (Industrial Estates) with the approval of Managing Director on the subject was placed (March 2010) before the BoD mentioning that several other entrepreneurs had requested to execute sale deeds before the expiry of the lease period. The BoD approved (March 2010) the proposal for execution of sale deeds by relaxing the terms and conditions, wherever financial institutions of allottees insisted on sale deeds. The relaxation, which was given for three months (up to July 2010) initially, was extended up to December 2010 with the approval of the BoD. In the very next BoD meeting, under a new Chairman and a Managing Director, the BoD opined (May 2011) that relaxation extended needed to be discouraged and ordered withdrawal with immediate effect.

We observed that as many as 303 sale deeds were executed between March 2010 and May 2011 under the relaxed conditions, giving the allottees the right to trade the land allotted to them without commencement of the industries. Of the 303 cases, 27 allottees mainly in Bangalore and Tumkur, had sold the plots subsequent to receipt of sale deeds and made profit of ₹ 2.84 crore.

We also observed that out of 295 of 303 allottees in test checked 9 divisions, only 81 allotees had started industries (June 2013). It is relevant to note here that all the 295 allottees had furnished letters of Banks demanding issue of sale deeds for sanction of loans.

The Company stated (August 2013) that they would take necessary action to ensure that all those who had been issued sale deeds under this scheme relaxing the terms and conditions of lease to take up construction works start industries through persuasive and other methods.

The Company, further, stated that procedure adopted in other States (Maharashtra, Rajasthan, Gujarat), where plots were being allotted with 30/60/99 years lease, was being studied.

Execution of sale deeds at provisional cost

3.3.5.3 KIADB allots the land after collection of 100 *per cent* of the guidance value/compensation paid for acquisition of land. Based on this allotment, the Company takes up developmental works and allots plots to the needy entrepreneurs. After finalization of the price payable to the land owners, KIADB collects the actual cost from the Company and executes the absolute sale deed in favour of the Company.

KIADB allotted (1980-1998) 53.88 acres of land at MT Sagar on payment of ₹ 86.88 lakh. Disputes relating to the compensation payable to land owners are in courts for decision (November 2013). Against the demand made by KIADB (between 2003 and 2012) for additional compensation of ₹ 19.30 crore, the company paid ₹ 18.08 crore (March 2013). Final compensation payable is not yet known. KIADB had, therefore, not registered absolute sale deeds in favour of the Company.

The Company developed the lands into 171 plots and allotted (1993-2011) to entrepreneurs at the initial cost paid for the lands and the development expenditure incurred thereon. The Company executed sale deeds in favour of allottees of plot before the outcome of the court cases.

The Company has so far paid ₹ 18.95 crore[130] (March 2013) on this account against which it received only ₹ 5.56 crore by entering into sale deeds with allottees. The recovery of the balance amount of ₹ 13.39 crore was uncertain as absolute sale deeds have already been registered in favour of the allottees.

We observed that:

- The practice of transfer of title of the Government land to individuals immediately on allotment did not exist in other States like Maharashtra, Rajasthan, Gujarat, where industrial plots were being allotted on lease for 30/60/99 years.

- The practice of giving absolute sale deeds to allottees, when the Company itself had not got absolute sale deeds in its favour was *ab-initio* void.

The Company replied (August 2013) that as the enhanced compensation was too big a ‘contingency expenditure’, a ‘special cost component’ would be imposed and the amount will be recovered from the future allottees in the demand areas. The reply is not acceptable because a probable future action to recover the loss already incurred, from other estates at later dates is not an appropriate method for recovery of cost. The proposed action would only burden the entrepreneurs, who purchase lands in other locations in the coming years.

[130] ₹ 18.08 crore plus ₹ 86.88 lakh.

Commercialisation of Industrial Plots

3.3.5.4 The terms and conditions of allotment debarred the allottee from diversion of plots/sheds for purposes other than industrial use. A test check in two divisions[131] revealed that four properties[132] at Rajajinagar Industrial Estate were converted into commercial complexes/educational institutions and apartments. In Gulbarga Industrial Estate, a special plot no.8 was converted into lodge with attached Bar and Restaurant, while eight other plots[133] were converted into commercial complexes.

Sale of Industrial Complex at Peenya Industrial Estate

3.3.5.5 The Company decided (November 2008) to construct a multi-storeyed complex at Peenya Industrial Estate to commemorate the Golden Jubilee of the Company. It was projected that the complex would generate perpetual revenue, as there was good demand for space for commercial office establishment, conference and exhibition halls in the location. The construction of the building excluding installation of lifts was completed in June 2011 at a cost of ₹ 3.54 crore. The building was sold (January 2013) to a private party for ₹ 8.10 crore.

We observed that

- The Company did not go for open tendering inviting offers to decide the highest offer price for the commercial building. Instead, it issued notifications inviting offer for the building at a price determined by the Company, as was done to allot sheds for small industry.

- The Company did not have any rules for sale for commercial buildings. Nevertheless, the Industrial estates section had opined that as per Allotment Rules 2004 any new building was to be notified as regular allotment and allotment made. In the instant case a decision was taken by the Technical Subcommittee to allot the building as per Allotment Rules. Accordingly, seven notifications were issued (June 2010 to January 2011) inviting offers for purchase of the building at the pre-determined price of ₹ 5.79 crore, during construction. The Company did not receive any response to these notifications.

- Anshul Agro Chemicals, the purchaser, submitted an application (April 2011) after the last date for submitting the application (February 2011). Nonetheless, the single application of Anshul Agro Chemicals was accepted and the complex was sold for a consideration of ₹ 8.10 crore payable in instalments, over a period of ten years.

- The price of the building was to be fixed at ₹ 10.72 crore, including the mark up of 20 *per cent* of the value applicable for Industrial Estates of Category-A. The building was however offered for ₹ 9.39 crore, which was reduced to ₹ 8.10 crore.

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[131] Rajajinagar and Gulbarga.
[132] Plot Nos. A3, C28, G90, A67.
[133] Plot Nos. 2,10, L12, L11, N1, N2, 5A, 5B.

- While taking approval for construction, the Board was informed (November 2008) about the location advantages and the value of land is very high and there was good demand for commercial buildings. The Board was later told (March 2010) that there was no encouraging demand for commercial buildings. The Board took cognizance of such conflicting opinions to arrive at decisions at different times. The conflicting projections of encouraging demand for property when projects are taken up for construction and reporting of lacklusture demand when the projects are completed shows the lackadaisical approach in assessing the utility and price of the assets.

The Company replied (August 2013) that it was its experience that the vertical constructions of the company have a slack demand and they had idle inventory and huge funds were blocked. Further, the Company added that it was difficult to maintain such buildings.

If the Company had problems of slack demand and difficulties in maintaining the assets, projecting that the multi-storey complex would generate perpetual revenue requires explanation. Further, the decision to sell the property even before its completion and that too at a fixed cost rather than by inviting tenders for highest offers lacked justification.

Allotment of land more than the prescribed limit

3.3.5.6 The Board desired (March 1997) that specific guidelines are formed for allotment of plots to Small Scale Industries Associations in industrial estates. An Association located within the industrial estate, which has majority members may be allotted a plot of 2400 sq.ft (60 ft x 40 ft) at 50 *per cent* of the prevailing cost of the land (November 2010), only for carrying out its activities.

We observed that no guidelines were formed. Further, in nine test checked divisions, the Company had allotted land in excess of the limit fixed (1997) by the Board in the five cases. Bidar Dal Mills Association, Gulbarga was allotted (November 2010) 74,212 sq.ft of land at 50 *per cent* of cost, against the allowable limit of 2,400 sq.ft. The excess allotment resulted in loss of ₹ 37.36 lakh[134] to the Company.

Marginal lands

3.3.5.7 While developing industrial estate and making plots, small pockets of land get left out. These are called as marginal lands. The allotment rules does not specify the manner in which marginal lands are to be handled. The Company allots these marginal lands to the adjacent land owner while executing sale deed, collecting the prevailing cost of land.

The Company did not maintain comprehensive details of marginal lands in each industrial estate, number of such lands allotted, and the inventory of such lands in its possession.

[134] **(74,212-2,400) sq.ft=71,812 Sq.ft * ₹ 52.02 per sq ft being 50 *per cent* cost =₹ 37.36 lakh.**

The Company stated (August 2013) that action was initiated to survey the marginal lands.

Hire Purchase installments and rental dues

3.3.6 The Company allots sheds and godowns to the entrepreneurs on hire purchase, lease-cum-sale basis or on rental basis. While allotment on hire purchase and lease-cum-sale basis is as per allotment rules framed by the company; the allotment on rental scheme is done on collection of advance deposits for six months.

Company had to initiate action against tenants under Karnataka Public Premises (Eviction of Unauthorised Occupants) Act 1974, which includes issue of show cause notices, eviction notice, eviction order, cancellation, seizure and finally referring to concerned Deputy Commissioner (DC) for action under Revenue Recovery Certificates, for non-payment of hire purchase dues or lease rents.

We observed that the outstanding dues on lease installments and rent as at the end of March 2013 in nine test checked divisions was ₹ 10.70 crore[135]. The Company issued show-cause notices in 183 cases and cancellation orders in 57 cases in the seven divisions[136]. The Company has not initiated any action to evict the tenants.

We further observed that the Company had remitted ₹ 6.18 lakh[137] as service tax on uncollected rent for the period July 2011 to March 2013, in the seven test checked[138] divisions.

The Company stated (August 2013) that these were routine matters and timely action would be initiated on the defaulters. Company further stated that instructions had been issued to initiate action as per provisions of rules and evict the defaulters as per law.

Water and service charges

3.3.7 The agreement between the allottees and the Company included provision for maintaining common facilities such as roads, drains, electric lines, water storage and distribution lines drawn inside the estate by the Company and to levy a service charge until it is handed over to the local authorities or associations. The Company also provided water to the industries.

We observed that the allottees were not regular in remitting the service charges and water charges and an amounts of ₹ 1.76 crore and ₹ 0.46 crore respectively were outstanding in nine divisions as at the end of March 2013.

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[135] **Hire purchase installments (₹ 8.60 crore) and rent (₹ 2.10 crore).**

[136] **Information in respect of Bellary and Gulbarga divisions was not available. Bangalore Rural had not initiated any action.**

[137] **Details in respect of Bangalore Urban, Bangalore Rural, Belgaum and Mysore were not made available to Audit.**

[138] **Information in respect of Bangalore Urban and Bangalore Rural are not available.**

The Company replied (August 2013) that instructions have been issued to initiate action as per provisions of rules and evict the defaulters as per law.

Vacant premises

3.3.8 We observed that the first of the two floors of the Techno-Commercial Complex at Gulbarga measuring 6,000 sq.ft, rented out to LIC of India till December 2009, was lying vacant (March 2013). The Company had not notified for renting it out, resulting in the loss of revenue of ₹ 19.10 lakh[139]. We also observed that the building has not been maintained.

Internal Audit and Internal Control

3.3.9 Internal Audit should be independent and objective and designed to add value, assurance and improve an organization's operations.

We observed that:

- The Internal Audit Department was headed by a Deputy General Manager, who also held the charge of Finance Section, affecting the independence of Internal Audit.
- To have a good internal control system, there should be a good Management Information System (MIS). The Company lacked an effective MIS system, as timely returns/reports regarding functioning of the Company are not being generated.
- The internal control systems for development and allotment of plots were very weak, as is reflective from our observations.

The matter was brought to the notice of the Government in August 2013. Their reply is awaited (December 2013).

Conclusion

There was no system of verifying the encroachments, encumbrances *etc*., before acquisition of the lands for development. The system of conducting demand survey before undertaking the development of the industrial estates was not robust. Plots in the industrial estates remained unallotted as there was poor response to notification of plots. Plots were allotted without providing adequate and necessary infrastructural facilities. Rules were relaxed to allow registration of absolute sale deeds to allottees without completion of the mandatory lease period, giving the allottees the right to transfer the land allotted to them without commencement of industries. The Company had registered the sale deeds in favour of allottees without even obtaining title to the property from KIADB. The Company allowed the allottees to divert plots / sheds for purposes other than industrial use flouting the terms and conditions of allotment. The Company lacked an effective system of internal controls and MIS.

[139] **For the period from January 2010 to March 2013, considering the last rent received.**

Mysore Minerals Limited

3.4 Exploitation of natural resources of the State by private entities

The Tungabhadra Minerals Private Limited, a Joint Venture of Mysore Minerals Limited and V.M.Salgaocar Brothers Private Limited[140], Goa, formed to set up iron ore based industry using the ore from the mines of the former, was allowed to mine and sell raw ore to the financial advantage of the private partner, breaching the terms of the agreement.

The Government of Karnataka, with the approval of the Government of India, sanctioned (1968-70) grant of five mining leases covering an area measuring 1,498.31 hectares of land in Sandur Taluk of Bellary District to Mysore Minerals Limited (Company) for its operation.

During the year 1970-71, V.M.Salgaocar Brothers Private Limited (VMSB), Goa approached the Company stating that they had a letter of approval for setting of a pelletisation plant in Goa from Government of India. The firm expressed keenness in establishing an iron ore based industry using the resources from these mines owned by Company. VMSB stated that they were satisfied with the quality of iron ore reserves and the adequacy of the quantity available at these mines.

The Company formed (April 1971) a Joint Venture (JV) called Tungabhadra Minerals Private Limited (TMPL) with the VMSB for setting up of iron ore based industries using the ore from these mines to benefit the State of Karnataka. As per the agreement, TMPL was to set up a pellatisation plant/sponge iron ore plant or other suitable industry within August 1976 and prove that the plant was commercially and economically viable. The agreement provided that the Company would hold 26 *per cent* of the shares and VMSB the balance 74 *per cent*. The Company had to transfer the five iron ore mine leases[141] held by it to TMPL after the said plant was established. TMPL was permitted to undertake exploration work and was appointed as raising contractor for the mining areas until the transfer of the leases.

TMPL did not establish a plant as stipulated in the JV agreements putting forth a specious reason that the iron ore deposits in the leased areas were limited. A supplementary agreement was signed in April 1977 extending the period to August 1977 to set up a High Density Aggregate (HDA) Plant or other suitable industry.

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[140] VMSB, a Company registered under Companies Act, 1956 with its registered office at Vasco-da-gama, was engaged in mining, shipping and export of minerals.

[141] ML No.987 (Appenahalli village – 539.93 ha), ML No.899 (Ubbalagundi village – 68 ha), ML No. 823 (Donimali State forest – 728.44 ha), ML No.228 (Donimali Reserve Forest – 80.97 ha), ML No.475 (Sandur State Forest – 80.97 ha).

In September 1981, the Company formalized an agreement with the VMSB for operation of the HDA Plant, which was to prove the Plant's economic and commercial viability. As per Clause (3) (b) of the agreement (September 1981), not less than 70 *per cent* of the iron ore raised by TMPL from the mines was to be utilized only for the production of HDA and the balance quantity which was not suitable for manufacture of HDA, but not exceeding 30 *per cent* of the total quantity of the ore so raised, could be sold by TMPL as raw ore without paying premium to the Company. TMPL was allowed to mine and sell to Metals and Minerals Trading Corporation of India Limited (MMTC) raw ore not exceeding 15 *per cent* over and above the quantity required to be mined for use in the HDA plant as stated in Clause (3) (b) subject to payment of premium to the Company on this extra quantity of 15 *per cent* at such rates as may be agreed upon from time to time.

In September 1985, the Company transferred the five mining leases with a total area of 1,498.31 hectares to TMPL. TMPL, at the time of transfer, had furnished an undertaking, which entailed termination of rights afforded to the TMPL in the event of breach of the conditions with regard to utilization of ore in HDA plant and sale of raw ore more than the specified limits.

HDA plant stopped running in the year 2002. The Company, however, did not cancel the agreement and resume the leases. Nevertheless, the TMPL continued mining and sold 84.43 lakh tonnes of iron ore for ₹ 1629.71 crore in the open market between 2002-03 and 2011-12. The dividend received by the Company from TMPL for this period was ₹ 76.57 crore.

A Subcommittee of the Board of Directors, appointed (December 2004) to go into the whole gamut of the mining operations carried out by the TMPL recommended immediate legal action to divest the five mining leases transferred to TMPL. The report of the Subcommittee was forwarded (May 2005/January 2006) to the Commerce and Industries Department, Government of Karnataka without any action plan. Government, after evaluation of the functioning of the TMPL in a meeting (May 2006), observed that the Company had not terminated the agreement in spite of violations of various conditions, though the agreement provided for termination. The Government had further stated that the objective of establishing iron ore based industry in Karnataka was not fulfilled at all.

The Company should have terminated the JV agreement taking into consideration the facts that TMPL had stopped operating the HDA Plant in 2002 and the Subcommittee had recommended divesting the mining leases to MML in December 2004. It could have started mining operations either on its own or by appointing a raising contractor similar to the ones employed for other mines. This would have prevented a private entity from exploiting the natural resources of the State to its financial benefit. Non-termination of the JV agreement had resulted in loss of revenue ₹ 220.33 crore[142] to the Company during 2005-06 to 2011-12.

[142] **As detailed in Annexure-12.**

We further observed that TMPL had surrendered (between 1989 and 2006) to the Government, an area of 1,106.00 hectares of land transferred to them in violation of the terms of the undertaking, which stipulated that mines could not be alienated without the approval of the Company. TMPL has only four leases with an area of 392.31 hectares (March 2013) against its name.

The Board of TMPL always had three nominees of the Company, including the Chairman[143]. These nominees were privy to all deliberations and decisions of the Board of TMPL. However, the violations of the agreement were not brought before the Board of the Company for discussion, after July 2006. The objections put forth by Audit to the functioning of the JV on three occasions in April 2004, March 2009 and January 2012 were ignored by the Company.

Thus, due to negligence and failure to take timely remedial measures, the very purpose of transfer of leases to benefit the State of Karnataka by way of setting up of an iron ore based industry did not fructify. Non-enforcement of terms of agreement, which governed the JV, resulted in affording undue benefit to a private entrepreneur, who exploited the natural resource to its financial advantage. Moreover, 1,106.00 hectares a vast stretch of land, which was in possession of the Company for mining, is not available to them now, as it had been surrendered to the Government without their knowledge.

The Government replied (July 2013) that the Company had made efforts to get back the leases transferred to TMPL. It was also stated that the Directors representing Government and the Company on the Board of TMPL had ensured that the business transactions of TMPL were conducted in a fair, transparent and profitable manner duly protecting the interest of the Company.

The reply is not acceptable as the terms of the agreement was not fulfilled by the TMPL and there was no follow up with the Government for termination of JV and resumption of the leases after March 2007. The TMPL continued mining and sale of the iron ore even after HDA plant stopped operation in 2002 and the Company got only dividend for its minority stake in the JV when declared. The recommendations of the Subcommittee and the directions of the State Government were not discussed in the Board. The failure of the Company to take timely action resulted in loss of ₹ 220.33 crore.

[143] **Managing Director of Mysore Minerals Limited is the *de facto* Chairman of the Board of TMPL.**

Karnataka Power Transmission Corporation Limited

3.5 Unfruitful expenditure

The decision of the Company to lay underground cables from 220/66 kV NRS station to 220/66 kV Anand Rao Circle Station resulted in avoidable expenditure of ₹ 44.48 crore.

The 66 kV 'A' Station at Anand Rao Circle, Bangalore used to be charged through a 66 kV overhead transmission line drawn for a distance of 7.6 Kms from 220/66 kV NRS station. A 220 kV Station at Anand Rao Circle, the construction of which started in May 2005, was commissioned in May 2010 and the 66 kV 'A' Station was connected to the 220 kV station. The existing overhead transmission line (on 38 towers) between 220/66 kV NRS station and 66 kV 'A' Station became a source of supply for use as a standby.

The Bangalore Metro Rail Corporation Limited (BMRCL) requested (May 2007/October 2008) Karnataka Power Transmission Corporation Limited (Company) to raise the height of the portions of the overhead transmission line, which crossed the East-West Corridor of the Metro Rail Lines or to lay Underground (UG) cable line for a distance of 2.27 Kms. The BMRCL had agreed to bear the cost.

Subsequently, Davanam Construction (P) Limited (DCPL) and Vishvabharathi Vidya Mandir (VVM), two private entities, who owned the landed properties through which the overhead lines passed, also requested (September 2007) for laying of UG cable transmission line to replace the existing 66/11 kV overhead transmission lines and offered (October 2007) to share the expenditure with BMRCL. VVM, however, did not follow up their offer to share the expenditure.

Accordingly, the Company prepared (November 2007) an estimate for laying 66 kV underground cable for a route length of 2.892 Kms at a total cost of ₹ 30.84 crore from NRS station to RRR Kalayanamantapa (a place where the 33rd tower of the total 38 towers were located, through a shorter route). The estimate was approved (May 2008) by the Company for execution of work through Deposit Contribution (DCW)/self execution. The cost was to be shared between BMRCL (₹ 11.56 crore) and DCPL (₹ 19.28 crore), as VVM had not confirmed the sharing of cost.

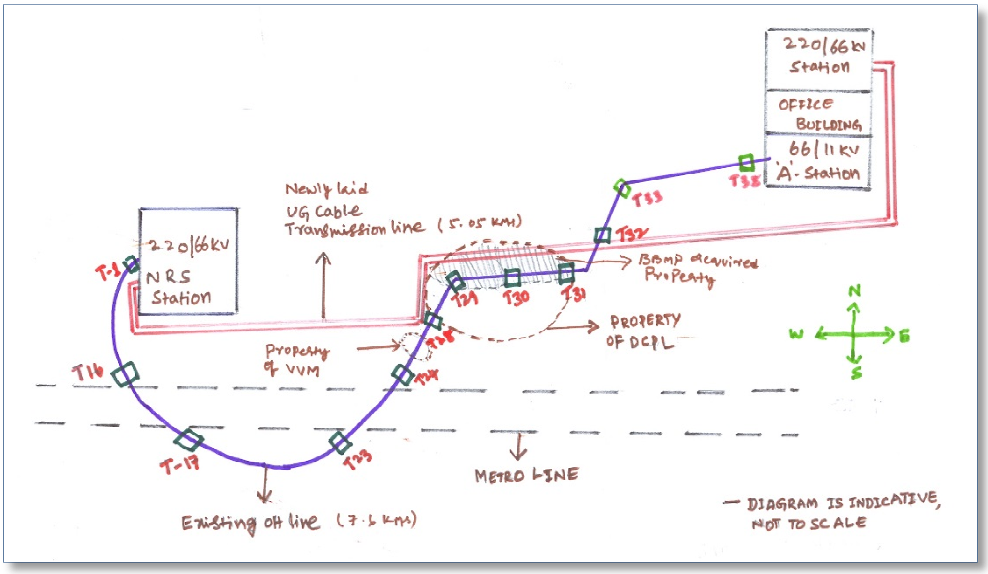
About a year after the approval of the estimate, the subject was placed (May 2009) before the Technical Advisory Committee (TAC) of the Company for consideration, with an option to heighten the existing transmission line by erecting extension towers or to lay UG cable between Towers 16 and 17 and Towers 23 and 24. The TAC decided (May 2009) to go for 66 KV UG cable where the Metro Rail line was passing through and retain the overhead transmission line at other places.

The same TAC, however, in the subsequent meeting decided (September 2009) to convert the entire 66 kV overhead DC line from 220/66 kV NRS station to 66 kV 'A' Station to UG cable. It was also decided that the cost of conversion from Tower at location No.1 (NRS station) to 24 would be borne by BMRCL, from 24 to 33 by DCPL and from Location No.33 to 38 (‘A’ station) by the Company.

In November 2009, DCPL informed that they would not bear the cost as the Bruhath Bangalore Mahanagara Palike (BBMP) had acquired their land where UG cable transmission line was to be laid. The High Power Committee of State Government, which met (December 2009) for reviewing the Metro works, took a decision that BMRCL should pay a sum of ₹ 22 crore for the UG transmission line as its share and directed the Company to complete the work. Accordingly, the BMRCL deposited (December 2009) the amount.

The Company awarded (March 2011) the work of laying UG Cable line in two phases to Easun Products India Limited: (i) from NRS station to Tower No.28 (near VVM) for a route length of 2.75 Kms at a total cost of ₹ 27.49 crore and (ii) from Tower 28 to ‘A’ Station for a route length of 2.3 Kms at a cost of ₹ 19.21 crore. The UG cable transmission lines were idle charged[144] in May 2012 and January 2013 respectively. The actual cost of laying the UG cable transmission lines was ₹ 46.46 crore.

A pictorial presentation of the overhead transmission lines and newly laid underground cable line between 220/66 kV NRS station and 220/66 kV (Anand Rao circle) is given below.



We observed that:

- The Company had originally proposed for conversion of overhead lines to UG cabling for the reason that two private entities and BMRCL agreed to share the expenditure, as their land would be freed of the lines. In spite of the private entities backing out from sharing the expenditure, the Company decided to go ahead with the laying of underground cables at a huge cost. The private entities were benefitted

[144] **Line is connected to 66 kV source but will not be connected to any load.**

by this decision as their land was freed of this obstruction enabling it to be developed for commercial purposes.

- The newly laid underground line between 220/66 kV NRS station and 220 kV station (Anand Rao circle) was a standby facility to meet emergent[145] situations. The Company, however, took a decision (September 2009) to convert the entire transmission line from 'Overhead' to 'Underground' for a distance of 5.05 Kms without the participation of private parties, who originally were to be a part of the arrangement.

- The BMRCL had requested (May 2007/October 2008) the Company to raise the height of the portions of the overhead transmission lines, which crossed the East-West Corridor of the Metro Rail Lines or to lay UG cable line for a distance of 2.27 Kms. Considering the fact that the private parties had backed out, the company should have exercised this option suggested by the BMRCL.

The Government stated (August 2013) that if cable was laid in the mid span of overhead line, it would be difficult to coordinate the relays even with improved conversion of numerical relays available. The contention of the Government is not acceptable as there were instances of such combinations[146], which worked effectively. The TAC had also approved the combination of overhead and UG cables in this case as well (May 2009).

The reply of the Government was silent on the sharing of costs by private parties, who had initially agreed to share the cost of laying the UG cable. The additional expenditure of ₹ 44.48 crore[147] was avoidable.

[145] **The line was used only in case of total outage of 220 kV NRS and 220 kV AR circle stations. Total outage refers to complete failure of 220 kV source lines or all the 220 kV transformers in either of these two stations.**

[146] **Between 220 kV HSR substation and Adugodi substation; between 220 kV HSR substation and 66 kV Austin town substation; between 66 kV Jayadeva substation and 66 kV Adugodi substation; Loop-in-Loop out from Subramanyapura – HAL line to 66 kV Golf links substation.**

[147] **₹ 46.46 crore *less* ₹ 1.98 crore, being the approximate cost for heightening the towers.**

Mysore Paper Mills Limited

3.6 Avoidable interest outgo

The Company issued bonds for funding a co-generation power plant without clearly defining the need and analyzing the possibilities. The fund collected was kept idle while interest was paid on the bonds.

The Board of Directors of the Mysore Paper Mills Limited (Company) approved (July 2010) installation of the co-generation[148] power plant of 30 Mega Watt (MW) capacity with its existing captive plant, at an estimated cost of ₹ 48.96 crore, to enable the Company to become self-sufficient in energy and augment its power generation. The Detailed Project Report, prepared by M/s.MITCON Consultancy Services Limited, Pune, was vetted by MECON Limited, at the behest of the Karnataka Power Corporation Limited in October 2010.

While the proposals were in nascent stages of formulation and decision, the Company raised (July 2010) ₹ 50 crore through private placement of bonds, for the purpose of setting up the co-generation plant. Government of Karnataka guaranteed the bonds. The Company deposited (July 2010) the funds in a 'No Lien Escrow Account' (NLEA)[149] waiting for the plan to crystallize, which eventually did not happen.

The bonds carried a coupon (interest) rate of 8.49 *per cent* per annum payable half-yearly and were redeemable in four equal installments commencing from 2017-18. The first half-yearly interest on these bonds amounting to ₹ 2.13 crore became due in January 2011 and was paid from the NLEA.

The money idled in NLEA without earning interest and the Board decided (February 2011) to place ₹ 40 crore in fixed deposit and transfer the balance amount of ₹ 6.46 crore[150] to cash credit account to reduce the interest burden on working capital. Had the Company placed the proceeds of the bonds in Fixed Deposit in the first instance, the Company could at least have earned interest of ₹ 2.55 crore.

A Subcommittee formed to study in detail the feasibility of installing the 30 MW co-generation plant concluded (March 2011 and May 2011) that with modifications to the existing captive plant, the Company could become self sufficient in energy. The Subcommittee added that the new co-generation plant could be considered only after observing the power demand situation upon installation of the proposed De-Inking Pulp Plant. Considering the fact that the Company was under BIFR, the Board decided (March 2012) to defer the project.

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[148] **Generation of power using bagasse and coal as the fuel for the boilers.**

[149] **The Company was required to open a no-lien escrow account (independent of the existing ones) with a designated bank (rated at least AA(ind) or equivalent) for meeting the interest and principal obligations on the bonds. No withdrawals were permitted from this account for purposes other than for meeting debt service on these bonds.**

[150] **An amount of ₹ 1.41 crore was paid for Letter of Credit facilities.**

We observed that raising of funds much before a decision on the intended project was avoidable. Having raised the available funds could have been parked in interest earning deposits with Financial Institutions/Banks with the approval of the State Government (guarantors of the bonds), the trustees of bond holders and bond holders. The total interest paid up to 31 March 2013 was ₹ 11.48 crore, while interest earned on Fixed Deposit was only ₹ 7.82 crore. Failure to deposit the funds in interest earning deposits after obtaining the approvals resulted in loss of ₹ 4.28 crore[151] in foregone interest.

The matter was brought to the notice of the Government/Management in June 2013. Their reply is awaited (December 2013).

Chamundeshwari Electricity Supply Corporation

3.7 Irregular refund of penalty

The Company refunded penalty of ₹ 1.23 crore collected from service providers, who did not provide service as per the terms.

Chamundeshwari Electricity Supply Corporation (Company) invited tenders (January 2006) to provide proven, secured, reliable software and hardware required for operation and maintenance of consumer data base on hire basis, manpower to operate the software so installed at different locations and stationery for printing of bills and receipts and stationary at all accounting units and subdivisions. The bidder had to quote for the composite package inclusive of hardware, software, manpower and stationery.

As per the schedule for execution of work, the bidder was to supply and install hardware and software and was required to issue Demand, Collection and Balance (DCB) and generate all the reports linked to consumer billing in one month's time, transfer Management Information System data to higher offices and generate all reports within two months and standardize and document within six months.

The Instructions to Bidders (ITB) indicated the names of divisions covered by CESCO and the approximate number of live installations in each division. The bidders had to quote monthly rates per installation of metering device and remuneration per person for the manpower supplied for reading the meter and other related works. ITB specified that delay in achieving the schedules would attract levy of penalty of one *per cent* of monthly payments due and multiples thereof per day at each stage. Penalty for errors would be levied at the rate of one *per cent* of the monthly payment due at each of the subdivisions where billing errors were more than one *per cent* and multiples thereof. The contract was liable to be terminated if penalty exceeded 50 *per cent* of monthly payments due, or if schedules were not adhered to. The penalties were cumulative.

151 **₹ 11.48 crore *less* ₹ 7.82 crore *less* ₹ 1.93 crore (reduction in interest on cash credit) *plus* ₹ 2.55 crore.**

The Company entrusted (February 2006 to December 2006) the work to five[152] service providers covering 14 divisions for two years initially and extended the period of contract upto August 2012 subsequently in nine divisions. Fresh tenders were floated (February 2008) for the balance divisions.

The divisions recovered penalty of ₹ 2.04 crore for the delays / defective services rendered by the service providers between April 2006 and August 2012 at different rates. The divisions, however, refunded ₹ 1.23 crore out of the above amount later.

Nsoft (India) Services Private Limited (Nsoft), Bangalore represented (June 2009) to the Minister of Energy, Government of Karnataka and to the Advisor to the then Chief Minister of Karnataka (May 2010) that the levy of penalty was not in order stating that they had successfully implemented the work, and pleaded for refund of penalty levied at 20 to 30 *per cent.* The Advisor to the Chief Minister requested (June 2010) the Company to take necessary action to release the amount to Nsoft.

We observed that:

- A Committee formed (August 2009) to look into the matter concluded (September 2009) that there was no provision in the work order to refund the penalty already levied and suggested that the Managing Director (MD) decide the matter. Meanwhile, the service provider approached (May 2010) the Company again to take a fair decision in the matter. The Deputy Controller of Accounts and Finance (DCA) of the Company confirmed (May 2010) that penalty was levied as per the scope of the contract.

- The Company constituted another committee (May 2010) to examine the performance of various software installed and to furnish report by 30 June 2010. The Committee concluded (August 2010) that software as prescribed in the schedule was not installed in a complete manner and the levy of penalty by the divisions was as per the work order and recommended for conducting a special audit of individual bills admitted and to take action accordingly. However, the MD directed (July 2011) the divisions to re-consider the issue and refund the penalty levied, if any. The divisions refunded ₹ 1.23 crore out of the recovered amount.

The agencies had not supplied the Accounting, Material, Technical and Establishment software and payments for the unfinished tasks. The refund of penalty was , therefore, irregular, which resulted in extending undue benefit of ₹ 1.23 crore to the service providers.

Government stated (September 2013) that the divisions had blindly charged penalty every month without going through and understanding the clauses provided for levying penalty, even though the service providers had supplied the software relating to non-revenue activities and hence, MD had taken a

[152] **Nsoft (India) Services Private Limited, Skanda IT Solutions, Computers (Pvt) Ltd., Sujana Computers and Rajarathnaiah & Co.**

conscious decision. The reply cannot be accepted as the Financial Advisor of the Company had noted (March 2011) that the service providers had not carried out the work as per the work order and penalty was leviable as per the contract. Therefore the decision taken by the MD, ignoring the recommendation of the Committee constituted for the purpose of examining these issues, resulted in pecuniary loss to the Company.

Krishna Bhagya Jala Nigam Limited

3.8 Poor contract management

The Company rescinded a contract for lift irrigation system without risk and cost. The balance work had not been awarded and the Scheme remained in indeterminate state.

The Sonthi Lift Irrigation Scheme (LIS) across Bhima River was conceived (December 2004) to irrigate 16,000 hectares of irrigation command area in Yadgir and Chitapur Taluks, utilizing the 4 thousand million cubic feet (TMC) water allocated to Sonthi Barrage.

Krishna Bhagya Jala Nigam Limited (Company) invited (January 2006) tenders for the LIS on turnkey basis. Subhash Projects and Marketing Limited (Contractor), the lowest (L1) bidder, was awarded the work for ₹ 30.99 crore (2.27 *per cent* above the estimated cost of ₹ 30.30 crore) and an agreement was entered into in August 2006. The work was to be completed in 15 months, by November 2007.

On the request of the Contractor (January 2008), extension of time from November 2007 to December 2008 was granted (February 2008) with penalty on the balance cost of work. Penalty of ₹ 1.06 crore at 0.045 *per cent* per day was recovered (August 2008) for the period 24 November 2007 to 19 February 2008 (the date of the decision allow extension of time). Further extension of time from December 2008 to December 2009 was granted (July 2009) without penalty. There was still no progress (March 2010).

The Executive Engineer (EE), Sonthi LIS Division served (May 2010) final notice to the contractor fixing the date for taking closing measurements to rescind the contract at the risk and cost of the contractor. Aggrieved by the notice, the Contractor approached (June 2010) the High Court to stay the operation of the notice. The Court directed (August 2010) the contractor to approach the Chief Engineer (CE), Canal Zone, Bheemarayanagudi (first Appellate Authority) as per Clause 29 of the Conditions of Contract. The Chief Engineer disposed of the petition of the contractor upholding the decision of the EE, Sonthi LIS Division. The contractor represented (October 2010) to the Managing Director (MD) and also made a submission to the Court. The High Court dismissed (October 2010) the writ petition filed by the contractor giving him the liberty to approach the MD (Second Appellate Authority) for interim relief.

The MD granted (December 2010) third extension of time from December 2009 to October 2011, subject to the contractor giving an undertaking to the effect that the work would be completed by October 2011. The contractor gave the undertaking in February 2011.

Still, there was little or no progress achieved in different items of the work[153]. The EE of the Division rescinded the contract (November 2011) at risk and cost of the Contractor, which was upheld by the CE, Bheemarayanagudi and the Technical Subcommittee of the Company (January 2012/May 2012).

The Contractor filed an appeal (April 2012) with the MD. Concurring to the order of the CE to the extent of rescinding the contract, MD disallowed (July 2012) the part of the order relating to risk and cost. The Board of Directors (BoD) also ratified (September 2012) the rescinding of the contract without risk and cost.

The Contractor had completed work to the extent of ₹ 18.75 crore. Contract was terminated in October 2012 and final payments were made in November 2012.

Tenders were floated for the balance works estimated to cost ₹ 28.92 crore, in November 2012. The financial bids were opened in February 2013 and the lowest bid was ₹ 32.87 crore. The cost of work had thus, gone up from ₹ 30.99 crore to ₹ 51.62 crore[154] and the Company has to bear the extra cost for no reason. The balance works, tendered in November 2012, had not been awarded (December 2013).

The drought prone areas remained to be irrigated owing to non-completion of the LIS, though the construction of Sonthi Barrage was completed in December 2009. The increase in crop yield envisaged has also not been achieved.

The Company in its reply, forwarded by the Government**,** stated (August 2013) that

- There were significant delays in land acquisition by way of issuance of various notifications under Land Acquisition Act 1894 by the Special Land Acquisition Officer. The farmers were protesting and they did not allow the Contractor to proceed with the work during execution. Thus the delays could not be attributed to a single party.

- Penalty was levied while granting the first extension of time as per Clause 2(d) of the conditions of contract and subsequent time extension was granted without penalty based on the progress of work. As per Clause 2(d), penalty could be refunded, if the shortfall was made good within the extended period.

[153] **Canal excavation, delivery chamber, electrical overhead travelling crane, electrical work in the pumphouse & station, jack-well, substation, control room.**

[154] **₹ 18.75 crore (cost of work completed) *plus* ₹ 32.87 crore (L1 rate in retender).**

- Approval for the modified design and drawing of jack-well structure was accorded by the CE only on 23 June 2011 and owing to change in alignments of Mild Steel (MS) Rising Main, there was increase in pipeline length and the issue of providing 11 mm thick MS pipe with surge protection for about 960 metres was pending for finalization. The changes in alignment and location of jack-well were done in the interest of safety of villagers.

The reply is not acceptable for the following reasons:

- The Appellate Authority (CE) had gone on record (January 2008) that the Contractor had not finalized the alignment or the designs and the designs and drawings were submitted only after lapse of 3 months from date of agreement. The CE contended that the land requirement furnished by the Contractor without crystallizing the alignment and design was 'unrealistic, baseless and illogical'. The Superintending Engineer (SE) had also recorded (February 2008) that the commencement of work was delayed, progress was slow and men, material and machinery were not deployed.

- The CE had recorded (January 2012) that the design and drawings for the components of the work were approved well in advance. It was also recorded that modifications in the design had not increased the quantum of work.

- The TSC had noted (February 2012) that the grant of extension with penalty meant that the Contractor was responsible for all the delays in completion of work within the agreed period. Even after the first extension, the progress achieved was only 47 *per cent* of the cost of the work. This situation showed that the shortfall was not made good for refund of penalty. The TSC had also noted that the subsequent extensions granted without penalty were favours to the Contractor.

- Again, when the contractor was not at fault as stated in the reply, the decision to rescind the contract with the repercussion of possible increase in cost and further delay in completion also requires justification.

The fact thus remained that the investment of ₹ 18.75 crore has not been fruitful, the work is incomplete as the balance works have not been awarded till date (December 2013), the cost has increased phenomenally and water is not made available to 16,000 hectares of land as envisaged.

The matter was reported to the Government in July 2013; The Government stated that their remarks would be provided. The replies are awaited (December 2013).

Statutory Corporations

Karnataka State Financial Corporation

3.9 Lapses in recovery of dues under various Acts

3.9.1 The Karnataka State Financial Corporation was constituted (1959) under the State Financial Corporation (SFC) Act, 1951 to provide medium and long term credit to industrial undertakings in the State of Karnataka, which fall outside the normal activities of Commercial Banks.

Overall position

3.9.2 The classification of loans outstanding for the last three years, as at the end of March 2013 of each of three years, is tabulated below:

Table 3.9.1: Classification of loans

(₹ in crore)

Classification of loans	Gross loans outstanding as at		
	31 March 2011	31 March 2012	31 March 2013
Standard	1,269.44	1,404.28	1,607.26
Non-performing assets			
Substandard[155]	20.79	47.87	36.42
Doubtful	308.88	301.45	294.78
Loss	10.86	9.23	-
Total	**1,609.97**	**1,762.83**	**1,938.46**

(Source: Annual accounts)

The percentage of Non-Performing Assets (NPAs) to total loan decreased from 21.15 as at end of March 2011 to 17.09 as at end of March 2013.

Legal position

3.9.3 The SFC Act, Karnataka Public Money Recovery of Dues (KPMRD) Act, 1979 and Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 empower the Corporation to recover its dues from the borrowers, guarantor or any other surety.

- Section 29 of the SFC Act provides the right to take over the management or possession or both, of the industrial concern as well as the right to transfer by way of lease or sale and realise the property pledged, mortgaged or hypothecated or assigned to it. Through section 31(1) (aa) of the SFC Act, the Corporation can initiate action against the Personal Guarantors by filing petition in the Court for attachment of properties. The SFC Act amended in August 1985 and a new Section 32G was inserted which empowered the financial institutions to

[155] **Substandard loans are loans in which period of default is between 2 to 5 quarters; Doubtful loans are loans in which period of default is between 6 to 17 quarters and loss assets are those loans whose period of default is 18 quarters and above.**

recover its dues as an arrear of land revenue in the manner prescribed by the State Government.

- Loans below ₹ 10 lakh could also be recovered under Karnataka Public Money Recovery of Dues (KPMRD) Act. The procedure of recovery is the same as followed under the Section 32G of the SFC Act.
- The SARFAESI Act[156], empowers Banks / Financial Institutions to recover their NPAs without the intervention of the Court.
- The Recovery Manual of the Corporation (prepared in 1992 and modified later in 2002), *inter alia,* included bench marking, time standard in recovery, guidelines to be followed in respect of cases under Sections 29, 31(1)(aa) and 32G of the SFC Act and KPMRD Act.

Audit findings

3.9.4 We conducted a study of debt recovery system for assessing the effectiveness of recovery of dues under Section 29, 31 (1) (aa) and 32G of the SFC Act, KPMRD Act and SARFAESI Act. This study was conducted in selected six branches (out of 30 branches). There were 386 cases[157] under various sections of SFC Act, KPMRD Act and SARFAESI Act, involving an amount of ₹ 29.72 crore on account of principal and other debits (the outstanding interest being ₹ 1,094.91 crore) as on 31 March 2013 in these six branches[158].

Court cases, decrees and execution petitions

3.9.5 The Guidelines of the Corporation regarding procedures to be followed while taking over of units/assets under Section 29 of SFCs Act stipulated that when units/assets were taken over, simultaneous efforts were to be started to identify personal properties of the promoters/guarantors confidentially. Further, by the time the takeover was effected the investigation of personal properties was also to be completed. As per the bench mark in the recovery guidelines, action under Section 31(1)(aa) of SFCs Act against personal guarantors were to be taken within three months from the date of identification of personal properties and the Execution Petition (EP) were to be filed within one month from the date of decree of the Court.

The table below indicates the number of cases filed in courts for recovery, principal and interest outstanding against those cases, number of cases decreed, details of execution petitions filed *etc*.

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[156] **SARFAESI Act was enacted in 2002 for regulation of securitization and reconstruction of financial assets and enforcement of security interest by secured creditors.**

[157] **95 cases under 31(1)(aa), 70 cases under 32 G of SFC Act, 167 cases under KPMRD Act and 54 cases under SARFAESI Act.**

[158] **Mangalore, Mysore, Kolar, Tumkur, Chitradurga and Dharwad.**

Table 3.9.2 : Cases filed in courts for recovery, number of cases decreed, details of execution petitions.

(₹ in crore)

Branch	Total number of cases	Principal	Interest and Other debits	No. of cases not decreed	No. of cases decreed	Execution Petitions not filed		Execution petitions filed	
						No of cases	Delay up to March 2013 (months)	No of cases	Delay up to March 2013 (months)
Chitradurga	35	3.87	131.40	11	24	21	6 to 43	3	43 to 115
Mangalore	14	1.33	55.06	7	7	5	18 to 66	2	5 to 62
Mysore	9	0.36	17.84	0	9	5	23 to 73	4	4 to 95
Tumkur	9[159]	1.46	108.92	3	6	5	21 to 119	1	53
Dharwar	8	0.84	32.04	8	0	0	-	-	-
Kolar	19	5.62	203.02	11	8	4	18 to 141	4	8 to 69
Total	**94**	**13.48**	**548.28**	**40**	**54**	**40**		**14**	

(Source : Compiled from data furnished by the Corporation)

We observed that in the six test checked branches, 94 cases involving an amount of ₹ 13.48 crore (principal due) and ₹ 548.28 crore (interest due) were filed in Courts for recovery.

Out of the 54 decreed cases, Corporation had not filed EP in 40 cases involving ₹ 3.05 crore. The earliest year in which these cases were decreed was 2002. In respect of 14 cases involving ₹ 2.88 crore, the Corporation delayed filing of Execution Petition (EP) which ranged from 4 to 115 months from the date of decree. Of the above, seven cases were pending recovery for reasons such as assets missing, lack of bidders, non-completion of investigation of personal properties. The details were not available in the remaining seven cases.

The Government stated (September 2013) that delays occurred were mainly due to lack of information about the personal properties of the loanees/guarantors. However, the fact that the Corporation could not identify personal properties and file EPs in almost 75 *per cent* of the decreed cases in the selected branches indicated that the process of identification of personal properties was deficient.

Recovery under Section 32G of the SFC Act

3.9.6 As per Section 32 G of the SFC Act, ‘ where any amount is due to the Financial Corporation in respect of any loan granted by it to any industrial concern, the Financial Corporation may, without prejudice to any other mode of recovery, approach the Deputy Commissioner to recover the amount in the same manner as an arrear of land revenue’. An application has to be made to the State Government to issue a certificate to the Deputy Commissioner for the amount to be recovered.

As per the Guidelines of the Corporation, notice as to why action should not be initiated under the said provision for recovery of the amount due from him as an arrear of land revenue was to be issued to the promoters within two months

[159] **Excludes one case, which was closed under One Time Settlement.**

from the date of conclusion of sale of assets under Section 29 of SFCs Act. Further, the notice was to provide time of 10 days to the promoters to show-cause why action should not be initiated for recovery of the amount due as an arrear of land revenue. If no cause was shown by the party within that time, the Managing Director was to issue Certificate containing details like the amount due, properties along with the boundaries, measurement and name of the owner, to the DC under Section 32 G of SFC Act. The DC then was to forward the Certificate to the Special Tahsildar[160] at Corporation for further action. The Special Tahsildar was to take required action for the attachment of identified property which would later be sold through auction.

In the test checked branches, there were 70 cases proposed for action under this section. It was noticed that the Corporation had forwarded only 64 cases involving ₹ 5.27 crore (excluding interest and other debits of ₹ 324.44 crore) to DC. In the remaining 6 cases[161] having dues of ₹ 3.35 crore, accounts were closed under various One Time Settlement (OTS) schemes realizing only ₹ 2.58 crore. Transmission of the cases from Branches to the Head Office of the Corporation was delayed in 53 of these cases, for periods ranging from one to 149 months. In respect of 37 cases involving ₹ 2.60 crore, action was pending due to various reasons such as the matter being heard in court, property in dispute *etc*. The Corporation could not take any action in 27 cases involving ₹ 2.67 crore due to non-existence of property.

Failure to take action on the ground 'non-availability of property' shows that certificates were forwarded to the DC without identification of property or property did not exist in these cases.

The Government replied (September 2013) that the delays at various stages were due to change of DCs of the concerned districts and MD of the Corporation, which was beyond the control of the Corporation. The reasons quoted by the Government are only administrative reasons, which cannot justify the delays at various stages.

Recovery under KPMRD Act

3.9.7 The Guidelines on Recovery function issued by the Corporation stipulates that notices are to be issued and case referred to DC within two months from the date of completion of action under Section 29 of the SFC Act in respect of cases where the dues (principal, interest and other debits) do not exceed ₹ 10 lakh.

It was observed that 167 cases, where ₹ 3.47 crore was involved, were referred to DCs for action up to 31 March 2013. Of this, 89 cases involving ₹ 2.38 crore were delayed for periods ranging between one and 156 months. There are no details of any recovery. The reasons for delay were non-availability of

[160] Government of Karnataka appointed (January 2001) Special Tahsildars for recovery of the dues of the Corporation and empowered them to exercise the power and discharge the duty as exercised or performed by a Tahsildar for the recovery of dues as arrears of land revenue.

[161] Four cases in Tumkur, one each in Mysore and Chitradurga.

personal properties of the loanees and non-availability of the loanees at the given/identified address.

The Government admitted (September 2013) that the process of personal property investigation was cumbersome and it was very difficult due to lack of information about the parties.

Recovery under SARFAESI Act

3.9.8 Where the possession of any secured assets is required to be taken or if any of the secured asset is required to be sold or transferred under the provisions of the Act, the secured creditor may, for the purpose of taking possession or control of any such secured asset, request, in writing, to the Chief Metropolitan Magistrate or the District Magistrate to take possession of such asset(s) and documents relating thereto; and forward such assets and documents to the secured creditor. No act of the Chief Metropolitan Magistrate or the District Magistrate done in pursuance of this section shall be called in question in any Court or before any authority.

Between 2008 and 2013, the six test checked branches took possession of secured assets in 54 cases for recovery of ₹ 3.04 crore excluding interest and other debits of ₹ 83.60 crore under this Act. Of this, 16 cases were proposed for closure under OTS. The Corporation cleared seven cases under OTS waiving ₹ 6.37 crore and in respect of nine cases, proposals are yet to be cleared (November 2013). Further, the Corporation could sell the secured assets in five cases and in the remaining 33 cases involving ₹ 2.20 crore (excluding interest and other debits of ₹ 65.18 crore) where action were initiated could not be completed for want of bidders and other reasons.

Conclusion

We observed that despite having the protection of the various stringent provisions under SFC Act, KPMRD Act, SARFAESI Act and Recovery Guidelines, the Corporation could not successfully recover dues from the borrowers who had defaulted. The Corporation lacks a system for timely identification of personal properties to ensure the recoveries under these Acts. The Corporation needs to develop a mechanism to periodically update the details of the borrowers and the properties pledged by them while availing loan, to safeguard its financial interests. Further, the function of identification of properties should be monitored effectively.

Bangalore Metropolitan Transport Corporation

3.10 Avoidable loss

The Corporation incurred an avoidable loss of ₹ 1.20 crore as no insurance cover had been taken for Volvo buses parked in the Central Workshop, which were damaged due to fire.

Bangalore Metropolitan Transport Corporation (Corporation), a wholly owned Corporation of the State Government, operates buses in Bangalore City and agglomeration areas. As per Section 62 of the Central Motor Vehicle Rules

1989, the buses are required to undergo repair and made fit before sending them to Regional Transport Office (RTO) for renewal of Fitness Certificate (FC).

The Corporation has two workshops: Central Workshops (CWS)-I and II. CWS-I is a major workshop, which undertakes the activities of bus body construction, reconditioning (RC), accident reconditioning (ARC) and disposal of scrap vehicles. It also receives old buses due for renewal of FC. CWS-I receives 24 vehicles (approximately) every day for renewal of FC.

The Corporation had taken (2 June 2011 to 1 June 2012) a Standard Fire and Special Perils Policy (SFSPP)[162] from The Oriental Insurance Company Limited (TOICL) for CWS I[163] covering the risk to buildings, plant and machinery, materials under progress, vehicles held, scrap vehicles and tyres. The sum insured was ₹ 15.14 crore (including 57 new buses at ₹ 11 lakh each and 181 scrap buses at ₹ 2 lakh each) and premium paid was ₹ 0.90 lakh.

In a fire incident (7 April 2012) four Volvo buses - three parked for the purpose of FC and one for accident repairs - brought to the CWS-I between 26 March 2012 and 6 April 2012 were completely damaged.

We observed (October 2012) that the CWS-I had (June 2011) insured new vehicles and scrap vehicles it held, under a SFSPP. However, there was no insurance cover for the vehicles received for renewal of FC and for those received for repairs. In response to a claim (April 2012) of the Corporation, TOICL refused to consider the claim, stating (July 2012) that the policy did not cover Volvo buses. Failure to include the buses regularly parked in the Workshop for repairs and for renewal of FCs, resulted in avoidable loss of ₹ 1.20 crore[164], being the written down value.

The Corporation stated (June 2013) that at the time of taking the policy in question, the insurance coverage for those Volvo buses were in force along with other model of buses and the inclusion of Volvo buses in the policy in question would have amounted to duplication of insurance coverage.

The statement of the Corporation was factually incorrect as the insurance cover of Volvo buses was for the risk of fire due to self ignition and not for the damages due to fire. Secondly, the insurance coverage for those Volvo buses had expired on 5 January 2012 and the Corporation took a decision to make own arrangements. The Corporation should have taken insurance cover for the Volvo buses subsequent to that day.

The matter was reported to the Government in July 2013; their reply is awaited (December 2013).

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[162] **Up to 4 January 2012, the Corporation had taken a package policy covering own damage and damage to third party due to accidents involving its buses. As the premium quoted was high, the Corporation decided to make its own arrangements from 5 January 2012.**

[163] **No policy was taken for CWS II.**

[164] **Value of the four buses (₹ 1.26 crore)** ***less*** **differential premium (₹ 0.06 crore) for the period from 2007-08 to 2011-12 for covering the RC/ARC vehicles.**

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, 2010-11 and 2011-12 were presented to the State Legislature in March 2011, March 2012 and February 2013 respectively. As at December 2013, four departments[165], which were commented upon, had not submitted explanatory notes for six out of 39 Reviews/ Paragraphs, which appeared in the Audit Reports.

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 five Reports[166] of the COPU presented to the State Legislature between December 2011 and November 2013 have not been received as on December 2013.

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 2013 is given in **Annexure-13.**

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. Two Reviews and ten Paragraphs were forwarded to various departments during June to September 2013. Government had not furnished replies in respect of

[165] **Three Reviews in respect of Energy Department; One Review in respect of Water Resources Department; one paragraph each of Tourism and Women and Child Development Department.**

[166] **Report Nos. 125 to 129 of COPU.**

one Review on Food, Civil Supplies and Consumer Affairs Department and four Paragraphs pertaining to Commerce and Industries, Tourism and Energy Departments. 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 **(SHASHI KANT SHARMA)**
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 2013 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 2012-13				Debt equity ratio for 2012-13 (Previous year)	Manpower (No. of employees) (as on 31.3.2013)
				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 (8.91:1)	41
2	Karnataka State Agricultural Produce Processing and Export Corporation Limited (KAPPEC)	Agriculture & Horticulture	Apr. 96	0.50	-	-	0.50	-	-	-	-	-	19
3	Karnataka Togari Abhivridhi Mandali Limited (KTAML)	Agriculture & Horticulture	May 02	5.00	-	-	5.00	-	-	-	-	-	2
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)	136
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	-	-	-	-	- (6.92:1)	29
7	Karnataka Cashew Development Corporation Limited (KCDC)	Forest Ecology & Environment	Feb. 78	7.15 (3.00)	0.44	-	7.59 (3.00)	-	-	-	-	-	112
8	Karnataka Forest Development Corporation Limited (KFDCL)	Forest Ecology & Environment	Jan. 71	9.31	-	-	9.31	-	-	-	-	-	550
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 (0.21:1)	145
10	Karnataka State Seeds Corporation Limited (KSSCL)	Agriculture & Horticulture	Aug.73	1.43	0.62	1.63 (0.12)	3.68 (0.12)	0.18	-	-	0.18	0.05:1 (0.04:1)	254
11	Food Karnataka Limited (FKL)	Agriculture & Horticulture	April 03	-	-	0.10	0.10	-	-	-	-	-	2

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 2012-13				Debt equity ratio for 2012-13 (Previous year)	Manpower (No. of employees) (as on 31.3.2013)
				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)**	**25.25**	**-**	**0.55**	**25.80**	**-**	**1365**
FINANCING SECTOR													
13	The Karnataka Handloom Development Corporation Limited (KHDCL)	Commerce & Industries	Oct. 75	46.68	5.20	-	51.88	14.40	-	1.43	15.83	0.31:1 (0.31:1)	779
14	Karnataka State Handicrafts Development Corporation Limited (KSHDCL)	Commerce & Industries	Mar. 64	2.80	1.22	-	4.02	0.68	-	0.54	1.22	0.30:1 (0.32:1)	198
15	D. Devaraj Urs Backward Classes Development Corporation Limited (DUBCDCL)	Social welfare	Oct. 77	186.71 (50.00)	-	-	186.71 (50.00)	-	-	80.99	80.99	0.43:1 (0.47:1)	72
16	Karnataka State Women's Development Corporation (KSWDC)	Women & Child Development	Sep. 87	10.58 (0.16)	2.98	-	13.56 (0.16)		-	3.07	3.07	0.23:1 (-)	50
17	Dr.B.R. Ambedkar Development Corporation Limited (BRADCL)	Social welfare	Mar. 75	125.66 (6.27)	80.00	-	205.66 (6.27)	-	-	220.48	220.48	1.07:1 (0.99:1)	269
18	Karnataka Scheduled Tribes Development Corporation Limited (KSTADC)	Social welfare	July 06	14.40 (3.01)	9.19 (3.50)	-	23.59 (6.51)	-	-	58.90	58.90	2.50:1 (2.90:1)	21
19	The Karnataka Minorities Development Corporation Limited (KMDC)	Social welfare	Feb. 86	234.49 (134.71)	-	-	234.49 (134.71)	-	-	27.20	27.20	0.12:1 (0.19:1)	42
20	Karnataka State Industrial Infrastructure and Development Corporation Limited (KSIIDC)	Commerce & Industries	July 64	427.10 (77.10)	-	197.63	624.73 (77.10)	3.90	0.92	93.27	98.09	0.16:1 (0.37:1)	92
21	Karnataka Urban Infrastructure Development and Finance Corporation Limited (KUIDFC)	Urban Development	Nov. 93	6.06	-	2.00	8.06	-	-	-	-	-	422

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 2012-13				Debt equity ratio for 2012-13 (Previous year)	Manpower (No. of employees) (as on 31.3.2013)
				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	4.82 (4.00)	-	0.06	4.88 (4.00)	0.70	-	-	0.70	0.14:1 (0.81:1)	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	-	-	-	-	-	0
25	Karnataka Thanda Development Corporation Limited (KTDCL)	Social Welfare	Feb. 09	0.01	-	-	0.01	-	-	-	-	-	0
	Sector-wise total			**1059.31 (275.25)**	**98.59 (3.50)**	**200.20**	**1358.10 (278.75)**	**19.68**	**0.92**	**485.88**	**506.48**	**-**	**1958**
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	-	-	33.85	33.85	2.76:1 (3.79:1)	1003
28	Karnataka State Police Housing Corporation Limited (KSPHCL)	Home	June 85	0.12	-	-	0.12	-	-	119.33	119.33	994.42:1 (1201.17:1)	238
29	Rajiv Gandhi Rural Housing Corporation Limited (RGRHCL)	Housing	April 2000	3.00	-	-	3.00	597.40	-	268.67	866.07	288.69:1 (308.64:1)	37
30	Karnataka Road Development Corporation Limited (KRDCL)	Public works	July 99	1060.39 (800.39)	-	50.00 (50.00)	1110.39 (850.39)	-	-	180.22	180.22	0.16:1 (0.34:1)	80
31	Krishna Bhagya Jala Nigam Limited (KBJNL)	Water Resources	Aug. 94	7102.64 (224.76)	-	217.14	7319.78 (224.76)	-	-	716.39	716.39	0.10:1 (0.10:1)	2187
32	Karnataka Neeravari Nigam Limited (KNNL)	Water Resources	Nov. 98	14233.32 (5817.70)	-	207.03	14440.35 (5817.70)	1.96	-	-	1.96	- (0.50:1)	3871

[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 2012-13				Debt equity ratio for 2012-13 (Previous year)	Manpower (No. of employees) (as on 31.3.2013)
				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	6741.01 (5640.96)	-	143.84 (143.84)	6884.85 (5784.80)	6105.44	-	57.50	6162.94	0.90:1 (0.03:1)	2304
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
35	Tadadi Port Limited (Subsidiary of Company at A-20) (TPL)	Infrastructure Development	May 12	0.05	-	-	0.05	-	-	-	-	-	-
36	Hubli Dharwad BRTS Company Limited (HDBRTS)	Infrastructure Development	Aug. 12	15.13 (1.13)	-	3	18.13 (1.13)	-	-	-	-	-	15
	Sector-wise total			**29175.66 (12485.70)**	-	**621.06 (193.84)**	**29796.72 (12679.54)**	**6710.33**	-	**1375.96**	**8086.29**	-	**9885**
MANUFACTURING SECTOR													
37	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)	83
38	Karnataka Soaps and Detergents Limited (KSDL)	Commerce & Industries	July 80	31.82	-	-	31.82	8.35	-	-	8.35	0.26:1 (0.26:1)	715
39	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
40	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 (0.49:1)	310
41	The Mysore Paper Mills Limited (MPM)	Commerce & Industries	May 36	183.00 (106.03)	-	41.92	224.92 (106.03)		-	135.00	135.00	0.60:1 (0.37:1)	1710
42	Karnataka Vidyuth Karkhane Limited (KAVIKA)	Commerce & Industries	Oct. 76	5.62	-	-	5.62	7.84	-	-	7.84	1.40:1 (1.40:1)	193
43	The Mysore Electrical Industries Limited (MEI)	Commerce & Industries	Feb. 45	7.67	-	1.76	9.43	28.54	-		28.54	3.03:1 (3.03:1)	138

[2] **formerly Karnataka Leather Industries Development Corporation Limited.**
[3] **Karnataka Small Industries Marketing Corporation Limited (KSIMC) has been amalgamated with KSSIDC with effect from 1 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 2012-13				Debt equity ratio for 2012-13 (Previous year)	Manpower (No. of employees) (as on 31.3.2013)
				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)
44	NGEF (Hubli) Limited (Subsidiary of Company at C-10) (NGEFH)	Commerce & Industries	Dec. 88	-	-	3.20	3.20	10.00	-	-	10.00	3.13:1 (-)	144
45	Karnataka State Electronics Development Corporation Limited (KEONICS)	Information Technology	Sep. 76	19.37	-	-	19.37	-	-	-	-	-	184
46	Karnataka Silk Industries Corporation Limited (KSIC)	Commerce & Industries	Apr. 80	58.00	-	-	58.00	-	-	-	-	-	741
47	Karnataka Silk Marketing Board Limited (KSMB)	Commerce & Industries	Nov. 79	31.45	-	-	31.45	12.25	-	-	12.25	0.39:1 (0.38:1)	96
48	Karnataka State Textile Infrastructure Development Corporation Limited (KSTIDCL)[4]	Commerce & Industries	Feb. 94	3.22	-	-	3.22	-	-	-	-	-	12
49	Mysore Minerals Limited (MML)	Commerce & Industries	May 66	5.95	-	0.05	6.00	-	-	-	-	-	1030
50	Karnataka EMTA Collieries Limited (KECL)	Energy	Mar 11	-	-	0.05	0.05	-	-	-	-	-	-
51	The Hutti Gold Mines Company Limited (HGML)	Commerce & Industries	July 47	2.20	-	0.76	2.96	-	-	-	-	-	4315
52	The Mysore Sugar Company Limited (MYSUGAR)	Commerce & Industries	Jan. 33	16.83 (9.02)	-	0.93	17.76 (9.02)	142.42	-	42.21	184.63	10.40:1 (10.40:1)	828
53	The Mysore Paints and Varnish Limited (MPVL)	Commerce & Industries	Nov. 47	0.95	-	0.09	1.04	-	-	-	-	-	66
54	Karnataka State Beverages Corporation Limited (KSBCL)	Finance	June 03	12.00	-	-	12.00	2.53	-	-	2.53	0.21:1 (0.21:1)	419
55	Mysore Sales International Limited (Subsidiary of Company at A-20) (MSIL)	Commerce & Industries	Mar. 66	21.10 (21.10)	-	21.63 (17.97)	42.73 (39.07)	-	-	-	-	-	307
56	Marketing Consultants and Agencies Limited (Subsidiary of Company at A-55) (MCA)	Commerce & Industries	Sep. 72	3.46 (3.46)	-	3.57	7.03 (3.46)		-	-	-	-	31

[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 2012-13				Debt equity ratio for 2012-13 (Previous year)	Manpower (No. of employees) (as on 31.3.2013)
				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)**
57	Karnataka State Coal Mining Company Limited (Subsidiary of Company at A-58)	Energy		-	-	0.05	0.05	-	-	-	-	-	-
	Sector-wise total			**438.42 (139.61)**	**-**	**74.11 (17.97)**	**512.53 (157.58)**	**236.40**	**-**	**177.26**	**413.66**	**-**	**11372**
POWER SECTOR													
58	Karnataka Power Corporation Limited (KPC)	Energy	July 70	3306.97 (400.00)	-	-	3306.97 (400.00)	-	-	3487.70	3487.70	1.05:1 (2.72:1)	5854
59	Karnataka Renewable Energy Development Limited (KREDL)	Energy	Mar.96	0.50	-	-	0.50	-	-	-	-	-	55
60	Karnataka Power Transmission Corporation Limited (KPTCL)	Energy	July 99	1968.25 (393.25)	-	-	1968.25 (393.25)	5.94	-	4990.91	4996.85	2.54:1 (2.71:1)	9441
61	Bangalore Electricity Supply Company Limited (BESCOM)	Energy	Apr. 02	644.42 (97.50)	-	-	644.42 (97.50)	46.00	121.95	1000.40	1168.35	1.81:1 (1.80:1)	12308
62	Hubli Electricity Supply Company Limited (HESCOM)	Energy	Apr. 02	831.53 (124.00)	-	-	831.53 (124.00)	60.50	525.59	350.28	936.37	1.13:1 (1.56:1)	7203
63	Mangalore Electricity Supply Company Limited (MESCOM)	Energy	Apr. 02	191.07	-	-	191.07	2.66	-	380.09	382.75	2.00:1 (2.29:1)	3953
64	Chamundeshwari Electricity Supply Corporation Limited (CHESC)	Energy	Dec.04	325.51 (62.50)	-	-	325.51 (62.50)	22.38	35.25	267.30	324.93	1.00:1 (1.07:1)	5249
65	Gulbarga Electricity Supply Company Limited (GESCOM)	Energy	Apr. 02	568.20 (263.06)	-	-	568.20 (263.06)	14.77	-	442.09	456.86	0.80:1 (1.05:1)	4979
66	KPC Bidadi Power Corporation Private Limited (Subsidiary of Company at A-58) (KPCB)	Energy	Apr. 96	-	-	14.05	14.05	-	-	0.12	0.12	0.01:1 (223.8:1)	9
67	Power Company of Karnataka Limited (PCKL)	Energy	Aug. 07	-	-	20.05	20.05	142.12	-	-	142.12	7.09:1 (4.48:1)	32
68	Raichur Power Corporation Limited (RPCL)	Energy	Apr. 09	-	-	812.50 (36.60)	812.50 (36.60)	-	-	2582.74	2582.74	3.18:1 (-)	50
	Sector-wise total			**7836.45 (1340.31)**	**-**	**846.60 (36.60)**	**8683.05 (1376.91)**	**294.37**	**682.79**	**13501.63**	**14478.79**	**-**	**49133**
SERVICE SECTOR													
69	Karnataka Food and Civil	Food Civil	Sep. 73	3.25	-	-	3.25	2.00	-	-	2.00	0.62:1	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 2012-13				Debt equity ratio for 2012-13 (Previous year)	Manpower (No. of employees) (as on 31.3.2013)
				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)
	Supplies Corporation Limited (KFCSCL)	Supplies & Consumer Affairs										(0.92:1)	
70	The Karnataka State Tourism Development Corporation Limited (KSTDC)	Information, Tourism & Youth Services	Feb. 71	6.41 (1.41)	-	-	6.41 (1.41)	4.00	-	0.71	4.71	0.73:1 (0.87:1)	275
71	Jungle Lodges and Resorts Limited (JLR)	Information, Tourism & Youth Services	Mar. 80	0.50	-	0.42	0.92	-	-			-	493
	Sector-wise total			**10.16 (1.41)**	**-**	**0.42**	**10.58 (1.41)**	**6.00**	**-**	**0.71**	**6.71**	**-**	**2047**
MISCELLANEOUS SECTOR													
72	Karnataka Vocational Training and Skill Development Corporation Limited (KVTSDCL)	Employment and Training	Sept. 08	0.04	-	-	0.04	-	-	-	-	-	18
73	Karnataka Public Lands Corporation Limited (KPLCL)	Revenue	Dec. 08	0.05	-	-	0.05	-	-	-	-	-	24
	Sector-wise total			**0.09**	**-**	**-**	**0.09**	**-**	**-**	**-**	**-**	**-**	**42**
	TOTAL A (All sector-wise Government Companies)			**38570.60 (14245.28)**	**99.65 (3.50)**	**1745.12 (248.53)**	**40415.37 (14497.31)**	**7292.03**	**683.71**	**15541.99**	**23517.73**	**-**	**75802**
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)	-	-	189.00	189.00	9.15:1 (1.61:1)	394
	Sector-wise total			**16.75 (12.85)**	**3.90**	**-**	**20.65 (12.85)**	**-**	**-**	**189.00**	**189.00**		**394**
FINANCING SECTOR													
2	Karnataka State Financial Corporation (KSFC)	Finance	Mar. 59	846.37 (226.46)	-	38.64	885.01 (226.46)	-	-	2140.41	2140.41	2.42:1 (2.25:1)	1080
	Sector-wise total			**846.37 (226.46)**	**-**	**38.64**	**885.01 (226.46)**	**-**	**-**	**2140.41**	**2140.41**		**1080**
SERVICE SECTOR													
3	Karnataka State Road Transport Corporation (KSRTC)	Transport	Aug.61	243.79 (1.00)	48.10		291.89 (1.00)	-	-	240.76	240.76	0.82:1 (0.83:1)	36448

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 2012-13				Debt equity ratio for 2012-13 (Previous year)	Manpower (No. of employees) (as on 31.3.2013)
				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)
4	Bangalore Metropolitan Transport Corporation (BMTC)	Transport	Aug.97	157.72 (53.12)	-	-	157.72 (53.12)	-	-	450.72	450.72	2.86:1 (2.36:1)	32297
5	North Western Karnataka Road Transport Corporation (NWKRTC)	Transport	Nov.97	313.05 (170.75)	-	-	313.05 (170.75)	-	-	319.41	319.41	1.02:1 (1.10:1)	21990
6	North Eastern Karnataka Road Transport Corporation (NEKRTC)	Transport	Aug. 2000	131.12 (31.97)	-	-	131.12 (31.97)	0.13	-	140.49	140.62	1.07:1 (1.36:1)	18714
	Sector-wise total			**845.68 (256.84)**	**48.10**	-	**893.78 (256.84)**	**0.13**	-	**1151.38**	**1151.51**	-	**109449**
	TOTAL B (all sector-wise Statutory Corporations)			**1708.80 (496.15)**	**52.00**	**38.64**	**1799.44 (496.15)**	**0.13**	-	**3480.79**	**3480.92**	-	**110923**
	Grand total (A + B)			**40279.40 (14741.43)**	**151.65 (3.50)**	**1783.76 (248.53)**	**42214.81 (14993.46)**	**7292.16**	**683.71**	**19022.78**	**26998.65**	-	**186725**
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 (1.23:1)	Nil
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 (1.97:1)	Nil
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	0.19:1 (0.91:1)	Nil
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 (4.60:1)	Nil
	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	97.72	-	3.50	101.22	8.57:1 (8.50:1)	63

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 2012-13				Debt equity ratio for 2012-13 (Previous year)	Manpower (No. of employees) (as on 31.3.2013)
				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)
7	Vijayanagar Steel Limited (VSL)	Commerce & Industries	Dec. 82	12.91	-		12.91	0.58	-	-	0.58	0.04:1 (0.04:1)	Nil
8	The Mysore Cosmetics Limited (Subsidiary of Company at A-55) (MCL)	Commerce & Industries	Mar. 66	0.01 (0.01)	-	0.15	0.16 (0.01)	-	-	-	-	-	Nil
9	The Mysore Chrome Tanning Company Limited (Subsidiary of Company at A-55) (MCT)	Commerce & Industries	Mar. 40	-	-	0.76	0.76	0.12	-	0.29	0.41	0.54:1 (0.54:1)	Nil
10	NGEF Limited (NGEF)	Commerce & Industries	Apr. 65	41.99	-	4.52	46.51	227.24	-	-	227.24	4.89:1 (4.89:1)	Nil
11	Karnataka Telecom Limited (Subsidiary of Company at C-10) (KTL)	Commerce & Industries	July 85	0.78	-	2.22	3.00		-	-	-	-	Nil
12	Chamundi Machine Tools Limited (CMTL)	Commerce & Industries	Oct. 75	0.63	-		0.63	2.50	-	1.00	3.50	5.56:1 (5.56:1)	Nil
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)**	**356.21**	-	**4.79**	**361.00**	-	**155**
	TOTAL C (All sector-wise Government Companies)			**147.97 (62.28)**	-	**13.38**	**161.35 (62.28)**	**429.85**	-	**5.79**	**435.64**	-	**322**
	Grand Total (A + B + C)			**40427.37 (14803.71)**	**151.65 (3.50)**	**1797.14 (248.53)**	**42376.16 (15055.74)**	**7722.01**	**683.71**	**19028.57**	**27434.29**	-	**187047**

Companies at Sl. No. A 10, 11, 23, 24, 67 and 68 are deemed government companies as defined under Section 619-B of the Companies Act, 1956.

$ **Paid-up capital includes share application money. The share application money is shown in parenthesis.**

** **Loans outstanding at the close of 2012-13 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 1.28)

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 (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+) / Loss (-)	Capital employed@	Return on capital employed$	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss (x)							
(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	2012-13	2013-14	-12.68	-	0.14	-12.82	nil	-0.32	2.73	-28.04	-0.69	-12.82	-
2	KAPPEC	2012-13	2013-14	3.85	-	0.04	3.81	7.86	-	0.50	11.54	58.33	3.81	6.53
3	KTAML	2010-11	2013-14	-1.24	-	0.03	-1.27	0.74	-	5.00	-0.24	4.76	-1.27	-
4	KFDC	2012-13	2013-14	1.28	0.12	0.53	0.63	107.83	-	16.16	-6.71	24.27	0.75	3.09
5	KSAWDCL	2011-12	2013-14	-0.50	-	-	-0.50	0.12	-	6.05	-5.45	15.77	-0.50	-
6	KCDCL	2012-13	2013-14	0.68	0.11	0.09	0.48	4.95	-	0.50	-0.59	5.38	0.59	10.97
7	KCDC	2012-13	2013-14	0.13	-	0.45	-0.32	5.56	-1.24	7.59	-3.71	0.88	-0.32	-
8	KFDCL	2012-13	2013-14	30.58	-	1.01	29.57	59.23	-	9.31	92.90	140.33	29.57	21.07
9	KSFIC	2012-13	2013-14	-0.28	-	0.21	-0.49	23.05	-4.79	2.67	9.53	13.24	-0.49	-
10	KSSCL	2011-12	2012-13	7.93	0.02	1.31	6.60	148.95	0.83	3.68	18.47	27.69	6.62	23.91
11	FKL	2012-13	2013-14	0.16	-	-	0.16	0.05	-	0.10	1.59	1.79	0.16	8.94
12	KSMDMCL	2011-12	2013-14	-	-	-	$$	nil	-	0.01	-	8.90		-
	Sector-wise total			**29.91**	**0.25**	**3.81**	**25.85**	**358.34**	**-5.52**	**54.30**	**89.29**	**300.65**	**26.10**	
FINANCING SECTOR														
13	KHDCL	2012-13	2013-14	0.35	8.54	0.67	-8.86	148.29	-0.46	51.88	-83.55	28.56	-0.32	-
14	KSHDCL	2012-13	2013-14	1.64	-	0.36	1.28	40.39	-	4.02	18.90	26.27	1.28	4.87
15	DUBCDCL	2012-13	2013-14	8.38	2.17	0.18	6.03	2.64	-	186.71	-27.12	497.65	8.20	1.65
16	KSWDC	2011-12	2012-13	4.56	0.02	0.12	4.42	5.00	-	13.40	10.47	24.33	4.44	18.25
17	BRADCL	2012-13	2013-14	28.34	7.58	0.20	20.56	16.66	-	205.66	32.36	452.23	28.14	6.22
18	KSTADC	2011-12	2013-14	6.79	1.38	0.11	5.30	4.77	-	17.08	17.47	37.48	6.68	17.82
19	KMDC	2011-12	2012-13	-0.91	1.79	0.16	-2.86	1.83	-206.83	185.49	-31.04	146.96	-1.07	-
20	KSIIDC	2012-13	2013-14	58.39	10.10	4.19	44.10	5.34	0.15	624.73	-371.41	199.81	54.20	27.13
21	KUIDFC	2012-13	2013-14	0.31	-	0.31	**[5]	5.21	-	8.06	13.98	42.90	0.00	-
22	KSL	2012-13	2013-14	0.57	-	0.02	0.55	1.26	-	4.88	0.54	2.49	0.55	22.09

[5] ****: The Company has recorded zero profit by claiming management fee equal to the net administrative expenses incurred.**

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$	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss (x)							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
23	KAMCPL	2012-13	2013-14	0.07	-	0.02	0.05	0.61	-	0.50	0.83	1.33	0.05	3.76
24	KTCPL	2012-13	2013-14	0.04	-	-	0.04	0.04	-	0.01	0.10	0.14	0.04	28.57
25	KTDCL	2012-13	2013-14	1.06	-	-	1.06	nil	-	0.01	2.75	2.76	1.06	38.41
	Sector-wise total			**109.59**	**31.58**	**6.34**	**71.67**	**232.04**	**-207.14**	**1302.43**	**-415.72**	**1462.91**	**103.25**	
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	2011-12	2012-13	34.59	-	0.58	34.01	788.98	-25.16	12.25	67.07	156.63	34.01	21.71
28	KSPHCL	2012-13	2013-14	14.66	-	0.44	14.22	17.88	-	0.12	30.33	184.47	14.22	7.71
29	RGRHCL	2012-13	2013-14	-	-	-	£	##	-	3.00	-	2160.90	-	-
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	2011-12	2012-13	-19.07	18.10	198.20	-235.37	5.81	-8.07	12240.17	-499.80	8124.81	-217.27	-
33	CNNL	2011-12	2012-13	-	-	-	$$	##	-	5914.70	-	7280.82	-	-
34	BARL	2012-13	2013-14	-0.80	-	0.02	-0.82	nil	-	5.75	-3.19	1.81	-0.82	-
35	TPL	2012-13	2013-14	-0.02	-	-	-0.02	nil	-	0.05	-0.02	0.03	-0.02	-
36	HDBRTS	2012-13	First accounts not finalised	-	-	-	-	nil	-	18.13	-	17.08		
	Sector-wise total			**146.80**	**68.26**	**282.97**	**-204.43**	**867.60**	**-33.23**	**26373.09**	**-766.48**	**27823.77**	**-136.17**	
MANUFACTURING SECTOR														
37	LIDKAR	2011-12	2013-14	-0.56	1.04	0.05	-1.65	5.41	-	6.85	-27.85	-7.36	-0.61	-
38	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
39	KSCDCL	2012-13	2013-14	1.17	0.03	0.46	0.68	9.45	-	3.01	-6.25	7.67	0.71	9.26
40	KSSIDC	2012-13	2013-14	20.60	0.23	1.27	19.10	102.79	-	26.02	65.09	129.64	19.33	14.91
41	MPM	2011-12	2012-13	-31.00	35.48	10.38	-76.86	361.85	-5.00	118.89	-270.90	-61.50	-41.38	-
42	KAVIKA	2012-13	2013-14	7.91	0.93	0.18	6.80	133.99	-	5.62	0.24	84.10	7.73	9.19
43	MEI	2012-13	2013-14	5.49	2.05	0.12	3.32	56.16	-2.14	9.43	-18.42	26.76	5.37	20.07
44	NGEFH	2012-13	2013-14	-2.97	0.42	0.17	-3.56	6.75	-	3.20	-6.26	9.46	-3.14	-
45	KEONICS	2012-13	2013-14	39.15	0.03	1.03	38.09	208.98	-	19.37	62.55	81.92	38.12	46.53
46	KSIC	2012-13	2013-14	16.73	1.17	0.41	15.15	86.76	0.10	58.00	3.52	63.52	16.32	25.69
47	KSMB	2012-13	2013-14	-1.52	-	0.02	-1.54	46.36	-	31.45	-33.63	10.07	-1.54	-
48	KSTIDCL	2012-13	2013-14	1.93	-	0.12	1.81	27.72	-	3.22	9.84	13.06	1.81	13.86
49	MML	2012-13	2013-14	50.81	0.14	10.65	40.02	71.60	-	6.00	912.02	918.02	40.16	4.37

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)
50	KECL	2012-13	2013-14	-0.01	-	-	-0.01	nil	-	0.05	-0.08	-0.04	-0.01	-
51	HGML	2012-13	2013-14	271.91	0.01	14.77	257.13	517.20	-	2.96	938.37	941.47	257.14	27.31
52	MYSUGAR	2010-11	2013-14	14.45	21.15	1.32	-8.02	100.79	-	17.76	-344.96	162.75	13.13	8.07
53	MPVL	2012-13	2013-14	2.50	0.21	0.07	2.22	18.93	-	1.04	17.31	18.35	2.43	13.24
54	KSBCL	2012-13	2013-14	48.07	0. 10	0.70	47.27	75.81	-	12.00	115.13	129.68	47.37	36.53
55	MSIL	2011-12	2012-13	36.50	0.56	2.29	33.65	582.37	-0.16	42.73	141.39	145.05	34.21	23.58
56	MCA	2012-13	2013-14	16.71	-	0.31	16.40	150.32	-	7.03	51.24	57.27	16.40	28.64
57	KSCMCL	2012-13	2013-14	0.02	-	-	0.02	nil	-	0.05	-0.02	0.03	0.02	66.67
	Sector-wise total			**519.37**	**64.22**	**44.96**	**410.19**	**2775.08**	**-7.20**	**406.50**	**1657.79**	**2831.86**	**474.41**	
POWER SECTOR														
58	KPC	2012-13	2013-14	1627.25	889.87	566.18	171.20	5425.96	2.10	3306.97	3506.35	9403.19	1061.07	11.28
59	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
60	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
61	BESCOM	2011-12	2012-13	453.16	130.57	198.39	124.20	9405.38	-	546.92	-232.54	2568.32	254.77	9.92
62	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
63	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
64	CHESC	2011-12	2012-13	83.82	150.09	50.00	-116.27	1944.63	1.97	263.01	-397.22	393.37	33.82	8.60
65	GESCOM	2011-12	2012-13	134.53	60.37	82.80	-8.64	2510.45	-	464.20	-159.92	977.81	51.73	5.29
66	KPCB	2012-13	2013-14	-0.53	-	0.07	-0.60	nil	-	14.05	-6.15	8.02	-0.60	-
67	PCKL	2012-13	2013-14	2.09	-	0.04	2.05	0.06	-	20.05	2.13	22.18	2.05	9.24
68	RPCL	2012-13	2013-14	-	-	-	$$	nil	-	812.50	0.00	775.90	0.00	-
	Sector-wise total			**3887.61**	**2127.89**	**1502.61**	**257.11**	**26390.39**	**4.07**	**7983.12**	**2328.79**	**24397.15**	**2385.00**	
SERVICE SECTOR														
69	KFCSCL	2011-12	2012-13	9.65	2.74	0.62	6.29	1485.05	-50.36	3.25	2.78	120.26	9.03	7.51
70	KSTDC	2010-11	2012-13	1.98	1.14	1.48	-0.64	39.78	-1.25	6.41	-7.07	66.43	0.50	0.75
71	JLR	2012-13	2013-14	6.32	0.27	2.37	3.68	38.23	-0.49	0.92	21.64	53.20	3.95	7.42
	Sector-wise total			**17.95**	**4.15**	**4.47**	**9.33**	**1563.06**	**-52.10**	**10.58**	**17.35**	**239.89**	**13.48**	

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$	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss (x)							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
MISCELLANEOUS SECTOR														
72	KVTSDCL	2011-12	2012-13	0.44	-	0.44	nil	*[6]	-	0.04	-	67.35	-	-
73	KPLCL	2011-12	2012-13	0.50	-	0.12	0.38	nil	-	0.05	0.69	0.74	0.38	51.35
	Sector-wise total			**0.94**	**-**	**0.56**	**0.38**	**-**	**-**	**0.09**	**0.69**	**68.09**	**0.38**	
	TOTAL A (All sector-wise Government Companies)			**4712.17**	**2296.35**	**1845.72**	**570.10**	**32186.51**	**-301.12**	**36130.11**	**2911.71**	**57124.32**	**2866.45**	**5.02**
B. WORKING STATUTORY CORPORATIONS														
AGRICULTURE AND ALLIED SECTOR														
1	KSWC	2011-12	2012-13	23.64	5.22	3.51	14.91	47.06	-2.03	20.65	62.18	267.23	20.13	7.53
	Sector-wise total			**23.64**	**5.22**	**3.51**	**14.91**	**47.06**	**-2.03**	**20.65**	**62.18**	**267.23**	**20.13**	
FINANCING SECTOR														
2	KSFC	2011-12	2012-13	165.47	151.96	2.55	10.96	203.82	-1.18	831.35	-542.66	2655.53	162.92	6.14
	Sector-wise total			**165.47**	**151.96**	**2.55**	**10.96**	**203.82**	**-1.18**	**831.35**	**-542.66**	**2655.53**	**162.92**	
SERVICE SECTOR														
3	KSRTC	2011-12	2012-13	248.67	19.33	209.93	19.14	2113.50	-13.21	291.89	62.56	688.74	38.74	5.62
4	BMTC	2011-12	2012-13	153.09	12.30	119.37	21.42	1386.25	-18.97	157.71	663.05	1427.76	33.72	2.36
5	NWKRTC	2011-12	2012-13	84.31	29.53	78.22	-23.44	1018.65	-10.14	281.43	-378.99	252.40	6.09	2.41
6	NEKRTC	2011-12	2012-13	80.34	18.51	79.90	-18.07	911.34	-11.23	131.12	-356.97	53.76	0.44	0.82
	Sector-wise total			**566.41**	**79.67**	**487.42**	**-0.68**	**5429.74**	**-53.55**	**862.15**	**-10.35**	**2422.66**	**78.99**	
	Grand total (B)			**755.52**	**236.85**	**493.48**	**25.19**	**5680.62**	**-56.76**	**1714.15**	**-490.83**	**5345.42**	**262.04**	
	Grand total (A+B)			**5467.69**	**2533.20**	**2339.20**	**595.29**	**37867.13**	**-357.88**	**37844.26**	**2420.88**	**62469.74**	**3128.49**	**5.01**
C. NON WORKING GOVERNMENT COMPANIES														
AGRICULTURE AND ALLIED SECTOR														
1	KAIC	2012-13	2013-14	2.34	13.67	0.03	-11.36	Not considered for non-working companies	-	55.90	-233.06	-48.22	2.31	-
2	MTC	2012-13	2013-14	0.28	0.62	0.01	-0.35		-0.15	0.78	-14.22	-10.57	0.27	-
3	KPL	2012-13	2013-14	-	-	-	-		-	15.16	-20.87	-19.62	-	-
4	KSVL	2004-05	2005-06	-0.44	-	0.01	-0.45		-	1.00	-8.85	0.26	-0.45	-
5	MMCL	2012-13	2013-14	0.01	-	-	0.01		-	0.05	-0.36	-0.29	0.01	-

[6] ***: 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)
	Sector-wise total			**2.19**	**14.29**	**0.05**	**-12.15**		**-0.15**	**72.89**	**-277.36**	**-78.44**	**2.14**	
MANUFACTURING SECTOR														
6	MLW	2012-13	2013-14	-0.76	10.20	0.05	-11.01	Not consid-ered for non-working compa-nies	-	11.81	-256.56	-130.29	-0.81	-
7	VSL	2012-13	2013-14	0.08	-	-	0.08		-	12.91	0.02	16.60	0.08	0.48
8	MCL	2003-04	2004-05	-0.79	-	-	-0.79		-	0.16	-3.12	-0.23	-0.79	-
9	MCT	2012-13	2013-14	1.08	-	-	1.08		-	0.76	-8.68	-6.17	1.08	-
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			**-159.13**	**10.20**	**0.09**	**-169.42**	**-**	**-**	**88.46**	**-755.51**	**-50.41**	**-159.22**	**-**
	TOTAL C (Non working Government Companies)			**-156.94**	**24.49**	**0.14**	**-181.57**	**-**	**-0.15**	**161.35**	**-1032.87**	**-128.85**	**-157.08**	**-**
	Grand total (A+B+C)			**5310.75**	**2557.69**	**2339.34**	**413.72**	**37867.13**	**-358.03**	**38005.61**	**1388.01**	**62340.89**	**2,971.41**	**4.77**

**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 of PSUs on accounts finalised during the period October 2012 to September 2013 represents Share holders funds *plus* long term borrowings.**

$ **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 (Sl.No.11, 33, 68).**

£ **Excess of expenditure over income capitalised. No profit and loss account prepared. (Sl.No.29)**

**Turnovers in respect of companies at Sl.No.29,30,33 is not included. In respect of Sl.No.29 (RGRHCL), the company is involved in development work and excess of income over is capitalized. KRDCL (Sl.no.30) is involved in construction of roads and hence turnover not considered. Although, the operations of KBJNL (Sl.no.31), KNNL (Sl.No.32) and CNNL (Sl.no.33) are functioning under the administrative control of the Water Resources Department and involved in construction of irrigation projects, the turnover of CNNL is not considered as the company does not prepare profit and loss account.**

(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 2013.

(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	KAPPEC			13.10(PGS)			13.10(PGS)						
2	KSAWDCL			0.50(PGS)	6.40(G)	0.57(PGS)	6.40(G) 1.07(PGS)						
3	KCDC			0.82(G)			0.82(G)						
4	KFDC					0.05(S)	0.05(S)						
5	KSSCL				0.75(G)		0.75(G)	30.00					
6	KSMDMCL				5.00(G)		5.00(G)						
	Sector-wise total			**0.82(G)** **13.60(PGS)**	**12.15(G)**	**0.57(PGS)** **0.05(S)**	**12.97(G)** **14.17(PGS)** **0.05(S)**	**30.0**					
FINANCING SECTOR													
7	KHDCL			0.34(PS)	6.62(PS) 2.00(PGS)		6.96(PS) 2.00(PGS)		15.48				
8	KSHDCL			0.05(PGS)	0.75(G) 0.20(S)		0.75(G) 0.05(PGS) 0.20(S)	-	0.54				

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)
9	DUBCDCL	20.00(S)			180.00(PGS)		180.00(PGS)	20.00	80.99				
10	KSWDC	0.16(S)		0.16(G)	5.00(G) 37.85(PGS)		5.16(G) 37.85(PGS)	2.19	3.07				
11	BRADCL	8.36(S)			257.87(G)		257.87(G)	30.00	220.48				
12	KSTADC	4.93(S) 3.50(CG)			11.55(G)		11.55(G)	25.00	58.90				
13	KMDC	49.00(S)			63.00(G)		63.00(G)		27.21				
14	KSIIDC	60.10(S)							86.74				
15	KUIDFC			197.87(G)	381.04(G)	116.77(G)	695.68(G)						
16	KSL	2.00(S)											
17	KTDCL				53.00(G)		53.00(G)						
	Sector-wise total	**144.55(S)** **3.50(CG)**		**198.03(G)** **0.34(PS)** **0.05(PGS)**	**772.21(G)** **6.62(PS)** **219.85(PGS)** **0.20(S)**	**116.77(G)**	**1087.01(G)** **6.96(PS)** **219.90(PGS)** **0.20(S)**	**77.19**	**493.41**				
INFRASTRUCTURE SECTOR													
18	KRIDL								33.85				
19	KSPHCL				39.48(G) 45.00(PS) 8.72(PGS) 0.20(S)		39.48(G) 45.00(PS) 8.72(PGS) 0.20(S)		119.33				
20	RGRHCL				1,216.25(PS)		1,216.25(PS)		266.81				
21	KRDCL	43.80(S)			230.00(G)		230.00(G)		162.06				

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)
22	KBJNL	101.50(S)			839.36(G)		839.36(G)		716.39		101.50[7]		101.50
23	KNNL	2200.19(S)											
24	CNNL	970.15(S)							57.50				
25	HDBRTS	15.13(S)											
	Sector-wise total	**3,330.77(S)**			**1,108.84(G) 1,261.25(PS) 8.72(PGS) 0.20(S)**		**1,108.84(G) 1,261.25(PS) 8.72(PGS) 0.20(S)**	**-**	**1,355.94**		**101.50**		**101.50**
MANUFACTURING SECTOR													
26	LIDKAR				8.34(G) 6.63(PGS)		8.34(G) 6.63(PGS)						
27	KSSIDC				5.22(G)		5.22(G)						
28	MPM				20.00(S)		20.00(S)	50.00	135.00	2.19[8]			2.19
29	NGEFH		10.00(S)										
30	KEONICS	2.00(S)		0.05(G)	5.10(G)		5.15(G)						
31	KSIC				5.00(G)		5.00(G)						
32	KSMB		0.25(S)										
	Sector-wise total	**2.00(S)**	**10.25(S)**	**0.05(G)**	**23.66(G) 6.63(PGS) 20.00(S)**		**23.71(G) 6.63(PGS) 20.00(S)**	**50.00**	**135.00**	**2.19**			**2.19**

[7] **Guarantee commission converted to equity.**
[8] **Guarantee commission waived off.**

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)
POWER SECTOR													
33	KPC	400.00(S)							110				
34	KREDL			3.93(PGS)	12.00(PGS)	4.44(PGS)	20.37(PGS)						
35	KPTCL	250.00(S)							13.43				
36	BESCOM	97.50(S)			27.75(G) 1237.49(S)		27.75(G) 1237.49(S)						
37	HESCOM	124.00(S)	48.20(CG)	2.38(PS)	19.39(G) 2,730.57(S)		19.39(G) 2.38(PS) 2,730.57(S)		200.00				
38	MESCOM	19.00(S)			10.54(G) 30.69(PS) 357.54(S)		10.54(G) 30.69(PS) 357.54(S)		3.62				
39	CHESC	62.50(S)		6.62(PS)	31.00(G) 770.40(S)		31.00(G) 6.62(PS) 770.40(S)						
40	GESCOM	95.00(S)			1,204.36(S)		1,204.36(S)						
41	RPCL	50.00(S)											
	Sector-wise total	**1,098.00(S)**	**48.20(CG)**	**9.00(PS) 3.93(PGS)**	**88.68(G) 30.69(PS) 12.00(PGS) 6,300.36(S)**	**4.44(PGS)**	**88.68(G) 39.69(PS) 20.37(PGS) 6300.36(S)**		**327.05**				
SERVICE SECTOR													
42	KFCSCL				0.45(G)		0.45(G)						
43	KSTDC				4.38(G)		4.38(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)
44	JLR			11.01(G)	1.93(G)		12.94(G)						
	Sector-wise total			**11.01(G)**	**6.76(G)**		**17.77(G)**						
MISCELLANEOUS SECTOR													
45	KVTSDCL				5.50(G)		5.50(G)						
46	KPLCL				10.00(PS)		10.00(PS)						
	Sector-wise total				**5.50(G)** **10.00(PS)**		**5.50(G)** **10.00(PS**						
	TOTAL A **(All sector-wise Government Companies)**	**4,575.32(S)** **3.50(CG)**	**10.25(S)** **48.20(CG)**	**209.91(G)** **9.34(PS)** **17.58(PGS)**	**2,017.80(G)** **1,308.56(PS)** **247.20(PGS)** **6320.76(S)**	**116.77(G)** **5.01(PGS)** **0.05(S)**	**2,344.48(G)** **1,317.90(PS)** **269.79(PGS)** **6,320.81(S)**	**157.19**	**2311.40**	**2.19**	**101.50**		**103.69**
B. WORKING STATUTORY CORPORATIONS													
FINANCING SECTOR													
1	KSFC	53.66(S)						400.00	1189.50				
	Sector-wise total	**53.66(S)**						**400.00**	**1189.50**				
SERVICES SECTOR													
2	KSRTC			10.37(G)	25.46(G) 160.11(S)		35.83(G) 160.11(S)						
3	BMTC				0.92(G) 87.47(S)		0.92(G) 87.47(S)						
4	NWKRTC	31.61(S)			107.33(S)		107.33(S)						
5	NEKRTC				23.09(G) 88.36(S)	0.12(G)	23.21(G) 88.36(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)
	Sector-wise total	**31.61(S)**		**10.37(G)**	**49.47(G)** **443.27(S)**	**0.12(G)**	**59.96(G)** **443.27(S)**						
	TOTAL B (all sector-wise Statutory Corporations)	**85.27(S)**		**10.37(G)**	**49.47(G)** **443.27(S)**	**0.12(G)**	**59.96(G)** **443.27(S)**	**400.00**	**1189.50**				
	Grand total (A + B)	**4,660.59(S)** **3.50(CG)**	**10.25(S)** **48.20(CG)**	**220.28(G)** **9.34(PS)** **17.58(PGS)**	**2,067.27(G)** **1,308.56(PS)** **247.20(PGS)** **6,764.03(S)**	**116.89(G)** **5.01(PGS)** **0.05(S)**	**2,404.44(G)** **1,317.9(PS)** **269.79(PGS)** **6,764.08(S)**	**557.19**	**3500.90**	**2.19**	**101.50**		**103.69**
C. NON WORKING GOVERNMENT COMPANIES													
MANUFACTURING SECTOR													
1	MLW		0.83(S)										
	TOTAL (A+B+C)	**4,660.59(S)** **3.50(CG)**	**11.08(S)** **48.20(CG)**	**220.28(G)** **9.34(PS)** **17.58(PGS)**	**2,067.27(G)** **1,308.56(PS)** **247.20(PGS)** **6,764.03(S)**	**116.89(G)** **5.01(PGS)** **0.05(S)**	**2,404.44 (G)** **1,317.9(PS)** **269.79(PGS)** **6,764.08(S)**	**557.19**	**3500.90**	**2.19**	**101.50**		**103.69**

Figures are provisional and as furnished by the companies in respect of companies that have not finalised their accounts for 2012-13.
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.
@ **Figures indicate total guarantees outstanding at the end of the year.**

Annexure 4

Statement showing the investments made by the State Government in PSUs whose accounts are in arrears at the end of March 2013.

(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	KTAML	2010-11	5.00	2011-12	-	-	-	-	-
2	KSAWDCL	2011-12	6.05	2011-12	-	-	6.40	-	-
3	KSSCL	2011-12	3.68	2011-12	-	-	0.75	-	-
4	KMDCL	2011-12	0.01	2011-12		-	5.00		-
FINANCING SECTOR									
5	KSWDC	2011-12	13.40	2011-12	0.16	-	5.00	-	37.85
6	KSTADC	2011-12	17.08	2011-12	4.93	-	11.55	-	-
7	KMDC	2011-12	185.49	2011-12	49.00	-	63.00	-	-
INFRASTRUCTURE SECTOR									
8	KSCCL	2010-11	2.05	2011-12	-	-	-	-	-
9	KRIDL	2011-12	12.25	2011-12	-	-	-	-	-
10	KRDCL	2011-12	1066.59	2011-12	43.80	-	230.00	-	-
11	KBJNL	2011-12	7110.28	2011-12	101.50	-	839.36	-	-
12	KNNL	2011-12	12240.17	2011-12	2200.19	-	-	-	-
13	CNNL	2011-12	5914.70	2011-12	970.15	-	-	-	-
14	HDBRTS	First Accounts	18.13	2011-12	15.13	-	-	-	-
MANUFACTURING SECTOR									
15	LIDKAR	2011-12	6.85	2011-12	-	-	8.34	-	6.63
16	KSDL	2011-12	31.82	2011-12	-	-	-	-	-
17	MPM	2011-12	118.89	2011-12	-	-	-	-	-
18	MYSUGAR	2010-11	17.76	2011-12	-	-	-	-	-
19	MSIL	2011-12	42.73	2011-12	-	-	-	-	-
POWER SECTOR									
20	KREDL	2011-12	0.50	2011-12	-	-	-	-	12.00
21	KPTCL	2011-12	1675.32	2011-12	250.00	-	-	-	-
22	BESCOM	2011-12	546.92	2011-12	97.50	-	27.75	-	1237.49
23	HESCOM	2011-12	707.53	2011-12	124.00	-	19.39	-	2730.57
24	MESCOM	2011-12	172.07	2011-12	19.00	-	10.54	30.69	357.54
25	CHESC	2011-12	263.01	2011-12	62.50	-	31.00	-	770.40
26	GESCOM	2011-12	464.20	2011-12	95.00	-	-	-	1204.36
SERVICE SECTOR									
27	KFCSCL	2011-12	3.25	2011-12	-	-	0.45	-	-

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
28	KSTDC	2010-11	6.41	2011-12	-	-	8.20	-	-
MISCELLANEOUS SECTOR									
29	KVTSDCL	2011-12	0.04	2011-12	-	-	5.50	-	-
30	KPLCL	2011-12	0.05	2011-12	-	-	-	10.00	-
B. WORKING STATUTORY CORPORATIONS									
AGRICULTURE AND ALLIED SECTOR									
1	KSWC	2011-12	20.65	2011-12	-	-	-	-	-
FINANCING SECTOR									
2	KSFC	2011-12	831.35	2011-12	53.66	-	-	-	-
SERVICE SECTOR									
3	KSRTC	2011-12	291.89	2011-12	-	-	25.46	-	160.11
4	BMTC	2011-12	157.71	2011-12	-	-	0.92	-	87.47
5	NWKRTC	2011-12	281.43	2011-12	31.61	-	-	-	107.33
6	NEKRTC	2011-12	131.12	2011-12	-	-	23.09	-	88.36
	Total				**4118.13**	**-**	**1321.70**	**40.69**	**6800.11**

Annexure 5
Statement showing financial position of Statutory Corporations.
(Referred to in Paragraph 1.28)

Working Statutory Corporations

1. Bangalore Metropolitan Transport Corporation, Bangalore

₹ in crore

Particulars	2010-11	2011-12	2012-13 (provisional)
Liabilities			
Paid up capital	157.96	157.72	157.72
Reserve and surplus (including capital grants but excluding depreciation reserve)	913.83	897.52	579.22
Borrowings (loan funds)	313.79	373.26	451.07
Current liabilities and provisions	182.94	192.41	324.83
Total	**1568.52**	**1620.90**	**1512.84**
Assets			
Gross block	1395.07	1596.52	2013.88
Less: Depreciation	531.54	621.00	725.36
Net fixed assets	863.53	975.52	1288.52
Capital works-in-progress (including cost of chassis)	543.92	488.21	79.14
Investments	20.16	0	0
Current assets, loans and advances	140.91	157.17	145.18
Accumulated losses	0	0	0
Total	**1568.52**	**1620.90**	**1512.84**
Capital employed	**1365.42**	**1427.76**	**1187.47**

Annexure 5
Statement showing financial position of Statutory Corporations.
(Referred to in Paragraph 1.28)

2. Karnataka State Road Transport Corporation, Bangalore

₹ in crore

Particulars	2010-11	2011-12	2012-13 (provisional)
Liabilities			
Paid up capital	291.89	291.89	291.89
Reserve and surplus (including capital grants but excluding depreciation reserve)	161.30	156.39	152.62
Borrowings (loan funds)	227.89	242.01	240.76
Current liabilities and provisions	333.89	370.67	493.04
Total	**1014.97**	**1060.96**	**1178.31**
Assets			
Gross block	1603.74	1820.26	1995.80
Less: Depreciation	844.96	972.17	1116.64
Net fixed assets	758.78	848.09	879.16
Capital works-in-progress (including cost of chassis)	105.07	61.99	88.73
Investments	0.05	0.05	0.05
Current assets, loans and advances	151.07	150.83	210.37
Accumulated losses	0.00	0.00	0
Total	**1014.97**	**1060.96**	**1178.31**
Capital employed[9]	**678.25**	**688.74**	**683.17**

[9] **excluding deferred revenue expenditure.**

Annexure 5
Statement showing financial position of Statutory Corporations.
(Referred to in Paragraph 1.28)

3. North Western Karnataka Road Transport Corporation, Hubli

₹ in crore

Particulars	2010-11	2011-12	2012-13 (provisional)
Liabilities			
Paid up capital	238.55	281.43	313.05
Reserve and surplus (including capital grants but excluding depreciation reserve)	48.08	53.10	57.84
Borrowings (loan funds)	319.79	308.40	319.41
Current liabilities and provisions	218.22	278.66	360.84
Total	**824.64**	**921.59**	**1051.14**
Assets			
Gross block	629.49	724.98	824.09
Less: Depreciation	355.40	396.51	452.63
Net fixed assets	274.09	328.47	371.46
Capital works-in-progress (including cost of chassis)	25.10	37.16	59.36
Current assets, loans and advances	169.90	174.97	178.02
Accumulated losses	355.55	378.99	442.30
Total	**824.64**	**921.59**	**1051.14**
Capital employed	**235.04**	**252.40**	**234.33**

Annexure 5
Statement showing financial position of Statutory Corporations.
(Referred to in Paragraph 1.28)

4. North Eastern Karnataka Road Transport Corporation, Gulbarga

₹ in crore

Particulars	2010-11	2011-12	2012-13 (provisional)
Liabilities			
Paid up capital	229.48	131.12	131.12
Reserve and surplus (including capital grants but excluding depreciation reserve)	47.97	170.93	185.12
Borrowings (loan funds)	172.39	177.72	140.62
Current liabilities and provisions	385.79	429.09	519.09
Total	**835.63**	**908.86**	**975.95**
Assets			
Gross block	645.96	727.94	831.04
Less: Depreciation	358.05	412.19	469.55
Net fixed assets	287.91	315.75	361.49
Capital works-in-progress (including cost of chassis)	50.66	45.95	47.78
Investments	0.05	0.05	0.10
Current assets, loans and advances	158.10	123.93	122.46
Accumulated losses	338.91	423.18	444.12
Total	**835.63**	**908.86**	**975.95**
Capital employed[10]	**44.66**	**53.76**	**10.63**

[10] **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 1.28)

5. Karnataka State Financial Corporation, Bangalore

₹ in crore

Sl. No.	Particulars	2010-11	2011-12	2012-13 (provisional)
A.	**Liabilities**			
	Paid up capital	619.06	619.06	658.56
	Share application money	59.15	212.29	226.46
	Reserve fund and other reserves and surplus	47.68	46.79	45.90
	Borrowings			
	i) Bonds and debentures	790.20	872.67	1189.50
	ii) Fixed deposits	112.52	110.33	105.90
	iii) Industrial Development Bank of India and Small Industries Development Bank of India	936.46	895.28	829.21
	iv) Loan towards Share capital-Industrial Development Bank of India	0	0	0
	v) Others (including State Government)	171.48	25.07	41.99
	Other liabilities and provisions	299.92	398.35	419.87
	Total	**3036.47**	**3179.84**	**3517.39**
B.	**Assets**			
	Cash and bank balances	224.16	259.72	268.68
	Investments	500.59	500.74	662.82
	Loans and advances	1620.42	1742.38	1924.13
	Net fixed assets	52.81	51.46	55.16
	Other assets	84.74	82.88	80.96
	Miscellaneous expenditure	553.75	542.66	525.64
	Total	**3036.47**	**3179.84**	**3517.39**
C.	**Capital employed[11]**	**2471.96**	**2655.53**	**2893.16**

[11] **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 1.28)

6. Karnataka State Warehousing Corporation, Bangalore

₹ in crore

Sl. No.	Particulars	2010-11	2011-12	2012-13 (provisional)
A.	**Liabilities**			
	Paid-up capital	10.65	20.65	20.65
	Reserves and surplus	61.58	64.73	68.71
	Borrowings (Government)	18.41	4.20	
	(Others)	117.30	162.88	206.78
	Trade dues and current liabilities (including provisions)	82.87	91.51	130.87
	Total	**290.81**	**343.97**	**427.01**
B.	**Assets**			
	Gross block	175.25	218.98	315.93
	Less: Depreciation	21.86	25.28	30.36
	Net fixed assets	153.39	193.70	285.57
	Capital work-in-progress	34.54	38.45	31.48
	Investments	-	-	
	Current assets, loans and advances	102.88	111.82	109.96
	Total	**290.81**	**343.97**	**427.01**
C.	**Capital employed**[12]	**207.94**	**267.23**	**296.14**

[12] **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 1.28)

1. Bangalore Metropolitan Transport Corporation, Bangalore

₹ in crore

Sl. No.	Description	2010-11	2011-12	2012-13 (provisional)
1	Total revenue	1327.55	1503.06	1660.45
2	Operating revenue[13]	1211.24	1386.25	1516.00
3	Total expenditure	**1276.72**	1481.65	1808.41
4	Operating expenditure[14]	1250.04	1450.85	1750.49
5	Operating profit/loss (-)	(-)38.80	(-)64.60	-234.49
6	**Profit for the year**	**50.83**	**21.41**	**-147.96**
7	Accumulated profit	641.63	663.05	515.10
8	Fixed costs			
	Personnel costs	464.84	583.55	757.99
	Depreciation	115.07	119.37	127.42
	Interest	9.69	12.29	32.75
	Other fixed costs	27.34	48.83	69.07
	Total fixed costs	**616.94**	**764.04**	**987.23**
9	Variable costs			
	Fuel and lubricants	501.82	543.81	616.08
	Tyres and tubes	32.18	37.44	36.86
	Other Items/spares	50.00	32.13	47.30
	Taxes (Motor vehicle tax, Passenger tax, *etc.*)	67.10	76.94	84.14
	Other variable costs	8.68	27.29	36.80
	Total variable costs	**659.78**	**717.61**	**821.18**
10	Effective KMs operated (in lakh)	4544.68	4633.49	4638.38
11	Earnings *per* KM (₹)(1/10)	29.21	32.44	35.80
12	Fixed cost *per* KM (₹) (8/10)	13.57	16.49	21.28
13	Variable cost *per* KM (₹) (9/10)	14.52	15.49	17.70
14	Cost *per* KM (₹) (12+13)	28.09	31.98	38.99
15	Net earnings *per* KM (₹) (11-14)	1.12	0.46	-3.19
16	Traffic revenue[15] (₹ in crore)	1211.23	1386.25	1516.00
17	Traffic revenue *per* KM (₹) (16/10)	26.65	29.92	32.68
18	Return on capital employed	6.04	33.72	-115.20
19	Percentage on capital employed	4.40	2.36	-

[13] **Operating revenue includes traffic earnings, passes and season tickets, re-imbursement against concessional passes, fare realised from private operators under 'KM Scheme', *etc.***

[14] **Operating expenditure include expenses relating to traffic, depreciation on fleet, repair and maintenance, electricity, welfare and remuneration, licences and taxes and general administration expenses.**

[15] **Traffic revenue represents sale of tickets, advance booking, reservation charges and contract services earnings.**

Annexure 6
Statement showing working results of Statutory Corporations.
(Referred to in Paragraph 1.28)

2. Karnataka State Road Transport Corporation, Bangalore

₹ in crore

Sl. No	Description	2010-11	2011-12	2012-13 (provisional)
1	Total revenue	2078.64	2318.63	2592.33
2	Operating revenue[16]	1866.37	2226.99	2477.17
3	**Total expenditure**	**2016.63**	**2299.22**	**2590.59**
4	Operating expenditure[17]	1947.72	2221.90	2516.94
5	Operating profit/loss (-)	(-)81.35	5.09	(-)39.77
6	**Profit/loss for the year[18]**	**62.05**	**19.41**	**1.74**
7	Accumulated profit/loss (-)	43.14	62.56	64.30
8	Fixed costs			
	Personnel costs	627.65	703.46	869.69
	Depreciation	190.94	209.93	212.99
	Interest	19.04	19.33	22.57
	Other fixed costs	92.48	121.80	134.15
	Total fixed costs	**930.11**	**1054.52**	**1239.40**
9	Variable costs			
	Fuel and lubricants	784.92	907.06	1012.54
	Tyres and tubes	77.07	95.72	96.87
	Other items/ spares	126.97	145.61	154.37
	Taxes (Motor vehicle tax, Passenger tax, *etc.*)	97.56	116.83	128.13
	Other variable costs	0	41.22	33.10
	Total variable costs	**1086.52**	**1244.7**	**1351.19**
10	Effective KMs operated (in lakh) (own + hired)	8707.67	9242.56	9415.64
11	Earnings *per* KM (₹)(1/10)	23.87	25.08	27.53
12	Fixed cost *per* Km (₹) (8/10)	10.68	11.19	13.16
13	Variable cost *per* KM (₹) (9/10)	12.48	13.69	14.35
14	Cost per KM (₹) (3/10)	23.16	24.88	27.51
15	Net earnings *per* KM (₹)(11-14)	0.71	0.20	0.02
16	Traffic revenue (₹ in crore)	1768.99	2113.50	2317.07
17	Traffic revenue *per* km (₹) (16/10)	20.32	22.87	24.61
18	Return on capital employed[19]	81.09	37.79	21.72
19	Percentage on capital employed	11.95	5.49	3.18

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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 1.28)

3. North Western Karnataka Road Transport Corporation, Hubli

₹ in crore

Sl. No	Description	2010-11	2011-12	2012-13 (provisional)
1	Total revenue	1032.59	1159.07	1314.00
2	Operating revenue[20]	904.76	1018.65	1157.23
3	**Total expenditure**	**1063.04**	**1182.50**	**1377.31**
4	Operating expenditure[21]	1009.78	1125.29	1313.32
5	Operating profit/loss (-)	(-)105.02	(-)106.64	(-)156.09
6	**Profit/loss for the year**	**(-)30.45**	**(-)23.43**	**(-)63.31**
7	Accumulated profit/loss (-)	(-)355.55	(-)378.99	(-)442.30
8	Fixed costs			
	Personnel costs	302.33	407.83	526.71
	Depreciation	76.92	84.26	97.49
	Interest	28.53	29.35	33.46
	Other fixed costs	0	70.76	44.82
	Total fixed costs	**407.88**	**592.20**	**702.48**
9	Variable costs			
	Fuel and lubricants	407.89	456.06	520.77
	Tyres and tubes	42.05	44.36	43.87
	Other items/spares	160.86	40.38	28.21
	Taxes (Motor vehicle tax, Passenger tax, *etc.*)	44.46	49.00	58.78
	Other variable costs	0	0	23.20
	Total variable costs	**655.26**	**590.30**	**674.83**
10	Effective KMs operated (in lakh) (own + hired)	4800.93	4946.74	5272.59
11	Earnings *per* KM (₹)(1/10)	21.51	23.43	24.92
12	Fixed cost *per* Km (₹) (8/10)	8.49	11.97	13.32
13	Variable cost *per* KM (₹) (9/10)	13.65	11.93	12.80
14	Cost *per* KM (₹) (3/10)	22.14	23.90	26.12
15	Net earnings *per* KM (₹) (11-14)	(-) 0.63	(-) 0.47	(-)1.20
16	Traffic revenue (₹ in crore)	903.07	1018.65	1157.23
17	Traffic revenue *per* km (₹)(16/10)	18.81	20.59	21.95
18	Return on capital employed[22]	(-) 1.92	5.92	(-)26.61
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 1.28)

4. North Eastern Karnataka Road Transport Corporation, Gulbarga

₹ in crore

SL. No	Description	2010-11	2011-12	2012-13 (provisional)
1	Total revenue	864.38	980.36	1133.41
2	Operating revenue[23]	804.24	911.34	1019.76
3	**Total expenditure**	**876.43**	998.43	1154.34
4	Operating expenditure[24]	843.20	963.45	1107.10
5	Operating profit/loss (-)	(-)38.96	(-) 9.90	(-)87.34
6	**Profit/loss for the year (-)**	**(-)12.05**	**(-) 18.07**	**(-)20.93**
7	Accumulated profit/loss (-)	(-)338.90	(-) 356.97	(-)377.90
8	Fixed costs			
	Personnel costs	281.33	333.07	421.65
	Depreciation	78.52	79.90	82.77
	Interest	13.20	18.51	15.45
	Other fixed costs	27.16	30.17	15.74
	Total fixed costs	**400.21**	**461.65**	**535.61**
9	Variable costs			
	Fuel and lubricants	355.52	404.78	444.86
	Tyres and tubes	43.06	50.78	50.99
	Other items/ spares	32.97	33.13	69.45[25]
	Taxes (Motor vehicle tax, Passenger tax, *etc.*)	40.10	48.09	53.43
	Other variable costs	4.57	-	-
	Total variable costs	**476.22**	**536.78**	**618.73**
10	Effective KMs operated (in lakh) (own + hired)	4294.94	4465.86	4488.44
11	Earnings *per* KM (₹)(1/10)	20.13	21.95	25.37
12	Fixed cost *per* Km (₹) (8/10)	9.32	10.34	11.93
13	Variable cost *per* KM (₹) (9/10)	11.09	12.02	13.78
14	Cost *per* KM (₹) (3/10)	20.41	22.36	24.54
15	Net earnings *per* KM (₹)(11-14)	(-) 0.28	(-) 0.41	25.72
16	Traffic revenue (₹ in crore)	767.96	911.34	1019.76
17	Traffic revenue *per* km (₹) (16/10)	17.88	20.41	22.72
18	Return on capital employed	1.03	0.44	(-) 5.48
19	Percentage on capital employed	-	0.82	-

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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.

Annexure 6
Statement showing working results of Statutory Corporations.
(Referred to in Paragraph 1.28)

5. Karnataka State Financial Corporation, Bangalore

₹ in crore

Sl. No.	Particulars	2010-11	2011-12	2012-13 (provisional)
1	**Income**			
	a) Interest on loans	198.68	203.82	246.66
	b) Other income	20.49	23.09	26.68
	Total (1)	**219.17**	**226.91**	**273.34**
2	**Expenses**			
	a) Interest on long term and short term loans	137.80	151.96	174.80
	b) Other expenses	87.24	71.28	92.57
	Total (2)	**225.04**	**223.24**	**267.37**
3	Profit/ loss (-) before tax (1-2)	(-) 5.87	3.67	5.97
4	Total return on capital employed[26]	131.93	155.63	180.76
5	Percentage of return on capital employed	5.34	5.86	6.25

[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 1.28)

6. Karnataka State Warehousing Corporation, Bangalore

₹ in crore

Sl. No.	Particulars	2010-11	2011-12	2012-13 (provisional)
1	**Income** a) Warehousing charges b) Other income	 23.33 28.12	 47.06 5.64	 55.15 3.97
	Total	**51.45**	**52.70**	**59.12**
2	**Expenses** a) Establishment charges b) Other expenses	 12.93 21.61	 15.60 22.19	 16.29 26.87
	Total	**34.54**	**37.79**	**43.16**
3	Profit before tax	16.91	14.91	15.96
4	Provision for tax	8.12	12.50	7.45
5	Amount available for dividend	8.79	2.41	8.51
6	Dividend for the year	1.56	1.56	1.70
7	Total return on capital employed[27]	21.25	20.12	23.11
8	Percentage of return on capital employed	10.22	8.05	7.80

[27] **worked out without considering prior period adjustments, and hence varies with Annexure-2.**

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 1.42)

PSU	Year	Comments
The Mysore Sugar Company Limited	2009-10	➢ The internal audit in general is not commensurate with the size of the Company.
Karnataka Togari Abhivridhi Mandali Limited	2010-11	➢ Due to lack of proper staff and staff management, the board is not able to follow proper system of accounts and financial control. ➢ There is no compliance mechanism followed by the Company on audit observations made by the Internal Auditors. ➢ There is no control over modification of accounting records and there is risk of unauthorized alteration of accounting records.
Karnataka State Electronics Development Corporation Limited	2011-12	➢ The internal audit system, level of competence and frequency of reporting were not commensurate with the size of the company and nature of its business.
Karnataka Thanda Development Corporation Limited (KTDCL)	2012-13	➢ The internal control systems are weak and needs to be strengthened. ➢ Delays were observed in accounting of the bills, payments without withholding of income tax, delay in payment of taxes *etc*. ➢ Unable to express our opinion on the genuineness of payments amounting to ₹ 3.16 lakh. ➢ Company was not regular in filing Tax Deducted at Source returns. ➢ Fixed assets register has not been maintained as required under the Companies Act, 1956. ➢ Procedures laid down in The Karnataka Transparency in Public Procurement Act, 1999 were not followed in some cases in awarding the contract.
KPC Bidadi Power Corporation Private Limited	2012-13	➢ Company does not have Internal Audit system.
Karnataka Power Corporation Limited	2012-13	➢ Internal Control needs to be strengthened
Food Karnataka Limited	2012-13	➢ No Internal Audit System exists.
Raichur Power Corporation Limited	2012-13	➢ Audit Committee has met only once during the year and has not taken any action on previous year's statutory auditor's comments on specific cases of fraud and misappropriation reported.
Karnataka State Small Industries Development Corporation Limited	2012-13	➢ The reporting system, scope and compliance mechanism of internal audit is inadequate. ➢ Company does not have an approved IT strategy/plan.
Mysore Sales International Limited	2012-13	➢ Internal Audit reports were not discussed by the Audit Committee. ➢ Scope of Internal Audit need to be enhanced. ➢ Internal control mechanism was not designed adequately to prevent and detect frauds. ➢ The Company has no well-defined credit policy.
The Karnataka Handloom Development Corporation Limited	2012-13	➢ It was recommended to enlarge the scope and coverage of the Internal Audit and improve the compliance mechanism.
Karnataka State Handicrafts Development Corporation Limited	2012-13	➢ The Company did not have an Audit Committee. ➢ Compliance to Internal Audit reports need be strengthened
Karnataka State Coir Development Corporation Limited	2012-13	➢ The Internal Audit was to be strengthened in terms of areas of audit to be covered and frequency of submitting of reports.

Annexure – 8

Statement showing the details of work for which there were factors which affected the construction of roads and bridges.

(Referred to in Paragraph 2.1.11)

Sl. No	Name of the work	Date of DPR	Date of tendering	Date of award	Scheduled date of completion	Year of estimate	Estimated amount	Revised estimate	Cost of award	Actual cost (31.3.2013) (₹ in crore)
Major Roads										
1	Mysore-Bantwal Road (Package B)	December 2003	January 2006	October 2006	October 2008	NHSR 2000-01	91.60	-	97. 28	179.77 (Work completed in March 2012)
2	Improvement to existing road from Peeranwadi up to Goa Border (Chorla)	March 2007	March 2007	September 2007	March 2010	NHSR 2006-07	65.37	101.45	101.45	96.88 (Work in progress)
3	Outer Ring Road around Hassan town	February 2007	April 2007	November 2007	November 2009	NHSR 2007-08	248.76	178.21	187.17	6.63 (Work abandoned)
4	Widening and Improvements to Mysore-Bantwal Road (Package C)	January 2003	.January 2009	December 2009	June 2012	NHSR 2000-01	98.00	157.03	176.62	68.90 (Work in progress)
5	Mangalore airport Road.	No DPR Prepared	March 2012	January 2013	July 2013	NHSR 2011-12	11,46	-	10.39	1.29 (Work in progress)
6	Grade separator at Harohalli, Bidadi	December 2009	February 2011	October 2011	April 2013	NHSR 2010-11	20.30	-	22.12	1.24 (Land acquisition in progress)
Major Bridges										
7	Sagarkatte Bridge	No DPR	No tender	October 2006	August 2009	Line estimate	18.00	27.31	27.31	14.81 (Work in progress)
8	Bridge at Sagara-Pattaguppa Road	2004	July 2007	June 2008	June 2010	NHSR 2007-08	19.80	29.33	22.74	16.95 (Work in progress)
9	Bridge across Krishna River	April 2009	February 2010	July 2010	January 2013	NHSR 2008-09	36.89	33.28	38.99	43.29 (Work in progress)
10	Bridge at Honnalli	September 2010	January 2011	June 2011	.June 2013	NA	22.75	-	21.79	2.66 (Work in progress)
11	Bridge at Harihara	September 2010.	January 2011	June 2011	June 2013	NA	21.50	-	19.88	0.75 (Work in progress)

(Source: Contract Agreements, Estimates, Running Account bills); NHSR = National Highway Schedule of Rates; NA = Not available.

Annexure-9

Statement showing the details of award of contract for executing bridge works under Phase II, III and IV in KRDCL.

(Referred to in Paragraph 2.1.13)

Name of the agency participated in tender	No of bridges	Amount put to tender	Amount quoted including premium	percentage of Tender premium quoted (+)	percentage of Tender premium after negotiation (+)	Name of the agency bagged the contract	Awarded cost with premium	Contract amount for Survey and soil investigation	Date of agreement	Stipulated date of completion	No of bridges* completed within contract period	No of bridges completed as of 31 March 2013
Phase II												
Package 1											212	254
L & T Limited	64	35.3	*		17.7	Gammon India Limited	41.55	0.70	May-05	May-08		
Gammon India Limited												
NCCL												
Package 2												
L & T Limited	57	37.53	*		17.7	NCCL	44.17	0.85	May-05	May-08		
Gammon India Limited												
NCCL												
Package 3												
L & T Limited	71	40.95	*		17.7	NCCL	48.20	1.06	May-05	May-08		
Gammon India Limited												
NCCL												
Package 4												
L & T Limited	70	65.1	*[28]		17.7	Gammon India Limited	76.62	1.07	May-05	May-08		
Gammon India Limited												
NCCL												
Total	**262**	**178.88**					**210.54**	**3.68**			**212**	**254**
Phase III												
Package 1											123	167
L & T Limited	45	41.65	51.64	24	18.95	Gammon India Limited	49.54	0.98	Aug-06	Aug-09		
Gammon India Limited			50.39	21								
NCCL			50.81	22								
Package 2												
L & T Limited	59	41.31	50.84	22.2	18.95	NCCL	49.14	1.68	Aug-06	Aug-09		
Gammon India Limited			51.18	23.9								
NCCL			49.98	21								
Package 3												
L & T Limited	43	42.6	52.09	22.3	18.95	NCCL	50.67	1.00	Aug-06	Aug-09		
Gammon India Limited			52.78	23.9								
NCCL			51.54	21								

[28] *** Details not available, as detailed records were not produced.**

Name of the agency participated in tender	No of bridges	Amount put to tender	Amount quoted including premium	percentage of Tender premium quoted (+)	percentage of Tender premium after negotiation (+)	Name of the agency bagged the contract	Awarded cost with premium	Contract amount for Survey and soil investigation	Date of agreement	Stipulated date of completion	No of bridges* completed within contract period	No of bridges completed as of 31 March 2013
Package 4												
L & T Limited			71.66	24.4								
Gammon India Limited	71	57.61	69.7	21	18.95	Gammon India Limited	68.53	1.26	Aug-06	Aug-09		
NCCL			70.28	22								
Total	**218**	**183.17**					**217.88**	**4.92**			**123**	**167**
Phase IV												
Package 1												
L & T Limited			59.22	28								
Gammon India Limited	67	46.27	56.91	23	18.5	Gammon India Limited	54.83	2.10	Dec-07	Oct-10		
NCCL			58.3	26								
Package 2												
L & T Limited			76.02	28								
Gammon India Limited	70	59.39	74.24	25	18.5	NCCL	70.38	2.34	Oct-07	Oct-10		
NCCL			72.57	22.2								
Package 3											12	70
L & T Limited			64.68	28								
Gammon India Limited	80	50.53	63.16	25	18.5	NCCL	59.88	2.55	Oct-07	Oct-10		
NCCL			61.75	22.2								
Package 4												
L & T Limited			81.41	28								
Gammon India Limited	103	63.6	78.23	23	18.5	Gammon India Limited	75.37	3.09	Dec-07	Oct-10		
NCCL			80.14	26								
Total	**320**	**219.79**					**260.45**	**10.08**			**12**	**70**
Grand Total	**800**	**581.84**					**688.87**	**18.68**			**347**	**491**

Annexure-10

Statement showing the working results of KECML for the period 2008-09 to 2012-13.

(Referred to in Paragraph 3.1.15)

₹ in crore

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1	Quantity supplied (in MT)	7,68,893	20,83,644	20,86,501	21,96,005	25,14,131
2	Revenue earned from supplies					
(i)	Sales	84.29	274.98	290.88	290.06	328.84
(ii)	Other income	0	0.46	0.08	0.28	0.16
(iii)	Increase in stock	7.12	3.67	-6.57	3.09	-8.31
	Total Revenue	**91.41**	**279.11**	**284.38**	**293.43**	**320.69**
3	Expenditure:					
(i)	Charges for mining operation	74.34	232.14	240.45	245.28	272.74
(ii)	Development and other direct expenses	5.9	17.81	13.05	21.01	10.52
(iii)	Social Environment Management expenses	0.86	1.42	1.22	1.29	2.45
(iv)	Administrative Expenses	1.81	5.17	6.50	2.26	2.76
(v)	Finance Charges	0.18	1.57	3.05	1.5	6.27
(vi)	Depreciation	7.18	16.27	16.97	18.98	22.41
(vii)	Other expenditure	0.15	1.37	0	0	0
	Total Expenditure	**90.42**	**275.74**	**281.24**	**290.31**	**317.15**
4	**Profit shown**	**0.99**	**3.37**	**3.14**	**3.12**	**3.54**
4(i)	Percentage of profit to turnover (2(i)/4)	1.17	1.23	1.08	1.08	1.08
5	**Revenue (₹ per MT)**	**1,188.89**	**1,339.53**	**1,362.97**	**1,336.20**	**1,275.55**
6	**Expenditure(₹ per MT)**	**1,176.03**	**1,323.37**	**1,347.93**	**1,321.99**	**1,261.47**

(Source: Annual Accounts of KECML)

Annexure-11

Targets and achievement of ESCOMs under the RGGVY scheme during X and XI Plans as at 31 March 2013.

(Referred to in Paragraph 3.2.6)

ESCOM	Plan	Target			Achievement		
		Intensive electrifica-tion of villages	Electrifica-tion of Rural households other than BPL households	Electrifica-tion of BPL house-holds	Intensive electric-ation of villages	Electrifica-tion of Rural households other than BPL households	Electrifica-tion of BPL households
BESCOM	X	10,543	1,79,256	1,88,904	9,758 (92.55)	24,053 (13.42)	1,82,334 (96.52)
CESCO	X	5,353	1,95,716	1,42,670	4,296 (80.25)	18,520 (9.46)	1,78,280 (124.96)
	XI	718	1,03,706	52,781	593 (82.59)	28,787 (27.76)	50,916 (96.47)
GESCOM	X	2,588	1,94,576	1,28,602	2,254 (87.09)	131554 (67.61)	1,21,559 (94.52)
	XI	1,344	71,420	58,973	1,069 (79.54)	18,339 (25.68	42,800 (72.58)
HESCOM	X	2,668	1,92,015	1,71,652	2,575 (96.51)	1,12,534 (58.61)	1,50,394 (87.62)
	XI	2,350	1,15,719	82,087	1,861 (79.19)	5,021 (4.34)	73,228 (89.21)
MESCOM	XI	2,504	39,224	40,456	2,229 (89.02)	67,968 (173.28)	47,067 (116.34)
Total	X	**21,152**	**7,61,563**	**6,31,828**	**18,883** (89.27)	**2,86,661** (37.64)	**6,32,567** (100.12)
	XI	**6,916**	**3,30,069**	**2,34,297**	**5,752 (83.17)**	**1,20,115 (36.39)**	**2,14,011 (91.34)**

(Source: www.rggvy.gov.in, DPRs and closure reports of ESCOMs); Figures in brackets indicate percentage of achievement to targets.

Annexure-12

Statement showing revenue foregone by Mysore Minerals Limited.

(Referred to in Paragraph 3.4)

(₹ in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total (2002-12)
Income											
Sales	59.72	78.24	91.38	180.41	217.16	319.90	282.89	226.05	116.40	57.56	**1629.71**
Other income	0.69	0.56	0.11	0.49	2.23	0.58	1.54	0.79	5.29	0.50	**12.78**
Accretion/decretion stock	-8.71	3.74	5.20	-0.13	20.10	-6.36	16.43	-16.56	1.09	-4.21	
Total	**51.70**	**82.54**	**96.69**	**180.77**	**239.49**	**314.12**	**300.86**	**210.28**	**122.78**	**53.85**	**1642.49**
Expenditure											
Purchase of iron ore	0.03	1.02	0.00	0.00	0.00	0.00	23.17	42.16	30.61	3.08	**100.07**
Ore extraction charges	2.43	3.71	5.69	5.08	6.78	13.25	15.00	18.89	22.06	11.59	**104.48**
Transport charges	8.01	10.14	5.96	6.77	31.61	38.55	32.03	27.09	13.49	6.34	**179.99**
Railway freight	19.66	26.00	20.53	43.99	49.28	51.26	106.18	87.20	11.24	0.00	**415.34**
Other expenses	18.62	27.20	13.20	18.29	27.47	48.37	71.18	67.59	43.87	23.94	**359.73**
Total	**48.75**	**68.07**	**45.38**	**74.13**	**115.14**	**151.43**	**247.56**	**242.93**	**121.27**	**44.95**	**1159.61**
Profit before taxes	2.95	14.47	51.31	106.64	124.35	162.69	53.30	-32.65	1.51	8.90	**482.88**
Total Sales of TMPL	59.72	78.24	91.38	180.41	217.16	319.90	282.89	226.05	116.40	57.56	**1629.71**
Less: Expenses (net of purchases)	48.72	67.05	45.38	74.13	115.14	151.43	224.39	200.77	90.66	41.87	**1059.54**
Less: Internal rate of Return at 16 *per cent* on capital employed	0.10	3.03	5.03	8.11	9.42	12.87	14.80	22.67	14.72	14.10	**104.85**
Income from sales	10.90	8.16	40.97	98.17	92.60	155.60	43.70	2.61	11.02	1.59	**465.32**
Less: Dividend paid to MML	0.21	0.06	4.68	9.83	16.54	18.72	11.86	6.87	4.68	3.12	**76.57**
Loss of income to MML	10.69	8.10	36.29	88.34	76.06	136.88	31.84	-4.26	6.34	-1.53	**388.75**
Tax payable on income foregone	3.29	2.49	13.28	29.73	25.60	46.52	10.82	-1.45	2.11	0.00	**132.40**
Net revenue foregone by MML	7.40	5.61	23.01	58.60	50.46	90.35	21.02	-2.81	4.24	-1.53	**256.35**
Revenue foregone by MML during 2005-06 to 2011-12											**220.33**

(Source: Annual Accounts of MML and TMPL, and production and sales statements furnished by TMPL)

Note: Return on capital employed considered at 16 *per cent*. There was no sales during 2012-13.

Annexure-13
Statement showing the department-wise outstanding Inspection Reports (I.Rs).
(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	9	11	37	2005-06
2	Animal Husbandry, Fisheries/ Forest, ecology and environment	8	7	50	2007-08
3	Commerce and Industries	29	42	371	2003-04
4	Home and Transport	5	74	334	2003-04
5	Co-operation	1	1	33	2011-12
6	Information, Tourism and Youth Service	3	5	24	2005-06
7	Water Resources	3	180	506	2003-04
8	Public Works	2	3	16	2008-09
9	Energy	13	207	1395	2003-04
10	Social Welfare and Labour / Women and Child Welfare	6	9	53	2005-06
11	Food, Civil Supplies and Consumer Affairs	1	4	25	2006-07
12	Rural Development and Panchayat Raj	1	3	28	2005-06
13	Finance / Revenue	5	13	71	2007-08
14	Housing	1	2	19	2008-09
15	Information and Technology / Employment and Training	2	2	25	2009-10
16	Urban Development / Infrastructure Development	4	1	9	2011-12
	Total[29]	**93**	**564**	**2996**	**-**

[29] **Excludes 15 Inspection Reports in which 36 paragraphs are outstanding in respect of Departmental Undertakings.**

GLOSSARY

Abbreviation	Explanation
AAY	Anthyodaya Anna Yojana: A Scheme of Government of India for supply of stipulated quantity of food grains under Public Distribution System to Scheduled Caste, Scheduled Tribe, agricultural labourers, families headed by widows, and persons above 60 years of age not having social security.
BMRCL	Bangalore Metro Rail Corporation Limited: A Joint Venture Company of Government of India and Government of Karnataka formed to construct and operate the Bangalore Metro Rail Project.
BOLT	Build Own Lease Transfer: - A system of implementation of projects through private participation, wherein the private partner construct, pays the lease rent for a specified period and transfers the asset to the Government.
BOOT	Build Own Operate Transfer: - A system of implementation of projects through private participation, wherein the private partner constructs, operates for a specified period, appropriates user charges collected and transfers the asset to the Government.
BOT	Build Operate Transfer: - A system of implementation of projects through private participation, wherein the private partner constructs, operates and transfers the asset to the Government.
BPL	Below Poverty Line - families identified on the basis of certain criteria of the Government of India/States
BTPS	Bellary Thermal Power Station (BTPS): - A Thermal Power Station at Bellary in Karnataka having 2 units, each of 500 MW capacity.
CAP	Covered and Plinth: - A form of storage of food grains in the open yard.
CIP	Central Issue Price: – The price fixed for distribution of food grains by Government of India for distribution to eligible BPL/APL families under Public Distribution System.
CMR	Custom Milled Rice: - Rice obtained on hulling the paddy procured under Decentralised Procurement scheme.
CPRI	Central Power Research Institute (CPRI) - An autonomous Society under the Ministry of Power, Government of India. It functions as a centre for applied research in electrical power engineering assisting the electrical industry in product development and quality assurance.
DBM	Dense Bituminous Macadam
DCW	Deposit Contribution Works: - Works undertaken by the utility after receipt of advance deposit from the user department/entity towards cost of the work
DPR	Detailed Project Report –Report prepared before taking up a project. The report would show the modalities of execution of a project and its viability.

Abbreviation	Explanation
DTCs	Distribution Transformer Centres: - Centres where energy meters are installed so that energy audit could be conducted to help check transmission and distribution losses and power theft.
EBPL	Extra Below Poverty Line: - Families identified as below poverty line by the Government of Karnataka in addition to BPL families as per the Planning Commission for the purpose of distribution of food grains under Public Distribution System.
EMTA	Eastern Minerals & Trading Agency: The Joint Venture partner in 'Karnataka EMTA Coal Mines Limited'
ESCOMs	Electricity Supply Companies involved in supply of electricity in the State. Bangalore Electricity Supply Company Limited (BESCOM), Chamundeswari Electricity Supply Corporation Limited (CESCO), Gulbarga Electricity Supply Company Limited (GESCOM), Hubli Electricity Supply Company Limited (HESCOM) and Mangalore Electricity Supply Company Limited (MESCOM).
FIFO	First In First Out: – method used in issue of stock from the stores.
GCV (adb)	Gross Calorific Value on 'air dried basis' in kcal/kg (IS1350). GCV refers to the quantum of heat produced by coal when burnt.
GCV (arb)	Gross Calorific Value on 'as received basis' in kcal/kg.
Grade of coal	Coal (non-coking) was graded from 'A' to 'G'. Grade 'A', being coal with the highest Gross Calorific Value, is superior and Grade 'G' the lowest.
GSB	Granular Sub-Base: – A kind of structure of carriage way of a road
HDA	High Density Aggregate Plant – Plant manufacturing aggregates of Iron ore
IRC	Indian Road Congress
KECML	Karnataka EMTA Coal Mines Limited, Joint Venture Company between Karnataka Power Corporation Limited and Eastern Minerals and Trading Agency formed for the purpose of mining from the coal blocks allocated by the Ministry of Coal, GoI and supply of coal to the Bellary Thermal power Station.
KFCSC	Karnataka Food and Civil Supplies Corporation Limited, a Government of Karnataka owned enterprise involved in procurement and distribution of food grains under Public Distribution System.
KIADB	Karnataka Industrial Area Development Board is a wholly owned infrastructure agency of Government of Karnataka formed to acquire land, provide basic infrastructure and form industrial areas in the state.
KMS	Kharif Marketing Season:– Cropping season from July to October.(Monsoon Crop)
KPMRD Act	Karnataka Public Money Recovery of Dues (KPMRD) Act, 1979
KSWC	Karnataka State Warehousing Corporation is a fully owned Government of Karnataka enterprise involved in warehousing activities.

Abbreviation	Explanation
Levy Order	Karnataka Rice Milling Regulation and Rice and Paddy Procurement (Levy) Order, 1999.
Levy rice	Mill Point Levy rice: - Rice that is to be handed over by millers/dealers as levy at a price fixed by Government.
LOS	Level of Service is defined as a qualitative measure describing operational conditions within a traffic stream and their perception by drivers/passengers, such as speed, travel time, freedom to maneouvre traffic interruptions, comfort, convenience and safety.
Mine Closure Plan	Mine closure plan is a detailed sketch of activities required to reclaim, vegetate and rehabilitate the mine after its operating life. Mine Closure Plan is a requirement of Ministry of Coal, Government of India to be prepared by the lessee of the mines for obtaining permission to open the mine.
Mining Plan	The mining plan is a document for the scientific and systematic development of mineral deposits and particularly the mining has to be carried out in accordance with the envisaged proposals in the approved mining plan as per the Mineral Concession Rules, 1960 and Mineral Conservation & Development Rules.
MoRTH	Ministry of Road Transport and Highways
MSP	Minimum Support Price: - Price fixed by Government of India for procuring paddy from the farmers.
NHSR	National Highway Schedule of Rates
NLEA	No Lien Escrow Account
NPV	Net Present Value: - Present value of future incomes discounted at a specified rate.
PESF	Price Equalization and Stabilization Fund – Fund operated by Government of Karnataka
PWP &IWTD	Public Works, Ports and Inland Water Transport Department: – The department of Government of Karnataka involved in execution of public works such as buildings, roads, bridges etc., through State budgetary allocation..
REC	Rural Electrification Corporation is a Government of India undertaking involved in financing and functions as nodal agency for implementing rural electrification projects conceived by Government of India.
RMS	Rabi Marketing Season: – Cropping season from October to March (winter crop)
SARFAESI Act	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SFC Act	State Financial Corporation Act, 1951
SPEF	Sugar Price Equalisation Fund: – Fund operated by Government of

Abbreviation	Explanation
	India.
STD	Standard Tender Document issued by Government of Karnataka for tendering and award of works with effect from September 2005
Tapering linkage	It is short-term linkage for supply of coal provided to thermal plants, which are allocated captive coal blocks for meeting the requirement.
TPDS	Targeted Public Distribution System – System of distribution of food grains at reduced prices to identified/targeted BPL families.
VGF	Viability Gap Funding – Funds provided by Governments to projects implemented with private participation.
WBM	Water Bound Macadam – This is a method of laying roads wherein the road is laid in courses and compacted by using water. Macadam is broken stones of even size bound by tar or bitumen and used in successively compacted layers for surfacing roads.
WMM	Wet Mix Macadam – The binding materials are pre-mixed in a batching plant and then brought to the site for overlaying and rolling on the road.