# Chapter - III

# Compliance Audit Observations

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## 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 $\pm$ 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'.

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**[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.

[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 | Extant 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)

**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 33$^{rd}$ 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.

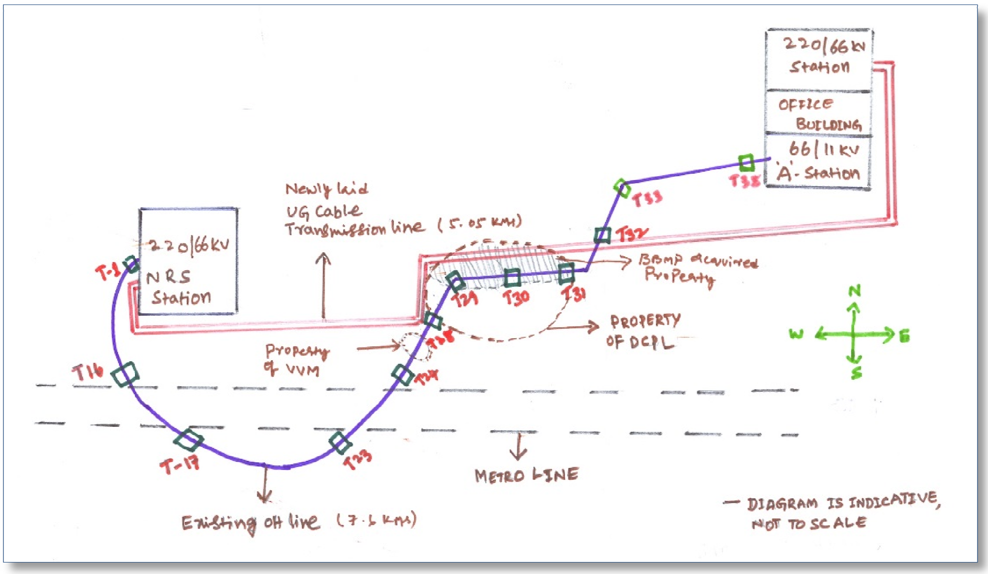
About a year after the approval of the estimate, the subject was placed (May 2009) before the Technical Advisory Committee (TAC) of the Company for consideration, with an option to heighten the existing transmission line by erecting extension towers or to lay UG cable between Towers 16 and 17 and Towers 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.

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[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.

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[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 was 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

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[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**