Chapter 3

Compliance Audit

CHAPTER 3

COMPLIANCE AUDIT

Compliance Audit of the Economic Sector departments, their field formations as well as that of the autonomous bodies brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs:

COMMERCE & INDUSTRIES DEPARTMENT

3.1 Leasing and liquidation of Co-operative Sugar factories

3.1.1 Introduction

India is the second largest producer of sugar in the world. At the national level, Karnataka ranks fourth in sugarcane production and third in sugar production. In Karnataka, there are twenty four sugar factories in co-operative sector as of April 2014. The total sugarcane crushed in the State during 2009-14[31] was 1,627.73 lakh metric tonne (MT) of which sugarcane crushed in Co-operative Sugar Factories (CSF) was 427.38 lakh MT. The production of sugar from these factories contributed to 26 *per cent* of the total sugar produced in Karnataka. Considering the difficulties faced by the sugar factories in co-operative sector, Government of Karnataka (GoK) appointed (January 2003) a cabinet sub-committee (sub-committee) to rehabilitate the ailing industries in the co-operative sector. Taking note of the techno-economic and financial status and based on negative net worth, huge cash loss, and erosion of capital, the sub-committee classified (December 2003) seven[32] CSFs as poor out of the then existing eighteen CSFs. Of the seven CSFs, Pandavapura CSF and Dakshina Kannada CSF were reported to be not working from 2003-04; Vanivilas CSF (August 2004) and Raibagh CSF (January 2004) were already under liquidation. Based on the recommendations of the sub-committee, Cabinet accorded approval (July and September 2005) to lease out four CSFs[33], to continue liquidation proceedings of Vanivilas and Raibagh CSFs and to hand over Bhagyalakshmi CSF to Deputy Commissioner, Belagavi for Operation & Management (O&M).

The Commissionerate of Sugar established in 1973 was responsible for monitoring sugarcane cultivation and also functions as the Registrar of CSFs.

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[31] Crushing year from October to September & crushing year 2013-14 was restricted till April 2014

[32] Pandavapura, Raibagh, Karnataka SSK, Aland, Dakshina Kannada, Bhagyalakshmi, Vanivilas

[33] Pandavapura, Karnataka, Aland and Dakshina Kannada

At the Government level, Secretary, Commerce and Industries (C&I) Department is responsible for monitoring the working of the CSFs. In place of the sub-committee, Government created (May 2008) two State Level Advisory Committees (SLAC), one headed by the Commissioner and the other by the Secretary, C&I Department for administration of tendering process and finalisation of tenders respectively.

Audit findings are discussed in the succeeding paragraphs:

3.1.2 Leasing of CSFs

Between 2005 and 2009, eleven CSFs were leased out based on the recommendations of the Commissioner and approval of the Government as detailed in **Table 3.1:**

Table 3.1: Details of CSFs leased between 2005 and 2009

SL No.	Name of the CSF	Date of Govt approval	Name of the lessee	Period of lease	Date of Agreement	Current status
1	Aland	November 2005 October 2009	Renuka Sugars NSL Sugars	07 years 30 years	January 2006 March 2010	Under lease
2	Bhadra	September 2006	Gyanba Sugars	30 years	June 2010	Terminated on 03.09.2011 (Not working)
3	Bhagyalakshmi	September 2007	Laila Sugars	30 years	June 2010	Under lease
4	Dhanalakshmi	November 2006	Parrys' Sugars	25 years	October 2007	Under lease
5	Dakshina Kannada	November 2006	Ramee Sugars	30 years	April 2008	Pending in court (Not working)
6	Hemavathi	September 2007	Chamundeshwari Sugars	30 years	March 2011 (effective 26.10.2007)	Under lease
7	Karnataka	June 2007	GM Sugars	30 years	February 2008	Under lease
8	Pandavapura	November 2005	Kothari Sugars	07 years	January 2006	Terminated on 17.3.2010
9	Mrudagiri	March 2007	Vijayanagara Sugars	30 years	March 2007	Under lease
10	Raibagh	January 2007	Renuka Sugars	30 years	October 2008	Under lease
11	Srirama	July 2006	Ambika Sugars	22 years	August 2006	Terminated on 31.07.2012 (Not working)

As seen from the table, two CSFs were not working till date (October 2014) as the lease agreements were terminated and one CSF was not working as the dispute between CSF and lessee was pending before the Court.

3.1.2.1 Reallocation of sugar area

Raibagh CSF was leased to M/s Renuka Sugars for a period of 30 years from October 2008. However, prior to leasing of the CSF, Government accorded (August 2007) permission for setting up a new sugar factory at Raibagh taluk, Belagavi district[34] and reallocated the sugarcane growing areas in 14 villages from the reserve area of the CSF to the new sugar factory.

[34] Distance between Raibagh CSF and new sugar factory is less than 15 kms

It was observed that Government's permission to set up the new sugar factory was violative of the provisions of Sugar Control Order, 1966, which prohibits setting up of new sugar factories within a radius of 15 kilometres from an existing sugar factory. As a result, the lessee failed to comply with the conditions of lease agreement regarding increasing the crushing capacity, establishing co-generation plant and distillery.

3.1.2.2 Undue favour to the lessee

Hemavathi CSF was leased with effect from 26 October 2007 for a period of 30 years. Besides payment of lease rentals, the lessee was also required to pay the balance amount of security deposit of ₹ 2.50 crore (₹ 2.50 crore out of total ₹ five crore had already been paid before execution of the lease) within 26 October 2009. Scrutiny of records revealed the following violations to the tender / lease terms leading to undue favour to the lessee:

- According to tender terms and conditions, the lease agreement was to be signed and registered within fifteen days. However, the lease agreement which was effective from 26 October 2007, was registered (March 2011) after a lapse of 41 months.

- In deviation from the conditions set out in lease agreements for other CSFs which provided for payment of the total amount of security deposit before starting the crushing operations, the lease agreement permitted the lessee to pay the balance of the security deposit amount of ₹ 2.50 crore within two years from execution of the agreement. The lessee, however, paid the balance security deposit amount after a delay of 1,039 days from the due date stipulated in the lease agreement.

- The SLAC headed by the Commissioner accorded (August 2008 and September 2010) approval to the lessee to take over four staff quarters and to mortgage the land and building, plant and machinery and other assets of the CSF for obtaining Sugar Development Fund loan from Government of India. This tantamounts to changing the conditions of the bid-document after its being awarded to the lessee, since these concessions were not available at the time of bidding but was included only afterwards in the lease agreement, as requested by the lessee.

- Eight cheques issued (December 2013) by the lessee for ₹ 80 lakh towards lease rentals were not honoured by the bank. No action was taken by the CSF against the lessee to recover the amount. Further, no action was initiated by the Commissioner, who was also apprised of the matter.

- Despite delay in payment of lease rentals ranging from 193 to 896 days and rental arrear (including the dishonoured cheque amount) of ₹ 2.25 crore as of March 2014 (due date for payment of annual lease rent being one month prior to commencement of crushing), no action could be

initiated against the lessee as the lease agreement did not provide for any penal provisions except for termination of the agreement.

- The lessee did not increase the crushing capacity before October 2012 as required under the terms of the lease agreement.

3.1.2.3 Encroachment of land of CSF

As against the land measuring 133 *acres* and 20 *guntas* belonging to Aland CSF, the area handed over in March 2010 to the lessee was short by 7 *acres* 30 *guntas*. As a result, the lessee expressed inability to setup distillery unit as per terms of lease agreement.

It was observed that, though there was encroachment in the area (7 *acres*, 30 *guntas*), the Commissioner did not take effective action to clear the encroachment and hand over the area to the lessee, even after a lapse of four years.

On this being pointed out, Commissioner replied (August 2014) that the matter had been referred to the Deputy Commissioner, Kalburgi to clear the encroachment in 7 *acres* 10 *guntas* of factory area. However, the correspondence made in this regard was not made available to Audit. Details about the remaining 20 *guntas* of land were also not forthcoming.

3.1.2.4 Non-working of CSFs

Based on the recommendations (between April 2006 and November 2006) of the Commissioner, Government approved leasing (between July 2006 and November 2006) of three[35] non-working CSFs. However, two of these CSFs continued to be non-working as the lease agreement was terminated. The third CSF continued to be non-working due to dispute between the CSF and lessee which is pending before the Court.

Dakshina Kannada CSF

Finance Department (October 2006) suggested disposal of the Dakshina Kannada CSF due to non-availability of sugarcane in the reserve area. Disregarding the suggestion, the CSF was leased (April 2008) for 30 years to Ramee Sugars and Infrastructure Private Limited, for a lease rental of ₹ 31.68 crore to be recovered in annual instalments at specified rates. The Earnest Money Deposit (EMD) of ₹ 1.50 crore paid by the lessee was appropriated towards security deposit. The lessee could not commence production due to non-availability of sugarcane and sought termination of lease. The CSF had filed (November 2012) a case in City Civil Court against the order of the Arbitration Tribunal which had directed (September 2012) the CSF to pay interest on security deposit amounting to ₹ 60.75 lakh and

[35] Dakshina Kannada, Bhadra, Srirama

₹ 24.20 lakh towards cost incurred for project development. Meanwhile, interest liability of the CSF increased from ₹ 14.60 crore (March 2007) to ₹ 33.16 crore (March 2014).

Srirama CSF

Srirama CSF was leased out (August 2006) for 22 years to M/s Ambika Sugars from the crushing season 2006-07. The lessee continued the operation up to 2011-12 but failed to carry out expansion of the plant and setting up of co-generation unit as specified in the agreement. Finally, as requested by the lessee, the lease was terminated (July 2012) on grounds of reduction in sugarcane supply. Commissioner replied (August 2014) that attempts to lease out the CSF had not been successful and its liquidation would be considered.

Bhadra CSF

In violation of the tender terms, which stipulated leasing of CSF to person/firm having three years experience in sugar/allied industries, Bhadra CSF was leased out (June 2010) to M/s Gyanba Developers who did not meet the eligibility criteria as they were having experience only in the construction industry and not in sugar/allied industries. The lessee stopped crushing after 2010-11 season without making payment as per lease agreement. As per Clause 21 and 22 of the lease agreement, besides payment of annual lease rental (varying from ₹ 15.33 lakh to ₹ 26.39 lakh over the period of lease) one month in advance of the date of crushing, the lessee was required to pay upfront rental amount of ₹ 26 crore before commencing crushing operations. However, Commissioner allowed the lessee to commence crushing from 22 October 2010 without collecting the upfront lease amount and advance rent aggregating to ₹ 26.15 crore. The lessee operated the factory for one season (2010-11) but did not pay the amount due to CSF. The Commissioner terminated the lease agreement in September 2011. The accumulated dues recoverable from the lessee amounted to ₹ 26.30 crore. As attempts to lease out the CSF failed, it was resolved (November 2011) in a meeting chaired by the Minister for Horticulture and Sugar, to take steps to liquidate the CSF and to sell the sugar factory on "as is where is" basis. However, Commissioner had not yet submitted necessary proposals to Government. It was replied (August 2014) that for issuing orders under Section 72 of the Karnataka Co-operative Societies Act (Act), a resolution has to be passed by the board of CSF. The reply was not acceptable as the Commissioner is vested with powers under Section 72(2) of the Act which states that 'the Registrar (Commissioner) may on his own motion make an order directing the winding up of a co-operative society where the co-operative society has not commenced working or has ceased to work'.

3.1.2.5 Handing over of Pandavapura CSF to a Government Company

Pandavapura CSF was on seven years lease, from January 2006, to M/s Kothari Sugars for a total lease rental of ₹ 80.10 crore. It was observed that the lease agreement was continued even though the lessee was crushing sugarcane far less than the daily crushing capacity of 3,500 tonnes. Further, though the lessee sought extension of lease for another 18 years with a total rental amount of ₹ 127.47 crore (including ₹ 80.10 crore) the request was turned down by the GoK based on the evaluation report submitted (July 2007) by the Indian Institute of Management, Bengaluru. Later, based on the request (February 2010) of the lessee, the lease agreement was terminated (March 2010) by Government. Though the retender for leasing of the CSF for 30 years was notified (March 2010) as per the decision taken in a meeting held (May 2010) under the chairmanship of the then Chief Minister, it was decided to withdraw this notification and hand over the O&M of the CSF to M/s Mysore Sugar Company Limited, (Mysugar), Mandya. Accordingly O&M of the CSF was handed over (June 2010) to Mysugar for three years. The CSF is operating on its own since June 2013.

In order to improve the financial status of the CSF, Government provided (between 2010 and 2013) working capital loan of ₹ 35 crore[36] and ₹ 10 crore (July 2011) towards payments for sugarcane purchased. Government also made One Time Settlement (OTS) for outstanding loans of ₹ 14.35 crore to District Central Co-operative Banks (March 2012) and ₹ 6.34 crore to Apex Bank (March 2011).

The total outstanding dues to Government from CSF amounted to ₹ 183.78 crore (Government of Karnataka - ₹ 162.90 crore; Government of India - ₹ 20.88 crore) as of March 2014. The transfer of the CSF to Government Company on O&M basis only increased the liability of the Government.

3.1.3 Liquidation of co-operative sugar factories

Section 72 of the Act authorises the Commissioner to make an order directing the winding up of the CSFs when it ceases to work. As per the existing instructions (March 1992) of the Registrar of Co-operative Sugar Factories, the process of liquidation should invariably be completed within two years of the order. Audit observed that process of liquidation ordered under Section 72 against seven[37] CSFs between 1986 and 2007 had not been completed (May 2014). Lack of monitoring by the Commissioner had resulted in undue delay in completing the liquidation as the Commissioner had not even

[36] June to October 2010 - ₹ 15 crore, July 2011- ₹ 10 crore and September 2013 - ₹ 10 crore

[37] Arkavathi (May 1988), Malenadu (October 2005), Gauribidanur (March 1986), Kampli (July 1995), Basaweshwara (August 2007), Naragund (January 2004) and Mahadeshwara (March 1986)

obtained quarterly progress reports as per provisions of Rule 33(j) of Karnataka Co-operative Societies Rules 1960, except in the case of Mahadeshwara CSF. Audited statements of the books of accounts of the liquidators as per Rule 33 of Karnataka Co-operative Societies Rules had also not been obtained in any of the cases. Cost of liquidation in respect of four[38] CSFs amounted to ₹ 25.86 crore as of March 2014 which had to be borne by the CSFs. Delay in completing liquidation added to the financial burden of the CSFs. Besides, Government share capital of ₹ 2.31 crore and outstanding loans amounting to ₹ 6.31 crore in respect of the four CSFs also could not be adjusted.

3.1.3.1 Injudicious decision of revoking liquidation order

Vanivilas CSF which stopped crushing operations (2002-03) due to non availability of sugarcane was under liquidation from August 2004. In a review meeting held (January 2005) by the then Minister for Co-operation, it was decided to complete the liquidation by August 2005. The timeline was however not adhered to. Instead, the Commissioner under orders from Government revoked (September 2007) the liquidation order on grounds of abundant availability of sugarcane and steps were taken to revive the CSF by leasing.

In the meantime, as the financial institutions invoked the Government guarantee against the loans availed by the CSF, the Government had to pay (November 2012) ₹ 20.61 crore[39] towards OTS of the loans.

Despite taking three attempts during 2007 to 2010, the Government failed to lease out the CSF mainly due to scarcity of sugar cane in the reserve area. As a result, liquidation order was again passed in September 2013. The liquidation process was yet to be completed (October 2014). The amounts due to Government by the CSF had also increased from ₹ 8.32 crore (September 2004) to ₹ 29.38 crore (March 2014).

The Commissioner replied (August 2014) that liquidation order was withdrawn in the interest of sugarcane growers. The reply is not acceptable as the initial proposal for liquidation was on grounds of shortage of sugarcane.

3.1.3.2 Non-commencement of operation by CSFs

Section 72 of the Act, authorises the Commissioner to order winding up of a CSF which has not commenced working. Delay in issuing appropriate orders under Section 72 in respect of two CSFs resulted in idle investment of Government funds amounting to ₹ 23.20 crore as discussed below:

[38] Gauribidanur, Arkavathi, Mahadeshwara, Kampli
[39] ₹ 14.40 crore to DCC banks and ₹ 6.21crore to Apex bank

- Sangam CSF with an approved project cost of ₹ 50.88 crore was registered in June 1999 and Government share capital of ₹ 15 crore was released in November 2000. As the CSF failed to mobilise funds, it remained operational only on paper (March 2014). Commissioner replied (August 2014) that a revised DPR for ₹ 102 crore was approved by Government (January 2013) and commencing of trial crushing is being planned by February 2015. Government investment of ₹ 15 crore has, however, remained unfruitful for over 14 years.
- Bheemashankar CSF was registered in April 1993. Against the approved project cost of ₹ 46.90 crore, Government share capital of ₹ 8.20 crore was released to the CSF in April 1999. However, it could not start production due to failure to raise loans as envisaged in the project report. Based on the CSF Board resolution, Government accorded (September 2006) permission for converting the CSF into a public limited company. Accordingly, a public limited company M/s Royal Pearl Sugars was formed (February 2007) for the purpose. However, the liquidation order was issued (February 2007) by the Commissioner with a faulty condition to transfer the assets and liabilities to M/s Royal Pearl Sugars after refunding share capital of ₹ 8.20 crore to Government. This condition was later struck down (December 2007) by the Government as it violated Sections 73 and 74 of the Act[40]. The Government Order was challenged in the court by M/s Royal Pearl Sugars. The matter is pending (October 2014) in the Hon'ble Supreme Court of India.

Inordinate delay in taking action under Section 72 coupled with issue of faulty liquidation order rendered the Government investment of ₹ 8.20 crore unfruitful since 15 years.

3.1.4 Depleting financial position of CSFs – a financial burden on Government

The scheme of rehabilitation was a constructive approach to revive the CSFs which were facing serious crisis. However, lack of timely action and injudicious decision of the authorities added to the liabilities of CSFs and shifted the burden to Government exchequer as discussed below:

3.1.4.1 Liability of ₹68.37 crore towards OTS of loans raised by CSFs

The Government, on the issue of guarantee of loans raised by CSF, instructed (December 2001) the Commissioner to enforce opening of an escrow account by the CSFs in a nationalised bank to which all the receipts, collection, income, *etc.*, were to be deposited. The said account was to be pledged in

[40] After liquidator is appointed under section 73 of the Act, the liquidator in exercise of powers under section 74 of the Act has to investigate and pay all claims against the CSF according to priorities

favour of the financial institution from which borrowings were made under Government guarantees. The proceeds of the escrow account were to be utilised first for servicing borrowings guaranteed by Government. This was however not complied with by the CSFs. The Commissioner also failed to review the position periodically. As a result, Government had to pay outstanding loan amount of ₹ 68.37 crore[41] (including ₹ 41.30 crore mentioned in Paragraph 3.1.2.5 and Paragraph 3.1.3.1) as detailed in the **Appendix 3.1**.

Commissioner replied (August 2014) that though escrow account was not opened, payments were made into the loan accounts and that amount paid for repayment of loans would be recovered from the CSFs. Reply was not acceptable since the CSFs defaulted in repayment of loans not only to the banks but also to Government.

3.1.5 Conclusion

The leasing of CSFs was aimed at helping the cane growers and employees of the CSFs by augmenting resources and minimising liabilities thereby achieving sustainable economic activity and regional development. Our scrutiny of records of the Commissioner showed injudicious decisions of the Commissioner in leasing of CSFs which not only defeated the objective of their rehabilitation, but also resulted in non-recovery of rentals and continued non-functioning of CSFs. The bid documents and the agreements did not stipulate any penal provisions for safeguarding the interest of the Government in the event of breach of lease conditions and pre-closure of the lease agreements by the lessee. Also, there was inordinate delay in completion of liquidation process resulting in increasing liabilities to Government and CSFs.

3.1.6 Recommendations

- Compliance to lease agreement by lessee need to be closely monitored by Commissioner.
- Penal provisions need to be included in the lease agreement by the Commissioner to protect the interest of CSF/Government.
- The CSFs which are economically unsound need to be liquidated by the Commissioner.
- Government may complete liquidation process as per guidelines.

The matter was referred to Government in September 2014; their reply was awaited (October 2014).

[41] Pandavapura, Vanivilas, Karnataka, Bhagyalakshmi

3.2 Loss due to injudicious decision

Allotment of land in Bidadi Industrial Area to a Company at reduced rate caused a loss of ₹ 5.40 crore to Karnataka Industrial Areas Development Board.

The Karnataka Industrial Areas Development Board (KIADB) allots industrial land as per Government Order to industries/entrepreneurs for establishing projects, which were approved by the State High Level Clearance Committee (SHLCC), State Level Single Window Clearance Committee and District Level Single Window Clearance Committees based on the size of the investment. KIADB fixes the price of land considering the cost of acquisition, cost of development, service charges and interest on acquisition, development cost and operates on no profit – no loss basis.

SHLCC cleared (June 2009) the project proposals of M/s Bosch Limited (Bosch) to establish an industrial unit at an investment of ₹ 550 crore for the manufacture of fuel injection pumps, elements, delivery valves, *etc* at Bidadi Industrial Area (BIA) and approved allotment of 100 *acres* of land for the purpose. The Government approved (October 2009) the allotment and ordered that after this allotment, 30 *acres* of land approved for allotment earlier (May 2008) to M/s Bosch Rexroth (Rexroth) at Phase II, Sector I of BIA was to be surrendered. KIADB allotted (13 November 2009) 100 *acres* of land to Bosch in Phase II, Sector II of BIA, at a tentative rate of ₹ 78 lakh per *acre*.

In the meantime, Bosch requested KIADB (09 November 2009) and State Government (23 November 2009) for allotment of 30 *acres* of land at ₹ 60 lakh per *acre,* the rate at which the land was allotted to Rexroth, and at ₹ 78 lakh per *acre* for the balance 70 *acres* of land. KIADB approved (19 December 2009) the reduction in land rate and issued (02 February 2010) revised allotment letter to Bosch fixing the land rate at ₹ 60 lakh per *acre* for 30 *acres* and ₹ 78 lakh per *acre* for remaining 70 *acres* of land. Bosch paid ₹ 71.57 crore[42] towards cost of land including initial deposit of ₹ 3.60 crore paid (June 2008) by Rexroth.

Review of records revealed (February 2013) that the acceptance of request for reduction in rate for portion of land at KIADB's cost was unwarranted for the reasons stated below:

- KIADB decision to allot 30 *acres* of land to Bosch at reduced rate did not have Government approval as SHLCC clearance also had not been obtained and the Government Order had not directed allotment of land or portion of land at reduced rates.
- The 30 *acres* of land allotted to Rexroth was in a different sector (Sector I) and allotment rate of ₹ 60 lakh per *acre* was fixed with reference to the

[42] For 98.56 *acres* handed over including ₹ 9.97 lakh towards slum cess

development cost incurred in that Sector. Hence, applying the allotment rate of Sector I for the land allotted at newly formed Sector II was irregular and lacked justification.

On this being pointed out (March 2014), Government replied (August 2014) that rates *i.e.*, ₹ 60 lakh per *acre,* prevailing on the date of approval of the project, was charged for 30 *acres* of land.

The reply was not acceptable, as the rate for land allotment in Sector II was to be uniform at the allotment rate of ₹ 78 lakh per *acre*. This rate could be reduced only on specific orders of the Government, which had not been obtained.

Thus, injudicious allotment of 30 *acres* of land to Bosch at reduced rates resulted in a loss of ₹ 5.40 crore[43] to KIADB.

3.3 Loss due to delay in recovering differential cost

Delay in issue of demands for differential cost from allottees, even after fixation of final cost, caused a loss of ₹ 4.27 crore to Karnataka Industrial Areas Development Board.

Karnataka Industrial Areas Development Board (KIADB) acquires land and allots them to entrepreneurs for industrial purposes. The allottee is to pay the tentative cost of the land upon which lease agreement is executed for a period of six/ten years which stipulates certain conditions like payment of lease rent, commencing industrial production, *etc.* On fulfilment of lease conditions and payment of final cost, sale deed would be executed. The allotment letters issued to the allottees state that the price of the land would be determined and intimated in due course.

The final rates of industrial plots at Malur III phase, Bidadi and Bommasandra-Jigani Link road (BJLR) industrial areas were determined by KIADB in March 2008 and May 2008. Test check of records by Audit revealed that in respect of 37 cases the demand for making payment towards the differential cost (final rates *less* tentative cost already paid) amounting to ₹ 12.90 crore were issued between March 2011 and March 2013 with a delay ranging from 32 to 56 months.

KIADB invests surplus/unutilised funds in fixed deposits and by delaying the collection of differential cost, the Board lost the opportunity of investing ₹ 12.90 crore that was realisable. Considering the interest rates[44] offered by State Bank of India for deposits, the loss of interest due to delay in raising

[43] For 30 *acres* of land at ₹ 18 lakh per *acre* (₹ 78 lakh *minus* ₹ 60 lakh)

[44] Interest rate of 7% for deposits of less than one year up to 30.03.2009, 8.1% for period from one year to less than two years from 01.04.2009 to 31.03.2011 and 8.25% for deposits one year to 554 days from 01.04.2011 till the date of demand

demand worked out to ₹ 4.27 crore **(Appendix 3.2)**. The beneficiaries of the belated demand by KIADB included high net worth companies and organisations[45].

Government in their reply stated (October 2014) that immediate action would be taken to issue circulars to the branch offices to issue demand notices to all the allottees so that allottees could make payment towards the final prices.

FOREST, ECOLOGY AND ENVIRONMENT DEPARTMENT

3.4 Loss of revenue

Failure to auction extraction rights of a minor forest produce between 2003 and 2010 resulted in loss of revenue of ₹ 12.75 crore to the Government.

All activities undertaken by a forest division should conform to the approved Working Plan. The Working Plan of Mangaluru Forest Division (Division) for 2002-2012 prescribed extraction of *halmaddi,* a resin used in *agarbathis,* from the trunks of *Ailanthus malabarica* trees, which are native to the Western Ghats. *Halmaddi* is a Minor Forest Produce (MFP) and detailed guidelines for extraction and auctioning of this MFP are laid down in Appendix XXIV of the Karnataka Forest Code (Code). Rights for extraction and auction are given for a two year period.

On account of over-exploitation, the Government had banned (April 1991) the extraction of *halmaddi* to enable its regeneration. Based on the recommendation of Principal Chief Conservator of Forest (PCCF), the Government lifted (March 2002) the ban on extraction/tapping of *halmaddi.* However, the Division took action for auctioning of right for extraction of *halmaddi* only during January 2011 for a two year period of 2011-13, after a lapse of nearly ten years after removal of ban. The Government approved the invitation of tender for auctioning the areas excluding the areas covered by Large-scale Multipurpose Societies (LAMPS). The auction process fetched revenue of ₹ five crore for 2011-13.

Our scrutiny of records of the Division showed no recorded reasons for not auctioning the rights for tapping of *halmaddi* for the period of 2003-11 despite lifting of ban by the Government. Non-auctioning of rights for tapping of *halmaddi* for 2003-11 resulted in loss of revenue of ₹ 12.75 crore to the Government as shown in **Table 3.2:**

[45] Major beneficiaries: M/s Ingersol Rand International (India) Limited, M/s Sobha Interiors Private Limited, M/s Futuristic Diagnostic Imaging Centre Private Limited, M/s Shobha Developers Limited, M/s Paragon Arts and Exports, M/s Onco Therapies Limited, M/s Agila Specialities Private Limited

Table 3.2: Loss of revenue due to non-auctioning rights of tapping of *halmaddi*

(Amount in ₹)

Period	Value [46]	Forest Development Tax at eight *per cent*	Total
2003-05	2,04,83,365	16,38,669	2,21,22,034
2005-07	2,56,04,206	20,48,336	2,76,52,542
2007-09	3,20,05,258	25,60,421	3,45,65,679
2009-11	4,00,06,573	32,00,526	4,32,07,099
TOTAL	**11,80,99,402**	**94,47,952**	**12,75,47,354**

On this being pointed out, the Deputy Conservator of Forests, Mangaluru stated that;

- Non-auctioning of the rights of tapping was due to the delay in correspondence with higher authorities and enumeration of suitable trees for tapping.
- Early extraction of *halmaddi* would cause more damage to trees and delayed collection would result in more yield from the trees; and
- Rights should be given to LAMPS as per Government Order.

The reply was not acceptable due to the following reasons:

- The ban was lifted by the Government as early as in March 2002, after recommendation of the PCCF, and therefore the reply attributing an inordinate delay of almost nine years for correspondence and enumeration was not tenable.
- These plantations were raised between 1952 and 1990 and were mature for tapping as per approved Working Plan. To guard against damage, size of incision was specified in tender conditions to prevent overexploitation and consequential damages to trees.
- Government order had specified that the tenders were to be invited for areas other than LAMPS areas and as such there was no confusion regarding areas.

Thus, due to non-auctioning of the *halmaddi* extraction rights from 2003-11, even if a very conservative calculation is made and only the average of a two year period from the Table 3.2 is taken, then the loss for just a two year period works out to ₹ 3.20 crore.

The matter was referred to Government in July 2014; their reply was awaited (October 2014).

[46] Value for 2009-11 calculated at 80 *per cent* of revenue of ₹ 5,00,08,216 for block period 2011-13 and similarly for other block periods with 20 *per cent* reduction

3.5 Mismanagement of investment

Flouting of specific Government instructions and non-exercising of due diligence compounded by abnormal delay in collecting fixed deposit certificates resulted in non-realisation of investment of ₹ 10 crore and interest of ₹ 93 lakh.

The Government had issued detailed instructions in November 2009 for investment of surplus funds by public sector enterprises which *inter-alia* stipulated constitution of Finance/Investment Committee to determine how these funds are to be invested. Every investment decision taken by such committee has to be ratified by the Board of Directors (BoD) in their next meeting.

The Karnataka State Pollution Control Board (KSPCB), based on a request (06 May 2013) from the Assistant General Manager, State Bank of Mysore, Bengaluru Main Branch (SBM) for deposit of amount, issued (16 May 2013) two cheques of ₹ five crore each drawn on Corporation Bank. The forwarding letters dated 16 May 2013 specified issue of 10 fixed deposit certificates (FDRs) of ₹ one crore each. Although the cheques were realised by SBM on 17 May 2013, the FDRs were not issued immediately. Later, on 26 July 2013, the KSPCB approached the SBM for issue of FDRs. On 3 August 2013, the KSPCB received two FDRs of ₹ five crore each for one year period carrying nine *per cent* interest *per annum,* which were due for maturity on 17 May 2014.

The KSPCB vide letter dated 17 May 2014 enclosing the FDRs, requested SBM to credit the proceeds to its Corporation Bank Account. However, the SBM intimated (20 May 2014) that the proceeds of the FDRs would be credited after deducting the loan along with interest aggregating to ₹ 9.64 crore[47] availed by the KSPCB. KSPCB rejected (letters dated 22 and 26 May 2014) the SBM claim that it had availed of any loan and sought proof of documents for loan availed by the KSPCB. The SBM furnished (29 May 2014) copies of the documents, which the KSPCB claimed were fake documents and fabricated by the bank authorities. The SBM also, in their letter (26 May 2014) to the KSPCB, stated that the KSPCB had enclosed colour photocopies of FDRs and not the original FDRs, which the SBM claimed, were available with the Bank.

The KSPCB filed a First Information Report (FIR) against SBM on 29 May 2014 with the Station House Officer, Upparpet Police Station, Bengaluru detailing the events and non-credit of fixed deposit proceeds on maturity by the SBM.

[47] Principal loan ₹ 9 crore and interest ₹ 64 lakh

As of September 2014, the investment proceeds and interest thereon had not been realised. In this connection following irregularities were noticed:

- The investment of ₹ 10 crore made with SBM on 16 May 2013 was not approved by the BoD of KSPCB, as required under the instructions issued (27 November 2009) by the Government.
- The KSPCB had stipulated issue of 10 FDRs of ₹ one crore each against which KSPCB collected two FDRs of ₹ five crore each. Thus, acceptance of FDRs against instructions issued was not in order and reduced the flexibility of withdrawal**.**
- On maturity, the KSPCB requested (letter dated 17 May 2014) SBM to credit the proceeds by duly enclosing the FDRs that it had obtained. However, SBM intimated that the FDRs enclosed were colour photocopies of the FDRs and not the originals. The KSPCB did not dispute this claim.

We observed from the above that,

- KSPCB did not exhibit the required due diligence and promptitude as there was laxity in collecting FDRs, which were in fact just colour photocopies, and that too with a delay of more than two months.
- The BoD of KSPCB did not initiate any internal or departmental enquiry to ascertain the reasons for:
  (a) not obtaining ratification of the investment made by the investment committee;
  (b) the deviation in investment mode, as the SBM had issued two FDRs of ₹ five crore each, against the instructions to issue 10 FDRs of ₹ one crore each.
  (c) delay in collecting the FDRs by the KSPCB.

On the matter being referred to the Government, the Government communicated (August 2014) their remarks on the replies furnished by the KSPCB that fraud was committed by SBM by creating false and forged documents. The Government further stated that there was unreasonable delay in obtaining FDRs, investment was made without Boards' approval and there was laxity on the part of the officials of the KSPCB in collection of original FDRs, hence, KSPCB's reply to absolve themselves of their responsibility was not accepted by the Government.

Thus, flouting of specific detailed Government instructions and non-exercising of due diligence by the KSPCB resulted in non-realisation of investment of ₹ 10 crore and also interest of ₹ 93 lakh thereon (up to the date of maturity of FDRs).

INFRASTRUCTURE DEVELOPMENT DEPARTMENT

3.6 Unfruitful expenditure

Improper planning and undue haste in release of funds before completion of formalities required for commencing civilian air services resulted in unfruitful expenditure of ₹ 3.02 crore and blocking up of ₹ 2.60 crore.

Government of Karnataka (GoK) sanctioned ₹ three crore (June 2008) for construction of Terminal Building near defence air port[48] at Bidar with a view to develop the existing airstrip and to start civilian air services on the occasion of *Gur-ta-Gaddi*[49]. The defence airport is situated within 150 kms from Hyderabad International Airport (HIA) which is being operated (since March 2008) by GMR Hyderabad International Airport Limited (GHIAL), a private entity, on Public Private Partnership mode. The amount was released to Deputy Commissioner, Bidar (DC) who obtained approval (June 2008) from Airport Authority of India (AAI) for concept plan, elevation and estimate for various works of Temporary Terminal Building (TTB). The Project Director, District Urban Development Cell, Bidar awarded (July 2008) the work on tender basis to an agency for ₹ 3.05 crore to be completed by October 2008. The work executed through Public Works, Ports and Inland Water Transport Department was completed in June 2009 at a total cost of ₹ 3.02 crore and the final bill was paid in January 2012. The land for construction of TTB was, however, yet to be acquired (March 2014) by DC.

Further, GoK had also identified 125 *acres* of land in Bidar to be acquired for development of civil enclave[50] and had released ₹ 2.60 crore (July 2007 and April 2008) to Karnataka Industrial Areas Development Board. However, this land was yet to be acquired (March 2014).

The TTB was completed in June 2009 after completion of the event *i.e., Gur-ta-Gaddi* but the infrastructure created could not be put to use subsequently due to objection from GHIAL.

The following lapses resulted in non utilisation of the asset even after five years of construction of TTB:

- No memorandum of understanding/agreement was signed with AAI for providing air traffic/air transport in the proposed civil enclave by GoK before release of funds for TTB.

[48] In-principal approval of Ministry of Defence was obtained in November 2006

[49] The 300th Gurudomship Ceremony of Shri Guru Granth Sahibji and 300th Death Anniversary of Shri Guru Gobind Singhji – October/November 2008

[50] The area allotted to an airport belonging to any armed force of the Union, for use by persons availing of any air transport services from such airport or for the handling of baggage or cargo by such service and includes land comprising of any building and structure on such area

- Since the defence airport at Bidar is situated within 150 kms of Hyderabad International Airport, commencement of civilian operations required a 'no objection' from concessionaire of HIA (GHIAL) as per clause 5.2.2 embodied in the concession agreement. Such stipulations are common to such concessionaire agreements and should be well within the knowledge of GoK, as similar clause existed in the concession agreement in respect of Bengaluru International Airport executed in July 2004. The GoK did not obtain the requisite 'no objection' from GHIAL before releasing funds for TTB.

Thus, deficient planning, undue haste in release of funds and construction of TTB before completion of formalities required for commencing civilian air services resulted in unfruitful expenditure of ₹ 3.02 crore besides blocking up of ₹ 2.60 crore.

The matter was referred to Government in July 2014; their reply was awaited (October 2014).

PUBLIC WORKS, PORTS AND INLAND WATER TRANSPORT DEPARTMENT

3.7 Extra payment due to incorrect computation

Delay in obtaining funds led to additional burden of ₹ 10.56 crore in acquisition of lands for construction of a road. Incorrect computation of interest had also resulted in excess payment of ₹ 3.96 crore towards interest.

Article 153 of Karnataka Financial Code stipulates that in cases of acquisition of land for public purposes, the departmental officers should see that payments or compensation is not delayed. For speedy disposal of land acquisition payments on account of Court decrees, the Government while reiterating (15 January 2005) circular instructions (March 1982 and August 1982) also instructed that Land Acquisition Officers (LAO)/Heads of Administrative Departments should seek release of funds immediately from Finance Department (FD) to avoid attachment orders or contempt of court by furnishing details of the case. In cases where complete details are not available, the case would be referred to an Empowered Committee headed by Chief Secretary for releasing the funds.

The Executive Engineer, Public Works, Ports and Inland Water Transport Division, Chikkodi (EE) had taken possession (March 1963) of 40 *acres* and 23.5 *guntas* of land under different revenue survey numbers in three villages of Athani taluk for construction of road from Ugar to Kusnal village pending acquisition of land as per Land Acquisition Act (LA Act). The LAO issued the award under Section 11 of LA Act on 31 July 1987 fixing the land value at ₹ 6,000 per *acre* with other benefits admissible as per LA Act.

Aggrieved by the inadequacy of the amount of compensation awarded by LAO, the land owners approached (March 1989) the City Civil Court, Athani, which enhanced (January/February 1999) the compensation amount to ₹ 65,000 per *acre* and also awarded 30 *per cent* solatium on enhanced compensation, and 12 *per cent* additional market value from date of taking possession of land to date of award. The Court also awarded payment of interest from date of taking possession till date of realisation at 9 *per cent* for first year and 15 *per cent* for subsequent period as per provisions of LA Act.

The Law Department had communicated its decision "not to prefer appeal" on the Court decree during March/May 1999. The amount required as per Court decrees worked out to ₹ 6.33 crore[51] as of June 1999. The EE did not seek release of funds from FD to settle the claims of all the land owners. Instead, EE made the payments to LAO on piece meal basis as and when LAO preferred the claims, which was based on execution petitions obtained by land owners. As a result of making partial payments, the dues of land owners were not settled in full even after 15 years of Court orders. The total compensation worked out by LAO as of September 2014 was ₹ 16.89 crore, out of which ₹ 10.84 crore as demanded by LAO was paid by EE between December 2000 and April 2014. Failure to obtain required funds soon after receipt of Law Department's opinion had resulted in an additional burden of ₹ 10.56 crore.

Further scrutiny revealed (January 2014) that while making payments from second instalment onwards, the EE had treated balance interest component also as principal and paid 15 *per cent* interest on it. This tantamounts to payment of interest on interest. This was violative of the provisions of LA Act which does not provide for payment of interest on the outstanding interest amount. In 92 cases, the excess payment due to such incorrect computation works out to ₹ 3.96 crore as shown in **Appendix 3.3.**

The Government replied (September 2014) that amounts were deposited as per calculation sheets furnished by the LAO which had been verified by EE before making payments. Further, Government stated that the interest had been worked out on pending total amount including interest at the time of calculation treating pending interest as principal amount which was as per the Court Order. Hence, payment made was in order.

The reply was not acceptable as Court in its decree had awarded interest from the date of dispossession till the date of payment as per Section 34 of LA Act and provisions of LA Act do not provide payment of interest on outstanding interest. Treating of interest as principal is an incorrect method of computation as land owners who were paid intermediate payments had received more than the land owners who had not been paid for the same extent of land.

[51] Principal amount including land compensation, solatium and additional market value - ₹ 97.92 lakh and interest up to June 1999- ₹ 5.35 crore

3.8 Unwarranted expenditure

Injudicious decision in taking up improvement of road after its up gradation as National Highway instead of transferring the same to National Highways authorities resulted in burdening State exchequer to the extent of ₹ 5.40 crore.

Funds for construction and maintenance of National Highways (NH) are provided by Government of India and the works are implemented by NH divisions of Public Works, Ports and Inland Water Transport Department.

In view of *Tulu* conference scheduled to be held during December 2009, Government administratively approved (November 2009) improvement of Kadur – Kanjangad (KK) Road, forming part of State Highway 64, from km 100 to 175 at a cost of ₹ six crore.

Executive Engineer, Public Works, Ports and Inland Water Transport Department Division, Mangaluru (EE) awarded (between December 2009 and February 2010) the contract to three different contractors. Two works were completed during February 2010 while one work was abandoned by the contractor during January 2010. The details of the three works and their progress were as shown in **Table 3.3:**

Table 3.3: Progress of work

Chainage km	Date of work order	Estimated cost	Tender amount	Total expenditure	Date of completion
		(₹ in crore)			
100 to 124	31.12.2009	2.00	2.22	2.22	10.02.2010
124 to 145	06.01.2010	2.80	3.04	1.83	Work abandoned (15.01.2010)
145 to 175	22.02.2010	1.20	1.35	1.35	25.02.2010
TOTAL		**6.00**	**6.61**	**5.40**	

Audit scrutiny (October 2012) revealed that the total expenditure of ₹ 5.40 crore incurred on improvements to roads out of State exchequer was unwarranted as the KK Road had already been notified (February 2009) as NH 234 (Mangaluru to Tiruvannamalai – Villupuram in Tamilnadu) by Government of India as per the National Highway Act, 1956. Despite this, the road was not handed over to the NH authorities. The road was handed over (May 2010) to NH Division, Mangaluru only after a period of 14 months.

On this being pointed out, EE stated (October 2012) that the works were executed out of *Tulu* conference grants (State grants) as central grants could not be obtained. The reply was not acceptable as the road should have been handed over to NH authorities for up-gradation, as this State Highway was notified as a NH by Government of India as early as in February 2009.

Thus, the expenditure incurred on improvement of the road, despite the fact that it should have been handed over to the NH authority for improvement, resulted in unwarranted expenditure of ₹ 5.40 crore out of State exchequer.

The matter was referred to Government in July 2014; their reply was awaited (October 2014).

3.9 Loss of revenue in leasing of brick factory

Non-revision of lease rent as stipulated in the lease agreement resulted in loss of revenue of ₹ 2.29 crore.

In terms of Paragraph 206 of the Karnataka Public Works Departmental Code (Code), land and buildings belonging to Government shall be leased to private parties in open auction or through tendering. In cases, where no auctions are held, the rates should be fixed in consultation with the Deputy Commissioners of the districts with reference to those obtainable in the localities for similar or other lands. The provisions also prohibit granting lease for periods exceeding five years at a time.

Government Brick Factory at Medahalli village, near Hoskote, Bengaluru spread over 14 *acres* 39 *guntas* was established in 1971 for manufacture of bricks to cater to the needs of the Public Works Department. It stopped manufacturing of bricks in April 1998 as it was sustaining losses. In order to utilise the infrastructure created with nine *acres* and five *guntas* of land, the Chief Engineer, Communications & Buildings, Bengaluru, (CE) proposed (February 2004) for revival of the brick factory by way of lease to Shri Dhanaraj for a period of 30 years at an annual lease rent of ₹ 1.05 lakh for the initial five years with a 15 *per cent* increase for every five years thereafter. The Government while accepting (September 2005) the proposal reduced the lease period to 25 years and fixed annual lease rent of ₹ 2.10 lakh with a 10 *per cent* increase every three years, among other conditions. The Government reserved the right to revise the lease rate fixed every five years at its discretion and prohibited undertaking of other activities without obtaining prior permission. Accordingly, a lease agreement was executed on 5 October 2005 between Shri Dhanaraj and the Executive Engineer, PWD, Bengaluru (EE) fixing the annual rent at ₹ 2.10 lakh for the years 2005-07 and ₹ 2.31 lakh for the remaining period of 22 years from 2008 to 2030. The Government permitted (June 2010) the lessee to undertake manufacture of roof tiles, hollow bricks, RCC name boards, floor tiles, *etc*. The lessee had paid ₹ 19.15 lakh towards lease rent as of March 2014.

Scrutiny (September 2013) of records revealed the following:

- System of tendering or open auction as stipulated in codal provisions was not followed while leasing out the land and the brick factory that stood on it. Also no consultations were held with the Deputy Commissioner concerned before fixation of the lease rent.

- Lease was given for a period of 25 years violating the codal provisions which prohibited leasing out land for periods exceeding five years at a time.
- EE concluded the lease agreement with 10 *per cent* increase after three years for one time only against the condition to increase the rent by 10 *per cent* every three years as per the Government approval, which was unauthorised.
- The lease agreement provided discretionary powers for revision of rent after five years and became due for revision in October 2010 in normal course. The Department did not revise the lease rent even though lessee was allowed (June 2010) business expansion by permitting him to undertake manufacture of different other products.
- The annual lease rent payable after five year term *i.e.,* October 2010, works out to ₹ 67.87 lakh[52] per annum calculated at seven *per cent* of the guidance value of the land leased. The total loss of revenue due to non-revision of lease rent works out to ₹ 2.29 crore[53] for the period from October 2010 to March 2014.

EE in his reply stated (May 2014) that a proposal to revise the lease rent has been submitted to higher authorities.

The matter was referred to Government in April 2014; their reply was awaited (October 2014).

3.10 Inadmissible payment

Price adjustment for variation item amounting to ₹ 1.02 crore was paid to a contractor in contravention of contractual provisions.

The Executive Engineer, National Highways, Bengaluru (EE) awarded (July 2010) the work of "Construction of major bridge across Kabini river at km 240.450 of National Highway-212" to a contractor on tender basis at ₹ 34.90 crore for completion within 30 months. The agreement included price adjustment clause towards increase or decrease in cost of materials, labour, fuel and lubricants *etc.,* as per specified formula and adjustment was to be made monthly on the total value of work done during the month. In terms of Clause 47 of the agreement, the total value of work done during the month excludes value for works executed under variations where the price adjustment was to be worked out separately on the terms mutually agreed.

[52] For one *acre* 7% of ₹ 85,00,000 + 25% for industrial purposes (₹ 85 lakh per *acre* as per guidance value issued by Inspector General of Registration & Commissioner of Stamps, Government of Karnataka in April 2007)
i.e. ₹ 5,95,000 + ₹ 1,48,750 = ₹ 7,43,750. For 9 *acres*: (9 × ₹ 7,43,750) = ₹ 66,93,750 & for 5 *guntas:* (₹ 7,43,750 ÷ 40) × 5 = ₹ 92,969.
For the entire area: (₹ 66,93,750 + ₹ 92,969) = ₹ 67,86,719

[53] (₹ 67,86,719 – ₹ 2,31,000) ÷ 12 × 42 months = ₹ 2,29,45,017

The work *inter-alia* included construction of Reinforced Earth Walls (RE Wall). MORTH[54] while according (July 2008) technical approval for the work stipulated that steel reinforcement shall be used for RE Wall. The estimate prepared by a consultant adopted market rate (₹ 4,000 per sqm) for the RE Wall, as Schedule of Rate of National Highway Circle, Bengaluru for 2007-08 did not have rate for RE Wall. The contractor had quoted ₹ 4,300 per sqm for the RE Wall. The conditions to be followed for execution of RE Wall by using galvanised steel for earth reinforcement were issued to contractor in February 2011. The contractor represented (April 2011) that material for earth reinforcement was not specified in tender and suggested using polymer strips instead of galvanised steel strips. The Department after obtaining rates from empanelled agencies approved (January 2012) revised rate of ₹ 4,276.33 per sqm for RE Wall using polymer strips. A supplementary agreement was concluded (February 2012) with the contractor for this variation item. The contractor had been paid ₹ 36.92 crore towards running account bills and ₹ 7.53 crore towards price adjustment as of June 2013.

Scrutiny of records of Executive Engineer, National Highway Division, Bengaluru (EE) showed (October 2013) that while making payment for price adjustments, the Division paid ₹ 1.02 crore towards price adjustment against the works executed under the supplementary agreement. This was inadmissible and beyond the scope of contractual provisions as the supplementary agreement did not provide for such price adjustment.

On this being pointed out (October 2013), EE replied (May 2014) that:

- The contractor was asked to provide a detailed rate analysis for the tendered item by considering polymer strips and the approval for the same had been given by competent authority for this pre-tendered rate.
- Conditions contained in the original agreement were applicable for supplementary agreement and price adjustment had been paid as per Clause 47.1 of conditions of contract irrespective of whether the item was original or variation item.

The reply was not accepted for the following reasons:

- The contractor had furnished (December 2011) detailed rate analysis for RE wall using polymer strips as well as steel strips with ₹ 2,908 and ₹ 4,963 per sqm respectively when rates were sought by the Department. The rate of ₹ 4,276.33 per sqm of RE Wall using polymer strips was approved (January 2012) by the Department after obtaining quotation from empanelled firms and was much higher than the rate of ₹ 2,908 per sqm quoted by the contractor. As the prevailing market rate was paid, the Department's contention that pre-revised rate was paid was incorrect/ misleading.

[54] Ministry of Roads, Transport & Highways, Government of India

- As the original agreement provided that the total value of work done for the purpose of price adjustment shall exclude the value of work executed under variations and the supplementary agreement also did not contain provision for payment of price adjustment, the reply that price adjustment is applicable on the works executed under supplementary agreement is not acceptable.

The matter was referred to Government in July 2014; their reply was awaited (October 2014).

WATER RESOURCES DEPARTMENT – MINOR IRRIGATION

3.11 Idle investment

Defective planning, improper monitoring and failure to dovetail the components of a lift irrigation scheme resulted in idle investment of ₹ 2.30 crore. The objective of irrigating 660 *acres* of land even after seven years was also not achieved.

Detailed survey and investigation, proper planning and monitoring, dovetailing of different components are critical for completion of a work in a time bound manner to derive intended benefits.

The existing Lift Irrigation Scheme (LIS) at Hirepadasalagi in Jamakhandi taluk of Bagalkot district, constructed in 1979, was proposed to be rejuvenated under NABARD[55] assistance work at an estimated cost of ₹ 2.63 crore. The rejuvenation of LIS was conceived to provide irrigation to 660 *acres, i.e.* fresh area of 600 *acres* and 60 *acres* of the existing command area of LIS. The project proposed to utilise existing intake well, intake pipe and jack well besides providing new rising main[56], pumps and canals. The estimate also provided for acquisition of 16 *acres* and 32 *guntas* of land for rising main and canals. The work for rejuvenation of LIS at Hirepadasalagi was entrusted (February 2007) to a contractor on tender basis for ₹ 2.19 crore by the Chief Engineer, Minor Irrigation (North), Vijapur (CE) for completion within 12 months.

During execution of the work, the farmers of fresh Command Area intimated (April 2009) that irrigation facilities need not be given to them as they had made arrangements by erecting their own pump sets. Hence, another command area to an extent of 560 *acres* was identified in Savalagi village for providing irrigation facilities which necessitated increase in the length of

[55] National Bank for Agriculture and Rural Development
[56] Rising main is the pipeline, which conveys the pumped water to the delivery cistern

rising main involving an additional cost of ₹ 34.54 lakh. This necessitated granting extension of time to the contractor till March 2011. Despite grant of extension of time, the contractor could not complete the work and finally the contract was terminated (May 2012) by the CE at the risk and cost of the contractor. The balance work yet to be taken up included laying of 1,155 meters of rising main, construction of delivery chamber, *etc.,* which is estimated at ₹ 40.45 lakh. The contractor had been paid ₹ 1.79 crore which included ₹ 24.65 lakh towards pumping machinery. The total expenditure incurred was ₹ 2.30 crore including land acquisition payment (March 2014).

Scrutiny of records revealed that:

- Pre-project survey was deficient as it failed to consider already developed command area into account before sanctioning the project for which there was no apparent need. Further, no details were forthcoming from records regarding details of survey numbers of new command area.
- The land was acquired after the entrustment of work which had contributed for delay in completion of work. The balance land to the extent of 3 *acres* and 13 *guntas* was yet to be acquired.
- The pumping machinery was supplied (February 2010) by contractor ahead of its requirement which had remained (October 2014) untested.
- The CE had approved termination of contract at risk and cost of contractor during May 2012, but EE had actually terminated the contract during July 2013. The reasons for delay in terminating of the contract were not on record. The security deposit of ₹ 9.01 lakh also had not been forfeited.

Thus, the project which commenced seven years ago with availability of committed funds and was originally projected for completion by March 2008, was still incomplete (October 2014) on account of inadequate planning and delay in acquisition of land leading to idle investment of ₹ 2.30 crore. Further, no time frame had been fixed for completion of the project.

The matter was referred to Government in July 2014; their reply was awaited (October 2014).

3.12 Unfruitful expenditure

Tendering of work for construction of minor irrigation tank along with canals that was not in conformity to the specifications of sanctioned estimate led to termination of contract before completion and unfruitful expenditure of ₹ 1.97 crore.

The construction of "Minor Irrigation tank (MI Tank) near Attawad village, Belagavi taluk and district" estimated to cost ₹ 1.71 crore was taken up by Executive Engineer, Minor Irrigation Division, Belagavi (EE) under RIDF[57] – XIV (NABARD[58]) during 2009-10 for providing irrigation to 110 hectares (ha) with benefit cost ratio[59] of 2.12. The sanctioned estimate included construction of earthen bund, waste weir, irrigation canal, land acquisition of 11.303 ha, contingency, survey, *etc*. The work portion (excluding land acquisition, contingency and survey) estimated to cost ₹ 1.36 crore was tendered and entrusted (February 2010) to a contractor at ₹ 1.53 crore for completion in nine months.

The contractor completed the work excluding canals in June 2012. The construction of canals comprising right bank and left bank canals for a length of 1.5 km each could not be taken up as farmers demanded lined canals[60], which was not provided in the tender. As the canal work could not be taken up by the contractor, the termination of the contract without risk and cost was approved (July 2013) by Chief Engineer, Minor Irrigation (North), Vijapur (CE). The final bill for ₹ 1.34 crore was paid (October 2013) and provisional completion certificate was issued in November 2013. As of March 2014, total expenditure of ₹ 1.97 crore had been incurred on the work including amount deposited towards land acquisition (₹ 57.08 lakh) and contingency charges (₹ 6.20 lakh).

Review of records of EE (November 2013) revealed that the Technical Appraisal Committee (TAC) while approving the project had recommended (27 August 2007) to provide half round pipe to canals to achieve economy and ease of construction. The technical sanction accorded by CE at an estimate of ₹ 1.71 crore included suitable lining to canals with a provision of ₹ three lakh as recommended by TAC. However, the component of lining to canal was not included in the tender. The EE in his compliance to the TAC observations stated (August 2007) that canal lining was not considered to minimise project cost and to bring within benefit cost ratio. It was, however, observed that since the benefit cost ratio was as high as 2.12, providing lining to canals

[57] Rural Infrastructure Development Fund

[58] National Bank for Agriculture and Rural Development

[59] Benefit cost ratio is the ratio of net incremental benefit accrued in a project between pre and post irrigated conditions to the annual costs for such irrigation

[60] The earthen surface of a canal is lined with stable surface by means of concrete, pre-cast slabs, asphalt, *etc.,* to reduce seepage loss; ensure smooth flow of water; reduce maintenance cost and prevent water-logging

would not have adversely affected the project economics and thus omission of lining of canal component at tender stage was injudicious.

Thus, non-completion of canals due to tendering the work not in conformity with the approved specifications led to farmers being deprived of direct irrigation and unfruitful expenditure of ₹ 1.97 crore.

The matter was referred to Government in April 2014; their reply was awaited (October 2014).

3.13 Unnecessary consumption of steel

Failure to revise a design occasioned by use of a higher grade steel than originally envisaged in the work of construction of protection wall, resulted in extra expenditure of ₹ 1.80 crore.

In case of steel used for reinforcement in cement concrete structures, TMT[61] Fe[62] 500 grade steel has more tensile strength than TMT Fe 415 grade steel. On account of higher tensile strength of TMT Fe 500 grade steel, its requirement would be lower as compared to Fe 415 grade steel. The requirement of TMT Fe 500 would be 0.83 metric tonne (MT) to achieve the same results as one MT of Fe 415 grade steel. For reinforcement concrete works, the IS Code 1786 specifies use of steel produced by primary steel manufacturers only. The schedule of rates of Minor Irrigation Circle, Mysuru for 2009-10 contained steel rates for TMT Fe 500 grade steel.

The contract for "Construction of protection wall for the right bank of Hemavathi river in Holenarasipur town" was awarded (March 2012) to a contractor at a cost of ₹ 35.91 crore to be completed within 14 months. The work was under progress and the contractor had been paid ₹ 33.07 crore till the end of March 2014.

Scope of the work *inter-alia* included "providing, fabricating and placing in position reinforced steel for structure" with total requirement of 1,768.95 MT of TMT Fe 415 grade steel as per the estimate prepared by a consultant. The contractor had quoted ₹ 61,473.93/MT for the reinforcement item. Scrutiny of records (July 2013) revealed that the contractor had used TMT Fe 500 grade steel for reinforcement against Fe 415 grade steel as per the designs. Even though the contractor had used TMT Fe 500 grade steel, the Department did not revise the design duly factoring the usage of higher grade steel which would have effectively brought down the cost due to lower steel requirement. The contractor had already been paid for 1,720.48 MT till March 2014.

[61] Thermo-Mechanically Treated

[62] As per IS 1786, the figures following the symbol Fe indicate the specified minimum 0.2 *per cent* proof stress or yield stress in N/mm^2

Failure to revise the design resulted in unnecessary consumption of 292.48 MT[63] of steel with resultant extra expenditure of ₹ 1.80 crore[64] at tendered rate.

On this being pointed out (July 2013), the Executive Engineer, Minor Irrigation, Hassan (EE) stated (February and May 2014) that:

- Tensile strength, spacing of bars and cross sectional area of steel bars for unit area of concrete were considered. If lesser quantity of Fe 500 steel was used, the tensile strength could be achieved but other two parameters would not be satisfied. EE also stated that usage of Fe 500 would result in lesser consumption of steel.
- The difference between two grades of steel was less and change of design would have resulted in additional expenditure towards drawings, payment at higher rate for Fe 500 and abnormal compensation for delay in issuing revised designs.
- The contractor had used Fe 500 grade steel as per availability in the market though designs were prepared based on Fe 415 grade steel.

The reply was not acceptable for the following reasons:

- The design could have been suitably modified by usage of different diameter of the Fe 500 steel and adjusting the spacing of bars suitably without affecting the requirement of cross sectional area.
- The consultant was paid ₹ four lakh for preparation of design and drawings. The additional expenditure incurred would be less than what was originally paid and negligible considering substantial savings realisable in using Fe 500. Also, the tender rate is revised when quantity of item is increased or decreased by 25 *per cent* of the tender quantity as per provision of the contract. Since the reduction in quantity works out to 17 *per cent,* revising the tender was not required as the variation in quantity was below the prescribed limit.

Thus, failure to revise the design with reference to the higher grade of steel used in the work resulted in extra cost of ₹ 1.80 crore which was avoidable.

The matter was referred to Government in March 2014; their reply was awaited (October 2014).

[63] (Total steel consumed × 17 *percent* saving) = (1,720.48 × 0.17) = 292.48 MT
[64] 292.48 MT × ₹ 61,473.93/MT = ₹ 1,79,79,895 as per tendered rate

WATER RESOURCES DEPARTMENT – TUNGABHADRA PROJECT

3.14 Undue benefit to a contractor

In one work, 25 *per cent* weightage amounting to ₹ 29.17 crore was paid in the second running account bill contrary to tender conditions to pay it in final bill, resulting in undue benefit to contractor and a loss of ₹ 1.84 crore to the exchequer.

The Schedule of Rates (SR) of Water Resources Department for 2011-12 and 2012-13 allowed 25 *per cent* weightage for all the items under "Modernisation of canal network including structures" for completion of work during the canal closure period. The 25 *per cent* weightage was payable in last/final bill only if the contractor completed 90 *per cent* of the value of the "Modernisation works" within the single closure period of three to four months. As per SR, a suitable clause should be incorporated in the tender documents for admissibility and regulation of 25 *per cent* weightage.

The estimate of work of "Modernisation of Tungabhadra Left Bank Canals from 167 km to 220 km and its distributaries (in selected reaches)" for ₹ 136.46 crore based on SR 2011-12 was technically sanctioned by Chief Engineer, Irrigation Central Zone, Munirabad (CE) during July 2012. The contract was awarded (April 2013) on tender basis to a contractor for ₹ 151.30 crore (inclusive of 25 *per cent* weightage) with stipulation to complete the work before 23 July 2013. The contractor did not complete the work in all respects in the stipulated period and value of work done as per second running account bill for the work done up to 19 July 2013 aggregating to ₹ 148.18 crore was paid during October 2013.

Scrutiny of records (February 2014) of Executive Engineer, Canal Division No.5, Yermarus (EE) showed that despite non-completion of work relating to four distributaries, 14 pipe outlets and 20 guide-walls within stipulated period, no action was taken by Department to levy penalty[65] as per Clause 2 (d) of the agreement. However, 25 *per cent* weightage amounting to ₹ 29.17 crore was paid to the contractor in the second running account bill instead of the final bill as specified in the SR and also in the Schedule 'B' of the tender documents. The premature release of 25 *per cent* weightage of ₹ 29.17 crore much before requirement, constituted extending unauthorised benefit to the contractor and entailed financial loss of ₹ 1.84 crore[66] to the State exchequer towards interest, as capital works are financed through borrowings.

[65] The penalty of one *per cent* of the estimated cost of the balance work per day and shall not exceed 7.5 *per cent* of the estimated cost of the work

[66] ₹ 29.17 crore × 9.45% for eight months from November 2013 to June 2014 based on the average interest paid by Government of Karnataka during 2013-14

The EE in reply stated (July 2014) that action would be taken to levy penalty as per conditions of contract and that 25 *per cent* weightage in second Running Account bill was paid by the Chief Accounts Officer, Karnataka Neeravari Nigam Limited. It was however seen that bill was admitted by the EE for making payment by the Chief Accounts Officer and he was therefore also responsible for allowing the payment.

Thus, the premature release of ₹ 29.17 crore to the contractor resulted in extending undue financial benefit to the contractor and entailed financial loss of ₹ 1.84 crore to the Government.

The matter was referred to Government in May 2014; their reply was awaited (October 2014).

Bengaluru
The

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The

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