

Chapter - III

3. Compliance Audit Observations

Important findings emerging from audit that highlight deficiencies in planning, investment and activities of the Management in the State Government Companies and Statutory Corporations, which had financial implications 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 Projects of the Government were not achieved.

Government Companies

Karnataka Power Transmission Corporation Limited

3.1. Deviation from Regulations

Failure to follow the procedures prescribed in the Regulations and continued sanction of Open Access facilities without ensuring collection of outstanding dues resulted in loss of revenue of ₹ 29.21 crore.

As per KERC (Terms and conditions for open access) Regulations, 2004, the State Load Dispatch Centre (SLDC), functioning under the administrative control of Karnataka Power Transmission Corporation Limited (Company), is the nodal agency for sanctioning Short term Open Access⁸¹ to the customers in Karnataka.

The procedure prescribed in the Regulations stipulated that the customers intending to avail Open Access should enter into an agreement with the transmission licensee (Company) and that such agreements should ensure payment security mechanism. The nodal agency should specify the terms and conditions of payment. The Open Access charges⁸² are levied on the customers for use of the transmission system.

Audit observed that the Company/SLDC failed to follow the procedures prescribed in the extant Regulations while sanctioning the Open Access to two firms viz., Shree Kedarnath Sugars and Agro Products Limited (KSAPL) and Surana Industries Limited (SIL). The Open Access charges amounting to ₹ 29.21 crore⁸³ for the period between December 2010 and July 2013, remained unrecovered on account of following lapses:

⁸¹ Open Access is the non-discriminatory provision for the use of transmission lines or associated facilities by any licensee or consumer engaged in generation. Short-term Open Access customers are the persons availing access for a period of less than one year.

⁸² Open Access charges include transmission charges, wheeling charges, charges for arranging backup supply (for start up of generating plant), Unscheduled Interchange (UI) charges (towards maintaining grid discipline) and any other charges specified from time to time.

⁸³ KSAPL (₹ 7.30 crore) and SIL (₹ 21.91 crore).

- The Company had not entered into agreement with the firms for Open Access. Hence, the payment security mechanism also remained undefined. The No Objection Certificates (NOC), issued by SLDC to KSAPL and SIL for availing Open Access also did not specify the terms of payment security mechanism (*viz.*, periodicity of billing, quantum of charges, due dates for payment, levy of penalty for default, *etc.*)
- Though there was a precedence of default of Open Access charges by another firm (Konark Power Projects Limited) to the extent of ₹ 1.28 crore during November 2008, the Company failed to take precaution, while sanctioning Open Access to KSAPL and SIL.
- Since NOCs were issued in advance of commencement of Open Access, the Company had an opportunity to verify the outstanding dues of the firms before issue of fresh NOCs. The Company, however, did not exercise this control, but continued to issue NOCs without collecting the outstanding dues. This had resulted in accumulation of dues of ₹ 25.63 crore⁸⁴ on subsequent sanctions, which could have been avoided.
- Instead of issuing bills every month, the bills for Open Access charges were raised by the Chief Engineer (Electricals), SLDC with delay ranging from one month to seven months from the date of availing Open Access.
- The Company, also did not take timely action to recover the outstanding dues through legal recourse. In the case of KSAPL, the Company attempted (September 2012) to recover the dues under the Land Revenue Act after a lapse of one and half years of the last billing period (April 2011). This attempt of the Company failed as KSAPL had been wound up and its assets were put for auctioning (July 2013/October 2013) by its bankers for recovering its dues. In respect of SIL, no action has been initiated.

Thus, the failure to comply with the Regulations and continued sanction of Open Access without ensuring collection of outstanding dues resulted in loss of revenue of ₹ 29.21 crore.

The Government replied (November 2015) that SLDC/KPTCL adhered to the CERC Regulations in issuance of NOC and preparation of bills. The calculation of open access charges require collection of a lot of field data relating to generators from various sources which justify the time taken to generate the bills. The non-payment was solely due to the firms' failure to abide by the open access regulations. A petition has been filed with Karnataka Electricity Regulatory Commission (KERC) against SIL for recovery of dues

⁸⁴ Amount raised in the first bill *minus* dues accumulated as per final bill. An amount of ₹ 20.73 crore (₹ 21.91 crore - ₹ 1.18 crore) from SIL and ₹ 4.90 crore (₹ 7.30 crore - ₹ 2.40 crore) from KSAPL.

and Hubli Electricity Supply Company (HESCOM) had taken action to recover the dues from KSAPL under the Land Revenue Act.

The reply is not acceptable as the Company had failed to enter into agreement and ensure payment security mechanism, which was in violation of KERC Regulations. The Government is shifting the onus on the firms, when the fact of the matter is that there was no internal control mechanism to ensure timely raising and collection of dues and to ensure that the officials responsible for raising and collection are carrying out their duties.

Karnataka Power Transmission Corporation Limited

3.2. Unwarranted creation of substations

Establishment of new substations without adequately analysing the load pattern resulted in infructuous investment of ₹ 15.97 crore.

Karnataka Power Transmission Corporation Limited (Company) establishes new substations based on load flow study in the feeders connected to the existing substations or on the basis of representations from consumers, local representatives, Members of Legislative Assembly or Members of Parliament, etc. Based on the representations, the Company undertakes load flow study of the feeders catering in the areas concerned. If such study necessitates establishment of a new substation, the Company prepares a Detailed Project Report and gets the clearance from the Technical Advisory Committee (TAC).

The 66/11 kV Ramanagara substation, which is fed from Bidadi 220/66 kV substation, was connected with the 11 kV feeders of Jalamangala, Biligumba and Uruguhalli having connected load of 17,877 kVA (15.195 MW). Similarly, the Magadi 66/11 kV substation, which is fed from the 220/66 kV Anchepalya substation, was connected with the 11 kV feeders of Savanadurga and Managallu having connected load of 6,549 kVA (5.567 MW).

In order to reduce the load of 66/11 kV Ramanagara substation and to meet the future growth of demand, improvement in voltage profile and reduction in the length of 11 kV feeders, the TAC approved (January 2005) the proposal for establishing a new substation (66/11 kV) at Melehalli with a capacity of 2x8 MVA. The substation was commissioned in March 2007 at a cost of ₹ 7.15 crore.

During the course of execution of Melehalli substation, the TAC approved three more substations with a capacity of 1x8 MVA, 66/11 kV each at Jalamangala (October 2006), Kutagallu and Chikkaganganawadi (January 2007). The proposals for these substations were approved for the same reasons as in the case of Melehalli. These substations were commissioned (March 2009/July 2010) at a total cost of ₹ 15.97 crore.

Audit findings revealed that creation of these three substations was not warranted as seen from their meagre peak load recorded during the five year period subsequent to their establishment, as discussed below:

- The proposals for establishing substations at Jalamangala and Kutagallu were approved despite the opinion (October 2006) of the Planning section of the Company that the Jalamangala substation was not required as the load for this area was meagre (3.361 MW) and that the load could be met from the adjacent substations at Melehalli and Ramanagara. Moreover, the Chairman of TAC had also observed (January 2007) that the benefit-cost ratio for establishing Kutagallu substation was not adequate. This was supported by the fact that the peak load recorded during 2010-15 ranged from 1.2 MW to 3.1 MW at Jalamangala substation and 2.1 MW to 3.1 MW at Kutagallu substation as against the available capacity of 6.8 MW (8 MVA) each.
- The peak load recorded at the newly established substations of Jalamangala, Kutagallu and Chikkaganganawadi between 2010-11 and 2014-15 was very meagre which ranged from 1.2 MW to 3.4 MW as against the capacity of 6.8 MW available at each of these substations. This load could have been met from the substation at Melehalli, which was established with a capacity of 2 x 6.8 MW, but whose peak load during the said period (2010-15) ranged between 2.8 MW and 7.1 MW. Hence, the decision to establish three new substations without studying the actual load of substation at Melehalli was unwarranted. Further, the insignificant load recorded at these three substations even after five years of commissioning had not contributed to reduction in loads at Ramangara and Magadi substations.
- As per the approved proposal, the existing load of 3,166 kVA (2.691 MW) of Savanadurga and Managallu 11 kV feeders of Magadi substation was to be transferred to newly established Melehalli substation. This was not done (June 2015) even though the Melehalli substation was established in March 2007. The capacity of the Melehalli substation was thus, underutilised and the objective of reducing the load of Magadi substation was also not achieved.

Thus, the establishment of substations at Jalamangala, Kutagallu and Chikkaganganawadi at a total cost of ₹ 15.97 crore, without studying the load pattern at Melehalli substation and without considering the observations made by the Planning section and TAC Chairman, was not need based and this investment gave no appropriate value addition.

The Government replied (October 2015) that the connected load of Melehalli substation, which was 12,280 KVA, could not cater to the total connected load of 17,752 KVA of three new substations *viz.*, Jalamangala, Kutagallu and Chikkaganganawadi. These three substations were proposed to cater to the existing and future load growth. It was further stated that Bangalore Electricity Supply Company Limited (BESCOM) was intimated to take action for bifurcation of load of Savanadurga and Managallu feeders to Melehalli substation.

The reply is not acceptable as the actual peak load was much less, which ranged between 1.2 MW and 3.4 MW during 2010-15 though the connected load of three substations was 17,752 kVA (15.089 MW). This load could be

met from Melehalli substation, whose peak load during the same period ranged between 2.8 MW and 7.1 MW as against the connected load of 2 x 6.8 MW. Moreover, the Company did not ensure transfer of the load of Savanadurga and Managallu feeders by BESCO. As these substations were underutilised even after five years of their commissioning (since March 2009/July 2010), the argument that they were commissioned to cater to the future load growth was not justified and not supported by evidence.

Karnataka Power Transmission Corporation Limited

3.3. Infrastructure creation in violation of conditionalities

The Company created a 33 kV infrastructure at Laxmeshwar substation at a cost of ₹ 1.73 crore, in violation of directions of the Technical Co-ordination Committee to construct the same after taking up the substation at Gudageri. As the proposal for substation at Gudageri has been shelved, the investment remained unfruitful.

Hubli Electricity Supply Company Limited (HESCOM) submitted (March 2008) to Karnataka Power Transmission Corporation Limited (Company) a proposal to create '33 kV reference⁸⁵' at the existing Laxmeshwar substation (110 kV), Gadag district to feed its (HESCOM) proposed 33 kV substation at Gudageri.

The Technical Coordination Committee (TCC) of the Company, while giving the approval to the above proposal, instructed (March 2009) that the work may be taken up only after getting confirmation that HESCOM had awarded the work of substation at Gudageri.

Audit observed that in violation of the direction of TCC, the Chief Engineer (Electricity), Transmission Zone, Bagalkot awarded (April 2011) the work of creating the 33 kV reference at Laxmeshwar substation by installing a transformer (10 MVA) at a cost of ₹ 1.73 crore, even though HESCOM had not initiated action to award the substation work at Gudageri. Though, the work at Laxmeshwar substation was completed in September 2012, the transformer had not been put to use till date (December 2015).

Audit further observed that HESCOM had shelved (March 2015) the proposal for construction of the substation at Gudageri consequent to the proposal of establishing another substation (110/11 kV) at nearby Hireharkuni village. The reason cited for the change in location was load growth and the internal policy that the cost benefits of constructing a 110/11 kV in the first instance was better than constructing 33/11 kV substation and later upgrading it.

Thus, as there were no proposals for construction of 33 kV substation for drawal of power from Laxmeshwar substation, the infrastructure created at a cost of ₹ 1.73 crore remained unfruitful.

⁸⁵ The term '33 kV reference' referred to in the approval of TCC held in March 2009 denotes the approval to install 1x10 MVA, 110/33 kV transformer at 110 kV Laxmeswar substation.

The Government replied (August 2015) that the work was awarded pending confirmation from HESCOM. The Government further stated that HESCOM had renewed (May 2015) the proposal of establishing the substation at Gudageri and it was certain that the 33 kV reference at Laxmeshwar substation would be utilised.

The reply is unacceptable as the Chief Engineer had violated the instructions of the TCC by awarding the work without getting confirmation from HESCOM. Further, the reply that the proposal for substation at Gudageri was being renewed is an attempt to justify the improper action of having created infrastructure at Laxmeshwar without a substation for supply of power. Thus, the violation of orders by the Chief Engineer had led to ₹ 1.73 crore remaining idle.

The Mysore Sugar Company Limited

3.4. Deficiencies in the implementation of co-generation project

Implementation of co-generation project without ensuring fuel and non-synchronisation with modernisation of mills resulted in investment of ₹ 124.08 crore becoming unfruitful, besides interest burden of ₹ 59.04 crore.

The Mysore Sugar Company Limited (Company), involved in sugar production with two milling tandems of combined crushing capacity of 5,000 Tonne Cane per day (TCD), proposed (1999) to set up a co-generation plant of 30 Mega Watt (MW) power with bagasse (the fibrous remains of sugarcane) as fuel. The Company envisaged exportable power of 19.22 MW after meeting its captive requirement. The project was proposed to be completed by March 2003 at a cost of ₹ 76.35 crore.

The Company procured equipment worth ₹ 64.37 crore for the plant which was to be commissioned by March 2003, but trial run was conducted only in January 2007 and 9.36 MW power was exported to the grid. The plant was however not operated after the trial run due to non-availability of sufficient bagasse though the DPR did not envisage any shortage of bagasse.

The Company identified (February 2009) coal as a secondary fuel to overcome the shortage of bagasse. The coal-firing and coal-handling plant installed (August 2011) by the Company at a cost of ₹ 4.90 crore including a coal yard constructed at a cost of ₹ 1.20 crore had not been put to operation till date (June 2015).

In order to achieve generation of 30 MW power, the mill was required to crush 5,000 TCD and the expected bagasse requirement was 3.75 lakh MT per annum but its actual production of bagasse between 2007-08 and 2013-14, ranged between 0.23 lakh MT and 1.53 lakh MT per annum. As the existing sugar mills were very old and had never been operated to their maximum capacity of 5000 TCD, the Company decided (December 2008) to modernise the 'A' mill for upgradation to 5000 TCD in sync with co-generation. The work was awarded (September 2010) to Fives Cail – KCP Ltd., which

supplied and installed (February 2015) equipment costing ₹ 49.10 crore but the plant scheduled to be completed by July 2011 could not be upgraded till date (November 2015).

On being requested by the Company, BHEL did the overhauling of the Turbo Generator for ₹ 4.51 crore, which was avoidable had the co-generation plant been put in operation.

In this connection, Audit observed the following points:

- GoK released (up to June 2015) ₹ 99.74 crore to the Company towards One Time Settlement of loan availed for co-generation project from HUDCO. The GoK had to bear the interest burden of ₹ 59.04 crore without accrual of benefits from co-generation project.
- The Ministry of New and Renewable Energy, Government of India, announced during XI five year plan (2007-12), a number of incentives⁸⁶ for co-generation plants but the Company did not avail any of these incentives, which led to increase in the project cost to that extent.
- Due to non-implementation of co-generation project, the Company could not honour its commitment to export surplus power, instead it had to draw energy from the grid. This resulted in avoidable demand of ₹ 76.17 lakh towards interest on energy charges from the Electricity Supply Company.

Thus, the co-generation project was ill-conceived without ensuring availability of the primary fuel and synchronisation with modernisation work despite being pointed out in the Audit Report of the Comptroller and Auditor General of India for the year ending March 2002. As a result, investment of ₹ 74.98 crore made on co-generation plant and ₹ 49.10 crore on modernisation had become unfruitful, besides interest burden of ₹ 59.04 crore on the Government.

The Company, in its reply (December 2015) admitted that:

- Co-generation plant was not functional on account of shortage of bagasse and it had expected availability of sufficient bagasse.
- Subsequent analysis revealed that the production of power by use of coal was unviable.
- Though 'A' mill and co-generation plant were ready, they could not be operated due to failure of both boilers. The mill and the plant would be ready by December 2015.

⁸⁶ Capital subsidy ranging from ₹ 0.40 crore to ₹ 0.50 crore per MW subject to a maximum of ₹ 8 crore, fiscal incentives such as 80 *per cent* accelerated depreciation in the first year, 10 years income tax holiday, concessional Customs Duty and exemption of Central Excise Duty for machinery and components procured for initial setting up of Biomass Power Projects.

The reason for delay in co-generation project as put forth in the reply confirmed audit observation that the project was ill-conceived as even the availability of bagasse, the basic raw-material, was not ensured by the Company.

The matter was brought to the notice of the Government in July 2015. The reply of the Government is awaited (December 2015).

The Mysore Sugar Company Limited

3.5. Undue benefit to the Consultant

Exorbitant increase of consultancy fee without justification and violation of the Karnataka Transparency in Public Procurement Act resulted in avoidable extra expenditure of ₹ 0.84 crore.

The Mysore Sugar Company Limited (Company) was declared a Sick Company by the Board for Industrial and Financial Reconstruction (BIFR) in September 2005. In order to attend to the BIFR case, the Company appointed (July 2009) M/s.Rangaraju and Associates, Chartered Accountants, Bengaluru as consultants. The work involved rendering of consultancy support regarding restructuring/rehabilitation to be finally sanctioned by the BIFR and also review of any modifications that might arise from the submission of Draft Rehabilitation Scheme, till the end of the award by the BIFR. The fee for the duration of assignment (August 2009 to March 2010) was fixed at ₹ 4.50 lakh.

The terms of engagement of consultant were amended (August 2009) to include a clause that in the event of delay in BIFR's final order beyond March 2010, the period of assignment might be extended by mutual discussions and that the fee was exclusive of service tax.

As the BIFR's proceedings were not finalised, the Board of Directors (Board) approved (April 2010) extension of the tenure of the consultants from April 2010 to June 2010 at a consultancy fee of ₹ 2.40 lakh (exclusive of service tax) for a tenure of three months. Further extension was given (July 2010) up to September 2010.

Thereafter, the Board approved (March 2011) continuation of services of the consultant from October 2010 for a period of one year on a monthly remuneration of ₹ 2.50 lakh *plus* service tax, from the earlier remuneration of ₹ 2.40 lakh for three months (*i.e.* @ ₹ 80,000 per month) without assigning any reason for the steep increase. The Board further enhanced (June 2011) the fees by 10 *per cent i.e.* ₹ 2.75 lakh *plus* service tax per month, till discharge of the Company from BIFR.

Audit observed that:

- As per the provisions (Section 4 e and 5) of Karnataka Transparency in Public Procurement (KTPP) Act, no entity shall procure consultancy services except by inviting tender, where the value of such service exceeds ₹ 5 lakh. The Company, however, did not invite any

expressions of interest (*i.e.* tender), but directly decided the remuneration of the consultant. The consultancy fee, which was fixed (July 2009) at ₹ 5.05 lakh (including service tax) was later increased (March 2011) to more than ₹ 30 lakh per annum.

- The remuneration to the consultant had been frequently revised upwards without any justification on record. The request of the consultant and the justification by the management for the exorbitant increase in fees from ₹ 80,000 per month to ₹ 2.50 lakh per month and then to ₹ 2.75 lakh per month were not on record.
- This frequent increase of fee ran counter to the observation of the Board (March 2009) that the fee of ₹ 60,000 per month was exorbitant as the consultants did not have regular monthly work in the BIFR matter. The Board also directed that the matter may be placed in the next Board meeting after discussion with the Industrial Finance Corporation of India Ltd. (IFCI - a Government undertaking), who had also offered consultancy services. The Management failed to comply with the Board's directions and there was no record of any discussions with IFCI.
- The Company referred (August 2013) the matter to Government of Karnataka (GoK) seeking their opinion on the applicability of KTPP Act on an objection raised by Internal Audit. Though the GoK directed (August 2013) that the KTPP Act be followed, the service of the consultant was terminated only in April 2014, after a delay of more than eight months.
- The Company terminated the services of the consultant and appointed (October 2014) M/s.T.Srinivasa & Co., Chartered Accountants, Bengaluru as consultant for the same work at the rate of ₹ 680 per man hour for 650 man hours or till the Company came out of BIFR whichever was earlier, which worked out to ₹ 4.42 lakh.
- The previous Consultant approached (June 2014) the High Court of Karnataka against the unilateral termination of the contract and settlement of dues. The Consultant agreed (July 2014) to withdraw the case on payment of ₹ 26.26 lakh (inclusive of taxes) towards consultancy fee dues up to 15 December 2013. The Company agreed (August 2014) for the proposal subject to withdrawal of the case and submission of certified copies of service tax remittance to the Government. The matter was yet to be resolved (December 2015).

Thus, non-compliance with the KTPP Act regarding appointment of consultant and exorbitant increase in the consultancy fee without any justification resulted in undue benefit of ₹ 0.84 crore to the consultant. This calls for fixing of responsibility on the Officers who are at fault.

The Company, in its reply, accepted (June 2015) the audit observations. Reply from the Government was awaited (December 2015).

Bangalore Electricity Supply Company Limited

3.6. Improper Financial Management

Release of Discretionary Funds to the Officers without assessing the need resulted in unwarranted payment of interest of ₹ 1.70 crore.

Bangalore Electricity Supply Company Limited (Company) decided (March 2012) to provide ‘Discretionary Funds’ to the officers handling Operation and Maintenance works of the Company to spend at their discretion in the interest of the Company .

The Company issued (April 2012) an Official Memorandum specifying the amount that should be provided to each of the Officers⁸⁷ and also issued instructions regarding procedure to be followed in operating the fund. The Company released (between March 2012 and March 2014) Discretionary Fund of ₹ 14.14 crore to the Officers of the Zones/Circles/Divisions of the Company.

Audit observed the following lapses relating to the release and utilisation of funds:

- The Company, while taking the decision (March 2012), did not specify the purposes for which the Discretionary Funds were provided. As the funds for the working capital of the Company were met out of the Over Draft (OD) account, the decision had the bearing on the financial interest of the Company. The sanction of Discretionary Funds without proper justification/purpose on record indicated imprudence.
- Consequent to non-utilisation of funds, the Company initially directed (June 2012) the officers concerned to utilise these funds on or before July 2012, which was later extended to September 2012 and then to March 2013. Though the Company was aware at various points of time that the funds were not immediately required, it kept on extending the dead line for utilisation of funds, thereby compelling the Officers to utilise them without any need.
- The funds were utilised mainly for procurement of smart phones, office stationary, furniture, computer accessories, shamiyana for BESCOM day, water purifier, Air Conditioner, UPS repair, banners, flex board printing, LED TV and stand, visitor chairs, wall mounting fans, digital cameras, *etc.*, which did not warrant any emergency. These items could have been procured in the ordinary course of business by requisitioning funds as and when required.
- The progressive fund utilisation during 2012-15 is as indicated below:

⁸⁷ Chief Engineers (₹16 lakh), Superintending Engineers (₹ 8 lakh), Executive Engineers (₹ 4 lakh), Assistant Executive Engineers/Assistant Engineers/Section Officers (₹ 2 lakh).

Table No.3.1.1: Utilisation of discretionary fund during 2012-15

(₹ in crore)

As at the end of	Cumulative fund releases	Cumulative fund utilisation	Unutilised funds	No. of months funds remained idle	Interest paid on OD ⁸⁸ on unutilised funds
October 2012	12.98	3.52	9.46	7	0.60
March 2013	13.48	8.31	5.17	6	0.28
March 2015	14.14	10.37	3.77	24	0.82
Total					1.70

The above pattern of utilisation of funds indicated that there was no real need for these funds. Even after a lapse of three years from the date of release of funds, 29 per cent of the funds remain unutilised.

It was further observed that the Company paid interest of ₹ 1.70 crore over the three year period ending 31 March 2015 on the unutilised funds. Having released ₹ 12.98 crore up to October 2012 with ₹ 9.46 crore unutilised, the Company should have taken action to review the decision. The interest expense could have been avoided, had the Company took timely decision for recalling the unspent amount.

The Government replied (September 2015) that the fund was sanctioned to meet the contingency expenditure by the field officers in order to take quick action for restoration of power supply, purchase of materials and equipment for running the business without any hindrance. Discretionary Fund was withdrawn as many field officers had informed that such fund would not be necessary in future. Action had been taken to investigate the deviations of funds to the other purposes. The guilty officers/officials would be subjected to disciplinary action.

The reply confirms that the decision to create discretionary fund was without analysing the actual need of the field officers and was not a financially prudent move. This is evident from the fact that the field offices resorted to spend the funds for unintended purposes. Thus, the release of Discretionary Funds of ₹ 14.14 crore from the OD account was unwarranted as it was spent on items which cannot be said to be prudent expenditure. Moreover, it resulted in avoidable interest expense of ₹ 1.70 crore due to operation of OD.

Bangalore Electricity Supply Company Limited

3.7. Deviation from bid conditions

Approval of terms of payment in deviation from bid conditions resulted in extension of undue financial advantage to the service provider by ₹ 1.53 crore.

Bangalore Electricity Supply Company Limited (Company) invited (September 2012) bids from service providers to avail services through web

⁸⁸ Interest calculated at the minimum rate of 10.90 per cent per annum charged by Bank of Baroda vide its sanction letter dated 28 March 2012.

based Total Revenue Management (TRM) system for the subdivisions and accounting sections of Bangalore Rural Area Zone and Chitradurga Zone of the Company. The services included supply and maintenance of hardware and web based software for secured meter reading, billing, collection, disconnection, reconnection, supply and maintenance of Local and Wide Area Network, internet facility and manpower support.

The General terms and conditions of the bid stipulated that the bidders should quote firm prices '*per installation billed per month basis*' considering the entire scope of work. The terms of payment stipulated that the liability for payment would start only on successful generation and delivery of error free bills, generation of all required periodical MIS reports and submission of all deliverables.

The Company awarded (December 2012) the contract to Nsoft (India) Services Private Limited (firm), who had quoted ₹ 2.85 *per installation billed per month* inclusive of all taxes for a period of two years. The contract commenced with effect from February 2013 and April 2013 in Chitradurga Zone and Bengaluru Rural Area Zone respectively.

Audit observed that while considering the proposal of award of contract to the firm, the Company approved (November 2012) the rate at ₹ 2.85 *per installation per month* instead of *per installation billed per month* as quoted by the firm. The approval, thus, was in deviation both from the bid conditions and also as quoted by the firm.

The error in decision of the Board of Directors led to the Company paying the firm at the rate of ₹ 2.85 per installation per month even for the inactive installations for which no bills were generated by the firm. In 10 out of 15 Divisions under the jurisdiction of Bengaluru Rural Area Zone and Chitradurga Zone, the Company paid ₹ 1.53 crore towards 53.55 lakh inactive installations during the period February 2013 and May 2015.

The Government replied (December 2015) that the Board of Directors of the Company had approved unit rate at ₹ 2.85 per installation per month. The Detailed Work Award was issued to Nsoft (India) Service Private Limited for implementation of TRM system accordingly. There was no deviation from the approved payment terms and conditions of the contract. The service provider had to generate various reports on disconnected installations and the data needed to be maintained on these installations until the entire dues were recovered.

The reply is not tenable as the bid documents clearly indicated detailed functionalities of the software which should provide for generation of disconnection list, the Support Automatic Recovery Process *viz.*, termination notice, final bill with adjustment of deposits, necessary forms and also related MIS Reports. The firm had quoted *per installation billed per month* after considering the above bid conditions. Hence, the approval of the Board of Directors for *per installation per month* was not in line with the conditions of contract.

Audit further observed that the Company, while extending the contract of the firm for one year, approved (November 2014) the rate at ₹ 2.85 per active installation per month continuing the other existing terms and conditions of the original contract. This decision of the Company confirmed the fact that the earlier approval (November 2012) of the Board of Directors was in deviation from the bid conditions and quotation and thus, resulted in extension of undue financial advantage to the service provider by ₹ 1.53 crore.

Karnataka Neeravari Nigam Limited

3.8. Extra payment towards price adjustment claims

Inappropriate application of index while allowing price adjustment claims resulted in undue favour of ₹ 5.18 crore to the Contractors.

The Karnataka Neeravari Nigam Limited (Company) awarded (April 2010) the following works under Singatalur Lift Irrigation Scheme (SLIS) left bank canal, on turn-key basis to be completed in 18 months:

Name of the work	Contractor	Contract value (₹ in crore)
Construction of 1 st lift at Left Bank Canal of SLIS	IVRCL Infrastructure and Projects Limited	46.67
Construction of 2 nd lift at Left Bank Canal of SLIS	GVPR Engineers Limited	269.31
Construction of 3 rd lift at Left Bank Canal of SLIS	GVPR Engineers Limited	111.86

Clause 44 of the agreement stipulated that the contract price was to be adjusted for increase/decrease in rates and prices of labour, materials, plant and machinery spares, fuels and lubricants *etc.*, as per the price adjustment (PA) formulae. All India Wholesale Price Index (WPI) with base year of 1993-94, issued by Government of India (GoI), would be the basis for computation of PA and the index of 'Heavy machinery and parts' group was adopted to represent the component of 'Plant and Machinery spares'.

The GoI revised the base year of WPI from 1993-94 to 2004-05 modifying the commodities and their weightage with effect from 14 September 2010. The revised WPI did not contain the index of 'Heavy machinery and parts' group and taking advantage of this, both the contractors claimed PA with index of 'Pump and assembly' available under 'Industrial Machinery' group in the revised WPI and the Company admitted the same for ₹ 6.61 crore during the period between April 2010 and March 2015.

Audit observed the following lapses/points:

- The adoption of index of 'Pump and assembly' was not approved by Technical Subcommittee/Board. As per the delegation of powers, though the Executive Engineer was not empowered to adopt a different index than in the agreement, the price adjustments were paid by adopting different index than in the agreement.

- Classification of ‘Heavy Machinery and Parts’ group of old WPI under ‘Construction Machinery’ group of revised WPI for calculation of PA was approved (June 2011) by the TSC under Upper Bhadra Project. Considering this precedence, the Company should have adopted the same index in the said SLIS (left bank lift) works.
- In all the similar works of SLIS (right bank lift) and Rajanahalli LIS undertaken by the Company and in the case of Alambur Drinking Water Lift works undertaken by Cauvery Neeravari Nigam Limited and Lift Irrigation Schemes undertaken by Krishna Bhagya Jala Nigam Limited, the index of ‘Construction Machinery’ group was adopted while computing the PA claims under the revised WPI.

Hence, adoption of a different group of WPI by the Company for the SLIS (left bank lift) works, which had higher rates as compared to all the other similar works mentioned above, was without rationale and resulted in undue benefit to the contractor to the tune of ₹ 5.18 crore.

The Company replied (March 2015) that the index of ‘Pump and assembly’, which is the sub-component of ‘Machinery and machine tools’ was considered while calculating the price index as the work in question was not comparable with the civil works of general in nature. The major constituent of the work was supply and erection of pumps and motors and the cost of pumps and motors percentage was 31 *per cent* with respect to the total value of work.

The reply was not acceptable as the index adopted should be based on the nature of the items used in the construction work and not on the quantum. However, the Company admitted the PA claims with the index based on the value of the pump and motor as a percentage to the total value of the work, whereas, the civil portion constituted more than 50 *per cent* of the total value of the work. Hence, the contention of the Company in adopting the index of ‘Pump and assembly’ is not justifiable. Also, the Company had not adopted such index in all similar works such as SLIS (right bank lift) and Rajanahalli LIS.

Further, the old WPI did not include index of ‘Pumps’ or ‘Motors’ under ‘Heavy machinery and parts’ group, but, were available under ‘Electrical Industrial Machinery’ group, which was not considered at the time of agreement. Hence, it is apparent that the Company had envisaged indexation for machinery as a whole and not ‘Pumps’ or ‘Motors’ alone. Therefore, the adoption of the inappropriate index resulted in undue benefit of ₹ 5.18 crore being given to the contractors.

The matter was brought to the notice of the Government in June 2015. The reply of the Government was awaited (December 2015).

Karnataka State Coir Development Corporation Limited

3.9. Undue benefit to the supplier

Upward revision of quoted rate after entering into agreement and unwarranted addition of Value Added Tax (VAT) to the quoted rate benefitted the supplier to the extent of ₹ 3.17 crore.

Karnataka State Coir Development Corporation Limited (Company) invited (June 2013) a tender for purchase of materials, which *inter alia* included Rubberised Coir Bare Blocks. The tender conditions stipulated that the quoted rates should be firm and that the supplier was entirely responsible for all taxes incurred until delivery of the goods.

The contract was awarded (August 2013) to Karnataka Coir Foam & Allied Industrial Corporation (KCAIC) for supply of Rubberised Coir Bare Blocks mainly in two different sizes (*i.e.* 72"x30"x3.5" and 72"x36"x3.5") at *all inclusive rate* of ₹ 1,495 and ₹ 1,815 per unit, respectively.

Audit observed the following points:

- Within a month of placing the Purchase Order, KCAIC expressed (September 2013) its inability to supply materials at the tendered rate on the plea of increase in the cost of raw materials and requested the Company to accept the revised rate of ₹ 2,347 and ₹ 2,699 per unit, respectively.
- Instead of terminating the agreement and forfeiting the EMD as per clause 26 and inviting fresh tenders, the Managing Director accepted (September 2013), after negotiations, the revised rate of ₹ 2,247 and ₹ 2,599 per unit respectively for the different size of coir bare blocks. The Managing Director had not ensured that the increase in price was due to change in policies of the Government or due to reasons beyond the control as required under the tender condition (clause 27). Thus, in the absence of due diligence exercise in this regard, the Managing Director allowed the increase in prices, which resulted in undue benefit of ₹ 2.17 crore to the supplier (KCAIC).
- The rates obtained through the tender invited in June 2013 was an *all inclusive* rate. The request of the supplier for enhanced rates did not mention any tax component. However, when the Managing Director accepted the enhanced rate, the rates were mentioned as excluding Value Added Tax. Thus, the *suo motu* inclusion of the VAT component resulted in the Company bearing an additional expenditure of ₹ one crore.
- The Company extended the contract period for six months.
- The Company also placed Purchase Orders for *other materials* valued ₹ 1.92 crore on the same supplier without inviting tenders. This was in violation of Karnataka Transparency in Public Procurement (KTPP)

Act, 1999, which stipulated that no procurement entity should procure goods costing more than rupees one lakh except by inviting tenders.

From the foregoing observations, it is clear that the Managing Director had shown favouritism resulting in undue gain of ₹ 3.17 crore to the supplier.

The Government admitted (August 2015) the lapses pointed by Audit. Though the Government has confirmed the audit observations, action against the Managing Director for the lapses was not initiated (December 2015).

Mangalore Electricity Supply Company Limited

3.10. Failure to follow Railway Board's directives

The Company failed to follow the Railway Board's directives stipulating the mandatory use of Underground cables while executing line works at its railway crossings resulting in delay in execution of work. As a result, the infrastructure created valued at ₹ 1.43 crore remained idle and the energy savings forgone was ₹ 1.32 crore.

The Mangalore Electricity Supply Company Limited (Company) awarded (September 2012) the work of construction of the 33kV double circuit link line from Navunda substation to Kundapur-Byndoor line, for a distance of 3.118 kilometres for ₹ 1.05 crore to Mangala Electricals with a stipulation to complete the work by December 2012. The objective of creating the link line was to reduce the line losses, minimise the interruptions, reduce the peak load and improve the voltage profile, with savings in energy of 2.55 Million Units (MU) per annum. The work involved erection of towers at 33 locations and stringing of conductors to the towers.

The completion of the line work was delayed as several deviations from the originally proposed survey had to be carried out, due to objections from local people, Forest Department and Public Works Department. By March 2014, stringing of all the towers was completed except between tower No.27 and 28, which was passing over a railway crossing. The total cost incurred on the work up to March 2014 was ₹ 1.43 crore.

The Company had sought (December 2012) approval from Konkan Railway Corporation Limited (KRCL) for drawing overhead lines at railway crossing and KRCL had accorded permission in May 2013. However, in May 2014, the Central Railway authorities directed that all lines up to 33kV were to be laid only by underground (UG) cables in accordance with the directives issued by the Railway Board in October 2011. Thereafter, KRCL accorded (December 2014) permission for laying of UG cable. The cost of the work was revised (March 2015) to ₹ 1.93 crore⁸⁹. The line work was under progress (September 2015).

Audit observed that the Railway Board had issued directives in October 2011 mandating the use of only UG cables for power line crossings up to and

⁸⁹ Includes ₹ 14.39 lakh on account of work of laying UG cable.

including 33kV. The Company was also well aware of this position, as its request for clearance for overhead line in respect of another line work (Netlamandur substation to Kukkarabettu), was rejected (November 2011) by the South Western Railway and UG cables was used in line with the directives of the Railway Board. Yet, the Company had not modified its designs from overhead lines to underground lines for the crossing between tower No.27 and 28.

Thus, inspite of being aware of the directive of the Railway Board to use underground cables only, the Company had sought (December 2012) approval for construction of overhead lines for the Navunda substation to Kundapur-Byndoor line. Except the stringing of two towers across railway crossing, the work of stringing on the other towers had been completed by March 2014. The stringing of these two lines was not completed for the last 18 months (April 2014 up to September 2015). The investment of ₹ 1.43 crore on the line work already completed remained idle apart from foregoing the energy savings of ₹ 1.32 crore⁹⁰ and other intended benefits.

The Government replied (September 2015) that the Netlamandur-Kukkarabettu line work was handled by *Puttur* Division and it was in the jurisdiction of Southern Railway whereas the Navunda substation to Kundapur-Byndoor line was handled by *Kundapura* Division and it was in the jurisdiction of KRCL. The Government further replied that the Company had acted upon the directives of respective railway authorities and the earlier decisions were revised by KRCL at a later date.

The reply is not acceptable as the fact remains that the Company was well aware of the Railway Board's directive mandating the use of UG cables issued in October 2011. Further, there was lack of co-ordination between the Corporate Office and Divisions, which led to idling of the line work worth ₹ 1.43 crore.

Hubli Electricity Supply Company Limited

3.11. Non realisation of revenue

Hubli Electricity Supply Company Limited failed to realise revenue amounting to ₹ 1.39 crore due to non compliance with the extant Regulations.

The Conditions of Supply of Electricity of Distribution Licensees (Regulation), notified in June 2006, stipulated that in case of temporary power supply, the consumer should deposit, in advance, the estimated power consumption charges for the duration of temporary power supply. The advance was to be adjusted with the periodical bills raised and if the amount of deposit fell short of the estimated power consumption charges, immediate action was to be taken for recovery of the balance amount. The Regulation also stipulated that the bills should be raised at monthly intervals.

⁹⁰ 25,45,503 units per annum x ₹ 3.45 per unit (cost of power) x 18 months (April 2014 to September 2015). April 2014 is considered, as other works were completed by then.

Hubli Electricity Supply Company Limited (Company) sanctioned (January 2010) temporary power supply to Shree Kedarnath Sugars and Agro Products Limited (KSAPL), Bagalkot, after collecting (January 2010) advance power consumption charges of ₹ 11.69 lakh for thirty days, under temporary power supply tariff (LT-7). KSAPL availed power supply between January 2010 and July 2010, to set up a co-generation power plant⁹¹.

Meanwhile, from June 2010 onwards, the co-generation plant had become functional and started exporting power to the power grid. As part of its operations, the plant also imported power for its start up (backup power) after seeking permission (June 2010) from the Company.

As per procedure in vogue⁹², if in a particular month there was no export⁹³ of energy from the co-generation plant, then the Company had to claim power charges (for the imported energy) under LT-7 tariff.

Audit observed the following lapses on the part of the Company:

- The Division had failed to raise bills in the months in which there was only import of energy. The bill for six months (June to November 2010) was raised in February 2011, and the bill for 22 months (June 2011⁹⁴ to March 2013) was raised only in May 2013. In fact, KSAPL was allowed to import power between May 2011 and March 2013 despite non-payment of ₹ 0.48 crore against the power supplied earlier (June to November 2010). The total amount pending receipt at the end of March 2013 was ₹ 1.39 crore.
- The Division had failed to collect the estimated power consumption charges in advance as per extant Regulations for supplies after July 2010. As such, there was no security deposit available for adjustment.
- Though KSAPL had defaulted in payments since May 2011, the power supply was disconnected only in April 2013 though, it was required to be disconnected after giving 15 days' notice as per KERC (Electricity Supply) Code, 2004.
- Even though the dues were included in the Sundry Debtors of the Company, the Corporate Office had not initiated action.

The Government replied (August 2015) that monthly meter reading was not taken due to lockout of the factory and that action had been initiated to recover the arrears as per Recovery of Dues Act, through the Deputy Commissioner, Bagalkot.

⁹¹ Co-generation (Combined Heat and Power) is the simultaneous production of electricity and heat, both of which are used.

⁹² As per clarification received (October 2010) by HESCOM from the Karnataka Power Transmission Corporation Limited.

⁹³ For the months in which there was both import and export of energy, the Karnataka Power Transmission Corporation Limited, which monitored the export of energy would raise bills for the net energy (export energy *less* import energy).

⁹⁴ The 'date of bill' raised against the power consumption for May 2011 is not on record.

The reply is not acceptable as the Division had failed in its duty to collect the power consumption charges in advance and raise bills periodically as per the extant Regulations resulting in loss of revenue of ₹ 1.39 crore. The Management also did not initiate any action against the officials responsible for collection of dues. Moreover, the Division failed to disconnect the power supply after the first default in payment. Lock out was a subsequent development and dues were recoverable much earlier. The possibility of recovery through Recovery of Dues Act is remote as the bankers of KSAPL had issued (July 2013/October 2013) notice for auction of KSAPL's assets and also filed case in the Supreme Court of India for recovery of their loans.

Karnataka State Industrial and Infrastructure Development Corporation Limited

3.12. Avoidable payment of Corporate Tax

Accounting of interest earned out of Government funds released for specific purposes as its own income led to avoidable payment of Corporate Tax of ₹ 1 crore.

The Karnataka State Industrial and Infrastructure Development Corporation Limited (Company) acts as a nodal agency to take up the investment activities on behalf of the Government of Karnataka (GoK).

GoK had provided (2006-10) funds towards land acquisition for Bangalore International Airport (BIAL) and also to form a Joint Venture Company (JVC) for development of City Gas Distribution (CGD) Project.

Audit scrutiny of utilisation of these funds revealed the following:

- GoK released ₹ 21.31 crore between January 2007 and March 2010 towards acquisition of land for construction of Trumpet Interchange and an approach road to Bengaluru International Airport. The Company spent ₹ 14.43 crore for land acquisition. The unutilised portion of the land was acquired by NHAI by paying ₹ 8.79 crore to the Company. Thus, the unutilised funds of ₹ 6.88 crore and ₹ 8.79 crore received from NHAI were parked in term deposits, which earned interest of ₹ 4.43 crore. The Company treated the same as its own income, on which Corporate Tax of ₹ 0.81 crore was paid.
- GoK released ₹ 7.98 crore to the Company for investing in a JVC for development of CGD project in Karnataka. The Company placed the fund in term deposits earning interest of ₹ 0.95 crore. The Company treated the same as its own income and also paid the Corporate Tax of ₹ 0.19 crore.

Audit observed that in both the above cases that the Company was acting as a nodal agency of the GoK and the funds were released for specific purposes. As per the advice (February 1996) of the ICAI-Expert Advisory Committee the interest income on short term deposits out of grant-in-aid received from Government should not be accounted as the Company's own income.

The action of the Company to treat the interest earned on the funds as its own income rather than adding it back to the respective funds resulted in payment of Corporate Tax of ₹ 1 crore.

The Government replied (October 2015) that the terms of release did not stipulate crediting interest to the funds and in the absence of any stipulation, it was accounted as income. Further in respect of CGD project, the Government stated that the amount released was an equity investment and shares had been allotted (June 2014) to it.

The reply is not acceptable as the GoK placed funds with a stipulation that the same should be utilised for the purpose of land acquisition and investment in JVC. As such, the interest earned should have been credited to the respective fund or refunded to the Government.

Karnataka Renewable Energy Development Limited

3.13. Renewable Energy Sector in Karnataka

Introduction

3.13.1. The Karnataka Renewable Energy Development Limited (KREDL), formed in March 1996, was nominated (August 1996) as the State Nodal Agency (SNA) for non-conventional and Renewable Energy (RE) sources⁹⁵ in Karnataka and was entrusted to identify, promote and develop projects in the RE Sector, which included projects in the small hydro, wind, solar, biomass and co-generation sectors. KREDL functions under the administrative control of the Energy Department, Government of Karnataka (GoK).

The energy demand in Karnataka for 2014-15 was 62,643 Million Units (MUs), against which energy generated was 60,668 MUs resulting in shortage of 1,975 MUs (3.15 per cent). The installed capacity as on 31 March 2015 was 16,967 MW, including 4,852 MW from RE sources.

Renewable Energy Policies

3.13.2. To promote RE sources, the GoI and GoK have initiated various policy measures. The GoI has formulated the National Action Plan on Climate Change (NAPCC) and National Solar Policy. The NAPCC envisages 15 per cent share of RE in the country's generation mix by 2020. Karnataka has achieved the target of 15 per cent.

The GoK formulated the 'Karnataka Renewable Energy Policy 2009-14' in January 2010 for systematic and faster development of RE sources, the 'Karnataka Semiconductor Policy' in 2010 to provide assistance to solar photo voltaic manufacturing units and the 'Karnataka Solar Policy 2011-16' in July 2011 for the development of Solar projects to meet Renewable Purchase

⁹⁵ Sunlight, wind, rain, tides, waves, geo-thermal heat and biomass, which are naturally replenished, are promoted for clean and green sources of energy.

Obligation (RPO)⁹⁶. The Electricity Supply Companies (ESCOs) had achieved the targeted RPO of 10 *per cent*.

Audit Objective and Scope

3.13.3. The objectives of the audit were to examine the role of KREDL/GoK in increasing the contribution to electricity from RE sources, providing access to electricity in remote and rural areas as well as its role in promoting research and development in the RE Sector.

Audit examined the records of KREDL, Rural Development and Panchayat Raj Department, GoK and Khadi and Village Industries Commission (KVIC) which implemented the various RE programmes in the State, based on the various Policy measures initiated during 2009 to 2015.

Targets and Achievements

3.13.4. The sectors under RE can be classified as Grid based projects and Off-grid based projects, depending on their connection to the electricity grid. In respect of grid based projects⁹⁷, the targets set in RE Policies issued during 2009-14 *vis-a-vis* the achievements in the various sectors of RE are given below:

Table No.3.1.2: Targets and achievements

RE Sector	Estimated Potential (MW)	Target fixed for 2009-14 (MW)	Achievement during 2009-14 (MW)	Cumulative as on 31 March 2015	Shortfall in Percentage (as at 31 st March 2014)
Solar power	10,000 ⁹⁸	256	17	85	93.34
Wind power	12,950	2,969	999	2,685	66.35
Small Hydropower	3,000	600	313	796	47.83
Biomass power	2,500	581	619	1286	No shortfall
Others (including Waste to energy)	135	50	0	0	100
Total	28,585	4,456	1,948	4,852	56.28

It could also be seen that a large quantum of estimated potential of RE sources was yet to be harnessed.

The sector-wise observations on RE are given in the following paragraphs.

⁹⁶ The targets set by Electricity Regulatory Commission for the Electricity Supply Companies to purchase a certain percentage from RE sources.

⁹⁷ Off-grid based projects are discussed from paragraph 3.13.10.

⁹⁸ As per Solar Policy 2014-21.

Solar

3.13.5. KREDL had engaged (2011) the World Institute of Sustainable Energy (WISE) for an assessment of Solar potential in Karnataka. The Report, submitted in December 2011, was not discussed by the Board of Directors of KREDL nor any action taken thereon as envisaged in the road map.

The activities of KREDL were mainly limited to inviting competitive bids for purchase of Solar Energy by ESCOMs to meet their RPOs, processing the bids and allotting the projects to the successful bidders. KREDL has not identified sites suitable for establishing solar power projects. It was the Centre for Wind Energy Technology (C-WET), Chennai, an autonomous R&D institution established by MNRE, which had established (September 2011) five⁹⁹ ground level Solar Radiation Resource Assessment Stations in Karnataka and the raw and processed data were made available for sale by C-WET, so that potential developers could use them.

While accepting the audit contention, GoK stated (September 2015) that National Institute of Solar Energy had assessed the solar potential at 25 GW and hence WISE report was inadequate. However, considering the relevance of the report, the matter would be placed before the Board of Directors for their evaluation. The GoK informed (September 2015) that a Joint Venture company named Karnataka Solar Power Development Corporation Private Limited has been formed (March 2015) for establishing Solar parks in Karnataka.

3.13.5.1. The target of 256 MW under Solar power (Table 3.1.2) included 156 MW from RPO category and 100 MW under Rural Energy Certificate (REC) mechanism. Against this, only 85 MW has been achieved (March 2015) under RPO category. There was no achievement in respect of REC mechanism.

Further, it was envisaged in the RE Policy 2009-14, that preferential allotment of Solar Projects above 100 MW would be made to Karnataka Power Corporation Limited (KPCL), a State PSU. But, only two projects of 5 MW each were taken up by KPCL of which only one project of 5 MW was commissioned at the end of March 2015. In addition, in the 2011-16 Policy, Bundled energy of 50 MW was envisaged, against which the achievement was nil.

The shortfall was mainly on account of KREDL being involved only in finalisation of bids and leaving the development to the Independent Private Producers, rather than actively identifying, developing and promoting the sector as envisaged in its role as a Nodal agency.

3.13.5.2. The Solar Karnataka Programme, proposed (January 2013) to promote grid connected roof top solar power generators up to one MW capacity with 20 *per cent* State subsidy, was not implemented due to poor response from beneficiaries and the amount of ₹ 12 crore released by the GoK remained unutilised. GoK stated (September 2015) that the amount would be

⁹⁹ Kalaburgi, Vijapura, Chikodi, Bellary and Chitradurga.

used for the proposed Solar Pump Scheme for generation of power to run Irrigation Pump Sets.

3.13.5.3. As per Karnataka Solar Policy 2014-21, the GOK contemplated to provide financial assistance for development of solar parks through PPP. GoK also contemplated creating private land banks owned by farmers/associations for the development of solar projects on long term lease basis. GoK stated (November 2014) that it had initiated action by calling for Expression of Interest from farmers to lease their land for development of solar parks.

Wind

3.13.6. As per C-WET, the installable Wind power potential of the State was 13,593 MW. As per the RE policy 2009-14, the wind energy potential was 12,950 MW (Table 3.1.2). Against this, a total of 13,103 MW (570 projects) were allotted up to March 2015. But, only 2,685 MW (20.73 per cent) were commissioned up to 31 March 2015. Further, 47 projects (2,859 MW) had since been surrendered by developers and /or cancelled by the State Government and 145 projects of 3,652 MW have been recommended for cancellation by KREDL for non-implementation by the allottees. Thus, projects for only 3,907 MW were in progress as at 31 March 2015.

The RE policy allows a period of up to six and a half years from the allotment of the project for its commissioning. However, 160 projects (2,828 MW) allotted before 2007 were pending commissioning¹⁰⁰ at the end of March 2014, mainly due to non-remunerative tariff.

The State RE Policy 2009-14 envisaged that KREDL would obtain all statutory clearances from different departments beforehand and offer such lands for renewable energy project development. It was, however, seen that there were 18 wind projects¹⁰¹ (569MW) pending for want of statutory clearances. As a result, addition to RE capacity did not happen.

MNRE had issued (June 1996) guidelines making SNAs responsible for clearance of wind power projects after ensuring adequate availability of wind at specific site and careful scrutiny of capital cost and cost of generation for optimal utilisation of the wind potential. KREDL, however, has not identified potential wind power sites. It was left to the Independent Power Producers (IPPs) to collect the wind data of the sites identified by them. KREDL made the allotments only, thereby limiting its role. Additionally, the C-WET had released (October 2013 to July 2014) ₹ 50.75 lakh for co-ordination activities for installation of 23 wind monitoring stations in Karnataka, the completion of which was under progress (March 2015).

The GoK replied (November 2014) that the guidelines issued by MNRE were not applicable to self-identified projects of the IPPs. The fact however

¹⁰⁰ Excluding 179 projects (5,373 MW) pending for less than 6.5 years.

¹⁰¹ Three projects for 33 MW were pending for allocation of Revenue land and 15 projects for clearance from the Forest Department.

remains that the approach of the KREDL has not resulted in maximising the development of the wind potential of the State.

3.13.6.1. Further, while Central Electricity Regulatory Commission (CERC) had assigned higher tariffs for wind zones with lower Plant Load Factor (PLF), KERC had determined only one tariff rate for the period 2009-14, considering an average PLF of 26.5 *per cent*. As against this, the average PLF obtained by the wind power sector in Karnataka during the years 2008-09 to 2014-15 ranged from 19.51 *per cent* (2010-11) to 23.74 *per cent* (2012-13). The lower tariffs coupled with lower average PLF did not encourage prospective investors in wind energy sector in Karnataka.

GoK attributed (November 2014) the major setback for not achieving the targets for wind projects to the withdrawal of accelerated depreciation and non-viability of sites. GoK later informed (September 2015) that the GoI had reintroduced the accelerated depreciation from 2014-15. Regarding difference between CERC and KERC tariffs, the GoK stated (September 2015) that KERC invites the stakeholders to present their cases before fixing the tariff and the present tariff was one of the better tariffs in the country.

The fact remains that the tariff so fixed was not remunerative resulting in IPPs not completing the projects and the impact of re-introduction of accelerated depreciation was yet to be ascertained.

Monitoring

3.13.6.2. KREDL had no data on the extent of incentives released by MNRE/availed by the wind power generators. Further, the details of energy generated by individual wind generators were not available with the State Load Despatch Centre, which keeps the accounts of energy injected into the grid at the point of interface based on 'bulk meter' readings. There was no regular monitoring of the electricity generated by the wind generators. As a result, it had failed to perform its role as a State Nodal Agency for the development of RE in the State.

Small Hydro Power (SHP)

3.13.7. As per RE Policy, a potential of 3,000 MW had been identified under SHP. KREDL had not conducted any survey for identification of the projects and their potential. The developers themselves identified the sites for projects, prepared feasibility reports and approached the KREDL for approval.

KREDL had set a target of 600 MW for the period 2009-14 but the achievement was only 313 MW. The cumulative potential created up to the end of March 2015 was 796 MW. KREDL had not analysed the reasons for shortfall.

3.13.7.1. In Western Ghats / Forest areas, keeping in view the environmental issues, only mini hydro projects of up to 5 MW and run-of-the-river projects are encouraged.

Audit, however, noticed that out of 295 pending projects, 208 projects (1,335 MW) were pending for approval from the Forest Department and MoEF for periods varying between 2.25 years and 21 years (from the date of allotment), as the projects were located in the Western Ghats.

GoK informed (November 2014) that obtaining clearances in this ecologically sensitive region was a major hurdle for the implementation of projects and achieving targets.

The State Level Empowered Committee formed (May 2010) for facilitating clearances, thus has not been effective in obtaining the requisite approvals.

Biomass

3.13.8. As per RE policy documents, the biomass potential of the State was considered as 2,500 MW (including co-generation) based on the assessment carried out (2004) in coordination with MNRE (Table 3.1.2).

3.13.8.1. During 2009-14, as against the target of 300 MW for biomass non-bagasse, only 20 MW was commissioned. Thirty six biomass projects (232 MW) sanctioned between 2001 and 2013 were pending implementation. GoK attributed (September 2015) the non-achievement to non-availability of feed stock, seasonality of feed stock availability, crop failures and non-coverage of insurance to feed stock risk besides stating that the tariff was not encouraging for biomass non-bagasse. Audit observed that even the internationally acclaimed and first of the biomass projects (Malavalli) in the State stopped functioning from 2011 onwards due to non-remunerative tariff.

3.13.8.2. As against the target of 281 MW in the biomass-bagasse category, the achievement was 599 MW. The achievement was substantially higher owing to implementation in the bagasse based co-generation plant in the sugar industry. Even though there was good progress, 20 projects (380 MW) sanctioned prior to 2013 were still pending implementation. KREDL has not analysed the reasons for the non-implementation of the projects.

Audit reviewed eight projects in this sector. KREDL did not have the data relating to six projects and Central Financial Assistance (CFA) related information like copies of sanction order/release order was available in file only in two cases. Periodic monitoring of the progress of implementation of biomass projects by KREDL was absent. As such, the reasons for delay in implementation could not be analysed.

Waste-to-Energy project

3.13.9. Reference is invited to Table 3.1.2 on targetted power generation from other sources. The Bruhat Bengaluru Mahanagara Palike (BBMP) had entered (June 2005) into an agreement with Srinivasa Gayathri Resources Recovery Limited (SGRRL) for establishing an integrated Waste to Energy project at Mandur village, near Bengaluru. As per the arrangement, BBMP would supply 1,000 tonnes of Municipal Solid Waste (MSW) per day to the site and provide land required for the processing plant and landfill. The project

envisaged setting up an 8 MW power plant for energy recovery through incineration¹⁰² and land fill facility for inert waste. The project was to be commissioned in 20 months from the date of handing over the site.

BBMP handed over 35 acres of land required for the project in September 2005. MNRE accorded (March 2009) CFA of ₹ 10 crore and released (December 2010) first instalment of ₹ five crore. As per the sanction of CFA (March 2009), the total cost of the project was ₹ 70.33 crore.

The Project Evaluation Committee¹⁰³ set up for the purpose which met in March 2011 observed that necessary equipment like dioxin mitigation systems, had not been installed and stated that SGRLL must complete the work, without which the project will not be considered as commissioned. SGRRL contended (March 2011) that equipment for mitigation of pollutants was not envisaged in the original DPR and that such additional equipment required additional outlay of ₹ 19.40 crore.

The Project Monitoring Committee concluded (October 2012) that financial assistance of ₹ 10.50 crore would be provided by KREDL (₹ 5 crore), BBMP (₹ 2.50 crore) and BESCOM (₹ 3 crore) and recommended extension of project implementation period till March 2013. Even though KREDL had approved advance of ₹ 5 crore against MNRE subsidy, it did not release the same pending concurrence from MNRE. As per a project status report submitted (February 2014) by the developers, they had spent ₹ 73.34 crore on the project and an additional sum of ₹ 15 crore was required to complete the project. The project was yet to be completed (September 2015).

Meanwhile, unscientific dumping of unprocessed MSW on the site had invited huge public protests and the landfill was proposed to be closed. Thus, even after 12 years from inception and spending ₹ 73.34 crore, the integrated Waste to Energy project did not fructify (September 2015) defeating the objective of scientific disposal of solid waste apart from non-realisation of the incremental addition in generation of power from a renewable energy source.

The GoK in its reply of November 2014 stated that it had ‘noted’ the audit observation. In its reply of September 2015, the GoK detailed the developments only up to August 2012. The fact remains that the funding has not been provided and the project is on a standstill (September 2015).

Off-grid Programmes

3.13.10. The achievement in respect of Off-grid programmes are given in succeeding paragraphs.

¹⁰² Destruction of waste by controlled burning.

¹⁰³ Consisting of representative from MNRE, KREDL, BBMP, lending banks and experts from technical institutes was also to be constituted for monitoring and evaluating the performance of the project.

Remote Village Electrification (RVE)

3.13.11. MNRE channelised grants for the RVE program through KREDL, which executed the program in 62 villages during 2005-08, after which the program was stopped. KREDL does not have the data base of the functional and non-functional projects.

On test check of one village (Shettihally in Shivamogga district) where RVE was implemented, it was observed that the Solar Photo Voltaic System (System) was not working in any of the 44 houses (including one school) in the village due to poor maintenance. There were no maintenance contracts for the systems installed and it was informed that the system had failed after working for two to three years, although the system was required to work for five years.

Solar Photo Voltaic (SPV) Programmes

3.13.12. KREDL has implemented SPV projects for installing Solar Home Lights (11,383 nos), Solar Street Lights (1,483 nos) and Solar Lanterns (5,165 nos) at various places in Karnataka and the CFA released by GoI was ₹ 5.40 crore.

Physical verification of one *per cent* sample of the above installations conducted by Audit along with the representative of KREDL revealed that out of the 115 home lights verified, only 2 were working. Further, out of 15 streetlights and 50 lanterns test checked, none was working reportedly due to poor maintenance. Most of the beneficiaries were not satisfied with the performance of the installations. These units worked for periods ranging from six months to three years and the agency, which supplied and installed these units visited them only once after the installation and did not attend to the problems. GoK replied (November 2014/September 2015) that the systems worked during the warranty period and the beneficiaries thereafter should have gone in for Annual Maintenance Contracts and Audit had visited these locations much after warranty periods, when its performance diminished. However, the fact remains that the purpose for which this project was implemented was unsuccessful and dependence on kerosene and fossil fuels continued.

Biogas

3.13.13. The biogas projects are implemented by Rural Development and Panchayat Raj (RDPR) Department, GoK and Khadi and Village Industries Commission (KVIC). As against the target (2007-14) of installing 87,029 biogas plants, the achievement was 72,033 plants¹⁰⁴.

RDPR had not conducted any survey to identify renewable energy potential from biogas. Though MNRE has mandated that the beneficiary list may be updated on the website, RDPR had not taken action to upload the same, while KVIC has uploaded data only for 2009 to 2011. GoK replied (November

¹⁰⁴ RDPR : Target -76,748 plants *vis-a-vis* Achievement- 62,252 plants.

2014) that it had requested the National Information Centre (NIC) to upload the data on the website.

3.13.13.1. Audit noticed the following irregularities as a result of physical verification of biogas plants in Belagavi, Udupi, Shivamogga and Tumakuru districts under RDPR:

- The MNRE enhanced (November 2009) additional CFA for toilet linked biogas plants from ₹ 500 to ₹ 1,000 per plant, but this was not passed on to 13,287 beneficiaries in Belagavi district (ZP) resulting in short payment of additional CFA of ₹ 66.44 lakh¹⁰⁵.
- Though the photographs of the beneficiary with the completed biogas plants were to be kept along with the Central/State Financial Assistance (CFA/SFA) disbursement records, there were no photographs in respect of 243 applications (Belagavi, Tumakuru and Shivamogga ZPs) and as such Audit could not ensure that the amount of ₹ 26.34 lakh was released to the appropriate beneficiaries. Further, the photographs showed (Udupi and Shivamogga ZPs) incomplete bio-gas (without pipes, connection etc.,) and as such the release of ₹ 7.25 lakh was also irregular.
- The CFA and SFA of ₹ 3.22 lakh released by Udupi ZP (46 beneficiaries) was irregular as there were no details of the dates of construction and the commissioning of the biogas plants in their completion reports. The GoK attributed (November 2014) this to clerical error.
- During physical verification of 35 biogas plants in Udupi, Shivamogga and Tumakuru ZPs under RDPR, 10 biogas plants were found to be non-functional due to poor maintenance. On interaction with the beneficiaries, they informed that they were using LPG and firewood for cooking purposes. The GoK replied (November 2014) that beneficiaries were not attending to the plants, there was no availability of cow dung and beneficiaries were inclined to use LPG.
- The Bio-Energy Technology Development Group, MNRE requested (October 2010) GoK to review the field inspection report on the Biogas based CDM projects installed at Bagepalli by Agricultural Development and Training Society and furnish information to the MNRE so that future action for development of CDM projects in the State could be initiated. RDPR prepared a Draft Expression of Interest document for providing upfront additional financial assistance for construction of 50,000 'Deenabandu Model Family' type biogas plants during 2010-13 under CDM route by availing 'carbon emission reduction revenue' out of biogas plants. No further action has been initiated in this regard (August 2014).

¹⁰⁵ 13,287 Nos. of toilet linked biogas plants constructed during 2010-11 (4,357 Nos.), 2011-12 (3,026 Nos.), 2012-13 (3,347 Nos.) and 2013-14 (2,557 Nos).

Research and Development

3.13.14. One of the objectives of MNRE/KREDL was to promote research, design and development of domestic manufacturing industry in Renewable Energy sector.

KREDL had not undertaken any Research and Development activities. It was noticed that Indian Institute of Science (IISc), Bengaluru has been conducting Research and Development activities in Biomass energy in thermo-chemical conversion, while the University of Agriculture Sciences had implemented the Biogas based Power Generation Programme.

General

3.13.15. In addition to the progress achieved in the individual sectors, the Policy documents envisaged various measures for development of RE Sector. Non-achievement in a few areas are given below:

- In order to facilitate funding for Renewable Energy projects, Energy Conservation and Efficiency measures, it was proposed in the Karnataka Renewable Energy Policy 2009-14 to establish a Green Energy Fund ‘Akshaya Shakthi Nidhi’ by levy of cess on the electricity supplied to commercial and industrial consumers. At the end of March 2015, the Green Energy Fund of ₹ 69.91 lakh, was yet to be utilised, for want of approval from KERC.
- As part of the Facilitation under the Karnataka Renewable Energy Policy 2009-14, the Company was to take steps to develop Model Development Plan (MDP) to harness targetted capacities of various RE Sources. The MDP was not developed. GoK agreed (November 2014) for compliance in future.
- Quarterly review of the progress of approved RE projects was not carried out, to which the GoK replied (November 2014) that progress was updated on daily basis in their website. The reply did not address the issue, as updating data alone would not be sufficient to expedite the progress of RE projects. MNRE had released ₹ 268.34 crore as Central Financial Assistance (CFA) to Karnataka during 2009-14. KREDL, though nominated as the State Nodal Agency, had no information on the releases (including allocation to various sectors) as there were a multitude of agencies implementing RE projects in the State without the assistance/information of KREDL.

Conclusions

The capacity addition to the Solar and Wind power sectors was very low when compared to the targets set, with large quantum of RE sources remaining to be harnessed. KREDL had limited its role to invitation of bids and allotment of projects, rather than getting involved in identifying, developing and promoting the RE sector as envisaged in its role as a Nodal Agency. In respect of Small Hydro Projects, though State Level

Empowered Committee was set up to facilitate various statutory clearances, 208 projects (1,335 MW) were awaiting clearances from Forest Department and MoEF, as the projects were located in Western Ghats. Further, the additions to capacity to the biomass sector failed for want of raw material and remunerative tariff. The Waste-to-Energy project of the BBMP, which envisaged energy recovery through incineration and land fill facility using Municipal Solid Waste had not fructified even after 12 years of its conception. The Green Energy Fund established for the development of RE sector had not been utilised. Further, though KREDL was nominated as the State Nodal Agency, it had no information on the financial assistance released directly by MNRE to the RE developers in the State.

Recommendations

KREDL being the State Nodal Agency must take up a pro-active role for the development of RE in the State by involving in the identification, development and promotion of the RE sector, rather than leaving it to the private developers. Statutory clearances must be expedited, so that the identified/allotted RE potential are harnessed at the earliest. The measures for development of RE Sector envisaged in the Policy documents viz., identification of land, setting up of solar parks, PPP, utilisation of Green Energy Fund etc., must be the focus areas so that the contribution of clean energy from the RE sector to the energy pool increases.

Karnataka State Tourism Development Corporation Limited

3.14. Inefficient operation of taxi services

The Company failed to ensure compliance with the operational standards and also establish an effective call centre for the operation of taxi services to the Bengaluru Airport.

Introduction

3.14.1. The Karnataka State Tourism Development Corporation Limited (Company) was formed (1971) with the objective of promoting tourism in the State and operates hotels, restaurants and conducts tours. It also facilitates the operation of taxis services to the Bengaluru Airport.

In the background of the recent incidences regarding the safety of commuters availing taxi services in the country, coupled with complaints to the Lokayukta by taxi drivers about the inefficient operations of the Company's call centre manning the taxi services, and complaints by commuters, Audit reviewed the taxi operations of the Company.

3.14.2. The Company had entered (December 2008) into agreement with Kempegowda International Airport Limited¹⁰⁶ (KIAL) to operate Air-Conditioned (AC) taxis at the Bengaluru Airport, which was renewed in

¹⁰⁶ Erstwhile Bangalore International Airport Limited.

December 2010 and June 2013. Another agreement was entered into in December 2010 to operate non-air conditioned taxis, which was renewed in June 2013.

As per the terms of the agreements, the Company was to ensure that the vehicles and drivers complied with the operating standards and vehicle type and equipment, as prescribed by KIAL from time to time. The taxis were to be equipped with Global Positioning System (GPS) based technology with Mobile Data Terminal (MDT), digital meter, printer and all the bookings, were to be controlled by an advanced 'Taxi Dispatch System' from one central reservation centre, to pick passengers to the Airport. The Company was permitted to operate 500 AC taxis and 150 non AC taxis and was to pay minimum monthly guaranteed revenue share¹⁰⁷ to KIAL. The Company also entered into agreements with taxi owners to operate the taxis and the compliance with operating standards formed part of the agreement.

Non-compliance with operating standards

3.14.3. Audit assessed the compliance of the Operating Standards prescribed to the taxi drivers in the agreements by conducting a test check of 154 agreements¹⁰⁸ of the 531 taxis¹⁰⁹ as prescribed by KIAL from time to time.

Table No.3.1.3: Statement showing the compliance with operating standards in test checked cases

Operating Standards prescribed in agreements	No of cases of non-compliance	Remarks
Drivers were to provide Police verification certificate, as drivers were not to have any criminal cases pending against them.	149	Details of police verification were not in the file. This excludes 18 cases, where owners had employed drivers, whose verification details are also not available.
Drivers were to submit medical certificate annually.	153	Details not available in the file.
Company was to ensure that there was comprehensive insurance coverage for vehicles, covering the life of driver and passengers.	111	108: Insurance had expired. 3: Details not available.
Company was to collect vehicle registration certificate from drivers and provide to KIAL.	1	1: Not available.
To ensure that all vehicles had a permit from Regional Transport Organisation.	14	12: Permits expired. 2: Details not available.
To ensure that all vehicles complied with emission norms.	134	73: Validity of certificates expired. 61: Details not available.

¹⁰⁷ The higher of : ₹ 90 per transaction of AC taxis and 10 per cent of the gross turnover for non-AC taxis, with a monthly minimum guaranteed revenue share of ₹ 50,000 up to December 2013, increased periodically up to ₹ 65,000 till December 2016, for AC taxis and ₹ 24,000 for Non-AC taxis up to November 2016.

¹⁰⁸ 139 agreements for operating AC vehicles and 15 agreements in respect of Non-AC vehicles, on random basis as provided by Company, so as to have a coverage of about 30 per cent.

¹⁰⁹ Based on total Radio Frequency Identification (RFID) issued.

Operating Standards prescribed in agreements	No of cases of non-compliance	Remarks
To ensure that all vehicles complied with meter calibration.	109	81: Validity expired. 28: Details not available.
Company was to ensure that all vehicle older than four years or which have run above 2,50,000 Kms, should be replaced.	53	51: Year of manufacture more than four years. 2: Year of manufacture not available. (In all cases running kilometres was not available.)
All vehicles to have MDT tracking device and will be monitored on screen with help of GPS tracking system, for safety and quick response time for the customer.	61	No details about fixing of GPS.
Any person can have only one agreement for operation of a taxi. Any person shall have right to operate only one taxi.	3	2: Agreement with two taxis. 1: Agreement with three taxis.

The documentation maintained by the Company was very poor as could be noticed from the above table.

Test check of the number of vehicles active for the period from November 2014 to September 2015 revealed that 118 to 223 taxis were inactive during the period indicating that MDT tracking devices were switched off, putting the safety of passengers at risk.

Further, it was also observed that training was not provided to drivers as required under the operating standards. The training was necessary as it aimed to improve the interaction with the customers, follow the do's and don'ts, telephone etiquettes, etc., so as to ensure customer satisfaction.

The Government and Company replied (September/October 2015) that records had not been updated but stated that action was taken to update the records, obtain the necessary records and install/upgrade the tracking devices. The Government assured to provide training to drivers once in six months. Action taken on updating the records, installing devices and providing training was awaited (November 2015).

Complaints by commuters

3.14.4. The agreements defined prohibited acts while waiting at the airport premises and driving. The Company had the obligation to maintain a software based complaint register, accessible at any time by KIAL, but it was not maintained. The complaints were either in the form of mails to the Company or were entered in the register (manual) maintained by the Manager at the Bengaluru Airport.

On verification of the available complaints (through emails) during the period August 2012 to April 2015, and the complaint register at the Airport for the period from October 2014 to June 2015, Audit noticed that complaints were mainly regarding unsafe and rash driving (15 cases), incorrect billing (37 cases), misbehaviour by drivers (22 cases), impersonation (4 cases), poor

maintenance of vehicle (8 cases), other reasons (33 cases)¹¹⁰. Of these 119 cases, in 26 cases, the Company had taken action to refund amounts, obtain apology from the drivers and disconnect the RFID cards making the cars inactive.

Management of call centre operations

3.14.5. The Company had entrusted the task of establishing and running the call centre to Bengaluru Airport KSTDC Drivers Welfare Association (KTDWA). However, after receipt of complaints, the Company entered into (December 2012) two agreements with CERT Info Track Telematics Private Ltd (CITT)¹¹¹, for 'Managing taxi dispatch system call centre on 24x7 basis' and for 'Installation and commissioning of GPS based taxi dispatch system' for ₹ 900 per taxi per month and ₹ 300 per taxi per month respectively. Agreements were also entered with individual taxi owners to operate the taxis from Airport from whom an amount of ₹11,700 per month (excluding service tax) was collected as parking fees and call centre charges.

Audit observed that CITT had commitment to provide one business per taxi per day and considering 531 taxis, a total of 15,930 trips had to be provided per month. But, the check of bookings between April 2013 and April 2014 revealed that CITT had provided only about 329 to 804 trips per month for the 531 taxis. Though the company paid ₹ 68.89 lakh to CITT in 2013-14, in the absence of suitable clause in the agreement, penalty was not levied.

Further, if taxi drivers did not remit the call centre and parking charges in advance, the RFID tags of the vehicles were to be disconnected. This however was not done and the taxis were allowed to continue the operations resulting in accumulation of call centre charges of ₹ 10.65 lakh at the end of June 2015 and the amounts were outstanding for periods ranging from two months to one year. Government replied (September 2015) that recovery was being pursued.

The services of CITT were terminated as per the directions (October 2014) of Upa Lokayuktha, after the taxi drivers complained that they were being denied legitimate business per taxi per day, as the call centre provided information to other taxi operators. Thereafter, the Company invited fresh tenders, and during October 2015, new agreements were entered with Idea Infinity IT Solutions Private Limited and Infotrack Telematics Private Limited to operate the call centre and operate GPS tracking for the taxis.

Thus, the Company had failed to establish a proper call centre for its taxi operations, in the last seven years, though it had incurred ₹ 1.15 crore as call centre expenses during 2008-14.

¹¹⁰ Four cases were without mentioning nature of complaint.

¹¹¹ Along with Transact BPO Services India Pvt Limited.

Service Tax

3.14.6. The radio taxi service was liable to pay Service Tax with effect from 1 October 2014. But, the Company collected Service tax alongwith parking fees only from April 2015 onwards, with the result that the liability of ₹ 1.33 crore¹¹² (excluding interest) for the intervening period (October to March 2015) had to be borne by the Company.

Deficiencies in Internal Control

3.14.7. The Internal Audit conducted by Chartered Accountants had highlighted various deficiencies in the internal control system and non-compliance to operating standards in the operation of taxi services. The Board of Directors had also not been apprised of the Reports. The Company had not discussed the Internal Audit Reports.

Conclusions and Recommendations

Failure of the Company to ensure compliance with the operational standards and establish an effective call centre to facilitate taxi service to the commuters going to the Bengaluru Airport, had put to risk not only the image of the Company and the city of Bengaluru, but also the safety of commuters, which is of paramount importance. The operations of the call taxi need to be revamped with focus on the customer.

¹¹² Calculated based on the Minimum Guaranteed Revenue payable to KIAL as per the agreements.

Statutory Corporations

Karnataka State Warehousing Corporation

3.15. Augmentation of storage capacity and operations of warehouses

Introduction

3.15.1. The main functions of the Karnataka State Warehousing Corporation (Corporation), *inter alia*, include construction and management of warehouses in the State for storage of agricultural produce, seeds, manure, fertilizers, agricultural implements and other notified commodities and preserving them scientifically. The Food Corporation of India (FCI), Karnataka Food and Civil



Supplies Corporation Limited (KFCSC), fertilizer companies and individuals are the major users of the storage facilities of the Corporation. The Corporation also hires private warehouses to cater to the demand made by the users. It has 135 warehouse centres (having a total of 466 warehouses) with storage capacity of 13.92 lakh MTs (including 3.50 lakh MTs of hired warehouses) in seven Regional Offices spread across the State as on 31 March 2015.

Warehousing (Development and Regulation) Act, 2007

3.15.2. The Government of India had notified the Warehousing (Development and Regulation) Act, 2007 in September, 2007 with a view to promote professional organisations connected with the warehousing business. The Provisions of the Act had become effective from October 2010. For the operationalisation of the provisions of the said Act, a Warehouse Manual had been prepared by the Warehousing Development and Regulatory Authority (WDRA).

Audit Objective and Scope

3.15.3. The objective of this audit was to assess whether the augmentation of storage capacity of the Corporation was as planned, whether the warehouses were operated and maintained as per the desired standards of scientific storage management specified in the manual of Warehousing Development and Regularity Authority.

Audit scrutinised the records maintained at the Corporate Office and 17¹¹³ (118 warehouses) out of 135 Warehouse Centres under the jurisdiction of four Regional Offices¹¹⁴ of the Corporation covering the period 2010-11 to 2014-15. Audit also test checked 51 of the 147 construction contracts¹¹⁵ (construction of warehouses) executed during the audit period. Audit findings have been discussed in the succeeding paragraphs.

Capacity augmentation

3.15.4. The Corporation had taken up augmentation works during 2010-15 envisaging the addition of storage capacity by 5.49 lakh MTs by constructing 147 warehouses at a total cost of ₹ 338.86 crore. The augmentation was funded under the schemes of GoI viz., Rashtriya Krishi Vikas Yojane (RKVY), Rural Infrastructure Development Fund (RIDF), Private Entrepreneurs Guarantee Scheme (PEG), through NABARD and partly through internal resources of the Corporation.

Audit observed that the Corporation added 3.57 lakh MTs (65 per cent) with 84 warehouses as at 31 March 2015. Thirteen out of 147 warehouses (27,000 MTs), which were due to be completed in 2013-14 were still under progress (March 2015) and the balance 50 warehouses (1.65 lakh MTs) were due to be completed during 2015-16¹¹⁶.

The table below shows the extent of delay in completion of warehouses from the scheduled date of completion in respect of 32¹¹⁷ out of 51 construction contracts test checked by Audit.

Table No.3.1.4: Details of delay in completion of warehouses

No. of months delay from the scheduled date	No. of warehouses	Reasons for delay
< 2 months	5	Defective estimate, change in scope and design, contractors' delay, increase/decrease in capacity of warehouses
>2 months < 6 months	4	
>6 months < 12 months	14	
>12 months up to 18 months	9	

(Source: Information furnished by engineering section of the Corporation)

Audit analysis of reasons for non-achievement of envisaged capacity and its impact revealed that:

- In 18 cases, the Corporation was responsible for the delay in completion due to delay in handing over of the site to the contractors, defective estimates, change in scope and design, etc. This had not only

¹¹³ Kalaburgi Region:- Kalaburgi, Muddbehal, Bidar, Shahpur, Yadgir; Mysuru Region:- Mysuru, Chamarajanagar, K.R Pet, Mandya, Kushalnagar; Raichur Region:- Raichur, Koppal, Bellary, Kustagi; Shivamogga Region:- Shivamogga, Shikaripura, Mangaluru

¹¹⁴ Kalaburgi, Mysuru, Raichuru, Shivamogga.

¹¹⁵ The awarded cost of 147 contracts: ₹ 338.86 crore; Awarded cost of test checked cases (51): ₹ 211.72 crore.

¹¹⁶ Earliest due date for completion of these warehouses being January 2016, except one contract which was due in September 2015.

¹¹⁷ The works in balance 19 warehouses were in progress which were due for completion in 2015-16.

resulted in non-achievement of envisaged storage capacity but also increase in cost by ₹ 5.03 crore (11 warehouses);

- In 17 cases, the Corporation did not levy penalty on contractors as per the agreements (Clause 12) for the delay in completion, though penalty of ₹ 4.25 crore was leviable. The levy of penalty would have acted as a deterrent for containing the delay and in achieving the envisaged storage capacity in time;
- The delay had caused loss of potential revenue of ₹ 7.58 crore¹¹⁸ by way of storage charges, besides avoidable payment of ₹ 3.60 crore¹¹⁹ towards rent on hired warehouses.

The Government replied (October 2015) that orders have been issued (September 2015) to recover the penalty. Audit observed that the Corporation was yet to recover the penalty (December 2015).

Construction of warehouses under PEG- 2008 Scheme

3.15.5. The warehouses constructed under the Private Entrepreneurs Guarantee Scheme¹²⁰ (PEG-2008) of GoI provided for guarantee of assured storage charges by FCI for six to nine years. The Scheme stipulated certain specifications according to which warehouses were to be constructed. The Corporation constructed 11 Warehouse Centres¹²¹ (32 Warehouses) during 2012-15 under the Scheme with a total capacity of 1.73 lakh MTs at a cost of ₹ 95.89 crore.

Audit observed that FCI utilised only five Warehouse Centres¹²² (15 Warehouses) of them having capacity of 0.65 lakh MTs. The balance six warehouse centers of 1.08 lakh MTs (17 Warehouses) capacity were not utilised by FCI as the Corporation had failed to ensure that the construction was as per the stipulated specifications under the Scheme *viz.*, 15 metres' width road in between two rows of warehouses and partition wall inside the warehouses. As a result, the Corporation lost the opportunity of assured storage. The occupancy levels in four¹²³ out of the six Warehouse Centres (14

¹¹⁸ Revenue loss is calculated for the period of delay in completion of construction at ₹ 60 per MT per month considering 75 per cent as optimal occupancy.

¹¹⁹ Represents actual rent paid by the Corporation for the period of delay in completion from the scheduled date to actual date of completion in respect of completed works and from scheduled date to March 2015 in respect of work in progress.

¹²⁰ To meet the situation arising out of high procurement level of wheat and rice as a result of increase in Minimum Support Price and to reduce the storage in Cover and Plinth, the GoI formulated (2008) for creation of additional storage capacity for food grains through private sector, CWC and State Warehousing Corporations.

¹²¹ Bagalkote, Belagavi, Hassan, Mandya, Chitradurga, Mysuru Unit-III, Hairhara, Chickmagalur, Raichur, Chamrajanagar, Vijapura.

¹²² Mysuru Unit-III (3 warehouses:13,000 MT), Mandya (1 warehouse: 3,500 MT) Raichur Unit-II (2 warehouses:5,750 MT), Hassan (3 warehouses:9,000 MT), Chitradurga (4 warehouses: 27,000 MT) and Harihar (2 warehouses: 6,500 MT)

¹²³ Two of six warehouse centres (Mandya- two warehouses, Bagalkote-1 warehouse) were occupied by Karnataka Food and Civil Supplies Corporation Limited. The balance four warehouses *viz.* Chickmagalur, Vijapura, Bagalkot and Mysuru Unit-III were occupied by other depositors.

Warehouses) utilised by other depositors remained at less than 35 *per cent*. Consequent to non-occupation of warehouses by FCI and poor occupancy in these four warehouses, the Corporation had foregone the assured revenue of ₹ 9.73 crore¹²⁴ during March 2013 to October 2015.

The Government replied (October 2015) that if the standard specifications of FCI for construction of warehouses were scrupulously adopted, the storage capacity of the warehouse would be reduced substantially and the revenue to the Corporation would also be reduced.

The reply is not acceptable as the warehouses under the Scheme were to be constructed specific to the requirement of FCI. Further, in the absence of the Corporation's ability to fill up the storage capacity without the FCI's assurance of storage, the contention of reduction of revenue made by the Corporation also does not hold good.

Ineffective system of collection of storage charges

3.15.6. As per the Schedule of storage and other charges of the Corporation, the storage charges were required to be paid by the depositors at the time of delivery or on accrual basis. The storage charges realised on accrual basis should be adjusted against total charges due at the time of lifting the stock.

A review of the system of collection of storage charges prevailing in the Corporation revealed the following deficiencies:

- There was no system of intimating the depositors of the rates applicable for the stocks stored, the periodicity of payment of storage charges, conditions with regard to revision of charges, *etc.* The Corporation merely issues a warehouse receipt to the depositor at the time of deposit, which is valid for three months without mentioning the above terms. The warehouse receipt mentions only the details such as name of the depositor, name and quantity of the items stored, period of storage.
- There was no mechanism of collecting storage charges from the depositors as and when they had accrued but only at the time of lifting the stock by the depositors. The Corporation failed to take advantage of the tenure of three months for the warehouse receipts, when it could have exercised its option of collecting the accrued charges and then renewing the receipt. In the test checked regions of Kalaburgi, Raichur, Mysuru and Shivamogga, ₹ 3.56 crore was outstanding as at March 2015 from 5,209 depositors despite comments to this effect by internal audit.

The Government replied (October 2015) that at the time of lifting the stock, full storage charges would thereafter be realised from the date of deposit to the date of taking delivery of stocks. The depositors, basically small farmers, might not be in a position to pay the storage charges midway before taking

¹²⁴ The loss is worked out on unutilised capacity of 14.39 lakh MTs at ₹ 67.60 per MT in respect of four warehouse centres *viz.* Chickmagalur, Vijapura, Bagalkot and Mysuru Unit-III. The actual capacity of these four centres was 19.02 lakh MTs.

delivery of goods. If the Corporation insisted on paying the accrued storage charges, the farmers might avoid storing their stocks.

The reply is not acceptable as collection of storage charges at the time of taking delivery of stocks, instead of accrual basis, was not in line with the provisions of the schedule of storage charges. As such, the Corporation needs to collect as per the schedule of charges to avoid accumulation of arrears.

Non-revision of agreement

3.15.7. The agreement (June 2003 to June 2008 extended to June 2013) with Karnataka State Beverages Corporation Limited (KSBCL) to utilise storage space of 1,95,654 square feet at 14 Centres was not renewed in June 2013 by the Corporation though the revised agreement was signed and forwarded (June 2013) to it by KSBCL. The Corporation continued to claim storage charges at ₹ 7.98 per square feet prevailing as of June 2013 for the period beyond June 2013.

Meanwhile, the Board of Directors of the Corporation decided (June 2014) to revise the storage charges at ₹ 12 per square feet per month and to incorporate it in the revised agreement. The Corporation failed to sign the revised agreement and to abide by the decision of the Board. There were no recorded reasons for such inaction of the Corporation. There would be short recovery of ₹ 1.34 crore¹²⁵ due to non-revision of rates to ₹ 12 per square feet per month with effect from June 2014 as per the decision of the Board.

As per the agreement, storage charges were to be increased once in two years by 10 *per cent* on the existing storage charges. Considering this, the Corporation should have recovered ₹ 0.19 crore at ₹ 8.78 per square feet per month for the period June 2013 to May 2014, which stood foregone due to non-revision of agreement.

The Government replied (October 2015) that the revision of storage charges to ₹ 12 by the Board was communicated to KSBCL, but no reply has been received from them. It further stated that the Corporation was still pursuing KSBCL to accept the revised storage charges.

Audit observed that the Corporation continued to claim at ₹ 7.98 per square feet per month till date (October 2015), despite increase in rate by the Board, thereby incurring recurring loss.

Absence of binding agreement

3.15.8. The Corporation handed over (2013-15) storage space of 76,331 MTs in 33 Warehouse Centres spread across the State, to Karnataka Food and Civil Supplies Corporation (KFCSC), for storing the stocks of Public Distribution System (PDS). The rates for storage were charged as per the Schedule of Rates approved by the Board. The Corporation had not entered into any agreement with KFCSC setting out the terms for storage.

¹²⁵ Difference between the rate of actual claim (₹ 7.98) and increased rate (₹ 12) for 1,95,654 square feet from June 2014 to October 2015.

The Corporation had revised the existing storage charges to ₹ 9 and ₹ 12 per square feet for Slab-I and Slab-II respectively¹²⁶ with effect from June 2014 which was not agreed to by KFCSC. The request of KFCSC to collect charges at ₹ 4.50 per square feet was rejected (December 2014) by the Corporation.

The Board, however after reconsidering the request of KFCSC, approved (October 2015) reduction in storage charges to ₹ 6.75 and ₹ 9 per square feet as against ₹ 9 and ₹ 12 per square feet for Slab-I and Slab-II warehouses respectively. The Corporation was yet to get acceptance from KFCSC (October 2015). The reduction in storage charges would entail the Corporation loss of revenue by ₹ 1.04 crore, besides accumulation of dues to the extent of ₹ 3.11 crore¹²⁷ for the period June 2014 to October 2015.

Thus, the Corporation, by handing over the storage space to KFCSC without any binding agreement, had ended up not only losing the revenue but also holding up of realisation of dues.

The Government replied (October 2015) that as per the decision taken under the chairmanship of Food Commissioner, GoK, the storage space was offered to KFCSC for storing PDS stocks. A reasonable price would be fixed without affecting the interest of both the Corporations and once the price is finalised, the Corporation would realise the dues in arrears.

Storage losses

3.15.9. FCI stored rice and wheat in the warehouses of the Corporation during 2010-15. The Corporation was responsible for transporting and storing the stocks adhering to the norms specified by FCI from time to time. Audit noticed that FCI had recovered ₹ 1.31 crore from the Corporation towards transit and storage losses beyond the norms of FCI during the period from 2010-11 to 2014-15.

The Corporation failed to establish that the excess losses were beyond the controllable factors and proposed (April 2015) a meeting with FCI to resolve the issue which is yet to be convened (October 2015).

The Government replied (October 2015) that the stock was loaded at the loading point without the presence of Corporation's representative and any loss during the transit was recovered by the FCI arbitrarily. A joint meeting was proposed to sort out the issue. Action would be taken to recover the losses from the warehouse managers concerned if the losses were not justified properly.

The Corporation should have ensured presence of its representative at the loading point to certify the actual quantity loaded to avoid recurring losses. Since the Corporation is facing this problem every year, the matter should have been taken cognizance of much earlier and attempted to be sorted out at the earliest to mitigate further losses.

¹²⁶ The Corporation had classified the warehouses under three slabs depending on the rating of warehouses *i.e.* Standard (Slab-I), Average (Slab-II) and High rated (Slab-III).

¹²⁷ Storage charges calculated as claimed by the Corporation at ₹ 6.75 and ₹ 9 per square feet.

Scientific storage management

3.15.10. As per the warehouse manual of Warehousing Development and Regulatory Authority, food grains were to be stacked scientifically adopting stack plan of block method or crisscross method so as to ensure that the stocks are maintained in good condition with minimum storage loss and also facilitate easy identification and handling of stock. Further, periodic inspection should be done by the warehouse manager once in 15 days for assessing physical conditions of the warehouses in terms of any deterioration of walls, floors, windows, openings, doors, *etc.*, and the warehouse manager should take immediate remedial actions for fixing the same to bring it back to normal state.

A test check of Warehousing Centres revealed the following:

- The condition of the storage facilities was poor and needed better maintenance and higher hygiene standards. This was also pointed out in the pre-feasibility study done (April 2010) by the Government.



Poor condition of warehouses at Raichur – July 2015

- The internal audit report (September 2011 to May 2013) on Kalaburgi Region (Unit 1) had brought out that the stocks were not stacked scientifically making identification and counting of stock difficult. The stocks were mixed up, labels were not affixed on the stocks and the quantity mentioned in the warehouse receipts mismatched with the actual stock found in physical verification. Despite comments by internal audit, there was no improvement in scientific storage management.

- The maintenance of warehouses at Bellary (Unit 1), Bidar, Koppal, Raichur (Unit 1), Shivamogga (Unit 1), Shahpur, and Mysuru (Unit 1) was poor. There were damaged floorings and roofs, water seepages, rusted collapsible gates. There was no evidence to suggest that periodical inspection as mandated in the warehouse manual was conducted.



Water seepages and damaged floors at Raichur-July 2015

The Government replied (October 2015) that instructions have been issued to all Warehouse Managers regarding proper stacking, affixing of stack cards, and identification of deposits. The shortage of manpower was a hindrance to maintain the huge capacity. It further stated that these warehouses were very old and repairs could not be done due to non-availability of funds.

Unless issues are addressed, the Corporation's storage management would not meet the appropriate standards, which may lead to further fall in occupancy.

Accreditation of warehouses

3.15.11. The Warehouse Manual prescribed certain standards to get accreditation under the Warehousing (Development and Regulation) Act, 2007 (Act) which came into effect in October 2010. In order to get the accreditation, the Corporation should ensure compliance to the norms prescribed in the manual *viz.:* (i) construction standards of warehouses as per Bureau of Indian Standards, specifications of CWC and FCI, (ii) storage and handling requirements as specified in the Warehouse Manual, (iii) availability of trained manpower, (iv) insurance policies of the warehouse and the goods stored in the warehouses; (v) proper maintenance of records in the warehouses and timely reporting thereof, and any other requirement for conduct of the warehousing business under the Act. Audit observed that the warehouses operated by the Corporation did not meet the norms of the Act as commented below.

The Corporation did not ensure accreditation norms particularly with regard to construction norms as seen from the warehouses constructed during 2010-15, and also did not ensure availability of trained man power, physical analysis laboratory, firefighting extinguishers and adequate security arrangements. The Corporation applied for accreditation of its warehouses only in April 2013, though the Act came into effect in October 2010. This was mainly because none of the existing warehouses was meeting the accreditation norms. The Corporation received (2014-15) accreditation certificate for only 12 out of the 25 Warehouse Centres (30 warehouses) applied for during 2013-15. The proposals for the balance 13 Warehouse Centres (15 warehouses) were under consideration (March 2015). Accreditation would have resulted in improvement in construction standards, physical condition of the warehouses, availability of trained personnel, scientific storage of stocks, *etc.*, ensuring proper storage.

The Government replied (October 2015) that the construction of warehouses had been taken up as per the financial condition of the Corporation and that the requirements as per the Act would be provided in a phased manner.

Audit is of the opinion that financial position should not be an excuse to compromise on qualitative issues. The Corporation, instead of sacrificing quality parameters, could have reduced the number of warehouses and met the standards.

Manpower

3.15.12. The available manpower with reference to the requirement of provisions of the WDRA was inadequate. The men-in-position as on March 2015 in respect of Warehouse Managers and Warehouse Assistants were only 40 *per cent* (52 of 130) and 20 *per cent* (39 of 200) of the requirement respectively.

The Corporation was working with 383 personnel as against sanctioned posts of 940 (March 2015). Though the Corporation had increased storage capacity from 9.70 lakh MTs in 2010-11 to 13.89 lakh MTs in 2014-15 *i.e.* an increase of 43 *per cent*, no action has been taken to fill up the vacant posts.

Further, the Warehouse Managers should possess adequate knowledge and experience in the field of warehousing, scientific storage of agricultural and other commodities, accounts, quality control management, *etc.* The Corporation, however, compromising on these requirements, filled up the posts of Warehouse Managers with unqualified personnel (junior and senior clerks) who had no expertise in the specific field. The Government also attributed this as one of the reasons that affected the scientific storage management.

The Government replied (October 2015) that action has been taken for IT integration to ensure real time warehouse operation. It also stated that action had been taken to fill the vacant posts and to recruit qualified Warehouse Managers.

Conclusions

The achievement in the augmentation of storage capacity was only 65 *per cent* of the planned capacity. There were delays in completion of warehouse construction. The system of collection of storage charges was deficient. The Corporation did not meet the norms of WDRA manual for scientific storage and trained manpower.

Recommendations

The augmentation of storage should be done according to the plan and the time schedules need be adhered to. The storage charges should be collected as per the schedule of charges as approved by the Board of Directors of the Corporation. The Corporation should ensure adherence to the norms of WDRA manual and follow scientific storage management. Trained man power should be inducted especially in the warehouse management so as to ensure quality service to the depositors.

Bangalore Metropolitan Transport Corporation

3.16. Idling of assets and blocking up of funds

Execution of civil works without obtaining clear title of the land resulted in idling of assets and blocking up of funds of ₹ 16.52 crore.

The Bangalore Metropolitan Transport Corporation (Corporation), in an effort to modernise its services *inter alia* provides capacity enhancement through infrastructure development by construction of bus depots, bus stations, workshops, staff quarters, *etc.* To help the Corporation in its endeavour, the State Government allotted lands to the Corporation.

The Official Memoranda issued for allotment of land by the Government stipulated, *inter alia* that:

- The land should be registered with the Sub-registrar concerned after duly paying the requisite fees;
- The said allotment was subject to the final verdict of the Court in case of any dispute and works on those lands should be taken up only after obtaining necessary permission from the authorities concerned.

Further, the Building Bye Laws of Bruhath Bengaluru Mahanagara Palike (BBMP), under whose jurisdiction the Banashankari land was covered, stipulates that a copy of the property card along with the sketch issued by the Department of Survey and Settlement, land records of City Survey and latest book extract issued by the Corporation indicating the measurements of the property should be submitted to BBMP for obtaining the license.

It was observed in audit that compliance to the conditions attached to the allotment was not ensured by the Corporation in the test checked cases leading to litigation as detailed below:

Construction of Depot and Staff Quarters at Kodathi

3.16.1. The Government of Karnataka (GoK) allotted (October 2007) eight acres of land at Kodathi to the Corporation at ₹ 2.34 crore for the construction of bus depot, bus station, workshop and staff quarters. Out of this, the allotment of five acres was disputed (September 2007/December 2010) by private parties before the High Court of Karnataka/Karnataka Appellate Tribunal (KAT) and the latter set aside (April 2013) the allotment order for five acres. However, the Corporation continued the construction activity awarded in December 2010/October 2012 on the disputed land and incurred ₹ 10.36 crore for construction of depot and staff quarters. This led to permanent injunction (September 2013) by the Civil Court, Bengaluru after a suit was filed by the claimants. The Corporation filed (June 2014) writ petition before the High Court, which granted stay against the KAT order. The case is pending (June 2015) before both Civil Court and High Court for adjudication.

Construction of Depot at Madappanahalli

3.16.2. GoK allotted 36.16 acres of land (April 2011) at Madappanahalli for ₹ 2.64 crore. The High Court, on a writ petition filed by six private parties claiming ownership of 24 acres of land, ordered (July 2013) maintenance of status quo till the disposal of the matter. Subsequently, the Corporation awarded (February 2014) the work of construction of depot on the disputed land and instructed the Contractor to stop the work only during March 2014. The expenditure incurred for construction till then was ₹ 0.96 crore.

Developing additional area with bus shelter at Banashankari

3.16.3. The Corporation awarded (February 2013) the work of developing the additional area of 24,468 square feet and construction of bus shelter towards northern side at Traffic and Transit Management Centre (TTMC), Banashankari, Bengaluru, without obtaining clear title of the land from the Bangalore Development Authority (BDA). As a result, the construction work had to be stopped (July 2013) due to the Civil Court Order (July 2013) to maintain *status quo* after a private party filed a suit claiming to be the owner of the land to the extent of 1 acre 6 guntas. The Corporation had expended ₹ 0.22 crore towards the works till then. Further, there was no record showing that BDA had agreed to hand over the land to the Corporation nor any demand for payment was made till date.

In all the three cases, the Corporation took up the construction work on the disputed land without conducting proper due diligence and getting the title in its favour as evident from the subsequent troubles faced by it. Continuing with the construction against the court order and without adhering to the conditions of allotment resulted in idling of assets created and blocking up of investment to an extent of ₹ 16.52 crore.

The Government replied (September 2015) that the allotted land at Kodathi was to be utilised within two years for the purpose for which it was granted, failing which the land allotment would have been cancelled. It was also replied that the land allotted at Madappanahalli was a 'Gomala' land, which could not be claimed by any person. Further, in respect of land at Banashankari, it was stated that the land belonged to BDA and it had agreed to hand over the property. However, no proof of the same was furnished.

The reply is not acceptable as in the first instance, the Corporation continued construction work in the disputed land on the plea that it was to be utilised within the stipulated time, which led to permanent injunction. In the second case the claimants had produced records for having been allotted the land in their name. The contention that it was 'Gomala' land was therefore contested. Also, violating the order of the Court to maintain *status quo*, the Corporation had awarded and taken up the construction work. In the third case, there was no communication from BDA regarding handing over the site or regarding ownership of the land. Hence, there was no clear evidence on BDA agreeing for the proposal. The Corporation neither had the title for the land nor did it ever make an attempt to obtain legal opinion. Despite this, the Corporation went ahead with the construction not only without ensuring that the land

belonged to BDA and that BDA had agreed to part with it, but also, without ensuring that the land was litigation free.

North Western Karnataka Road Transport Corporation

3.17. Non-assessment of adequacy of space for construction of bus depot

Construction of Depot on unsuitable land resulted in infructuous expenditure of ₹ 1.56 crore.

The Chief Civil Engineer, Central Office, North Western Karnataka Road Transport Corporation (Corporation), approved a proposal for construction of a bus Depot (no.4) at the existing guesthouse land available in Belagavi. The work was awarded (January 2009) for ₹ 0.96 crore to a contractor. Before commencement of the work, the Corporation decided to take up construction of a commercial complex and depot no.1 on Public-Private Partnership (PPP) model, on the said guesthouse land, and shifted the construction of depot no.4 to the land allotted by Karnataka Industrial Areas Development Board (KIADB) at Autonagar, Belagavi, adjacent to the proposed divisional workshop. The construction of depot No.4 was completed (June 2010) at a cost of ₹ 1 crore at Autonagar.

The Corporation awarded (February 2011) another work for developing, hardening the parking area, and other related works in depot no.4, which was completed (October 2011) at a cost of ₹ 0.32 crore.

Audit observed the following lapses:

- Line-out for construction of depot no.4 was given (March 2009) to the contractor on the basis of the estimate prepared for the initially identified location at guesthouse land, without assessing the suitability and adequacy of land at Autonagar. The land at Autonagar, in fact, was found not suitable for the depot and the Corporation had to incur additional expenditure of ₹ 0.24 crore to make it suitable.
- Even though the depot was ready for operations in October 2011, the same had not been operationalised as of July 2015 due to space constraints for movement and maintenance of vehicles in and around the depot, insufficient number of ramps for periodical maintenance of vehicles *etc.*
- The Divisional Controller in his letter (September/October 2012) to the Managing Director opined *inter alia* that the place, where depot no.4 was constructed, was not ideal for its functioning. This should have been envisaged at the conception stage itself. Since this was not done, it indicated deficiency in planning.

Thus, construction of the depot without assessing the adequacy of space requirements for regular operations resulted in infructuous expenditure of ₹ 1.56 crore and recurring maintenance expenditure without the envisaged benefits.

The Government replied (July 2015) that based on the recommendations of the General Manager (Technical), the Corporation had decided to construct Depot no.4 at Belagavi exclusively for Swaraj Mazda vehicles and there was no space constraint for turning the buses. As Swaraj Mazda vehicles have been scrapped, it was decided to utilise the Depot No.4 for operation and maintenance of 60 midi buses for Belagavi city services expected under the Jawaharlal Nehru National Urban Renewal Mission Project of Central Government. Hence, the expenditure spent on construction was not infructuous.

The reply is not tenable as the existing Swaraj Mazda vehicles were decided to be scrapped and disposed of as early as in March 2008. The work of construction of the depot was awarded later in January 2009. In fact, the number of Swaraj Mazda vehicles reduced from 160 in 2008-09 to 6 in 2015-16. Moreover, the fact that the depot had not been utilised for more than four years is sufficient evidence of ill planning and unnecessary expenditure. The reply that the depot would be utilised for midi buses could entail additional expenditure to make it operational.



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