CHAPTER II

2. REVIEWS RELATING TO GOVERNMENT COMPANIES

2.1 PERFORMANCE OF SCHEMES OPERATED BY SOCIAL WELFARE COMPANIES

Highlights

The Government of Karnataka formed four companies viz., KSCSTDC[♣] KBCDC[♥], KMDC[◊] and KSWDC[♠] with the main objective of narrowing the socio-economic gap between the general level of economic and social development of society and that of Scheduled Castes/Scheduled Tribes, Backward Classes, Religious Minorities and Women in Karnataka. These companies were not able to fully achieve these objectives as:

- **They failed to utilize Rs.101.21 crore provided by the Central and State Governments under various schemes.**
- **The borewells dug at a cost of Rs.65.74 crore remained unutilized as these companies failed to energise these borewells reportedly due to lack of funds.**
- **KSCSTDC increased the number of beneficiaries by widening the scope of the definition of beneficiaries thereby depriving the eligible beneficiaries of the benefits of the schemes.**
- **KMDC failed to adhere to the ratio of benefits prescribed by the Government for various minority communities.**

(Paragraphs 2.1.9, 2.1.12, 2.1.15 and 2.1.20)

Audit also noticed:

The Companies did not fully comply with the recommendations of Committee on Public Undertakings.

(Paragraph 2.1.6)

The loans granted by these companies under various schemes amounting to Rs.323.77 crore remained outstanding as on 31 March 2005 due to weak recovery mechanism.

(Paragraph 2.1.23)

[♣] **Karnataka Scheduled Castes and Scheduled Tribes Development Corporation Limited.**
[♥] **Karnataka Backward Classes Development Corporation Limited.**
[◊] **The Karnataka Minorities Development Corporation Limited.**
[♠] **Karnataka State Women's Development Corporation.**

Introduction

2.1.1. The Government of Karnataka formed four companies viz., Karnataka Scheduled Castes and Scheduled Tribes Development Corporation Limited (KSCSTDC) in March 1975, Karnataka Backward Classes Development Corporation Limited (KBCDC) in October 1977, The Karnataka Minorities Development Corporation Limited (KMDC) in February 1986 and Karnataka State Women's Development Corporation (KSWDC) in September 1987. The total population of the State as per 2001 census was 5.29 crore which included Backward Classes (2.80 crore), Scheduled Castes and Scheduled Tribes (1.20 crore), Minorities (0.83 crore) and Women[♣] (2.60 crore).

These companies operate various schemes to fulfill the following main objectives of narrowing the socio-economic gap between the general level of economic and social development of society and that of Scheduled Castes/Scheduled Tribes, Backward Classes, Religious Minorities and Women in Karnataka:

- To organize and develop village and cottage industries, small and medium scale industries, poultry and dairy farming;
- To organize and develop intensive agricultural operation in the land belonging to these communities including purchase of land;
- To advance money for construction or purchase of houses or sites;
- To promote any business and manufacture conducive to the economic and social development of these communities;
- To advance loans to the members of these communities to start profession of doctors, engineers, lawyers, etc.

The three companies (KSCSTDC, KBCDC and KMDC) have been in existence for about two to three decades. They however, have not expanded their activities to achieve other major objectives viz., developing village and cottage industries, small and medium scale industries, projects for housing, etc.

A review on the performance of these companies was included in the Report of the Comptroller and Auditor General of India (Commercial), Government of Karnataka, for the year 1993-94. This Report was discussed by the Committee on Public Undertakings (COPU) and its recommendations contained in its 74th Report (March 1998).

Scope of audit

2.1.2 The review conducted during September 2004 to February 2005 covers the performance of these four Companies for the period from April 2000 to March 2005.

The records of the Head offices of all the four companies and District offices[▽] of KSCSTDC where the implementation process is decentralized were reviewed.

[♣] The Women census is inclusive of census of Backward classes/Scheduled Castes and Scheduled Tribes/Minorities.

[▽] Bangalore (Urban and Rural), Kolar, Belgaum and Bellary.

Audit objectives

2.1.3. Audit was conducted with a view to ascertain whether :

- recommendations of Committee on Public Undertakings (COPU) were complied with,
- the objectives as envisaged in various schemes were achieved,
- financial resources and their utilization in the achievement of objectives was economical,
- equity and ethics in distribution of benefits of the schemes was maintained; and
- effectiveness of the schemes implemented was evaluated.

Audit criteria

2.1.4. Audit criteria considered for assessing the achievement of audit objectives were to ensure whether :

- Follow up on the recommendations of COPU,
- Implementation of the guidelines of Central Government, State Government and various nodal Central Public Sector Undertakings; and
- Implementation of prescribed procedures for implementation of the schemes effectively, economically and efficiently.

Audit methodology

2.1.5. The methodology adopted for attaining audit objectives with reference to audit criteria were examination of:

- Guidelines of Central Government, State Government and various nodal Central Public Sector Undertakings,
- Planning Commission guidelines,
- Census Report for 2001,
- Evaluation of reports of various Non-Government Organisations,
- Review of Agenda and Board Minutes, scheme files, and correspondence files,
- Test check of 1,053 cases (approximately 20 per cent of the loan sanctioned in four districts), taking into account the number of beneficiaries and financial outlay,
- Test check of loan files at selected District offices and Head offices,
- Review of loan ledgers,
- Issue of Audit enquiries,
- Interaction with the management.

Audit findings

Audit findings as a result of test check were reported to the Company/Government in May 2005 and discussed in the meeting of Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 3 June 2005, which was attended by Principal Secretaries to Government of Karnataka, Department of Social Welfare, Department of Social Welfare (Minority Welfare) and Department of Women and Child Welfare, and Managing Directors of the Companies. The views expressed by the members have been taken into consideration while finalizing the review.

Audit findings are discussed in the succeeding paragraphs.

Non-implementation of the recommendations of Committee on Public Undertakings

2.1.6. The Committee on Public Undertakings (COPU) discussed the Report of the Comptroller and Auditor General of India (Commercial) for the year 1993-94; its recommendations are contained in its 74th Report (March 1998). These recommendations are yet to be complied with by the companies (August 2005) as discussed below:

COPU's recommendations	Audit's observations
Karnataka Scheduled Castes and Scheduled Tribes Development Corporation Limited	
The Company was expected to meet its administrative expenditure out of income earned by way of interest on margin money.	The 'operative income' was found to be insufficient to meet administrative cost and the deficit aggregated to Rs.8.48 crore during 2000-2005.
Conversion of the Company into a Finance Company	No action has been initiated so far (August 2005).
A separate wing to be constituted to survey and identify the beneficiaries, in order to achieve its main objectives.	No separate wing has been constituted to conduct the survey, which was attributed to shortage of man-power. During ARCPSE meeting the Government stated (June 2005) that the companies could engage external agencies for conducting survey for identification of beneficiaries.
Progress made in utilization of funds should be reported periodically.	Not complied with the directions so far (August 2005).
Karnataka Backward Classes Development Corporation Limited	
To implement new schemes and diversify the existing schemes to ensure that the beneficiaries really get benefit and improve their financial position.	No new schemes were formulated by the Company.
To review afresh the classification list made by Government while sanctioning loan to Backward Classes and ensure proper distribution among all groups.	The Company is not adhering to the recommendations of COPU. It was seen that as against 30 per cent of benefits to be passed to groups 3(a) and 3(b) mainly represented by two castes, the coverage was 33 per cent to 50 per cent.
The Company should fully utilise the assistance given by National Backward Class Finance Development Corporation (NBCFDC)	The Company surrendered Rs.1.85 crore and Rs.2.08 crore during 2000-01 and 2002-03.

COPU's recommendations	Audit's observations
The Karnataka Minorities Development Corporation Limited	
To conduct survey to ascertain the actual number of eligible beneficiaries to be served.	No survey has been conducted so far (August 2005). This was attributed to shortage of manpower
The Government fixed the targets based on the ratio of population among minority communities as per 1981 census, as 6:2:2 i.e., 60 per cent for Muslims, 20 per cent for Christians and 20 per cent for others (viz., Jains, Buddhists, Sikhs, Parsis and Anglo Indians). COPU recommended to review the ratio of 6:2:2.	The Company continued to adopt the census of 1981 for the ratio without periodical analysis and revision based on census of 1991 and 2001. The Government stated that the existing ratio was scientifically arrived and equitable, and there was no need for change in the ratio.
Periodical submission of reports regarding the break-up of assistance given under 'others' category.	Data were not submitted and also it had not furnished any data to show the adherence to the ratio (6:2:2).
Details of progress made in the utilisation of assistance from National Minorities Development and Financial Corporation.	Not submitted by the Company.

Implementation of Schemes

Identification of beneficiaries

2.1.7. The Government is notifying the list of castes in respect of backward classes/scheduled castes/scheduled tribes and religions for minorities. The companies invite applications through advertisements in newspapers and notice boards of these companies to identify the eligible persons from the castes notified by the Government. The applications so received are scrutinized by the District Committee[1] (which functions as unit of these companies) and eligible beneficiaries are selected.

Audit observed that:

- the companies have not conducted surveys to identify the eligible beneficiaries inspite of COPU's recommendation to this effect.
- the Government while identifying the backward classes, indicated that the beneficiaries coming under categories 1, 2(a) and 2(b) were to be given 70 per cent of the total benefits. Other (categories 3(a) and 3(b)) were to be given 30 per cent of the benefits. KBCDC, however, did not adhere to this and extended benefits exceeding 30 per cent (33 to 50 per cent) to the categories coming under 3(a) and 3(b). No review was carried out to review the classification list of beneficiaries to ensure that there is proper distribution of benefits as recommended by COPU.

[1] **District Committee consists of the Deputy Commissioner, a representative of the financing bank, the Deputy/Assistant Director of Industries, Agriculture and Animal Husbandry departments, the Deputy Registrar of Co-operative Societies, the Executive Engineer (PWD) (Irrigation), representative of the Khadi and Village Industries Board, social worker, a representative from Backward Classes and Minorities, the District Welfare Officer.**

- the Government had fixed the ratio of 6:2:2 (Muslims: Christians : Other minorities) assistance to minorities on the basis of census of 1981. No revision in this ratio has been carried out even after the receipt of census of 1991 and 2001 and even after recommendation of COPU. KMDC even did not adhere to the above ratio.

Physical and Financial targets

2.1.8. The Companies are implementing various schemes formulated by Government of Karnataka. They also implement schemes sponsored by the Central Government through national level institutions formed for the purpose, as nodal/channelising agencies for the State. The lists of various schemes implemented by the companies are indicated in the **Annexure-8**.

The physical and financial targets set and achievements there against during 2000-05 are detailed in the **Annexure-9.**

In this connection following deserve mention:

Karnataka Scheduled Castes and Scheduled Tribes Development Corporation Limited (KSCSTDC)

The Company could not achieve physical and financial targets in all the years except 2003-04 (physical target) and 2000-01 (financial target).

The Karnataka Minorities Development Corporation Limited (K MDC)

The Company could not achieve physical and financial target in all the years except 2000-01 (physical target) and 2002-03 (financial target).

Karnataka Backward Classes Development Corporation Limited (KBCDC)

The Company exceeded both physical and financial targets in all the years except for 2004-05 (physical target) and 2001-02 (financial target).

Karnataka State Women's Development Corporation (KSWDC)

The Company exceeded physical targets in all the years except 2001-02, when it achieved 90.34 percent of the target. The Company did not achieve the financial target in all the years except 2001-02, when it exceeded the target.

Financing of schemes

2.1.9. Financial resources are provided by Government of Karnataka in the form of share capital and grants for schemes every year. National level institutions of the Central Government extend loans and advances on soft terms.

Budget provisions for various schemes are made by the Government, based on the proposals submitted by the companies and considering ways and means position of the Government. The budgeted and actual releases of funds for the last five years are given below:

(Rupees in crore)

Year	KSCSTDC		KBCDC		KMDC	
	Budget	Actual	Budget	Actual	Budget	Actual
2000-01	23.63	23.63	14.48	14.19	10.00	9.00
2001-02	28.60	26.64	16.50	14.15	13.93	12.60
2002-03	28.56	21.61	15.00	12.05	15.00	11.84
2003-04	29.56	23.29	13.61	10.81	14.09	12.12
2004-05	26.30	26.30	10.75	10.75	11.00	2.75
Total	**136.65**	**121.47**	**70.34**	**61.95**	**64.02**	**48.31**

In this regard, following deserve mention:

- All these companies, except 2000-01 (KSCSTDC) and 2004-05 (KSCSTDC and KBCDC), received funds less than the allotted in the budgets during the last five years ending 31 March 2005. The reduced allocation resulted in reduction in quantum of loans sanctioned by these companies.
- Funds aggregating to Rs.101.21[Φ] crore provided by State Government and Central Government agencies under various schemes remained un-utilised as on 31 March 2005. The major cases of unspent funds in respect of some of the schemes are given in **Annexure-10.** This indicated that the very purpose of the implementation of schemes remained defeated`; besides companies could not achieve their objectives. The Government stated (June 2005) that the funds would be utilized during subsequent years.

Implementation of Schemes

2.1.10. Deficiencies noticed in the implementation of some of the important schemes by the companies are discussed in succeeding paragraphs.

Margin money loan scheme

2.1.11. The scheme is operated by all the companies except KSWDC. The companies provide 20 per cent of the project cost as loan subject to a maximum of Rs.20,000 and subsidy of maximum Rs.5,000. The beneficiaries are to bear five per cent of the project cost and the balance is financed by the participating banks. The applications received for assistance under the scheme are sent to banks for scrutiny and to review the viability of the projects. On receipt of the formal sanction of the bank, the eligible applications, as approved by the District Committee, are recommended for sanction and release of margin money and subsidy.

The loan documentation, fixing number of instalments of recovery of loans etc., is being done by the banks. The proportionate recovery of margin money by the banks has to be remitted to the companies.

[Φ] **KSCSTDC - Rs.71.74 crore, KBCDC-Rs.11.11 crore, KMDC - Rs.6.54 crore and KSWDC - Rs.11.82 crore.**

Audit observed that:

- the loan documents obtained by the banks did not provide for repayments of margin money by beneficiaries through the banks, whereby it was difficult for the companies to ensure and watch the repayment.
- the loan repayment schedule was restricted only to the bank loan.
- the security by way of lien on the assets created was restricted to bank portion of the loan only.
- Reserve Bank of India clarified (June 1994) that recovery effected should be appropriated first towards bank loan, thereby reducing the chances of recovery of margin money.
- the companies release their share of loan and subsidies to the banks, who finally disburse the entire amount, including bank's loan portion to the beneficiaries. In case loan is not sanctioned, the cheque received from the companies are returned. There was delay ranging from three months to three years to return cheques valuing Rs.6.86[Ω] crore. The achievements as shown by these companies were, thus inflated to that extent and did not reveal the actual performance.

Swavalambana margin money scheme in KMDC

2.1.12. The targets and achievement for the last five years are given below:

Year	Physical (Number of beneficiaries)		Financial (Rupees in lakh)		Percentage of Achievement	
	Target	Achievement	Target	Achievement	Physical	Financial
2000-01	4,400	4,473	520.00	478.71	101.65	92.05
2001-02	7,800	4,321	655.00	499.28	55.40	76.22
2002-03	7,380	3,945	528.00	475.54	53.46	90.06
2003-04	4,480	3,253	444.00	345.63	72.61	77.84
2004-05	2,200	2,150	300.00	352.55	97.73	117.52

The physical target was achieved only during 2000-01 and the performance was low in other years.

In this connection following deserves mention:

- The coverage among Muslims, Christians and other Minorities should be in the ratio of 6:2:2 as per Government Order. The Company did not adhere to the ratio prescribed in Government Order. Failure to do so resulted in inequal distribution of assistance.
- The District Committees formed to select the beneficiaries did not have representation of minorities.
- The Company provided Rs.1.05 crore as subsidy and Rs.2.26 crore as margin money loan to 147 societies till date (August 2005); of which Rs.53.30 lakh (51 per cent) was provided to 20 societies in Belgaum district alone. The societies through which loans were granted were not formed exclusively for the benefit of minorities as provided in the scheme.

[Ω] **KSCSTDC - Rs.2.23 crore, KBCDC - Rs.3.52 crore and KMDC - Rs.1.11 crore.**

- The society wise loan ledgers, the total number of societies and the amount due from them are not properly maintained by the Company.

The Government stated (May 2005) that the benefits were extended through co-operative societies where minorities and others were also members and the benefits were extended to the minorities only. The Government further stated that the Company was following the ratio to the extent possible. The Government also assured to maintain society wise ledger. The reply in respect of assistance to co-operative societies is not acceptable since the scheme specifically provided for grant of benefits to those co-operative societies which were registered solely for the benefit of minorities.

Margin money (industry, service and business) scheme in KSCSTDC

2.1.13. Targets and achievements in the last five years ending 31 March 2005 is shown below:

Year	Target				Achievement			
	Scheduled Castes		Scheduled Tribes		Scheduled Castes		Scheduled Tribes	
	Physical	Financial	Physical	Financial	Physical	Financial	Physical	Financial
2000-01	1,600	480	400	120	1,300	425.68	228	95.54
2001-02	1,600	480	400	120	1,227	397.18	230	114.04
2002-03	1,335	400.50	365	109.50	919	277.31	128	67.01
2003-04	1,335	400.50	365	109.50	587	176.77	140	60.63
2004-05	900	271.25	250	75.00	1,141	375.84	175	87.85

Physical =Number of beneficiaries and Financial = Rupees in lakh

It may be seen that the Company did not achieve the targets during the five years ending 31 March 2005. Besides, the targets fixed for 2002-03, 2003-04 and 2004-05 were low as compared to earlier years and even these reduced targets could not be achieved. The Government stated (June 2005) that beneficiaries preferred direct loans to margin money loans and hence decline in achievement.

Gangakalyana scheme

2.1.14. The Government of Karnataka introduced “Gangakalyana Scheme” in December 1997. Under this scheme the small and marginal farmers whose combined land holding ranged from 8 to 15 acres per family at one place are provided with borewells by the Government. The cost of the scheme is Rs.2.53 lakh for two borewells, if the land is 8 acres and Rs.3.59 lakh for three borewells, if the land is 15 acres. In case of individual farmers, if the land holding is between two to five acres, a borewell is provided at a cost restricted to Rs.70,000/- per beneficiary. The scheme cost is inclusive of cost of energisation, pump set and maintenance for five years. The above scheme is implemented by three companies (KSCSTDC, KBCDC and KMDC) for their targetted communities. The detailed review of the implementation of the scheme revealed the following:

Non-energisation of borewells

Under Ganga Kalyana Scheme the companies provide borewells to small and marginal farmers. But 10,565 borewells drilled at a cost of Rs.65.74 crore remained not energised thus not fulfilling the purpose.

2.1.15. Audit observed that 10,565 wells drilled and pumps with motors supplied and/or erected at a cost of Rs.65.74 crore under the scheme during 2001-05 were not energised, reportedly due to non-availability of funds. Even though KBCDC and KMDC, deposited Rs.1.14 crore and Rs.48 lakh with the electricity supply companies, there was no progress in energisation of wells. The purpose, for which these borewells were installed, thus, could not be achieved.

Blocking up of scheme funds

2.1.16. KSCSTDC engaged Karnataka Agro Industries Corporation Limited (KAIC) for drilling of borewells and paid (October 1996) an advance of Rs.7.12 crore. KBCDC also paid rupees two crore through KSCSTDC to KAIC. Out of this amount, KAIC spent only Rs.6.15 crore and the balance amount of Rs.2.97 crore is yet to be settled. KAIC has been ordered for closure by the Government and as such the realisation of amount is doubtful.

Excess expenditure over budget allocation

2.1.17. As against an allocation of Rs.68.43 crore by the Government for the scheme to be implemented through KSCSTDC during 2000-05, the Company spent Rs.102.80 crore. Though the maximum subsidy admissible under the scheme was Rs.70,000 only per well, the Company over spent aggregating Rs.1.08 crore and Rs.0.51 crore at Kolar and Belgaum districts. The information about other places was not readily available with the Company. Since the expenditure incurred was over and above the administrative limit, the Company should have recovered extra expenditure from the beneficiaries. The Company stated (June 2005) that excess expenditure on well was incurred as water table has gone down. The additional amount has been covered by mortgaging the land in which the borewell was dug. The fact, however, remain that by incurring extra expenditure per well, the Company has deprived the other needy beneficiaries.

Refund of scheme funds to Zilla Panchayat

2.1.18. The Government transferred Rs.9.40 crore from Zilla Panchayats to KSCSTDC, KBCDC and KMDC for execution of this scheme. Audit observed that KBCDC was given Rs.3.33 crore for the schemes against which Rs.1.99 crore only was utilized. The balance of Rs.1.34 crore is yet (July 2005) to be returned to Zilla Panchayats even though the Government has demanded (August 2000) the refund.

Safaikarmachari Rehabilitation Scheme (National Scheme of Liberation and Rehabilitation of Scavengers and their families) – KSCSTDC

2.1.19. The scheme was started in 1991-92 with target date of completion in 1996-97. The objective of the scheme is liberation and rehabilitation of scavengers and their dependents from their existing hereditary, obnoxious and inhuman occupation of manual removal of night soil and filth. All the identified scavengers and their dependents were positively to be rehabilitated in viable alternative and dignified trades and occupations. The unit cost under the scheme is Rs.50,000; out of this, the subsidy of 50 per cent or Rs.10,000 whichever is less is met out of National Scheme of Liberation and Rehabilitation of Scavengers and their families (NSLRS) fund received from Government of India. After the introduction of the scheme, the Company identified 14,555 persons engaged in scavenging activities. The Company could rehabilitate 6,073 persons till end of the original scheme period (1996-97). Up to the end of 1999-2000, the Company was able to rehabilitate 9,842 persons as against 14,555 persons.

A test check of 296 files in Bangalore Urban, Kolar, Belgaum and Bellary Districts revealed that:

- as against survey to be conducted to identify the scavengers, who were cleaning the dry latrines, only a certificate was insisted to identify one as scavenger; in many cases these certificates were issued by authorities not competent to issue,
- a large number of beneficiaries were found to be the employees of municipalities, city corporation, railways or other Government agencies and their dependents.

Safaikarmachari scheme has been implemented by KSCSTDC to rehabilitate the scavengers in alternate occupation. The scheme started in 1991-92 is still not completed (July 2005). Out of 19,391 persons assisted under the scheme only 1,748 persons (9 per cent) were provided training in alternate occupation.

2.1.20. The progress of the scheme from 2000-01 is as follows:

Year	Targets (numbers)	Achievement (numbers)
2000-01	1,820	852
2001-02	3,861	1,108
2002-03	2,753	1,809
2003-04	10,000	5,780
2004-05	5,500	2,694

As against the identified 14,555 persons, the Company has so far (March 2005) rehabilitated 19,391 persons. This was due to a second survey, which further identified 7,367 persons. The total funds received from Central Government was Rs.41.32 crore, the balance fund left with the Company as on 31 March 2005 was Rs.16.22 crore.

In this connection following deserves mention:

- The main component of the scheme was to provide for training of scavengers and their dependents in suitably identified trades keeping in view their aptitude, local requirement and environment. The training expense was Rs.500 per beneficiary for a period from one to six months. The Company trained 1,748 persons (9 per cent) only out of 19,391 beneficiaries.
- The scheme provided for rehabilitation of scavengers and their dependents. The Company widened the scope of scavenger to 'any person engaged in, or employed for any sanitation work and includes his dependents'. The above definition was not as per the guidelines of the scheme. Based on the above definition the Company has identified 1,37,094 beneficiaries. This deprived the eligible beneficiaries of the benefits of the scheme.

- One of the important method of rehabilitation as suggested in the scheme is by opening sanitary marts. It was seen that out of 19,391 persons rehabilitated, only 320 were rehabilitated through sanitary marts.
- Rs.39.30 lakh was misappropriated at Raichur by the employees and middlemen under the scheme. The matter is under investigation.
- During the functions held to commemorate the birthday of Babu Jagjeevanram and Dr.Babasaheb Ambedkar, 300 loans were distributed without sanction of District Committee, without verification or attestation of documents and in some cases even without caste certificate.
- the vehicle numbers were not mentioned in the hypothecation deeds in case of autorikshaws,
- in one case, in the name of the loanee, a third party had taken the loan and the loanee further complained that the same person had taken loan for seven vehicles under the scheme,
- in one case, cheque was issued to a single agency towards supply of footwear, provisions, vegetable and clothes, the genuineness of which was doubtful.

The Government stated (June 2005) that every care would be taken to implement the scheme in light of Government of India guidelines.

Other Schemes

2.1.21. In addition to the above schemes, the Audit also reviewed some of other schemes viz., Land purchase, Micro credit, New swarnima, NORAD and Arivu. The details of the scheme and audit observations on the implementation are detailed in **Annexure–11.** The deficiencies noticed in implementation were mainly in the following areas.

- The progress was reduced due to not utilising the funds available and also due to not raising matching loans from Central agencies.
- Progress achieved was very meagre compared to the potential of the scheme.

Evaluation of Schemes

2.1.22. The Companies have been implementing these schemes since inception. There is no system to evaluate the impact of the implementation of the schemes on the target groups to take corrective action.

Recovery of loan

2.1.23. A sum of Rs.323.77 [#] crore have fallen due and pending recovery from the beneficiaries as at 31 March 2005. The position of recovery of loans during 2000-2005 is given below:

(Rupees in crore)

Year	KSCSTDC			KBCDC			KMDC		
	Demand	Recovery	Percen-tage	Demand	Recovery	Percen-tage	Demand	Recovery	Percen-tage
2000-01	126.69	6.08	4.8	58.1	7.27	12.5	44.56	5.14	11.5
2001-02	145.45	7.31	4.5	65.5	7.75	11.8	47.97	4.59	9.6
2002-03	162.65	8.16	5.0	79.32	7.02	8.6	50.74	4.89	9.6
2003-04	176.30	8.03	4.5	93.87	8.65	9.2	54.65	4.94	9.0
2004-05	189.72	11.07	5.8	103.34	11.25	10.9	57.79	5.22	9.0

The loans granted by these companies under various schemes amounting to Rs.323.77 crore remained outstanding as on 31 March 2005 due to weak recovery mechanism.

The recovery percentage was very low compared to demand raised during the year. Audit observed that the recovery mechanism in all these companies was very weak and there was laxity in enforcing timely recoveries as discussed in succeeding paragraphs.

Karnataka Scheduled Castes and Scheduled Tribes Development Corporation Limited (KSCSTDC)

2.1.24. The overall recovery percentage was as low as 10 per cent and in four districts (Kolar, Davangere, Bellary and Raichur) it was even below five per cent.

The recovery position was poorest in the following schemes:

Description	Demand	Recovery	Percentage
	Rupees in lakh		
Self Employment Programme	1,344.65	19.15	1.42
Land purchase Scheme	1,827.35	54.64	2.99
Industry, Service and Business	1,459.65	78.46	5.38
Devadasi Rehabilitation Programme	62.18	2.81	4.52

The following inadequacies in the system of demand and recovery were observed:

- Though the Company is in existence since 1975, the Demand, Collection and Balance (DCB) statements were prepared for the first time during 2002-03 for 12 years at a time starting from 1990 by engaging external agencies.
- Out of 80 cheques presented to banks for encashment, 66 cheques (Rs.33.96 lakh) were returned dishonoured. The Company could recover only Rs.7.25 lakh and the balance Rs.26.71 lakh remain unrecovered.
- On a test check of District records, it was seen in Belgaum district that under Land Purchase Scheme Rs.2.29 crore were recoverable from

[#] **KSCSTDC-Rs.178.65 crore, KBCDC-Rs.92 crore, KMDC-Rs.52.57 crore, KSWDC-Rs.55 lakh.**

2,087 beneficiaries. The recovery level came down from 2.56 per cent to 1.13 per cent during 2000-05. The District Office, apart from sending notices to defaulting beneficiaries once in a year, had taken no further tangible action.

The Government stated (June 2005) that:

- in respect of margin money loans, the banks hold the first charge on assets and they appropriate the recoveries first to their portion of loan,
- the Company has now been recovering its loan portion directly from the beneficiaries,
- seizing agencies have now been appointed to seize the assets of defaulters.

Karnataka Backward Classes Development Corporation Limited (KBCDC)

2.1.25. The Company has not maintained district wise details. The Company collected blank cheques as security from beneficiaries. It was, however, found that number of cheques aggregating to Rs.1.24 crore were returned dishonoured during 2000-05.

The Government stated (May 2005) that due to drought situation during last three years there was hindrance in recovery of loan. As there were 1.5 lakh live loan accounts and the beneficiaries were scattered all over the district, the Company was having one or two staff in each district and hence it was not possible to implement the schemes, monitor and recover the loans.

Diversion of funds

2.1.26. National Backward Classes Financial Development Corporation (NBCFDC) released cumulative loan of Rs.98.27 crore to the Company, out of which Rs.55.52 crore were repaid up to 31 March 2005. The Company is normally regular in repayment of NBCFDC loan and interest. It is, however, observed that as against the cumulative demands of Rs.67.94 crore raised against the beneficiaries, the Company could recover only Rs.38.20 crore upto 31 March 2005. From this it is evident that the Company diverted Rs.17.32 crore from its share capital and other schemes to meet its repayment obligations to NBCFDC. The diversion adversely affected the implementation of other schemes.

The Karnataka Minorities Development Corporation Limited (KMDC)

2.1.27. The Company has not prepared statements of Demand, Collection and Balance even though the Company is in existence from 1986 and hence the loan amounts due and not due as at the end of each year were also not calculated. Neither a list of borrowers with principal and interest accrued and due was prepared and analysed by the Company.

Due to ineffective debt management and lack of proper accounting system the Company is running the risk of non recovery of a substantial portion of loans and interest due thereon due to efflux of time and unenforceable claims. The Management stated (May 2005) that due to inadequate machinery it could not recover loans.

Diversion of funds

2.1.28. KMDC received a sum of Rs.46.95 crore from National Minorities Development Finance Corporation (NMDFC) as loans of various types during 1997-2005. During this period, KMDC repaid Rs.27.87 crore to NMDFC. The total recovery of loan from beneficiaries, however, amounted to Rs.17.97 crore only. The balance of Rs.9.90 crore was diverted from other schemes, in order to repay the loan to NMDFC. This adversely affected the implementation of other schemes. Poor progress in recovery of loans was the only reason for diversion of funds. The Company stated (May 2005) that to avoid penal interest it diverted funds.

Karnataka State Women's Development Corporation (KSWDC)

2.1.29. KSWDC entrusted the entire responsibility of disbursement and recovery to Karnataka State Financial Corporation (KSFC) and it failed to enforce its own recovery mechanism, even where the loans became overdue. A sum of Rs.55 lakh was outstanding as on 31 March 2005, out of which Rs.34.58 lakh was recoverable from KSFC. The total dues including interest amounted to Rs.78.31 lakh (Composite Loan Scheme through KSFC).

Internal Audit

2.1.30. The Internal Audit functions are entrusted to external agencies i.e., firms of Chartered Accountants. No separate Internal Audit wing has been formed in KBCDC, KMDC and KSWDC. Though Internal Audit wing is formed in KSCSTDC, it is functioning only with two audit personnel, which is inadequate considering its volume of activities and jurisdiction throughout the State, and the Statutory Auditor has also commented upon the inadequacy of Internal Audit.

The lack of Internal Control in these companies has resulted in many cases of misappropriation. A few cases are detailed in **Annexure -12**

Conclusion

The Companies have not complied with the recommendations of COPU, in respect of meeting their administrative expenditure out of their operative income; in conducting survey and identifying the beneficiaries; in revising the ratio based on periodical census reports; and in formulating new schemes.

The Companies have not been able to utilise the fund released to them by the Government in full. KMDC has been releasing assistance to the societies not covered under the scheme. The ratio of assistance to various communities was not adhered to resulting in inequal distribution of benefits. There were number of borewells dug under Gangakalyana

scheme, which were not energised, thereby defeating the purpose for which those were installed. KSCSTDC changed the scope of the rehabilitation of Safaikarmachari scheme by including persons employed in any sanitary work not covered in the guidelines resulting in depriving the eligible beneficiaries the benefits of the scheme. The Companies did not have any regular evaluation or feedback system to gauge the impact of the schemes implemented.

Poor recovery efforts resulted in huge arrears in recovery of loans and in diversion of scheme funds for repayment of loans taken from Central agencies. The Internal control system was not adequate resulting in number of misappropriations.

Recommendations

- **The Companies need to take steps to fully comply with the recommendations of COPU.**
- **The funds released by Government need to be fully utilized on schemes within the time frame.**
- **The Companies need to ensure equitable distribution of benefits.**
- **The loan recovery position has to be improved by strengthening recovery mechanism by the Companies.**
- **The Companies would need to undertake evaluation and impact analysis of their schemes.**
- **Internal Audit wing has to be formed in KBCDC, KMDC, KSWDC and the same needs to be strengthened in KSCSTDC.**

2.2 KARNATAKA NEERAVARI NIGAM LIMITED

REVIEW ON FUNDS MANAGEMENT IN KARNATAKA NEERAVARI NIGAM LIMITED

Highlights

The Company was set up in December 1998 as a Special Purpose Vehicle to complete various irrigation projects on fast track basis by 2003 to utilize the Karnataka State's share of water awarded under Krishna Water Disputes Tribunal. The Company on its formation took over eight projects which were under execution. The objective of formation of the Company to complete the projects on fast track basis was not fully met as:

- **it could utilize only 90.17 thousand million cubic feet (tmc) of water by the end of March 2005 as against allocation of 217.61 tmc,**
- **the eight projects taken over at the time of its formation were yet (August 2005) to be completed as against the envisaged date of March 2003,**
- **twenty five new projects costing Rs.6,532 crore were entrusted without identifying and providing for the resources for their execution,**
- **the Company depends mainly on Government guarantees for mobilisation of funds; and considering the current level of Government support it would take 36 years to complete all the projects.**

(Paragraphs 2.2.1, 2.2.7, 2.2.13 and 2.2.14)

Audit also noticed:

As against the repairs and maintenance cost of Rs.149.09 crore, the Company made a demand of Rs 73.56 crore as water charges, and collected Rs.7.87 crore only during last five years ended March 2005, which represented 5.28 per cent of repairs and maintenance cost, indicating low internal generation of resources.

(Paragraph 2.2.12)

The Company has incurred Rs.924.45 crore on administrative expenditure, interest and other overheads up to March 2005 to create assets worth Rs.1,350.88 crore. The Company had not analysed staff requirements as directed by the Government at the time of take over resulting in high establishment cost.

(Paragraph 2.2.13)

The Company incurred a loss of Rs 20.29 crore on investment of borrowed funds at lower rate as compared to interest rate on borrowings.

(Paragraph 2.2.9)

Introduction

2.2.1. The Krishna Water Disputes Tribunal recommended (Bachawat Award 1976) sharing of the Krishna water among the three States viz., Maharashtra, Karnataka and Andhra Pradesh. As per the Award, out of the total availability of 2,060 thousand million cubic feet (tmc) of water in Krishna river, Karnataka's share was 734 tmc. The award was to be reviewed or revised by competent authority or Tribunal after 31 May 2000, which has not been done so far (August 2005).

In order to utilize the State's share of water expeditiously, Krishna Bhagya Jala Nigam Limited (KBJNL) was formed in 1994 with the objective of executing the Upper Krishna Project by mobilizing required resources from the market.

As enormous funds were required for projects falling other than those under Upper Krishna Project, the Government formed (December 1998) another Company viz., Karnataka Neeravari Nigam Limited to mobilize resources and to complete the identified/prioritized irrigation projects in the Krishna River Basin on fast track basis by 2003. The total allocation of water to the Company under 33 projects[∝] entrusted till March 2005 was 217.61 tmc.

The details of projects transferred to the Company on formation and subsequent entrustment of projects along with estimated cost are given below:

(Rupees in crore)

Description	Number of projects	Estimated cost at the time of takeover (1995-96 SR)	Estimated cost (1999-2000 SR)	Estimated cost (2003-04 SR)
Originally taken over projects*	8	3,056.98	4,790.91	6,074.92
Additions				
a) Projects transferred during 1999 -2004	10	1,101.65	1,162.39	1,287.86
b) Projects transferred during 2004-05	15	-	-	5,244.07
TOTAL	**33**			**12,606.85**

*** includes Rs. 958.40 crore already spent before handing over to the Company; SR= Schedule of rates**

The Company was required to complete the originally transferred eight projects by March 2003. These are, however, yet to be completed (August 2005). Out of 33 projects, the Company has taken up 18 projects only for execution so far (July 2005). As on 31 March 2005, the Company incurred Rs.3,317.20 crore (including Rs.1,413.58 crore incurred on 18 projects before take over); but none of the projects have been completed so far (August 2005).

Scope of audit

2.2.2. The present review conducted during January to March 2005 covers management of funds by the Company for the period from December 1998 (inception) to March 2005.

[∝] including three non-Krishna projects

Audit objectives

2.2.3. Audit was conducted with a view to ascertain whether :

- the estimation of funds was realistic,
- the mobilization of funds, both from internal and external sources, was in the economical manner,
- the funds were utilised efficiently,
- the surplus funds were invested efficiently,
- the achievement of physical and financial parameters were with reference to the long-term and short-term plans,

Audit criteria

2.2.4. Audit adopted the following criteria for the evaluation of funds management activity with a view to see whether :

- systems and procedures followed by the Company for proper estimation of funds and planning to ensure achievement of its objectives of formation.
- procedures and control systems were in place for optimum mobilization of funds at least possible cost.
- procedures and practices were in vogue to ensure effective utilization of funds.

Audit methodology

2.2.5. The methodology adopted for attaining the audit objectives by comparing with reference to the audit criteria were

- Applicable Statutes, rules and regulations,
- Review of Memorandum and Articles of Association,
- Review of Board Minutes, Minutes of Finance sub-committee, Audit Committee,
- Review of Annual Work Plans and Budgets,
- Review of records maintained by the Company in respect of planning, mobilization, utilization and deployment of surplus funds,
- Internal Audit Reports, Statutory Audit Reports,
- Issue of Audit Enquiries, and
- Interactions with the management.

Audit findings

Audit findings as a result of test check were reported to the Management/Government in April 2005 and discussed in the meeting of Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 5 May 2005. The meeting was attended by Technical Member and Managing Director of the Company and Secretary to Government of Karnataka, Water Resources Department. The views expressed by members have been taken into consideration while finalizing the review.

Audit findings are discussed in succeeding paragraphs.

Estimation of funds requirement

2.2.6. To assess the funds requirement, budgets are prepared every year taking into account the Annual Works Plan (AWP) drawn on the basis of projections made by various divisions. The estimated expenditure on capital works, repayment of principal and interest is matched with the funds to be received from Government as share capital (meant for refund of borrowing with interest), and through borrowings. Funds required by Divisions for works execution are transferred based on periodical intent and surplus funds are invested in mutual funds and term deposits.

Audit observed that:

- no corporate plan was drawn up to assess the requirement of funds on long term basis.
- detailed projects reports (DPR's) were not prepared by the Company after formation; DPR's on major projects were old dating back to 1976. This has resulted in unrealistic funds requirement and effected timely completion of projects.
- even after seven years of formation, the Company did not have a system of correct and periodical updation of the estimated project cost.

2.2.7 The table showing the year-wise estimated cost of the projects, annual work plan drawn and achieved for the last six years ending 31 March 2005 is given in **Annexure-13.** In this regard, following deserve mention:

- The year wise achievements of budgeted and actual expenditure ranged from 30.95 per cent to 85.44 per cent. In respect of eight initially transferred projects, though the Company had budgeted Rs.3,027 crore (as on March 2005), the actual expenditure was Rs.1,729 crore only.
- The budgets were presented to the Board for approval after commencement of the financial year. There was no system of splitting up the annual budget into monthly/quarterly budgets for monitoring. The significant variations were not analysed. As these were required to be submitted to the State Legislature, this in turn effected the projection made to the Government.

- There was no system of making proper survey/estimation. Failure to evolve a proper system of scientific classification of strata and quantum of work involved resulted in extra financial implications.

  The Government replied (May 2005) that no work was taken up without survey and estimation and that estimates were prepared after detailed investigation. As specific site conditions which could not be foreseen at the time of investigation, led to additions/modifications in the work, which resulted in unavoidable financial implication. The reply is not acceptable as the Company has not done any analysis in respect of problems, which led to considerable extra financial implications and time over run.

- The progress in implementation of projects was poor and the objective of formation was not fully met. The Company could only achieve a financial progress of 28.95 per cent and physical progress of 25.27 per cent since inception to March 2005 in respect of initially transferred eight projects. Audit also observed that there was no system of monitoring the progress of projects under critical components of execution. Even the Board of Directors (March 2003) felt that the status report for projects prepared by the Company was only a general statement and it was not possible to ascertain the shortfall/delays attributable to contractors/Company, if any, both in physical and financial terms, and pointed out the need to identify each project into quantifiable items.

As the Company depends upon Government guarantee to mobilise the fund, considering the yearly allocation by the Government it would take 36 years to complete all the projects.

- The Company has been depending upon the guarantees of the Government for borrowings with a result that the borrowings were restricted to the amount guaranteed by the Government. Considering the fact that the Government had allocated Rs.258 crore (Rs.188 crore borrowings through Government guarantee and Rs.70 crore as grant) during 2004-05, it would take 36[⊗] years to complete all the projects at current levels of cost. The Government admitted (May 2005) the inadequacy of budgetary allocation.

  During the ARCPSE meeting, the Management stated (May 2005) that in order to utilise 177.30 tmc of water, 14 projects (out of 18 ongoing projects) would be completed by March 2007 by incurring balance cost of Rs.3,745.61 crore. Audit observed that as against this requirement, the Company had budgeted for only Rs.1,444 crore in 2005-06 and Government support through guarantee/grant was available only to the extent of Rs.500 crore. The Company has not planned for mobilisation of balance requirement through sources other than by way of borrowing through Government guarantee and as such the possibility of completion of projects by 2007 as stated and scheduled utilisation of water is remote.

Mobilisation of funds

2.2.8 In order to meet the funds required for capital works, the Company mobilizes funds through:

[⊗] **The requirement of Rs.9,290 crore to complete all the projects divided by Rs.258 crore alloted during 2004-05.**

- external/market borrowings,
- budgetary support from Government of Karnataka and assistance from Central Government under Accelerated Irrigation Benefit Programme (AIBP), and
- internal generation by collection of water charges.

External borrowing of funds

2.2.9. The Company mobilized Rs.1,445.05 crore since inception (1998) till March 2005 through private placement of bonds at interest rates ranging from 6.70 per cent to 13.25 per cent. In addition, the Company availed term loan of Rs.220 crore in July 2004 from banks/financial institutions at annual interest of seven per cent. In this regard, following deserve mention:

- The Company did not evaluate the economics of term loan funds until July 2004, when it raised term loan of Rs.220 crore. Failure to avail term loan deprived the Company of the facility of need based drawal and also flexibility of swapping loans with loans at lower rate at short-notice especially since the interest rates were declining.

The Company incurred a loss of Rs. 20.29 crore on investment of borrowed funds at the rate lower than interest rate on borrowings.

- It may be seen from the **Annexure - 14**, that the Company was raising funds without taking into account requirements, resulting in surplus funds till March 2004. The mismatch between mobilization and utilization of funds resulted in loss of Rs.20.29 crore on investment of borrowed funds at rates lower than the interest rates on borrowings.

  The Government stated (May 2005) that they always planned to maintain the funds required for three months project expenses. Further, the Company accepted that funds were initially mobilized based on cost of the projects, but found that pre-requisites for execution were not ready, which led to excess funds. The reply is not tenable as audit has worked out the above loss after excluding balances held in current account/treasury deposit/funds in transit, considered necessary to meet project expenses.

- Out of 11 series of bonds (including sub-series) floated till March 2005, mobilizing Rs.1,445.05 crore, seven series of bonds aggregating Rs.550.13 crore were floated at the end of the financial year (January to March) to utilise Government guarantee before expiry. This indicated that the borrowing programme was not need based. Further, over-subscriptions were also accepted inspite of holding adequate funds.

  The Government stated (May 2005) that the over-subscriptions were within the limit of guarantee provided by Government. The reply is not tenable as the objective of formation of the Company was for mobilization of funds based on need for execution of projects and not mobilization of funds with the cover of a guarantee.

Budgetary Support

2.2.10. As per the terms of the tripartite agreement entered into between Government of Karnataka, the Company and the trustees to the bond holders, Government of Karnataka agreed to place funds required to discharge the liability of interest and principal in the escrow account. Accordingly, the Government released Rs.266.13 crore towards repayment of principal and Rs.524.74 crore towards repayment of interest, which was accounted as share capital. Further amount of Rs.93.44 crore towards Minor Irrigation work, Rs.70 crore towards capital grant and Rs.297.64 crore towards AIBP funds, released by Government were also treated as share capital. In addition, Rs.867.99 crore was contributed (May 1999) by Government of Karnataka as share capital in kind towards the value of assets taken over. As such entire share capital of Rs.2,119.94 crore as at 31 March 2005 was contributed by Government of Karnataka.

Delay in release of funds by the Government, compelled the Company to borrow funds for the payment of interest to bond holders, resulting in interest loss of Rs.2.10 crore.

Audit observed that there was delay ranging upto 147 days in the receipt of money released under tripartite agreement. Due to delay in release of funds on due dates (reasons not on record) by Government of Karnataka, the Company utilized borrowed funds for payment of interest to bond holders. Consequently, the Company suffered a interest loss of Rs.2.10 crore on utilisation of borrowed funds for payment of interest to bond holders.

Internal generation of funds

2.2.11. The sustainability and efficient utilization of irrigation assets created by incurring huge capital cost depends on effective maintenance and meeting the maintenance cost/capital cost mainly through the recovery of water charges. Based on the recommendations of State Finance Commission and independent studies, the Planning Department decided (October 1988) that water users have to pay for water utilised for irrigation which would fully cover all the operational and maintenance costs and also yield a reasonable return on investment. The power to levy and collect water charges was vested with Government of Karnataka till 2002. The amendment of Karnataka Irrigation Act in 2002 permitted the irrigation companies to levy and collect water charges, thereafter.

2.2.12 The demand for water charges was raised in respect of two projects (Ghataprabha and Malaprabha), out of eight projects, initially entrusted to the Company on its formation. This was stated to be done as the water from these two projects was made available for irrigation. Out of total irrigation area of 4.48 lakh hectare as on 31 March 2005 in Ghataprabha and Malaprabha project areas, the irrigation management of 1.87 lakh hectare was entrusted to 454 Water Users Co-operative Societies (WUCS). The details of water availability, total demand (including WUCS) and collection since inception is given below:

Year	Water availability (tmc)	Demand (Rupees in crore)
1999-2000	97.01	14.95
2000-01	80.33	20.03
2001-02	61.93	16.11
2002-03	41.06	9.90
2003-04	54.68	5.71
2004-05	90.17	6.86
Total		**73.56**

In this connection following observations are made:

As against the repairs and maintenance cost of Rs.149.09 crore, the Company raised a demand of Rs.73.56 crore as water charges and collected Rs.7.87 crore only during last five years ended March 2005, representing 5.28 per cent of repairs and maintenance cost.

- The Company raised total demand of Rs.73.56 crore since inception to March 2005 and after waiver of Rs.39.56 crore (by Government/Company) the net demand was Rs.34.00 crore. The Company could collect only Rs.7.87 crore, which represented 5.28 per cent of the repairs and maintenance cost of Rs.149.09 crore.

- There has been reduction in the demand for water charges in spite of increase in the irrigation area. The reasons for reduction were not analysed by the Company. The Government stated (May 2005) that the total demand raised in any year would depend on the availability of water in the reservoir. The reply is not tenable as there was no correlation between water availability and demand as could be seen from the table.

- The Company had given (upto March 2004) Rs.17.63 crore as capital grant to WUCS by diverting borrowed funds. This resulted in loss of interest of Rs.1.79 crore besides draining the scarce funds of the Company without corresponding collection of revenue. The accounts of societies were not obtained by the Company for scrutiny to ensure that WUCS utilized the grant for the purpose for which it was given.

- Water charges collected by Revenue Department up to 2001-02 were not passed on to the Company till date (August 2005). Water charges collected by WUCS were also not remitted to the Company.

  In the ARCPSE meeting, the Government informed (May 2005) that a committee under the chairmanship of Managing Director, KBJNL had been constituted to study the issue of mobilization of funds through water collection. It was also stated (May 2005) that the role of the Company was to collect the water rates as fixed by the Government and that the State Government had brought in amendments to Karnataka Irrigation Act to bring in WUCS with a definite role. The reply is not acceptable as the system for supply of water to WUCS and raising of demand and collection of dues needs improvement considering the anticipated investment of Rs. 12,607 crore on projects to utilize 217.61 tmc of water allocated to the Company.

Utilisation of funds

Review of utlisation of funds revealed the following deficiencies:

Cost of creation of irrigation assets

2.2.13. Table showing cost incurred to create irrigation assets and incidence of high establishment cost thereon are given under:

(Rupees in crore)

Particulars	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**Total**
A. Total capital cost incurred by the Company♥	96.51	170.29	283.48	218.12	286.40	296.08	1,350.88
(a) Establishment expenditure (other than interest)	41.54	45.63	58.46	83.51	85.30	84.77	399.21
(b) Interest on borrowings	37.11	62.60	79.03	99.98	121.39	125.13	525.24
B. Total expenditure (a+b)	78.65	108.23	137.49	183.49	206.69	209.90	924.45
C. Total cost (A+B)	**175.16**	**278.52**	**420.97**	**401.61**	**493.09**	**505.98**	**2,275.33**
Establishment expenditure as a per cent of total capital cost.	43.04	26.80	20.62	38.29	29.78	28.63	29.55

In this regard, the following deserves mention:

The Company incurred Rs.924.45 crore on administrative expenditure, interest and other overheads to create assets worth Rs.1,350.88 crore, which was 68.43 per cent of the total capital cost. The Company had not analysed staff requirements as directed by the Government.

- Execution of work is done entirely through contractors and the role of the Company is only of supervision. Eventhough the expenditure incurred on establishment and other items for creation of irrigation assets through contractors decreased from 43.04 per cent in 1999-2000 to 28.63 per cent in 2004-05, it still exceeded the norm of 15 per cent fixed by Central Water Commission.
- The Company has incurred Rs.924.45 crore on administrative expenditure, interest and other overheads to create assets worth Rs.1,350.88 crore, which was 68.43 per cent of the total capital cost.
- As compared to the total allocation of 217.61 tmc of water for the projects taken up by the Company, actual utilization by partly completed projects viz., Ghataprabha and Malaprabha was 97.01 tmc in 1999-2000 which decreased to 90.17 tmc in 2004-05. The Government replied (May 2005) that the low utilization was both due to lack of water and delay in creation of assets.
- The Company was authorized to make an assessment of staff requirements and re-deploy or surrender the excess staff to Irrigation department. Audit observed that no such attempt was made and as on 31 March 2005, the number of administrative personnel (1,229) was substantially more than the technical personnel (724), which resulted in high establishment cost. The Government stated that a large number of temporary workers recruited prior to the formation of the Company continued on the basis of Supreme Court decision and the Company has been requesting Government to re-deploy them in Government departments. The reply is not tenable as under the Government order of May 1999, the Managing Director was not only authorized to suitably re-deploy within the Company but also to surrender the excess manpower to Irrigation Department.

♥ **excludes cost incurred on eight projects before transfer to the Company**

Implementation of new projects

2.2.14. Even though the Company was finding it difficult to arrange funds required for ongoing projects as discussed in paragraph 2.2.7 supra, new projects were periodically transferred to the Company by Government.

Audit observed that though the Government informed (January 2003) that a meeting of all concerned would be held to spell out policy with respect to the transfer of additional projects, funding, prioritization and related issues, no such meeting was held till date (November 2005). The Finance Department, however, in the meeting held in February 2003 advised the Company to prepare an action plan limited to its resources position to ensure optimum utilisation to attain its objectives. As the transfer of projects to the Company directly by Water Resources Department, without the concurrence of Finance Department was considered as not in accordance with Karnataka Government (Transaction of Business) Rules, the Government directed the Company to make a critical analysis before transfer of any project, taking into account the borrowing limit. The Company, however, continued to take up all the new projects with an outlay of Rs.6,532 crore, without identifying the resources or obtaining commitment from Government to provide necessary resources.

The Government stated (May 2005) that the Company was bound to comply with the directions and in view of the commitment made to utilise its share of water, the required support would be extended depending upon the progress achieved. The reply is not acceptable since Rs.258 crore only through State support was made available during 2004-05 as against the gross requirement of Rs.9,290 crore.

Investment of funds in Lift Irrigation Projects

2.2.15. The Company had undertaken implementation of Lift Irrigation Schemes (LIS) involving Rs.1,983 crore. LIS intended for uplands involved huge investments and the success of the scheme depended mainly on a definite policy to be evolved for their maintenance. Audit observed that LIS was being implemented without giving any consideration to the huge expenditure on power consumption. The Company requested (June 2002) the Government to form an inter-departmental group to come out with a policy on Lift Irrigation Projects, especially considering the estimated annual power charges of Rs.58 crore in respect of three ongoing major LIS viz., Bhima, Singaatalur and Hippargi on which an investment of Rs.157.47 crore had already been made till March 2005. The Company incurred Rs.9.17 crore during 2000-05 as electricity charges for operating LIS, which was being paid out of borrowed funds.

The Government stated (May 2005) that it is actively considering to come out with a policy decision on maintenance of LIS.

Management Information System and Monitoring

2.2.16. The Company did not maintain database showing details viz., date of tendering, awarding, scheduled and actual completion, tendered and actual cost, extra financial implication, name of the contractor, reasons for delay, whether delay is attributable to the Company or contractor, etc., which are very essential for identifying the problems in the execution of the projects and taking corrective actions so that they do not recur in future. The directive of Board of Directors (March 2003) to evolve a suitable monitoring mechanism for works was also not carried out so far (March 2005). The Government stated (May 2005) that the suggestion was taken note of and the Company was making earnest efforts to evolve suitable Management Information Systems.

Release of Funds without control

2.2.17. The Company was releasing funds to Special Land Acquisition Offices (SLAO) for acquiring land for irrigation projects. A sum of Rs.188 crore was paid to 11 SLAO during six years ending 31 March 2005. A special audit by the auditors appointed by the Company was taken up in July 2004 to verify the extent of utilisation, maintenance of cash book, bank reconciliation, etc., and also to ensure the correctness of compensation paid. Though the Statutory Auditors also qualified in their report from 2000-01 and onwards on the non-rendering of accounts and inability to ascertain the impact thereon, no remedial action has been taken till date (July 2005). The Government stated (May 2005) that the Company would take appropriate action after receipt of the special report from the auditors.

Internal control system

2.2.18. A review of internal controls relating to funds management revealed the following:

Estimation of funds

- Budgets were presented belatedly and there was no splitting up of annual budgets into sub-periods for monitoring and the variations were not analysed.
- Detailed Project Reports were not prepared periodically which had an effect on timely completion of projects.
- There was no system of making proper survey and estimation prior to commencement of the work.
- Cost estimates of the projects on hand were not updated periodically to ensure correct estimation of funds requirement.

Mobilization of Funds

- The Company had not evolved any system to assess the cost of funds from different sources.
- The Company did not have a proper system for levy and collection of water charges.

Utilization of Funds

- The Company did not have adequate Management Information System.

- The Company did not have a system of monitoring utilization of advances made to Special Land Acquisition Offices.

Conclusion

The objective of formation of the Company as a Special Purpose Vehicle to utilize State's share of water under Bachawat Award and for mobilization of resources and completion of projects on a fast track basis was not fully met. Instead of prioritizing projects already undertaken, the Government entrusted the Company with more new projects without ascertaining economic viability and providing adequate funds. The Company depends mainly upon Government guarantee to mobilize funds. Failure of the Government to provide adequate guarantee has resulted in restricted borrowings. Consequently, it would take 36 years to complete the ongoing projects at current levels of cost. The progress in implementation was poor and there was no system of monitoring the progress of projects under critical components of execution. Lack of proper revenue recovery system led to poor collection of water charges.

Recommendations

- **The Company should expedite the execution of projects by proper planning, organization and management to achieve the objective of formation as a Special Purpose Vehicle and to ensure timely utilization of State's share of water.**
- **The Company should not undertake new projects without ascertaining the economic viability and availability of adequate funds.**
- **The Company should make efforts to improve the demand and collection of water charges from commercial/irrigation beneficiaries. The Company needs to evolve a system for timely recovery of water charges, which should meet at least the operation and maintenance cost.**

2.3 THE KARNATAKA STATE TOURISM DEVELOPMENT CORPORATION LIMITED

PERFORMANCE OF HOTEL DIVISION INCLUDING INFRASTRUCTURE DEVELOPMENT OF THE KARNATAKA STATE TOURISM DEVELOPMENT CORPORATION LIMITED

Highlights

The Company set up in February 1971 with a view to promote and develop the domestic as well as international tourism in the State, did not achieve fully its objective as tourists who availed its facilities was negligible.

(Paragraphs 2.3 1 and 2.3.8)

Audit also noticed:

There was no system of preparing the Annual Plan for taking up the projects for upgradation and renovation of hotels.

(Paragraph 2.3.13)

The grants received from Central/State Government for creating/developing tourist infrastructure were parked in fixed deposits; the utilization of grants was very low. As such the projected facilities could not be created. The Company, consequently, failed to tap the full tourist potential of its hotels.

(Paragraph 2.3.13)

There has been delay in implementation of projects for upgradation and renovation of its hotels resulting in foregoing revenue of Rs.2.24 crore during 2000-2005.

(Paragraph 2.3.11)

Introduction

2.3.1. The Karnataka State Tourism Development Corporation Limited (KSTDC) was set up in February 1971 with a view to promote and develop domestic as well as international tourism in the State.

The main objectives of the Company are:

- to promote tourism in all forms and in particular, by providing boarding and lodging, transport and arrangements for excursion;
- to take over, develop and manage places of tourist interest in the State of Karnataka and elsewhere; and
- to acquire and take over any of the assets and liabilities of the Department of Information and Tourism, Government of Karnataka.

2.3.2. The Company is presently engaged mainly in the following activities:

- maintaining budget category hotels in places of tourist's attraction,
- leasing out its properties (i.e., both land and hotels) to private entrepreneurs in line with Karnataka Tourism Policy (2002-07), and
- providing transport facilities to tourists by conducting package tours in Karnataka and in other States.

2.3.3. The Hotel division is headed by the Commercial Manager (Hotels) at the head office and is assisted by the Manager at the unit level. The Commercial Manager (Hotels) reports to the Managing Director of the Company. The Company is operating 18[§] hotels (with restaurants), three exclusive restaurants and three boat clubs as on 31 March 2005.

The working of the Company was last reviewed and reported in the Report of the Comptroller and Auditor General of India for the year 1997-98 (Commercial). The Report was discussed by COPU and its recommendations contained in its 85th Report (August 2000).

Scope of audit

2.3.4. The present review was conducted during October 2004 to January 2005 covering the performance of Hotel Division including infrastructure development (up-gradation and renovation) of the Company during 2000-05.

Audit objectives

2.3.5. Audit was conducted with a view to:

- ascertain whether the objectives of the Company were achieved with economy, efficiency and effectiveness;
- examine the compliance to the recommendations contained in the Report of COPU; and
- ensure that the tourism policies of Government of India and Government of Karnataka are implemented effectively.

Audit criteria

2.3.6. The audit criteria considered for assessing the achievement of audit objectives were:

- occupancy norms fixed by the Company for its hotels;
- Karnataka Tourism Policy 1997-2002 and 2002-2007 in respect of leasing of hotels ;

[§] **excluding five hotels privatized during 2000-05 and one closed unit.**

- guidelines of Centrally Sponsored Schemes for up-gradation and renovation of hotels, issued by Ministry of Tourism, Government of India and Department of Tourism, Government of Karnataka ; and
- COPU's recommendations.

Audit methodology

2.3.7. The methodology adopted for attaining audit objectives, with reference to the audit criteria were:

- Review of monthly performance reports of hotels.
- Review of Tourism Policy of Government of Karnataka – 1997-2002 and 2002-2007.
- Review of Board minutes.
- Files relating to grants received from Government of India/Government of Karnataka.
- Evaluation reports of Infrastructure Development Corporation (Karnataka) Limited (IDeck) in respect of Concession agreements of concessionaires.
- Issue of audit enquiries.
- Interaction with the Management.

Audit findings

Audit findings, as a result of test check were reported to the Company/ Government in March 2005 and discussed in the meeting of Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 20 April 2005, which was attended by the Managing Director of the Company and Principal Secretary, Information, Tourism and Youth Services, Government of Karnataka. The views expressed by the members have been taken into consideration in finalisation of the review.

Audit findings are discussed in succeeding paragraphs.

Growth of Tourism

2.3.8. The Company was incorporated with a view to promote and develop domestic as well as international tourism in the State. The Company, however, is not collecting and compiling data regarding tourists (both domestic and foreign) arrival in the State to assess the growth of tourism in the State. The data regarding the number of tourists who visited Karnataka and India during the last five calendar years (up to 2004) collected by the Audit from the Department of Tourism, Government of Karnataka, and Ministry of

Tourism, Government of India respectively, is indicated in the table below:

(Nos. in lakh)

Particulars	**2000**	**2001**	**2002**	**2003**	**2004**
No. of tourists who visited India	Not available	25.37	23.84	27.50	15.50*
Tourists who visited Karnataka					
Domestic	159.03	179.99	120.73	111.75	143.65
Foreigners	2.30	2.29	1.41	2.50	1.25
Total	**161.33**	**182.28**	**122.14**	**114.25**	**144.90**
Number of tourists who availed accommodation in Company's hotels	0.83	0.81	0.82	0.77	0.65
Tourists availing the facility in percentage (both domestic and foreigners)	0.51	0.44	0.67	0.67	0.45
Percentage of foreigners who visited the State vis-à-vis who visited India	Not available	9.03	5.91	9.09	8.06

*** - from January 2004 to June 2004**

As could be seen from the above, the percentage of tourists availing Company's facilities ranged from 0.44 per cent to 0.67 per cent during the five calendar years up to 2004, which was negligible i.e., less than one per cent.

Tourism Policy 2002-07

2.3.9. As per the Tourism Policy 2002-07 (effective from June 2002), the existing accommodation and other facilities of both Government and the Company are to be usefully and optimally utilized by inviting private sector partners in management of these properties in a phased manner. Accordingly, the Company entrusted (2000-05) the operation of its five units to private entrepreneurs on 'Renovate, Operate, Maintain and Transfer' (ROMT) model on 30 year lease basis. The service of IDeck was availed to follow the detailed procedure of calling for tenders, technical bids and price bid.

The performance of seven[©] units, out of 24 units, are discussed in the succeeding paragraphs.

Operational Performance

2.3.10. The table below summarises the operational performance of the Hotel division for the five years ended 31 March 2005.

(Rupees in lakh)

	Particulars	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
A	Income (Gross)	607.89	574.48	557.63	608.15	657.83
B	Servicing, administration, selling and other expenditure (hotels)	302.33	289.51	240.89	214.13	226.42
C	Gross contribution (A-B)	305.56	284.97	316.74	394.02	431.41
D	Total income from all activities of the Company	1,062.79	1,123.20	1,266.75	1,463.54	1,547.20
E	Percentage contribution by Hotel division (A/D)	57.20	51.15	44.02	41.55	42.52

As could be seen from the table, while the income of the Company from all activities were increasing, the gross percentage contribution of hotels division

[©] **HM Hoysala, Mysore; Cauvery, KR Sagar; Pavitra, Yediyur; Sudharasan, Ooty; Yatrinivas, Mysore; Riverview, Srirangapatna and Balbhavan** has been showing a declining trend from 57.20 per cent in 2000-01 to 42.52 per cent in 2004-05.

The COPU in its 85th Report recommended that the Company should prepare separate profit and loss account for each hotel to ascertain its profitability by scientifically apportioning the depreciation costs, interest and other head office expenses, etc., in order to take timely remedial action. The Company has, however, not taken any action so far (November 2005).

Non achievement of Room Occupancy norms

2.3.11. The Company had fixed a norm of 57 per cent for room occupancy, which was considered as realistic. Hotel-wise room occupancy for the five years ending 31 March 2005 is detailed in **Annexure-15.**

Audit observed that though the hotels were located in important tourist places, the Company could not achieve the norms fixed by it, except for two hotels in 2000-01, three hotels in 2001-02, 2002-03 and 2003-04 and two hotels in 2004-05. There was a declining trend in overall room occupancy; it declined from 42 per cent in 2000-01 to 34 per cent in 2004-05.

The reasons for low occupancy as analysed in audit were:

- Delay in completion of renovation and up-gradation works in hotels as discussed in paragraphs 2.3.13 to 2.3.18 infra.
- Lack of adequate publicity.
- Inadequate monitoring system at Head Office level to analyse and take corrective action to improve the room occupancy, based on the monthly progress reports submitted by the units. This also indicates inadequate internal control in the Company.
- Lack of feed back system from customers, at Head Office level, for improving the efficiency of services and to ensure customer satisfaction. Though, the COPU recommended (85th report) introduction of a model form for getting feed back from the guests, the Company has not introduced the same so far (November 2005).

The Company failed to achieve the room occupancy norms fixed by it. This resulted in non-realisation of additional revenue of Rs.2.24 crore.

The Government stated (April 2005), that action was being taken to improve the shortcomings as pointed out by audit, besides complying with the recommendations of COPU. The fact, however, remains that the Company failed to achieve the norms of 57 per cent occupancy and lost the additional revenue of Rs.2.24 crore during 2000-2005 to meet the fixed cost of rooms.

Outsourcing of Rooms

2.3.12. Hotel Mayura Sudarshan, Ooty is working in a heritage building, consisting of 10 rooms and a cottage block of seven rooms. It was taken over (1982) from the Department of Public Administration and Reforms, Government of Karnataka, on lease basis, initially for ten years to be renewed once in every five years, exclusively to accommodate tourists on the package tours. The Company did not undertake major repairs and maintenance work of these rooms, after its take over. All the seven rooms in the cottage block and one suite in the main heritage building remained in a bad shape. The tourists

Poor maintenance of its hotel at Ooty compelled the Company to provide alternative accommodation to its package tourists in other hotels, resulting in loss of revenue of Rs.24.35 lakh.

refused to occupy the rooms, compelling the Company to accommodate them in other hotels since 1998.

This resulted in foregoing a revenue of Rs.24.35 lakh during the last five years ending 31 March 2005. The Government stated (April 2005) that renovation work was being taken up at a cost of Rs.70 lakh, funded under Government of India prioritization scheme. The work is yet to start (November 2005).

Infrastructure facilities

Up-gradation and renovation of hotels

2.3.13. The hotels of the Company are to be upgraded and renovated to keep it in good condition and to attract more tourists. There was no system of preparing Annual Plan for taking up projects for up-gradation and renovation of hotels. The Company receives grants from the Central/State Government for the up-gradation and renovation of hotels.

The year wise receipt and utilisation of grants during 2000-05 are detailed below:

(Rupees in lakh)

Sl. No.	Year	Opening Balance	Receipts		Total grant available	Utilised	Closing balance	Percentage utilised
			GOI	GOK				
1	2000-01	160.53	81.81	18.50	260.84	8.04	252.80	3.08
2	2001-02	252.80	23.27	11.50	287.57	30.38	257.19	10.56
3	2002-03	257.19	--	39.65	296.84	53.58	243.26	18.05
4	2003-04	243.26	171.09	--	414.35	1.20	413.15	0.29
5	2004-05	413.15	14.22	60.20	487.57	179.21	308.36	36.76
	Total:		**290.39**	**129.85**		**272.41**	**308.36**	

GOI= Government of India; GOK= Government of Karnataka

In this regard, following deserve mention:

The utilization of grants received from the Central and State Government for up-gradation and renovation of various hotels was very low. The Company invested Rs.3.59 crore in fixed deposit instead of utilising the grants for creating infrastructure facilities.

- As could be seen from the table, the utilisation of grants-in-aid was very low ranging between 0.29 per cent to 36.76 per cent of the available grants.
- As per the Accounts Manual of the Company, a separate register in Form 64 is to be maintained to monitor the utilisation of the grants. The Company, however, has not maintained the same. This indicates lack of internal control.
- COPU had recommended (85th Report) that the grants released by the Government were for specific purposes and as such the Company should work out the expenditure incurred and the savings, if any, be surrendered to the Government.

  Audit, however, observed that the grants received for implementation of projects were invested in fixed deposits (FD) and the interest earned was utilised to meet its establishment expenses. As on March 2005, Rs.3.59 crore were invested in FD out of the grants received. The Company also availed loans of Rs.1.42 crore by furnishing FDs of Rs.2.59 crore as security. Due to diversion of funds, granted for specific purpose of providing facilities/additional facilities to tourists, the planned and projected facilities could not be created. The

Government stated (April 2005) that the Company has now started utilising the funds for the purpose for which it were sanctioned.

Construction of additional facilities at Hotel Mayura Riverview, Srirangapatna

2.3.14. The Hotel Mayura Riverview at Srirangapatna located on the banks of river Cauvery has a high occupancy rate. The Government of India sanctioned (July 2000) the scheme for construction of additional eight rooms in the hotel under the prioritisation scheme for 1999-2000, at an estimated cost of Rs.55 lakh, to be shared equally by both the Central and State Government. The Company received (August 2000) the first installment of Rs.8 lakh out of Central share of Rs.27.50 lakh. The work is yet to be taken up (November 2005). Due to non-execution of the project, the Company could not tap the tourist potential of this place.

Up-gradation and renovation work at Hotel Mayura Pine Top, Nandi Hills

2.3.15. The State Government submitted (August 1999) a project for development of infrastructure for attracting tourist at Nandi Hills near Bangalore to the Central Government. The project was approved at an estimated cost of Rs.28.60 lakh and the cost was to be shared equally by the Central and State Government.

Audit observed that though the first installment of Central share of Rs.4.50 lakh was released in October 2000, the Company took up the work in February 2004 only, i.e., after a lapse of four years. The work has not been completed so far (August 2005). Due to delay in executing the project, the Company could not tap the tourist potential at Nandi Hills to its capacity in full. The Government stated (April 2005) that due to frequent changes of officers in the organization and at Karnataka Land Army Corporation Limited, there was delay in taking up the work and the scope of work got changed. This indicates that there is no system of monitoring the progress of work.

Up-gradation of Hotel Mayura Vijayanagar, Tungabhadra Dam

2.3.16. The Government of India (GOI) sanctioned (February 1999) a project for expansion and up-gradation of Hotel Mayura Vijayanagar, Tungabhadra Dam, Hospet, at a total cost of Rs.68.23 lakh. The share of Central Government was Rs.50 lakh and that of the State Government was Rs.18.23 lakh. The grant was to be released as per the stages of completion of the project.

The Central Government released (March 1999) Rs.15 lakh to the State Government as advance for starting the work with a condition that the work should be executed through Karnataka Land Army Corporation immediately and that the amount released by the Central Government should not be kept unutilised for more than six months. In case of non-utilisation, the grant was required to be surrendered or a formal approval was to be taken to transfer/adjust the amount against other Centrally Assisted Projects. The completion time for the project was also fixed at 18 months from the date of sanction.

Even though, the State Government released (July 2000) Rs.15 lakh of Central share, the Company took three years to commence (June 2003) the project, mainly due to diversion of funds for another project (Kamalapur, Hampi). Subsequently, the Company received (October 2003) from the State Government Rs.33.23 lakh (Rs.18.23 lakh State share and Rs.15 lakh in anticipation of the second installment of the Central share). The work was completed in August 2005.

Failure to complete the work in time resulted in the decline in revenue from Rs.5.26 lakh in 2001-02 to Rs.3.11 lakh in 2003-04 as the hotel was not maintained in good condition. The Government stated (April 2005) that due to new deluxe hotel coming up around the tourist location and also due to Government policy of promoting private participation, there was decline in room occupancy and revenue. The reply is not acceptable as by upgrading the hotel, the Company would have been able to compete with the private sector effectively.

Non-Furnishing of Unit at Badami

2.3.17. The Company was operating its unit at Badami since 1972. Subsequently, the Department of Tourism handed over (June 1998) a new block consisting of four double rooms, two suites, a restaurant block and other facilities, situated near the existing hotel to the Company to provide additional facilities to the tourists. On a request by the Company, the Government sanctioned Rs.12 lakh (July 1998) as grant to furnish the new unit with a condition that necessary furniture and cloth items to be purchased from Karnataka State Forest Industries Corporation Limited or the Chief Inspector of Jails and Karnataka Handloom Development Corporation Limited, respectively. The other items were to be purchased as per the purchase procedure.

The Company requested (July 1998) the Government to exempt the Company from the purchase conditions, on the plea of difficulties in procuring modern furniture and clothing required for the hotel industry from the above mentioned Government agencies. The Government agreed (December 1999) to the request. Audit observed that the Company, however, did not take up the work of furnishing and the funds remained invested in fixed deposits till July 2005. Due to non-furnishing of the new block for the five years from the date of receipt of the grant, the Company could not attract tourists, leading to loss of revenue on boarding and lodging. The Government stated (April 2005) that the funds would now be utilized to complete the up-gradation work.

Construction

Entrustment of Civil Works

2.3.18. The Company decided (September 2000) to entrust the works on tender basis, to private registered contractors as the work executed by Karnataka Land Army Corporation Limited (KLAC) was unsatisfactory.

The Company, however, continued to entrust the works to KLAC without following tender formalities. The advances of Rs.1.96 crore paid between January 2001 and September 2004, remained unadjusted so far (August 2005).

Audit observed the following lapses in the internal controls:

- Formal work orders with detailed specification and time schedule were not issued.

- Running Account bills were not insisted for verification.
- Funds were released in instalments, based on the utilization certificate, without any check/joint measurements, irrespective of quantity and quality of the works executed.
- There was no system of monitoring the progress of works being executed by KLAC.

The Government stated (April 2005) that as the Company did not have qualified technical personnel, the works were not entrusted to private registered contractors; further, a project monitoring cell since created drawing technical personnel from Public Works Department. The fact remains that continued entrustment of work to KLAC adversely affected the progress of up-gradation and renovation of hotels.

Non-execution of Tourism Complex Building

2.3.19. A reference is invited to Para 2C.11 of the Report No.2 (Commercial) of the Comptroller and Auditor General of India for the year ended 31 March 1998 wherein delay in taking timely action to construct the Tourism Complex and a compound wall and consequent loss of 5,819 sq.ft. of land due to encroachment, etc., was reported. COPU recommended (August 2000) to initiate action to construct the Tourism Complex in the land at Millers Tank bed, Bangalore and to shift the office of the Company to the proposed building.

Audit observed that the Company did not comply with the recommendations and instead decided (December 2000) to surrender this land considering it being unsuitable for a tourist complex. Bangalore Mahanagar Palike (BMP) was asked (March 2001) to allot four acre of land identified at Central College ground in lieu thereof.

The Company, however, did not follow up the mater with BMP. As there was no response from BMP for the allotment of the identified land, the Company decided (October 2002) to retain the land proposed for surrender. No such decision was communicated to BMP, which later allotted (October 2003) this land to Karnataka Pradesh Congress Committee.

The construction of the Tourism Complex, thus, could not be executed, inspite of receipt of grant of Rs.1.20 crore from the Central and State Government. Failure to obtain alternative land/retain its own land not only resulted in losing a prime land but also resulted in payment of Rs.11 lakh per annum towards rent as the Company continued to remain in a rented building. The Government admitted (April 2005) its failure to obtain alternative land.

Construction of wayside facilities at Bannerghatta National Park, Bangalore

2.3.20. The Central Government (September 2000) sanctioned the project for construction of wayside facilities at Bannerghatta National Park at an estimated cost of Rs.54.70 lakh, to be shared equally between the Central and State governments. After receipt of first installment of Rs.8.45 lakh of Central share, the Company asked (July 2001) the Forest Department for allotment of 12 acre of land (approximately) for this project. As against this, the Forest Department allotted (September 2001) 1.528 acre only, on 30 years lease basis, at Rs.5,000 per month with annual increase of five per cent. The Company took over the land in May 2002 only.

The Company appointed (September 2002) EDP consultants to assist in preparation of plans and estimates. As the estimates (Rs.105.61 lakh) prepared by the consultant exceeded the sanction, the Board decided (October 2002) to enter into a joint venture with Jungle Lodges and Resorts Limited. Subsequently, the Company asked (August 2003) KLAC to empanel a reputed architect for preparation of revised plan and estimates. Accordingly, KLAC appointed (August 2003) Jaisim Fountain Head, Architects for preparation of fresh drawings, design, certification of works and overall monitoring of the above project. The Corporation while approving (October 2003) the project at an estimated cost of Rs.1.20 crore, directed to restrict the budget to Rs.1.10 crore without compromising on essential components.

After receipt (October 2003) of another installment of Rs.35.15 lakh, from the State Government (including Rs.12.50 lakh of Central share), the work was taken up (October 2003) for execution, which has not been completed so far (November 2005). The main reasons for the delay in completion of work was due to delay in taking possession of the land, appointment of consultants and approval of the estimates by the Company. The project, thus, could not be executed in time, thereby, depriving the Company to tap the tourist potential and improve its revenue.

Conclusion

The Company failed to achieve its primary objective of promoting/developing tourism in the State. The percentage of tourists availing its facilities was negligible. There was no system of preparing the Annual Plan for taking up the projects for up-gradation and renovation of hotels. The grants received for creating/developing tourism infrastructure were parked in fixed deposits; the utlisation of grants was very low and as such the projected facilities could not be created. There was no system of monitoring the progress of works, being executed which in turn resulted in delays in up-gradation and renovation of hotels; this led to lower level of occupancy and the Company was not able to tap the tourist potential to optimum level.

Recommendations

- **The Company should prepare Annual Plan to expedite the up-gradation and renovation works.**
- **The Company should closely monitor and ensure effective control in implementation of infrastructure development facilities.**
- **The Company should ensure utilization of the grants, received from the Central and State Governments for the up-gradation and renovation to tap the full tourist potential and consequential increase in revenue.**