

OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2007, the State had 82 Public Sector Undertakings (PSUs) comprising 76 Government companies (including 17 non-working companies) and six Statutory corporations as against 82 Public Sector Undertakings comprising 76 Government companies and six Statutory corporations as on 31 March 2006. In addition, there were four deemed Government companies under Section 619 B of the Companies Act, 1956 as on 31 March 2007.

(Paragraphs 1.1 and 1.28)

The total investment in working PSUs increased from Rs. 41,202.28 crore as on 31 March 2006 to Rs.43,968.73 crore as on 31 March 2007. The total investment in non-working PSUs increased from Rs.576.51 crore to Rs.593.79 crore during the same period.

(Paragraphs 1.2 and 1.16)

The budgetary support in the form of capital, loans, grants and subsidy disbursed to the working PSUs increased from Rs.6,479.40 crore in 2005-06 to Rs.8,361.57 crore in 2006-07. The State Government guaranteed loans aggregating Rs.315.76 crore during 2006-07 to six working Government companies. Guarantees amounting to Rs.6,483.65 crore against 22 working Government companies were outstanding as on 31 March 2007.

(Paragraphs 1.5 and 1.17)

Forty six out of 59 working Government companies and all of the six Statutory corporations finalised their accounts for the year 2006-07. The accounts of the remaining Government companies were in arrears for periods ranging from one to three years as on 30 September 2007. The accounts of five non-working Government companies were in arrears for periods ranging from one to four years as on 30 September 2007.

(Paragraphs 1.6 and 1.19)

According to latest finalised accounts, 45 working PSUs (40 Government companies and five Statutory corporations) earned aggregate profit of Rs.1,019.58 crore. Out of 46 working Government companies, which finalised their accounts for 2006-07 by September 2007, only eight companies declared dividend aggregating Rs.20.63 crore. Twelve working PSUs (11 Government companies and one Statutory corporation) incurred aggregate loss of Rs.84.86 crore as per their latest finalised accounts. Of the loss incurring PSUs, four companies and the Statutory corporation had accumulated losses aggregating Rs.194.07 crore and Rs.248.39 crore respectively, which exceeded their aggregate paid up capital of Rs.15.14 crore and Rs.103.50 crore respectively.

(Paragraphs 1.7 to 1.11)

2. Reviews relating to Government companies

Reviews relating to the Implementation of Raichur Thermal Power Station Unit-7 by **Karnataka Power Corporation Limited**, Accelerated Power Development Reforms Programme (APDRP) implemented by **Karnataka Power Transmission Corporation Limited** and **Electricity Supply Companies**, Implementation of Lift Irrigation Schemes by **Irrigation Companies** and performance of Pulp and miscellaneous plantation activities of the **Karnataka Forest Development Corporation Limited** were conducted and some of the main findings are as follows:

Review on the Implementation of Raichur Thermal Power Station Unit-7 by Karnataka Power Corporation Limited

Karnataka Power Corporation Limited was incorporated (July 1970) as a wholly owned State Government Company with the main objective of planning, promoting and organising development of power including construction, generation and maintenance of power stations in the State. In pursuit of these objectives, the Company commissioned (1985-1999), a coal based thermal power station at Raichur with six units of 210 Mega Watt (MW) each, besides other Hydel and Wind generating stations. The Central Electricity Authority (CEA) estimated (1995) a gap of about 790 MW in meeting the demand at the end of the IX Plan. The Board of Directors (BoD) considered (August 1998) the proposal for construction of Unit-7 at Raichur Thermal Power Station (RTPS) with capacity of 210 MW. The proposal was approved (March 1999) by the state Government and the work began in October 2000. The Unit was synchronised (December 2002) at a cost of Rs.561.98 crore and the commercial operation commenced from April 2003. Some of the important points noticed in audit are as under:

- The Company's decision (August 1998) to implement a Unit of 210 MW instead of a 500 MW or higher capacity was not justified in view of the recommendations (April 1986/April 1990) of the Sub-group under the Advisory Group on Technology Development set up by the Union Ministry of Power (MoP). This self inflicted decision has deprived the State of an additional 290 MW and 40 MW permanently after implementing the Unit-8 of 250 MW, for which approval has been accorded by the State Government.
- The technical specification/design parameter of the boiler was at variance with Union Ministry of Environment and Forests' stipulations. There was excess consumption of 3.89 lakh tonnes of coal valued at Rs.80.09 crore during the period 2003-07 as compared to the specification of the equipment supplied. The latest technology offered by the equipment suppliers of Variable Frequency Drive and Cooling Tower was not adopted.
- The Company allocated Rs.114.21 crore of cost of generation of Unit-7 to other six units to avoid low demand for the electricity generated from this unit.

- There was short billing of primary fuel charges of Rs.63.22 lakh and excess claim of secondary fuel charges, fixed charges and incentive of Rs.41.72 crore by the Company due to application of different formulae than that stipulated in the Power Purchase Agreement.

(Chapter 2.1)

Performance of Accelerated Power Development Reforms Programme (APDRP) implemented by the Karnataka Power Transmission Corporation Limited and Electricity Supply Companies.

The MoP identified distribution reforms as a key area to bring about the efficiency and commercial viability of SEBs/Utilities. As a sequel to this, Accelerated Power Development Programme (APDP) was launched during 2000-01, with the objectives of Renovation and Modernisation /life extension/ up-rating of old power plants (thermal/hydel) and up-gradation of sub-transmission and distribution network (below 66 KV) including energy accounting and metering. With a view to restructure the concept of APDP, from merely an investment window, to a mechanism for supporting power sector reforms in the States, linked to the fulfillment of certain performance criteria by way of benchmarks and to incentivise the reform process, APDP was renamed (March 2003) as Accelerated Power Development Reforms Programme (APDRP). APDRP is being implemented by the power sector companies with the objective of improving financial viability of State Power Utilities, reduction of Aggregate Technical and Commercial (AT & C) losses to around 15 *per cent*, improving customer satisfaction and increasing reliability and quality of power supply. Some of the important points noticed in audit are as under:

- Two APDP projects sanctioned during 2000-01 and 31 out of 35 APDRP projects sanctioned during 2002-03, 2004-05 and 2005-06 are yet to be completed (March 2007).
- Non-fulfillment of obligation by State Government in repaying the loan taken from Rural Electrification Corporation (REC) adversely affected the implementation of APDRP schemes.
- APDRP funds were diverted for other purposes as well as for short-term investments. No penalty was, however, levied by Ministry of Power (MoP).
- Physical and financial progress was inflated by including the meters procured by consumers/procured against deposits from consumers for new installations by two Utilities (BESCOM and HESCOM).
- Unrealistic preparation of Detailed Project Reports resulted in award of distribution works at high tender premium. It also resulted in a loss of grants amounting to Rs.47 crore from the MoP.
- There was no significant reduction in Aggregate Technical and Commercial Losses (AT&C losses) except in some towns.

(Chapter 2.2)

Performance of Implementation of Lift Irrigation Schemes by Irrigation Companies.

In order to utilise the State's share of water expeditiously, the State Government set-up three Irrigation Companies, viz., Krishna Bhagya Jala Nigam Limited (KBJNL) in 1994, Karnataka Neeravari Nigam Limited (KNNL) in 1998 and Cauvery Neeravari Nigam Limited (CNNL) in 2003 under the Companies Act, 1956. These companies are in the nature of special purpose vehicles equipped to raise funds through issue of bonds and term loans from financial institutions. The main functions of these companies, *inter-alia*, include completion of ongoing projects, including Lift Irrigation Schemes (LISs) and to build, operate and maintain new irrigation projects in Krishna and Cauvery basins. Fifty ongoing LISs at an estimated cost of Rs.2,133.14 crore with outlay of Rs.231.74 crore (expenditure incurred till that date) and 57 completed LISs were transferred to these companies at the time of their formation. In addition 24 new schemes involving estimated cost of Rs.2,361.31 crore were taken up by these companies. At present (June 2007) these companies are implementing 68 LISs and maintaining 63 completed LISs, apart from other projects relating to flow irrigation. Some of the important points noticed in audit are as under:

- Seventy four LIS with an estimated cost of Rs.4,494.45 crore are being implemented by the Irrigation Companies against which an expenditure of Rs.2,061.02 crore had been incurred as on 31 March 2007. These companies are operating 63 completed lift irrigation schemes. Review of the ongoing schemes revealed that only six schemes were completed during the period, and the benefits achieved were negligible.
- Even after spending Rs.1,399.88 crore (2002 to 2007) only six schemes of Rs.9.42 crore were completed as on August 2007.
- Execution of all the schemes simultaneously without prioritisation led to non-completion of the schemes, time and cost over-run and consequent delay in providing irrigation facilities to farmers. The utilisation of irrigation potential created also was low due to delay in repairs and maintenance, non-development of land for irrigation *etc.*
- Deviations from instructions/codal provisions by the companies resulted in extra expenditure, excess payment *etc.*, amounting to Rs.15.59 crore. The financial viability of LIS is doubtful in view of high electricity charges.
- The utilisation of irrigation potential created was very low due to delay in repairs and maintenance.

(Chapter 2.3)

Performance Review on Pulp and Miscellaneous plantation activities of the Karnataka Forest Development Corporation Limited.

The Karnataka Forest Development Corporation Limited incorporated in January 1971 presently has activities in management of plantations of rubber, eucalyptus, teak *etc.*, already raised by Forest Department and Karnataka Pulpwood Limited (a Government Company) and transferred to the Company; raising of Rubber, Eucalyptus, Bamboo, Teak and other miscellaneous plantations in clear felled areas transferred by the Forest Department on lease basis. The Company presently has seven divisions under three sectors. The area covered under the plantations (as per accounts) as at the end of March 2006 was 54,604.61 hectare (Ha) which consists of 42,582.91 Ha of Pulpwood plantations, 7,578.38 Ha having natural growth (to be replanted) of species like honne, mati, bamboo and other jungle plants and 4,443.32 Ha of rubber Plantations. Some of the important points noticed in audit are as under:

- The Company has not reconciled the land available/transferred to it from Forest Department and handed over back to Government.
- The re-plantation was done in 4,464 Ha as against the target area of 16,115 Ha (28 *per cent*).
- In the Urban Fuel Wood project the Company deviated from its intended objective of providing the produce as poles and fuel wood deprived the area of social benefit as poles and fuel wood was not made available to local people. Loss of revenue of Rs.4.28 crore was incurred on the project.
- In the Small Timber and Fuel Wood project at Kolar, the Company deviated from its intended objective of providing the produce to local people. Also, the society was deprived of social benefits such as rural employment, encouragement to cottage industries and amelioration of the environment. Loss of revenue of Rs.1.71 crore was incurred on the project.

(Chapter 2.4)

3. Review relating to Statutory corporations

Information technology review on Information Technology Systems Application and General Controls of the **Bangalore Metropolitan Transport Corporation** was conducted and some of the main findings are as follows:

Information Technology Systems Application and General Controls of the Bangalore Metropolitan Transport Corporation.

The Bangalore Metropolitan Transport Corporation formed (August 1997), after bifurcation from the Karnataka State Road Transport Corporation (KSRTC), to cater to the transportation needs of Bangalore city. The Corporation had a two-tier system of administration with Corporate Office and Depots, under the management of one non-official Chairman and nine official

Directors in the Corporation. There were 28 Depots and one Central Workshop under its jurisdiction as on 31 March 2007. The Corporation had undertaken a project for On-line tracking of buses over Global Positioning System (GPS) and also computerisation of all operations of its depots. The On-line Vehicle Tracking System over GPS was introduced with the objective of achieving improvement in trip operations, which in turn could help in enhancing citizen services like electronic display of arrival/departure timings, *etc.* The other benefits intended were the automatic calculation of hire charges for private hired buses based on actual distances covered and facilitating passenger information system. Two firms were entrusted with the project under separate agreements on Build-Own-Operate-Transfer (BOOT) basis. The Corporation had so far invested around Rs.8.14 crore on Information Technology (IT) assets including expenditure on various computerised activities. Some of the important points noticed in audit are as under:

- The limitations in Global Positioning System (GPS) in tracking data had resulted in gaps in trip data and thus the facility could not support calculation of hire charges on actual kilometres performed by private owners.
- Irregular intimation of schedules and trips to the service provider, the system could not link the tracked data to schedules On-line and help in monitoring deviations in operations on real-time basis.
- Non-integration of the vehicle tracking facility with other application packages, calculations with regard to earnings per kilometre (EPKM), effective kilometres, cancelled kilometres, *etc.*, had to be carried out manually.
- Free access of the firm's representatives to the Server of the depot exposed to the risk of loss of revenue. Moreover, risk of leakage of vital information and manipulation of the reports during downloading of tracking reports from On-line vehicle tracking system in editable worksheets by firm's representatives could not be ruled out.
- Failure to update the information and correct errors in the Website limited its utility.
- The entire investment of Rs.79.50 lakh, made by the Corporation on the Off-line Vehicle Tracking System was unfruitful due to lack of feasibility study of the system.
- Incorrect application of rates for On-line GPS vehicle tracking facility had resulted in excess payment of Rs.14.50 lakh over a period of 13 months.

(Chapter 3.1)

4. Transaction Audit Observations

Audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

- There were 17 cases of losses amounting to Rs.76.32 crore on account of extra/avoidable/unproductive expenditure/idle investments.

(Paragraphs 4.3, 4.6,4.8,4.10,4.11,4.12,4.13,4.15,4.16, 4.19, 4.21,4.23,4.24, 4.25.3, 4.25.11, 4.27 and 4.28)

- There were two cases of losses amounting to Rs.94.82 crore on account of over payment and violation of regulatory provisions.

(Paragraphs 4.5 and 4.9)

- There were three cases of losses of revenue amounting to Rs.21.81 crore on account of wrong application of tariff, non exercise of option to buy/ sell contractually entitled share and non-claiming of increase in price.

(Paragraphs 4.1, 4.4 and 4.14)

- There were seven cases of losses amounting to Rs.29.80 crore on account of undue favour to contractor, failure to claim discount/rebate, etc.

(Paragraphs 4.2, 4.7, 4.17, 4.18, 4.20, 4.22 and 4.26)

Gist of the important observations are given below:

The failure of **Mysore Minerals Limited** to procure and sell the contractually entitled share of iron ore lumps at the fixed transfer price from Joint Venture Company resulted in loss of revenue of Rs.20.82 crore

(Paragraph 4.1)

Introduction of a new Voluntary Exit Scheme in **Karnataka Power Corporation Limited** to medically unfit employees resulted in avoidable expenditure of Rs.46.89 crore

(Paragraph 4.6)

Not adhering to the provisions of the power purchase agreement in 'annual true-up' calculations by **Karnataka Power Transmission Corporation Limited** resulted in over payment of Rs. 89.98 crore to an independent power producer

(Paragraph 4.9)

The **Bangalore Electricity Supply Company Limited** procured coyote conductor without any specific requirement resulting in blocking-up of funds of Rs.4.69 crore

(Paragraph 4.12)

The **Karnataka Neeravari Nigam Limited** allowed contractor to make modifications in the quoted rates while he was accepting to take up the work and revision was made in the method of calculating item rates in violation of

the guidelines approved by the Board of Directors which resulted in extra expenditure of Rs.8.85 crore

(Paragraph 4.15)

Failure to identify a suitable executing agency by the Government resulted in **Karnataka Road Development Corporation** incurring loss of Rs.84.70 lakh.

(Paragraph 4.18)

Avoidable delay in deciding the merchant bankers by **Karnataka State Financial Corporation** for the proposed issue of bonds to redeem the high cost bonds resulted in extra payment of interest amounting to Rs.11.61 crore.

(Paragraph 4.26)