CHAPTER III

3. MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

3A. GOVERNMENT COMPANIES

3A.1 Karnataka Power Transmission Corporation Limited

3A.1.1 Undue benefit to Tannir Bavi Power Company Private Limited

Failure of the Company to arrive at the actual dollar denominated fixed charges at the time of financial closure would result in an excess payment of Rs.1,041 crore over a period of seven years.

Payment of fixed charges without considering the actual dollar denominated fixed charges on the execution of the project would result in an excess payment of Rs.1,041 crore over a period of seven years.

The Company entered (December 1997) into a Power Purchase Agreement (PPA) with Tannir Bavi Power Company Private Limited (TBPCL) (an Independent Power Producer-IPP). As per PPA the total investment was estimated at Rs.700 crore consisting of foreign equity and debt component of US$ 60 million and US$ 140 million respectively for 200 MW capacity plant. Two supplementary agreements were entered in May 1999 and September 1999 for increasing the installed capacity from 200 MW to 220 MW and for providing escrow cover respectively.

As per Article 7.3 of the PPA, the power tariff consisted of two elements – fixed charges and variable charges. Fixed charges, in turn, were broken into dollar denominated fixed charges (DDFC) and other fixed charges payable in rupee. The DDFC would be equivalent to assured return of 16 per cent on the foreign equity and repayment of debt and interest thereon. Besides the above, the exchange rate fluctuation was also to be reckoned while working out the DDFC.

As per Article 7.4 of the PPA, the fixed charges were to be determined at the time of financial closure and were subject to a ceiling of US$ 0.04 per kWh.

Financial closure was achieved in September 2000. The DDFC was not revised. TBPCL furnished (April 2001) the statement showing the calculation of fixed charges wherein US$.0.02054 per kWh was arrived at as fixed charges for the dollar denominated portion under simple cycle operation and US$.0.01587 per kWh for combined cycle operation and claimed balance US$0.01946 per kWh and US$.0.02413 per kWh as left over charges after payment of return on equity and servicing of foreign debt without giving any details.

The Managing Director of KPTCL (September 2001) brought to the notice of the Government that the actual dollar denominated fixed charges worked out to only US$.0.01587 for combined cycle and US$.0.0254 for simple cycle and stated that this would result in an excess payment of Rs.1,040.80 crore over a period of seven years of PPA without any justification. However, the Government directed KPTCL to make the payment to TBPCL at US$ 0.04 per kWh, citing Article 7.3 of PPA.

In this connection audit scrutiny of the transaction revealed the following:

i) At the time of financial closure (September 2000), the final cost of the project vis-à-vis the estimated cost was as follows:

Sources of funds	Estimated cost (US $ in Millions)	Actuals	
		US$ in Millions	Rupee Component Rs. in crore
EQUITY	60	54.24	26.40
DEBT	140	124.23	88.00

Exchange rate on the date of financial closure US$ = Rs.45.96

ii) DDFC and rupee denominated component of fixed charges were not revised as per Article 7.4 of PPA by giving suitable weightage for the actual investments at the time of financial closure. Thus, Company's interest was not safeguarded.

iii) Due to above reasons, potential excess payment would be Rs.1,040.80 crore, as worked by the Company, over the period of PPA.

The Government in its reply (May 2002) stated that matter was examined from every possible legal angle and then only the direction was issued. The reply is not acceptable as the Company did not determine the actual amount payable with reference to the revised pattern of funding at the time of financial closure in September 2000.

3A.1.2 Purchase of power from co-generation plants

Fixation of purchase price applicable for power produced from non-conventional energy sources to power produced from co-generation plants resulted in additional expenditure of Rs.43.92 crore.

Based on the proposal of the Company, Government of Karnataka approved (13 July 1995) rupees two per unit for energy purchased by the Company from co-generation plants of sugar mills. The Ministry of Power, Government of India issued (November 1996) policy guidelines for promotion of co-generation plants. According to these guidelines, the tariff for co-generation power could be fixed by State Electricity Boards by making adjustment for higher efficiency and applying the same on marginal cost of generation. However, the Government of Karnataka, without verifying the marginal cost of generation and efficiency of sugar plants as envisaged in

policy guidelines directed (May 1997) the Company to purchase power at rates applicable for purchase of power from non-conventional energy sources i.e., Rs.2.25 per unit with escalation of five per cent every year.

Extension of rates applicable for purchase of power from non-conventional energy sources to purchase of power from co-generation units resulted in extra expenditure of Rs.43.92 crore.

Considering the price for purchase of power at rupees two per unit already approved by the Company/Government, the decision of the Government to extend the price applicable to non-conventional energy sources to co-generation units was not justified. This resulted in extra expenditure of Rs.43.92 crore in respect of power purchased from three co-generation units for the period from 1997-98 to 2001-02. Incidentally, it was observed (April 2002) that CRISIL, the consultant appointed by the Company to suggest the methodology for determining the purchase price of power from co-generation units, arrived at a tariff of Rs.1.40 per unit for stand alone sugar mills.

The matter was reported to the Government (June 2002); their reply has not been received (August 2002).

3A.1.3 Avoidable payment of deemed generation charges

The payment of deemed generation charges for 100 per cent of declared capacity instead of restricting the same to 85 per cent resulted in excess payment of Rs.2.84 crore.

The Company entered into a Power Purchase Agreement (PPA) with Tannir Bavi Power Company Private Limited (TBPC) on 15 December 1997. As per clause 6.4 of the Agreement, payment of deemed generation charges for any period on any day should not exceed 85 per cent of the declared capacity* multiplied by the period of hours on such day minus the net-metered energy. Further, according to clause 7.6, the payment for deemed generation during a billing month was subject to a ceiling such that the Plant Load Factor (PLF) for the billing month for the purpose of calculating deemed generation payment does not exceed 85 per cent. The Company started purchasing power from TBPC from July 2001.

Failure of the Company to restrict the payment for deemed generation to 85 per cent of the declared capacity resulted in excess payment of Rs.2.84 crore.

It was observed in Audit (May 2002) that payment for deemed generation for the initial period (July 2001 to September 2001) was based on 100 per cent of declared capacity instead of restricting the same to 85 per cent of the declared capacity as per clause 6.4 of the Agreement. However, from October 2001 the Company restricted the payment to 85 per cent of the declared capacity.

Thus, failure of the Company to restrict the payment for deemed generation to 85 per cent of the declared capacity resulted in excess payment of Rs.2.84 crore. The Company is yet to take steps for recovery of the same as laid down in clause 9.3 of PPA.

The matter was reported to the Management/Government (July 2002); their replies have not been received (August 2002).

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* Declared plant capacity available for despatch of energy

3A.1.4 Extra expenditure due to allowing excess price preference

Considering second lowest rates instead of lowest accepted rates as basis for the purpose of price preference to The Mysore Electrical Industries Limited resulted in extra expenditure of Rs.1.10 crore was incurred on purchase of 11kV outdoor switchgears.

Allowing price preference on second lowest tender rates instead of first lowest tender rates resulted in additional expenditure of Rs.1.10 crore.

The Company invited (September 1998) tenders for supply of 11kV switchgears. When the finalisation of tenders was in process, the Principal Secretary, Commerce and Industries Department, Government of Karnataka suggested (24 May 1999) that the Company might consider extending 10 per cent price preference over the lowest tendered rates to The Mysore Electrical Industries Limited (MEI), a Government of Karnataka undertaking, one of the tenderers. Electro Tecknica Switchgear Limited, Calcutta, the second lowest (L2) offerer for two types of switchgears agreed (May 1999) to supply at L1 rates of Rs.29.37 lakh and Rs.16.02 lakh per set since the offer of L1 was rejected on the ground that the switchgear supplied by them for an earlier order was not satisfactory.

However, it was observed in Audit (July 2001) that the Board placed (August 1999) orders only on MEI for supply of 31 sets of two types of switchgears of 350 MVA 800A at Rs.36.75 lakh and Rs.20.52 lakh per unit respectively after allowing price preference of 10 per cent on L2 prices. As the Government direction was to extend 10 per cent price preference on lowest tendered rates and second lowest tenderer (L2) also agreed to supply at lowest tendered (L1) rates of Rs.29.37 lakh and Rs.16.02 lakh respectively, placing orders at higher rates resulted in additional expenditure of Rs.1.10 crore.

The Government replied that 10 per cent price preference should be given on the prices quoted by a standard firm and not the lowest offer received. The reply of the Government is not acceptable as the order was very clear that 10 per cent price preference would be given on the lowest tendered price only.

3A.1.5 Improper assessment of underground cable

Improper assessment of requirement resulted in additional expenditure of Rs.1.05 crore.

The Company invited (April 1998) tenders for purchase of 11 kV XLPE under ground cables of various sizes on firm price basis. As the quantity assessed was less than the requirement, revised bids were invited from the qualified tenderers during February 1999. However, orders for original tendered quantity was placed in May 1999. The original quantities, revised tendered quantities and the final quantity ordered are detailed below:

Particulars	Quantity in April 1998	Revised quantity in February 1999	Quantity purchased in May 1999
3x95 sq.mm	16 km	76 km	16 km
3x240 sq.mm	26 km	42 km	26 km
3x400 sq.mm	23 km	90 km	23 km

Failure to assess the requirement of cable resulted in additional expenditure of Rs.1.05 crore.

During July 1999 tenders were again invited for procurement of 190 km of 3x95 sq.mm, 75 km of 3x240 sq.mm, 105 km of 3x400 sq.mm and 10 km of 1x1000 sq.mm. As the prices quoted by the firms were very high, the Company offered May 1999 prices to the firms. However, the firms expressed inability to supply at May 1999 prices stating that there was steep rise in prices of various raw materials. The Company finally placed orders (March 2000) for the cables at the quoted prices (July 1999).

In this connection it was observed (November 2001) that though the requirement in May 1999 was more, the order was placed for less quantity which resulted in carry over of the requirement in next tender and an additional expenditure of Rs.1.05 crore as detailed below:

Particulars	Quantity ordered	Rate per km (May 2000) (Rs.)	Additional quantities not purchased in May 1999	Rates per km (May 1999) (Rs.)	Excess rate paid per km (Rs.)	Additional expenditure (Rs.)
3x95 sq.mm	**85 km**	**6,51,025.86**	**60 km**	**5,51,202.75**	**99,823.11**	**59,89,386.60**
3x240 sq.mm	**15 km**	**11,26,991.97**	**15 km**	**9,96,570.35**	**1,30,421.62**	**19,56,324.30**
3x400 sq.mm	**15 km**	**14,91,975.18**	**15 km**	**12,23,358.32**	**1,68,616.79**	**25,29,251.85**
Total						**1,04,74,962.75**

The Company replied (March 2002) that even though the cost admitted was little higher than the pervious tender, the prices quoted during April 1998/March 1999 could not be expected to be agreed to by the firms for the year 1999-2000 and Board could not foresee the requirement for the year 1999-2000 during the year 1998-99. The reply is not acceptable, as the revised price bids for enhanced quantities were invited in February 1999 and the orders were placed in May 1999, by which time the Company could have assessed the requirement of cables for the year 1999-2000.

The matter was reported to the Government (June 2002); their reply has not been received (August 2002).

3A.1.6 Faulty evaluation resulting in extra expenditure on purchase of 5 MVA power transformers

Non-procurement of 5 MVA transformers at the lowest negotiated rates resulted in additional expenditure of Rs.0.92 crore.

The Company invited tenders (July 1998) for supply of 15 nos. of 5 MVA 33/11 kV power transformers. The lowest technically acceptable offer was from Indotech Transformers Limited (ITL). As it was decided to procure 36 power transformers considering the various ongoing works, revised financial bids were obtained (March 1999) from all technically responsive firms. The

guaranteed transformer loss was added (capitalised) to Free On Road Destination (FORD) prices for the purpose of evaluation of tenders.

The negotiated cost of Rs.23.90 lakh per transformer quoted by Rima Transformers and Conductors Private Limited (RTCPL) (Rs.12.34 lakh FORD price plus loss capitalisation of Rs.11.56 lakh) was the lowest. ITL, the second lowest offerer at Rs.24.38 lakh (FORD price of Rs.15.34 lakh plus loss capitalisation of Rs.9.04 lakh) agreed subsequently (11 March 1999) to match the lowest quoted price of RTCPL, which made it the lowest offer at Rs.21.35 lakh as their loss capitalisation was very less compared to RTCPL. However, the Board without assigning any reasons did not consider the offer of ITL. Instead, it decided (April 1999) to place order on RTCPL, Andrew Yule Limited and NGEF Limited for supply of 12 nos. of power transformers each at the quoted rates of RTCPL. NGEF Limited did not agree for supply at the price offered and Andrew Yule Limited requested the Company to match the unit cost including loss capitalisation and keeping their losses, freight, insurance and unloading charges unchanged. The Company decided (June 1999) to place order on Andrew Yule Limited at the reworked price of RTCPL for supply of 23 transformers and on Southern Power Equipment Company for supply of one transformer on trial basis.

Failure to place order on ITL resulted in an additional expenditure of Rs.0.92 crore.

Thus, the failure to place order on ITL in spite of the Chief Engineer (Electricity), Major Works, Bangalore opinion (March 1999) that the firm had supplied more than 300 similar capacity transformers to other utilities, had been regular supplier of 5 MVA transformers to Tamil Nadu Electricity Board and was capable of delivering the transformers as per the delivery requirements of the Company, resulted in an additional expenditure of Rs.0.92 crore.

The matter was reported to the Management/Government (March 2002); their replies have not been received (August 2002).

3A.1.7 Short levy of demand charges

Short levy of Rs.49.97 lakh demand charges on Toyota Kirloskar Motor Company Limited.

The Company entered (January 1999) into a power supply agreement with Toyota Kirloskar Motor Company Limited (TKML). The agreement, inter-alia, provided that the consumer was liable to pay for additional demand of power after expiry of 30 days from the date of intimation of availability of additional power. The agreement further provided that in case of reduction in contracted demand, the billing for reduced demand was to commence after expiry of three months from the date of receipt of such request.

Based on the request of the TKML, the contracted demand of their automobile plant at Bidadi was enhanced (4 October 1999) from 2,500 kVA. Later, TKML surrendered (August 2000) 2,500 kVA out of 7,500 kVA sanctioned.

Failure of the AEE to bill Toyota Kirloskar Motor Company Limited as per the power supply agreement resulted in short levy of demand charges of Rs.49.97 lakh.

As per terms of the agreement, revised liability for enhancement and reduction of load was effective from 1 November 1999 and 1 November 2000, respectively. However, it was observed that the Assistant Executive Engineer (Ele) (AEE), of Ramanagaram sub-division billed TKML based on the contract demand of 2,500 kVA till April 2000 and at 5,000 kVA from May 2000 onwards. This resulted in short levy of demand charges of Rs.49.97 lakh for the period from November 1999 to October 2000.

The matter was reported to the Management/Government (April 2002); their replies have not been received (August 2002).

3A.1.8 Idle investment in establishment of bay for power supply

Creation of facilities more than requirement for arranging power supply to Toyota Kirloskar Motor Company Limited resulted in idle investment of Rs.33.98 lakh.

Toyota Kirloskar Motor Company Limited (TKML) applied (July 1998) for power supply of 7,500 kVA in two phases (2,500 kVA in first phase immediately and 5,000 kVA in second phase after December 1999) for their proposed automobile plant at Bidadi. Cost of required bay and DC line was to be deposited by TKML in advance. However, without receipt of deposit, the Company erected (August 1998) two numbers 66 kV bays at Jogardoddi 220/66 kV station at a cost of Rs.0.68 crore.

Creation of facilities before receipt of the cost resulted in idle investment of Rs.33.98 lakh.

Subsequently, TKML paid (February 1999) Rs.33.81 lakh being the cost of one bay only for 2,500 kVA power in first phase. It was noticed that 5,000 kVA power supply in the second phase was also made available through the same bay during October 1999. Thus, creation of facilities for power supply with two bays before receipt of the cost of the bays from TKML resulted in idle investment of Rs.33.98 lakh, being the cost of second bay.

The matter was reported to the Management/Government (March 2002); their replies have not been received (August 2002).

3A.2 Krishna Bhagya Jala Nigam Limited

3A.2.1 Non-fixation of rates for additional quantities

Improper estimation and failure to invoke enabling clauses under the contract resulted in excess payment by Rs.8.06 crore.

Contract for construction of Mudbal Branch Canal (MBC) from km 39 to 50.80 with Distributory 23 including laterals was awarded (June 1994) to R S Shetty & Company at their quoted price of Rs.11.01 crore which was 22.33 per cent below the estimated price of Rs.14.18 crore and of construction of Mudbal Branch Canal Distributory 18 (November 1995) to K.Kota Reddy

at quoted price of Rs.7.37 crore which was 19.73 per cent below the estimated price of Rs.9.18 crore.

Non-fixation of rates for additional quantities with reference to schedule of rates has resulted in extra expenditure of Rs. 8.06 crore.

Clause 52 of these contracts dealt with payment for extra or additional work done by the contractors. Clause 52(2) provided that in case of extra items for which contract item rates were not applicable, then same should be worked out separately. Clause 52 (5)(i) laid down that in case of disagreement, the rate should be worked out with reference to Schedule of Rates for the item prevailing at the time of opening the bid, adjusted for tender premium or discount, as the case may be. Clause 52(3) laid down that unless such items individually account for an amount of more than two per cent of the contract price named in the letter of acceptance and the actual quantity of work performed under the item exceeds or falls short of the original quantity by more than 25 per cent, no change in the applicable rate for quoted items should be made.

A review of these contracts revealed that

(i) In respect of contract for MBC (km 39 to 50.80), actual quantities executed exceeded the estimated quantities in respect of seven items of work by two to 13 times of the estimated quantity and were individually more than two per cent of the contract price. The Company paid for the entire quantity at contract rates instead of fixing rates as per clause 52(2), thereby leading to excess payment of Rs.1.95 crore. No responsibility for defective estimates was fixed by the Company.

(ii) In respect of contract for MBC Distributory No.18, the work of excavation in soft rock (item E-2) and concrete work (item S-4) increased by 16 times and 50 times of the estimate respectively and accounted for more than two per cent of the contract price which necessitated the fixation of rate for the extra work done under clauses 52(2) and 52(5)(i). But the Company paid for the entire quantity according to quoted rates instead of fixing rates afresh under clauses 52 (2) and 52 (5) (i). This resulted in excess payment of Rs.6.11 crore.

It was also observed that the Government of Karnataka directed (July 1999) the Company to take disciplinary action against the officers responsible for not preparing proper estimates and for delay in execution. However, the Company has not taken any action so far (February 2002).

Had the Company fixed rates as per clause 52(2) and clause 52(5) (i), with reference to rates in the Schedule of Rates it could have saved Rs.8.06 crore.

The matter was reported to the Management/Government (January 2001/ February 2002/June 2002); their replies have not been received (August 2002).

3A.2.2 Non-regulation of payment as per contract

Defective estimation and incorrect regulation of rates resulted in additional liability of Rs.1.06 crore

The work of construction of Mulwad Lift Irrigation Scheme west canal from km.30 to 40 and from km.40 to 54 were awarded (December 2001) to two contractors at their quoted prices which were 50.36 per cent and 49.147 per cent below respectively of the estimated cost based on Schedule of Rates (DSR) of 1996-97. It was noticed that during execution, the quantities of soft rock to be excavated were revised to 1,447 per cent and 481 per cent respectively of the estimated quantities. The work has not been completed as of March 2002.

Defective estimation and fixation of rates for additional quantities with reference to old Schedule of Rates instead of current Schedule of Rates resulted in extra expenditure of Rs.1.06 crore.

Increase in the quantities of soft rock to be excavated resulted in additional liability of Rs.1.06 crore (Rs.0.68 crore already paid by March 2002) due to following defects:

- The estimates for these works were prepared after taking the trial pits at 100 metre interval as per the decision taken in Progress Review Committee held on 9 March 2001 against 30 metre interval as prescribed in Design Manual. Thus, insufficient explorations led to faulty estimates. The Company has not fixed responsibility for making wild estimates not related to reality.

- As per Clause 13(b) of the agreement, additional quantities executed in excess of 125 per cent of the tendered quantity shall be paid at the rates derived from applicable DSR after adjustment of premium or discount quoted at the time of tendering. Accordingly the rates payable for quantities in excess of 125 per cent of estimated quantities under the contract for soft rock excavation in two reaches worked out to Rs.40.16 and Rs.41.17 per cubic metre respectively. However, the Company revised the rates for quantities exceeding 125 per cent of the tendered quantity to Rs.65.54 and Rs.70.13 per cubic metre for the two reaches respectively based on old DSR.

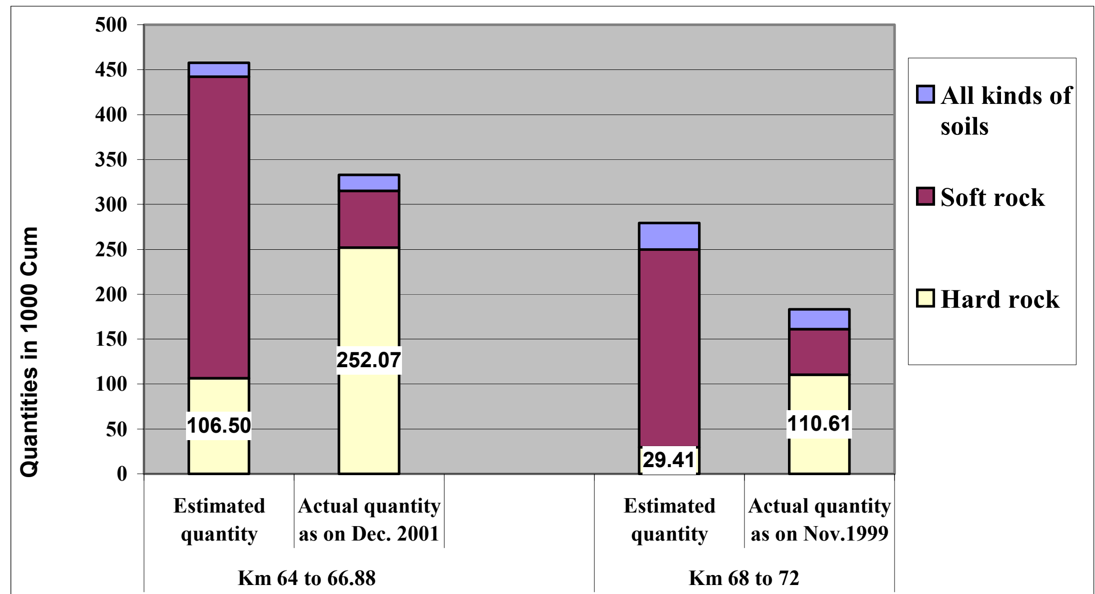
The matter was reported to the Management/Government (June 2002); their replies have not been received (August 2002).

3A.2.3 Defective estimate

Defective estimation in quantities of excavation of hard rock by blasting resulted in an extra expenditure of Rs.0.53 crore.

The work of construction of Indi Branch Canal in reaches km.64.00 to 66.88 and km.68.00 to 72.00 was awarded (July 1996) at 25 per cent below the estimated cost. The estimated quantities and actual quantities of different

strata of soil excavated for km.64 to 66.88 as on December 2001 and km.68 to 72 as on November 1999 for the above reaches were as follows:



It may be seen from the above that whereas soft rock quantities decreased to 19 and 23 per cent respectively, hard rock quantities increased to the extent of 237 and 376 per cent respectively of estimated quantity. As per clause 13(b) of the agreement, payment for additional quantities exceeding 125 per cent of tendered quantity had to be made at Schedule of Rates prevailing at the time of execution plus or minus tender premium. The payments were made accordingly, resulting in an extra expenditure of Rs.0.53 crore in respect of 1,92,791 cubic metre of hard rock excavated beyond 125 per cent of estimated quantity up to December 2001. This could have been avoided had the Company estimated the quantity of work correctly. It is pertinent to mention that the estimates were prepared on the basis of trial bore results taken during October 1992 at 100 metre intervals instead of 30 metre intervals (as per norms).

The Company replied (November 2002) that trial pits at 30 metre interval were not taken due to urgency. The reply is not tenable since the Company prepared estimates in June 1995 (on the basis of 1994-95 DSR) and tender was awarded in July 1996 only. The Company has not fixed responsibility for making unrealistic estimates.

The matter was reported to the Government (June 2002); their reply has not been received so far (August 2002).

3A.2.4 Undue favour to a contractor

Sanction of higher rates not contemplated in the contract resulted in extension of undue favour of Rs.41.73 lakh to a contractor.

During excavation of Indi Branch Canal (IBC) from km.80 to km.100 the contractors reported encountering a harder variety of soft rock, which required blasting for its excavation and requested regularisation of payments under clause 13(d) of the agreement according to which the rates shall be determined based on observed data. The competent authority (Superintending Engineer), after inspecting the work in March 1996, approved a rate of Rs.120 per cubic metre for excavation of soft rock with blasting applicable for the entire reach from km. 64 to km.112, subject to application of tender premium.

The work for km. 72 to 80 was awarded (February 1996) to Shri.D.Y.Uppar at 23.16 per cent below the estimated cost. As per the above order, the item rate payable for excavation was worked out at Rs.92.21 per cubic metre after deduction of tender premium applicable in the instant case. The contractor, although agreed to this at the time of preparation of extra item rate, disputed the rate while signing the supplementary agreement. The Company, in order to settle the issue, decided (September 1998) on a rate of Rs.100 per cubic metre, which was not as per the provisions of the contract. In this connection, it was observed that the Company paid the data rates approved after deducting tender premium applicable in respect of all other reaches of IBC works.

Thus the contractor was extended undue favour amounting to Rs.41.73 lakh by sanction of higher rate for excavation of 5.36 lakh cubic metre soft rock by blasting.

The Company replied (July 2002) that all other works barring IBC km. 72 to 80 had started after Schedule of Rates 1996-97 was brought into effect in May 1996, which had a rate of Rs.120 per cubic metre for this item and the rate payable for extra item was determined in the manner specified in clause 13(c) of the agreement. The reply of the Company is factually incorrect as the Superintending Engineer while passing the order for data rate for soft rock requiring blasting on 29 March 1996 specifically mentioned that these rates were applicable to entire reach from km. 64 to 112 with application of overall tender premium.

The matter was reported to Government (May 2002); their replies have not been received (August 2002).

3A.2.5 Loss due to non-specification of norms

Failure to specify the period of time, required before taking up concrete lining works in embankment reaches, after completion of embankments in the agreement, had resulted in extra expenditure of Rs.35.76 lakh.

The construction of Indi Branch Canal (IBC) from km 104 to 107 entrusted (February 1996) to R.N.Nayak & Sons at Rs.5.44 crore, interalia, included cement concrete lining in the embankment reaches from km. 104.480 to 105.500 at the rate of Rs.1,128.74 per cubic metre valued at Rs.23.44 lakh. On completion of other works, the contractor sought (July 1997) permission to take up the lining work. The contractor was instructed (September 1997) to take up lining work only after completion of one season in order to allow shrinkage and natural settlement and also to avoid possible cracks in cement concrete lining. As there was no such condition in the contract, the contractor did not agree to the proposal for carrying out the work at old rate and requested the Company to delete this item of work.

The Company deleted this item of work and awarded (May 2000) the same to another contractor at much higher rate of Rs.2,069.53 per cubic metre as against Rs.1,128.74 per cubic metre resulting in extra expenditure of Rs.19.54 lakh.

Similarly, in case of contract relating to package from km.107 to 111 also the item of cement concrete lining work was deleted from the original contractor and awarded (May 2000) to another contractor at higher rate of Rs.2,069.53 per cubic metre as against Rs.1,124.28 per cubic metre, resulting in extra expenditure of Rs.16.22 lakh.

Thus, non-specification of period of time required before taking up concrete lining works in embankment reaches, after completion of embankments, in the contracts, resulted in extra expenditure of Rs.35.76 lakh.

The Company stated (September 2002) that it was not the intention of the Company to execute the lining works at the first instance because of the May 2000 deadline to create irrigation potential under Batchawat Award and also considering financial constraints. The reply of the Company is only an after thought as the contractors were directed to execute the lining works after one season as per the standard practice.

The matter was reported to the Government (April 2002), their reply has not been received (July 2002).

3A.2.6 Unintended benefit to the contractor

Under utilisation of available excavated soil resulted in extra expenditure of Rs.33.85 lakh.

The construction of Narayanapura Right Bank Canal (NRBC) (Distributory No. 13 and 14) including lining work entrusted to Mahalingashetty & Company Limited, Hubli for Rs.6.96 crore. The contract interalia provided that a quantity of 84,757 cubic metre of embankment work was to be carried out with excavated soil and 1,10,705 cubic metre of embankment work with soil obtained from borrow area. As per clause 2.6.1 of detailed specifications, the contractor was to utilise not less than 80 per cent of useful excavated soil for embankment work.

It was observed in audit that the excavated soil actually available at site was 86,905 cubic metre. Therefore, as per clause 2.6.1, the contractor was required to utilise at least 69,524 cubic metre out of it. The usefulness of the soil was also tested (December 1999) by Quality Control Authorities and was certified as fit for use. However, contrary to the above provisions, the contractor utilised only 39,047 cubic metre of excavated soil and fetched a quantity of 1,79,823 cubic metre of soil from borrow area. At least 30,477 cubic metre of useful soil available at the site was not used for the embankment work thereby resulting in extra expenditure of Rs.33.85 lakh.

The Company replied (June 2002) that the excavated quantity of soil included 31,384 cubic metre of soil stripped off from the foundation for embankment and 15,988 cubic metre of black cotton soil, which could not be used for construction of embankment. The reply is not acceptable since the usefulness of the soil was already certified as fit by Quality Control authorities as stated above. Moreover, statement of the Company about usefulness or other wise of the stripped soil and black cotton soil was not based on quality tests as per the agreement.

The matter was reported to the Government (May 2002); their reply has not been received so far (August 2002).

3A.2.7 Inadmissible payment of lead charges for cement

The Company paid inadmissible lead charges of Rs.21.50 lakh for transportation of cement even though the cost of cement included the transportation cost.

Estimates prepared (June/July 1998 and October 1993) for construction of box/dropped chutes, culverts, road bridge and super passage at different chainages from KM 51–70 of Narayanapur Right Bank Canal and construction of head works of Mulwad Lift Irrigation Scheme, involved among others, cement concrete work. While preparing the estimates, rate of cement was reckoned at Stores Purchase Department (SPD) rates, which included

transportation, loading and unloading charges of cement from the suppliers end to anywhere in the district. Since, the cement was to be arranged by the contractors themselves, no lead charges should have been added to the cost of cement for arriving at the rate of concrete work. However, it was observed in audit (June 2001) that additional lead charges at Schedule of rates were added to the cost of cement at the time of working out the rate of cement (June/July 1998 and September 1998) for the above construction works. This led to payment of additional lead charges of Rs.21.50 lakh for cement.

The Government in its reply (August 2002) has confirmed that the estimates were prepared by adopting divisional issue rate of cement and lead charges for cement from divisional stores to work site. Government reply is not tenable since the contractor were required to procure cement at their own cost and no lead charges were payable for cement from divisional stores to work site.

3A.3 Karnataka State Agro Corn Products Limited

3A.3.1 Non revalidation of PDS wheat

Non-lifting of allotted PDS wheat forced the Company to go in for purchase from private traders by incurring additional cost of Rs.2.27 crore.

The Director, Department of Women and Child Development (DWCD), was allocating wheat at Public Distribution System (PDS) rates to the Company under the State Funded Special Nutrition Programme since 1990-1991. The Company uses this PDS wheat in its in-house facility or issues it to private millers for conversion into wheat rava for manufacture of energy food and energy food mix. During 1996-97, the DWCD allotted (May 1997) 17,000 MT of wheat and revalidated 10,000 MT of wheat, not lifted during 1995-96, at Rs.4,020 per MT.

It was observed in Audit (May 2002), that the Company failed to lift 6,273 MT of allotted wheat by March 1997 and approached (April/May 1997) the DWCD and Food Corporation of India for revalidation of the same. As the request of the Company was turned down (July 1997), the Company procured the same from private traders at an average rate of Rs.7,631.78 per MT during 1997-98. Thus, non-lifting of 6,273 MT of PDS wheat and purchasing the same from private traders at higher rates resulted in extra expenditure of Rs.2.27 crore.

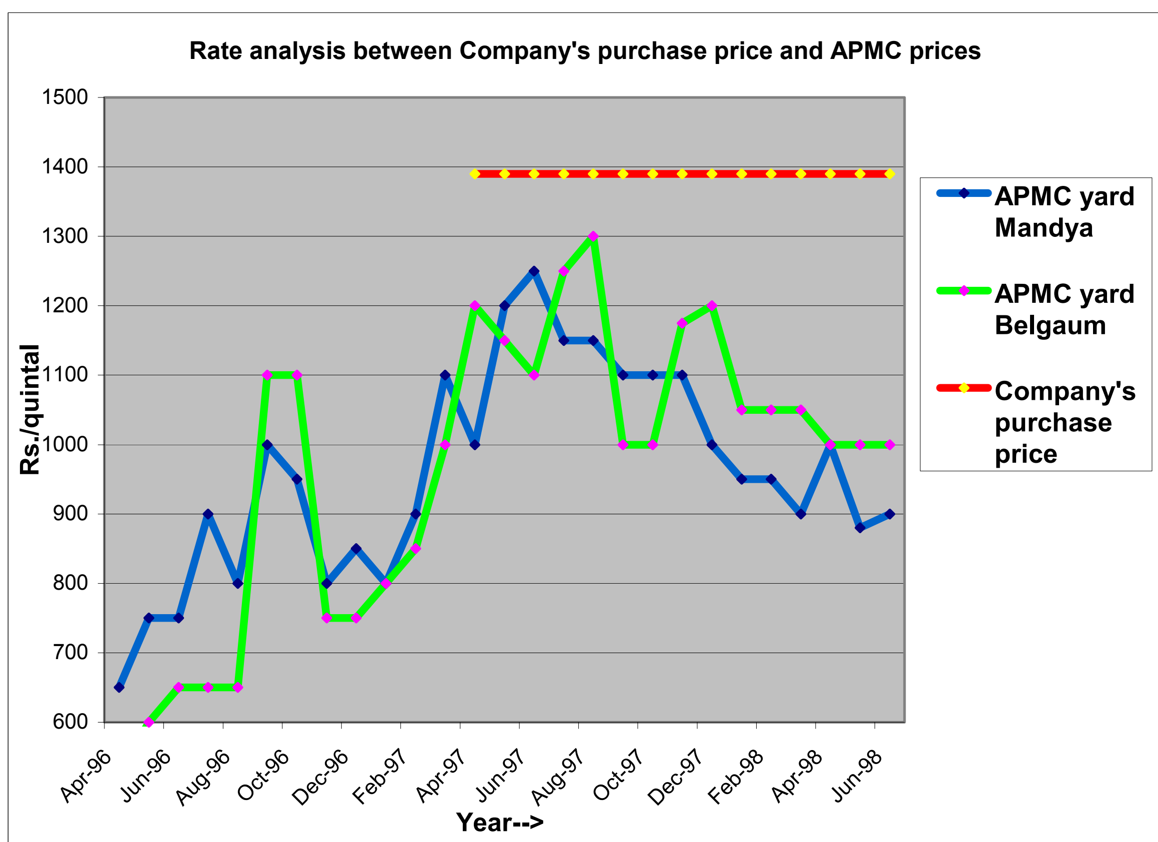
The Government replied (September 2002) that as the request of the Company for re-validation was turned down by the Government departments compelling the Company to procure wheat from alternative source. The reply is not acceptable as it failed to lift the allotted quantity within the validity period and has not stated the reasons for non-lifting of wheat.

3A.3.2 Avoidable expenditure of Rs.1.51 crore due to procurement of jaggery at exhorbitant rates

Purchase of jaggery at exhorbitant rate without studying the market trend resulted in undue benefit of Rs.1.51 crore.

The Company invited (May 1997) tenders for procurement of raw material required for the manufacture of weaning food for the year 1997-98, which included 10,500 MT of jaggery. 14 firms offered to supply jaggery at rates varying from Rs.1,396 per quintal to Rs.2,395 per quintal.

The Purchase Committee decided (June 1997) to procure 10,250 MT of jaggery at Rs.13,960 per tonne and placed orders on six firms of Mandya for supply of 8,500 MT and one firm of Belgaum for supply of 1,750 MT. A total quantity of 4,672.2 MT was supplied between April 1997 and March 1998. It was observed (April 2002) that the suppliers procured jaggery from Agriculture Producers Marketing Co-operative (APMC) yards at Belgaum and Mandya and supplied the same to the Company. The purchase price of the Company and the average monthly price at APMC yards between April 1996 to March 1998 are indicated in the graph below:



It could be seen from the graph that the price of jaggery at the time of inviting tender was very high (Rs.1,200 per quintal) but average price during the last one year was Rs.883 per quintal. By finalising the tender for purchase of jaggery for one year at much higher rates without studying the market rates

resulted in payment of exorbitant rates to the suppliers. The extra expenditure incurred on procurement of jaggery at higher prices when compared to the corresponding average APMC prices was Rs.1.51 crore (after allowing transportation cost of Rs.200 (approx.) per quintal.

The Government stated (September 2002) that the Company studied the market and satisfied itself about the reasons attributed by the tenderers for not conceding the request of the Company for reduction of rate. It was, further, stated that based on the experience, the Company introduced procurement of raw material on half yearly tender systems as against annual system in vogue. The reply of the Government is not acceptable as the rates paid for purchase of jaggery were much higher compared to the prevailing market rates.

3A.3.3 Non-recovery of additional expenditure incurred on emergency procurement of wheat

Failure to procure wheat against risk purchase clause resulted in undue benefit of Rs.48.96 lakh.

Tenders were invited (May 1998) for procurement of raw materials for supply of energy food for a period of six months, which included 20,000 MT of wheat. Agreements were entered for six months period from June 1998 to November 1998 with eight firms for supply of 17,000 MT of wheat at the rate of Rs.7,080 to Rs. 7,480 per MT.

The Company placed indents between June 1998 and October 1998 on these suppliers for supply of 7,900 MT. As only 2,609.227 MT were received (up to October 1998), 1,889.947 MT wheat were procured (October 1998) from Vaishnavi Trade Links at Rs.9,250 per MT on emergency basis to tide over the shortage. The Company procured another 2,550 MT wheat from Karnataka Agro Industries Corporation (a Government of Karnataka Undertaking) at Rs.9,400 per MT after inviting fresh tenders in November 1998 instead of purchasing this quantity against risk purchase clause of agreements. This resulted in an additional expenditure of Rs.0.84 crore to the Company of which Rs.34.82 lakh (additional cost incurred on first emergent purchase) was recovered.

The Government replied (September 2002) that the additional expenditure incurred on procurement of 2,550 MT could not be recovered as the second procurement was on the basis of separate tender floated by the Company.

The reply of the Government is not acceptable because if the Company had procured 2,550 MT wheat against risk purchase clause instead of floating fresh tenders this loss of Rs.48.96 lakh could have also been recovered.

3A.4 Karnataka Neeravari Nigam Limited

3A.4.1 Excavation for canal in hard rock

Unwarranted sanction of a new rate for excavation for canal in hard rock in Upper Tunga Project (UTP) resulted in extra cost of Rs.68.09 crore.

Twelve work contracts for the construction of main canal of Upper Tunga Project from km 10 to km 35 and from km 42 to km 44 were awarded during the period from September 2000 to January 2001 at 30 to 53 per cent below the estimated cost. The items of work to be executed included excavation in hard rock of all toughness for which the average rate quoted by the contractors was Rs.124.37 per cubic metre, which was less than the estimated rate by 46 per cent. Since the canal alignment passes very close to Shimoga Town and other habitations and there were several HT/LT lines of Karnataka Power Transmission Corporation Limited, criss-crossing the canal alignment, practically all the hard rock excavation had to be done under controlled blasting (the quantity of hard rock excavated by controlled blasting was 90 per cent of hard rock actually excavated and 137 per cent of the estimated quantity of hard rock to be excavated). The detailed specifications for the said item of work annexed to contract also deliberated the operations, procedures and precautions to be adhered to by the contractors while carrying out controlled blasting for excavation in hard rock. Further, as per the general conditions for the execution of work specified in the contract, the blasting operations were to be carried out as per Indian Standard Specifications (ISI) code No: IS 4081-1977 or its latest version. According to the said ISI code, necessary precautionary measures have to be taken whenever the blasting was to be carried out in the proximity of overhead power lines, communication lines, utility lines or other structures. Thus, the 'excavation in hard rock' as per the contract included excavation by controlled blasting also and the quoted rate for the excavation in hard rock was applicable to excavation of hard rock with controlled blasting also.

Sanction of higher rates for excavation of hard rock by controlled blasting, after finalisation of the contract, increased the cost of this item of work from the tendered amount of Rs.39.73 crore to Rs.107.82 crore.

Notwithstanding, the aforesaid conditions of contract, the project officers treated the excavation of hard rock by controlled blasting as an extra item of work, not contemplated in the contract and sanctioned (January 2001 to July 2001) a fresh rate of Rs.364 per cubic metre invoking the provisions contained in clause 13 (d) of the agreements. Clause 13(d) details the procedures to be followed for fixation of rates for additional, substituted or altered items of work not found in estimates or Schedule of Rates. Since, the contractors were to execute the work by controlled blasting wherever necessary, invoking clause 13(d) of the contract was not in order.

Thus, the sanction of extra item rate for excavation of hard rock by controlled blasting increased the cost of this item of work from the tendered amount of Rs.39.73 crore to Rs.107.82 crore, resulting in an extra expenditure of Rs.68.09 crore on 28.42 lakh cubic metre of hard rock excavated by controlled blasting. Out of this, Rs.30.68 crore has been paid (October 2001).

The Company replied (June 2002) that in the absence of specific mention of the term 'controlled blasting' in the schedule-B the contractor could not be asked to carry out controlled blasting even if the specifications were included in the detailed specifications of excavation of hard rock. The reply is not acceptable since Schedule-B briefly describes the work as "Excavation for canal… in hard rock of all toughness" and the method of excavation or the precautions to be followed is not specified in the Schedule- B. The detailed specifications for items incorporated in Schedule- B annexed to the contracts included the requirement for controlled blasting also under excavation in hard rock. The requirement of controlled blasting was known when the tenders were invited and the rates quoted for excavation of hard rock was therefore supposed to be inclusive of controlled blasting wherever necessary. The Company also did not mention why the term controlled blasting was not mentioned in the schedule B when its requirement was known.

The matter was reported to Government (May 2002); their reply has not been received (August 2002).

3A.4.2 Sanction of extra item rate for excavation of soft rock by blasting

Arbitrary sanction of higher rates for excavation of soft rock by blasting resulted in an extra liability of Rs.6.06 crore.

Sanction of higher rates for 'excavation of soft rock ' without establishing that the strata could not be removed without blasting resulted in extra expenditure of Rs.6.06 crore.

The contracts for canal construction work in Upper Tunga Project (UTP) for each kilometer from km 2 to km 35 and from km 41 to km 44 were awarded (May 1996 to January 2001) for Rs.50.56 crore against the estimated cost of Rs.86.89 crore. These contracts included excavation of three types of strata only i.e., in all kinds of soil, soft rock, which can be removed without blasting and hard rock of all toughness.

Even though the survey carried out earlier never indicated presence of soft rock requiring blasting, the Project Officers at their own observed (May 1997, January 1998 and January/February/March 2001) that the soft rock in certain pockets could not be removed by crowbars and that it required blasting for excavation. It was also decided that the toughness of the rock was less than hard rock so that excavation rate applicable for hard rock could not be paid. The excavation of soft rock by blasting (SRB) was to be treated as new/substituted item of work, not provided in the agreement or in the Department Schedule of Rates (DSR), entitling the contractors for fresh rates under clause 13 (d) of the agreements. Accordingly, fresh rates for SRB were sanctioned (February 1998/January 2001/March 2001) at Rs.103 per cubic metre in respect of the canal works from km 2 to km 10 and Rs.119 per cubic metre for the remaining reaches against the contract rates varying from Rs.20 to Rs.69.12 per cubic metre for excavation of soft rock which can be removed without blasting. It was observed that calculation sheet for data rate attached to the sanction letter (January 2001) did not indicate the location from where the data were collected for the purpose of data rate.

Consequently, the total cost of this item of work increased from Rs.8.90 crore to Rs.14.96 crore, resulting in extra liability of Rs.6.06 crore, out of which Rs.4.69 crore has been paid up to October 2001.

In this connection, it is pertinent to mention that it was not scientifically established that the strata could not be excavated without blasting.

The Company replied (July 2002) that the observations for data rate were made by the Superintending Engineer (SE) between 20 March to 26 March 1997 in respect of km 3,4,8 and 9 and the strata classification was done in consultation with experts in field and payments have been regulated as per tender clauses. The reply of the Company is not acceptable as the issue of soft rock with blasting was considered first only in May 1997. Soft rock, which could not be removed without blasting, was not encountered during exploratory digging and it was not scientifically established that the strata could not be removed without blasting.

The matter was reported to the Government (May 2002); their reply has not been received (August 2002).

3A.4.3 Re-classification of soft rock excavated into soft rock with blasting

Re-classification of excavated soft rock into a new item called 'soft rock requiring blasting', without reasonable grounds and sanction of data rates for the same resulted in extra expenditure of Rs.42.09 lakh.

The construction of Dasanal Tunnel of the Ghattaprabha Right Bank Canal with approach cut and exit ramp was awarded (November 1997) by the Irrigation Department, Government of Karnataka to R S Shetty & Co, at 25 per cent below the Schedule of Rates of 1996-97. The work was transferred to the Company on its formation during November 1998.

As per note 14 attached to Schedule B, in case, during (open) excavation, dolerite dyke, pegmatite veins, faults, crushed zones etc., are met with, the strata obtained in these portions will be classified according to their geological nature into one of the three classifications mentioned in item No.1 to 3 and on no account any claims to treat such strata as extra items will be entertained. Further, as per detailed specifications of the items in schedule B, the classification of excavation shall be decided by the Engineer in charge and his decision shall be final and binding on the contractor. Merely the use of explosives in excavation will not be considered as reason for higher classification unless blasting is clearly necessary in the opinion of the Engineer-in-charge.

During execution of exit ramp, the contractor requested to pay hard rock rates for excavation below soil level as blasting was employed to excavate the rock, which was not agreed to by the Executive Engineer in whose opinion the strata was soft rock only according to clause 14 of the agreement and in his opinion,

blasting was not required. However, the Chief Engineer, Irrigation (North) during his inspection in June 2001 ordered that 'it is ascertained that the excavation is carried out by resorting to regular drilling and blasting which is undisputed, the same may be paid as soft rock with blasting'. Accordingly, 59,191 cubic metre of the excavated stuff, which was already paid at soft rock rates was reclassified as soft rock with blasting and a data rate of Rs.117.82 per cubic metre was paid (August 2001), as against Rs.41.40 per cubic metre payable for excavation of soft rock as per the contract.

Thus, reclassification of the excavated stuff as soft rock requiring blasting without reasonable grounds and sanction of data rates for the same resulted in an extra expenditure of Rs.42.09 lakh.

The Company confirmed (July 2002) that the strata was not hard rock. It further stated that there was no dispute since beginning that the strata was excavated after resorting to drilling and blasting. Reply of the Company is not acceptable, as contract provided that merely use of explosives in excavation will not be considered as a reason for higher classification.

The matter was reported to the Government (June 2002); their reply has not been received so far (August 2002).

3A.5 Karnataka State Industrial Investment and Development Corporation Limited

3A.5.1 Sanction of equipment lease finance to Lan Eseda Industries Limited without ensuring availability of licences

Release of loan in haste without verifying the required licences and without inspection of the equipment rendered lease rentals of Rs.4.43 crore irrecoverable.

Lan Eseda Industries Limited approached (January 1996) the Company for equipment lease finance of Rupees three crore for acquiring machinery required for operation of Public Mobile Radio Trunked Service (PMRTS) in Bangalore city. The Company sanctioned the Equipment Lease Finance of Rs.2.95 crore on 27 March 1996 subject to furnishing copy of licences issued by Department of Telecommunications (DOT). Lan Eseda produced (30 March 1996) a copy of licence agreement entered into with DOT at New Delhi on 29 March 1996. On the same day the Company issued formal purchase order on Stanilite Communications (India) Private Limited, Bombay for supply of equipment. As requested (30 March 1996) by Stanilite Communications (India) Private Limited, the Company released Rs.2.15 crore directly to Lan Eseda and Rs.0.80 crore to the equipment supplier on 31 March 1996. Accordingly the lease period commenced on 31 March 1996. The lease rentals payable was fixed at Rs.8.60 lakh per month for the initial lease period of 60 months.

Lan Eseda could not commence the operations in Bangalore city as approval from Standing Committee of Frequency Allocation (SFCFA) was not received. Lan Eseda paid only a sum of Rs.0.73 crore against the accrued lease rentals of Rs.1.20 crore up to May 1997 and did not make any further payments. The leased assets were seized (February 1998) by the Company for default in payment of lease rentals. The seized assets were valued at Rs.15.23 lakh only and were found in packed condition. Major equipment required for the operation were not found in the packets taken over by the Company. The attempt to sell the seized assets also did not materialise.

Thus, undue haste in sanction and release of the loan rendered the recovery of lease rentals of Rs.4.43 crore along with interest of Rs.8.49 crore accrued thereon, doubtful.

The Company replied (May 2002) that the transaction was completed before 31 March 1996, so as to avail the benefit of depreciation on the equipment and resultant tax benefit and that there was no reason to believe that clearance from SFCFA would not be forthcoming once the Company (Lan Eseda) was selected by DOT for franchise of PMRTS in Bangalore city. The reply of the Company is not tenable as the Company sanctioned and released the loan in haste, without verifying the licences for radio frequency and site clearance and without inspection of equipment. The Company also did not give adequate weightage to the risk factors in sanctioning loan in haste for availing tax benefits. Further, as there was twelve months time from the date of signing the licence agreement with DOT for installation of the systems, the amount of lease finance should have been released after getting all licences and inspection of the equipment.

The matter was reported to the Government (June 2002); their reply has not been received (August 2002).

3A.5.2 Sanction of short term loan to Fibre Foils Limited

Sanction of loan when a sister concern defaulted in allotting debentures and refund of money and delay in initiating action for recovery resulted in accumulation of dues of Rs.3.20 crore, of which recovery of Rs.1.73 crore was doubtful.

Fibre Foils Limited (FFL) was sanctioned (June 1995) a short-term corporate loan of Rs.1.50 crore for augmenting its working capital requirements. The entire loan was released in July 1995 and was repayable in three equal quarterly instalment of Rs.0.50 crore each after an initial moratorium of six months. The loan was secured against immovable property at Bangalore (valued Rs.1.47 crore) belonging to Shetron Enterprises Private Limited, an associate concern, 1,000 shares of Shetron Limited and personal guarantee of the promoter.

FFL repaid only Rupees three lakh against principal and only partial payments were made towards interest due. The amount overdue at the end of March 2002 was Rs.3.20 crore (principal Rs.1.47 crore, interest

Rs.1.73 crore). In the meantime, the Company obtained (August 1999) court orders attaching the collateral security. The proposal of FFL for one time settlement of Rs.0.60 crore was rejected (November 2001) by the Company, as it did not cover the principal amount.

In this connection the following observations are made:

- The Company was aware at the time of considering the application that the firm was an associate of Shetron Limited to which it had advanced (November/December 1994) rupees five crore by subscribing to its debentures. Shetron Limited neither allotted the debentures not refunded the amount. But the Company still went ahead in sanctioning a corporate loan.
- At the time of applying for term loan, FFL stated that it had applied for increasing their working capital limits from Rupees two crore to Rupees four crore and the corporate loan was to be repaid after sanction of the enhanced working capital limit. The working capital limit was never increased by the bankers.
- Even though the Company obtained (August 1999) court order attaching the collateral security valued Rs.1.47 crore, no action was taken to take possession of the property and to realise the dues.
- The Company has not taken action to dispose off the shares of Shetron Limited pledged as security.
- The Company had invoked (January 2001) the personnel guarantee of the promoters and the case is pending before the court.

Thus, sanction of short term loan when a sister concern defaulted in allotting debentures and refund of money and delay in initiating action for recovery resulted in accumulation of dues to Rs.3.20 crore of which recovery of Rs.1.73 crore, after adjusting the value of collateral security is doubtful.

The Company replied (August 2002) that pending disposal of the petition invoking personal guarantee, the Company was not able to sell the property since the property was under the deemed custody of the court and the shares of Shetron Limited were not sold as the prices were not encouraging.

The matter was reported to the Government (June 2002); their reply has not been received (August 2002).

3A.6 Karnataka Scheduled Castes And Scheduled Tribes Development Corporation Limited

3A.6.1 Direct Loan Scheme – Assistance to obtain dealership of Vishnu Gas

Release of funds without ensuring the supply of all the materials or obtaining guarantee thereto resulted in an amount of Rs.1.19 crore becoming irrecoverable.

The Board of Directors of the Company approved (September 1997) the proposal of Vishnu Gas to set up its dealership for LPG by giving Direct Loan to 50 beneficiaries (dealers) belonging to the Scheduled Castes and Scheduled Tribes. The cost of project was envisaged as Rs.1.50 crore for 50 beneficiaries (Rupees three lakh per dealer). The project was to be financed by promoter's contribution of Rs.7.50 lakh from dealers, margin money loan of Rs.30 lakh from the Company, subsidy from State Government of Rs.2.50 lakh and term loan of Rs.1.10 crore from National Scheduled Castes and Scheduled Tribes Finance and Development Corporation (NSFDC).

Tripartite agreements between the Company, the beneficiaries and Vishnu Gas were entered into but there was no clause in the agreements, which made Vishnu Gas liable to supply the material regularly without default. The Company released Rs.1.05 crore to Vishnu Gas being the cost of material to be supplied to 41 beneficiaries during the period from October 1998 to March 2000. Though as per the tripartite agreement, loan was to be released according to the requirement but the full amount was released in one go. Further, value of material for 41 beneficiaries was Rs.1.03 crore but amount of Rs.1.05 crore in excess of material cost was released. Against this amount, Vishnu Gas supplied materials of Rs.47.23 lakh only to 30 beneficiaries (up to August 2002). No account was rendered by Vishnu Gas for the balance amount. The Company has not taken criminal action for the recovery of the same (August 2002).

There were complaints from the beneficiaries about the delay in supply/ non-supply of required materials by Vishnu Gas, which were confirmed by Dr.Ambedkar Research Institute after inspecting 14 beneficiaries in Mandya and Mysore districts on the request of the Company.

Thus, release of funds to Vishnu Gas without ensuring the supply of all the materials or obtaining guarantee thereto, rendered principal along with interest amounting to Rs.1.19 crore irrecoverable.

The Government stated (June 2002) that district managers were responsible to ensure that Vishnu Gas Agency supplied the materials to the beneficiaries. Loans granted to the beneficiaries are secured, the assets have been hypothecated, the loans are guaranteed by the guarantors and collateral securities have been obtained. The Company is making all efforts to recover the loans from beneficiaries. Reply of the Government is not tenable as the

Company failed to ensure the supply of material to the beneficiaries and not a single payment of principal/interest has been recovered from the borrowers.

3A.6.2 Supply of Vikram Diesel Auto to beneficiaries

Due to failure to bind the manufacturer for ensuring timely supply of the vehicles, the scheme could not be fully implemented resulting in blocking of Company's funds to the extent of Rs.17.64 lakh.

The Company based on a proposal received from M/s Scooter India Limited, the manufacturers of Vikram diesel three wheeler vehicles, took up a project for supply of Vikram diesel autos to 50 beneficiaries in Karnataka. The cost of the project was Rs.0.75 crore, to be financed by a term loan of Rs.0.53 crore from National Schedule Castes and Schedule Tribes Finance and Development Corporation (NSFDC), margin money loan of Rs.15 lakh from the Company, subsidy of Rupees three lakh and beneficiaries contribution of Rupees four lakh. Scooters India Limited introduced Athreya Agency, Mysore, who had claimed to have very good contacts with Government Departments in Karnataka, as their authorised dealers for supply of autos. An agreement was entered into (March 1998) with Athreya Auto Agency for supply of 50 Nos. of diesel Vehicles at a cost of Rs.1.45 lakh per vehicle. The terms of payments were 50 per cent advance against a bank guarantee of five per cent. Accordingly, the Company released (March 1998) Rs.19 lakh as advance for 20 autos against bank guarantee of Rs.1.80 lakh and also released delivery order for 15 autos to the beneficiaries.

The agency supplied five vehicles in October and November 1998 of which two vehicles were delivered to beneficiaries in Gulbarga district, two vehicles in Bellary district and one vehicle in Kodagu district. While the beneficiaries at Gulbarga district complained that there was no facility for getting spares and repairs and were unable to use the vehicles, the beneficiaries at Bellary and Kodagu could not put them on road due to non issue of Form 22 for registration by Scooters India Limited as the vehicles were delivered from the warehouse stock of Athreya Auto Agency without authority. The Company asked (November 1998) the agency to refund the remaining advance money along with interest since there was no demand from the applicants. As Athreya Auto Agency did not refund the balance amount, bank guarantee was encashed (March 1999) by the Company for Rs.1.36 lakh. The Company was to recover the balance amount (August 2002).

It was observed in Audit that though the project was taken up at the behest of the manufacturer, the manufacturer was not made a party to the agreement and the orders were placed on the agency introduced by the manufacturer. On subsequent follow up, the manufacturer stated that they were not informed of the dealings between the agency and the Company, the fact of payments made to the dealer was not informed in spite of specific requests from them and the agency did not make payment to the manufacturer.

Thus, due to failure of the Company to bind the manufacturer for ensuring timely supply of the vehicles and payment of advance against a bank guarantee of only five per cent and failure to assess the demand for the vehicles from the targeted beneficiaries, the scheme could not be fully implemented. This also resulted in locking up of Company's funds of Rs.17.64 lakh, the recovery of which is doubtful.

The Government stated (June 2002) that the Company has taken legal recourse in accordance with the terms of the agreement and the case is pending in the court.

3A.7 Karnataka Agro Industries Corporation Limited

3A.7.1 Idle investment in mechanised fertiliser mixing plant

Establishment of mechanised fertiliser mixture unit for use of subsidised fertilisers already prohibited by central Government resulted in idle investment of Rs.3.10 crore.

The Company decided (January 1997) to set up a plant for manufacture of granulated fertiliser mixture. The Government of Karnataka also sanctioned (March 1998) a grant of Rupees one crore for the project. The mixing plant with a capacity of 36,000 MT was commissioned during February 2001 at a cost of Rs.3.10 crore on a leased land.

The Department of Agriculture, Government of Karnataka banned (March 2001) the use of subsidised fertiliser for production of mixtures. As the manufacture of fertiliser mixture using non-subsidised fertiliser was not profitable, the plant did not start commercial production. In this connection, it was observed that the project was established on the profitability analysis of using fertiliser at subsidised rates and the use of subsidised fertiliser for production of granulated fertiliser mixes was already prohibited (January 1995) by Government of India. Thus the investment decision of the Company was not prudent as the Company failed to evaluate sensitivity of cost of using non-subsidised fertiliser and analyse commercial viability. This resulted in idle investment of Rs.3.10 crore.

The Government in its reply stated (July 2002) that the plant was being utilised for manufacture of granulated organic manure and hoped to produce 10,000 to 15,000 MT during the year. The Company also stated that there was glut in the market for granulated mixtures and manufacturing of the same was no longer viable. The replies of the State Government and the Company clearly establish that the decision for going for this plant was not based on ground realities.

3A.8 Karnataka Power Corporation Limited

3A.8.1 Infructuous expenditure on construction of solid concrete parapet wall over Kadra dam

Construction of solid concrete parapet wall, overlooking the safety of Kaiga Nuclear Station, which was not need based and did not facilitate generation of additional power, resulted in an infructuous expenditure of Rs.1.40 crore.

The Company constructed (1995-96) Kadra dam to generate 150MW of power and also to provide water to nuclear power station at Kaiga situated at upstream of the reservoir. The height of the dam was 37.50 metre, for concrete portion and 38 metre for earthen portion. A solid concrete parapet wall of one metre with a wave throw back arrangement (free board) was also constructed (1996-97) on top of the dam at a cost of Rs.1.40 crore.

In this connection, it was observed (March 1999) that the Full Reservoir Level (FRL) of Kadra dam was fixed (March 1985) at 34.5 metre while discussing water requirement of nuclear power station at Kaiga. Considering the safety of nuclear station and to take care of any unforeseen intensive rainfalls, the Company was required to contain maximum water level at 32 metre during monsoon months and 34.5 metre during non-monsoon months. The height of 37.5 metre without parapet wall was sufficient to take care of unforeseen floods and wind effect on wave as per Indian standards. Thus, construction of solid concrete parapet wall resulted in infructuous expenditure of Rs.1.40 crore

The Company replied (June 1999) that parapet wall was constructed considering the maximum water level during monsoon due to floods, which would be above Full Reservoir Level (FRL). The reply of the Company is not acceptable as water level was to be maintained at 32 metre and 34.5 metre during monsoon and non-monsoon months respectively, the present height of the dam without solid parapet wall was sufficient to take care of floods as per Indian standards (IS). Further, parapet wall cannot be considered as free board as per IS. Thus, the construction of concrete parapet wall was not need based.

The matter was reported to the Government (May 2002); their reply has not been received (August 2002).

3A.9 Karnataka State Seeds Corporation Limited

3A.9.1 Non-utilisation of A.C. godown for storage of seeds

Even though the entire grant for construction of two godown were received in the year 1988-89, only one godown was constructed after a delay of seven years and the same was not used for the purpose for which it was constructed.

The Company received (January 1989) a grant of Rs.0.80 crore from the Government of India under the scheme "Oilseed Production Thrust Project" (OPTP) through the State Government for construction of seed storages with de-humidifiers in Karnataka State for storage of 200 MT of groundnut and sunflower oilseeds. A committee constituted by the State Government decided (February 1991) to construct two air-conditioned seed storages with de-humidifiers at Mysore and Bellary. However, the Company decided (March 1993) to construct only one godown at Bellary in view of climatic conditions and proximity to oilseed production zones. Senalac Consultants Private Limited, appointed as consultants in June 1993 to advise on technologies involved in insulation, air-conditioners, de-humidifiers etc, were changed and Arctic India Sales were appointed as new consultant to redesign the entire project. Based on the proposals of Arctic India Sales, the Company awarded the work of construction of godown during May 1994 for civil works and September 1994 for air conditioning works. The construction was completed only in October 1997 at a total cost of Rs.0.71 crore. The unutilised amount of Rs.9.14 lakh had not been refunded and utilisation certificate was furnished for full amount of Rs.0.80 crore.

In this connection, it was observed that though the entire amount for construction of two godowns was received in January 1989 itself, only one storage unit was constructed by October 1997 due to delay in finalisation of location of the godown, change of consultants and consequent change in drawings and estimates. Further, the godown was not used for the purposes for which it was constructed i.e. storage of groundnut and sunflower oilseeds. Only 84 MT of cotton and cereal seeds had been stored for the last five years. Thus, the grant was not utilised for the purpose for which it was sanctioned.

The Government replied (June 2002) that delay in implementing the project was due to lack of technical know-how. The reply of the Government is not acceptable as the Company had admitted (June 2002) that Orissa State Seeds Corporation, Hindustan Lever Limited, Mahyco Company and Model Seed Private Limited had similar godowns. The delay in construction of godown was mainly due to delay in finalisation of location of the godown, delay in appointment and change of consultants and consequent change in drawings and estimates.

3B. STATUTORY CORPORATIONS

3B.1 North West Karnataka Road Transport Corporation

3B.1.1 Non-realisation of rent

Handing over of the building before entering into a formal agreement with the Police Department had resulted in non-realisation of the rent amounting to Rs.0.61 crore.

The building of the Office of the Executive Engineer (Civil Engineering), Hubli was let out to the Commissioner of Police Hubli-Dharwad on a monthly rent of Rs.56,000, recommended by State Public Work Department for a period of two years from 1 July 1995. The Commissioner of Police, Hubli-Dharwad (Dr. D V Guruprasad) agreed to pay the rent with an annual increase of 10 per cent and three months security deposit after approval of the same by the Government. The building was handed over to the Commissioner of Police without obtaining Government approval and security deposit. No agreement for renting the building was entered into with the Commissioner of Police/Police Department.

It was observed (March 2002) in Audit that the Commissioner of Police, Hubli-Dharwad did not pay any rent for the building. It was also observed that the Commissioner of Police neither took the permission of the Government nor of the senior officers of the Police Department to occupy the building on a rental basis. The total rent due as on 31 March 2002 was Rs.0.61 crore. Thus, renting of the building by the Corporation before entering into a formal agreement with the Police Department resulted in non-realisation of the rent amounting to Rs.0.61 crore for last seven years and consequential loss of interest of Rs.21.71 lakh.

The matter was reported to the Management/Government (March 2002); their replies have not been received (August 2002).

BANGALORE **(K.P.Lakshmana. Rao)**
The **Principal Accountant General (Audit) I**
Karnataka

COUNTERSIGNED

NEW DELHI **(Vijayendra N. Kaul)**
The **Comptroller and Auditor General of India**