

CHAPTER III

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

GOVERNMENT COMPANIES

Karnataka Power Transmission Corporation Limited

3.1 Short drawal of allotted power

Short drawal of cheaper power from central generating stations resulted in avoidable payment of Rs.6.90 crore.

The Government of India, Ministry of Power, allocate power from central generating stations (CGS) to regional electricity boards, which in turn specify the monthly allocation to the state electricity boards. The state electricity board enters into power purchase agreements with respective CGS for purchase of allotted share of power. The Government of India also allots any unallotted power from time to time.

Accordingly, the Southern Regional Electricity Board (SREB) made monthly allocation of power to the Company for drawal from the CGS. The bills are raised on the basis of actual drawal.

A scrutiny of allocation vis-à-vis actual drawal from April to October 2000 revealed that while on one hand the Company failed to utilise its share of allotted power, on the other it purchased power from Maharashtra State Electricity Board and private power producers at higher rates incurring extra expenditure of Rs.6.90 crore.

The management stated (July 2003) that for April and May 2000 it became aware of short drawal only when final accounts were given by the CGS; for July and October 2000, short drawal was due to monsoon season when hydel generation was peaking and in August and September 2000, the power was over drawn. Reply is not tenable, as even during monsoon season, the Company should have drawn entire CGS allocation by restricting the drawal from costlier sources. Besides, as per monthly energy drawal statement of SREB, there were short drawal in the month of August and September 2000 also.

The matter was referred to the Government in March 2003. The reply, however, is awaited (September 2003).

3.2 Non-adherence to REC recommendation

Failure to use pre-stressed cement concrete poles according to Rural Electrification Corporation's specifications resulted in extra expenditure of Rs.1.69 crore.

The Company was aware that pre-stressed cement concrete (PCC) poles are economical and have higher working strength than re-inforced cement concrete (RCC) poles. Rural Electrification Corporation (REC), on a reference from the Company, had also expressed the opinion that PCC poles were cost effective and the quality is unquestionable. The Board of Directors of the Company approved (June 2001) the procurement of 97,500 eight metre RCC poles with working load of 115 kilogram and 22,500 nine metre RCC poles with working load of 145 kilogram at a cost of Rs.1,000 and Rs.1,520 per pole respectively.

In spite of the advantages of PCC poles over RCC poles, the Company decided (November 2002) to procure only 25 per cent of the requirement instead of purchasing the total requirement in PCC poles. The cost of PCC pole with 200 kilogram working load was Rs.890 for eight metre and Rs.1,245 for nine metre. This resulted in additional expenditure of Rs.1.69 crore on the purchase of RCC poles.

The management stated (July 2003) that the recommendation of the REC is not fully acceptable to the Company as the type of pole to be used depends on various field parameters. It further stated that limited number of poles were procured and their performance was being observed over a period of time.

The reply of the Company is not tenable since REC had been recommending use of PCC poles from 1979 onwards. Further, other electricity boards in Maharashtra and Andhra Pradesh have already dispensed with the use of RCC poles.

The matter was referred to the Government in March 2003. The reply, however, is awaited (September 2003).

3.3 Procurement of PCC poles at higher rates

Non-revision of purchase price of poles consequent to incorporation of revised base price of steel resulted in extension of undue benefit of Rs.1.04 crore.

The Company invited (March 2001) tenders for procurement of eight metre (2,00,000 nos.) and 7.5 metre (75,000 nos.) pre-stressed cement concrete (PCC) poles. The rates quoted by the tenderers were to be based on a base price of Rs.33,562 per metric tonne (MT) of four millimetre high tension steel wire as delivered at ex-steel manufacturers plant inclusive of handling and

cutting charges, duties and taxes, if any. The sales depot of Tata SSL Limited had furnished (March 2001) the above price at the request of the Company.

Lakshmi Concrete Products, Davangere, quoted the lowest rates of Rs.680 and Rs.624 per pole for eight metre and 7.5 metre respectively. The Company offered these lowest rates to all the 46 qualifying firms. As none of the firms accepted the rates offered, the Company after negotiations (4 and 10 October 2001) with the pole manufacturers decided to offer Rs.696 and Rs.650 for eight metre and 7.5 metre poles respectively. Forty two firms accepted (16 October 2001) the revised prices. Purchase orders were placed on them between December 2001 and June 2002. However, no orders were placed on Lakshmi Concrete Products, Davangere, for reasons not on record.

During October 2001 Lakshmi Concrete Products, stated that the price of Rs. 33,562 per MT for four millimetre HT steel wire incorporated in the tender was false and produced invoice copies for purchase (in June 2001) of wire from Tata SSL Limited at the rate of Rs.27,052 per MT, including freight. The Company once again obtained (4 November 2001) the rates of steel wire from sales depot of Tata SSL Limited, which were indicated at Rs.28,953 per MT, excluding freight. As there was a huge difference in the price of steel taken as base price, the Director (Transmission) ordered (20 December 2001) to re-fix the base price of steel wire and inform the firms. But the Company revised the price for the purpose of price variation clause only and did not reduce the purchase price.

Failure to revise the purchase price of poles resulted in extension of undue benefit of Rs.1.04 crore.

The management stated (July 2003) that negotiations were held in December 2001 for reduction of price with the pole manufacturers, who refused on the grounds that the reduced prices were much lower than the negotiated prices (October 2001). As per the records made available to Audit no such negotiations were held. In addition, the Company by reducing the base price of steel without reducing the cost of poles has made itself liable for higher price variation claims also.

The matter was referred to the Government in March 2003. The reply, however, is awaited (September 2003).

3.4 Delay in finalisation of tender

Avoidable expenditure of Rs.37.86 lakh was incurred due to delay in finalisation of tender.

The Company invited (December 1999) tender for purchase of five 12.5 MVA 66/11 kV power transformers. The validity of the offer was up to 9 August 2000. As per financial bids opened in June 2000, Rima Transformers and Conductors Private Limited (RTCPL) was the lowest technically qualified offer at Rs.33.53 lakh per transformer. The Company requested (4 August 2000) all firms to extend the validity up to

30 September 2000. The RTPCL refused to extend the validity of the offer stating that they had quoted very low prices and there was considerable increase in the prices of raw materials. Consequently, the Company placed orders (November 2000) on NGEF Limited (a Government of Karnataka undertaking), for supply of six power transformers at the rate of Rs.39.84 lakh.

Thus, failure of the Company to finalise the tender within the validity period of the offer resulted in procuring the transformers at an additional cost of Rs.37.86 lakh.

The management stated (April 2002) that the offer of the RTCPL was not technically responsive and the delay in finalisation of the tender was due to detailed technical evaluation done by the staff. The reply of the Company is not acceptable as the offer of the RTPCL was treated as technically responsive by the Director (Transmission) in June 2000. The Company had taken 269 days to finalise the tender against 180 days time prescribed for finalisation of tenders and this delay resulted in additional purchase cost of Rs.37.86 lakh.

The matter was referred to the Government in March 2003. The reply, however, is awaited (September 2003).

3.5 Purchase of mounting structures

Purchase of mounting structures ignoring the lowest offer resulted in extra expenditure of Rs.27.90 lakh.

The Company invited (December 2000) tenders for supply of 1,979 Nos. of 33kV class current transformers (CT) alongwith marshalling box and mounting structures. After technical and commercial evaluation, the Company placed (November 2001) orders on three firms for supply of 1,068 nos. each of CTs, marshalling boxes and mounting structures.

Audit observed (July 2002) that while working out the lowest unit price, the Company did not consider the lowest price for mounting structures quoted by Victrans Engineers, Nagpur, as was done in the case of CTs and marshalling boxes. Orders for mounting structures were placed at fourth lowest computed rate of Rs.8,191.54 against the lowest computed rate of Rs.5,578.77. This resulted in extra expenditure of Rs.27.90 lakh.

The management stated (July 2003) that the prices considered for final determination of prices of CTs, mounting structures and marshalling boxes was on a total package basis. Further, the design of mounting structure quoted by Victrans Engineers, Nagpur was not as per the design of the Company. The reply of the Company is after thought because, as per the technical evaluation, Victrans Engineer, Nagpur was technically responsive. Further, the tender was finalised on lowest cost basis rather than design.

The matter was referred to the Government in March 2003. The reply, however, is awaited (September 2003).

Karnataka Neeravari Nigam Limited

3.6 Avoidable expenditure

Non-adoption of the current rate for cement, payment of extra lead charges on cement and non-utilisation of available excavated hard rock in works resulted in avoidable expenditure of Rs.5.97 crore.

The work of construction of dam and allied works of Markandeya Project estimated at Rs.84.70 crore, was entrusted (March 1998) to Karnataka State Construction Corporation Limited (KSCC), at a premium of 12 per cent above the schedule of rates of the year of execution. The KSCC in turn sub-contracted the work to various contractors at rates not exceeding the schedule of rates retaining the premium of 12 per cent to itself.

A review of the work for running account bills paid up to October 2002 (work still in progress) revealed that the Company incurred extra expenditure of Rs.5.97 crore, as detailed below:

3.6.1 As per agreement, the KSCC was to purchase all materials required for the works such as cement, steel, etc. The difference in the cost between prevailing procurement rate of Store Purchase Department (SPD) plus tax and schedule of rates for these items was to be paid to the KSCC. However, the Company paid for cement at Rs.146.25 per bag even though the SPD rate prevailing was Rs.138.87 per bag including taxes. This resulted in avoidable expenditure of Rs.1.82 crore on 21.94 lakh bags of cement consumed in the work.

3.6.2 The SPD rate was inclusive of transportation to any place in the district, loading, unloading and stacking charges. The Company added extra lead, loading and unloading charges of Rs.126.23 per tonne for a distance of 15 kilometres in respect of cement. Since the SPD rate was inclusive of transportation to any place in the district, loading, unloading and stacking charges, the payment of additional lead charges for 15 kilometres resulted in extra expenditure of Rs.1.55 crore.

3.6.3 The total quantity of hard rock of all toughness excavated (and paid for up to October 2002) was 3.60 lakh cubic metre. Out of this only 2.38 lakh cubic metre was utilised for the works. Even though excavated hard rock was available to the extent of 1.22 lakh cubic metre, the work of 1.68 lakh cubic metre of cement concrete items involving 1.43 lakh cubic metre of metal (equivalent to 1.02 lakh cubic metre of hard rock) was executed by bringing metal from burrow areas involving payment at higher rates for the finished concrete item of work. This resulted in avoidable expenditure of Rs.2.60 crore.

The matter was referred to the Government / Company in May /April 2003. The reply, however, is awaited (September 2003).

3.7 Non-recovery of cost of excavated rubble used in the work

Non-recovery of the cost of excavated rubble used in the works resulted in over payment of Rs.83.98 lakh.

The work of construction of dam and allied works of Gandorinala Project costing Rs.34.43 crore, was entrusted (May 1992) to Karnataka State Construction Corporation Limited (KSCC) at 14.4 per cent above the current schedule of rates of the year of execution. This work was initially monitored by the Irrigation Department, which was handed over to the Company on its formation in June 1999.

As per the provisions of the contract, when excavated material suitable for the item of construction is available, the contractor has to make full use of the same for construction works. Since the contractor has been paid fully for the excavation, the cost of the excavated material used for construction becomes recoverable from the contractor at the rate given in the schedule of rates.

However, in the instant case, the Company failed to recover Rs.63.66 lakh, being the cost of 61,832.68 cubic metre of excavated rubble used for construction works. Further, in respect of 42,657 cubic metre excavated rubble, converted into metal and used in work, the Company recovered only Rs.28.48 lakh as against Rs.48.80 lakh recoverable at Rs.114.40 per cubic metre leaving a balance of Rs.20.32 lakh unrecovered.

Thus, failure to recover the cost of excavated materials used in the work resulted in over payment of Rs.83.98 lakh after the work was taken over by the Company. The Company should improve its internal controls to ensure that cost of excavated material used in its works is recovered without fail.

The matter was brought to the notice of Government / Company in July/ June 2003. The reply however, is awaited (September 2003).

3.8 Avoidable interest burden

Issue of bonds at higher coupon rates resulted in avoidable interest burden of Rs.1.95 crore.

With a view to mobilise Rs.100 crore through private placement, the Company short-listed (August 2001) seven leading merchant bankers, based on the competitive offers received. The short-listed merchant bankers had separately indicated in their financial bids the amount that could be mobilised by each of them individually as a sole arranger as well as jointly with other arrangers under different coupon rates. Though Allianz Securities Limited, offered to mobilise jointly with others upto Rs.100 crore at coupon rates ranging from 11.41 to 11.60 per cent within 45 days, the Company selected a combination of three merchant bankers (SBI Capital Markets Limited, DSP Merrill Lynch Limited and Allianz Securities Limited), who had quoted a higher coupon rate of 11.60 to 11.80 per cent.

The Company fixed (September 2001) coupon rate of 11.75 per cent with 0.25 per cent mobilisation fee and mobilised Rs.186.18 crore by December 2001. Thus, by ignoring the lower offer with a coupon rate of 11.41 to 11.60 per cent and floating the issue at 11.75 per cent, the Company would be liable to pay extra interest of Rs.1.95 crore during the period of bond.

The Government stated (August 2003) that the Finance sub-committee of the Board of Directors of the Company, after perusal of the bids received and overview of current financial environment, approved the coupon rate for proposed bond issue at 11.75 per cent. The reply is not specific as to why it had decided to go for higher coupon rates when one of the merchant bankers selected by it had indicated lower coupon rate for raising the targeted amount of Rs.100 crore, particularly when the interest rates were falling.

3.9 Defective design and estimation

Defective design of canal and alteration of the design during execution of the work resulted in extra expenditure of Rs.80 lakh.

The construction of Malaprabha Left Bank Canal in the reaches of km 136 and 137 was awarded (October 1996) to two agencies at their agreed rates of Rs.2.28 crore and Rs.2.43 crore respectively, which were 14.2 per cent above the costs put to tender. The total expenditure incurred (April 2002) to complete the said works was Rs.4.03 crore and Rs.5.45 crore respectively which worked out to 77 and 124 per cent increase over the tender amount.

Audit scrutiny revealed that the width and spacing of berms (cutting in the inner side slopes of the canal to prevent the fallen debris from entering the canal) as per original estimate prepared by the division was with smaller width spaced at greater intervals than the standard practice and specifications followed in other projects. The narrow berm-width was causing difficulties in moving heavy machinery and also for boom operations. The specifications were, therefore, changed at the request of the contractor while the work was in progress and the work was executed by providing two metre wide berms at 2.5 metre above canal bed level for the first berm and the remaining at six metre interval with minimum side slope of 2:3 above water prism. These changes effected after the work was entrusted to the contractors, led to increase in quantity of hard rock excavation to 162 and 180 per cent of the estimated quantities respectively.

As per clause 13(b) of the contract, the additional quantities which exceeds 125 per cent of the tendered quantity shall be paid at the rates entered into or derived from the schedule of rates prevalent at the time of executing the additional quantities plus or minus the overall percentage of the original tendered rates over the current schedule of rates of the year in which the tender was accepted. The rates so worked out were higher than the tendered rates for the work resulting in extra expenditure of Rs.80 lakh. This could have been avoided had the designs been prepared taking into consideration the standard practices and specifications in respect of such works and quantities were estimated within 25 per cent tolerance limit.

The matter was referred to the Government / Company in June / May 2003. The reply, however, is awaited. (September 2003).

3.10 Payment for the work not executed

Fictitious measurements facilitated payment of Rs.71 lakh for the work not executed by the contractor.

The work of construction of spillway, non-overflow section and guide walls of Hippargi Barrage was awarded (May 1996) to A. Prabhakar Reddy, the lowest tenderer, at his quoted price of Rs.17.87 crore, which was 5.35 per cent below the cost put to tender. An agreement was entered into with the contractor on 25 June 1996 and the work commenced on 27 June 1996. The work was to be completed in 18 months including the monsoon period. The scope of work, among other things, included the following items:

Item of work and No.	Rates payable Rs. per cubic metres	Estimated quantity in cubic metres	Schedule of completion
Item no. 2. Excavation for foundation of dam in all kinds of soft rock	80	20,089	12,000 cubic metres in first month, balance in two months after rainy season
Item no. 3. Excavation for foundation of dam in hard rock of all toughness which require controlled blasting	280	62,622	35,000 cubic metres in first month, balance in three months after rainy season

As per the measurement taken on 10 July 1996, i.e., just after 13 days from the commencement of work the quantities of work executed were 5,681.10 cubic metre and 46,496 cubic metre in respect of item no.2 and 3 respectively. Similarly, as per the measurements taken in June 1997, the cumulative quantities were 12,394.60 cubic metre and 80,493.37 cubic metre for item No. 2 and 3 respectively and the same were paid for in February 1998. The Company failed to take note of the variations in quantities with respect to the estimated quantities as well as the schedule of execution of the work. Even though the recorded quantities were in excess of 125 per cent of the estimated quantities, no extra item rate in accordance with clause 13 of the contract was worked out and approved. The contractor was paid for at his quoted rates. There was no further progress in the work and the contract was rescinded (May 2000) for non-completion of the work and balance work was awarded to another agency. However, as per the final measurements taken (June 2000) the actual quantities of work executed were 10,989.075 cubic metre in respect of item No 2 and 55,584.709 cubic metre in respect of item No. 3. Thus, the contractor was paid Rs.71 lakh for work not executed by him.

The Company has not fixed responsibility for the fictitious measurements that facilitated the excess payment. This case of recording fictitious measurement could be detected only since the original contractor did not complete the work. In normal circumstances, it is not possible to verify the measurements of excavation after completion of the construction. Therefore, the Company has

to revamp its system of recording and verifying measurements of work done in order to avoid such cases of excess payments in future.

The matter was referred to the Government / Company in May / March 2003. The reply, however, is awaited (September 2003).

Krishna Bhagya Jala Nigam Limited

3.11 Refilling of over excavated portion of foundation

Defective survey and consequent refilling of over excavated portion of the foundation of barrage-cum-bridge resulted in extra expenditure of Rs.56.27 lakh.

The work of survey and preparation of estimate for bridge-cum.-barrage project on river Bhima at Joladagi-Guddur, Gulbarga district, was awarded (June 2001) to R.K Consultants (consultant) at Rs.13.86 lakh. The work of construction of the bridge-cum-barrage was awarded (January 2002) to Sri A.Krishna Reddy at quoted price of Rs.17.88 crore.

As per the drawings furnished by the consultant, the riverbed level (scour level) was reference level (RL) plus 338.12 metre and accordingly the sill/crest level of the barrage was fixed at RL 339 metre. During execution, the scour level was found (April 2002) to be RL 339.770 metre. Therefore, the sill / crest level of the barrage also was re-fixed (May 2002) at RL 340.20 metre. Consequently, the foundation level was also re-fixed at 338.50 metre as against the original level of RL 337.50 metre. As the excavation was underway and the foundation level of RL 337.50 metre was reached in chainage 418-510 (92 metre out of the total length of 550 metre), it was decided to refill the over-excavated portion of 3,179.52 cubic metre with cement concrete.

Since scour level of the river was crucial in deciding the sill/crest level of the barrage, the same should have been decided with accuracy by appropriate survey/sounding methods and verified before actual commencement of the work. Failure to do so had resulted in avoidable expenditure of Rs.56.27 lakh (Rs.3.81 lakh on excavation and Rs.52.46 lakh for refilling with cement concrete). Even though the Company decided (May 2002) to penalise the consultant for the omissions and commissions made by them and to fix responsibility on the field engineers for their lapses, no action has been taken in this regard so far (September 2003).

The Government stated (August 2003) that the consultant had not done survey on the water pool portion of the river as the river was flowing in full when the survey was carried out during the peak monsoon period (August 2001), which may not be construed a serious lapse on the part of the consultant. It was further stated that no departmental field staff could be made responsible for not verifying the actual level due to existence of high flow in the river at the stage of commencing the work. The reply is not tenable since determining the bed level of the river was crucial and there were various sounding methods to do so even when the river is flowing. This reply also contradicts the

Company's decision to penalise the consultant and to fix responsibility on the field staff.

3.12 Non-regulation of payment as per contract conditions

Non-deduction of tender discount while making payment for controlled blasting resulted in undue favour to the contractor of Rs.33.71 lakh.

The construction of Almatti Left Bank Canal (ALBC) from km 40-50 was awarded (August 2000) to the lowest bidder (M D Waddar) at Rs.5.75 crore, which was 39.19 per cent below the estimated cost.

The tender documents did not specify any requirement of controlled blasting in any chainage of the canal. While the work was in progress the contractor was instructed to carry out the excavation with controlled blasting to safeguard life of the villagers of near by Kolur Tanda. The Company also sanctioned an extra item rate of Rs.120 per cubic metre for controlled blasting in addition to the quoted rate of Rs.100 per cubic metre for excavation of hard rock for km 40-42 of the canal, which runs near the village. Audit observed that the rate payable for the extra item of controlled blasting was only Rs.72.98 per cubic metre as per clause 13(c) of the contract (Rs.120 minus tender discount of 39.19 per cent). However, the Company paid Rs.120 per cubic metre for controlled blasting. This resulted in extra expenditure of Rs.33.71 lakh on the excavation of 71,678.50 cubic metre.

The Company in its reply (April 2003) has agreed to recover the extra expenditure.

The matter was reported to the Government in March 2003. The reply, however, is awaited (September 2003).

3.13 Defective estimation

Defective estimation resulted in extra expenditure of Rs.29.25 lakh.

The works relating to construction of Indi Lift Canal from km 0.225 to km 6.00 and from km 6.00 to km 10.00 was entrusted (August 2001) to two different agencies at their bid price of Rs.8.96 crore and Rs.6.60 crore which was 10.46 and 14.19 per cent below the estimated cost. The survey and preparation of estimates for these reaches was entrusted to a private consultant at a cost of Rs.1.83 crore. The consultant was asked to prepare estimates after taking trial pits at 100 metre intervals instead of norm of 30 meter. The consultant prepared the estimates after taking trial pits at 100 metre intervals. The estimates so prepared for the work included excavation of 3,50,701 cubic metre of hard rock of all toughness including removal of boulders.

During execution, the actual quantity of hard rock excavated increased to 5,58,947 cubic metre representing 59.38 per cent increase over the estimated quantity. The increase in quantity was due to:

- the ground levels considered for estimation not tallying with the actuals in few reaches;
- presence of surface boulders and out crops of hard rock in several reaches not considered for estimation; and
- presence of hard rock pockets in other soil classifications.

The consultant stated that the variation in the soil classification could have been avoided had trial pits been taken at 20 metre or 30 metre. However, no reasons for deviations in the ground level and presence of boulders or outcrops of rock not considered for estimation were given. The Company had not fixed any norms of accuracy of the estimate in the scope of work of the consultant and therefore no responsibility could be fixed on the consultant for his failures.

As per clause 13(b) of the contract, the additional quantities which exceed 125 per cent of the tendered quantity were to be paid at the rates entered in or derived from the schedule of rates prevalent at the time of executing additions and alterations plus or minus the overall percentage of the original tendered rates over the current schedule of rates of the year in which the tender is accepted. The rates so worked out were higher than the quoted rate for excavation in hard rock. This resulted in extra expenditure of Rs.29.25 lakh on account of the increased rates.

The matter was referred to the Government/ Company in May / March 2003. The reply, however, is awaited (September 2003).

3.14 Defective design and poor construction

Defective design coupled with poor construction resulted in collapse of aqueduct constructed at a cost of Rs.26.18 lakh.

The construction of aqueduct of Shahapur Branch Canal in Distributory No.8A was awarded (March 1994) to C.V.K.R.R.Reddy at his quoted price of Rs.26.43 lakh as against the estimated cost of Rs.34.33 lakh. The work was completed in April 1999 at a total cost of Rs.26.18 lakh. The aqueduct measuring 730 metre in length comprised of re-inforced cement concrete trough supported on circular piers with open foundation resting on hard soil.

While letting out water for khariff season of 2001, the trough collapsed (July 2001) for a length of 87 metre. The investigation done by Torsteel Research Foundation in India (TRFI) on behalf of the Company revealed (July 2001) that the collapse of the aqueduct was primarily due to extremely poor quality of construction, which was compounded by highly economical structural design. TRFI observed :

- deficiency in structural design with respect to wind load;
- presence of poor quality of concrete-honeycombs/voids in structure;
- non-verticality of the piers and pier heads; and
- improper disposition of reinforcements.

Two photographs showing the extremely poor quality of construction is shown below :



**SEVERE HONEY COMBED CONCRETE IN PIERS
(TYPICAL VIEW)**



Severe honey combed concrete and non verticality of piers

TRFI recommended that on account of the flaw in design and poor quality of construction the safety of the un-collapsed region of the aqueduct was also suspect and hence it needed to be demolished and reconstructed from beginning to end. Accordingly, the Company decided (August 2002) to construct a new aqueduct at an estimated cost of Rs.59 lakh.

Audit observed that as per records of the Company, the material used for construction were tested for quality and the construction itself was certified to have been completed in all respects as per specifications and carried out to the complete satisfaction of the engineers-in-charge of the work. The extent of defects/deviations from specifications in the construction as revealed by the investigation illustrates the gross negligence of the engineers-in-charge of the work to ensure quality construction. The Company has to improve its internal control mechanism to ensure that there is no compromise on quality of construction undertaken by it and the work is done as per specifications.

The Company has confirmed the facts and stated (August 2003) that the Government has initiated disciplinary proceedings and issued (May 2003) show cause notices to the officers responsible. These actions were initiated only on being pointed out by Audit (April 2003). The Company has not initiated any action against the contractor for poor construction work. In any case the Company cannot recover the amount.

The matter was referred to the Government in May 2003. The reply, however, is awaited (September 2003).

Karnataka Power Corporation Limited

3.15 Theft of generator stator coils

Non-compliance to internal control procedures resulted in theft of coils worth Rs.1.10 crore.

Sharavathy Generating Station at Jog of the Company sent (February-March 1999) eight wooden cases containing 573 generator stator coils for storage purpose in the hot air godown at Ambewadi stores since such a facility was not available at Jog. The cases were accepted at Ambewadi stores without verifying the contents in contravention of the provisions of the Accounts Manual of the Company.

Since there was no space in the hot air godown, three out of eight cases containing 199 coils were initially kept in the open shed near railway platform and later (May 1999) shifted to another godown. While insuring the coils, only the coils kept in the hot air godown were covered and not those kept outside. The wooden cases that were kept outside were opened by the stores staff in September 2000 and 174 coils valued at Rs.1.10 crore were found missing.

Thus, negligence on the part of the officers concerned to comply with important internal control procedures involving inspection of the materials

upon receipt as well as while handing over the charge of the stores, proper storage of costly materials which were to be stored in specific temperature controlled godowns and ensuring adequate insurance against loss resulted in an avoidable loss of Rs.1.10 crore.

The management stated (May 2002/April 2003) that based on a police complaint lodged (October 2000) by it, the Government ordered a Corps of Detectives (COD) investigation in July 2001. Based on the COD report, charge sheet has been filed against one official and disciplinary action initiated against three officials. In any case the Company cannot recover the amount lost.

The matter was referred to the Government in March 2003. The reply, however, is awaited (September 2003).

Karnataka State Agro Corn Products Limited

3.16 Undue favour to a private party

Appointment of distributor/ reseller for maize flakes resulted in avoidable extra expenditure of Rs.31.64 lakh.

Pending approval of the Board, the Company entered into an agreement (June 2001) with Colnac International Private Limited, Chennai as distributor for sale of maize flakes and grits, which was being earlier handled by the Company. Agreement provided for minimum off-take of 600 tonne per month of maize flakes and grits at Rs.9 and Rs.7 per kg respectively on 90 days credit against post-dated cheques. After the approval of the appointment of the agent by the Board (September 2001), one more agreement was entered (October 2001) into with the agent. In the second agreement the Company agreed to pay the commission of 10-12 per cent to the distributor. The agreement also restricted the distributor from soliciting the parties which have been dealing directly with the Company.

The Company in all supplied 2,038.025 tonne of maize flakes and 210.91 tonne of maize grits valued Rs.2.04 crore to the firm from June 2001 to June 2002 and paid total commission of Rs.17.61 lakh. Audit observed (March 2002) that the distributor had also sold maize flake (1871.20 tonne) to the breweries at the rate of Rs.9.75 per kilogram, to which the Company was earlier selling directly. There has been no addition to business of the Company by the distributor as envisaged at the time of agreement. Consequently, it was decided (August 2002) to discontinue the business with the distributor.

Injudicious decision to appoint a distributor resulted in avoidable expenditure of Rs.17.61 lakh as commission besides losing revenue of Rs.14.03 lakh due to short realisation on sale of flakes done by the distributor to the breweries.

The management stated (May 2003), that even though Company was selling directly to the breweries the payments were not forthcoming and hence the

Company decided to appoint an agent. The Company justified the appointment stating that there was increase in turnover from Rs.1.93 crore in 1999-2000 to Rs.2.42 crore in 2000-01 to Rs.4.21 crore in 2002-03.

The reply is not correct as the turnover of Rs.2.04 crore given by the distributor during June 2001 to June 2002 included Rs.1.68 crore in respect of breweries to which the Company was earlier selling directly. In the year 2002-03, the turnover contributed by the distributor was Rs.33.20 lakh only. Moreover, the business with the agent was discontinued as there was no benefit to the Company.

The matter was referred to the Government in May 2003. The reply, however, is awaited (September 2003).

Mysore Minerals Limited

3.17 Export of Chromite ore through MMTC

Delay in transporting chromite ore to port resulted in loss of Rs.82.56 lakh.

The Company mines chromite ore at Byrapura. As there was a ban on export, the officials of the Company were in constant contact with Minerals and Metals Trading Corporation (MMTC), the canalising agency for export of minerals and Government of India (GOI) for permission to export the ore.

After receipt (March 2000) of the special permission from the GOI for one time export of 10,000 metric tonne (MT) of chromite ore, the Company requested (March 2000) the MMTC to locate the buyer and indicated a price of US\$70 per MT. MMTC forwarded orders with copy of sale contract on 5 May 2000 indicating the shipment date as 25 June 2000.

Since the Company could not adhere to the shipment date, the MMTC agreed to the request of the Company for extending the date of shipment to September 2000. As the Company failed to converge ore at the port, the MMTC informed (15 September 2000) the Company that the buyer had cancelled the order.

MMTC asked (October 2000) the Company to reduce the agreed price by US\$ 6 per MT due to delay caused in shipment. But, the Company rejected (October 2000) the offer. The Board of Directors in November 2000 authorised its Chairman and Managing Director to negotiate with the MMTC and fix the price for export of the ore. However, no decision was taken. Subsequently in June 2001, the Company made a fresh purchase contract with MMTC for a total quantity of 10,500 MT at a rate of US\$ 54 per MT, free on board (FOB), Mangalore against which 14,500 MT of ore was transported in October 2001

Audit observed (May 2003) that even though the transportation of ore began on 17 May 2000 for the June 2000 shipment, this process was discontinued

and fresh tenders were called for. The new transportation contract was finalised on 27 June 2000 and the transporter commenced transportation on 1 July 2000 i.e. after expiry of shipping date. Further, by not taking a timely decision to reduce the price by US\$ 6 per MT, the Company was subsequently forced to accept a price that was lower by US\$ 16 per MT, apart from incurring expenditure on holding the stock till October 2001. Failure to transport ore within the stipulated time resulted in loss of Rs.76.56 lakh besides incurring plot rent of Rs.6 lakh.

The Government stated (September 2003) that workers in the mine went on strike from 15 July 2000 and they restrained the Company from transportation of the ore till September 2000. The reply of the Government is factually incorrect as the earlier contract provided for shipment by end June 2000, which was earlier than the strike period. Further as per the records of the Company, the transportation of ore was also done during July to September 2000.

3.18 Loss of revenue

Non-conducting of land survey before entering into raising-cum-sale agreement resulted in avoidable loss of revenue of Rs.58.65 lakh per annum.

The Company entered into (August 1999) an agreement with Sathya Granites, Dharmapuri for raising-cum-marketing of granite blocks in 30 acres of Ilkal quarry. The agreement was valid up to 7 April 2007. The Company received (August 1999) an advance of Rs.2.20 crore from the contractor.

As the demarcated land for quarry was only 25 acre as against the tendered area of 30 acre, the request of the contractor for additional five acre of land was turned down as the same was mined departmentally. The contractor filed (July 2000) a case in the Honourable High Court praying direction to give 30 acre of land or to refund Rs.2.20 crore paid as advance. The Court dismissed (August 2000) the writ petition directing the parties to settle the matter by means of arbitration in terms of clause 22 of the agreement.

Apprehending adverse judgement in arbitration and also in view of its inability to refund the advance, the Company decided (29 March 2001) to settle the issue out of court and entered into a supplementary agreement.

The supplementary agreement entered (29 March 2001) into with the contractor was detrimental to the Company's interest. The rates for recovery of revenue was reduced by 54 per cent over the rates of original agreement.

The reduction in the rates would result in a recurring loss of Rs.58.65 lakh per annum on revised estimated annual production of 2,040 cubic metre.

The Government stated (August 2003) that even though the Company had 10 acre of land, the same was not handed over as the same was being mined

departmentally and was profitable operation. The reduction in premium was due to slight variation in the colour of granite.

The reply of the Government is not tenable. The Company should have surveyed the land before tendering and the contractor took advantage of the adverse financial position of the Company. The colour of the granite is only an after thought as the contractor did not raise the same and it was also expected of him to inspect the site and material before bidding.

Karnataka Road Development Corporation Limited

3.19 Non-utilisation of the services of the consultants as per terms of reference

Avoidable expenditure of Rs.54 lakh was incurred due to utilisation of the services of the consultants for works which were beyond the scope of terms of reference.

Larsen & Toubro Ramboll Consulting Engineers, Chennai were appointed as consultants for a period of one year from April 2000. The scope of work as per the terms of reference (TOR) included providing management consulting services for Bangalore–Mandya-Mysore Road, Mysore-Bantwal, Belur-Bilikere, Jewargi-Bijapur, Ring Road around Bellary and Gulbarga city at a fee of Rs.54 lakh.

The agreement clause 5 (Termination) sub-para 5.1(e) & (f) read with clause 5.2 stated that the Company can terminate the agreement for any reason as may be decided upon by the Company. The consultants shall be entitled to receive payment for all services satisfactorily performed till the effective date of termination plus any reasonable cost incurred as a result of such termination.

Audit observed (July 2002) that since the above projects were pending on account of various reasons, the Company instead of terminating the services of the consultant as per the agreement, utilised the services of the consultants for other works. The contract for the services was not extended after one year and the Company took up these works during June 2002 through different consultants.

Since the works as per terms of reference could not be commenced within the agreement period, the Company should have terminated the contract. The failure on the part of the Company to take the decision to terminate the services of the consultants resulted in injudicious expenditure on consultancy charges of Rs.54 lakh.

The Government stated (June 2003) that management consultant had been associated with the works mentioned in TOR. They had no role to play in the actual implementation of the project and his role was to advise management in technical aspects different from that of project consultants. The reply of the

Government is not correct since their services have been utilised for other works not envisaged in terms of reference (TOR).

The Mysore Paper Mills Limited

3.20 Extra expenditure on sieve analysis

Conducting sieve analysis after finalisation of purchase order was not need based and resulted in extra expenditure of Rs.33.08 lakh.

The Company was using imported coal since 1996 by procuring it through Karnataka State Small Industries Development Corporation Limited (KSSIDC - a nodal agency for supply of materials). During July /August 1999, it placed an order for 2.4 lakh metric tonne (MT) of imported coal of size between 0-50 millimetre (mm). The inspection of batch quantity/lots approved by Company for quality was to be carried out by the supplier through SGS India Limited and reports sent to Company and KSSIDC. A Memorandum of Understanding (MOU) was entered into (October 1999) incorporating the purchase order as part of this agreement and it was valid for two years.

While the supply was in progress, the Company requested (June 2000), KSSIDC to furnish sieve analysis (break up of coal of sizes of less than 1 mm, less than 3mm and above 3mm). It was found essential (according to the Company) to avoid fines, which would result in handling losses and also carry over in boilers, damaging the super heater parts. As this sieve analysis was outside the scope of the purchase order/MOU, the Company agreed to pay additional amount of Rs.20 per MT for sieve analysis. Accordingly, sieve analysis was carried out through SGS on 1.654 lakh MT of coal and Rs.33.08 lakh was paid to KSSIDC towards sieve analysis.

Audit observed (April 2003) that, as the size specified in the purchase order was between zero and 50 mm, the decision of the Company to conduct sieve analysis at an additional cost was not justified as primarily the Company had to accept supplies of coal of all sizes in that range and moreover there was no penalty on the supplier for supply of fines. Further, the Company did not have the clear idea about the exact size of the coal required as per the requirement of boilers at the time of finalisation of purchase orders. The total amount of Rs.33.08 lakh paid towards sieve analysis was thus avoidable.

The management stated (July 2003) that the results of sieve analysis was helpful in decisions regarding blending of imported coal with indigenous coal to have less carry over of un-burnt carbon and improving overall boiler performance. The reply is not tenable on the grounds that the Company failed to produce any technical analysis in support of its reply for verification and no value addition was gained by the expenditure and hence proved unfruitful.

The matter was referred to the Government in July 2003. The reply, however, is awaited (September 2003).

STATUTORY CORPORATIONS

Karnataka State Financial Corporation

3.21 Financial assistance to a defaulter

Extending working capital loan in spite of adverse reports from the branch office resulted in loss of Rs.39.48 lakh.

The Corporation sanctioned (November 2000) a working capital loan of Rs.30 lakh to Tungabhadra Conductors, Bellary (unit). The loan was sanctioned against a collateral security of land valued (October 2000) at Rs.44 lakh by the Manager (Technical) of the Corporation apart from further mortgage of the properties already secured to the Corporation in another loan and personal guarantee of all the partners. The loan was disbursed in December 2000. The unit stopped functioning from April 2001 and defaulted in repayment of the loan.

Audit observed that this loan was sanctioned despite the fact that Deputy General Manager of Bellary branch had suo-moto informed (September 2000) that the unit had defaulted in the repayment of earlier loan (two loans of Rs.15 lakh out of which Rs.3.15 lakh was overdue as on September 2000) granted to it and considering the then condition of oil industry, further funding would not be in the interest of the Corporation.

Thus the decision to grant the loan to a unit, which was in default for earlier loans and considering the industry condition prevalent at that time (the unit closed within four months from the drawal of advance), was not justified particularly when an officer of the Corporation had also informed about these facts. Further, valuation of Rs.44 lakh for land taken as collateral security proved inflative since the subsequent valuation (July 2001) by the internal audit was only Rs.3.53 lakh.

The primary assets of the unit were sold (December 2002) for Rs. 16.75 lakh, and an amount of Rs.39.48 lakh (principal : Rs.17.84 lakh, interest and other debits : Rs.22.64 lakh) remained un-recovered (July 2003). The Corporation could not sell the collateral property, as it did not receive suitable offers from the public. The Corporation has exonerated the officers responsible for sanction of loan violating the norms and wrong appraisal of land.

The Corporation stated (April 2003) that different persons have followed different methods for valuation of the land assuming agricultural, industrial or residential property, resulting in variation in value of the land. But the fact remains that the loan was granted to a party which had defaulted in earlier loan and also against the advice of Deputy General Manager of the branch.

The matter was referred to the Government in March 2003. The reply, however, is awaited (September 2003).

3.22 Deferred Payment Guarantee

Failure of the Corporation in monitoring the payment of instalments by the assisted party has resulted in devolving the entire guaranteed amount on the Corporation, the recovery of which is doubtful as even the one time settlement offered by the Company was not honoured/adhered to by the assisted party.

Assistance by way of Deferred Payment Guarantee (DPG) of Rs.36.24 lakh was sanctioned (March 1998) to Shri. S Ankireddy, a Class I PWD contractor, for purchase of a Tata Hitachi Excavator from Telco Construction Equipment Company Limited. The guarantee was secured by hypothecation of excavator to be purchased and fixed deposit with the Corporation for 10 per cent of the guarantee amount, besides personal guarantee of the proprietor and second charge on all assets of another firm already secured to the Corporation in another loan.

As per the scheme, the seller draws bills of exchange for the amount of instalments on the purchaser which are co-accepted by the Corporation. The guaranteed amount was payable to the discounting banker in 10 quarterly instalments starting from January 1999 and ending with April 2001. The Corporation had co-accepted (April 1998) all the bills of exchange. The equipment was delivered by the supplier in March 1998.

It was noticed in Audit that although the loanee had to pay the instalments from January 1999 and finish by April 2001, not even a single instalment was paid by him. The Corporation failed to monitor the payment of instalments on due dates. Even though the Corporation was empowered to take recovery measures in case of default exceeding three months, no such action was taken. Finally, in June 2001, the discounting banker claimed the entire devolved amount of Rs.36.23 lakh together with over due interest of Rs.0.93 lakh in one instalment, which was paid by the Corporation (June 2001).

Even after adjusting (August 2001) the fixed deposit of Rs.5.13 lakh by the Corporation, an amount of Rs.32.04 lakh was recoverable from the party as on 31 August 2001. The seizure of the equipment ordered by the Managing Director in December 2001 was also not executed as the machinery was reported to be located in a remote place. In June 2003, the Corporation accepted one-time settlement (OTS) for Rs.32.42 lakh to be paid by 20 July 2003. The party paid (June 2003) Rs.9.50 lakh as initial payment, but has not made any further payment towards the OTS. A sum of Rs.22.92 lakh is due under the OTS and recovery of even this amount is doubtful, as the loanee has not adhered to the schedule of payment.

The Government stated (September 2003) that the Corporation never failed to monitor the account, in spite of that the loanee continued to default and failed to exhibit the equipment for inspection and hence the equipment could not be seized. Further, it stated that the machine had now been located and the loanee had been offered OTS. The reply is not acceptable as no action was taken on default of instalments till the entire guaranteed amount devolved on the

Corporation. It is not reasonable to expect a wilful defaulter to exhibit the equipment for inspection/seizure and lethargic action of Corporation in realising the dues cannot be ruled out.

Karnataka State Road Transport Corporation

3.23 Misappropriation at Bangalore Central Division

Inadequate internal control led to misappropriation of Rs.83.91 lakh at Bangalore central division.

As per Accounts manual, the Divisional Office arranges for payment of salaries to depots / divisional workshop on the basis of previous month's salary. Depots have to prepare the bills and produce the same to Divisional Office for verification and audit. After the receipt of acquittances rolls, salary bills are to be reconciled with the actual funds received and the difference representing the excess or shortage of funds, had to be remitted back or drawn from Divisional Office alongwith the acquittance roll. The reconciliation of advance amount is to be done before 10th of every month. Accounts Manual also provided for maintenance of a control register for monitoring the settlement of advances.

During the audit (April 2001) of Bangalore Central Division, it was observed that the trail balances were not drawn up by drawing the balances as per cashbook and instead a separate head of account was maintained to record cash transactions. The general ledger did not contain the actual cash payments made. It was specifically pointed out to the Corporation that this system would lead to misappropriation of funds. It was also suggested to split the functions of the staff of the division (as the same staff was carrying out scrutiny, passing of bills, payment, and accounting the transaction) and nominate a class I officer of the Corporation to verify the records kept at the depot and report thereupon.

The Corporation formed a special team for inspection of Bangalore Central Division and found (August 2002) that the clerks in the Depot No.1 of Bangalore Central Division in collusion with staff at Divisional Office (Bangalore Central Division and Divisional Workshop) had drawn Rs.83.91 lakh in excess of the actual salary bills and misappropriated this amount.

The Corporation stated (August 2003) that it has been following the procedures laid down in the manual. The fraud has been committed by unscrupulous officials of the depot and division office due to lack of supervision.

The matter was referred to the Government in June 2003. The reply, however, is awaited (September 2003).

3.24 Avoidable expenditure on purchase of flats

Avoidable loss of Rs.14.87 lakh was suffered on purchase of flats at National Games Complex, Koramangala.

The Corporation deposited Rs.47.55 lakh (January and April 1997) being 40 per cent cost as initial deposit for purchase of five flats constructed by Karnataka Housing Board (KHB) at National Games Complex, Bangalore. The balance was payable in 16 quarterly instalments of Rs.8.70 lakh each.

The KHB cancelled (February 2001) the allotments of the above flats after forfeiting the initial deposit of Rs.47.55 lakh as the Corporation failed to pay any of the instalments.

The Corporation, after correspondence with KHB, surrendered three flats in July 2002 and transferred two flats to Bangalore Metropolitan Transport Corporation. The KHB adjusted Rs.14.87 lakh as rent for these five flats surrendered after six years and released the balance amount to the Corporation.

Audit observed (December 2001) that the Chief Accounts officer of the Corporation had expressed his apprehension on the purchase of flats in September 1996 as the Corporation was facing financial crisis. However, the Board overruled this and the purchase was perceived as an investment opportunity.

Failure to assess financial position and ability to pay for the purchase, in spite of the advice of the Chief Accounts Officer, resulted in loss of Rs.14.87 lakh in addition to blocking of funds of Rs.47.55 lakh for more than six years.

The matter was referred to the Government in May 2003. The reply, however, is awaited (September 2003).

Bangalore Metropolitan Transport Corporation

3.25 Avoidable payment of penalty

Non-compliance of order of the Commercial Tax Authorities resulted in payment of penalty of Rs.2.55 crore.

As per section 3(1) of Karnataka Tax on Entry of Goods Act, 1979, the dealer who causes the entry of goods for consumption, use or sale is liable to pay entry tax. However, in the case of petroleum products, even though the Corporation was causing the entry, the Government was collecting tax from oil companies.

The Government by a notification (14 May 1998) exempted the oil companies from payment of entry tax. With this notification the onus of payment of entry tax for petroleum products was now on the Corporation. The

Commercial Tax authorities (October 1999) brought to the notice of the Corporation the change of law and directed the Company to pay entry tax on petroleum products. The above notification was cancelled with effect from April 2000 restoring the status-quo-ante.

Audit observed that during the intervening period from May 1998 to March 2000, the Corporation did not pay any entry tax on the use of petroleum products in its operations. Besides, the Corporation failed to disclose the purchase of petroleum products in their monthly return to Commercial Tax authorities. The failure of the Corporation to disclose the turnover of petroleum products in entry tax returns for the period 1998-2000 was construed by the Department as wilful non-disclosure and a penalty of Rs.2.55 crore was levied. This amount was deducted by the Government from the subsidy payable to the Corporation.

The Corporation stated (May 2003) that objections were filed with tax authorities but the tax authorities did not accept the same. The reply is not tenable as the change in the position of law was known to the Corporation in October 1999.

The matter was referred to the Government in May 2003. The reply, however, is awaited (September 2003).

BANGALORE
The

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Karnataka

COUNTERSIGNED

NEW DELHI
The

(**Vijayendra N. Kaul**)
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