

## CHAPTER IV

### 4. Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government companies and Statutory Corporations are included in this Chapter.

#### Government companies

#### Bangalore Electricity Supply Company Limited

##### 4.1 Loss of Revenue

#### Failure to monitor and enforce guidelines for laying of cables on BESCO supports by cable operators resulted in loss of revenue of Rs. 5.45 crore.

The Company (BESCOM) accorded right of way to nine cable operators in December 2002<sup>Ø</sup> and eight cable operators in September 2004 to lay Optic Fibre Cables (OFC) and Co-axial Cables (CC) on its transmission and distribution lines on a non-exclusive basis subject to payment of charges. The charges applicable were Rupees twenty thousand per kilometre (km) of OFC per year subject to enhancement by five *per cent* every year from the fourth year of the agreement and rupees fifty per pole per year for CC. Advance of 50 *per cent* of the charges for the first year was to be paid while entering into the agreement and quarterly payments were to be made thereafter.

Subsequent to fatal electrocution of a child in Bangalore City, the Company issued (July 2004) guidelines to field staff to inspect the cables under their jurisdiction and submit monthly reports to the General Manager (Technical). The field staff, which was authorized to check the use of supports, could not succeed in enforcing the guidelines and check the unauthorized use of the Company's supports. Accordingly, the Company ordered (July 2007) the removal of all the cables strung on its supports of all the operators, except in respect of four operators who had obtained injunction orders from the court.

Audit noticed (June 2009) that:

- in respect of the four cable operators who had obtained injunction against removal of cables from the court, it was observed that the Company was not raising demands on these operators. The total amount due from them from July 2007 up to March 2009, as worked out by Audit, was Rs. 1.77 crore. The Management has intimated (September 2009) that Rs. 48.17 lakh<sup>76</sup> was demanded from three parties and Rs. 39.81 lakh had been collected from them. However, it

<sup>Ø</sup> the permission was given by Karnataka Power Transmission Corporation Limited and later transferred on behalf of Bangalore Electricity Supply Company Limited on its formation.

<sup>76</sup> this amount is already included in Rs. 3.88 crore.

has been observed that these details pertain to the period from 2004 to 2007 and the Management has not furnished any details in respect of the demands raised and amount collected from the 4th party. It has also been intimated that they have instructed the Circle Offices to demand and collect right of way charges in respect of these four operators for the period from July 2007 to date.

- the operator wise details of amount demanded and received from the date of agreement of each contract up to July 2004 (issue of guidelines) were not available on record. The individual agreements of all the cable operators were not produced to Audit. Based on sanction orders, the charges receivable as worked out by Audit from 25 operators<sup>77</sup> for the period 2004-2007 amounted to Rs. 3.88 crore. Of this, Rs. 1.38 crore was received leaving a balance of Rs. 2.50 crore<sup>78</sup>. Even though two years had lapsed since these cables were removed, the Company had not initiated any action against the cable operators to effect recoveries.
- in respect of one cable operator Sunray Computers (Private) Limited, an amount of Rs. 1.18 crore was receivable as of March 2004 which has not been recovered so far (August 2009).

Thus failure to monitor and enforce guidelines for laying cables on BESCO supports by cable operators resulted in loss of revenue of Rs. 5.45 crore<sup>79</sup>.

The Management stated (September 2009) that details of payment have been called for from the field officers and on receipt of the data, information will be compiled and legal action has been initiated against Sunray Computers (Private) Limited.

Audit suggests the Company should take immediate steps to secure its financial interests and recover dues of Rs. 5.45 crore, as the Company is not having any security from the parties.

The matter was reported to the Government (June 2009); its reply was awaited (September 2009).

#### ***4.2 Under insurance***

**The Company adopted the wrong Schedule of Rates for declaration of value of transformer in its insurance policy resulting in under insurance and foregoing claim of Rs. 1.72 crore.**

The Company (BESCO) took (December 2005) a Machinery Insurance policy with National Insurance Company Limited (NICL) (a Government of India Undertaking) to indemnify the insured against unforeseen and sudden physical damage and entered into a Memorandum of Understanding (MOU) in

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<sup>77</sup> eight cable operators were given permission to lay cables by the Divisional heads of the Company and further details regarding these operators are not on record.

<sup>78</sup> including the amount of Rs. 1.89 lakh due from Sunray Computers (Private) Limited.

<sup>79</sup> loss of revenue Rs. 5.45 crore includes (Rs. 1.77 crore + Rs. 2.50 crore + Rs. 1.18 crore).

January 2006. The policy was valid for the period from 1 January 2006 to 31 December 2006 and covered 29,904 transformers (25 KVA : 7,302 nos and 63 KVA : 22,602 nos) with a sum insured of Rs. 91.01 crore. The premium paid was Rs. 1.25 crore.

The provisions of the policy *inter alia* stipulated that sum insured shall be equal to the cost of replacement of the insured property by new property of the same kind and same capacity, which meant its replacement cost including freight, dues and customs duties and erection costs. Further, it stipulated that if the sum insured was less than the amount required to be insured, only such proportion as the sum insured bears to the amount required to be insured would be paid.

Audit observed (September 2008) that the Company declared (January 2006) the unit price of transformer based on Schedule of Rates (SR) of 2003, instead of adopting Schedule of Rates of 2005 which was already adopted by the Company with effect from June 2005. The Company preferred (January 2006 to May 2007) insurance claims of Rs. 5.86 crore in respect of 5,159 transformers. The claim was revised to Rs. 5.59 crore in respect of 4,701 transformers as the remaining transformers were identified as non-insured transformers. Based on negotiations (May / June 2008) between the Company, surveyors and insurance brokers, NICL agreed for settlement of Rs. 2.10 crore out of which an amount of Rs. 75.89 lakh was pending receipt as of August 2009. The details of rates declared *vis-à-vis* the effect of under insurance are detailed below:

Transformer Capacity	25 KVA	63 KVA
	(Rs. )	
Rate per transformer at which it was insured ( <i>i.e.</i> , as per SR of 2003) (A)	25,793	31,935
Rate per transformer as per SR of 2005 (effective from 1 June 2005) - (B)	44,260	66,200
<b>Settlement</b>		
Rate adopted for settlement – Towards Material	44,260	59,600
Towards Incidental	9,143	9,143
<b>Total (C)</b>	<b>53,403</b>	<b>68,743</b>
Value insured	25,793 (48 per cent)	31,935 (46 per cent)
<b>Under insurance (C-A)</b>	<b>27,610</b> (52 per cent)	<b>36,808</b> (54 per cent)

It could be seen from above that NICL admitted claims proportionate to SR 2003 at Rs. 2.10 crore.

Though the Company had rates of transformer as per SR 2005 at the time of taking insurance policy in January 2006, the declaration of rates of transformers as per SR 2003 for insurance purposes, resulted in underinsurance and foregoing claims of Rs. 1.72 crore<sup>80</sup>.

The matter was reported to the Management / Government (April 2009); their reply was awaited (September 2009).

<sup>80</sup> under insurance of Rs. 2.97 crore less additional premium towards insuring at SR 2005 rates of Rs. 1.25 crore.

### 4.3 Delay in invoking risk purchase clause

**Delay in issuing orders under risk purchase clause resulted in non-recovery of Rs. 1.58 crore from outstanding bills of the supplier.**

The Company (BESCOM) placed (February 2005) purchase order on Mohan Aluminium Pvt Ltd. (supplier) for supply of 2,500 kilometres (km) of 'Rabbit ACSR conductor' at an ex-works price of Rs. 18,750 per km. The delivery schedule was from April 2005 to August 2005. The terms and conditions of tender *inter alia* specified that the supplier was liable for penalty, subject to maximum of 10 *per cent* on the contract value for the materials not delivered within the period stipulated in the order. For failure to supply the Company could purchase the material at the risk of the supplier and prefer claim for the difference in price, which the Company could recover from any money due to the supplier on bills or deposits or any account.

The supplier failed to commence supplies in spite of requests (June to September 2005) and a final notice was served in December 2005. As the supplier did not respond, the purchase order was withdrawn in January 2006 and earnest money deposit of Rs. 12,500 forfeited.

The Company placed (February 2006) purchase order on another supplier for supply of conductors at an ex-works price of Rs. 19,900 per km.

Audit observed (March 2009) that even though the order was cancelled (January 2006) and fresh purchase order placed in February 2006, the Company failed to initiate action on suppliers as per terms and conditions of risk purchase and penalty. The Managing Director took exception (December 2006) to the inordinate delay in taking action under risk purchase clause. The Company finally issued (December 2006) the order under risk purchase clause for recovery of Rs. 1.11 crore towards difference in price<sup>81</sup> and Rs. 0.47 crore towards maximum penalty to be recovered from the pending running bills. The Company encashed bank guarantee of Rs. 1 lakh in February 2007.

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(Rs.)

	Mohan Aluminium Pvt. Ltd. (1 <sup>st</sup> tender)	Sharavathy Conductors Pvt. Ltd. (2 <sup>nd</sup> tender)
Ex-works price	18,750	19,900
Price variation, duties, taxes, freight and insurance	5,437	8,747
Total	24,187	28,647
Difference	4,460	
<b>Risk : Rs. 4,460 * 2,500 kms = Rs. 111.50 lakh</b>		
<b>Penalty : 10 per cent of (Rs. 18,750 * 2,500 kms) = Rs. 46.87 lakh</b>		

Audit observed that during the intervening period of withdrawing the purchase order (January 2006) and issue of orders under risk purchase clause (December 2006), an amount of Rs. 0.16 crore<sup>82</sup> towards outstanding bills was released (August 2006) to supplier in one Division alone.

At the instance of Audit, directions were issued (January 2009) after a lapse of two years, to other divisions of the Company to recover the amount from any outstanding bills pending payment in respect of the supplier. But, the amount was yet to be recovered (August 2009) and the Company had not initiated any legal action so far (August 2009).

This delay in issuing orders under risk purchase clause resulted in non-recovery of Rs. 1.58 crore from outstanding bills of the supplier. Audit recommends that the Company should prefer risk purchase claims as per the tender agreement, in the event of the supplier failing to supply as agreed.

The matter was reported to the Management / Government (June 2009); their reply was awaited (September 2009).

### **Karnataka Power Transmission Corporation Limited**

#### **4.4 Avoidable expenditure**

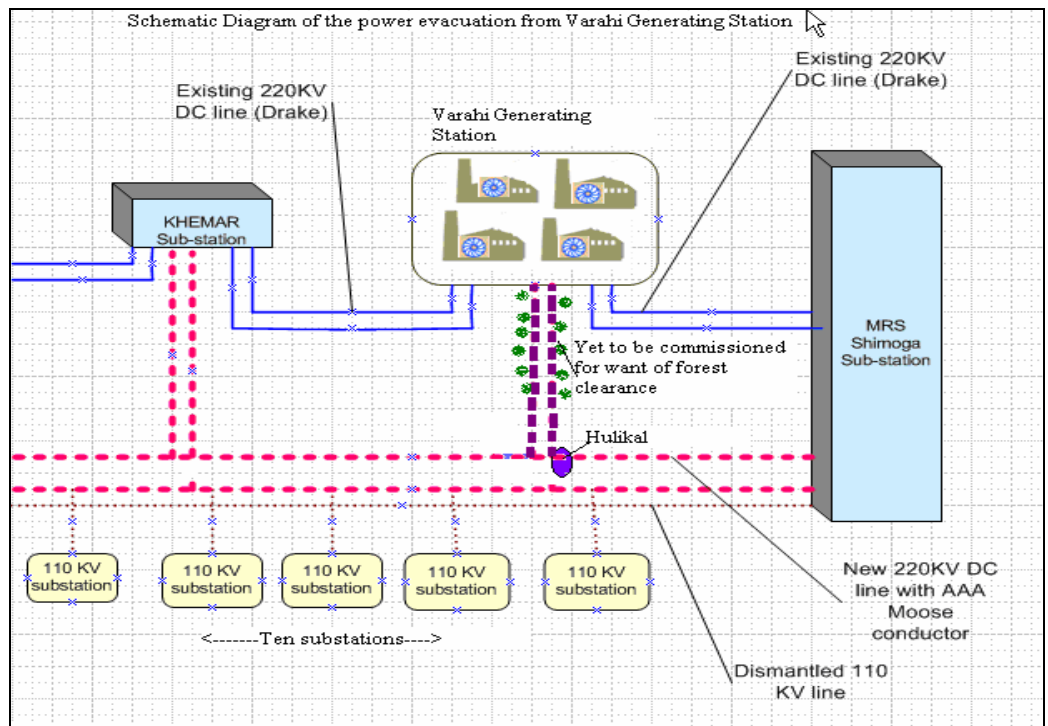
**The use of higher capacity conductor, which was not need based, resulted in injudicious expenditure of Rs. 11.60 crore.**

The electric power generated from a generating station is evacuated and transmitted to various substations through transmission lines known as conductors. The capacity of the different conductors is as given below:

<b>Voltage (KV)</b>	<b>Generic name of conductor</b>	<b>Capacity (in MW)</b>
110	Lynx	72
110	Drake	117
220	Drake	233
220	AAA Moose	270
400	AAA Moose	492

The Varahi Underground Power House (VUPH) of Karnataka Power Corporation Limited commissioned in 1989-90 had an installed capacity of 230MW in Stage 1. The Schematic diagram of the evacuation of power generation is as given below:

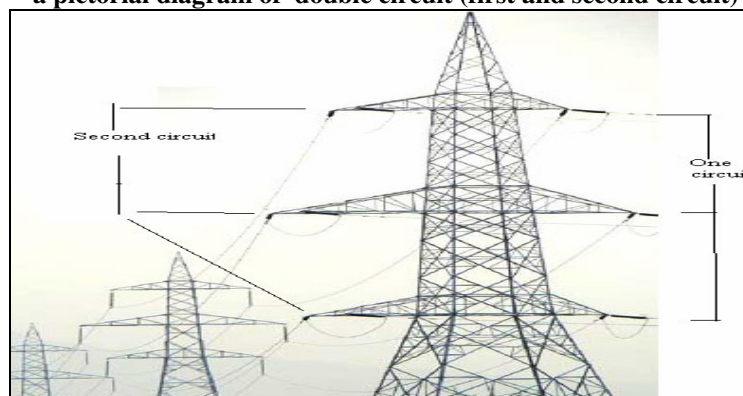
<sup>82</sup> in respect of supplies made against another purchase order (April 2005) at Rural South Division.



The power generated from VUPH was evacuated to Master Receiving Station (MRS)-Shimoga and Khemar substations on double circuit (DC)<sup>83</sup> conductors (drake). As each circuit of drake conductor had the capacity to carry 233MW (total for double circuit: 466MW on each side), the entire power (230MW) could be evacuated to either MRS-Shimoga or Khemar substations. Power received at MRS Shimoga was transmitted to 110 KV stations in the vicinity, through Lynx conductor (110KV line).

The Company had proposed (January 1998), to construct a double circuit line using Moose conductor in the existing 110KV corridor between Varahi and MRS Shimoga. The work (82.5 kilometers) was completed (2001) between MRS Shimoga and Hulikal and balance (5.5 kilometers) from Hulikal to Varahi could not be completed for want of forest clearance / permission.

<sup>83</sup> a pictorial diagram of double circuit (first and second circuit) is given below:



For evacuation of power of 230 MW in 2<sup>nd</sup> phase (units 3 and 4) at VUPH, the Company prepared (December 2002), Detailed Project Report (DPR) for construction of 220KV double circuit line with Moose conductor from Hulikal to Khemar in the existing 110KV corridor at a total cost of Rs. 84.56 crore. The work order was issued (February 2007) after a lapse of four years and the work is still in progress (August 2009). In the meanwhile, unit 3 and 4 of VUHP were commissioned in January 2009.

In this connection Audit observed that:

- the Moose conductor from Hulikal to Khemar replaced the old 110KV line. However, as power required for 110KV sub-stations was transmitted through this line, one circuit was necessarily to be kept charged at 110KV. Hence, the use of higher capacity (Moose) conductor was not need based.
- at present the work between Varahi and Hulikal could not be taken up for want of permission of forest department. The entire power (460MW) from all the four units of VUPH was evacuated to MRS Shimoga or to Khemar through the existing lines (drake). The Company could have opted for Drake conductors on the MRS Shimoga–Hulikal–Khemar line, which would have the capacity to evacuate another 466MW. The Company, however, went in for higher capacity double circuit Moose conductor, with a capacity of 540MW, which was not need based as one line is to be kept charged at 110KV and evacuation facilities already existed between Varahi and Khemar.

This decision of the company to use higher capacity Moose conductor which was not need based resulted in injudicious expenditure of Rs.11.60 crore<sup>84</sup>.

The Management accepted (October 2008), that one line of the newly constructed Moose conductor line was charged at 110KV to facilitate supply to substations in the vicinity. The Management further stated that once the third and fourth units of VUPH were commissioned, both the newly constructed lines (Moose) and one drake line would be used for evacuation, whereas the other drake line would be used for providing power to 110KV substations. The reply of the Management is contrary to projection in the DPR in which one of the newly constructed lines was proposed to feed 110KV stations. Further, when the Company is unable to get forest clearance for the last eight years for 5.5 kilometers stretch (Hulikal-Varahi), the feasibility of providing power from one drake line to all the ten 110KV sub-stations is remote.

The matter was reported to the Government (June 2009); its reply was awaited (September 2009).

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<sup>84</sup> total 495 kilometres (six lines of 82.5 Kms) from MRS Shimoga to Hulikal and 701 kilometres (six lines) from Hulikal to Khemar. Standard price of AAA Moose conductor is Rs. 2.95 lakh per Km. and drake is Rs. 1.98 lakh per kilometre. Thus additional cost for 1,196 kilometres is Rs. 11.60 crore.

#### 4.5 Avoidable expenditure

**Under Grama Jyothi Scheme, the Company drew excess funds, did not use it for the intended purpose and delayed repayment resulting in avoidable interest payment of Rs. 3.19 crore.**

The Company (KPTCL), engaged in transmission of power in the State, proposed (March 2003) 'Grama Jyothi Scheme (GJS)' for providing continuous power supply to rural domestic consumers (non-irrigation pumpset consumers) with loan assistance from Rural Electrification Corporation (REC). The GJS was to be implemented in four Electricity Supply Companies (ESCOMS)<sup>85</sup>, with the technical assistance of KPTCL at a cost of Rs. 744.53 crore and completed within a year.

The Detailed Project Report (DPR) prepared for implementation of first stage of the project which envisaged investment of Rs. 535.20 crore, was not available on record. This DPR included pilot schemes in five stations (two in BESCOM and one each in other three ESCOMS) with an estimated cost of Rs. 7.42 crore (March 2003). Based on the request (March 2003) of KPTCL for implementing GJS, the Rural Electrification Corporation Limited (REC) sanctioned (March 2003) a loan of Rs. 580.51 crore and released Rs. 116 crore as 'Bridge Loan assistance' at 10.25 *per cent* interest (March 2003). The conditions of bridge loan assistance *inter alia* stipulated that all documentation would have to be completed within six months (*i.e.*, September 2003) and REC further stipulated (July 2003) that the total value of the assets that have to be mobilised for Equitable Mortgage was to be 130 *per cent* of the loan amount. There was a delay in conversion of bridge loan to term loan due to non-identification of assets.

While the implementation of GJS on a pilot basis in one station of BESCOM was completed in December 2003 and results were under study, the BESCOM experimented with another scheme – 'Rural Load Management Scheme' (RLMS) for improving the power supply in the rural electricity distribution system. The Managing Director of BESCOM informed (3 March 2004) KPTCL to keep on hold the tenders called for GJS. The RLMS presented (4 March 2004) before the Technical Advisory Committee of KPTCL, was well received. The Board of Directors of BESCOM, which discussed the matter on 12 March 2004, resolved to implement RLMS.

Instead of short closing the GJS scheme as RLMS was a better option, KPTCL executed<sup>86</sup> (31 March 2004) the loan documents for Rs. 580.51 crore with REC and provided bank guarantee of Rs. 148.58 crore as part of the loan documentation. The REC treated (March 2004) the bridge loan sanctioned earlier as term loan<sup>87</sup> carrying 9.5 *per cent* interest. The interest paid

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<sup>85</sup> Bangalore Electricity Supply Company Limited (BESCOM), Mangalore Electricity Supply Company Limited, Gulbarga Electricity Supply Company Limited and Hubli Electricity Supply Company Limited.

<sup>86</sup> a tripartite agreement between KPTCL, ESCOMs and REC.

<sup>87</sup> bridge loan of Rs. 116 crore and a part of accrued interest Rs. 0.10 crore totaling to Rs. 116.10 crore being 20 *per cent* of the total loan of Rs. 580.51 crore and carried an interest rate of 10.25 *per cent*.



(March 2004) on the bridge loan amounted to Rs. 12.39 crore. The GJS pilot scheme was not implemented in respect of other stations.

KPTCL closed the implementation of GJS only in March 2005, after a lapse of one year, on the grounds that the RLMS was much more feasible and suitable option. The entire term loan of Rs. 116.10 crore was repaid (March 2005) to REC along with interest for the period from March 2004 to March 2005 amounting to Rs. 10.52 crore.

Audit scrutiny revealed (September 2007) that though the estimated cost of implementation of GJS in pilot stations was Rs. 7.42 crore, loan drawn was for Rs. 116 crore. The Company had furnished (March 2003) an undertaking to REC that the loan availed would be utilised exclusively for implementation of GJS. The funds were, however, diverted for making payment to power suppliers and the Company had borrowed short term funds from the open market at rates ranging from 6.75 to 7.25 *per cent* during this period.

Audit concludes that the GJS was not conceptualized and therefore the execution of loan agreement in March 2004 lacked justification. The bank guarantee for Rs. 148.58 crore furnished for this purpose alongwith guarantee commission of Rs. 0.58 crore could have been avoided.

Audit further observed that there was delay in the closure of the GJS by over a year (March 2004 to March 2005) and considering a difference of 2.25 *per cent* in interest rates between term loan borrowings from REC and short term borrowings from commercial banks, the additional expenditure for the period from March 2004 to March 2005 of Rs. 2.61 crore, was avoidable and unnecessary.

This excess drawal of funds without analyzing results of pilot studies of GJS coupled with non-utilisation of funds for the intended purpose and delay in its repayment resulted in avoidable interest payment of Rs. 3.19 crore<sup>88</sup>.

Audit recommends that the Company should assess its requirement of funds based on the success of the pilot projects instead of drawing loans at the initial stage itself.

The matter was reported to the Management / Government (June 2009); their reply was awaited (September 2009).

#### **4.6 Defective planning**

**Defective planning and execution of power supply line project resulted in cost over run by nearly 400 *per cent* coupled with idle investment and denial of intended benefit to consumers.**

The Company (KPTCL) approved (October 1998) a Detailed Project Report (DPR) to establish a substation (110/33/11KV) at Muthinakoppa, a substation (33/11KV) at NR Pura and a double circuit line (33KV) from Muthinakoppa to

<sup>88</sup> Rs. 116.10 x 2.25 *per cent* (9.50 - 7.25 *per cent*)= Rs. 2.61 crore plus Rs. 0.58 crore.

Koppa via NR Pura in Chikmangalur district. The project envisaged releasing the load from the existing system, reducing the system losses and improving the voltage condition in and around Muthinakoppa and NR Pura. The project was estimated to cost Rs. 8.60 crore, with anticipated energy saving of Rs. 3.19 crore per annum (9.53 million units).

Accordingly, Company invited (May 2000) tenders and work was awarded (August 2001) for construction of the substation at Muthinakoppa. The work *inter alia* included commissioning of two transformers of 10MVA capacity (one 110/33KV and one 110/11KV). The other components of the project estimated at Rs. 3.87 crore *i.e.*, construction of substation at NR Pura and drawing of 33KV line from Muthinakoppa to Koppa were neither tendered nor reasons recorded. In the meanwhile, the Company was bifurcated (May 2002) and the work relating to construction of lines of 33KV and below capacity came under the control of Mangalore Electricity Supply Company Limited (MESCOM).

In respect of the work awarded at Muthinakoppa substation, both the transformers were commissioned in July 2004. Of these, one transformer (110/33KV) valued at Rs. 72.70 lakh could not be utilised (idle charge) as the line works (33KV) and substation at NR Pura were not taken up.

In response to the Audit observation (March 2005) on idling of the transformer, the Management (KPTCL) while accepting (May 2005) the same stated that the proposal for forest clearance submitted by KPTCL was returned by Ministry of Environment and Forests and that a fresh proposal was submitted (November 2004) by MESCOM.

Audit also observed that the Chief Engineer, Electricity (General), had proposed (February 2000) anticipating the non granting of permission by forest department, for construction of multi-circuit line in the existing 11KV corridor due to possible way leave problems in the execution of 33KV line between Muthinakoppa to Koppa. The Management stated (May 2005) that the proposal could not be acted upon as tenders were already floated for the substation and designing and fabricating multi-circuit towers was a time consuming job.

Audit further observed (April 2009) that the forest clearance was received only in March 2009. While the proposal of the Chief Engineer made in February 2000 *i.e.*, prior to inviting tenders (May 2000) was not considered for the reason that it would be time consuming to fabricate the multi-circuit towers, it is interesting to note that the work (substation at NR Pura and 33KV line) was tendered (February 2009) for Rs. 14.85 crore<sup>89</sup> after a lapse of 10 years from the preparation of original DPR (1998) and five years from the commissioning of the transformer (2004) on the same methodology as proposed by the Chief Engineer in February 2000.

The delay resulted in foregoing the annual anticipated savings of Rs. 3.19 crore. The Company is now constructing the station and line works at

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<sup>89</sup> excludes Rs. 1.75 crore towards compensation cost for trees / crops.

an estimated cost (February 2009) of Rs. 16.61 crore, which was originally (1998) estimated at Rs. 3.87 crore. Defective planning and execution of the project resulted in cost over run by nearly 400 *per cent* coupled with idle investment of Rs. 72.70 lakh and denial of intended benefit to consumers.

Audit suggests that the Company should plan its activities properly ensuring the synchronisation of connected works.

The matter was reported to the Management / Government (June 2009); their reply was awaited (September 2009).

### **Mysore Minerals Limited**

#### **4.7 Undue benefit to contractor**

**The Company entered into a supplementary agreement by retaining the selling price of iron ore lumps beyond the agreed period even when the original agreement had provision for price revision resulting in undue benefit of Rs. 6.35 crore to private contractor.**

The Company (MML) entered into a marketing agreement with Shivashankar Granites Pvt Ltd (contractor) in January 2004 for marketing iron ore lumps (+64 *per cent* grade) extracted from Ubbalagundi mines in an area of 33.60 hectares. The agreement was entered into in anticipation of working permission from Central Government to commercially exploit the mines and sell iron ore lumps. The terms and conditions of the agreement *inter alia* stipulated that:

- the contractor was to pay the Company Rs. 231 per MT (ex-mines) for the iron ore lumps and the price was firm for a two year period. Thereafter, the prices were to be revived and re-fixed on 1 April each year after mutual negotiations and based on the prevailing market conditions.
- neither party was liable for any failure to perform if the extent of such inability or delay was caused by or was attributable to *inter alia* compliance with any valid order including Government legislation(s), action, direction or order of any court whether existing or arising. In such an event, the validity period of the agreement was to be extended for a period equal to the time duration / period during which such *force majeure* continues.

The Principal Chief Conservator of Forests, State Government granted (April 2005) temporary working permission to the Company for mining, valid for a period of one year. But, the Hon'ble Supreme Court directed (September 2005) halt to mining activities operating on temporary work permission. On being issued (July 2006) clearance for mining by the Government, the Company entered (August 2006) into a supplementary agreement with the contractor as an integral part of the agreement entered into in January 2004.

Accordingly, the agreement term was extended by seven months due to the fact that the mine was not operative for seven months. With regard to price, the same was fixed at Rs. 231 per MT for a period of 17 months from the date of ensuing production after reckoning seven months taken by the contractor to develop the mine. A total of 1.56 lakh tonne of iron ore lumps were supplied between April 2007 and August 2008 at Rs. 231 per MT.

Audit observed (February 2009) that the Board decided (August 2006) to adopt a price of Rs. 231 per MT for the next 17 months, on the ground that the contractor had not lifted any quantity though he worked for seven months to develop the mine and had discontinued the operations based on court order. Retaining the price on the ground that the contractor had worked only for certain period/not lifted any quantity was not as per contractual terms and conditions. As such, the time period specification for price clause in the supplementary agreement, which was not in consonance with the original agreement was incorrect. By entering into such an agreement retaining the selling price of iron ore lumps for extended period even while the initial agreement provided for price revision resulted in passing of an undue benefit of Rs. 6.35 crore<sup>90</sup> to the contractor.

The Management stated (August 2009) that the production in the mines was further commenced from September 2006 only and the Board considered to sell iron ore lumps for a period of 17 months from the date of production, valid till February 2008.

The reply of the management is not correct as the agreement was to be extended equal to the period during which force majeure continued *i.e.*, valid for another five months from September 2006 to January 2007. However, the Company continued to allow benefit of lower price to the contractor up to July 2008, which resulted in undue benefit of Rs. 6.35 crore to the contractor.

The matter was reported to the Government (April 2009); its reply was awaited (September 2009).

#### ***4.8 Avoidable expenditure***

<b>Non-monitoring of payment of royalty and dead rent resulted in avoidable payment of interest of Rs. 5.51 crore.</b>
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The Company (MML) is engaged in mining activities by obtaining quarry plots on lease from Government. The Karnataka Minor Mineral Concession Rules 1994 (Rules) stipulate that the holder of a quarrying lease shall pay dead rent<sup>91</sup> at the rates specified in schedule 1 of the Rules or royalty<sup>92</sup> at the rates specified in schedule 2 of the Rules, whichever is more, irrespective of whether

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<sup>90</sup> as per the agreement the price revision was due in April 2007. The prevailing price of MMTC in April 2007 was Rs. 638 per MT. Hence, the loss worked out to Rs. 6.35 crore (Rs. 638 per MT – Rs. 231 per MT) x 1.56 lakh tonne.

<sup>91</sup> dead rent is the charge the holder of the mining lease is liable to pay until any mineral is removed or consumed.

<sup>92</sup> royalty is the fee which the holder has to pay from the time the mineral is removed or consumed.

the mineral was removed or consumed by him or his agent, manager, employee or contractor. Further, the Rules specified that dead rent was to be paid in advance every six months and royalty was to be paid before removal of the mineral and non-payment attracted interest from the sixtieth day after the date fixed for payment.

The Company had 92 lease rights during 2006-08. The details of royalty payable and paid during 2006-08 are given below

(Rs. in crore)								
Year	Royalty outstanding	Interest outstanding	Interest levied due to delayed payment	Royalty / dead rent payable for the year (net of advance payment)	Total	Paid by Head office and mines	Balance royalty payable	Balance interest payable
1	2	3	4	5	6	7	8	9
2006-07	3.24	2.30	3.16	6.74	15.44	11.47	2.60	1.37
2007-08	2.60	1.37	0.48	7.75	12.20	11.65	0.43	0.12

Note : For 2006-07 and 2007-08 the interest paid is Rs. 4.09 crore and Rs. 1.73 crore respectively (column No. 3+4 - 9)

Audit observed (February 2009) that due to non-payment of dead rent and royalty for the years up to 2005-06, the outstandings had accumulated to Rs. 5.54 crore as at the beginning of 2006-07.

The Company did not pay royalty and dead rent in full for the years 2006-07 and 2007-08. The Department of Mines and Geology raised demands from June to October 2007 for 2006-07 and from June to August 2008 for 2007-08 towards royalty and dead rent alongwith interest at 15 *per cent* thereon. The Company paid part amount during March 2008 and November 2008 respectively.

Audit noticed that though the Company had sufficient funds in fixed deposit<sup>93</sup> ranging from Rs. 38 crore to Rs. 365.74 crore during the period 2003-08, it still failed to make payments. This indicated lack of system for monitoring payment of royalty and dead rent and indifference of the Management. Had the Company made the payments of royalty as stipulated in the Rules, the interest of Rs. 5.51 crore paid due to delayed payments could have been avoided.

Audit suggests the strengthening of internal control and monitoring systems of the Company to aim at streamlined financial management.

The matter was reported to the Management / Government (June 2009); their reply was awaited (September 2009).

<sup>93</sup> fixed deposits were Rs. 38 crore (2003-04), Rs. 61.14 crore (2004-05), Rs. 90.61 crore (2005-06), Rs. 132.01 crore (2006-07), Rs. 365.74 crore (2007-08).

**Karnataka State Women's Development Corporation**

**4.9 Failure to exercise due diligence**

**An amount of Rs. 45.52 lakh distributed directly to beneficiaries of Janatha Darshan was irregular and resulted in loss to the Company.**

The Company (KSWDC) is engaged in framing and implementation of schemes for the socio-economic empowerment of women.

During the *Janatha Darshan* conducted by the Chief Minister of Karnataka in March 2007 and August 2007, representations were received from women requesting for financial help. The Special Officer to Chief Minister forwarded (August 2007) the representations to the Company with a request to consider them sympathetically. The Company distributed (March / August 2007) amounts ranging from Rs. 7,000 to Rs. 10,000 per person to 402 women totaling to Rs. 45.52 lakh. The Board of Directors ratified (September 2007) the payments.

Audit observed (February 2009) that there was no specific approved scheme of this nature in the Company to distribute money directly to individuals. The expenditure was met from interest earned on share capital (Rs. 36.70 lakh) and diversion of funds from another scheme<sup>94</sup> (Rs. 8.82 lakh).

Audit also observed that representations were for financial help for self employment, petty business, *etc.* While the Company had an approved scheme under Women Entrepreneurship (Udyogini) for which applications in the prescribed format containing relevant data are obtained and its officers at Taluk / District level verify the genuineness of the data furnished, it was noticed that in respect of beneficiaries under Janata Darshan, applications were not received in specified format under the approved scheme. This action of the Company to distribute financial assistance without exercising due diligence resulted in a loss of Rs. 45.52 lakh.

The Government accepted (June 2009) the audit observation and stated that action is being initiated against the officers responsible for the lapses.

**4.10 Irregular expenditure**

**Non-compliance to KTPP Act and lack of budgetary control resulted in irregular expenditure of Rs. 44.53 lakh.**

The Government of Karnataka allocated Rs. 25 lakh to the Company (KSWDC) in the State budget for the year 2007-08 for organising exhibitions at State and District Level on the occasion of International Women's Day. The Company, in its Action Plan, allocated (May 2007) Rs. 14.75 lakh and Rs. 10.25 lakh<sup>95</sup> for the State and District Level exhibitions. The State Level Exhibition was organized from 8<sup>th</sup> to 13<sup>th</sup> March 2008 at Bangalore and the Company incurred an expenditure of Rs. 59.28 lakh.

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<sup>94</sup> earmarked for disbursement to Karnataka Milk Federation under Support to Training and Employment Programme, a Central Government Scheme.

<sup>95</sup> an amount of Rs. 8.71 lakh was actually spent.

On a review (February 2009) of the expenditure incurred for the exhibition, Audit observed that:

- the Company did not invite tenders as required under Karnataka Transparency in Public Procurement Act, 1999 (KTPP Act) towards purchase of flex banners amounting to Rs. 16.09 lakh from three firms<sup>96</sup>, who individually supplied material in excess of Rs. 1 lakh. The Act stipulated that tenders are to be invited, processed and accepted in a transparent manner for procurement of goods or services exceeding Rupees one lakh. Similarly, the expenditure on purchase of food items for Rs. 5.97 lakh was made without inviting tenders. In respect of these purchases, only quotations were obtained and orders placed.
- in respect of erection of stalls, tenders were invited (February 2008) and the offer of Thibbadevi Tent House (contractor) for Rs. 10.76 lakh was found the lowest. The agreement entered into with the contractor was for Rs. 12.13 lakh and the actual amount paid was Rs. 14.31 lakh. Further, though the contractor was registered with the Service Tax department, Government of India as a service provider for Pandal and Shamiana (Tents) and had indicated his experience in the field, the contractor provided catering services for Rs. 3.38 lakh. The details of registration certificate for providing catering services were not on record.
- the Company incurred Rs. 10.17 lakh towards items of additional work for which neither quotations were obtained nor tenders called for. These were placed on '*oral instructions*' of the Managing Director. These included purchase of flex banner for Rs. 5.25 lakh, flower gate for Rs. 1.20 lakh and balance towards other consumables (water, crackers, banners *etc.*,)

Audit observed that the expenditure incurred beyond budgetary allotment was met by diverting funds from Devadasi Rehabilitation Project<sup>97</sup> (Rs. 35.17 lakh) and STEP<sup>98</sup> programme (Rs. 7 lakh). The approval of Board of Directors was not obtained for incurring the excess expenditure or for diversion of funds from other programmes. The Board of Directors sought (April 2008) details of expenditure incurred for the exhibition, which have not been furnished to the Board till date (August 2009). The Government issued (June 2008) a show cause notice to the then<sup>99</sup> Managing Director on the irregularities in the expenditure incurred on the exhibition.

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<sup>96</sup> Skanda Enterprises (Rs. 8 lakh), Thibbadevi Tent House (Rs. 5.67 lakh), Sporting Enterprises (Rs. 1.97 lakh). The remaining suppliers provided material totalling Rs. 0.45 lakh and hence were individually lesser than Rs. 1 lakh.

<sup>97</sup> Devadasi Rehabilitation Project is implemented for the eradication the practice of the Devadasi system and rehabilitation of Devadasis.

<sup>98</sup> Support to Training and Employment Programme for Women.

<sup>99</sup> though the Managing Director was allowed (June 2008) to retire voluntarily with effect from 10 April 2008, he was reinstated (March 2009) with effect from 13 November 2008 based on order passed by Karnataka Administrative Tribunal.

The non-compliance to KTPP Act and lack of budgetary control resulted in irregular expenditure of Rs. 44.53 lakh and deprived funds for Devadasi Rehabilitation Project and STEP programmes.

The Secretary to Government, in a meeting convened (June 2009) to discuss corrective measures and to avoid irregular expenditure, directed the Board to be vigilant, judicious and cautious and to follow the canons of financial propriety, apart from conducting pre-audit of all expenditure exceeding Rs. 10 lakh.

### **Karnataka Neeravari Nigam Limited**

#### **4.11 Misappropriation of public funds**

**During the construction of Bellary Nala Irrigation Project, excess payment of Rs. 7.20 crore was made to contractors by recording false measurements. In addition, the Company failed to demand Rs. 3.28 crore for deficiencies in execution and violation of terms of agreement.**

The Government of Karnataka accorded (August 2003) administrative approval for the work of construction of Bellary Nala Irrigation Project at Rs. 138.28 crore. The work was entrusted<sup>100</sup> (August 2005) to Engineering Projects (India) Limited (EPIL) (contractor), a Government of India Enterprise, with stipulation to complete the work in 24 months. The project was in various stages of execution and the contractor was paid Rs. 122.25 crore up to August 2008.

Based on a complaint (July 2008), the Joint Secretary to Government of Karnataka, Water Resources Department, directed (September 2008) the Superintending Engineer (SE) of the Company to conduct an investigation about financial impropriety contained in the complaint and report to the Government. The SE observed (September 2008) the complaints to be correct and noticed irregularities such as subcontracting the entire work, recording false measurements<sup>101</sup>, making payments on such measurements and excess payment of Rs. 14.64 crore and recommended an investigation. EPIL refunded (September 2008) Rs. 14.64 crore, through their subcontractor.

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<sup>100</sup> by obtaining exemption under Section 4(g) of The Karnataka Transparency in Public Procurement Act, 1999.

<sup>101</sup> items of works as pointed out by Superintending Engineer and Vigilance Cell, for which payments were made without actually doing work are : (a) Block levels recorded in measurement book (MB) for cement concrete work done in concrete dam was RL716 metres as against actual execution levels varying from RL707 to 713 metres, (b) Measurement for cement concrete work was done without actually executing the work at stilling basis (c) measurement for earth work excavation in various reaches in main canal from Km. 5 to 9 (d) measurement for cement concrete lining at various reaches in main canal from Km. 5 to 80 and cross drainage in Km. 6 to 80 was recorded in MB without executing whole of the work, but payment made for whole part (e) measurement for embankment item in the main canal were recorded without actually executing the work.



The Government also ordered (September 2008) detailed investigation by Vigilance Cell of Water Resources Department, which reported (December 2008) and pegged misappropriation of public funds at Rs. 21.84 crore for work not done by the contractor. The balance amount of Rs. 7.20 crore had not been recovered till date and no legal action initiated (June 2009) to effect recovery.

Scrutiny of the work (June 2009) in Audit, revealed the following non-compliance to codal provisions and guidelines:

- the procedure for recording measurements in measurement books was in order as stipulated in Karnataka Public Works Department (KPWD) code, Karnataka Public Works Accounts (KPWA) code and Government order of January 2005. Audit observed some deviations in failure of Section officers to put signatures<sup>102</sup> and dates<sup>103</sup> in Measurement books, block level plants not recorded<sup>104</sup>, recording<sup>105</sup> of only tape measurements without recording initial and reached levels, running bill references<sup>106</sup> not recorded. The excess payment worked out to Rs. 22.65 crore<sup>107</sup>. The Vigilance report identified involvement of 25 Engineers and 20 Accounts staff. Framing of chargesheets on the officials is yet to be finalised (June 2009).
- as per circular instructions of the Company (November 2001) every work under progress should be inspected by the Superintending Engineer at least once in a fortnight and by the Chief Engineer once in a month. The Officers were to issue specific instructions about the work slips, extra items and deviated items to the subordinate officers. Audit observed that Superintending Engineer had visited the project only four times between August 2005 and September 2008 (74 fortnights) and instructions were issued in two instances regarding acquisition of land. The Chief Engineer visited eight times between August 2005 and September 2008 (37 months) and instructions were issued in one instance relating to land acquisition.

Thus, connivance of the officials and non-compliance to the KPWD code, KPWA codes and extant guidelines resulted in compromising the financial interests of the Company.

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<sup>102</sup> Measurement book nos. 3869 (page 65), 431 (page 10), 434 (page 10), 440 (page 9), 441 (page 9), 421 (page 13), 422 (page 10), 432 to 433, 435 to 438.

<sup>103</sup> Measurement book nos. 3851 (page 18), 3847 (page 12).

<sup>104</sup> Measurement book nos. 3869 (page 9), 3851 (page 3), 3847 (page 5).

<sup>105</sup> Measurement books nos. 421 (page 3), 422 (page 3), 376 (page 5), 378 (page 5), 379 (page 5) 356 to 360, 371 to 375, 377, 380, 381, 406 to 412, 418 to 420, 423, 424, 431 to 438, 440 to 441.

<sup>106</sup> Measurement book nos. 376 (page 2), 377 (page 2), 379 (page 2), 356 to 360, 371 to 375, 377 and 380.

<sup>107</sup> while the Vigilance Cell reported misappropriation of public funds at Rs. 21.84 crore, the excess payment as worked out in Audit was Rs. 22.65 crore. The difference could not be reconciled as the records of the Vigilance Cell were reported to be in Police custody.

Audit scrutiny of the work executed revealed violation of contractual terms as detailed below:

<b>Terms of reference</b>	<b>Findings</b>
As per Clause 2(e) of agreement, the excess / overpayments as soon as they are discovered should be adjusted in the next running account bill together with interest at 12 <i>per cent</i> from the date of such excess or overpayment to the date of recovery. Further as per Clause 26(b) whenever excess payments have been made to the contractor based on excess measurements recorded by the subordinate in the measurement book are noticed, action shall be taken to recover the excess payment together with interest immediately.	Interest of Rs. 2.29 crore as at May 2009 on excess payment of Rs. 22.65 crore was not raised on the contractor.
The basic rates of cement concrete items were arrived at based on quantum of cement involved subject to variation during execution based on actual design mix. For any variation the payment was to be adjusted as per Para 7.16.1 of the agreement, under which for any variation in cement from those specified, the payment was to be adjusted upward or downward at Schedule of Rates.	The Company arrived at the rate of cement concrete for extra quantities by adding tender premium instead of limiting the rate of cement as per Schedule of Rates, resulting in excess payment of Rs. 58.78 lakh.
Excavated rock was to be stacked as required under Item No.7 of the Schedule B of agreement. Further, cost of rubble and murrum utilised from site was to be recovered.	Non-recovery of Rs. 14.24 lakh due to non-stacking of 1.48 lakh cum of hard rock. Non-recovery of rubble and murrum valued Rs. 4.71 lakh.
Item rates for embankment works were to be regulated as per sliding rate prescribed in Para 2.6.12 of the detailed technical specifications (part-II).	Excess payment of Rs. 13.18 lakh.
Wrong / incorrect totaling in arriving at the basic rate for canal Item no. 24(b).	Extra expenditure of Rs. 7.72 lakh.
<b>Total</b>	<b>Rs. 3.28 crore</b>

The demand for these extra payments and interest amounting to Rs. 3.28 crore had not been raised till date (July 2009). As against the total receivable amount of Rs. 10.48 crore<sup>108</sup>, the security deposit available was Rs. 1.26 crore leaving a balance of Rs. 9.22 crore which is doubtful of recovery and the Company is yet to initiate (August 2009) recovery action despite being pointed out.

Thus, due to non-compliance with rules, directives, procedures and terms and conditions of contract, the Company's financial interests were compromised. Audit suggests that the Company should follow the provisions of KPWD and KPWA codes and other extant guidelines in its working.

The Management stated (August 2009) that a joint measurement was in progress and after final assessment action would be taken to recover the amount alongwith interest.

The matter was reported to the Government (June 2009); its reply was awaited (September 2009).

<sup>108</sup> Rs. 7.20 crore plus Rs. 3.28 crore.

## Karnataka Neeravari Nigam Limited

### 4.12 Misappropriation

#### Misappropriation of Government funds of Rs. 32.89 lakh.

The Government requested (June 2008) the Accountant General to conduct audit of the salary and establishment bills for the period 1997 to 2000 of Office of Assistant Executive Engineer, Amarja project, Korahalli dam subdivision, Gulbarga district. The subdivision was under the control of Public Works Department during 1997-2000 and was transferred to Karnataka Neeravari Nigam Limited (Company) on its formation. The audit was undertaken during December 2008 and the results of audit are as under:-

The Karnataka Public Works Department Code - KPWD (Article 43 - Volume-I), stipulated that the Sub-divisional officer (*i.e.*, Assistant Executive Engineer) was responsible for correctness of all cash and records maintained at the subdivision with reference to the rules in force. Article 346(3) of the Karnataka Financial Code (KFC) prescribed the procedure to be followed by drawing, controlling and chief controlling officers in drawing money on bills from the treasury for expenditure and maintaining and rendering the accounts thereof. As per this procedure, every officer drawing bill for encashment at a treasury should invariably attach a bill presentation slip to each bill. The drawing officer will have to keep stock of such bill books and each slip has to be accounted for. For every such bill presented through a messenger, the drawing officer should see that the counterfoil of the slip is returned by the messenger. The bill in Form KTC-65A (called *tokens*), has three parts. Parts 1 and 2 contain information regarding nature of bill, amount of bill, bill number and date and acknowledgement by the treasury. Part 3 contains apart from details contained in Part 1, the name of the messenger to whom the cheque is to be handed over with the signature of the messenger duly attested by the drawing officer. The three parts are to be presented to the treasury along with the bill. The treasury official acknowledges receipt of the bill in Part 1 and 3 and retains Part 2. The cheques have to be obtained by the messenger on surrendering Part 3.

The job of presentation of bills and obtaining cheques from treasury and encashing these from the bank, preparation of monthly reconciliation and entries in cash book was being done by the Second Division Assistant (SDA). This SDA<sup>109</sup>, who was attending these duties, had been working in the subdivision throughout the period under Audit (1997-2001).

The *modus operandi* of the official was to present the tokens to the treasury without full details. Although all the three parts (1,2,3) were to be presented, in many instances Part 1 was blank and such blank forms (Part 1) were attested by the treasury, while some of the filled in forms were not attested by the treasury. The treasury records *viz.*, Bill Received Register and Treasury Day Book indicated the amount drawn (Cheques) against these tokens. These cheques were encashed at the local bank. These amounts, however, were not reflected

<sup>109</sup> the official expired on 22 November 2008.

in the cash book of the Company. This variation between the amount as per *tokens* and amount as per treasury records were noticed in respect of 169 tokens utilised between September 1996 to December 2000 and the mismatch amounted to Rs. 32.89 lakh. The nature of the bills<sup>110</sup> presented was salary and establishment expenses. The drawing officer (Assistant Executive Engineer) had also failed to verify the utilisation of the tokens and entries in the cash book with related records and also to attest the Cheque Received Register. The failure to adhere to the prescribed checks and controls as prescribed in the KPWD and KFC codes resulted in misappropriation of Rs. 32.89 lakh.

In this connection reference is invited to paragraph 4.14 of the Audit Report (Civil), Government of Karnataka, of the Comptroller and Auditor General of India for the year ended 31 March 2001 regarding 'Misappropriation of Government money' of Rs. 96.09 lakh by a First Division Assistant in the accounts of another subdivision *viz.*, Office of the Executive Engineer, Irrigation Projects Construction Division No.2, Korahalli (Camp Afzalpur) with collusion of Sub-treasury Officer during the period 1988-2001. The Public Accounts Committee after discussion of the paragraph recommended (21 August 2007) to the Government (a) to complete quickly all the pending departmental enquiries in the matter, to initiate action to recover the misappropriated amount from the concerned and to initiate disciplinary proceedings against all the concerned officers/Officials. (b) to initiate disciplinary proceedings against the officers who were responsible for delaying the departmental enquiry at each stage and also who failed to supervise and oversee the progress of the proceedings of the case from time to time and (c) to strengthen internal audit to prevent misuse of government money and to ensure the reconciliation of treasury/office accounts with figures of the Accountant General within the prescribed period.

The matter was reported to the Management (January 2009) / Government (June 2009). The Management stated (April 2009) that a final reply would be furnished after verification of records and Government reply was awaited (September 2009).

### **Mysore Sales International Limited**

#### ***4.13 Avoidable payment / liability***

**Failure to recover Income Tax at least from 2000-01 onwards from excise contractors, in spite of demand by Income Tax department for earlier years (up to 2001) resulted in avoidable payment of Rs. 10.17 crore and liability of Rs. 13.59 crore.**

The Government of Karnataka discontinued (1993-94) private bottling units from engaging in the manufacture or bottling of arrack and decided to restrict these operations in the hands of companies or agencies owned and controlled

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<sup>110</sup> the correctness of the bills could not be ensured in audit as these records are stated to be destroyed.

by the State Government. The Company (MSIL) was one of the agencies<sup>111</sup> entrusted (1993-94) with the task of bottling and marketing of arrack. The Government conducted auctions to confer the lease right of retail vend of arrack with reference to designated area. The successful excise contractors were entitled to procure arrack from the bottling unit and sell it in retail trade within their allotted area.

As per Section 206C inserted in the Chapter XVII of Income Tax (IT) Act, 1961, and effective from 1 April 1989, the seller of liquor (other than Indian Made Foreign Liquor), was to collect from the buyer a sum equivalent to 10 *per cent* of the price of liquor and make it over to the Central Government. The Excise Commissioner of Karnataka, however, issued (June 1989) an addendum to the Standing order<sup>112</sup> that no recovery of advance income tax was to be made under Section 206C with effect from 1 July 1989. The Company without seeking clarification from IT department, decided not to deduct tax at source from excise contractors.

The Deputy Commissioner of IT demanded (October 2000) Rs. 20.05 crore alongwith interest for non-compliance of Section 206C of the Act *ibid* for assessment years 1995-2001.

The Company approached (2001) the Hon'ble High Court of Karnataka and contended that deduction was not done based on the addendum to the circular. Further, it contended that with effect from 1 April 1992, Section 206C (explanation and subsections) excluded buyers who had obtained liquor by way of auction and where sale price was fixed by the State under Excise Act and rules. The Hon'ble High Court dismissed (October 2003) the petition of the Company on the ground that a Statute has a prime place and circular could not dilute a statutory provision. The Company filed a writ petition against the order of October 2003, which was also dismissed (March 2006) by the High Court of Karnataka.

The IT department passed (August 2007) similar orders for the demands for the years 2001-03 for Rs. 10.17 crore. A Special Leave Petition was filed in the Hon'ble Supreme Court of India, on which leave was granted (April 2007). As at October 2008, based on interim orders of the Supreme Court / High Court, the total amount remitted / furnished as bank guarantee (February 2004 / February 2008) was Rs. 60 crore<sup>113</sup> as against IT demand and liability of Rs. 74.48 crore<sup>114</sup> pertaining to the years 1994-2003.

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<sup>111</sup> MSIL was entrusted with bottling in northern districts, the Mysore Sugar Company Limited-MSCL (another State Government Company) was entrusted for rest of State. MSCL is not covered in the scope of audit as it is referred (2004) to BIFR and demands / assessments are pending (February 2008).

<sup>112</sup> the Standing Order was issued (June 1988) to collect income tax with effect from 1 July 1988.

<sup>113</sup> Rs. 24 crore paid towards principal (demand for 1994-2003), Rs. 6 crore furnished as guarantee towards principal (demand for 2000-03) and Rs. 30 crore furnished as guarantee towards interest (demand for 1994-2000).

<sup>114</sup> Rs. 20.05 crore (1994-2001) *plus* Rs. 30.67 crore interest thereon; Rs. 10.17 crore (2001-03) *plus* Rs. 2.72 crore (2003-04-estimated tax) *plus* Rs. 10.87 crore interest (estimated) for 2001-03 tax demand.

Audit observed (April 2008) that the Company did not initiate action to recover IT from contractors, at least from October 2000 onwards, in view of the known demand from IT department for earlier years. Consequently, as stated above, the IT department demanded (August 2007) Rs. 10.17 crore as tax for the subsequent period 2001-03<sup>115</sup>. Further, the tax estimated by the Company for 2003-04 was Rs. 2.72 crore and the interest estimated on the tax demand for 2001-03 as of October 2008 was Rs. 10.87 crore.

The failure of the Management to recover Income Tax at least from 2001-02 onwards from excise contractors, in spite of being aware of the demand by IT department for earlier years (up to 2001), resulted in avoidable payment of Rs. 10.17 crore and liability of Rs. 13.59 crore.

The Management stated (October 2008) that it took a legal stand that it was eligible for tax exemption and that the demand of IT department was incorrect and that any collection subsequent to 2001 would have amounted to a contradictory stand. The Management further stated (July 2009) that as per the directions of Hon'ble High Court Karnataka (March 2006) Company is in the process of obtaining income tax details of Arrack Contractors who had already discharged their tax liability so as to reduce its tax liability.

The Company should have explored the possibility of collecting and remitting the tax under protest.

The matter was reported to the Government (April 2009); its reply was awaited (September 2009).

## **Karnataka Land Army Corporation Limited**

### **4.14 Improper contract management**

**Release of advances to subcontractors without adequate security / guarantee was not in the interest of the Company and resulted in loss of Rs. 6.97 crore.**

The Company (KLAC) participated (2004) in the tender floated by Narmada Valley Development Authority (NVDA), Jabalpur for the construction of Madana Distributory System. As against the cost of Rs. 16.44 crore put to tender, the Company quoted Rs. 18.89 crore, which included a profit margin of Rs. 89.41 lakh. The quote of the Company was accepted (November 2004) with stipulation to complete the work in 12 months (excluding monsoon) *i.e.*, by January 2006.

The Company, in turn, subcontracted (November 2004) the work to Sri. M. Channaiah, with a condition that it was eligible for five *per cent* profit margin (agency commission). As the progress of work was slow, the Company divided the work into four packages and offered (January 2005) the work to four subcontractors including Sri. M. Chennaiah. The rates were at the same

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<sup>115</sup> the arrack operations were stopped in 2003-04.

level as given to Sri. M. Chennaiah in the first instance and the Company retained the five *per cent* margin (agency commission) in each of the contracts. The agreements with these four sub-contractors were executed (February to October 2005) with stipulation to complete the works by January 2006.

On observing progress of work by the subcontractors as slow, NVDA issued notices (April 2007 to June 2007) to the Company to expedite the work. The original date of completion (January 2006) was extended four times till March 2007. As the work was not completed even in March 2007, NVDA terminated the contract in July 2007 and forfeited the Earnest Money Deposit, Security Deposit and bank guarantee of Rs. 2.59 crore. The Company terminated (June 2007)<sup>116</sup> all the four subcontracts. Final joint measurement between Company and NVDA was taken during October/December 2007 and the works pending settlement were ascertained at Rs. 3.12 crore. NVDA, however, did not make payment for these works as per terms of its agreement with the Company, which stipulated that in case the entire contract was terminated, the amount of work done but not paid for would be forfeited.

Audit observed that the Company did not have any sub-contracting policy. While the agreement between the Company and NVDA did not contemplate payment of advance, the Company included a clause in the agreement entered into with one sub-contractor to provide advance. The Company, however, released interest-free advances, periodically (October 2004 to May 2007), to all the subcontractors. Such advances were released even while huge amounts were pending with the contractors for adjustment. The balance amount pending adjustment because of release of advance in excess of work done was to the extent of Rs. 4.79 crore<sup>117</sup> (May 2009).

Thus, the release of advances to subcontractors without adequate security / guarantee compromised the interest of the Company and resulted in loss of Rs. 6.97 crore<sup>118</sup>.

The Government stated (May 2009) that the delay in completion of work was due to frequent changes in drawings, delay in handing over the site, non-payment of bills, delay in providing quarries *etc.* The Government also stated (May 2009) that though the agreement with NVDA did not provide for release of mobilization advance, advances were released to sub contractors to ensure speedy completion of the project and stated that the loss (Rs. 6.90 crore) would be recovered through arbitration.

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<sup>116</sup> from June 2007, the Company continued the work with petty contractors for which details are not available.

<sup>117</sup> considering payments made to contractors the net advances outstanding after adjusting for security deposits against were : Sri. M. Chennaiah (Rs. 4.05 crore) Kwaliti constructions Company (Rs. 0.29 crore), Elcon Infratech (Rs. 0.33 crore), Shri. B. Ramesh Naidu (Rs. 0.12 crore). In addition the margin retained by the Company was Rs. 0.41 crore.

<sup>118</sup> Rs. 4.79 crore advance + Rs. 2.59 crore deposits forfeited and bank guarantee invoked- Rs. 0.41 crore margin retained by the Company.

The reply of the Government does not address the issue of the release of advances to subcontractors without adequate security and unadjustment of substantial amounts against the basic tenets of financial propriety. Audit suggests that the Company should evolve a policy on sub contracting and release advances to sub-contractors only after obtaining sufficient security.

### **Power Company of Karnataka Limited**

#### ***4.15 Improper investment***

#### **Unauthorised and irregular investment in private equity linked funds coupled with violation of the guidelines of Karnataka State Bureau of Public Enterprises resulted in loss of Rs. 4.98 crore.**

The Company was formed (2007-08) to perform the functions of processing of bids for establishing power plants on long term basis, procurement of power on medium and long term basis and power trading activity. The seed money of Rs. 20 crore was contributed by five<sup>119</sup> Electricity Supply Companies (ESCOMs) in the State to obtain interstate trading license from Central Electricity Regulatory Commission on behalf of the ESCOMs which stipulates that the networth of the Company was not to be less than Rs. 20 crore.

The Director (Commercial) of the Company decided (January 2008) to invest surplus funds in Bajaj Allianz Life Insurance Company Limited (BALICL). The Company got two personal life insurance policies - Unit Gains Plus-SP assigned in its favour which were used to further invest in the form of top up premium<sup>120</sup>. The Director (Commercial) signed the assignment deed as assignee on behalf of the Company. The Company remitted (January 2008) Rs. 18 crore as top-up premium on the policies assigned to the Company. Since the allocation rate on top up premium was 98 *per cent* as per the terms and conditions of the policy, BALICL accounted Rs. 17.64 crore as invested and paid commission of Rs. 18 lakh to the agents who initially solicited and procured the business.

The policy provided different types of funds and the policy holder had the option to allocate the premium paid by him between one or more of the Fund(s) and to *switch-in*<sup>121</sup> and *switch-out*<sup>122</sup> from one fund to another. Though the Director (Commercial) decided to invest 50 *per cent* of the amount in '*cash plus*' fund and 50 *per cent* in '*equity plus*' fund, the BALICL invested 95 *per cent* in '*equity plus*' fund and 5 *per cent* in '*cash plus*' fund. The details of authorization for this re-allocation were not on record. There were *switch-in* and *switch-out* between the funds, and the authorization for these transactions were also not on record. The Board of Directors deliberated (March 2009) on the investment made in January 2008 and resolved to short close the

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<sup>119</sup> Bangalore Electricity Supply Company Limited, Mangalore Electricity Supply Company Limited, Gulbarga Electricity Supply Company Limited, Hubli Electricity Supply Company Limited and Chamundeshwari Electricity Supply Corporation.

<sup>120</sup> additional premium paid by the policyholder without increasing the death benefit.

<sup>121</sup> *Switch-in* is a means through which the investor purchases units of a particular fund.

<sup>122</sup> *Switch-out* is a means through which the investor sells units of a particular fund.



investment. The value of investment of Rs. 18 crore had reduced to Rs. 13.02 crore in March 2009. The Company surrendered (March 2009) the policies and closed the accounts incurring a loss of Rs. 4.98 crore.

Audit observed that

- the Board had not evolved any policy for investment.
- no due diligence was exercised while taking the decision to invest and it was the personal decision of the Director (Commercial).
- the Board had authorized the CMD to exercise financial powers and the investment decision involving substantial financial implication by the Director (Commercial) was unauthorised.
- personal policies were assigned instead of corporate policies depriving the company of commission of Rs. 18 lakh.
- although the accounts of the company were showing reduction in market value of investment by Rs. 1.15 crore for the year ended 31 March 2008, the Board of Directors deliberated the loss on the investments only in March 2009 by which time the value of investment had shrunk further.

The Karnataka State Bureau of Public Enterprises (KSBPE) had issued (April 1997) guidelines that every investment decision should be approved by the Board of Directors or Finance / Investment Committee constituted by the Board and that no investment shall be made by a public sector enterprise in public and private mutual funds where there were equity based operations and hence were inherently risky. The Company, in making these investments, ignored these guidelines.

Thus, the unauthorized and irregular investment coupled with violation of KSBPE guidelines resulted in loss of Rs. 4.98 crore to the Company and also eroded its networth. Consequently, the basic aim of obtaining interstate power trading license was defeated. These transactions point out the state of deficient monitoring, non-compliance with governmental rules resulting in non-safeguarding of financial interests of the Company. The Company should prepare an investment policy and adhere to the guidelines of KSBPE. In the instant case, the accountability needs to be fixed.

The matter was reported to the Management / Government (May 2009); their reply was awaited (September 2009).

**Bangalore Metro Rail Corporation Limited**

**4.16 Improper investment**

**Unauthorised investment in private equity funds through a broker by an Officer of the Company in violation of guidelines of Karnataka State Bureau of Public Enterprises indicated poor corporate governance.**

The Company (BMRCL) was incorporated in 1994 to implement the Bangalore Mass Transit Rail Project. The Government of Karnataka (GOK) and Government of India (GOI) approved the project in March 2005 and April 2006 respectively. The project became a joint venture of GOI and GOK in July 2006.

The funds released by GOI / GOK to the Company towards equity, acquisition of land *etc.*, were invested in Fixed Deposits / Mutual Funds (State Bank of India and Unit Trust of India). The Board of Directors decided (January 2005) to invest 50 *per cent* of the overall surplus funds in mutual funds and authorised the Managing Director of the Company to take decision in consultation with Investment Committee strictly in accordance with the guidelines of Karnataka State Bureau of Public Enterprises (KSBPE) and investment decision was to be placed to the Board from time to time for noting and confirmation. The KSBPE had issued (April 1997) guidelines that every investment decision should be approved by the Board of Directors or Finance/Investment Committee constituted by the Board and that no investment shall be made by a public sector enterprise in public and private mutual funds where there were equity based operations which were inherently risky.

The Company made an investment of Rs. 10 crore in January 2006 and of another Rs. 20 crore in April 2006 with Principal Pnb Asset Management Company Private Limited (PAMCL) which operated various funds<sup>123</sup> that were liquid based<sup>124</sup> and equity based. The amount provided by the Company was initially invested in liquid fund (fund 1: refer footnote). The Company exercised Switches<sup>125</sup> between various funds from January 2006 to February 2007 which were routed through brokers (GR Financial Advisors and GS Financial Services). The investments of Rs. 30 crore, were redeemed in September 2006 (Rs. 5 crore), May 2007 (Rs. 15 crore) and balance in June 2007 and realised a total of Rs. 28.36 crore.

<sup>123</sup> Principal Cash Management Fund Liquid Option-Growth plan (fund 1), Principal Focussed Advantage Fund Growth Plan (fund 2), Principal Growth Fund-Growth plan (fund 3), Principal Infrastructure and Services Industries Fund- Growth plan (fund 4), Principal Large Capital Fund- Growth plan (fund 5). Fund 1 was liquid based, while others were equity based.

<sup>124</sup> investments in short term fixed deposits, treasury bills, commercial papers, certificate of deposits *etc.*, are highly liquid as these investments are for short duration and can be encashed within a day. Mutual funds making investments in such liquid instruments are called liquid based funds.

<sup>125</sup> *Switch-in* is to purchase units of a fund while *Switch-out* is to sell units of a fund. Switch out (sale) from one fund entails the company to have the amount in its accounts maintained by the Fund and this amount can be used to Switch in (purchase) in another fund. The amount will be remitted back to the Company on final redemption from the fund.

Audit observed (March 2009) that:

- the Board of Directors did not specify the total amount up to which the funds could be invested and the nature of the investments as required under Section 292 (1) (d) of the Companies Act 1956 in its investment decision of January 2005.
- the Executive Director (Finance) of the Company made the investments without the approval of the Managing Director who was authorized by the Board. The matter was not brought to notice of the Board in the next meeting as directed (January 2005) by Board. Though the 'application form' to invest in PAMCL was marked 'direct' by an officer of the Company, subsequently, another application form was submitted signed by the Executive Director (Finance), which had the name and code number of the broker. Further, a commission of Rs. 1.50 crore was paid to the broker by PAMCL for the investments made by the Company.
- the funds of Rs. 10 crore and Rs. 20 crore initially invested on 26 January 2006 and 17 April 2006 in liquid funds were immediately (6 February 2006 and 21 April 2006) *switched to* equity based funds. Such investment in equity based funds was in violation of the guidelines issued by KSBPE. The switch between funds was purportedly authorized by the Executive Director (Finance) without bringing it to the notice of the Managing Director or the Board of Directors. In one instance, an amount of Rs. 9.84 crore switched out on 7 February 2006 was invested in a new fund<sup>126</sup> offer under which units were allotted only on 6 March 2006 resulting in the Company being deprived of any returns during this period.
- as against the investment of Rs. 30 crore the amount realised was only Rs. 28.36 crore. Surprisingly, the broker on his own accord paid (June 2007) Rs. 3 crore (directly to PAMCL) for additional units in principal floating rate fund- a liquid option fund in favour of the Company. The personal interest shown by the broker in making good the loss indicated that the broker had made gains using government funds, the quantum of which was not on record.
- the investment decisions were not brought to notice of Board in its meeting held during 2005-06 and 2006-07 and the Board also did not insist on the same.
- though internal audit was in existence, investments were not subjected to its scrutiny during 2004-07.

The Company referred (August 2007) the matter to the Audit Sub-committee for a detailed enquiry which in its report, fixed (May 2008) responsibility on the Executive Director (Finance). Articles of Charges against the then Executive Director (Finance) were approved by the Board in December 2008 and sent (January 2009) to Government of India with a request to initiate disciplinary action. The status of action taken was awaited (August 2009).

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<sup>126</sup> **Principal Services Industries Growth Fund (NFO).**

Thus the Company made the investments in violation of guidelines of KSBPE which was indicative of poor corporate governance. Further, given the volatility of the financial markets, these investments were exposed to the risk of erosion. Audit recommends that the Company has to ensure compliance with KSBPE guidelines apart from evolving sound internal control procedures.

The Management stated (August 2009) that investment in mutual funds have been stopped since July 2008 and investments are being made only in Fixed Deposits of Banks, with the approval of the Investment Committee.

The matter was reported to the Government (June 2009); its reply was awaited (September 2009).

### **Karnataka Soaps and Detergents Limited**

#### *4.17 Use of inadequate / unsuitable accounting software package*

**The ready made accounting software used by the company was insufficient to cater to its accounting needs. Improper usage and lack of security features affected the accuracy and reliability of the accounting process.**

A scrutiny (June 2009) of the existing IT application (TALLY) in use since 1994 in Karnataka Soaps and Detergents Limited, Bangalore, a company engaged in manufacture of toilet soaps, detergents, sandal oil, agarbathies and talcum powder revealed the following deficiencies:

- though the accounting package has the provision for preparation of final accounts *i.e.*, Profit & Loss Account and Balance Sheet, the same were prepared manually by incorporating the accounts of the sales offices / branches.
- similarly, the company could not use software for periodic preparation of cash flow statements and reports for better fund management and for preparation of age-wise sundry debtors or creditors for effective collection of receivables / arranging payments in spite of provision contained in the application.
- it was observed that the ready-made software package was also not amenable to integration of various activities/locations in the accounts department and of other departments like production, sales, purchase *etc.*, due to its inherent limitations resulting in non-generation of reports in the desired format depicting the levels of inventory or finished goods at any point of time for effective production/purchase planning.
- Data entry of transactions was done by posting amounts/name of party. The other key details like voucher/receipts numbers, cheque numbers, GRN (Goods Received Notes) were mentioned in the narration field thereby making verification of the transactions, based on these key fields, through the system, impossible.

- the utilisation of the accounting package also exposed the accounting system to various risks due to absence of controls and security features like audit trails/logs *etc.*, due to the following:
  - the package was running on a server and five Personal Computers (PCs) networked to it which was housed in the accounts department. The personnel who processed the receipt and payment vouchers physically went over to the server room to post the receipts and payments at periodical intervals during a day.
  - the software did not create any audit trail or log for the users. The risk is multiplied by the fact that there were no physical / logical access controls to the server or systems. The audit module of the package which was to be purchased and installed separately has not been installed till date.
  - missing audit trail in tally makes it impossible to track the modifications carried out. Missing controls for serial numbers / vouchers made it impossible to ensure whether data entry of all the physical vouchers has been carried out.
  - there was no password policy or authorization policy and anyone could enter any system connected to the server by using a common operating system log in password and carry out any function as security levels were not implemented.
  - though security level could be created in the package, there was no segregation of duties and anyone in the accounting department could create/delete masters (like ledger accounts) and delete or modify data already entered.
- the company has not formulated any policy for periodical backup, testing and retrieval of data. No official has been made responsible formally for taking back-ups regularly. Backups were taken only once in a month and stored only in the hard disk of the same server. No back ups were stored in an off-site location to avoid loss of critical data in case of any disaster. Further, the data and the accounts for many previous years were kept in the same server along with current data without any archiving and transfer to external media.
- the company has not been able to realise the optimum benefit of computerisation as IT assets were being used without any integration or networking. The PCs with static Internet Protocol (IP) addresses were being configured manually instead of implementing a network using Dynamic Host Configuration Protocol. As a result, the attendance data base could not be integrated with Pay roll and bill of materials data could not be made available to all users to avoid duplication of effort. Even basic functions like updating anti-virus, loading of software / patches etc had to be done manually in each system and group policies

could not be carried out centrally using a server as there was no networking, which has been taken up now only.

Thus, in the absence of a formulated IT policy, the ready made accounting package meant for small businesses being used by the Company, was inadequate / unsuitable to cater to the needs of the company with diversified activities due to inherent limitations, improper utilisation and insufficient controls. There was no IT department in the company to take over and monitor the accounting package. Absence of a proper internal network to optimize the use of existing IT resources resulted in non implementation of group policies as basic functions had to be done manually on independent computers.

The Management stated (August 2009) that the company was planning to streamline the activities of the accounts department to utilise the Tally software in an effective manner. The matter was reported to Government (July 2009); its reply was awaited (September 2009).

**Statutory Corporation****Karnataka State Warehousing Corporation****4.18 Loss of revenue**

**Ineffective monitoring and non-adherence to the terms of the tender resulted in non-recovery of penalty of Rs. 20.15 lakh and loss of rental revenue of Rs. 52.82 lakh.**

The Corporation (KSWC) acquires and builds godowns and warehouses within the state of Karnataka and lets them out for the storage of various goods. Karnataka State Beverages Corporation Limited (KSBCL), a State Government Company, utilised many of the godowns of the KSWC to store its goods. KSBCL informed (October 2005) KSWC that it was looking for a godown in the locality of Hongasandra. In a meeting (October 2005), it was decided that KSWC would take action for construction and based on the progress, KSBCL would release necessary amounts for construction. KSBCL indicated that time was essence of the project and thus, it was decided in the meeting that construction would be monitored regularly.

KSWC invited (December 2005) tenders with condition to complete the work in four months. The terms of the tender *inter alia* stipulated that delay in completion would attract a penalty of Rs. 0.65 lakh per month of delay. The work was awarded (January 2006) to Sri. P. Vijayakumar (contractor) for Rs. 1.33 crore with a stipulation to complete the work within four months from the date of handing over the site (January 2006) with a monthly financial progress of Rs. 33.29 lakh.

The contractor failed to complete the work within the stipulated period of four months (May 2006) and KSWC issued (October 2006, November 2006, January 2008 and July 2008) notices to the contractor. The contract was terminated (December 2008) at the risk and cost of the contractor. Final measurements were taken in December 2008 and the total work done was assessed<sup>127</sup> at Rs. 97.79 lakh. The Corporation had paid (July 2006 to April 2007) Rs. 83.15 lakh till the date of termination (December 2008). The Corporation is yet (August 2009) to take up the balance works.

Audit noticed that as per commitment in agreement the actual progress shown by the contractor was very slow<sup>128</sup>. The work which was to be completed in four months was not completed even after a lapse of more than three years (up to August 2009). The Company issued notices to the contractor to expedite

<sup>127</sup> as the contractor did not appear for the final measurement, the final measurement was taken in the presence of two other contractors who executed other works for the Corporation.

<sup>128</sup> Rs. 18.68 lakh (up to April 2006); Rs. 39.70 lakh (up to August 2006); Rs. 54.76 lakh (up to February 2007); Rs. 83.15 lakh (up to March 2007); Rs.97.79 lakh (up to December 2008) (date of termination).

the work without specifying any further time limit. The Running Account bills submitted by the contractor were paid without recovering the penalty for the delays. The Board of Directors, which had met in December 2005 to decide on the construction, had not discussed the matter subsequently till July 2009. The monitoring of the progress of work was also not on record.

Thus, ineffective monitoring and non-adherence to the terms of the tender resulted in non-completion of the godown and loss of possible rental revenue of Rs. 52.82 lakh<sup>129</sup>. In addition, failure of the Company to invoke penalty clause for delayed construction on the contractor resulted in non-recovery of Rs. 20.15 lakh<sup>130</sup>.

The Government stated (September 2009) that necessary steps would be taken to complete the balance works.

Audit recommends that the Corporation should evolve a system to monitor the progress of works and enforce the contractual agreement in order to complete them within the intended time to derive the planned benefits.

## **General**

### **Public Sector Undertakings**

#### ***4.19 Opportunity to recover money ignored***

**29 Public Sector Undertakings did not either seize the opportunity to recover their money or pursue the matter to their logical end. As a result, recovery of money amounting to Rs. 298.64 crore remains doubtful.**

A review of unsettled paras from Inspection reports (IRs) pertaining to periods up to 2003-04 showed that there were 134 paras in respect of 29 Public Sector Undertakings (PSUs) involving a recovery of Rs. 298.64 crore. As per para 3.3 of Hand Book of Instructions for the speedy settlement of Audit Observations issued by the Finance Department, Government of Karnataka (FD 51 BUD 68), the PSUs are required to take remedial action within three months after receipt of IRs from Audit. However, no effective action has been taken to take the matter to their logical end *i.e.*, to recover money from the concerned parties. As a result, these PSUs have so far lost the opportunity to recover their money which could have augmented their finances.

PSUs wise details of paras and recovery amount are given below. The list of individual paras is given in **Annexure 14**.

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<sup>129</sup> based on the revenue estimated by the Corporation at Rs. 1.39 lakh per month for 38 months (June 2006 to July 2009).

<sup>130</sup> Rs. 20.15 lakh (*i.e.*, Rs. 0.65 lakh per month for 31 months from June 2006 to December 2008); as the risk and cost is not quantifiable in the absence of taking up balance work, Rs. 14.64 lakh towards bills pending payment is not adjusted.



Sl. No.	Name of the Company	No of Paras	Amount to be recovered (Rs. in crore)
1	The Karnataka State Forest Industries Corporation Limited	3	0.22
2	Karnataka Agro Industries Corporation Limited	6	1.28
3	Karnataka Food and Civil Supplies Corporation Limited	1	0.30
4	Karnataka Handloom Development Corporation Limited	1	0.05
5	Karnataka Small Industries Marketing Corporation Limited	1	0.35
6	Karnataka Leather Industries Development Corporation Limited	3	1.35
7	Karnataka State Small Industries Development Corporation Limited	4	41.36
8	Karnataka Urban Infrastructure Development and Finance Corporation Limited	1	0.72
9	Rajiv Gandhi Rural Housing Corporation Limited	1	1.91
10	Karnataka State Industrial Investment and Development Corporation Limited	10	195.36
11	Karnataka State Financial Corporation	24	21.44
12	Sree Kanteerava Studios Limited	2	0.11
13	Mysore Minerals Limited	6	1.74
14	Karnataka Fisheries Development Corporation Limited	1	1.39
15	The Mysore Lamp Works Limited	5	2.87
16	Karnataka Neeravari Nigam Limited	10	4.55
17	Karnataka Soaps and Detergents Limited	1	0.06
18	Karnataka Land Army Corporation Limited	1	0.10
19	Dr. B.R.Ambedkar Development Corporation Limited	1	0.01
20	D. Devaraj Urs Backward Classes Development Corporation Limited	1	0.10
21	Cauvery Neeravari Nigam Limited	3	0.34
22	Krishna Bhagya Jala Nigam Limited	13	4.22
23	North Western Karnataka Road Transport Corporation	5	0.21
24	Chamundeshwari Electricity Supply Corporation	5	0.63
25	Karnataka Power Transmission Corporation Limited	12	10.56
26	Gulbarga Electricity Supply Company Limited	6	5.24
27	Bangalore Electricity Supply Company Limited	5	1.62
28	Hubli Electricity Supply Company Limited	1	0.40
29	Karnataka Power Corporation Limited	1	0.15
	<b>Total</b>	<b>134</b>	<b>298.64</b>

The paras mainly pertain to non recovery of dues, improper implementation of schemes *etc.*

Above cases point out the failure of respective PSU authorities to safeguard their financial interest. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Department of Public Enterprises, Government of Karnataka and PSU Management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

The matter was reported to the Government (June 2009); their reply was awaited (September 2009).

**4.20 Lack of remedial action on audit observation**

**30 PSUs did not either take remedial action or pursue the matters to their logical end in respect of 211 Inspection report paras, resulting in foregoing the opportunity to improve their functioning.**

A review of unsettled paras from Inspection reports (IRs) pertaining to periods up to 2003-04 showed that there were 211 paras in respect of 30 Public Sector Undertakings (PSUs) which pointed out deficiencies in the functioning of these PSUs. As per para 3.3 of Hand Book of Instructions for the speedy settlement of Audit Observations issued by the Finance Department, Government of Karnataka (FD 51 BUD 68), the PSUs are required to take remedial action within three months after receipt of Inspection reports from Audit. However, no effective action has been taken to take the matters to their logical end. *i.e.*, to take remedial action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

PSUs wise details of paras are given below. The list of individual paras is given in **Annexure 15**.

Sl. No	Name of the Company	No of Paras
1	Karnataka Agro Industries Corporation Limited	7
2	Karnataka State Seeds Corporation Limited	1
3	Karnataka Forest Development Corporation Limited	1
4	Karnataka Food and Civil Supplies Corporation Limited	1
5	Karnataka Leather Industries Development Corporation Limited	1
6	Karnataka Road Development Corporation Limited	1
7	Karnataka State Small Industries Development Corporation Limited	3
8	Karnataka Renewable Energy Development Limited	1
9	Karnataka Urban Infrastructure Development and Finance Corporation Limited	3
10	Rajiv Gandhi Rural Housing Corporation Limited	2
11	Karnataka State Industrial Investment and Development Corporation Limited	2
12	Karnataka State Financial Corporation	4
13	The Mysore Sugar Company Limited	12
14	Mysore Minerals Limited	7
15	Karnataka Film Industries Development Corporation Limited	1
16	The Mysore Lamp Works Limited	3
17	Karnataka Neeravari Nigam Limited	52
18	Karnataka Land Army Corporation Limited	1
19	Dr. B.R.Ambedkar Development Corporation Limited	2
20	Karnataka State Construction Corporation Limited	1
21	Karnataka Minorities Development Corporation Limited	2
22	Cauvery Neeravari Nigam Limited	16
23	Krishna Bhagya Jala Nigam Limited	9
24	Karnataka State Road Transport Corporation	1
25	North Western Karnataka Road Transport Corporation	5
26	Chamundeshwari Electricity Supply Corporation Limited	3
27	Karnataka Power Corporation Limited	1
28	Gulbarga Electricity Supply Company Limited	6
29	Bangalore Electricity Supply Company Limited	1
30	Karnataka Power Transmission Corporation Limited	61
	<b>Total</b>	<b>211</b>

The paras mainly pertain to extra / infructuous expenditure, irregular payments and avoidable payments.

Above cases point out the failure of respective PSU authorities to safeguard their financial interest. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Department of Public Enterprises, Government of Karnataka and PSU Management periodically, have not yielded the desired results in these cases.

The Public Sector Undertakings should initiate immediate steps to take remedial action on these paras and complete the exercise in a time bound manner.

The matter was reported to the Government (June 2009); their reply was awaited (September 2009).

### **Follow-up action on Audit Reports**

#### **4.21 Explanatory notes outstanding**

**4.21.1** The Comptroller and Auditor General of India's Audit Reports represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. Finance Department, Government of Karnataka issued instructions (January 1974) to all Administrative Departments to submit explanatory notes indicating a corrective / remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Audit Reports for the years 2004-05 to 2007-08 were presented to the State Legislature between March 2006 and February 2009. Eleven departments, which were commented upon, did not submit explanatory notes on 68 out of 119 paragraphs / reviews as on September 2009, as indicated below:

<b>Year of the Audit Report (Commercial)</b>	<b>Total paragraphs and reviews in Audit Report</b>	<b>No. of paragraphs and reviews for which explanatory notes were not received</b>
2004-05	25	9
2005-06	31	15
2006-07	36	21
2007-08	27	23
<b>Total</b>	<b>119</b>	<b>68</b>

Department wise analysis is given below:

<b>Name of the department</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Commerce and Industries	7	6	7	5
Energy	0	5	7	11
Water Resources	0	0	3	1
Forest	1	0	1	0
Home	0	0	1	0
Social Welfare	1	0	0	1
Finance	0	0	0	2
Co-operation	0	2	0	0
Information technology	0	2	0	0
Public works	0	0	2	2
Animal Husbandry	0	0	0	1
<b>Total</b>	<b>9</b>	<b>15</b>	<b>21</b>	<b>23</b>

***Outstanding compliance with reports of Committee on Public Undertakings (COPU)***

**4.21.2** As per the instructions the compliance (Action Taken Notes-ATN / Action Taken Report - ATR) with recommendations of COPU was required to be furnished within six months of placement of the Report in the Legislature. Replies to nine Reports of the COPU containing recommendations to 63 paragraphs, presented to the State Legislature between February 2004 and July 2009, had not been received as on September 2009, as indicated below:

<b>Year of the COPU Report</b>	<b>Total number of Reports involved</b>	<b>No. of paragraphs where replies not received</b>
2003-04	1	2
2005-06	4	27
2006-07	2	4
2007-08	1	20
2008-09	1	10
<b>Total</b>	<b>9</b>	<b>63</b>

**4.22 Response to Inspection reports, Draft paragraphs and Reviews**

Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government through Inspection reports. The heads of PSUs are required to furnish replies to the Inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2009 pertaining to 79 PSUs disclosed that 3,589 paragraphs relating to 919 Inspection reports remained outstanding at the end of September 2009; of these, 18 Inspection reports containing 167 paragraphs were pending due to non-receipt of even first replies. Department wise break-up of Inspection reports and audit observations outstanding as on 30 September 2009 is given in **Annexure 16**.

Similarly, draft paragraphs and reviews on the working of Public Sector Undertakings are forwarded to the Principal Secretary / Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. All the reviews have been discussed in the exit conference with the Government. It was, however, observed that three reviews and 16 paragraphs forwarded to the various departments during March 2009 to August 2009 as detailed in **Annexure 17**, had not been replied so far (September 2009). Their views have been taken into consideration while finalising the reviews / paragraphs wherever replies from Government / Department have been received.

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who failed to send replies to Inspection reports / draft paragraphs and ATNs to the recommendations of COPU as per the prescribed time schedule, (b) action to recover loss / outstanding advances / overpayment is taken within prescribed time, and (c) the system of responding to audit observations is revamped.

**BANGALORE**  
The

( **M. NANJUNDASWAMY** )  
**Accountant General**  
**(Civil and Commercial Audit), Karnataka**

**COUNTERSIGNED**

**NEW DELHI**  
The

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**Comptroller and Auditor General of India**