

CHAPTER III

3. Transaction Audit Observations

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

Government Companies

Krishna Bhagya Jala Nigam Limited

3.1 Undue benefit to contractor

The Company awarded a work for ₹ 18.70 crore at 41.55 per cent below the amount put to tender. The Company continued to entrust additional works at regular intervals on non-competitive basis to the same contractor thereby increasing the total value of works to ₹ 73.60 crore.

Construction of submersible bridge-cum-barrage with needle gates across River Bhima at Sonthi Village in Gulbarga District was awarded (June 2003) to a contractor at his lowest quoted rates for ₹ 18.70 crore, which was 41.55 per cent below the amount of ₹ 32 crore put to tender. Scheduled time of completion was September 2004. The Company subsequently awarded additional works amounting to ₹ 54.90 crore. The construction was completed in December 2009. The high variation of ₹ 54.90 crore between the original cost and the final awarded cost was attributed to various reasons such as change in scope and nature of work (non-submersible with vertical gates), cost escalation *etc.*, as noted below:

Sl. No.	Particulars	Amount (₹ in crore)
1	Cost of conversion of submersible bridge to non- submersible bridge (December 2003)	7.85
2	Consequential construction of 3 metre piers to accommodate vertical crest gates (December 2005)	15.58
3	Erection of embedded parts of service and stop log gates (December 2005)	5.62
4	Cost of extension of downstream apron works up to 20 metres (December 2006)	6.16
5	Increase in quantity of steel for embedded parts (March 2007)	2.79
6	Cost escalation due to allowing revised rates for work done after tender period (February 2005)	9.02
7	Extra cost towards cement and steel	6.26
8	Other extra costs	1.62
	Total	54.90

Of the total variations in cost of ₹ 54.90 crore, ₹ 16.90 crore related to cost escalation and ₹ 38 crore related to change over to non-submersible bridge and introduction of new items of work resulting in complete change of scope of work. Change of scope of work was more than 200 percent of the original cost of ₹ 18.70 crore.

We observed that :

- Changes subsequently introduced were well within the knowledge of the Company beforehand. Before the contract was awarded in June 2003, the Minister for Minor Irrigation had impressed (April 2003) upon the Company about the necessity of going in for vertical gates, which were considered technically superior and suitable. The Company, however, did not consider this suggestion on the ground that the beneficiaries would directly lift the stored water and went ahead with floating tenders for construction of bridge-cum-barrage with needle gates and selected the contractor on lowest tender basis at the cost of ₹ 18.70 crore.
- After award of the work (June 2003) the Company decided (December 2003) to construct a non-submersible bridge on a request from the Minister for Minor Irrigation (October 2003). This resulted in increase in quantity by more than 125 per cent of tendered quantities. The same contractor was entrusted (November 2004) with the additional works necessitated due to change over to non-submersible bridge at the cost of ₹ 7.85 crore. In the same month the contractor demanded escalation of ₹ 9.02 crore, increasing the cost to ₹ 35.57 crore, which was agreed to.
- On the directions of the Government (December 2005) Sonthi bridge-cum-barrage was modified to include lift irrigation scheme also. Construction of steel embedment works for vertical gates and the associated additional civil works at the cost of ₹ 30.15 crore were also entrusted to the same contractor.
- In all, works of different character and scope at the cost of ₹ 38 crore were entrusted to the same contractor without going in for a fresh tender in terms of Rule 12 (5)⁸⁰ of the KTPP Rules. By ignoring the Minister's advice, which was in the knowledge of the Company before the tender was floated, the Company managed to entrust the same work to the same contractor without obtaining competitive rates.

Instead of taking an integrated approach encompassing the construction of the barrage and connected works for irrigation, the Company awarded a work initially by inviting open tender and later entrusted more works as additions to the main work on non-competitive basis. The Company compromised the cost competitiveness to convenience of getting the work done.

- As per Clause 13 (a) and (b) of the tender conditions, quantities up to 125 *per cent* of the tendered quantities were to be paid at the quoted rates. The Company, however, agreed to revised rates for the entire quantities executed after the scheduled period of completion (September 2004)

⁸⁰ Rule 12(5) of KTPP Act stipulates that the quantity finally ordered can vary only to the extent of twenty five *per cent* either way of the requirement indicated in the tender documents.

without limiting the increase in rates to quantities executed beyond 125 per cent, resulting in undue benefit of ₹ 6.32 crore.

- Further, in contravention of the directions (September 2007) of the Board of Directors of the Company to pay the difference in cost of steel and cement for the works executed after March 2007, the Company paid (October 2007) the contractor an amount of ₹ 0.59 crore even for the work carried out before March 2007. The Government agreed (August 2011) to recover this amount from the contractor. Recovery has not been made so far (September 2011).

The matter was reported to the Government in August 2011; its reply is awaited (September 2011).

Cauvery Neeravari Nigama Limited

3.2 Loss of revenue

The Company failed to enforce the provisions in the agreement which resulted in loss of revenue of ₹ 3.31 crore.

The Company invited tenders in May 2009 for selection of an agency to collect entry fee and toll fee from July 2009 to June 2010 at Brindavan Gardens. Shri T.N. Paramesh (contractor), who had quoted ₹ 40.85 lakh per month for entry fee and ₹ 8.97 lakh per month for toll fee was the highest bidder. The Company issued Letter of Acceptance (June 2009) and entered into agreements (July 2009) for collection of entry fee and toll fee.

The contractor was to furnish a bank guarantee of ₹ 99.64 lakh covering two months' contractual payments as performance security at the time of entering into a formal agreement. As per the terms of agreement, the payment of ₹ 49.82 lakh fell due on 1st of every month starting from July 2009. The performance guarantee executed by the contractor was received by the Company only on 19 August 2009. The payments made by the contractor from July 2009 to June 2010 were as follows:

Month	Amount to be paid	Amount paid	Balance	Interest
₹ in lakh				
July 2009	49.82	nil	49.81	0.50
August 2009	49.82	nil	99.64	1.00
September 2009	49.82	nil	149.46	1.49
October 2009	49.82	nil	199.28	1.99
November 2009	49.82	49.90	199.20	1.99
December 2009	49.82	49.90	199.12	1.99
January 2010	49.82	49.90	199.04	1.99
February 2010	49.82	12.68	236.18	2.36
March 2010	49.82	26.32	259.68	2.60
April 2010	49.82	21.74	287.76	2.88
May 2010	49.82	56.55	281.03	2.81
June 2010	49.82	-	330.85	3.31
Total	597.84	266.99		24.91

It was the responsibility of the contractor to make the payments irrespective of the number of visitors and the Company was to ensure the payments. As seen from the contract, the payment of ₹ 49.82 lakh on 1st of every month had no relation to the number of visitors to the garden.

The contractor, however, did not make any payment from July 2009 to October 2009, by which time the dues from the contractor had accumulated to ₹ 199.28 lakh, which was 200 *per cent* of the bank guarantee. Despite repeated defaults in payments, the Management did not initiate action to encash the bank guarantee of ₹ 99.64 lakh lodged with them. In fact, the bank guarantee should have been invoked by 1 September 2009, when the dues were equivalent to the bank guarantee.

Inaction on the part of the Management further encouraged the contractor to evade payment of dues in February, March, April and June 2010. The Company allowed the contractor to manage the Garden for one full year without invoking the bank guarantee and terminating the contracts. The Management initiated action to invoke the bank guarantee only in May 2010, just a month before the end of the period of contracts (June 2010). By May 2010, the contractor had obtained stay on encashment of bank guarantee and thereby, the Company could not realize the sum of ₹ 99.64 lakh.

Thus, the failure of the Company to act timely in encashing the bank guarantee and terminating the contract deprived the Company of the revenue of ₹ 3.31 crore⁸¹. No action has been taken by the Company to fix responsibility for the loss and initiate administrative action for the failure.

The Government replied (July 2011) that the inflow of tourists had reduced considerably during July to October 2009 due to out break of H1N1, communal riots and tight security arrangements against terrorist activities.

We observed that an independent verification of collection for March 2010 carried out by the Assistant Executive Engineer of the Dam Division had revealed that the actual revenue collection was ₹ 32.46 lakh against the collection of ₹ 21.48 lakh reported by the contractor. It was obvious that the data furnished by the contractor was incorrect. It is reiterated that the monthly remittances in terms of the agreements are not linked to the number of visitors to the Brindavan Gardens. The Company should, therefore, have ensured that the terms of the agreements were adhered to and effective actions taken at appropriate times to protect its financial interest.

⁸¹ Excluding interest of ₹ 24.91 lakh at 12 *per cent* on belated payments as per agreement.

Karnataka Power Corporation Limited

3.3 Improper planning and investment

The Company selected locations for implementing bio-mass plants at Bethamangala and Kushalnagar without realistically assessing the availability of bio-mass. The investment of ₹ 2.82 crore on the projects remained unfruitful.

The Company entered (May 2002) into an agreement with Advanced Bio-residue Energy Technologies Society (ABETS) in Indian Institute of Science for establishing bio-mass power plants to generate power utilizing feedstock residue⁸². The Company was to fund the projects and ABETS was to provide the technology support for design, construction, erection, operation and maintenance. It was suggested that the lead taken by the Company in the areas of new technology could then be passed on to private investors. It was also stressed that availability of reliable drinking water was a major problem in many societies and reliable power supply from such plants would solve it.

Karnataka Renewable Energy Development Corporation (KREDL)⁸³ had identified eleven⁸⁴ locations, based on a survey where feedstock was available. The representatives of the Company and ABETs, however, visited (September 2002) various other places and selected Bethamangala in Kolar District and Kushalnagar in Kodagu District, on factors such as seriousness of power crisis, power level, bio-mass availability, feasibility and proximity to Bangalore.

A Detailed Project Report (DPR) for establishing bio-mass power plants at an estimated cost of ₹ 2.03 crore at Bethamangala (₹ 1.58 crore) and Kushalnagar (₹ 0.45 crore) was forwarded (December 2002) to the Ministry of New and Renewable Energy (MNRE) through the KREDL. It was projected in the DPR that sufficient quantity (seven to ten times the requirement) of bio-mass residue was available in both the locations within a radius of 10 to 30 kilometres. The DPR was approved (March 2003) by MNRE with a subsidy support of ₹ 0.82 crore⁸⁵. The State Government approved the proposal (November 2004) for bio-mass plants at these locations.

The erection and commissioning of plants at Bethamangala and Kushalnagar were completed in June 2006 and January 2005 respectively at an expenditure of ₹ 2.82 crore⁸⁶. The increased cost was attributed to the increase in capacity

⁸² Coconut shells, coconut fronds, briquettes of sawdust, coffee husk, rice husk, sugar cane trash, cotton stock, plantation residues etc.

⁸³ Karnataka Renewable Energy Development Limited (KREDL) is the nodal agency in the State for implementation of renewable energy sources.

⁸⁴ Tiptur, Gubbi, H.D. Kote, Sindhanur, C.N.Halli, Siriguppa, Somvarpet, Sampgaon, Gangavati, Athani and Khanapura.

⁸⁵ Bethamangala: ₹ 0.65 crore and Kushalnagar: ₹ 0.17 crore.

⁸⁶ Bethamangala : ₹ 2.27 crore and Kushalnagar : ₹ 0.55 crore. The amounts are inclusive of subsidy received amounting to ₹ 0.57 crore. The balance subsidy would be received after fulfilling the criteria for successful completion of unit.

of Bethamangala plant, additional civil works, increase in duties and taxes, *etc.* The Company did not commence commercial operation of the plants.

We had observed (October 2007/May 2011) that the plants were not put into operation. Even the trial runs for 200 hours before commencement of commercial operation were not found possible owing to non-availability of bio-mass fuel in the area and non-creation of infrastructure required for evacuation of the surplus power to the grid/nearest sub-station. In respect of Kushalnagar the power lines to the jack well, where from water was to be pumped, were not laid.

Further, the projections of availability of bio-mass residue in the vicinity of the plant were found to be unrealistic and locations selected on other assumptions had intrinsic problems. These two locations were also not in the list identified for availability of bio-mass residue in the above mentioned survey. The investment of ₹ 2.82 crore on the Bio-mass Gasification Projects has been unfruitful; besides, the Company did not achieve the objectives envisioned to demonstrate generation of power in the areas of new technology and pass on the technology to private investors. Government of Karnataka was finally informed (November 2010) that commercial production at Bethamangala Plant was not being taken up.

The Management stated (March 2011) that the bio-mass units were demonstration projects under a research and development (R&D) scheme and, hence, success was not certain. The Management further stated (May 2011) that both the plants were now proposed for relocation to the Company's solar plant premises at Yelesandra in Kolar District, where facilities for evacuation of power existed. The Management had now informed (September 2011) that the proposal for re-locating the plant to Yelesandra had been dropped and the Company was going ahead with the decision to dispose off the plant.

The matter was reported to the Government (June 2011); its reply is awaited (September 2011).

The Mysore Sugar Company Limited

3.4 Improper decisions

The revival of Indian Made Liquor bottling unit failed due to improper decisions.

The Company has sugar mills, a primary distillation plant and an Indian Made Foreign Liquor/Indian Made Liquor (IML) blending unit. The IML unit was shut down in February 2000 as the operations were uneconomical owing to failure in establishing a brand of its own and in retaining regular orders⁸⁷. The Company was declared sick by the Board of Industrial Finance Reconstruction (BIFR) in September 2005, in terms of the Sick Industrial (Special Provisions) Act 1965.

⁸⁷ Reference is invited to the Audit Report (Commercial), Government of Karnataka of the Comptroller and Auditor General of India for the year ended 31 March 2002.

The Government of Karnataka decided to ban sale of arrack in Karnataka (with effect from July 2007) and to grant license for manufacture and sale of Indian Made Liquor (IML). The Board of Directors (BoD) of the Mysore Sugar Company Limited (Company), therefore, decided (July 2007) to revive the operations of the IML unit under tie-up arrangement with outside parties.

M/s V.Sree Spirits (VSS), Bangalore had come forward to undertake the IML manufacturing, bottling and sales operations and offered user fee of ₹ 1.50 lakh per month, royalty of 90 paise per litre of rectified spirit and to bear other costs⁸⁸. VSS remitted (September 2007) ₹ 50.03 lakh⁸⁹ towards user fee, royalty, earnest money deposit and license fee to the Government on behalf of the Company. Pursuant to the BoD's decision (October 2007) to enter into a tie-up for a period of three years, VSS was informed of the acceptance of their offer.

However, in the BoD meeting held in March 2008, the Joint Secretary of Finance Department and Director of the Company informed that a decision had been arrived at before the Principal Secretary, Finance Department to entrust the bottling and marketing of IML to Mysore Sales International Limited (MSIL), another Government Company by way of a tie-up arrangement.

MSIL had by then furnished their price structure for various volumes of liquors. It was reported (March 2008) that the price structure offered by MSIL was not beneficial to Company. The BoD decided (March 2008) to refund the advance of ₹ 50.03 lakh obtained from the VSS and it was refunded. The proposal for tie-up with MSIL was also not pursued.

The BoD then decided (October 2008) to start production of 25,000 cases (180 ML bottles) per month initially and to enhance the capacity with proper marketing arrangement. The Company started bottling the IML (January 2009) with the old bottling machines after paying the license fee of ₹ 34.50 lakh for the year 2008-09⁹⁰. After bottling 27,686 cases, production was stopped in May 2009. The Company also remitted (May/June 2009) licence fee of ₹ 34.50 lakh for 2009-10. Of the total IML manufactured, 14,500 cases were sent to market. Only 14,070 cases could be sold and the balance 430 cases remained unsold (August 2011). The Company could not find market for the stock of 13,186 cases.

The Company, after inviting tenders, purchased (January 2009) second-hand bottling machinery for ₹ 47.81 lakh. The machinery was installed in February 2009. This plant has also been lying idle since then. The BoD of the

⁸⁸ VSS agreed to bear the cost of obtaining license (₹ 36 lakh), fees for approval of labels payable to the Government (₹ 2 lakh), calibration charges (₹ 2 lakh per year), repairs / services (₹ 10 lakh to ₹ 15 lakh), cost of installation of new IML bottling machineries and cost to enhance the capacity of bottling of liquor from 1,000 to 5,000 cases per day.

⁸⁹ ₹ 15.53 lakh (earnest money deposit, user fee and royalty) to the Company and license fee (₹ 34.50 lakh) to Government of Karnataka.

⁹⁰ The license fee paid by VSS for 2007-08 was adjusted for 2008-09 as per order (December 2008) of Excise Commissioner, which was subject to clearing old dues from 2001-08 by June 2010. The correspondence regarding clearance of old dues is under progress (September 2011).

Company again decided (August 2010) to invite 'expression of interest' for private participation to commence the IML production.

We observed that the tie-up arrangement with VSS did not materialize as a decision to opt for tie-up with MSIL was taken on the instructions of the Government. The arrangement with MSIL did not fructify as it was not found beneficial to the Company. The Company refunded the deposit to VSS without ensuring a tie-up with MSIL. These actions resulted in the Company bearing the expenditure of ₹ 73.38 lakh towards license fee for the years 2008-09 and 2009-10, which otherwise would have been borne by VSS apart from loss of revenue of ₹ 57 lakh⁹¹.

The decision of the Company to commence production and to increase capacity before establishing/ensuring the marketability of the products also resulted in idle investment of ₹ 47.81 lakh in machinery. The stock valued at ₹ 30.34 lakh is yet to be sold and faces the possibility of sedimentation in bottles.

The Management justifying the decision stated (June 2011) that the then Managing Director had consulted Vasanth Dada Sugar Institute, Pune for study and report on manufacturing and marketing of IML. The fact, however, remained that the decisions had proved disadvantageous to the interest of the Company.

The matter was brought to the notice of the Government (May 2011), its reply was awaited (September 2011).

Karnataka Renewable Energy Development Limited

3.5 Non-achievement of objectives

The Company failed to implement the Solar Photovoltaic Program as envisioned. The guidelines of the Ministry of Non-conventional Energy Sources issued for procuring and installing the SPV systems were not observed.

The Ministry of Non-conventional Energy Sources (MNES), Government of India (GoI), had sanctioned (January 2006) implementation of the Solar Photovoltaic programme for 2005-06. The GoI extended (November 2006) the scheme for 2006-07 also. The broad objectives of the programme were promotion of the use of Solar Photovoltaic systems (SPVs) for rural lighting/energy requirements and bring down consumption of kerosene by replacing the kerosene lamps by solar home systems, thereby improving the quality of life in rural areas.

MNES allocated targets to the implementing organization for installation of SPVs and provided Central Financial Assistance (CFA) each year. The implementing organization, in turn, extended the CFA as subsidy to the

⁹¹ Calculated at ₹ 9.53 lakh towards user fee and royalty per quarter, for the period from January 2009 to June 2010 (end of excise year).

suppliers⁹² of SPV systems. Karnataka Renewable Energy Development Limited (Company) was to implement the programme in Karnataka.

As per the programme implementation guidelines, the Company was required to invite bids from eligible manufacturers for supply and installation of SPVs. During 2005-07 seven agencies⁹³ supplied SPVs to the Company. However, work orders issued to four suppliers⁹³ were not available.

The details of the implementation of SPVs during the period 2005-06 and 2006-07 are given below:

Type /Year	Sanctioned by MNES (number)	Claimed as installed by the Suppliers (number)	Actually found during inspection by the Company (number)	Subsidy receivable for the sanctioned SPVs - ₹ in lakh (subsidy per unit is given in brackets)	Total Subsidy released / total subsidy paid (given in brackets) (₹ in lakh)	Subsidy eligible based on systems actually found installed (₹ in lakh)	Excess amount released by the Company as subsidy (₹ in lakh)
1	2	3	4	5	6	7=(4X5)	8
2005-06							
Solar Home Systems (SHS) Module 1	1,500	583	183	37.50 (₹ 2,500)	30.75 (39.39)	4.58	17.82
SHS Module 2-5	500	604	244	24.00 (₹ 4,800)		11.71	
Street Lighting System (SLS)	60	55	55	5.76 (₹ 9,600)		5.28	
Total (A)	2,060	1,242	482	67.26		21.57	
2006-07							
SHS Module 1	2,000	1,882	1,222	50.00 (₹ 2,500)	238.60 (251.85)	30.55	74.66
SHS Module 2-5	6,500	2,440	1,715	312.00 (₹ 4,800)		83.22	
SLS	1,200	13,502	670	115.20 (₹ 9,600)		64.32	
Total (B)	9,700	17,824	3,607	477.20		177.19	
TOTAL (A+B)	11,760	19,066	4,089	544.46	269.35 (291.24)	198.76	92.48

Source: Sanction orders of MNES, cheque forwarding notes of MNRE and Report of the Company on inspection of the SPV programme.

The suppliers had claimed that 19,066 SPVs were installed during 2005-07, against 11,760 SPVs sanctioned by MNES. Subsequent inspection (September 2010) by the Company revealed that only 4,089 SPVs had actually been installed during 2005-07. The subsidy allowable was ₹ 1.99 crore. But the Company had already released ₹ 2.91 crore to the suppliers resulting in excess payment of ₹ 0.92 crore.

Further, subsidy of ₹ 3.46 crore sanctioned by the MNES for 2005-06 and 2006-07 was not utilized by the State due to poor implementation of the programme. The MNES had observed (April 2011) that in Karnataka the SPVs

⁹² The suppliers of SPVs would reduce the solar equipment cost to end users and claim the same as subsidy from the Company.

⁹³ Work orders issued in respect of Prolight Systems, Krishi Technologies Pvt Ltd and Deepa Solar Lighting Systems were available. Work orders in respect of Hamshire Electronics and Energy Systems, Akshaya Solar Solutions Limited, C3 Business Associates and Shell Solar were not available.

sanctioned were not implemented properly and the situation did not inspire much confidence in the capacity of the Company to implement solar off-grid projects. The State Government was asked to return the Central Financial Assistance already provided. Thus, the objectives of the SPV programme were defeated.

The Board of Directors of the Company appointed (September 2008) an external agency⁹⁴ to investigate the lapses in implementation of the SPV programme and financial irregularities in implementing it. The investigation revealed that there were several irregularities and deviations from the MNES guidelines. The irregularities and deviations included release of payments to suppliers who had not participated in the tender process, non-adherence to instructions of the Central Vigilance Commission on evaluation of bids, release of subsidy on the basis of an official note without documentation and inspection *etc.*

As per the MNES guidelines, the implementing agencies were responsible for monitoring the performance and evaluation of SPVs installed under the programme and the State Nodal Agencies were required to inspect 10 *per cent* of the systems installed. We observed that the inspection was not carried out properly nor the quantum prescribed in the guidelines was essentially adequate.

A Sub-Committee of the Board formed (March 2009) to examine the findings of the investigation report concluded (March 2009) that the then Managing Director and Assistant General Manager, SPV Program were responsible for the gross negligence and dereliction of duties.

We also observed that though the recommendations of the Sub-Committee were placed three times (between June 2009 and October 2009) before the Board of Directors of the Company; the subject was deferred every time. The Board of Directors had not discussed the subject till August 2011. A police complaint was filed in August 2010.

The matter was reported to the Government (June 2011); its reply is awaited (September 2011).

Karnataka State Police Housing Corporation Limited

3.6 Undue payments

The Company made payments for RCC items and plastering separately though the tender conditions stipulated that rates for RCC items were inclusive of plastering, resulting in overpayment of ₹ 0.96 crore to the contractors.

Karnataka State Police Housing Corporation Limited (Company) constructs buildings and staff quarters for personnel in police, prison, home guards and other allied departments.

⁹⁴ G M Govind and Associates, Chartered Accountants.

The Karnataka Building Specification (KBS) (Section 4.6) stipulates that in respect of RCC works, the exposed surface shall be plastered with 1:3 cement mortar (CM) of thickness not exceeding 6 mm, to give smooth and even surface true to line and form. Where such exposed surface is not plastered, necessary deduction shall be made for plastering not done. The Notice Inviting Tenders (NIT) of the Company stipulated that for RCC items the rates quoted by the contractors should be inclusive of cost of plastering and finishing.

We observed that the Company made payments for RCC items and also for plastering (12mm) treating these as separate items in 119 works executed between April 2007 and March 2011. The excess payments made in contravention of the terms in the notice inviting tenders worked out to ₹ 0.96 crore.

The Company replied (July 2011) that the words plastering and finishing included in the NIT had referred to plastering after removal of surface defects due to formation of honeycomb, sagging, *etc.*

As per tender conditions read together with KBS, the rates for RCC items were inclusive of cost of plastering and finishing, which obviously involved removal of surface defects due to formation of honeycomb, sagging, *etc.*, and hence, further payments for plastering were not in order.

The matter was issued to the Government in September 2011 and reply is awaited.

Statutory Corporations

Bangalore Metropolitan Transport Corporation and Karnataka State Road Transport Corporation

3.7 Avoidable financial burden

Acceptance of premature closure of life insurance cover of Bajaj Allianz Life Insurance Company resulted in avoidable financial burden of ₹ 1.24 crore on two State Transport Corporations and their employees.

The Bangalore Metropolitan Transport Corporation (BMTC) invited tenders in April 2005 to implement a group life insurance scheme for its employees. BMTC entered (December 2005) into a Memorandum of Understanding (MOU) with Bajaj Allianz Life Insurance Company Limited (BALIC), who agreed to provide insurance cover of ₹ 3 lakh for a premium of ₹ 591.90 per employee per year to the dependent in the event of death of the employee during his service. As per the terms of the MOU, the insurance policy was valid for one year from 1 January 2006 to 31 December 2006, which was not to be terminated or cancelled midway. Both the parties, however, had the right to cancel or terminate the agreement at the end of the insurance year by giving 90 days notice. BMTC paid the annual premium of ₹ 1.28 crore. The premium amount was recovered from the employees at the rate of ₹ 50 per month. BMTC subsequently renewed (November 2006) the insurance policy and entered into a Supplementary MOU for extension of the policy from 1 January 2007 to 31 December 2007 and paid the premium of ₹ 1.33 crore.

The Central Purchase Committee⁹⁵ of the State Road Transport Corporations authorized (November 2005) the other three State Road Transport Corporations⁹⁶ to finalise similar insurance schemes for their employees. BALIC agreed to extend⁹⁷ the insurance cover to all the employees of the KSRTC also on the same terms and conditions offered to BMTC. Accordingly, KSRTC entered (May 2006) into a MOU with BALIC to provide insurance cover to all employees from 1 June 2006 to 31 May 2007 and paid the yearly premium of ₹ 1.15 crore. KSRTC renewed (May 2007) the contract through a Supplementary MOU for extension of the policy from 1 June 2007 to 31 May 2008 and paid the premium of ₹ 1.67 crore.

As per the Supplementary MOUs, except for the dates of renewal, the Principal MOUs were to remain fully binding on the parties and in full force and effect in all other aspects.

⁹⁵ Central Purchase Committee of the four State Corporations viz., Bangalore Metropolitan Transport Corporation (BMTC), Karnataka State Road Transport Corporation (KSRTC), North Eastern Karnataka Road Transport Corporation (NEKRTC) and North Western Karnataka Road Transport Corporation (NWKRTC).

⁹⁶ KSRTC, NEKRTC, NWKRTC.

⁹⁷ NWKRTC and NEKRTC also introduced the insurance scheme. The schemes were closed on completion of policy period.

BALIC expressed (October 2007) its inability to sustain the policy stating that its payouts⁹⁸ were more than the premium received and the claims experience in the policy was unsustainable unless the premium per employee was increased to ₹ 1,728 per annum from ₹ 591.90 per annum. BALIC also proposed to exit the policy by end of October 2007. The Corporations, however, had informed (October 2007) BALIC that the policy could not be cancelled or terminated mid-way as per the MOU and requested BALIC to honour its commitment.

The BMTC, however, allowed the insurer to exit from the policy from 30 October 2007 and accepted a refund of premium of ₹ 22.95 lakh for the unexpired period of the policy and settled part of the total claims of ₹ 60 lakh, which came up between 1 November 2007 and 31 December 2007, with the refund money (₹ 22.95 lakh). The balance claims of ₹ 37.05 lakh was met from the Welfare Fund of the Corporation, meant for reimbursement of claims of employees for medical incapacitation, *etc.*

KSRTC issued (October 2007) a legal notice to BALIC for the violation of the terms and conditions entered into and also the terms of the Master Policy and informed that in the event of failure to honour any of the claims that might occur during the period of the Master Policy, it would have to bring to the notice of the Central Government and the Insurance Regulatory Development Authority. BALIC however, intimated (December 2007) KSRTC that the policy would be terminated from 13 January 2008 and refunded (February 2008) ₹ 63.37 lakh, being the premium for the unexpired period of the policy (14 January 2008 to 31 May 2008). KSRTC agreed (December 2007) to discontinue the agreement with BALIC with effect from 14 January 2008. KSRTC settled part of the total claims of ₹ 1.50 crore which arose between 14 January 2008 to 31 May 2008 from the refund of premium (₹ 63.37 lakh). Claims amounting to ₹ 54.51 lakh were met from the new Welfare Fund, which KSRTC introduced with effect from 1 February 2008 by enhancing the monthly subscription of employees from ₹ 50 to ₹ 100 and the balance claims of ₹ 32.21 lakh from the funds of KSRTC.

We observed (January 2009) that the MOU and Master Policy Document issued by the BALIC were legally binding and the corporations should have used the redressal mechanism mentioned in the Master Policy Document or approached the Insurance Regulatory Development Authority (IRDA). The legal notice to BALIC explaining the Corporation's stand on the issue was later ignored without justification. The BMTC and KSRTC, without exploring the options, including the legal recourse, accepted the pre-mature closure of the insurance policy, disadvantageous to the interest of the corporations and their employees, which resulted in avoidable financial burden totalling ₹ 1.24 crore.

Government stated (July 2011) that the Corporations acted as nodal agencies between the employees and the Insurance Company and there was no financial burden. The Government further stated that KSRTC and BMTC were

⁹⁸ Up to the date of termination BALIC had settled ₹ 4.89 crore (163 cases) in BMTC and ₹ 5.49 crore (183 cases) in KSRTC.

instrumental in getting refund of premium of ₹ 86.32 lakh, which was quite considerable.

The reply was not correct as the claims amounting to ₹ 2.10 crore, settled during the remaining period of the policies, were discharged by using the premium refunded (₹ 86.32 lakh), Welfare Fund (₹ 91.56 lakh) and funds of the Corporations (₹ 32.21 lakh) which otherwise would have been settled by BALIC. The amount of ₹ 91.56 lakh available in Welfare Fund was not intended for the purpose of life insurance.

North Western Karnataka Road Transport Corporation and North Eastern Karnataka Road Transport Corporation

3.8 Unfruitful expenditure

The Corporations did not assess the effectiveness of the Biometric Fingerprint based Attendance System (BFPAS) and the ability of the supplier to ensure its functioning. The installation and payment was not monitored properly. The investment of ₹ 42.44 lakh on implementation of BFPAS turned unfruitful.

In order to improve punctuality and discipline among staff and to enhance the human resource utilisation in the units North Western Karnataka Road Transport Corporation (NWKRTC) proposed (July 2006) implementation of Biometric Fingerprint based Attendance System in five Depots and in a Divisional Workshop of Hubli Division. The NWKRTC floated (September 2006) tenders and six bidders submitted their offers. The offer of N.R Object Technologies Private Limited (Supplier) was treated as qualified (November 2006) and the offers of five bidders were rejected as they did not fulfil the pre-qualification criteria.

A Purchase Order (PO) was placed (January 2007) on the supplier for 16 BFPAS and accessories⁹⁹. The system was to be installed immediately as per technical specification prescribed and as per the requirements of the Personnel/Accounts department in co-ordination with Systems department. Ninety *per cent* of the bills/invoices were to be paid within 21 days from the date of supply and commissioning of BFPAS and 10 *per cent* to be retained as security deposit. The supplier effected supplies between January 2007 and December 2007. NWKRTC made payment of ₹ 40.04 lakh (including ₹ 5.18 lakh towards maintenance and operation charges) between January 2007 and February 2008, retaining ₹ 4 lakh as security deposit.

The firm had to generate 16 types of reports from the system as per the circular of September 2007. The supplier, however, could generate only 11 reports, that too with many errors. It failed to generate daily attendance information to draw salary. Interfacing with the existing software was not synchronized. The system failed on all fronts due to a multitude of reasons.

⁹⁹ **Bio-metric fingerprint reader, Smart cards, Attendance software, Payroll software, Identification cards, cables, batteries, stabilizers etc.**

The supplier, in accordance with the instruction of the Corporation (November 2008) could not provide the attendance of all the staff through BFPAS for the month of December 2008. The supplier also did not provide the software modifications as per the requirement of NWKRTC. There was no response to the letters for rectification of deficiencies¹⁰⁰ noticed (January 2009 to June 2009) from the supplier. NWKRTC, therefore, terminated (January 2010) the contract and forfeited the Security Deposit of ₹ 4 lakh.

We observed (February 2011) that the pre-qualification criteria were that the bidder should have been involved in installation and implementation of solution successfully in at least 15 terminals/systems at one location in a Government/Public Undertaking in Karnataka. NWKRTC, however, treated the supplier as qualified based on a purchase order placed on them by Vijayanagar Institute of Medical Sciences (VIMS), Bellary for supply of 20 terminals and did not make additional efforts to satisfy itself of the installation and satisfactory working of the system at VIMS, before issue of orders to the supplier.

Payments were made based on the satisfactory reports given by the Chief Manager (CM), Management Information System (MIS) in March 2007 and July 2007. But the records revealed that the installation of the system was incomplete and unsatisfactory. The CM (MIS) himself had later stated (August 2009) that the materials supplied were not as per specification.

We further observed that though the Purchase Order was placed and materials were supplied in January 2007, the circular assigning the responsibilities for monitoring the implementation of BFPAS was issued only in September 2007. This indicated that the functions required by the BIFAS were not crystallized and specified at the time of tendering and monitoring the implementation during the period January 2007 to September 2007 was not done effectively.

A Committee constituted (January 2010) in NWKRTC to conduct a detailed examination of documents on the implementation of BFPAS stated (May 2011) that non-implementation of the system was mainly due to negligence, lack of expertise and deployment of staff not well versed with the operation of the system for implementation of BFPAS of the firm. The fact remained that the expenditure of ₹ 36.04 lakh had become unfruitful.

We also observed that a Letter of Intent (LOI) was issued (May 2007) by North Eastern Karnataka Road Transport Corporation (NEKRTC) to the same Company *i.e.*, N.R Object Technologies Private Limited for supply of BFPAS on trial basis to one of the depots in Gulbarga Division on the same terms and conditions, even though the systems supplied to NWKRTC had not been working satisfactorily. The supplier was paid ₹ 6.40 lakh against the supplies. The BFPAS did not function satisfactorily and was shifted to a new location and efforts to satisfactorily implement the system at the new location have also not succeeded and the expenditure of ₹ 6.40 lakh had become unproductive.

¹⁰⁰ **The deficiencies included failure to implement pay roll software, draw attendance of staff, punching problems of cards and problems in maintaining leave account.**

Thus, in all, both the Corporations had spent ₹ 42.44 lakh unfruitfully on implementation of BFPAS in their depots.

The matter was reported to the Government (June 2011); its reply is awaited (September 2011).

Karnataka State Road Transport Corporation

3.9 Wasteful expenditure

The Corporation introduced ‘Mayura’ air-conditioned buses without adequate technical study and continued with induction of more buses in spite of problems in the air conditioning systems and auxiliary engines.

The Karnataka State Road Transport Corporation (Corporation) is engaged in providing transport facilities to the travelling public and operates various types of buses based on comfort, number of seats, luxury, design *etc.*, in different names.

The Corporation prepares annual plan for induction of buses. However, in the annual plan of 2004-05 there was no indication of the ‘Mayura’ buses, introduced later in the year. ‘Mayura’ buses were to provide facility to travel in luxury class air-conditioned buses with lesser investment and reduced fare.

In the annual plan for 2005-06, the Corporation had planned (May 2005) introduction of 76 ‘Mayura’ buses. The Company, however, constructed and introduced 53 buses of this type between October 2004 and October 2006.

The Corporation had procured regular chassis fitted with engines¹⁰¹. As the power of these engines was not sufficient to drive the air conditioning systems (AC), the Corporation had to procure auxiliary engines, besides the AC, for the Mayura buses. The total cost incurred on procurement of auxiliary engines and air conditioners for fitting in these buses was ₹ 2.76 crore.

The provision of ducting for air-conditioners in these buses was made based on earlier experience and design. However, on receipt of the first batch of AC it was noticed that the ducting fabricated was not suitable for the equipment. Modifying the duct was therefore, out of scope as it involved huge expenditure. Since there was no other alternative, ACs as per the earlier procured design were procured.

We observed (May 2011) that the Corporation started introducing ‘Mayura’ buses from June 2004. The Senior Divisional Controller (SDC) had reported on 21 February 2005, problems in nine of the 13 buses inducted till then. The main problems were slow start of auxiliary engines; weak batteries and non-working of the hourly meters. The SDC had also cautioned that there could be numerous complaints about the buses and could have adverse impact on the organization. The Corporation, however, continued with the purchase of ACs and auxiliary engines and induction of more Mayura buses. Between 21

¹⁰¹ 222” WB Leyland chassis with 119 HP HINO engines.

February 2005 and September 2005, the Corporation purchased 31 more ACs and auxiliary engines.

The Corporation had received and commenced building bodies of only 25 chassis till 21 February 2005, when the Senior Divisional Controller had apprised the Corporation of the possible adverse effects due to non-working of the ACs and auxiliary engines in 'Mayura' buses.

Complaints about the functioning of the ACs and auxiliary engines fitted in the Mayura buses were received regularly thereafter (March to August 2006). The Chief Mechanical Engineer had informed (October 2006) the Divisional Controller to send Mayura buses to Regional Workshops to fix sliding windows. The General Manager (Traffic) had also reported (February 2007) that the Mayura buses were not attracting passengers. The Corporation had converted all the 53 buses incurring further cost of ₹ 62.46 lakh by May 2009. The 53 ACs and auxiliary engines, procured at ₹ 2.76 crore and dismantled from the Mayura buses were lying in the stores (September 2011).

The losses in earnings¹⁰² in the operation of Mayura buses were ₹ 4.49 per Km in 2005-06, ₹ 2.95 per Km in 2006-07 and ₹ 4.52 per Km in 2007-08, compared to the overall net earnings of the Corporation of ₹ 0.42 per Km in 2005-06, ₹ 0.49 per Km in 2006-07 and ₹ 0.54 per Km in 2007-08. The total loss in operation of Mayura buses during 2005-06 and 2006-07 was ₹ 2.99 crore. The General Manager (Traffic) had reported (February 2007) that the Mayura buses were not attracting passengers.

The Corporation replied (May 2011) that providing auxiliary engines to run the AC were new to the Corporation. Non-success of Mayura services was due to the reason of not attracting more passengers and not for new concept.

It was not the concept of Mayura buses; rather the continued induction of this class of buses without a proven design and without solving the problems, which were reported in nine of the 13 buses built till then, were the issues. There was no mention of 'pilot study' in the annual plan while introducing Mayura buses. However, the records and related reports on the suitability of design and the feasibility of the existing chassis to run Mayura buses were not made available to audit (September 2011).

The matter was brought to the notice of the Government (September 2011), its reply was awaited (September 2011).

Follow-up action on Audit Reports

3.10 Explanatory notes outstanding

3.10.1 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

¹⁰² Earning per kilometre (EPKM) less Cost per kilometre (CPKM).

had 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 2008-09 and 2009-10 were presented to the State Legislature in March 2010 and March 2011 respectively. As at September 2011, two departments¹⁰³, which were commented upon, had not submitted explanatory notes for five out of 44 Paragraphs/Reviews, which appeared in the Audit Reports.

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

3.10.2 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 five Reports of the COPU presented to the State Legislature between July 2005 and March 2011, containing 52 recommendations to Paragraphs/Reviews, had not been received as on September 2011, as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of Paragraphs where replies not received
2005-06	1	3
2009-10	1	8
2010-11	3	41
Total	5	52

3.11 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 one month. Department-wise break-up of Inspection Reports and audit observations outstanding as on 31 March 2011 is given in **Annexure 21**.

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 exit conferences with the Government. It was, however, observed that one Review and six Paragraphs forwarded to various departments during May 2011 to September 2011, as detailed in **Annexure 22**, had not been replied (September 2011). The views of

¹⁰³ **Three Paragraphs in respect of Commerce and Industries Department and two Paragraphs in respect of Energy Department.**

Government/Department have been taken into consideration while finalising the Reviews/Paragraphs wherever replies have been received.

It is recommended that (a) the Government should ensure that a procedure exists for action against the officials who fail 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

(D J BHADRA)
Principal Accountant General
(Civil and Commercial Audit), Karnataka

COUNTERSIGNED

NEW DELHI
The

(VINOD RAI)
Comptroller and Auditor General of India