Overview

1. Overview of Government Companies and Statutory Corporations

Audit of Government Companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government Companies are audited by Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2014, the State of Karnataka had 81 working Public Sector Undertakings - PSUs (75 Companies and 6 Statutory Corporations) and 14 non-working PSUs (all Companies), which employed 1.93 lakh employees. The State PSUs registered a turnover of ₹ 44,908.32 crore during the year 2013-14 as per their latest finalised accounts. This turnover was equal to 7.46 *per cent* of the State Gross Domestic Product indicating the important role played by the PSUs in the economy. The PSUs had accumulated profit of ₹ 1,894.94 crore as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2014, the investment (capital and long term loans) in 95 PSUs was ₹ 75,051.46 crore. Infrastructure Sector accounted for about 48.50 *per cent* of the total investment and Power Sector about 39.26 *per cent* in 2013-14. The Government contributed ₹ 13,511.65 crore towards equity, loans and grants/subsidies in 2013-14.

Performance of PSUs

The working State PSUs earned a profit of ₹ 1,906.09 crore in the aggregate and incurred loss of ₹ 1,028.27 crore as per their latest finalised accounts as at the end of September 2014. The major PSUs which contributed to the profit were Bangalore Electricity Supply Company Limited (₹ 432.77 crore) and Mysore Minerals Limited (₹ 313.35 crore). Huge losses were incurred by Chamundeshwari Electricity Supply Corporation Limited (₹ 268.35 crore), Gulbarga Electricity Supply Company Limited (₹ 194.56 crore) and Karnataka Neeravari Nigam Limited (₹ 172.54 crore).

Audit noticed various deficiencies in the functioning of the PSUs. Cases discussed in the subsequent Chapters of this Report show that there were controllable losses to the extent of ₹ 957.39 crore and infructuous investment of ₹ 86.65 crore. The losses could have been minimized or profits enhanced substantially with better management. There is a need for greater professionalism and accountability in the functioning of the PSUs.

Quality of accounts

The quality of accounts of working companies needs improvement. During the year, out of 73 accounts finalised, the Statutory Auditors had given unqualified reports on 24 accounts, qualified reports on 41 accounts, adverse reports (which means that accounts did not reflect a true and fair position) for one accounts and disclaimer of opinion on one accounts. The compliance of companies with the Accounting Standards remained poor as there were 117 instances of non-compliance in 34 Companies during the year. Reports of Statutory Auditors on internal control of the Companies indicated several weak areas.

Arrears in accounts and winding up

Forty one working PSUs had arrears of 48 accounts as at the end of September 2014. The arrears pertained to the years 2011-12 to 2013-14. There were 14 non-working PSUs including seven under liquidation. The Government may take a decision on these non-working Companies.

2. Performance Audits relating to Government Companies

The Report includes observations emanating from the Performance Audits of **'Construction and performance of Bellary Thermal Power Station of Karnataka Power Corporation Limited'** and **'Irrigation Projects in Karnataka' executed by three Irrigation Companies.** Executive summaries of the audit findings are given below:

- **Performance Audit on 'Construction and performance of Bellary Thermal Power Station of Karnataka Power Corporation Limited' (BTPS)**

The Company

The Karnataka Power Corporation Limited was incorporated (July 1970) as a wholly owned State Government company under the Companies Act, 1956, with the main objective of planning, promoting and organizing development of power including construction, generation and maintenance of power stations in Karnataka State.

As part of mitigating the power deficit, the Company commissioned two units at BTPS having a combined capacity of 1,000MW; 500 MW each in March 2009 (Unit I) and February 2013 (Unit II).

Audit objectives

The performance audit was conducted to examine and analyze the deficiencies in planning and execution of Unit II and the reasons for failure to achieve targeted generation and operational efficiency in respect of Unit I; verify, examine and analyze the cost of operations with a view to study the reasons for the losses incurred; and assess whether BTPS has been able to achieve environmental and pollution control norms.

Audit findings

Mega Power Project

The Mega Power Project (1,000 MW and above) Policy of GoI envisaged benefits such as exemption of customs duty, tax holiday *etc*., to bring down power tariffs.

Though, the Board and the Technical Committee of the Company had favoured implementing Unit II simultaneously with Unit I with a combined capacity of 1,000 MW, considering the expected benefits of substantial savings in project cost by ₹ 1,257 crore, the Company dropped the idea of implementation of both the units simultaneously due to the reason that this would delay the commissioning of Unit I. This has resulted in additional burden on consumers by ₹ 1,257 crore.

Non-availment of concessions under the Infrastructure policy

Notification about implementation of Infrastructure Policy of the GoK was announced in May 2009, which envisaged that power generation projects were exempt from payment of entry tax.

As the Company was late in getting exemption certificate from the GoK, the entry tax of ₹ 27.31 crore including avoidable tax of ₹ 5.88 crore considered in the project cost of Unit I and Unit II stands recovered through tariff, which is an additional burden on the consumers.

Coal supply

In the absence of coal supply arrangement from KECML for Unit II, the Company was forced to procure coal from other sources at higher rates than the rates at which coal was supplied by KECML. This resulted in additional expenditure of ₹ 377.95 crore.

Slippage of project schedule

The works of Unit II were completed with delay of 27 months from the scheduled date of completion due to delay in completion of certain critical works. The Company suffered loss of potential revenue amounting to ₹ 1,391.33 crore during the delayed period of completion.

The State had procured energy from private sources at higher rates to mitigate the shortfall imposing an additional burden of ₹ 1,518.69 crore during delayed period of 2010-13.

The actual expenditure capitalised included interest amounting to ₹ 178.70 crore paid on loan for the delayed completion period, which would ultimately be passed on to the consumers.

Failure to invoke contractual provisions

Award of contract without proper survey resulted in extra financial implications and delay in completion of works. The Company failed to levy penalty of ₹ 5.42 crore on the contractors for the delay in completion of works of Stage I and Stage II of raw water pond.

Underutilisation of capacity

The capacity utilization of Unit I had continuously decreased over the years from 84.67 *per cent* in 2009-10 to 80.86 *per cent* in 2013-14 due to the fact that the components of the plant, such as boiler, cooling tower *etc*., were not functioning at the optimum levels. The loss due to underutilization of capacity amounted to ₹ 102.28 crore.

Increased Station Heat Rate

The Station Heat Rate was much above the normative SHR of 2,450 kcal/kWh prescribed by CERC/PPA; the actual SHR ranged between 2,808 kcal/kWh and 3,093 kcal/kWh. The loss on account of increased station heat rate was ₹ 239.14 crore during 2009-13.

Debt-equity mix

The Company raised bills on ESCOMs considering debt-equity mix of 80:20 contemplated in the DPR instead of actual fund mix resulting in net excess recovery of ₹ 45.31 crore, which was an additional burden on the consumers during 2009-14. This would continue to burden the consumers by ₹ 181.24 crore during the remaining period of the PPA.

Non-compliance with the norms of Ministry of Environment and Forest

BTPS achieved fly ash utilization of only 45 *per cent* by March 2014 against 100 *per cent* prescribed by MoEF, as arrangements for evacuation of fly ash were not properly managed.

Conclusions

- **The Company had foregone the envisaged benefits under mega power project policy of GoI, thereby foregoing the opportunity of reducing the project cost and bringing down the cost of power generation by ₹ 1,257 crore.**

- **The delay in approaching the Government to avail exemption from entry tax under infrastructure policy and inclusion of the same in the project cost resulted in an additional burden on the consumers by ₹ 27.31 crore.**

- **The Company incurred an additional expenditure of ₹ 114.17 crore towards coal purchases for Unit II in the absence of coal supply arrangement from the captive coal blocks during the period from October 2013 to March 2014 and would continue to incur ₹ 263.78 crore during 2014-15.**

- **Despite the precedence of delay in commissioning of Unit I due to incompletion of certain critical works within the timeframe, the Company entrusted the EPC works through MoU through BHEL without going for a competitive bidding process.**

- **The Company could attain maximum generation of only 70 *per cent* of the installed capacity as against the targeted generation of 80 *per cent* during 2009-14. The shortfall in generation during this period was 2,717 MU.**

- **The capacity utilization of Unit I had continuously decreased from 84.67 *per cent* in 2009-10 to 80.86 *per cent* in 2013-14, indicating suboptimal performance of the plant. The loss due to underutilisation of capacity was ₹ 102.28 crore.**

- **The increased Station Heat Rate over the stipulated norms resulted in underrecovery of cost by ₹ 239.14 crore during 2009-13.**
- **The Company did not achieve the norms fixed by MoEF in respect of fly ash utilization.**

Recommendations

The Company may

- **consider obtaining competitive bids for future thermal power station works.**
- **adhere to strict regime of annual overhaul and preventive maintenance to ensure smooth running of the units for their optimum utilisation.**
- **ensure that the specific coal consumption and Station Heat Rate are well within the norms so as to keep the cost of generation at desired levels.**
- **identify more prospective buyers of fly ash like National Highways Authority of India, Central and State Public Works Departments to ensure hundred per cent evacuation as prescribed by MoEF.**

(Chapter 2.1)

Performance Audit on 'Irrigation Projects in Karnataka'

Introduction

In order to mobilize financial resources for speedy implementation of the major and medium irrigation projects within the targeted period, the Government of Karnataka established three Special Purpose Vehicles *viz.*, Krishna Bhagya Jala Nigam Limited (KBJNL), Karnataka Neeravari Nigam Limited (KNNL) and Cauvery Neeravari Nigama Limited (CNNL) under the Companies Act, 1956.

Objectives of the Performance Audit

The performance audit was carried out to examine and analyse the reasons for non-achievement of the targeted creation of irrigation potential and socio-economic benefits as envisaged in the projects and to verify, examine and analyse whether the projects were executed as planned with a view to study reasons for cost and time overruns including extra financial implications (EFI).

Audit Findings

Non-achievement of objectives

Out of 78 works selected across 17 projects, 21 works were completed without any delay, 14 works were completed with a delay up to 57 months, 4 works were ongoing without any delay and 39 works were ongoing with a delay up to 62 months.

The objective of taking up these project *viz.*, improvement of efficiency, arresting seepages, providing water to the tail-end reaches, filling MI tanks and supply of drinking water have been only partially achieved as the works are not fully completed. Further, the contemplated irrigation potential (52,937 ha) was yet to be achieved.

Deficiencies in survey and design

There were delays in completion of works due to deficiencies in survey and design *viz.*, failure to propose an alternate alignment before taking up the work (KBJNL-NRBC distributory 9A); improper survey and design resulted in EFI (CNNL-CC lining for Km.0 to 20 of Kabini RBC); change in the alignment to achieve savings in the cost was defeated as there was increase in cost (KBJNL - ALBC Km. 68 to 77); award of work for preparation of DPR to the consultant after commencement of the original work (KBJNL-modernisation of NLBC) *etc*.

Deficiencies in estimation

The estimates were inflated due to non deduction of initial lead of one kilometre while calculating additional lead charges (CNNL-Kattepura Anecut Canals); errors in adoption of item rates (CNNL-Package-I & V of modernization of VC Canal system and modernisation of Devaraya Anecut Canals); inclusion of overheads and taxes on the wrong base and provision of higher sales tax (CNNL-Alambur DWS); absence of standard/basis for utilizing the excavated soil; adoption of the item of work for embankment under the head 'preliminary and maintenance works' of Schedule of Rates instead of 'canal and allied works' (KRBC Km.0 to 60); and allowing weightage even on items falling under the

heads 'CD works', 'Maintenance works' *etc.*, (TLBC Main canal and distributaries).

Deficiencies in tendering

There were instances of inviting short-term tender without approval of the competent authority, non finalization of tenders within the validity period (KNNL - Varahi Common canal CC lining Km.12 to 13 and Km.13 to 14), faulty tender evaluation process (KBJNL-NRBC distributary 9A), extra expenditure due to defective tender clause (CNNL-Gulur Hebbur DWS) and variation from the standard tender document prescribed by the Government.

Deficiencies in acquisition of land

Due to deficiencies in acquisition of land, there were delays in completion of work (KNNL-construction of minors under Kamatagi Distributary), award of work without acquiring land (KNNL-Varahi common Canal) and delay due to non availability of land for dumping excavated soil (KNNL-GRBC).

Deficiencies in execution

There were deficiencies in execution, non-achievement of desired irrigation potential (KNNL-Varahi Project), non-synchronization of the work of branch canal along with the work of distributary (KBJNL-NRBC 9A), execution of excess thickness of lining as compared with the prescribed standard in all the three companies, delay in providing work-slips for enhanced quantities and handing over the site (CNNL-CC lining from Km.83 to 84 of Tumkur Branch Canal), deeper excavation which was not need based (CNNL-PSC Bridge across Hemavathy River) and defective geo-technical survey by the consultant (KNNL-Interconnecting canal work of Kalasabandura Nala).

There were instances of extra/ineligible payments *viz*, payment of EFI at enhanced rates for erection of box type steel cribs support (KBJNL-aqueduct of distributory 9A of NRBC), extra expenditure due to payment made for the thickness and length of MS Pipes as envisaged in the contract than actually executed by the contractor (CNNL-Alambur DWS), payment of ineligible lead charges for dumping excavated soil and thereafter for re-use from dumping yard to the compaction area (KNNL-Construction of inter-connecting canal from Kalasa reservoir to Malapraba river from ch (-) 145 to 5005 metre (m)- Phase II), approval for ineligible price adjustment for steel and cement (KNNL-Malaprabha RBC with CD from Km.131 to 142) and application of wrong index for price adjustment (KBJNL-aqueduct of distributory 9A and box culvert of NRBC).

There were instances of non-recovery towards various charges during execution *viz*, non-recovery of the cost of stones and charges for non-stacking (CNNL-Package-II to V of VC Canal system, CC lining of Km.0 to 20 of Kabini RBC), non-recovery towards ledge cutting (CNNL-CC lining of Km.0 to 20, Km.20 to 40 of Kabini RBC), non recovery for shrinkage quantity and payment for slipped muck (KBJNL-Remodelling of NLBC); Non-recovery of penalty for delay in execution of the work (KBJNL-Package I, III and IV of NRBC distributary 9A and CNNL - KRBC Km.0 to 20, Km.20 to 40, Km.40 to 60 and KLBC Km.0 to 25.25).

Conclusions

In many works, proper survey and investigation had not been carried out. Estimates were inflated as there were errors in adoption of item rates and taxes. Process of acquisition of land was taken up after the works were awarded. There were instances where the works underwent major changes after the works were awarded. Different components/chainages were not synchronized. There was non-compliance to Statutes, contractual terms and conditions resulting in undue benefit to contractors and extra financial implications.

As a result, there was increase in the cost of the works and delays in the completion of projects leading to deprival of the expected benefits thus affecting the livelihood of the farmers in particular and public in general.

Recommendations

The Government may

- **institute a mechanism of the tender issuing authority certifying that acquisition of required land, payment of compensation and obtaining of forest/environmental clearances have been completed before issuing the tender.**

- **consider forming a cell to co-ordinate and expedite clearances from the statutory bodies.**

- **fix responsibility on the consultants for abnormal variations in survey so that extra financial implications are avoided.**
- **fix reasonable time limits for various stages in the tendering process in order to obtain competitive rates.**
- **direct the TSC to approve the tenders after ensuring that all related works in different chainages are synchronized to create the envisaged irrigation potential.**

(Chapter 2.2)

3. Compliance audit observations

The observations included in this Report highlight deficiencies in planning, investment and other activities in the management of PSUs, which resulted in financial consequences. The observations are broadly of the following nature:

Unproductive investment amounting to ₹75.88 crore.

(Paragraphs 3.2, 3.4, 3.6, 3.9, 3.11, 3.17)

Violation of contractual obligations/undue favours to contractors resulted in loss of ₹7.23 crore.

(Paragraph 3.8)

Non-recovery of dues amounting to ₹6.70 crore.

(Paragraph 3.12)

Extra /avoidable expenses amounting to ₹37.98 crore.

(Paragraphs 3.3, 3.10.7, 3.10.8, 3.13, 3.14, 3.15, 3.16)

Miscellaneous and other cases amounting to ₹44.22 crore.

(Paragraphs 3.1, 3.7)

Gist of some of the important audit observations are given below:

- Due to deficiencies in operation and financial management of the Golden Chariot, and inclusion of unfavourable terms in the Service Agreement in relation to the private Management Partner, the **Karnataka State Tourism Development Corporation Limited** was not able to meet even its operational cost after six years of operation.

(Paragraph 3.1)

- Infrastructure facilities created at Kemmangundi hill station by **Karnataka State Tourism Development Corporation Limited** at a cost of ₹ 19.41 crore could not be utilised for over a year due to non–payment of contractor's pending bills. Moreover, indecision regarding which agency should operate these facilities resulted in loss of revenue of ₹ 4.11 crore, besides depriving tourists of these facilities.

(Paragraph 3.2)

- Inspite of being aware of the fact that line works would encounter right of way problems, the **Karnataka Power Transmission Corporation Limited** awarded the work of construction of only the substation and delayed awarding the line works. As a result, the substation constructed at a cost of ₹ 32.04 crore is lying idle since January 2012 for want of transmission lines.

(Paragraph 3.6)

- There were many deficiencies in the purchase of power by **Electricity Supply Companies** in the State.

(Paragraph 3.10)

- **The Mysore Paper Mills Limited** took up a project to install a Rotary Kiln plant to comply with the directions of Karnataka State Pollution Control Board and the Charter on Environmental protection issued by the GoI. The project, which was scheduled to be completed by July 2011, has been lingering for the last three years without any concrete action plan rendering the investment of ₹ 33.36 crore idle.

(Paragraph 3.11)

- The **Karnataka Renewable Energy Development Limited** failed to take timely action to register itself under the Service Tax Act, collect the tax from developers of renewable energy and remit it to Service Tax Department. This resulted in the Company bearing the avoidable liability of ₹ 6.70 crore.

(Paragraph 3.12)

- The **Karnataka Forest Development Corporation Limited** awarded the work of aerial spraying of its rubber plantations to a firm, which did not meet the technical criterion specified in the tender, resulting in loss of revenue of ₹ 6.30 crore.

(Paragraph 3.13)

- The **Karnataka State Coir Development Corporation Limited** set up a production unit to manufacture moulded trays at a cost of ₹ 33.50 lakh. Inspite of the fact that the Company was not able to sell similar products in the past, the Project was approved and implemented without conducting market survey. Poor sales of the product, even after a lapse of four years, has rendered the investment unfruitful.

(Paragraph 3.16)