

Chapter - III

Compliance Audit Observations

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3. Compliance Audit Observations

Important findings emerging from audit that highlight deficiencies in planning, investment and activities of the Management in the State Government Companies and Statutory Corporations, which had financial implications are included in this Chapter. These include observations on unproductive investment, violation of contractual obligations, undue favours to contractors, extra/avoidable expenditure, non-recovery of dues and cases where the intended objective of the projects of the Government were not achieved.

Government Companies

Karnataka Power Transmission Corporation Limited

3.1. Violation of KERC Regulations resulting in undue favour to a private firm

Sanctioning Open Access facilities to Shantha Projects Limited without ensuring payment security mechanism had resulted in non-recovery of ₹ 2 crore from a private firm.

The State Load Dispatch Centre (SLDC) headed by the Chief Engineer (Electrical), functions under the administrative control of Karnataka Power Transmission Corporation Limited (Company). SLDC was responsible for sanctioning Open Access⁶⁷ to the power generators/suppliers for use of intra-state transmission and distribution system in accordance with the regulations specified in Karnataka Electricity Regulatory Commission (Terms and Conditions for Open Access) Regulations, 2004, Central Electricity Regulatory Commission (Open Access in inter-State Transmission) Regulations, 2008 and Central Electricity Regulatory Commission (Unscheduled Interchange charges and related matters) Regulations, 2009.

Open Access charges⁶⁸ are levied on Open Access customers as per the KERC Regulations. Customers intending to avail Open Access should enter into an agreement with the transmission licensee (Company). The Regulations stipulated that SLDC should prepare a standard agreement format with the approval of the KERC for the purpose of concluding an agreement with Open Access customers and such agreements should contain a clause for ensuring

⁶⁷ Open Access, as defined in the Karnataka Electricity Regulatory Commission (Terms and Conditions for Open Access) Regulations, 2004, refers to a non-discriminatory provision for the use of transmission lines or distribution system or associated facilities by any licensee or consumer or a person engaged in generation.

⁶⁸ Open Access charges include transmission charges, wheeling charges, charges for arranging backup supply (for start up of generating plant), Unscheduled Interchange (UI) charges (towards maintaining grid discipline) and any other charges specified from time to time.

payment security mechanism. SLDC should confirm the sanction of Open Access only after agreement has been entered into with the Company.

The Chief Engineer of SLDC sanctioned Open Access facilities to Shantha Projects Limited (SPL), a power generating firm, between October 2013 and June 2014. SPL was one of the generators with whom TATA Power Trading Company Limited⁶⁹ (TATA) had contract for supplying power to the Electricity Supply Companies (ESCOs).

SPL, however, failed to supply power to the grid as per the agreed schedule thereby attracting Unscheduled Interchange⁷⁰ (UI) charges as per the KERC Regulations. SLDC raised bills (between January 2014 and August 2014) towards UI charges for short supply of 9,412.194 MW for the period between October 2013 and June 2014. The dues, as of March 2016, had accumulated to ₹ 2.47 crore. SPL, however, did not pay the dues.

We observed the following lapses:

1. SLDC sanctioned Open Access to SPL without entering into any formal agreement. It also failed to put in place any payment security mechanism by way of Bank Guarantee or Security Deposit before sanctioning;
2. SLDC failed to raise bills on all seven occasions when open access was sanctioned. Delay in raising bills ranged from 40 days to 85 days⁷¹ from the date of availing Open Access during October 2013 to June 2014. For instance, the first bill (for the period 21 October 2013 to 31 October 2013) was raised on 9 January 2014 *i.e.* after a lapse of 70 days;
3. SLDC sanctioned Open Access on all the six subsequent occasions between November 2013 and June 2014 despite non-payment of dues for the immediate previous periods. For instance, against the bill dated 13 March 2014, outstanding cumulative dues stood at ₹ 1.12 crore for the Open Access availed between October 2013 and December 2013. The Open Access was, however, sanctioned subsequently in February 2014 without collecting the dues. As there was delay in raising bills and SLDC had no other mechanism to keep a watch on outstanding dues, Open Access was sanctioned for the subsequent periods without collecting dues of previous periods.

⁶⁹ TATA Power Trading Company Limited had entered into Power Purchase Agreement with Electricity Supply Companies for supply of power. TATA Power had in turn concluded a contract with SPL for meeting the obligation of power supply.

⁷⁰ 'Unscheduled Interchange' for a generating station or a seller refers to its total actual generation *minus* its total scheduled generation. UI charges are levied to maintain grid discipline as envisaged in the Grid Code by controlling the users of the grid in scheduling, dispatch and drawal of electricity.

⁷¹ The delay was considered after giving leverage of 30 days from the date of availing open access for preparation of the bill as per the assessment of the Company.

A similar lapse was pointed out in the earlier Audit Report⁷² wherein non-realisation of ₹ 29.21 crore from two Open Access customers was highlighted. The Company had not taken any corrective action.

The Government⁷³ forwarded the reply as furnished by the Company (January 2017) which stated that:

- As per CERC Open Access Regulations, SLDC had to satisfy only two conditions viz. infrastructure required for energy metering and availability of surplus transmission capacity in the State network before sanctioning open access;
- The process of verification of dues was followed by SLDC and No Objection Certificate (NOC) was issued every month only after ascertaining that there were no outstanding dues. NOC was stopped on 3 June 2014. Presently, Letter of Credit is insisted on for maintenance of UI pool account as per the Regulations;
- Based on the request of SLDC, Bangalore Electricity Supply Company Limited, which had entered into Power Purchase Agreement with TATA, recovered (May 2015) ₹ 1.56 crore from TATA. Further, ₹ 46.79 lakh had been recovered from SPL out of the bills payable towards supply of power between November 2015 and December 2015. SLDC is under process of filing a petition before KERC for recovering balance dues of ₹ 44.22 lakh.

The reply is not acceptable for the following reasons:

- The reply is silent about SLDC's failure to put in place a payment security mechanism. Further, there is a provision in the CERC Regulations, 2008 for refusal of NOC after giving reason for such refusal. SLDC had not exercised this option even though SPL had defaulted on payment of UI charges.
- The reply that Open Access was sanctioned after ascertaining there were no outstanding dues is factually incorrect as SLDC had issued NOC on six occasions without considering the outstanding dues.
- The recovery of ₹ 1.56 crore is under dispute as TATA had appealed (February 2016) before the Karnataka Electricity Regulatory Commission against the recovery, which was pending for disposal.

Thus, absence of control systems in sanctioning Open Access and non-compliance with KERC Regulations on payment security mechanism led to non-recovery of ₹ 2 crore⁷⁴ from SPL. Disregard to KERC regulations calls for fixing of responsibility by Government.

⁷² Paragraph 3.1 of the Audit Report of the Comptroller and Auditor General of India, on Public Sector Undertakings, Government of Karnataka for the year ended March 2015.

⁷³ Reply furnished by Deputy General Manager (Tech) of the Company was forwarded by the Additional Chief Secretary, Energy Department.

⁷⁴ Total outstanding dues ₹ 2.47 crore less ₹ 0.47 crore recovered from SPL. The amount of ₹ 1.56 crore recovered from TATA is not considered as the recovery is disputed by TATA.

Karnataka Power Transmission Corporation Limited

3.2. Avoidable additional financial burden

Failure to allocate high cost and low cost power optimally resulted in additional expenditure and payment of avoidable compensation. Consequently, the electricity consumers had suffered avoidable additional financial burden of ₹ 1.29 crore.

The State Load Despatch Center (SLDC) functioning under the administrative control of Karnataka Power Transmission Corporation Limited (KPTCL) is responsible *inter-alia* for ensuring integrated operation of the power system in the State and optimum scheduling and despatch of electricity within the State in accordance with the contracts entered into with the licensees or the generating companies operating in the State⁷⁵. The Power Company of Karnataka Limited⁷⁶ (PCKL) procures power on behalf of the Electricity Supply Companies (ESCOMs) in order to bridge the demand and supply gap in the State.

Considering the requirement, PCKL finalised the bids for procurement of power through tender (December 2012 / July 2013) for the periods 1 August 2013 to 30 June 2015 on medium term basis at ₹ 5.20 per unit and 1 September 2013 to 30 June 2014 on short term basis at ₹ 5.50 per unit. The Letters of Intent were issued (March 2013 and August 2013) to the successful bidder, *viz.* JSW Power Trading Company Limited (JSW).

Accordingly, the ESCOMs⁷⁷ concluded Power Purchase Agreements (PPA) with JSW. The contracted capacity for medium term was 450 MW to be supplied from Thoranagallu generating source and 115 MW for short term power to be supplied from three generating sources⁷⁸.

The terms of the PPA on medium term power stipulated that if the scheduled power⁷⁹ was less than the minimum off take of 85 *per cent* of the contracted capacity during a contract year⁸⁰, the ESCOMs were liable to pay compensation to the seller (JSW) at the rate of ₹ 1 per unit for the quantum of power drawn short. Similarly, the terms of PPA on short term power stipulated that both procurer and the seller should ensure that actual scheduling did not

⁷⁵ SLDC is responsible for ensuring grid discipline as per Indian Electricity Grid Code.

⁷⁶ A Government of Karnataka undertaking.

⁷⁷ Bangalore Electricity Supply Company Limited, Chamundeshwari Electricity Supply Corporation Limited, Gulbarga Electricity Supply Company Limited, Hubli Electricity Supply Company Limited and Mangalore Electricity Supply Company Limited.

⁷⁸ 50 MW for September 2013 to December 2013 and 100 MW for January 2014 to June 2014 from JSW plant at Thoranagallu; 7.5 MW for December 2013 to June 2014 from Haveri Bioenergy Pvt. Ltd; 7.5 MW for October 2013 to June 2014 from Dharwad Bio Energy Pvt. Ltd.

⁷⁹ Scheduled power refers to the quantum of power that has been allocated/drawn from the Grid.

⁸⁰ Contract year refers to the period commencing on the effective date and ending on the immediate succeeding 31 March. In the instant case, contract year starts from August 2013 and ends with March 2014, and thereafter each period of 12 months commencing in April and ending on 31 March.

deviate by more than 15 *per cent* of the contracted power. Liquidated damages were payable in case of deviation beyond the stipulated norm specified therein.

We observed that during the period September 2013 to June 2014 when both medium and short term PPAs were operational, SLDC had allocated short term power beyond minimum required off take (85 *per cent* of the contracted capacity) to the extent of 14.88 Million Units (MUs), while the cheaper medium term power was allocated at less than minimum off take during the same period, thereby attracting compensation.

Allocation of short term power beyond the minimum off take of 85 *per cent* was not justified since short term power was more expensive than medium term power. Further, as the allocation of medium term power during the same period was less than the minimum off take of 85 *per cent*, the excess short term power of 14.88 MUs should have been allocated under the medium term.

As a result, the ESCOMs had to incur additional cost of ₹ 44.64 lakh⁸¹ towards procurement of excess short term power to the extent of 14.88 MUs. Further, the ESCOMs had to pay compensation of ₹ 84.80 lakh⁸² to JSW for their failure to offtake the minimum 85 *per cent* under medium term.

Thus, as a result of SLDC's action, the ESCOMs in particular and the consumers⁸³ at large had to suffer avoidable additional financial burden of ₹ 1.29 crore. Besides, JSW was unduly benefited by that amount.

The Government forwarded⁸⁴ (January 2017) the reply of the Company and stated that the number of short term open access generators was more and in real time, requesting them to back down would be near impossible as regulation did not allow backing down of short term open access generator. It was also stated that the medium term open access supplier being large and single generator, addressing one medium term open access during system contingency will be more effective in managing the system.

The reply is silent on the audit point raised in the paragraph. The question of backing down of either medium or short term generators would not arise, as the allocation of power between medium and short term was done manually at SLDC's discretion at the time of billing for the contract period and not at the time of grid operations. Further, the PPA which specified the contracted capacities for medium term and short term power was meaningless in view of SLDC's arbitrary allocation. Thus, uneconomical allocation of power had resulted in avoidable financial burden of ₹ 1.29 crore.

⁸¹ 14.88 MUs x ₹ 0.30 per unit (difference of short and medium term ₹ 5.50 and ₹ 5.20).

⁸² This has been arrived by multiplying number of units scheduled beyond 85 *per cent* under short term (*i.e.* 8.48 million units – JSW, Thoranagallu – 6.05 MUs & JSW, Haveri-2.43 MUs) at the rate of ₹ 1 per unit.

⁸³ As the cost of power purchase would go into the tariff fixation.

⁸⁴ Additional Chief Secretary, Energy Department forwarded the reply furnished by Deputy General Manager (Tech) of the Company.

Karnataka Power Transmission Corporation Limited

3.3. Loss of ₹80.22 lakh on account of violation of Board's directive

The Chief Engineer, Tendering and Procurement of Karnataka Power Transmission Corporation Limited, awarded a contract for establishing a substation disregarding the directives issued by the Board of Directors, as a result of which the Company incurred loss of ₹ 80.22 lakh.

The Chief Engineer, Tendering and Procurement (CE (T&P)) of Karnataka Power Transmission Corporation Limited (Company), invited (May 2011) bids for establishing 400/220 kV substation at Mylasandra in Bengaluru Urban District on turnkey basis at an estimated cost of ₹ 176.70 crore. M/s L&T Limited, Chennai, (Contractor) who quoted ₹ 167.88 crore, was the lowest bidder.

The Board of Directors (Board) of the Company approved (January 2012) the award to the Contractor with the condition that the possession of land required (27 acres 26 guntas) for establishing the proposed substation should be ensured before issuing Letter of Intent (LoI) and Detailed Work Award (DWA) to the contractor.

The Government of Karnataka, conveyed (March 2012) approval to the District authorities of Bengaluru District for allotment of land to the extent of 27 acres 26 guntas⁸⁵ to the Company. The CE (T&P) issued (March 2012) LoI and concluded (April 2012) an agreement with the Contractor. Subsequently, the DWA was issued to the contractor in May 2012.

The Company, however, could get the possession of only 9 acres 15 guntas out of the total allotted land as of July 2012. The balance land (18 acres 11 guntas) was not handed over to the Company by the Revenue Authorities as the allotment of the said land to the Company was disputed (July 2013) by the land owners in the High Court of Karnataka and the case was pending for disposal (June 2016).

Owing to the inability of the Company to hand over the required land for commencement of the work even after a lapse of two years from the date of DWA (May 2012), the contractor claimed (August 2014) compensation of ₹ 1.43 crore under Clause 46 of General Conditions of the Contract towards expenses incurred on tender submission, bank guarantee, insurance, staff, etc. The CE (T&P), acceding to the request and after holding negotiation (October 2014) with the contractor, approved (December 2014) compensation of ₹ 80.22 lakh as full and final settlement absolving either party of the contract obligations. The contract was then short closed (December 2014).

We observed that LoI was issued merely on the basis of Government's intimation (March 2012) to the District authorities. As per the Karnataka Land Grant Rules, 1969, the District Commissioner is the authority who can issue

⁸⁵ 18 acres 11guntas at Bettadasanapura of Bengaluru South Taluk and 9 acres 15 guntas at Mylasandra.

‘grant of land’. In the present case, only a part of the land (9 acres 15 guntas) was transferred to the Company in July 2012 *i.e.* after the issue of DWA. Thus, the issue of LoI and DWA before possession of the land in violation of Board’s directive resulted in avoidable payout of ₹ 80.22 lakh without creation of any concrete asset.

The Government⁸⁶ replied (January 2017) that the Company had issued LoI to the agency after the Revenue Department intimated allotment of 27.26 acres of land. Deputy Commissioner (DC), Bengaluru allotted 27 acres 26 guntas of land on 10 April 2012. But, DC, Bengaluru could not hand over the entire land due to dispute in the High Court.

The reply is not acceptable as the Company acted on mere intimation of allotment by the District Commissioner, which was in violation of the Board’s directive that before issue of LoI, possession of required land shall be ensured and in the event of non-availability of required land, issue of LoI shall be after ensuring possession of required land. The Company issued LoI without ensuring possession of land and hence its action was in violation of Board’s directive resulting in avoidable payment of ₹ 80.22 lakh.

Cauvery Neeravari Nigama Limited

3.4. Unjustified waiver of dues receivable from a contractor

The decision of the Managing Director that the contractor had suffered loss due to reduction in number of visitors to Brindavan Gardens during the contract period without material evidence on record led to undue financial benefit of ₹ 3.31 crore to the contractor.

Cauvery Neeravari Nigama Limited (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, Mysore. The successful bidder *viz.* Shri T.N. Paramesh (contractor), who had quoted ₹ 40.86 lakh per month for entry fee and ₹ 8.96 lakh per month for toll fee, was entrusted (July 2009) with the job of collection of entry fee and toll fee. The contractor furnished (August 2009) performance guarantee of ₹ 99.64 lakh as required by the terms of contract.

As per the terms of contract, the payment of ₹ 49.82 lakh fell due on the 1st of every month starting from July 2009. The contractor paid an amount of ₹ 2.67 crore as against the dues of ₹ 5.98 crore for the period July 2009 to June 2010 leaving a balance of ₹ 3.31 crore unpaid. The contractor, without clearing the balance dues, submitted (October 2012) a representation to the Managing Director (MD) stating that he had sustained a loss of ₹ 3.25 crore on account of non-revision of entry fee, absence of provision for charging mobile phones with camera at the gardens, drop in number of visitors due to global recession, spread of H1N1 disease, riots in Mysore, bomb blast threat to KRS Dam, *etc.*

⁸⁶ Additional Chief Secretary, Energy Department.

The MD rejected (November 2012) his claims stating that the facts presented by the contractor had already been considered and rejected (April 2010) by the Board of Directors. The contractor was directed to pay the dues of ₹ 3.31 crore along with interest as per the terms of the contract, within 30 November 2012. Since the contractor failed to pay the dues, the Company encashed (November 2012) the performance guarantee of ₹ 99.64 lakh and filed (January 2013) a suit in the City Civil Court, Bengaluru for recovering the balance dues. The Company also recovered (March 2014) ₹ 26.24 lakh through Krishna Bhagya Jala Nigam Limited⁸⁷ (KBJNL) with whom the contractor had transactions.

Aggrieved by the action of the Company, the contractor filed a Writ Petition before the High Court of Karnataka which was disposed (January 2014) by setting aside the order passed (November 2012) by the MD with a direction to reconsider the matter with reference to the documents relied on and after providing opportunity to the contractor to submit relevant documents.

The MD, after reconsidering the contractor's claim on the basis of newspaper clippings, concluded (June 2014) that the reduction in revenue was squarely attributable to the factors referred to by the contractor and that they fell within the ambit of *force majeure* as per the terms of contract. Accordingly, the Company refunded ₹ 1.26 crore to the contractor, waived the balance dues and withdrew (June 2014) the civil suit filed against the contractor.

We observed that:

1. The contractor submitted the same evidence on all the three occasions *i.e.*, before the Board in April 2010, before the MD in October 2012 and in June 2014. Thus, no new evidence was produced which could warrant a reversal of the earlier decision.
2. The MD, while passing the order in November 2012, had refuted the contractor's claim of reduction in visitors as the contractor had not maintained the details of tickets issued to the visitors nor was there any other evidence to substantiate his claim. Hence, the subsequent conclusion (June 2014) that there was reduction in the number of visitors merely on the basis of newspaper reports amounted to favouring the contractor.
3. Verification carried out by the Assistant Executive Engineer (AEE) of the Company revealed that the actual revenue collection for the month of March 2010 was ₹ 32.47 lakh against ₹ 21.48 lakh shown by the contractor. Thus, though the contractor had furnished fudged data to the Company, the fact was ignored by the MD while taking the decision in June 2014.
4. The contract agreement (Clause 8.2(h)) provided for maintenance of records in electronic form showing the number of visitors to Brindavan Gardens and their submission to the Company in the form of a printed report along with monthly contractual payment by the contractor.

⁸⁷ A Government of Karnataka Undertaking.

However, the contractor did not maintain such data nor did the Company demand the same from him. Enforcement of this contract provision could have averted the dispute and provided reliable evidence on the actual number of visitors.

The Company replied (September 2016) that the High Court of Karnataka had set aside the order passed by the earlier MD with a direction to reconsider the matter. There were no directions from the Court that the MD had to consider only new reasons or not to pass the orders relying upon the records already submitted by the contractor. While passing the orders, the MD considered *force majeure* clause in the agreement and the impact of H1N1, damages due to heavy rain, etc. Therefore, the Audit presumption that the present order passed by the MD was not supported by new facts was not correct.

The reply is not acceptable as the Honourable Court had directed the Company only to reconsider the earlier decision and not necessarily to reverse it. No new evidence was available with the MD that would justify reversing the earlier decision. The MD relied on news paper reports alone to contest and overturn the earlier order, disregarding the records on the basis of which the earlier order was passed. Mere newspaper coverage of existence of H1N1, etc. cannot be conclusive evidence to infer that there was a reduction in the number of visitors, as there was no other corroborative evidence with the Company to arrive at such a conclusion. Hence, the invoking of *force majeure* clause was not in order.

Thus, the decision of the MD (June 2014) resulted in undue financial benefit of ₹ 3.31 crore to the contractor. The Company also lost the opportunity of recovering ₹ 1.26 crore⁸⁸ which was available with it but was refunded.

The paragraph was issued to the Government during August 2016; the reply of the Government was awaited (February 2017).

Cauvery Neeravari Nigama Limited

3.5. Avoidable extra expenditure

Company's failure to deposit the amount before award and SLAOs failure to pass the award within two years, as specified in the Land Acquisition Act, 1894 resulted in avoidable extra expenditure of ₹ 0.97 crore.

Section 11 A of the Land Acquisition Act, 1894 (Act) clearly lays out that 'the Collector shall make an award under Section 11 within a period of two years from the date of publication of the declaration and if no award is made within that period, the entire proceedings for the acquisition of the land shall lapse'.

The Divisional Commissioner, Bengaluru Division passed (December 2011) an award acquiring 17 acres and 25 guntas of land at Bidanagere village, Tumakuru District on behalf of Cauvery Neeravari Nigama Limited (Company), for ₹ 1.14 crore. The land was acquired by the Special Land

⁸⁸ Bank guarantee (₹ 99.64 lakh) and amount received from KBJNL (₹ 26.24 lakh).

Acquisition Officer, Hemavathi Canal Division, Tumakuru (SLAO) on behalf of the Company for construction of Hemavathi Canal Project.

Scrutiny of the records revealed that SLAO had issued notification (June 2004) under Section 4(1)⁸⁹ and notification under Section 6(1)⁹⁰ of the Act was issued on 1 August 2005 for acquisition of 41 acres and 11 guntas of land at Bidanagere Village, Tumakuru District for the purpose of construction of the Hemavathi Canal. Aggrieved by the notification, one of the land losers approached (January 2006) the Hon'ble High Court of Karnataka, and got an interim order of stay for the acquisition of land to the extent of 2 acres and 15 guntas. The Hon'ble High Court upheld the acquisition and dismissed (November 2008) the petition as well as the writ appeal (June 2009) filed by the land loser.

We observed that the Hon'ble High Court had given an interim stay only to the extent of 2 acres 15 guntas and the *malki*⁹¹ values in respect of 6 acres and 8 guntas of land were delayed by Forest Department. The balance land available for acquisition was 32 acres and 28 guntas. However, the SLAO did not proceed with the acquisition of the balance land until the clearance of the stay order. The Deputy Commissioner issued award (August 2009) acquiring 41 acres and 11 guntas at an amount of ₹ 0.46 crore, only after final decision (June 2009) of the court cases.

Aggrieved by the acquisition of their lands, the owners of 17 acres and 25 guntas of land out of the 32 acres and 28 guntas, approached (August 2009) the Hon'ble High Court of Karnataka stating that the award passed by the Deputy Commissioner was in violation of Section 11A of the Act, as the award for acquisition was passed by the Collector on 17 August 2009, *i.e.* after expiry of the stipulated two years from 26 June 2004. The Court quashed the preliminary and final notifications and the award dated 17 August 2009 relating to the petitioners. Hence, the Divisional Commissioner, Bengaluru Division once again acquired 17 acres and 25 guntas land and passed (December 2011) the award for ₹ 1.14 crore, incurring an additional expenditure of ₹ 0.97 crore⁹². This additional expenditure was due to increase in the land value between 2009 and 2011.

The Company also failed to deposit the compensation amount within the two year time limit of the award from the date of 6(1) notification. Revenue Department confirmed (January 2009) that it would not be possible to complete the legal formalities of acquisition without the deposit of the requisite compensation.

⁸⁹ Notification under Section 4(1) is a preliminary notification issued by the Government whenever a land is needed or is likely to be needed for any public purpose. This facilitates the Government to make survey and set out boundaries of the land intended to be acquired.

⁹⁰ Notification under Section 6(1) is issued after considering the objections, if any, received from the public under Section 5A. The notification shall be the conclusive evidence that the land is needed for a public purpose and the Government may acquire such land.

⁹¹ Value for the structures, trees and plants.

⁹² The difference between the cost as per the latest award for 17 acres 25 guntas (₹ 1.14 crore) and the corresponding cost as per the original award (₹ 0.17 crore).

The Company confirmed⁹³ (July 2016) that as per Section 11A of the Act, the award for all the survey numbers, excluding court cases, was to be made by December 2007 and stated that due to non deposit of the compensation amount for passing the award, delay in getting the records from the Advocate General, and delay by the Forest Department in furnishing the *malki* value (as landholders did not permit them to enter the land due to court cases), the award was delayed.

The reply does not address the delay in acquisition of balance land against which there was no stay order. Further, the Company failed to deposit the compensation before August 2007 and deposited it only in August 2009. The claim regarding delay in getting the *malki* value was not correct, as the survey numbers for which *malki* value was not given were different from the survey numbers related to the court case.

Thus, delay in acquisition of balance land resulted in avoidable extra expenditure of ₹ 0.97 crore by the Company in acquiring 17 acres 25 guntas of land.

The paragraph was issued to the Government during August 2016; the reply of the Government was awaited (February 2017).

Cauvery Neeravari Nigama Limited

3.6. Undue favour to a contractor

Cauvery Neeravari Nigama Limited, in violation of the conditions of contract, extended undue favour of ₹ 0.79 crore to a contractor.

Cauvery Neeravari Nigama Limited (Company), with the approval (June 2010) of its Board, entrusted a contract (September 2010) for ‘Design, supply, installation, testing and commissioning of Kyathanahalli Lift Irrigation Scheme 1st Stage in Salagame Hobli, Hassan’ to Kirloskar Brothers Limited, Bengaluru on turnkey basis at a total cost of ₹ 11.40 crore against the estimated cost of ₹ 10.55 crore. The work order was issued (September 2010) to the contractor with the stipulation to complete the work by 17 March 2012.

Clause 2 (d) of the General Conditions of Contract envisaged levy of penalty of an amount equivalent to one *per cent* of the estimated cost of the balance work assessed according to the approved programme for every day subject to a maximum of 7.5 *per cent* of the estimated cost of the entire work as shown in the tender for any shortfall in the progress of work.

The contractor completed the work on 17 December 2012 as against the due date of 17 March 2012. The Company paid (March 2015) ₹ 11.40 crore as full and final settlement to the contractor. The Assistant Executive Engineer (AEE), Yagachi Subdivision, considering unavoidable reasons not attributable to the contractor for the delay, proposed (August 2014) to the Executive Engineer (EE), Yagachi Division for extension of contract period upto 31 July

⁹³ General Manager (Finance) of the Company had forwarded the reply of the SLAO.

2012 without penalty and from 1 August 2012 to 17 December 2012 with penalty.

The EE, recommended (August 2014) for extension of contract period upto 31 July 2012 without penalty and levy of penalty of ₹ 300 per day from 1 August 2012 to 17 December 2012. Accordingly, the proposal was approved (September 2014) by the Superintending Engineer (SE) and by the Chief Engineer (CE), Hemavathi Project Zone, Gorur (January 2015).

We observed that though the scheduled date of completion was 17 March 2012, and the work was completed on 17 December 2012, the Company failed to arrive at the value of work done till the extended date of completion (31 July 2012). The work measurement was taken on 5 October 2012 and 30 January 2015. Thus, the CE and EE, who were responsible for reviewing the progress of the work, failed to assess the progress of the work on the extended date of completion.

We further observed that the cost of the balance work that was not yet executed as recorded in the fifth Running Account bill⁹⁴ (work measurement dated 5 October 2012) was ₹ 1.18 crore. Considering ₹ 1.18 crore as the balance work, penalty of ₹ 79.13 lakh⁹⁵ at the rate of one *per cent* per day for 139 days (1 August 2012 to 17 December 2012) limited to 7.5 *per cent* of estimated amount (₹ 10.55 crore) should have been levied on the contractor. As against this, the penalty approved (January 2015) by the CE worked out to ₹ 0.42 lakh only.

Thus, the recommendation and approval of an adhoc penalty of ₹ 300 per day for the delayed period was in violation of General Conditions of Contract. The EE, while recommending the lesser penalty, did not record the justification for deviating from the conditions of the contract. Further, neither SE nor CE had sought any reason for such deviation before approving the proposals of EE.

Thus, the deviation from the conditions of the contract approved by the Board of Directors, which was not within the powers of the CE, had resulted in extension of undue favour to the contractor by ₹ 78.71 lakh (₹ 79.13 lakh – ₹ 0.42 lakh).

The Government⁹⁶ forwarded (July 2016) the reply of the Company stating that the cumulative financial claims as on 5 October 2012 was ₹ 10.22 crore which almost covered the contract value of ₹ 10.75 crore and this proved that the work was physically completed in all respects by that date. It was not possible to assess the financial progress as at the end of July 2012 as the contractor had not preferred any claims. However, exercising discretion, the Company had

⁹⁴ The date of measurement for fourth and fifth Running Account bills was 26 June 2012 and 5 October 2012 respectively. As the measurement was not done as on 31 July 2012, the balance work to be done after 5 October 2012 is considered for calculating penalty.

⁹⁵ Penalty is leviable at one *per cent* of the balance work (₹ 1.18 crore) for 139 days (1 August 2012 to 17 December 2012) *i.e.* ₹ 1.64 crore. This has been limited to maximum of 7.5 *per cent* of the total estimated cost (₹ 10.55 crore) *i.e.* ₹ 79.13 lakh.

⁹⁶ Secretary to the Government of Karnataka, Water Resource Department.

levied a nominal penalty of ₹ 300 per day which covered petty works such as casting slabs, test for rising main, etc.

The reply is not acceptable as the total contract value was ₹ 11.40 crore and not ₹ 10.75 crore as claimed by the Company. Further, the cumulative value of work done as per 5th Running Account bill (measurement dated 5 October 2012) was only ₹ 10.22 crore and hence the penalty was leviable on the balance value of work (₹ 1.18 crore) as per the contract conditions.

Thus, the Company extended undue favour to the Contractor in violation of contract conditions.

Karnataka State Electronics Development Corporation Limited

3.7. Undue favour to franchisees

Karnataka State Electronics Development Corporation Limited had lost potential revenue of ₹ 15 crore by extending undue favour to franchisees.

3.7.1. Karnataka State Electronics Development Corporation Limited (Company) was established with the objective of promoting electronic industries in Karnataka and was also involved in providing ERP solutions, web portals, software development, IT consultancy, IT Education Services and networking. With the objective of training manpower, especially rural youth in computer operations and IT field at subsidized fees, the Company started the IT Education Services Division (Division). The Company had a network of 11 own training centres and 299 Franchisee Training Centres (FTCs) across the State. It also implemented various IT related training programmes sponsored by GoI and GoK for specific sections of the society, such as unemployed youth, women, SC/ST students, economically weaker sections, etc. FTCs entered into agreement with the Company for conducting training programmes entrusted to them. The Company, with the approval of its Board of Directors, issued (April 2012) Standard Instructions Manual (Manual) which laid down instructions on operational standards of training centres, fee structure, etc. to be followed by the own training centres and FTCs. Review of functioning of 31 of the 299 FTCs revealed the following lapses.

3.7.2. The Division, despite continuous operational losses of its own training centres, had entrusted (between November 2014 and December 2016) the training programmes under Government sponsored schemes to 25 FTCs (for a commission of 20 per cent) even at places where the Company's own training centres were functioning. The value of these training programmes was ₹ 2.33 crore. By favouring 25 FTCs with such entrustment without justification, the Division had lost a revenue of ₹ 1.86 crore (80 per cent of ₹ 2.33 crore).

3.7.3. The Directorate of Municipal Administration, GoK under GoI sponsored National Urban Livelihood Mission for the year 2015-16, entrusted (September 2015) training programmes valued ₹ 6.39 crore to the Division to train 8,887 candidates with a condition that the training should be conducted only in Company's own training centers and should not be sub-contracted or outsourced. We observed that the Division, violating the conditions of GoK,

entrusted these training programmes to 70 FTCs, though the own training centers had the necessary infrastructure. By favouring FTCs the Division had not only lost a potential revenue of ₹ 5.11 crore (excluding commission at 20 per cent of ₹ 6.39 crore) but also unduly benefited FTCs.

3.7.4. Clause 6.0 of the Manual *inter-alia* provides for the amount of fee to be charged for each course. We observed that the Division released the fees to FTCs as provided in the respective sponsored schemes⁹⁷ instead of restricting the payment as per the Manual. Such excess release ranged from ₹ 1,700 to ₹ 6,800 per student in respect of six sponsored schemes which amounted to ₹ 5.52 crore⁹⁸ (excluding ₹ 1.38 crore at 20 per cent commission) during 2012-13 to 2015-16. Thus, the FTCs were unduly benefited.

3.7.5. Clause 2.16 of the Manual stipulates that the Division was entitled for a commission of 20 per cent from the FTCs unless otherwise specifically indicated. We observed that the Division, during 2011-12 to 2015-16, had collected commission on the course fees in respect of sponsored schemes at lesser rate than prescribed which was in the range of 9.76 to 17.61 per cent resulting in loss of revenue of ₹ 2.51 crore⁹⁹.

3.7.6. Franchisees desirous of conducting Company accredited courses were required to meet the operational standards set in the Manual. We observed the following non-compliance issues:

Table No.3.7.1: Details of non-compliance to standards

| Clause no | Operational Standards | Status of adherence |
|-----------|---|--|
| 1.1 | A valid agreement between the Company and the Franchisee centre must exist. Franchisee must contact the Company three months in advance for renewal of the franchisee agreement. | <ul style="list-style-type: none"> • In nine training centers, the agreements with the franchisees had expired in March 2016 and had not been renewed as of September 2016. • In eight cases, the agreements were renewed retrospectively after a delay of 17 to 108 days. • In 10 cases, franchisee certificates to operate new centers were issued before concluding a valid agreement. |
| 1.3 | Training centers should have minimum infrastructure requirements such as floor space, separate counseling/ help desk, library facility, internet facility, legal software, etc. and | <ul style="list-style-type: none"> • In five centers, infrastructure like networking, internet facility, library, UPS backup, counseling desk was missing besides lack of floor space. |

⁹⁷ Women’s Development Corporation, Ministry of Social Justice and Employment, National Safai Karmachari Finance and Development Corporation, National Urban Livelihood Mission, State Urban Livelihood Mission and Skill Development Plan.

⁹⁸ This represents the difference in fee actually paid to the FTCs and that stipulated in the Manual in respect of sponsored schemes.

⁹⁹ Difference between 20 per cent of total course fees charged by FTCs (*i.e.* 20 per cent of ₹ 38.25 crore = ₹ 7.65 crore) and actual commission received by Division (₹ 5.14 crore) during 2011-12 to 2015-16.

| Clause no | Operational Standards | Status of adherence |
|-----------|---|---|
| | should ensure proper working conditions. | <ul style="list-style-type: none"> In three centers there were inadequate instructions for use of legal software. |
| 2.28 | Franchisees should have Service Tax Registration and remit service tax regularly. | <ul style="list-style-type: none"> 12 centers were issued Franchisee Certificates without details of service tax registrations. One centre had conducted training courses even before valid service tax registration. |
| 3.10 | The centre head should maintain feedback from trainees for verification. | <ul style="list-style-type: none"> In 31 training centres surveyed, only 6 FTC had maintained the records of feedback received from the trainees, while others had not. |

Thus, the Company failed to adhere to its own operational standards. The fact that the Company ignored renewal of agreements which had expired, failed to ensure adequate infrastructure at the training centers and allowed FTCs without service tax registration to function, shows its lackadaisical approach in ensuring adherence to operational standards and monitoring.

The paragraph was issued to the Government during November 2016; the reply of the Government was awaited (February 2017).

Karnataka State Electronics Development Corporation Limited

3.8. Poor implementation of IBM Mainframe training project

Poor implementation of IBM Mainframe training project without analysing the market demand resulted in non-achievement of the intended objectives and a cumulative loss of ₹ 5.78 crore.

Karnataka State Electronics Development Corporation Limited (the Company) is a State IT nodal agency for IT consulting and education with a network of over 250 training centres all over the State, offering low-end software training programmes. The Company was approached (December 2007) by Broadline Computer Systems, Chennai, a business partner of IBM India Private Limited (IBM) to start an IT system called z-platform for providing Linux based development environment to the staff of the Company, impart training to the student community as well and act as a data centre to other Government departments. The Board approved (August 2009) the project based on the assurance given by Broadline Computer Systems that bank guarantee in favour of the Company would be given against any failure to mobilize the minimum number of candidates. The Expert Committee (a Subcommittee of the Board of the Company) too had recommended (October 2009) that guarantee should be obtained from IBM for sourcing and placement of trainees in the initial years. The Government, relying on the assurance by IBM of identifying 500, 1,250 and 2,000 students for training during the first three years, handholding and placing them, approved (July 2010) the project.

The Company, on the recommendation of the Subcommittee of the Board, decided (August 2009/ November 2009) to procure IBM Mainframe z-10 series, estimated to cost ₹ 6.10 crore, from IBM out of its own funds on deferred payment basis.

Memorandum of Understanding (MOU) signed (August 2010) with IBM *inter-alia* required IBM to offer trainers initially, train future trainers, hand hold trainers and use globally accepted evaluation / certification schemes so that those trained by KEONICS-IBM centre would find global opportunities.

The Company entered (August 2010) into an agreement (customer agreement) with IBM for the supply of the Main frame server and for providing services such as learning, co-location and installation and maintenance at a cost of ₹ 6.17 crore. The server was supplied in September 2010 and installed at Indian Telephone Industries (ITI) Data Centre in October 2010. The first batch of training in mainframe for the staff and students was commenced in December 2010.

The Company upgraded (February 2014) the older version (z10BC) with a new version (zBC12) for starting other services such as cloud and hosting services at a cost of ₹ 2.00 crore. The storage capacity, hardware and software of the system were upgraded once again during January 2016 at a cost of ₹ 1.32 crore.

We observed that:

1. The Company which was handling entry level low-end training embarked on a project involving large capital expenditure focusing on high-end advanced training without conducting a feasibility study to ascertain the financial viability of the project. The Company also did not follow due process in the selection of the project and instead merely proceeded on the advice of IBM's business partner.
2. The project was envisaged to earn income of ₹ 13.13 crore over a period of three years (2010-11 to 2012-13) against a total cash outflow of ₹ 9.57 crore. However, the Company could recover only ₹ 1.33 crore (10 *per cent* of the projected income) during this period. It was projected that the Company could recover the capital investment within 18 months of the start of the project and earn surplus from the year 2015-16 after up-gradation. However, during the period 2010-11 to 2015-16 only 61.96 *per cent* of the capital cost of the project was recovered. The project had incurred a cumulative loss of ₹ 5.49 crore in the initial three years mainly due to failure of IBM to provide stipulated number of candidates for training during that period (570 were trained against stipulated 3,750 students).
3. The Company had not included the conditions regarding bank guarantee and assurance of minimum number of trainees in the agreement/MOU entered into with IBM before implementing the project. We observed that only 46 students (21 were placed in jobs by IBM) in 2010-11 (first year), 524 candidates under corporate training in the second year and none in the third year were trained due to fluctuating market demand for

mainframe skills. During 2013-14, 2014-15 and 2015-16, only 205 departmentally sponsored candidates were trained. Of the 205 trained, 20 were given placements.

4. The initial training for trainers offered by IBM was not utilised by the Company to develop expertise in IBM Mainframe. Currently (July 2016), the Company has only one trainer exclusively trained for conducting training sessions on IBM Mainframe.
5. With a dwindling response to the training and realising that it would be difficult to recover the cost of investment, the Company decided to start other services such as cloud and hosting services. As the machine procured (z10BC) was for training purpose, it was upgraded to zBC12 by spending ₹ 3.32 crore. The prudence of this decision was doubtful as the Karnataka State Data Centre and the E-Governance Department were already offering such services to the State Departments and PSUs.

The Government replied¹⁰⁰ (November 2016) that the substantial reduction of new projects being taken on Mainframe technology had resulted in reduced market demand. As the machine was undersized even with respect to training, the machine was upgraded in 2014. It stated that the Company launched a set of solutions on Software as a Service Model which would address large communities and hoped to generate substantial revenue.

From the reply, it is evident that the Company invested in Mainframe technology without first analysing market demand. The Expert Committee recommendation that ‘the sourcing and placement of trainees must also be guaranteed by IBM at least in the initial years’ was also not implemented.

Thus, failure of the Company in taking up a training project without analysing market demand and its lack of experience in high end training resulted in non-achievement of the intended objectives and a cumulative loss of ₹ 5.78 crore during the six years period ending 2015-16.

Hubli Electricity Supply Company Limited

3.9. Irregular award of contracts

The Central Purchase Committee approved and awarded contracts worth ₹ 37.50 crore to an ineligible contractor overlooking the delegated financial powers and violating KTPP Act and Rules.

Hubli Electricity Supply Company Limited (Company) invited (May 2014) short term tenders for implementation of ‘Condition Monitoring and Asset Management Software System’ in its 22 Operating and Maintenance Divisions at a total estimated cost of ₹ 31.94 crore¹⁰¹. The Company prepared individual estimates for each of the 22 Divisions and assigned indent number¹⁰² for

¹⁰⁰ Principal Secretary to Government, Department of Information Technology Biotechnology and Science and Technology.

¹⁰¹ Amount put to tender.

¹⁰² IT-1, IT-2,... IT-22.

identification of the Division concerned and control over costs. Bid Enquiries inviting quotations against each of the indent numbers were issued.

The conditions of the tenders *inter-alia* stipulated that the bidder must have an annual turnover of not less than 50 *per cent* of the amount put to tender in any one of the previous financial years (2010-11, 2011-12 and 2012-13) and should have a credit facility in any scheduled bank on or after the bid date not less than the amount put to tender.

The Central Purchase Committee (CPC) chaired by the Managing Director of the Company approved (November 2014) the award of contracts in all the 22 Divisions to the lone bidder *viz.*, Prasanna Technologies Private Limited (PTPL), at a total cost of ₹ 37.50 crore. Accordingly, the Detailed Work Awards (DWA) for each of the 22 Divisions specifying the terms of the contracts were issued (February 2015) to PTPL. The contracts were for a period of three years and ten months from the date of award of contracts. The work, scheduled to be completed during December 2018 as per the contract, was under progress (December 2016).

We observed that the contracts were awarded violating the provisions of Karnataka Transparency in Public Procurement (KTPP), Act 1999 and Rules made thereunder as well as the circular issued by the Government in this regard. Our observations are brought out below:

1. The Circular dated 3 December 2002 issued by the Government of Karnataka and provisions of KTPP Act stipulated that the prequalification documents and the tender documents following two-cover system should have stipulations to check the aggregate of the qualifying criteria of the individual contracts, when the tenderer is the lowest for more than one contract. Further, the tenderer should be prequalified/awarded a contract only if he satisfies the aggregate qualification criteria. The Company, however, had not included this condition which was in violation of the Act and hence the subject tender was invalid *ab initio*. By not including this condition in the tender, the Company facilitated PTPL to bag the contracts in all the 22 Divisions as the firm was evaluated successful, despite not meeting the aggregate qualification criteria.
2. The Tender Scrutiny Committee (TSC) headed by the Director (Technical) certified (July 2014) that the bid of PTPL was '*Responsive*' although PTPL¹⁰³ had a turnover of ₹ 6.49 crore only against the requirement of ₹ 15.97 crore¹⁰⁴ and credit facility of ₹ 7.50 crore only against ₹ 31.94 crore¹⁰⁵ required under the KTPP Act.
3. The KTPP Act provided that in case of single bids and where the quoted rates are substantially above (10 *per cent* above) the estimated cost, tenders should preferably be rejected and fresh tenders invited. The Managing Director, (MD) who headed the price negotiation meeting

¹⁰³ The actual turnover and credit facility of PTPL is taken from the bid documents.

¹⁰⁴ 50 *per cent* of the amount put to tender (₹ 31.94 crore).

¹⁰⁵ Equivalent to amount put to tender.

(October 2014), went ahead with negotiating the prices with PTPL even though all the 22 bids were single bids and the quoted rates were substantially above the estimated cost¹⁰⁶.

4. As per the delegation of financial powers, the CPC was empowered to approve contracts costing upto ₹ 5 crore and any contract above such amount was to go to the Board of Directors for approval. Though the aggregate value of all 22 contracts worked out to ₹ 37.50 crore, they had been split up to be within the limits of approval (November 2014) by the CPC in violation of delegation of powers and to avoid Board's approval. The contract value of each of the divisions ranged from ₹ 96.06 lakh to ₹ 2.44 crore. Further, the nature of works *viz.* GIS survey, mapping of DTCs and establishment of asset management software, user requirement, *etc.* was similar across all the 22 Divisions.
5. In respect of two cover tender system (Technical and Financial) as in the instant case, the time gap between opening of Technical Bid and that of the Financial Bid should not in any case exceed 60 days and if it does, the KTPP Act stipulated re-tendering. The tender was not cancelled despite the gap between the two bids being 97 days (17 June 2014 to 23 September 2014) which favoured PTPL to bag the contracts.

The Government¹⁰⁷ forwarded (August 2016) the Company's reply that Clause No.3.4 of the GoK circular dated 3 December 2002 provides negotiation instead of cancellation and re-invitation of tenders. Division-wise tender led to more participation, splitting of contract did not arise as individual tenders were called Division-wise and the projects costing less than ₹ 2 crore were within the sanctioning powers of the MD. No preference was given to PTPL because the tenders were floated through e-procurement portal.

The reply is not acceptable as *Clause No.3.4* of the Circular dated 3 December 2002 did not allow negotiation if the contracts were 'substantially high' *i.e.* 10 *per cent* above the estimated cost and the present contracts were covered under this category. Further, the aggregate criterion was stipulated as per Circular dated 3 December 2002 and the award of contracts should have been placed before the Board as the MD or CPC were not empowered to take decision. Also, the Company ended up with single tender as against the claim of wide participation.

Thus, violation of the provisions of KTPP Act including splitting of work to the benefit of a private agency rendered the procurement non-transparent and reduced competition. It also resulted in the contract worth ₹ 37.50 crore being awarded to an ineligible contractor having substantially inadequate turnover as well as credit facility.

¹⁰⁶ The quoted rates of PTPL ranged from 10.05 to 31.63 *per cent* above the estimated cost.

¹⁰⁷ Additional Chief Secretary to the Government of Karnataka, Energy Department.

Krishna Bhagya Jala Nigam Limited

3.10. Unfruitful expenditure

The objective of providing drinking water to five Rehabilitation Centres in Jamakhandi Taluk was yet to be achieved and expenditure of ₹ 4.61 crore was rendered unfruitful due to the failure of the Company to conclude agreements with the authorities concerned.

The Krishna Bhagya Jala Nigam Limited (Company) awarded (August 2012) the work of providing drinking water supply to the inhabitants of Maigur, Muttur, Shiraguppi, Kadkol and Kankanawadi Rehabilitation Centres (RC)¹⁰⁸ of Jamakhandi Taluk in Bagalkot District to the successful bidder Shonan Engineering Works Private Limited, Pune at a cost of ₹ 5.56 crore. The work was to be completed within 12 months *i.e.* August 2013.

The Jamakhandi Municipal Corporation (JMC) communicated (July 2014) that it was not possible to supply water to the RCs and that the work would be considered only after the completion of the planned 24x7 water supplies to Jamakhandi Town. JMC also requested the Company to construct a separate Water Treatment Plant (WTP) for the RCs. However, by that time the Company had already spent ₹ 4.61 crore on related works and only the hydraulic test of the pipeline was under progress as of October 2016.

Our scrutiny revealed the following:

1. On the request (December 2005) of the Company, the Karnataka Urban Water Supply & Drainage Board (KUWS&DB)¹⁰⁹ agreed (April 2006) to supply water to the RCs subject to the conditions that the Company would deposit ₹ 1.40 crore towards pro-rata cost of the scheme and make tapping arrangements in consultation with KUWS&DB and JMC (the owner of the project). KUWS&DB forwarded (September 2008) a pro-forma bill for ₹ 1.40 crore but the Company did not deposit the amount.
2. JMC forwarded (October 2008) a draft Memorandum of Understanding and agreement for supplying drinking water. This Memorandum reiterated the conditions stipulated by KUWS&DB. However, the Company did not conclude the agreement with JMC.
3. The estimate prepared by the Company in October 2008 was approved by the Technical Subcommittee of its Board only in March 2011. Meanwhile, the JMC agreed to supply water (November 2010) for 10-12 hours a day. Tenders for award of work were invited in May 2011. The work was awarded only in August 2012.
4. In September 2013 the Company finally attempted payment of ₹ 1.40 crore to JMC and signing of an agreement with them, but could not get the JMC to sign the agreement.

¹⁰⁸ People displaced from villages which were liable to be submerged in the backwaters of the Almatti Dam of the Upper Krishna Project were rehabilitated in various Rehabilitation Centres (RCs) as per approved packages for rehabilitation.

¹⁰⁹ A body which regulates and develops drinking water and drainage facilities in the urban areas of the State of Karnataka.

Thus, the Company's failure to exercise due urgency and quickly initiate the work led to idling of assets of ₹ 4.61 crore and non-achievement of the objective of providing drinking water to the RCs.

The Government¹¹⁰ replied (August 2016) that the delay was due to multiple checks and balances, lengthy procedures, revision of estimates several times, multiple tendering of work and involvement of various public and private institutions. It also stated that though JMC had resolved (October 2008) to supply water and enter into an agreement with the Company, due to changes in its administrative set-up, tapping was not allowed (June 2015) by the JMC. Further, it was stated that water was supplied on 14 July 2016 and the pro-rata deposit was being deposited.

The reply of the Government is not acceptable as there was no valid reason for the initial delay of two and half years to even start preparing the initial estimate. The reply that water had been supplied on 14 July 2016 was not correct, as the water had not been let out for drinking purposes, the hydraulic test of pipeline being under progress (5 October 2016).

Karnataka Silk Industries Corporation Limited

3.11. Avoidable payment of interest

Underestimation and delay in estimation of profit, wrong application of tax rates and delay in remittance of advance tax resulted in avoidable payment of interest of ₹ 94.40 lakh.

According to the provisions of Section 208 read with Section 211 of the Income Tax Act, 1961 (Act), every company is required to pay, for each financial year, quarterly instalments of advance tax at the prescribed rates¹¹¹ within the due dates, if the amount of income tax payable during the financial year exceeds ₹ 10,000. If the instalments of advance tax deposited were less than the prescribed percentages, the assessee company was liable to pay interest under the provisions of Sections 234B¹¹² and 234C¹¹³ of the Act. This interest was to be calculated and deposited with the balance tax determined on self assessment.

Karnataka Silk Industries Corporation Limited (Company) made profits during the period 2010-11 to 2014-15 and hence the provisions of the Act shall apply to the Company. Audit scrutiny of annual profit estimation and payment of advance tax for the financial years 2010-11 to 2014-15 revealed that the Company paid an avoidable interest of ₹ 94.40 lakh on short remittance of advance tax on account of the following lapses:

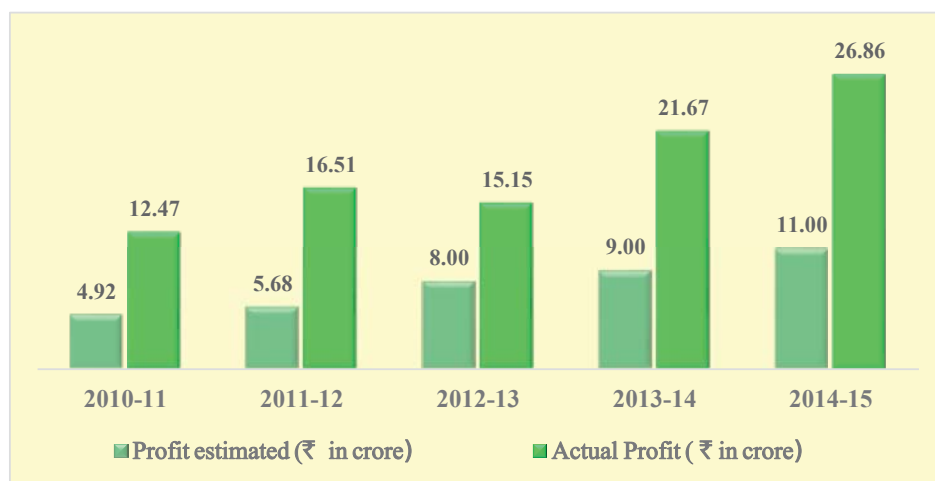
¹¹⁰ Principal Secretary to Government, Water Resources Department.

¹¹¹ 15 per cent, 45 per cent, 75 per cent and 100 per cent of assessed tax by 15 June, 15 September, 15 December and 15 March respectively.

¹¹² If advance tax paid was less than 90 per cent of the assessed tax, interest was payable at the rate of one per cent per month or part thereof on the amount by which the advance tax paid fell short of assessed tax.

¹¹³ Interest at the rate of one per cent per month or part thereof on the amount short deposited against cumulative instalments of advance tax for the period of three months.

1. The profit estimated by the Company for the financial years 2010-11 to 2014-15 was much less than the actual profit recorded in the respective years. Further, the estimation was not in line with the trend of profitability in the immediate previous years. The shortfall in assessment ranged from 47 to 66 *per cent* of the actual profit earned during the said period. The Company failed to arrive at profit reasonably closer to actual even after revising the initial estimated profit thrice in 2012-13, 2013-14 and 2014-15, shortfall in estimation being 47 to 59 *per cent*. The details of estimated *vis-à-vis* actual profit are depicted in the graph below:



(Chart No.3.11.1: Estimated profit and actual profit recorded during 2010-11 to 2014-15)

2. The Company failed to carry out the estimation at the beginning of the financial year for two years in 2010-11 and 2011-12 and consequently failed to pay the installments of advance tax on due dates. The estimate was made only in March 2011 and December 2011 respectively for these two years. As a result, interest under Section 234B and 234C was levied on short remittance of assessed tax.
3. The tax for the financial years 2011-12 to 2014-15 was assessed at the rate of 18.50 *per cent* which was applicable in case of Minimum Alternate Tax (MAT) payable under Section 115JB¹¹⁴. The Company, however, was liable for Corporate Tax at higher rates¹¹⁵ as the tax payable by the Company was more than that under MAT since 2009-10.

The Government¹¹⁶ replied (June 2016) that:

- The variation between the estimated and actual profit was bound to happen after finalisation of accounts and its audit;

¹¹⁴ As per this section, if the tax payable of a company computed is less than 30 *per cent* (revised to 18.50 *per cent* with effect from Assessment Year 2015-16) of its book profits, then such book profit shall be deemed to be the total income and tax payable on such total income shall be the amount of income tax.

¹¹⁵ 30 to 33.99 *per cent*.

¹¹⁶ Principal Secretary, Horticulture and Sericulture Department.

- The variation between the estimated and the actual profits had arisen mainly under the head sales and discount, accretion and decrction to stock, consumption of raw material, employees' benefits and abnormal sales in the month of March;
- During the year 2010-11 unabsorbed depreciation of ₹ 8.30 crore was available for setting off against profit and hence no advance tax was paid for the first two quarters of the financial year. For the subsequent financial years, the advance tax was paid on due dates based on the initial estimated profits and the differential tax was paid based on the revised profits arrived at after finalisation of annual accounts and audit.

The reply is not acceptable for the following reasons:

- The variation in estimation ranged between 47 and 66 *per cent* which indicated that the estimation was far from closer to reality. Further, the trend of increase in sales¹¹⁷ in the month of March was a regular phenomenon every year as seen from the sales turnover during 2010-15.
- The presumption of availability of unabsorbed depreciation reflected a casual approach. The Income Tax Department rejected (December 2013) the Company's claim of unabsorbed depreciation related to assessment year 1987-88 to set off against the income for the financial year 2010-11 as it was time barred.
- The Company's claim that it had paid tax on due dates except in 2010-11 was not correct as the Company paid penalty even for the subsequent years either due to delay in payment of tax or wrong estimation of tax liability.

Thus, unrealistic estimation and delays in remittance of advance tax resulted in avoidable payment of interest of ₹ 94.40 lakh.

Karnataka Government Insurance Department

3.12. Avoidable payment of interest on service tax

Karnataka Government Insurance Department paid interest of ₹ 86.34 lakh as it failed to pay service tax on due dates.

Karnataka Government Insurance Department, Motor Branch (Department) provides insurance to motor vehicles owned by the Government of Karnataka (GoK) and vehicles in which the GoK has financial interest. The Department issues insurance policies on annual basis and the insurance premium is collected by the respective District branch offices of the Department or through the Government Treasury.

The services of General Insurance were brought into the ambit of service tax rules with effect from July 1994 through a notification (June 1994) by the

¹¹⁷ The sales recorded in the month of March ranged from 1.66 to 3.14 times of the average sales of April to February during every year.

Government of India. Service tax was to be paid to the credit of the Central Government within a stipulated date¹¹⁸ as prescribed in the Service Tax Rules, 1994, failing which the assessee was liable to pay interest on the tax due at the rates fixed from time to time. The premium collected from Bengaluru branch constituted 97 per cent of the annual premium collection of the Department.

We observed that the Department failed to remit the service tax due on the premium collected from the insured within the stipulated dates. The Department paid interest of ₹ 30.38 lakh on the service tax for the period 2005-06 to 2009-10. The Department had not taken corrective action despite having the issue of delay in remittances brought to its notice twice by Audit in the Inspection Reports for the periods 2003-06 and 2008-09.

The delay in remittance of service tax continued even for the subsequent period *i.e.* 2010-11 to 2014-15 and the Department paid an avoidable interest of ₹55.96 lakh for the said period. The delay in remittance was mainly on account of not calculating service tax liability on monthly basis. It was observed that the Department was compiling the data on premium collected from its branch offices after a lapse of more than one and half years from the date of receipt, while the due date for remittance of service tax was the 6th of the following month. It was further observed that the Department renewed insurance policies on the basis of post-dated cheques and without realising the premium on the date of renewal, thereby rendering discharge of service tax liability difficult.

The Government¹¹⁹ forwarded (July 2016) the reply as furnished by the Director, Karnataka Government Insurance Department which stated that the receipt of premium was spread over all District Treasuries and Sub-Treasuries throughout the State. The District Insurance Officers concerned were required to collect premium receipt details from the respective Treasuries and forward to the Head Office. Hence, it was very difficult to collect the premium receipts immediately and pay service tax by the 6th of the following month. Therefore, the Department was constrained to pay service tax on provisional basis and pay the difference while finalising the accounts. It was also stated that once Khajane-2 software rolled out by the GoK becomes operational, the Department would be able to pay service tax before the due dates.

The Government's reply that it was very difficult to collect the premium receipts and pay tax before 6th of every month is not acceptable as 97 per cent of the total premium collected was from Bengaluru branch. Further, service tax on insurance premium came as long ago as July 1994 and the Department should have evolved a suitable mechanism to collect centralised data on all premium receipts.

¹¹⁸ Rule 6 provides that the service tax shall be paid to the credit of the Central Government by 6th day of the month, if the duty is deposited electronically and by 5th day of the month, in any other case, immediately following the calendar month in which the service is deemed to be provided.

¹¹⁹ The reply as furnished by the Director, Karnataka Government Insurance Department was forwarded by the Under Secretary to the Government, Finance Department.

Thus, failure to quantify the service tax liability and pay on the due dates resulted in avoidable payment of interest on service tax to the extent of ₹ 86.34 lakh.

Karnataka State Handicrafts Development Corporation Limited

3.13. Loss of revenue

Karnataka State Handicrafts Development Corporation Limited suffered loss of potential revenue of ₹ 2.32 crore due to its failure to conclude an agreement with the Mysore Palace Board.

Karnataka State Handicrafts Development Corporation Limited (the Company), a fully owned undertaking of the Government of Karnataka, is involved in marketing and selling the handicrafts such as sandalwood carvings, rosewood handicrafts, lacquer ware and toys, *etc.* produced by the craftsmen in the State. In order to market and sell its products, the Company established showrooms, popularly known as ‘Cauvery’, within and outside Karnataka. One such showroom¹²⁰ was set up (October 1993) within the premises of the Mysore Palace¹²¹ at Mysuru.

The Mysore Palace Board (Board) headed by the Executive Officer¹²², which was the authority for running the day-to-day affairs of the Palace, requested (September 2012) the Company to relocate the showroom from the existing location within the premises of the Palace. The assigned reason for such a decision of the Board was security concerns to the Palace reportedly suggested by the National Security Guards (NSG). Accordingly, the Company relocated (November 2012) its showroom to another location within the premises of the Palace.

We observed the following:

1. The Company was asked to relocate its showroom on security concerns to the Palace as per the NSG report. The Company, however, failed to verify the veracity of the Board’s claim on NSG suggestion. We observed that no such report was on record. This lapse on the part of the Company turned out to its disadvantage as the Board, in the very next month of requesting for relocating the Company’s showroom, allotted (October 2012) the same place to a private entity *viz.* Sri Srikanteshwara Multipurpose Co-operative Society (SSMCS).
2. The Company did not enter into any agreement with the Board while hiring the showroom and operating it in the Palace premises for more than two decades. It is pertinent to mention that the Company had entered into agreements in respect of all its other showrooms including those in Government establishments. This failure deprived the Company an opportunity of initiating legal action against the Board’s decision. This

¹²⁰ The Company is operating show rooms at seven cities (four in Karnataka and three outside the State).

¹²¹ The Palace of Mysuru is a historical palace in the city of Mysuru in Karnataka. It is one of the most famous tourist attractions in India and has several million visitors annually.

¹²² District Commissioner of Mysuru usually acts as the Executive Officer of the Board.

was evident from the fact that SSMCS obtained (March 2016) stay from the High Court of Karnataka on the basis of breach of conditions of agreement when the Board took action (February 2016) to vacate SSMCS after we issued (March 2015) a letter to the Government in this regard.

3. The earlier showroom of the Company was located strategically in an advantageous place, which was prominently visible and accessible to the visitors of the Palace. The location of the current showroom was relatively hidden and the sales turnover of the showroom had drastically declined after its relocation from ₹ 2.90 crore in 2011-12 to ₹ 1.38 crore in 2015-16 (48 per cent reduction).

Thus, failure of the Company to verify the veracity of the NSG report and to conclude an agreement with the Board deprived it of an opportunity to enforce its legal rights over the occupancy of its show room and also resulted in losing potential revenue year after year. The Company suffered loss of revenue of ₹ 2.32 crore¹²³ during 2013-14 to 2015-16 as compared to the average sales of previous five years (2007-12).

The Government¹²⁴ replied (September 2016) that the matter was taken up (February 2016) with the Minister for Small Scale Industries of GoK and the Government had addressed (July 2016) letter to the District Commissioner in this regard.

Statutory Corporations

Karnataka State Road Transport Corporation and Bangalore Metropolitan Transport Corporation

3.14. Functioning of Workshops

KSRTC and BMTC failed to produce new buses as planned as the existing production capacity of Regional Workshops was not sufficient to meet the stipulated targets. The purchase orders for procuring chassis were initiated after commencement of the financial year contributing to shortfall in production of new buses. The Corporations had also failed to undertake repair and reconditioning within the prescribed time, which resulted in cancellation of scheduled kilometres and consequent loss of contribution of ₹ 85.70 crore during 2011-12 to 2015-16.

Introduction

3.14.1. In Karnataka, four Road Transport Corporations viz., Karnataka State Road Transport Corporation (KSRTC), North Western Karnataka Road Transport Corporation (NWKRTC), North Eastern Karnataka Road Transport Corporation (NEKRTC) and Bangalore Metropolitan Transport Corporation

¹²³ The actual sales recorded during 2013-14 (₹ 1.30 crore), 2014-15 (₹ 1.57 crore) and 2015-16 (₹ 1.38 crore) have been deducted from the average annual sale during 2007-12 (₹ 2.19 crore).

¹²⁴ Secretary to the Government of Karnataka, Commerce and Industries Department.

(BMTC) were set up under the provisions of Road Transport Corporation Act, 1950.

KSRTC, NWKRTC and NEKRTC provide public transport in Southern, North Western and North Eastern parts of the State respectively, while BMTC provides transport service for urban, sub-urban and rural areas of Bengaluru city.

Organisational setup

3.14.2. The Corporations come under the overall administrative control of the Transport Department of the Government of Karnataka (GoK). The affairs of each of the Corporations are managed by the Board of Directors appointed by the GoK. The Managing Directors, who assist the Board of Directors, look after the day-to-day administrative matters. The Regional Workshops (RWS) are headed by the Works Managers assisted by the Deputy Works Managers. The Divisional and Depot Workshops are managed by the Assistant Mechanical Engineers and Managers respectively.

Operations

3.14.3. The Corporations operate on three-tier system *viz.* Central Offices, Divisions and Depots. Besides, Regional Workshops/Central Workshops were set up for new bus body construction, reconditioning of engines, major accident repairs and disposal of scrap. The workshops at Divisions and Depots carry out heavy bus body and minor repairs, fitness renewal, reconditioning of assemblies other than engines, tyre retreading and periodical preventive maintenance works.

The Workshops function within the ambit of Technical Manual 2003 issued by KSRTC, which prescribes norms for various activities of the Workshops including duties and responsibilities of the staff concerned. The Stores and Purchase Manual 2003 of the Corporations also prescribe procedures and practices to be followed by the Workshops including maintenance of records.

Audit Objective

3.14.4. The Audit Objective was to assess whether the workshops were functioning as per the provisions of the Technical Manual and other prescribed manuals and whether the instructions issued by the competent authority from time to time were complied with.

Audit Criteria

3.14.5. The following sources of criteria were adopted for assessing the Audit findings:

- Technical Manual 2003 and Stores and Purchase Manual 2003;
- Technical specifications and other operational norms issued by the Corporations and
- Guidelines, circulars, instructions and orders issued by GoK and the Corporations from time to time.

Audit scope and methodology

3.14.6. As of 31 March 2016, KSRTC was operating two RWS viz. RWS, Kengeri and RWS, Hassan, which were involved in new bus body building and major accident repairs. BMTC was operating two Central Workshops (CWS) viz. CWS-1 involved in new body building, reconditioning of engines, radiators, etc. and CWS-2 involved in repairs and reconditioning of minor parts.

KSRTC being the controlling Corporation and BMTC being different¹²⁵ from the other three corporations were selected for detailed Audit. The two RWS of KSRTC and two CWS of BMTC¹²⁶, four out of 14 Divisional Workshops¹²⁷ of KSRTC and 12 out of 118 Depot Workshops¹²⁸ were selected for detailed Audit. The transactions related to the period 2011-12 to 2015-16 were covered in Audit.

Audit Findings

Production of new buses

3.14.7. As prescribed in the Technical Manual (Clause 1.1 of Part A), the requirement for new buses was planned every year based on two factors, viz. augmentation of schedules (trips) and replacement of aged buses. The new buses so planned were produced partially in-house at the RWS in case of KSRTC and the CWS-1 in case of BMTC. The remaining requirement of buses was met by outsourcing the construction of new buses and purchasing ready built buses. Audit observations on production of new buses are detailed in Paragraphs 3.14.8 and 3.14.9.

3.14.8. Audit scrutiny revealed that KSRTC had planned to produce 3,377 buses during 2011-12 to 2015-16 by way of both in-house production and outsourcing. The planned and actual buses produced are detailed below:

Table No.3.14.1: Details of planned and actual buses built in KSRTC

| Year | Planned number of new buses | | | Actual buses built | | | Overall shortfall (Nos) | Cancellation of scheduled km. (lakh) |
|--------------|-----------------------------|-------------|----------------|--------------------|-------------|----------------|-------------------------|--------------------------------------|
| | RWS, Kengeri | RWS, Hassan | Outsource | RWS, Kengeri | RWS, Hassan | Outsource | | |
| 2011-12 | 300 | 193 | 397 | 306 | 157 | 182 | 245 | 11.56 |
| 2012-13 | 275 | 191 | 378 | 246 | 134 | 178 | 286 | 17.92 |
| 2013-14 | 316 | 171 | 352 | 225 | 117 | 71 | 426 | 22.99 |
| 2014-15 | 220 | 144 | 255 | 220 | 75 | 146 | 178 | 24.83 |
| 2015-16 | 136 | 49 | Not outsourced | 127 | 49 | Not outsourced | 9 | 25.46 |
| Total | 1,247 | 748 | 1,382 | 1,124 | 532 | 577 | 1,144 | 102.76 |

(Source: Performance Appraisal Reports of the Corporation)

¹²⁵ BMTC operations were restricted to Bengaluru city and its urban agglomeration, while other Corporations including KSRTC operated intra and inter-state.

¹²⁶ Regional Workshop, Kengeri and Regional Workshop, Hassan of KSRTC; Central Workshop-1 and Central Workshop-2 of BMTC (100 per cent selection).

¹²⁷ Tumukuru, Davanagere, Mysuru Urban and Ramanagara of KSRTC (25 per cent selection). No divisional workshops were in operation in BMTC.

¹²⁸ Tumukuru-1, Turuvekere, Davanagere-1, Harihara, Bannimantapa, Sattagalli, Channapatna, and Kanakapura of KSRTC; Depot No.2, 3, 8 and 22 of BMTC (10 per cent selection).

Against the planned number of 3,377 buses, the Corporation could produce only 2,233 buses (66 *per cent* of planned). Given its existing capacity, RWS, Hassan could produce a maximum of 157 buses per annum without repairs and reconditioning. Thus the existing production capacity of RWS was insufficient to meet the stipulated targets during 2011-12 to 2013-14. Failure to induct new buses resulted in cancellation of 102.76 lakh kilometres during 2011-12 to 2015-16 and resultant loss of contribution of ₹ 9.78 crore¹²⁹

The Government replied (December 2016) that KSRTC had slowed down the induction of new buses in view of the modified scrapping policy (7.5 lakh kilometres to 9 lakh kilometres) and in place of new vehicles, the workshops were asked to take up the heavy body repairs and accident repairs of the vehicles.

The Government's reply is not acceptable because even the reduced targets of 2014-15 and 2015-16 were not met by the Corporation. The decision of KSRTC to slow down the production of new buses may need rethinking as the corporation had to cancel 102.76 lakh scheduled kilometres for want of vehicles which had resulted in loss of contribution of ₹ 9.78 crore during 2011-12 to 2015-16.

3.14.9. The details of planned and actual buses built/purchased by BMTC during 2011-16 are given in the table below:

Table No. 3.14.2: Planned and actual buses built/purchased by BMTC

| Year | Planned | Achievement | | | |
|--------------|--------------|-------------------|------------|--------------|--------------|
| | | In-house | Outsource | Purchase | Total |
| 2011-12 | 825 | 23 | Nil | 366 | 389 |
| 2012-13 | 854 | 172 | 240 | 133 | 545 |
| 2013-14 | 825 | 91 ¹³⁰ | 211 | 539 | 841 |
| 2014-15 | 204 | Nil | 65 | 129 | 194 |
| 2015-16 | 658 | Nil | Nil | Nil | Nil |
| Total | 3,366 | 286 | 516 | 1,167 | 1,969 |

(Source: Information as furnished by the Corporation)

Audit analysis revealed the following:

- CWS-1 could produce new buses as planned during 2013-14 and 2014-15 but there was a shortfall to the extent of 53 *per cent* in 2011-12 and 36 *per cent* in 2012-13. Further, no new bus body construction was taken up in 2015-16 despite fixing of a target of 658 buses.
- Though the Corporation had 'Nil' stock of chassis at the beginning of every financial year from 2011-12 to 2015-16, purchase orders (POs) for chassis were placed much after commencement of the financial year during 2011-12 to 2015-16 as detailed below:

¹²⁹ Corporations, being in service industry, should have recovered at least contribution for its sustenance and hence audit comment is restricted to loss of contribution. Contribution is arrived at by reducing variable cost from the total operational revenue during the respective years. 2011-12: revenue per km.-₹ 22.82, variable cost per km.-₹ 15.10; 2012-13: revenue per km.-₹ 24.61, variable cost per km.-₹ 16.41; 2013-14: revenue per km.-₹ 26.39, variable cost per km.-₹ 18.33; 2014-15: revenue per km.-₹ 28.75, variable cost per km.-₹ 18.98; 2015-16: revenue per km.-₹ 28.69, variable cost per km.-₹ 16.95.

¹³⁰ BMTC took a decision in September 2013 not to undertake construction of new buses at CWS-1 due to insufficient man power. The available man power was devoted for repair and reconditioning.

Table No. 3.14.3: Purchase orders placed against planned new buses in BMTC

| Year | Planned new buses | POs placed | Date of POs |
|---------|-------------------|------------|---|
| 2011-12 | 825 | 675 | December 2011/January 2012 |
| 2012-13 | 854 | 630 | September 2012/November 2012/ January 2013 |
| 2013-14 | 825 | 550 | July 2013/September 2013/ November 2013/ March 2014 |
| 2014-15 | 204 | 38 | July 2014 |
| 2015-16 | 658 | 10 | July 2016 |

(Source: Information as furnished by the Corporation)

Thus, BMTC failed to procure adequate number of chassis well in time which badly affected the production of new buses.

- In 2011-12 the supplier (TATA Motors) did not supply chassis citing manufacturing problems. 112 of 675 chassis were supplied during 2012-13 and the balance in 2013-14. The short supply of chassis had resulted in shortfall in production of new buses and consequently scheduled kilometres to the extent of 22.08 lakh and 19.51 lakh kilometres were cancelled during 2011-12 and 2012-13 respectively.
- In 2015-16, BMTC initiated tenders for procuring chassis only in May 2015. This tender was withdrawn later (July 2015) because of a decision of KSRTC to place orders for both KSRTC and BMTC together. But KSRTC later backed out (January 2016) and intimated BMTC to procure on its own. Hence, BMTC placed purchase order for procuring 158 chassis on V.E.Commercial Vehicles Limited only in July 2016. Eventually, there was no procurement of chassis during 2015-16 as a result of which the production of new buses had come to a standstill. As a result, BMTC had to cancel the scheduled kilometres to the extent of 81.19 lakh kilometres, which was an increase in cancellations by 250 per cent over the previous year (23.18 lakh kilometres).
- The details of cancelled kilometres on account of lack of sufficient buses in BMTC and consequent loss of contribution during 2011-12 to 2015-16 are given below:

Table No. 3.14.4: Details of cancelled kilometres and loss of contribution in BMTC

| Year | Cancelled kilometers (lakh km.) | Revenue per km. (₹) | Variable cost per km. (₹) | Contribution loss ¹³¹ (₹ crore) |
|--------------|---------------------------------|---------------------|---------------------------|--|
| 2011-12 | 22.08 | 30.04 | 17.57 | 2.75 |
| 2012-13 | 19.51 | 32.93 | 19.63 | 2.59 |
| 2013-14 | 7.92 | 36.39 | 22.64 | 1.09 |
| 2014-15 | 23.18 | 42.43 | 23.95 | 4.28 |
| 2015-16 | 81.19 | 42.90 | 21.13 | 17.68 |
| Total | 153.88 | | | 28.39 |

(Source: Performance Appraisal Reports of the Corporation)

¹³¹ Contribution is arrived at by reducing variable cost from the total operational revenue during the respective years.

Thus, the cancellation of scheduled kilometres because of non-induction of new buses had resulted in loss of contribution to the extent of ₹ 28.39 crore during 2011-12 to 2015-16.

The Government in its reply (December 2016), while confirming the audit observations, stated that BMTC could not procure chassis during 2011-12 and 2012-13 as planned due to non-supply by the manufacturer. During 2015-16, as the decision to procure chassis together by KSRTC and BMTC did not fructify, BMTC placed orders on its own in July 2016.

The fact remained that BMTC had to cancel 153.88 lakh scheduled kilometres during 2011-12 to 2015-16 on account of non-induction of new buses as planned due to its failure to make available the required chassis on time to ensure construction of buses as per stipulated targets. This caused a loss of contribution of ₹ 28.39 crore. In addition, non-induction of new buses resulted in increase in maintenance cost of over-aged buses as commented upon in Paragraph 3.14.10.

Operation of over-aged buses

3.14.10. As per the policy in vogue in BMTC, buses were to be declared scrap after running 8 lakh kilometres which was revised to 8.5 lakh kilometres with effect from September 2015. Operations beyond this distance were considered uneconomical as this would result in increased maintenance expenditure.

Audit scrutiny revealed that BMTC had resorted to operating of over-aged buses *i.e.* beyond the stipulated 8.5 lakh kilometres consequent to non-induction of new buses as shown in the table below. The corporation had deferred scrapping buses every year and during the period 2011-12 to 2015-16, only 1,502 buses had been scrapped against the 2,131 planned.

Table No. 3.14.5: Number of over-aged buses operated by BMTC

| Kilometers run (in lakh) | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|-----------------------------|-----------------|------------|------------|------------|------------|
| | Number of buses | | | | |
| 8 to 8.5 | 128 | 113 | 270 | 276 | Nil |
| 8.5 to 9.5 | 178 | 102 | 168 | 204 | 499 |
| 9.5 to 10.5 | 210 | 32 | 57 | 28 | 116 |
| 10.5 to 11.5 | 72 | 22 | 23 | Nil | 17 |
| >11.5 | 14 | 14 | 19 | Nil | Nil |
| Total | 602 | 283 | 537 | 508 | 632 |

(Source: MIS data of BMTC)

It was also observed that there was an increase in maintenance expenditure especially on auto parts consumption, reconditioning of vehicles and lubricant consumption during 2011-12 to 2015-16 despite there being no significant increase in fleet strength¹³² as detailed below:

Table No. 3.14.6: Increase in cost on stores consumption during 2011-16 in BMTC

| Sl. No. | Items | 2011-12 (₹ crore) | 2015-16 (₹ crore) | Percentage increase in cost |
|---------|-------------------------|----------------------|----------------------|--------------------------------|
| 1 | Auto part consumption | 32.15 | 64.20 | 100 |
| 2 | Lubricant consumption | 8.63 | 13.09 | 52 |
| 3 | Recondition of vehicles | 13.31 | 18.22 | 37 |

(Source: Information furnished by BMTC)

¹³² 2011-12: 6,131; 2012-13: 6,425; 2013-14: 6,695; 2014-15: 6,522; 2015-16: 6,401

One of the reasons for the increase in maintenance expenditure was operation of over-aged buses.

The Government in its reply (December 2016) accepted the audit observation stating that there was a gradual increase in the average age of the fleet from 4.99 years in 2011-12 to 6.9 years in 2015-16 due to non-availability of new buses. It also admitted that there was increase in the breakdowns due to the increased average age of the vehicles.

Delay in carrying out reconditioning and repairs

3.14.11. As per the Stores and Purchase Manual (Clause 22 of Part III of Chapter 3), the Stores Officer/Assistant Stores Officer concerned is responsible for maintaining proper inventory levels and monitoring supplies to ensure that no vehicle is kept off-road for want of spares and assemblies. Further, as per the circular instructions issued (May 2008) by KSRTC, a maximum of 20 days were allowed for heavy bus body repairs, while no norms were fixed by BMTC.

A test check of reconditioning and repairs of assemblies at CWS-1 and CWS-2 of BMTC, accident and heavy bus body repairs and minor repairs carried out at Divisional workshops of KSRTC revealed that there were significant delays in reconditioning and repairs as detailed below:

Table No. 3.14.7: Cases of delays on reconditioning/repairs in excess of norms

| Sl. No. | Workshops | Total test checked cases | Total cases delayed | 21 to 50 days | 51 days and above |
|---------|---------------------|--------------------------|---------------------|---------------|-------------------|
| 1 | CWS-1 | 44,477 | 11,471 | 6,245 | 5,226 |
| 2 | CWS-2 | 5,781 | 248 | 231 | 17 |
| 3 | Tumakuru Division | 336 | 74 | 63 | 11 |
| 4 | Ramanagara Division | 568 | 229 | 181 | 48 |
| 5 | Davanagere Division | 159 | 102 | 83 | 19 |
| 6 | Mysore Division | 145 | 29 | 28 | 1 |
| | Total | 51,466 | 12,153 | 6,831 | 5,322 |

(Source: MIS data of BMTC and KSRTC)

Audit scrutiny revealed that the reason for the delays was delay in placing purchase orders in KSRTC and BMTC. For procuring material, there was a defined consumption period for each item and KSRTC placed orders for material centrally for both KSRTC and BMTC for each consumption period. The details of purchase orders placed for Brake linings, Clutch facings with rivets and Hubs and brake drums during 2011-12 to 2015-16 were as follows:

Table No. 3.14.8: Dates of Purchase orders against the consumption period in KSRTC and BMTC

| Consumption period | Date of purchase order for Brake linings, Clutch facings with rivets | Date of purchase order for Hubs and brake drums |
|------------------------|--|---|
| July 2011 to June 2012 | July 2011/September 2011 | February 2012 |
| July 2012 to June 2013 | January 2013 | January 2013 |
| July 2013 to June 2014 | April 2014 | Nil |
| July 2014 to June 2015 | June 2015 | November 2014 |
| July 2015 to June 2016 | April 2016 | January 2016 |

(Source: Information as furnished by the Corporation)

It can be seen that the purchase orders were placed almost at the end of the respective consumption period in all the years except in 2011-12 in respect of Brake linings and Clutch facings with rivets. Similarly, in respect of Hubs and brake drums, the purchase orders were placed around the middle of the consumption period.

As a result of the delay in attending to repairs, the Corporations had to cancel 352.26 lakh scheduled kilometres during the period 2011-12 to 2015-16 leading to loss of contribution of ₹ 47.53 crore as detailed in Table No.3.14.9:

Table No. 3.14.9: Loss of contribution due to cancellation of scheduled kilometres in KSRTC and BMTC

| Year | Cancelled km. (lakh) | | Contribution per km. (₹) | | Loss of contribution (₹ in crore) | |
|--------------|----------------------|---------------|--------------------------|-------|-----------------------------------|--------------|
| | KSRTC | BMTC | KSRTC | BMTC | KSRTC | BMTC |
| 2011-12 | 28.39 | 16.64 | 7.72 | 12.47 | 2.19 | 2.07 |
| 2012-13 | 29.64 | 35.36 | 8.20 | 13.30 | 2.43 | 4.70 |
| 2013-14 | 35.97 | 35.33 | 8.06 | 13.75 | 2.90 | 4.86 |
| 2014-15 | 34.74 | 46.79 | 9.77 | 18.48 | 3.39 | 8.65 |
| 2015-16 | 33.19 | 56.21 | 12.34 | 21.77 | 4.10 | 12.24 |
| Total | 161.93 | 190.33 | | | 15.01 | 32.52 |

(Source: Performance Appraisal Reports)

The Government replied (December 2016) that vehicles in the Depots of KSRTC were not kept off-road for want of spare parts, assemblies and other materials. Renewal of Fitness Certificate, accident / heavy body repairs would take two to fifteen days depending on the nature of damages. It was also stated that the Corporation maintained spare fleet of eight *per cent* to prevent cancellation of schedules and hence there was no cancellation of schedules for want of vehicles. In case of BMTC, it was stated that the stores and purchase department maintained continuous flow of spares and assemblies to the depots and the workshops to avoid off-road buses and holding up of production. However, the supplies were hampered due to factors not in control of the stores and purchase department *viz.* delay in supply of spares required for the latest model vehicles and non-supply due to delay in release of payments to the suppliers.

The reply of the Government in case of KSRTC is contradictory to the facts available. The depots and divisions in KSRTC took more than the stipulated norm of 20 days as shown in Table No.3.14.7 as a result of which 161.93 lakh kilometres had to be cancelled during 2011-12 to 2015-16 due to non-availability of buses which were stranded at the divisions for repairs. The statement that spare fleet was maintained at eight *per cent* is factually incorrect as the data available with audit shows that the average spare fleet was 5.1 *per cent* in the eight selected depots during 2015-16. The reply that continuous flow of materials to the depots and workshops was ensured by BMTC was also not acceptable as seen from the purchase orders which were placed long after the commencement of consumption periods and the stock position was 'nil' at the time of placing the orders.

Non-categorisation of inventory

3.14.12. Categorisation¹³³ of stores inventory into A, B and C based on their consumption and maintenance of re-order levels as stipulated in the Stores and Purchases Manual (Clause 21 of Chapter 3 of Part III) and circular instructions (September 1994) were not complied with at any of the test checked Depots, Divisions and Workshops. In the absence of categorisation, there was no control system in place to maintain the required level of inventory. Audit test check of stock availability in respect of certain items during 2011-16 revealed that the indents were placed when the stock was ‘nil’ as shown in the following table.

Table No. 3.14.10: Cases where stock was ‘nil’ when indents were placed in KSRTC and BMTC

| KSRTC | Date of indent | | | | |
|--------------------------|---------------------------------|-----------------------------|-------------------------------|-------------------------------|---------------|
| Brake Linings | January 2011 to February 2011 | January 2012 to March 2012 | January 2013 to February 2013 | December 2013 to January 2014 | January 2015 |
| Air Filter | November 2011/ December 2011 | November 2012 /January 2013 | October 2013 | November 2014 | December 2015 |
| Hubs and Brake Drums | April/March 2011/ February 2012 | February 2013 | February 2014 | Nil | May 2015 |
| Spring Leaves | May 2011/March 2012 | November 2012 | November 2013 | September 2014 | May 2015 |
| Clutch and clutch parts | January 2012 | Nil | January 2014 | December 2014 | February 2016 |
| BMTC | Date of Indent | | | | |
| Brake Linings | January 2012 | January 2013 | January 2014 | January 2015 | January 2016 |
| Clutch and clutch parts | February 2011 | November 2012 | November 2013 | November 2014 | December 2015 |
| Tail assemblies | August 2011 | August 2012 | August 2013 | Nil | Nil |
| Air Cleaner Assembly (H) | November 2011 | November 2012 | November 2013 | October 2014 | Nil |
| Indicator Glass | August 2011 | August 2012 | August 2013 | Nil | Nil |

(Source: Information as furnished by the Corporation)

The Government replied (December 2016) that KSRTC had directed its Divisions and Regional Workshops to maintain the inventory level and BMTC had implemented ‘Inventory Management Software’ with facilities to track consumption of materials and categorise the same into ‘A’, ‘B’, ‘C’ groups.

Delay in preventive maintenance

3.14.13. Preventive maintenance of buses is carried out at depots to reduce cost of operation and cancellation of kilometres and reduce rate of breakdowns and

¹³³ The materials are classified in to A, B or C category based on the consumption value for a half year. The materials constituting highest consumption value are classified under ‘A’ category and lowest consumption value under ‘C’ category.

accidents due to mechanical defects. Docking¹³⁴, which is a part of preventive maintenance, should be carried out at an interval of 20,000 kilometres of running the buses (Clause 2.3 of the Technical Manual).

We observed that docking was done at the four depots¹³⁵ of BMTC long after completion of the specified distance during 2011-12 to 2015-16 as detailed in the Table No.3.14.11.

Table No. 3.14.11: Cases of delay in docking in depots of BMTC

| Docking-1 | | Docking-2 | | Docking-3 | | Docking-4 | |
|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|
| Range of km. | No of cases | Range of km. | No of cases | Range of km. | No of cases | Range of km. | No of cases |
| 20,500-22,000 | 326 | 40,500-42,000 | 347 | >60,000-62,000 | 305 | 80,000-82,000 | 339 |
| >22,000-24,000 | 131 | >42,000-44,000 | 160 | >62,000-64,000 | 144 | >82,000-84,000 | 139 |
| >24,000-26,000 | 44 | >44,000-46,000 | 50 | >64,000-66,000 | 49 | >84,000-86,000 | 38 |
| >26,000-28,000 | 12 | >46,000-48,000 | 22 | >66,000-68,000 | 24 | >86,000-88,000 | 15 |
| >28,000 | 32 | >48,000 | 13 | >68,000 | 13 | >88,000 | 12 |
| Total | 545 | | 592 | | 535 | | 543 |

(Source: Docking Registers maintained at Depots of BMTC)

Similar delays in docking were noticed in six depots of KSRTC, the number of such cases ranging between 351 and 867 during 2011-12 to 2015-16.

Delay in docking may reduce operational fitness of vehicles and increase the likelihood of breakdowns and accidents apart from rising maintenance cost. Since the Corporations are operating over-aged buses (refer Paragraph 3.14.10), the provision for docking must be complied with rigorously, even before the interval of 20,000 kms, so as to ensure preventive maintenance.

The Government replied (December 2016) that the delay in docking in KSRTC was due to diversion of buses for weekends and Government holidays, festival occasions and also shortage of mechanical staff in the depots. In case of BMTC the delay was attributed to shortage of mechanical staff in depots, in addition to shortage of spare vehicles in the depot for operations due to non-induction of new buses as planned.

Disposal of scrap

3.14.14. The Stores and Purchase Manual (Clause 7 of Part IV) stipulated that the scrap lots should be arranged and segregated under groups assigning lot serial number and kept in separate locations within the workshops. Also care should be taken to see that the items kept in the open yard do not deteriorate in quality due to exposure to the weather and high value items such as gear parts,

¹³⁴ Docking refers to a form of preventive maintenance programme carried out at an interval of every 20,000 kilometres of operation to render the vehicles mechanically fit for operation, to reduce the cost of operation, cancellation of km., rate of breakdowns and accidents due to mechanical defects.

¹³⁵ Depot No.2, 3, 8 and 22 of BMTC.

bearing scrap, crown wheel, non-ferrous materials, *etc.* shall be kept separately under lock and key.

On physical inspection (June 2016) of the stockyard at four test checked Divisional workshops of KSRTC, we observed the following discrepancies at Ramnagar and Mysore Divisional Workshops:

- Materials were not segregated, instead all the materials *i.e.* Mild Steel Scrap, Rubber Scrap, Brake liners, Scrap Gear motors, Aluminium beading, Scrap Tubes, Scrap starter pinions, Tyres, *etc.* were kept together.



Chart No. 3.14.1: Photo dated June 2016 at Ramnagar Divisional workshop showing scattered scrap

- None of the scraps bore a serial number of the lot.
- Items were kept in open space allowing room for further deterioration.
- Released engine oil was stored in 210 litre barrels for auction and the barrels were kept in the open without any seal.
- High value items like gear parts, pinion, non-ferrous materials, *etc.* were not kept separately under lock and key.

Because of non-compliance to the manual provisions, the Divisions had no control on the quantity of scrap available and its value at a given point of time. This may lead to misappropriation of valuable scrap materials.

The Government replied (December 2016) that in case of Ramnagar Division corrective action had been taken to segregate the scrap and assign lot numbers. The released engine oil was also kept in closed cap condition. Reply is silent in respect of Mysore division.

Conclusion

We conclude that:

KSRTC and BMTC failed to meet production targets for new buses due to lack of planning since the existing production capacity of Regional Workshops was not sufficient. BMTC failed to ensure availability of

chassis for production of new buses contributing to shortfall in production. The Corporations had also failed to undertake repair and reconditioning within the prescribed time, which resulted in cancellation of scheduled kilometres and consequent loss of contribution of ₹ 85.70 crore (Paragraphs 3.14.8, 3.14.9, 3.14.11) during 2011-12 to 2015-16.

Recommendations

We recommend that in order to prevent cancellation of scheduled kilometres, operation of over-aged buses and loss of revenue, the Corporations may ensure that:

1. Annual production targets for new buses are fixed on the basis of the capacity of the Regional Workshops;
2. Chassis are made available to the workshops well in time and in adequate numbers;
3. Preventive maintenance and inventory management are strengthened.

Bengaluru
The



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