

Chapter - VI

6. Compliance Audit Observations on PSUs (other than Power Sector)

Important findings emerging from audit that highlight deficiencies in planning, investment and activities of the Management in the State Government Companies and Statutory Corporations (other than Power Sector) are included in this Chapter. These include observations on unproductive investment, undue favours to contractors, avoidable/unfruitful expenditure, avoidable loss, irregular diversion of grants and cases where the intended objectives of the projects were not achieved.

Purchase and utilisation of land and buildings

6.1. Out of 16 PSUs and one Transport Corporation audited during 2017-18, four PSUs under the administrative control of the Department of Industries and Commerce and one Corporation under the Transport Department, Government of Karnataka have either purchased land for construction of buildings for administrative purposes or decided to lease out the existing premises to earn rental income. Audit scrutiny of these transactions related to the period 2011-12 to 2017-18 revealed certain systemic deficiencies and lapses in decision-making, *viz.* purchase of unsuitable land, construction of building without complying with the statutory laws, non-utilisation of building for the intended purpose, *etc* rendering the investment of ₹ 26.80 crore¹²⁸ unproductive/idle and loss of revenue to the tune of ₹ 5.73 crore¹²⁹ as discussed in *Paragraphs 6.1.1 to 6.1.5.*

Karnataka State Minerals Corporation Limited (Formerly known as Mysore Minerals Limited)

6.1.1. Blocking up of funds due to erroneous selection of land

The Company acquired land for construction of its Corporate office without verifying its suitability resulting in blocking up of funds of ₹ 16.32 crore.

The Karnataka State Minerals Corporation Limited (the Company) approached the Government of Karnataka (GoK) in October 2011 for sanction of land in Rajajinagar Industrial Suburb, Bengaluru belonging to the Public Works Department (PWD) for construction of its Corporate Office. GoK approved (November 2012), the sale of the land measuring 21,780 square feet. As per the Government Order (November 2012), the Company paid (January 2013) ₹ 15.86 crore, being the guidance value of the land, to the PWD.

¹²⁸ Paragraph No. 6.1.1, 6.1.3, 6.1.4 and 6.1.5

¹²⁹ Paragraph No.6.1.2

While measuring the land in December 2013, the Company noticed the existence of a Storm Water Drain almost in the middle of the land, which would obstruct construction of the building. Hence, the Company requested (December 2013) PWD for diversion of the Storm Water Drain. Even before the PWD responded to the Company's request, the Company executed (June 2014) the sale deed with PWD registering the transfer of Title of the land to the Company. The expenditure incurred on registration and other charges amounted to ₹ 46 lakh¹³⁰.

With no action forthcoming from the PWD on the Company's request (December 2013) for diversion of the Storm Water Drain, the Company sought (October 2016) from the PWD, land equivalent to the area covered by the drain (including setback), behind the existing land, so that the building could be constructed as per rules. The PWD replied (November 2016) that there was no suitable land of equivalent area available with it in the area adjacent to the land allotted and being the owner of the site, the Company could approach the authorities concerned for remedy.

When the Company approached (April 2017) the Bruhat Bengaluru Mahanagara Palike (BBMP)¹³¹, the BBMP directed (June 2017) the Company to approach the Government. The Company approached (July 2017) the Deputy Commissioner, Bengaluru North District, seeking approval for diversion of the Storm Water Drain, which is yet to be received (June 2018). The Company was also not able to get either an alternative land or refund from the PWD so far (June 2018).

Audit observed that the Company:

- Identified the land without examining its suitability for construction before submitting its request to the GoK for sanction / approval to purchase it; and
- Registered the land in June 2014 without resolving the issue of shifting the Storm Water Drain, despite knowing that it would obstruct the construction of the Corporate Office building.

As a result, in spite of paying ₹ 16.32 crore¹³² towards purchase of land, the Company is unable to construct its own building on it till date (July 2018). In the interim period (June 2014 to July 2018), the Company paid ₹ 1.89 crore as rent for its Corporate Office.

The Government forwarded (November 2018) reply of the Company (August 2018) in which it was informed that the PWD had attempted (July 2015) to divert the Storm Water Drain, but the work was stopped after a complaint was filed with the Lokayuktha against the diversion.

¹³⁰ Stamp duty for registration: ₹ 44.40 lakh and *Khatha* (title) charges: ₹ 0.89 lakh. In addition, the Company has paid property tax (for each year from 2014-15 to 2017-18) totalling ₹ 0.71 lakh during the course of time.

¹³¹ The administrative body responsible for the civic and infrastructural assets of Bengaluru Metropolitan area.

¹³² ₹ 15.86 crore for purchase of land *plus* ₹ 46 lakh for registration and other expenses.

The reply is silent on the reasons for failing to exercise rudimentary checks normally exercised by any buyer of land, before selecting and registering the land. Also, when the Company had sought (October/November 2016) administrative approval for construction of the building on the plot from its Administrative Department, *i.e.* the Commerce and Industries (C&I) Department, the C&I Department objected (August 2017) to the purchase of the site without verifying its physical condition, sought an explanation and instructed the Company to get alternative land or refund from the PWD. The Company did not get alternative land, nor received refund nor got approval for diversion of the Storm Water Drain (July 2018). The Company is also yet to submit the explanation/report sought by the Government (July 2018).

With no remedy in sight, the amount of ₹ 16.32 crore spent on the purchase of land remained unfruitful. The objective of having its own building for its Corporate Office remained unfulfilled and the Company continues to pay rent for the Corporate office (July 2018).

Mysore Sales International Limited

6.1.2. Loss of rental revenue

Cancellation of the lease agreement based on the decision of the Board of Directors of the Company without establishing that the Company's interest was seriously affected, resulted in loss of revenue of ₹ 5.73 crore.

The Board of Directors (BoD) of Mysore Sales International Limited (the Company) authorised (September 2012) the Managing Director to invite Expression of Interest (EoI) for leasing out the premises at Bangalore Air Cargo Complex (BACC), Bengaluru measuring about 89,888 square feet (sq. ft.).

The EoI was invited in October 2012 and in response, M/s. Pearl Port & Warehousing Private Limited (the Lessee) quoted rent of ₹ 7.75¹³³ lakh per month for the entire premises. After negotiations during December 2012, the rent agreed was ₹ 8.68 lakh per month with a 25 *per cent* increase every three years with the lease period being 15 years. These were approved by the Managing Director on the 27 December 2012. The GM (Paper & Legal), on behalf of the Company, entered into the lease agreement with the Lessee on 29 December 2012.

The subject matter was placed before the Board of Directors (BoD) of the Company (2 January 2013) mentioning the terms and conditions of the proposed lease. The Chairman of the Board of Directors (BoD), then desired to visit the BACC premises before taking a decision. After visiting the premises, the Chairman sent his report (31 January 2013) to the Managing Director. The Report *inter alia* stated that leasing out the premises for a long duration was not reasonable as the property was located in the heart of the city, and an agreement had already been entered with the Lessee on 29 December

¹³³ Different rates were quoted for old cargo building, import cargo building and other buildings.

2012 before it was brought to the notice of the Board on 2 January 2013. The Report of the Chairman was placed before the BoD in the next meeting (March 2013), where the subject of leasing out the premises was discussed and ‘deferred’.

The BoD in the meeting held in October 2013 directed to cancel the agreement already signed with the Lessee, as the lease period of 15 years was considered to be very long. The Company terminated the agreement with the Lessee in October 2013. Aggrieved by this decision, the Lessee filed a Writ Petition before the Hon’ble High Court of Karnataka and obtained a stay order (November 2013), which restrained the Company from creating third party rights on the property. The BoD directed (June 2014) to lease out the premises to the Lessee at a revised rate of ₹ 13.07 lakh¹³⁴ per month. But the Company did not hold any negotiations.

The High Court disposed off (August 2016) the case directing the parties to settle the matter through arbitration. While the Arbitration proceedings were under way, the BoD resolved (February 2018) to enter into a mutual settlement with the Lessee citing financial burden due to non-utilisation of the premises. Accordingly, a Joint Memo was filed (March 2018) before the Arbitration Tribunal by both the parties (Company and Lessee) for settlement of the dispute wherein the Lessee agreed for rent of 10 *per cent* over and above the earlier agreed rates (*i.e.* ₹ 8.68 lakh) with other terms and conditions remaining unchanged.

The Company entered (March 2018) into a new lease agreement with the Lessee with similar terms and conditions of the earlier agreement (December 2012), entered more than five years ago.

Audit observed that:

- The Board had authorised the Managing Director to invite EoI in September 2012 at which point the lease period to be offered was not discussed. As per delegation of powers (1985), the MD had full powers for fixing rent though it is silent about the tenure. Therefore, the action of the BoD to cancel the agreement in October 2013, by reasoning that (i) it did not have the approval of the Board, (ii) lease period of 15 years was a long duration, was not in the best interest of the Company; and
- As per the initial agreement (December 2012), the Company would have been eligible for a 25 *per cent* increase in rent in three years’ time (December 2015). Yet, after more than five years (March 2018), the BoD accepted a 10 *per cent* increase in rent over the rates agreed in 2012, with the lease period continuing to remain at 15 years. The decision to terminate the agreement of December 2012 was not in the interest of the Company, as the Company lost revenue for five years by that action. The

¹³⁴ Based on the valuation (May 2014) done by approved valuers.

loss of revenue for the period December 2012 to March 2018 was ₹ 5.73¹³⁵ crore.

The Government forwarded (January 2019) the reply of the Company and stated that the BoD did not approve the agreement entered by the Company and hence it was terminated. It was also stated that there was a stay by the High Court directing not to create any third party right and hence the premises could not be let out. The Company entered into agreement with M/s. Pearl Port & Warehousing Private Limited on 28 March 2018 after withdrawing the arbitration case through a joint memo filed before arbitrator. Further it was stated that increase in the rent at 10 *per cent* was fixed as per the terms and conditions laid down during arbitration.

The reply is silent as to (a) why an agreement was entered into before approval of Board, in case it was required, (b) the reasons for not negotiating with the Lessee as directed by BoD in June 2014, and (c) the need to re-enter into an agreement with the same lease period of 15 years, five years after its termination on grounds of the lease period being too long, without any material alteration of facts on the ground. (d) Fixation of rent with increase of 10 *per cent* was the outcome of unwarranted cancellation of initial agreement in October 2013, by which the Company lost the benefit of increase of rent by 25 *per cent* in three years' time.

Audit also observed a flaw in the lease rent fixed in the revised agreement entered in March 2018 by which the Company stood to lose revenue of ₹ 2.24 crore. After the Audit observation, the Company rectified the lease rent and entered in to an amended Lease Agreement in June 2018.

Karnataka Silk Industries Corporation Limited

6.1.3. Non-utilisation of building for the intended purpose

The Company failed to locate its modern showrooms, art gallery and showrooms of other leading State PSUs in the building constructed at a cost of ₹ 2.62 crore.

The Board of Directors of the Karnataka Silk Industries Corporation Limited (the Company) approved (June 2010) a proposal for construction of a Centenary Building (on its Silk Weaving Factory premises at Mysuru) as part of the celebration of the centenary year of its formation. As per the proposal, the Centenary Building was to house a large and modern showroom of the Company, an art gallery and cafeteria, apart from having provision for showrooms of other leading State Government Undertakings¹³⁶.

¹³⁵ Rent at ₹ 8.68 lakh per month for 36 months (excluding moratorium period of three months) from April 2013 to March 2016 *plus* Rent at ₹10.85 lakh per month for 24 months from April 2016 to March 2018.

¹³⁶ Karnataka Handicrafts Development Corporation Limited, Karnataka Soaps and Detergents Limited, Dr. Babu Jagjivan Ram Leather Industries Corporation Limited, *etc.*

The proposal was sent (June 2010) to the Government. The Government approved the construction of the Centenary Building in March 2011. Thereafter, the Company constructed (November 2013) the Centenary Building at a cost of ₹ 2.62 crore. The Government gave a grant of ₹ 2 crore while the remaining amount of ₹ 0.62 crore was borne by the Company. The Centenary Building was inaugurated in November 2013.

In the meeting held by the Board of Directors (BoD) in December 2013, it was noted that the proposal to shift the existing showroom to the Centenary Building was not advisable. The BoD also noted that the existing showroom, situated adjacent to the factory premises and located at the entrance of the main gate had established its own identity and reputation as a heritage building and tourist place. Any action to shift the showroom to the Centenary Building, located about 200 metres away from the factory, could result in drop in sales. The BoD, therefore, decided (December 2013) to rent out the Centenary Building without any effort to accommodate a modern showroom, an art gallery, *etc.* as envisaged in the proposal submitted to the Government.

The Company made an attempt (September 2014) to rent out its building to the Office of Commissioner of Central Excise, Customs and Service Tax (CCE), which did not materialise as the CCE backed out subsequently (February 2015). The Company did not make any efforts to let out the space in the Centenary Building thereafter.

The Government forwarded (February 2019) the reply of the Company stating that the building was presently utilised to stock raw material and finished goods and conduct trainings. It was also stated that the remaining vacant portion will be utilised for storage and other requirements after commencement of commercial production of second unit. Thus, there was no effort on the part of the Company to house a modern showroom, art gallery and showrooms of other leading PSUs in the Centenary Building, which was the express purpose for which it was constructed. The decision of the BoD (in December 2013) to rent out the Centenary Building has also not been implemented till date (October 2018).

Karnataka State Handicrafts Development Corporation Limited

6.1.4. Unproductive expenditure

Decision to take unsuitable land on lease resulted in the lease rent of ₹ 0.94 crore remaining unproductive, besides non-achievement of the objective of expanding the developmental activities of the Company.

The Karnataka State Handicrafts Development Corporation Limited (the Company) was established in 1964 with the main objective to preserve, develop and promote handicrafts.

The Company requested (July 2005) the Bangalore Development Authority¹³⁷ (BDA) for allotment of a suitable site to enable it to reach out to its customers in all parts of Bengaluru and also for establishing new showrooms in the BDA Layouts. The Company, identified a Civic Amenity¹³⁸ site (95 metres x 50.70 metres) at HSR Layout (BDA Layout) of Bengaluru. The site was suitable for establishing showroom, Office, Handicrafts Design Development Centre, Artisans Training Centre *etc.*

In response to its request, the BDA allotted (October 2006) the site at HSR Layout to the Company. But as the allotted site was subject to litigation (it was earmarked for a park), the Company requested (July 2008) the BDA to allot an alternative site in same layout.

The BDA allotted (November 2009) another site measuring 4,464 sq. mtrs at Banashankari, Bengaluru. The Board of Directors (BoD) of the Company in their meeting held in December 2009 noted that the site at Banashankari was in a low-lying area and its development would take some time, as it was a new Layout. Further, as it was located outside the city centre, it was not conducive for establishing a commercial complex for activities, like a showroom. The BoD, however, decided (December 2009) to take possession of the site allotted as it could be used for construction of a craft complex and training centre.

The Company entered (January 2011) into a lease agreement with the BDA, valid for a period of 30 years, with the upfront payment of the entire lease amount of ₹ 0.94 crore. The possession of the site was obtained in March 2011. The lease agreement stipulated that the Company was to start construction activities within six months and complete them within two years from the date of the lease agreement, failing which the lease would be cancelled.

Audit observed that after the possession of the site in March 2011, no action was initiated for construction of the craft complex and training centre from 2011 to 2015.

In February 2015, the then incumbent Managing Director (MD) informed the BDA that the site allotted at Banashankari was 20 kilometres away from the Corporate Office and would pose difficulties to artisans to commute and also sell their products. The MD, therefore, requested the BDA for allotment of an alternative site at other locations¹³⁹. The BDA communicated (September 2015) that sites were not available in the areas sought for by the Company.

The BoD, though it discussed (March 2016) the subject, did not decide on the surrender of the site, but directed the Company to pursue with the BDA for alternative sites in other newly developed layouts. Meanwhile, the BDA issued a notice (June 2016) informing that there was a violation of the lease

¹³⁷ Civic Body entrusted with the task of development of Bengaluru City.

¹³⁸ Civic Amenity as per BDA Act, includes market, post office, hospital, recreation centres, police stations, centre for educational, religious or cultural activities *etc.*, or such other amenity as Government may specify.

¹³⁹ Indiranagar, Chandra Layout, Jayanagar, Majestic and Other locations *en route* to the New International Airport.

agreement as construction was not undertaken on the allotted land. In response to the notice and based on the directions of the BoD, the Company approached (July 2016/March 2017) the BDA again for allotment of a new site. No allotment has been received till April 2018.

The Government furnished (September 2018) a reply reiterating the facts that the action initiated by the Company was in the best interest of the organisation if the new showroom at HSR Layout had materialised. But due to litigation and the subsequent allotment of alternative site in Banashankari by BDA, the Company was left with no other option but to request for allotment of another suitable commercially viable site.

The reply is not acceptable. The audit observation is on land at Banashankari, which was taken on lease in spite of its drawbacks. Since the land was not put to use, the payment of lease rent became unfruitful. It was not prudent to justify taking the land at Banashankari in December 2009 and deciding five years later (February 2015) that construction on the site would pose difficulties to artisans.

Thus, decision to take unsuitable land on lease resulted in the lease rent of ₹ 0.94 crore remaining unproductive, besides non-achievement of the objective of expanding the developmental activities of the Company such as construction of multi-craft complex and training centre for artisans.

Bangalore Metropolitan Transport Corporation

6.1.5. Utilisation of bus depot in violation of environmental norms

The Corporation constructed a bus depot at a cost of ₹ 6.92 crore and operated it in an ecologically sensitive area in violation of environmental laws.

The environmental laws on water and air stipulate that no person shall without the consent of the State Pollution Control Board:

- establish or take steps to establish any industry operation or process or any treatment and disposal system, which is likely to discharge sewage or trade effluent into a stream or well or on land - *Section 25 of the Water (Prevention and Control of Pollution) Act, 1974* (Water Act).
- establish and operate any industrial plant in an air pollution control area- *Section 21 of the Air (Prevention and Control of Pollution) Act, 1981* (Air Act).

The Bangalore Metropolitan Transport Corporation (the Corporation) purchased (January 2008) land measuring 13 acres and 4 guntas at Bangalore North Taluk, Dasanapura Hobli, from Government of Karnataka at a cost of ₹ 5.27 crore for the purposes of establishing bus depot/bus stand/workshop/staff quarters. The Corporation constructed (March 2012) a bus depot (Depot

No. 40) on the land, at a cost of ₹ 6.64 crore¹⁴⁰ and began its operations from August 2012.

The Corporation applied (June 2013) for Consent For Operation under the Air Act for operation of Diesel Generator (DG) Set (62.5 kVA) in the depot, to the Karnataka State Pollution Control Board (KSPCB). The Officials of KSPCB carried out an inspection of the bus depot in July 2013.

After inspection, KSPCB issued (August 2013) a Show-Cause Notice for non-compliance of various provisions of the Air and Water Acts. The Show-Cause Notice stated that (a) the depot had applied for Consent For Operation only under the Air Act for the DG set directly, without obtaining prior Consent For Establishment, (b) the raw washing and oil bearing untreated effluents from the unit were discharged into the open drain thereby causing water pollution, (c) the DG set had not been provided with an acoustic enclosure and the Chimney did not have the required height, and (d) the general solid waste generated was thrown in the open area. It was stated that during the inspection, the depot authorities were directed to provide Sewage Treatment and Effluent Treatment Plants for treatment of sewage and bus washings respectively as early as possible. The Show-Cause Notice stipulated that the Corporation had to reply within seven days of issue, else, the unit would be recommended for Closure.

The Corporation did not reply to the Show-Cause Notice. KSPCB issued (September 2013) one more notice/opportunity, for which also, the Corporation did not furnish any reply. KSPCB, then called for a personal hearing of the Officials of the Corporation and during the hearing held on 27 December 2013, the Environmental Officer of KSPCB again brought to the notice of the Corporation that the unit did not take prior clearance or Consent For Operation, thereby violating the Air and Water Acts. The Environmental Officer also stated that the bus depot was located in Zone-4 of the Thippagondanahalli Reservoir Catchment Area (TGRCA) where only Green Category Industries were allowed. The activity of the Corporation was classified as Orange category and was prohibited under Zone-4 of TGRCA notification and that establishing and operating the unit in that Zone amounted to violation of the notification and the Air and Water Acts. KSPCB, therefore, directed (December 2013) the Corporation to shut down the washing facility immediately and refused (February 2014) to issue the Consent For Operation under Air Act sought for by the Corporation.

The Corporation meanwhile commissioned the Effluent Treatment Plant and developed (2014) greenery on the premises at a cost of ₹ 28.08 lakh.

The Corporation again filed (August 2015) an application for Consent For Operation under Water Act, 1974, but the KSPCB issued (March 2016) Refusal Order to the consent sought under Water Act also, as the bus depot fell under Zone-4 of the TGRCA notification.

¹⁴⁰ ₹ 3.75 crore towards construction of depot and ₹ 2.89 crore towards concreting the parking area.

The Corporation informed (May 2016) the KSPCB that it had taken action to develop greenery in the premises, set up Sewage Treatment and Effluent Treatment Plants, provided enclosures for DG set and increased the height of the Chimney. The KSPCB, however, reiterated (July 2016) that the request for consent was not considered based on the TGRCA notification.

Audit observed (June 2018) that Corporation had failed to:

- verify the fact that the site for depot fell under the TGRCA notified area;
- take prior permission of KSPCB before construction of depot (Consent For Establishment) and also Consent For Operation as required under Section 25 of the Water Act and Section 21 of the Air Act; and
- close down the operations of the depot till date (August 2018) in spite of KSPCB's Refusal Order.

The Government forwarded (December 2018) the reply of the Corporation, in which it was stated that the official memorandum dated 18 January 2018 of the Deputy Commissioner, Bangalore District stipulated that the land allotted has to be utilised for the purpose of providing transportation facilities within two years from the date of allotment. Accordingly, the Corporation established a Depot at the allotted land. It was also stated that the Corporation would approach the Government for granting special permission to retain the depot in the present place as it will cause public inconvenience and loss to the Corporation.

The reply is not acceptable as the conditions for allotment of land stipulated that no activity, which is dangerous and cause permanent harm to the land, shall be undertaken. The conditions for allotment of land also stipulated that the allotment will be revoked for violating any statutes or terms of allotment.

The Corporation, however, constructed depot without prior consent of KSPCB in the area notified by TGRCA where only green category of industries is allowed. This was in violation of Section 25 of the Water Act and Section 21 of the Air Act. As such, utilisation of land was in violation of conditions of allotment.

Thus, the act of the Corporation to construct the bus depot in an ecologically sensitive area (TGRCA) without obtaining prior approval of KSPCB, and continuing the operation despite directions of KSPCB for closure, proves that its actions are not in line with its Vision/ Mission Statement that it adopts environment-friendly sustainable policies and practices.

Receipt and utilisation of grants

6.2. PSUs received grants from the Government of India and the Government of Karnataka for specific purposes and these grants were to be utilised in accordance with the underlying conditions sanctioning the grants. Audit noticed certain violations of conditions in three out of seven PSUs audited, which had received grants during 2013-14 to 2017-18. One PSU did not

utilise grants to the extent of ₹ 11.90 crore defeating the very purpose of sanction and two PSUs utilised grants of ₹ 2.55 crore in violation of conditions for sanction. Audit findings are detailed in Paragraphs 6.2.1 to 6.2.3.

Jungle Lodges and Resorts Limited

6.2.1. Non-utilisation of grants

Non-utilisation of grants of ₹ 11.90 crore resulted in non-achievement of the envisaged objectives.

The Jungle Lodges and Resorts Limited (the Company) receives grants from the Department of Tourism, Government of Karnataka (GoK) and Ministry of Tourism, Government of India (GoI) in pursuance of its main objective of promoting wildlife tourism. In addition, it generates revenue through its own Eco-tourism projects. The GoK vide Circular instructions (January 2009) stipulated that funds were to be drawn based on need and the Companies should abstain from keeping the amount in bank accounts.

The Company had an unspent grant of ₹ 31.30 crore (GoK - ₹ 17.15 crore and GoI - ₹ 14.15 crore) as on 1 April 2013 and received ₹ 32.32 crore¹⁴¹ as grants during the period 2013-14 to 2017-18. Of these amounts, it utilised an amount of ₹ 28.55 crore during 2013-14 to 2017-18, leaving ₹ 35.07 crore¹⁴² of unspent grants as on 31 March 2018.

Audit analysed the Projects where the unutilised grants was more than 80 per cent of the sanctioned amount. The details of these Projects and their status, as of September 2018, are given in the following table. It can be observed that funds amounting to ₹ 11.90 crore¹⁴³, in respect of four projects, funded by GoK, and two projects funded by GoI, remained unutilised.

Table No. 6.2.1.1: Statement showing the details of projects and their status

Sl. No.	Project and details in brief	Status of the Project (as of September 2018)	Amount unutilised (₹ in crore)
Grants received from Government of Karnataka (GoK)			
1	The GoK released (2009-11) ₹ 9.50 crore for Project on Night Safari at Bannerghatta. The project was shelved due to opposition from public, filing of Public Interest Litigation in the Hon'ble Supreme Court and not ensuring financial viability. At the request (April 2015) of		

¹⁴¹ ₹ 30.22 crore from GoK and ₹ 2.10 crore from GoI.

¹⁴² ₹ 31.80 crore from GoK and ₹ 3.27 crore from GoI.

¹⁴³ GoK grants of ₹ 9.95 crore plus GoI grants of ₹ 1.95 crore.

Sl. No.	Project and details in brief	Status of the Project (as of September 2018)	Amount unutilised (₹ in crore)
	<p>the Company, the Government approved (September 2017) taking up the following projects using the unutilised grants of ₹ 8.70 crore for the other projects.</p> <ul style="list-style-type: none"> Jungle Camps and Trails Tourist amenities at Bandipur Safari Resort 	<ul style="list-style-type: none"> Out of ₹ 2.75 crore allocated (September 2017) towards Jungle Camps and Trails at four locations¹⁴⁴, only ₹ 61.50 lakh was spent towards the project so far (September 2018). The Company had no Plans for utilisation of balance amount. Out of ₹ 2.35 crore allocated (September 2017) for providing sewerage treatment plant, staff quarters, vehicle parking sheds and other tourist amenities at Bandipur Safari Resort, only ₹ 46.31 lakh had been utilised upto September 2018 and no reasons were recorded for not completing the work. 	4.02 ¹⁴⁵
2	<p><i>SCP/TSP grants:</i></p> <p>GoK released (March 2013) an amount of ₹ 2.75 crore for facilitating employment opportunities to members of the Scheduled Caste/ Scheduled Tribe¹⁴⁶ through procurement of rafts/ vehicles, which would be used to impart training to beneficiaries in adventure tourism and water sports.</p> <p>As the sports locations were in forest areas, individuals were not permitted to operate adventure sports facilities.</p>	<ul style="list-style-type: none"> The grant was parked in Fixed Deposits. The Company decided (July 2017) to refund the grants (₹ 2.75 crore) along with interest earned, totalling to ₹ 3.40 crore, to the GoK. But, the same is yet to be refunded till date (September 2018). 	3.40
3	<p><i>Moulangi Project:</i></p> <p>GoK released (October 2017) amount of ₹ 1.50 crore to the Company for releasing to M/s. Roland S Fernandez, Contractor, based on progress</p>	<ul style="list-style-type: none"> The Principal Designer of the Project informed (April 2018) that there was no major progress in the civil works as compared to his last visit 	1.50

¹⁴⁴ Sakrebailu, Bhagavathi, Sithanadi and Anezari areas.

¹⁴⁵ ₹ 2.13 crore + ₹ 1.89 crore.

¹⁴⁶ Reference is invited to Paragraph 2.1.11.3 of the Audit Report on Economic Sector, Government of Karnataka for the year ended March 2015, wherein the non-utilisation of funds of ₹ 2.75 crore was highlighted.

Sl. No.	Project and details in brief	Status of the Project (as of September 2018)	Amount unutilised (₹ in crore)
	of work of Moulangi Eco-tourism project.	during January 2018. The Company parked the funds (₹ 1.50 crore) in Fixed Deposits since May 2018. The Company replied (September 2018) that it was acting only as a co-coordinator for implementation of the Project with Forest Department and for releasing payments to the contractor as per the recommendations of the Principal Designer of the Project.	
4	<i>Turahalli Mini Forest for Eco-tourism development:</i> GoK released (January 2015) an amount of ₹ 1 crore for construction of compound wall of 3 kms and Company transferred (March 2015) the amount to Karnataka Eco-tourism Development Board (KEDB).	<ul style="list-style-type: none"> The work was not taken up as boundary demarcation was held up due to litigation. Though the Karnataka Eco-tourism Development Board had refunded (March 2017) the amount to the Company with interest of ₹ 3.03 lakh, the amount was not refunded to GoK (June 2018). 	1.03
Grants from Government of India (GoI)			
5	<i>Development of Eco-tourism Resort at Honnavar (Apsarakonda Project)</i> GoK released (February 2016) amount of ₹ 1.10 crore as against the release (February 2014) of Rupees one crore by GoI. The proposal involved work of constructing four log huts, dining hall, kitchen, overhead tank including electrification works.	<ul style="list-style-type: none"> The work could not be taken up as the area fell under Coastal Regulatory Zone and was not found to be feasible (October 2016). The Company requested (December 2016) GoK for approval to change the location to Hadeen Eco-Beach, Bhatkal. Due to non-receipt of GoK approval, a revised proposal was submitted (February 2018) for renovation and upgradation of Yathrinivas at Sadhashivgad Fort, Karwar. The approval of GoK is awaited (September 2018). The Company had parked the funds in Fixed Deposits up to May 2016 and thereafter it was credited to current account of the Company. 	1.10

Sl. No.	Project and details in brief	Status of the Project (as of September 2018)	Amount unutilised (₹ in crore)
6	<p><i>Development of Eco-tourism in the Northern Circuit (Bhadra Phase-2):</i></p> <p>GoI released (February 2014) an amount of Rupees one crore to GoK who in turn released it (November 2015) to Company for the work of Sewerage Treatment Plant at River Tern Lodge and Solar plants at four locations¹⁴⁷.</p>	<ul style="list-style-type: none"> The Company incurred expenditure of only ₹ 15 lakh for implementing Solar plants at two locations and the balance amount remained unutilised (June 2018). The amount released was parked in Fixed Deposits. 	0.85

The Government forwarded (December 2018) the reply of the Company (September 2018) in which it had furnished the latest position of the Projects, but did not provide any reason for non-utilisation of grants and for keeping the funds in Fixed Deposits.

Thus, neither the Company had taken any action to utilise the grants fully, nor was the Department of Tourism monitoring the utilisation of grants, resulting in non-utilisation of the grants amounting to ₹ 11.90 crore, defeating the purpose for which they were sanctioned.

Karnataka State Coir Development Corporation Limited

6.2.2. Irregular diversion of Government Grants

Diversion of grants for Market Development Assistance for purposes not envisaged under the Scheme and submission of irregular Utilisation Certificates.

The Karnataka State Coir Development Corporation Limited (the Company) is engaged in the production and sale of coir products. One of the Schemes under which the Company received funds was Market Development Assistance (MDA) Scheme, funded by State and Central Governments. The objective of the MDA Scheme was to promote sale of coir and coir products thereby encouraging sustained production and better employment opportunities and also undertake market development activities.

As per the MDA Scheme guidelines, the funds provided were to be utilised for the purposes of publicity, opening of new showrooms/sales outlets, market study, godowns, innovative marketing strategies including payment of discounts and also setting up of market intelligence network/upgradation of design facilities like installation of computer-aided design centre, engagement of qualified designers, introduction of e-commerce facilities, computerization of showrooms, etc.

¹⁴⁷ Pilikula, Bidar, Hampi and Devabagh units.

The details of funds received under MDA Scheme and Utilisation Certificates (UC) furnished during the period 2013-14 to 2017-18 are as under:

Table No. 6.2.2.1: Details of funds received and UCs furnished

(₹ in crore)

Sl. No.	Year	Government of Karnataka	Government of India	Total funds received	Amount for which Utilisation Certificate furnished
1	2013-14	0.30	0.29	0.59	0.59
2	2014-15	0.41	0.40	0.81	0.81
3	2015-16	0.96	0.80	1.76	1.76
4	2016-17	0.85	0.00	0.85	0.85
5	2017-18	0.49	0.00	0.49	0.33
	Total	3.01	1.49	4.50	4.34

Audit observed (March 2018) that:

- Out of ₹ 4.50 crore received during last five years, the Company diverted Scheme funds amounting to ₹ 1.60 crore for making payments to three vendors towards the purchase of raw materials for manufacturing coir products and towards transportation costs (*i.e.* to meet working capital requirements). The payments to the vendors were for the regular activities of the Company and not connected to the MDA Scheme. The details of payment are given in the following table:

Table No. 6.2.2.2: Details of payments made using MDA Scheme funds

Sl. No.	Vendor	Amount (₹ in crore)	Date of payment
1	Karnataka Coir Foam and Allied Industrial Corporation	1.00	May/June/August 2017
2	Durga Metal Industries	0.09	May 2017
3	Four S Coir Farm	0.51	May and August 2017
	Total	1.60	

- As per the MDA Scheme guidelines, the Company had to submit Utilisation Certificates (UC) to the effect that the assistance received under the Scheme during the preceding year was utilised exclusively for the approved purposes. In spite of the diversion of funds of ₹ 1.60 crore for other purposes, the Company submitted UCs for ₹ 4.34 crore (refer to Table No. 6.2.2.1 above) by certifying that the assistance received was utilised for the purposes under the MDA Scheme.

In its reply (December 2018), the Government admitted to the diversion of funds for making payment to the suppliers and stated that the same was shown as utilised for the scheme in the utilisation certificate so as to receive pending share of State/Centre under MDA Scheme. It was also stated that the payment

was made due to shortage of working capital and pressure from the suppliers for legal action against the Company. The Government further stated that the Scheme funds, which were temporarily utilised for suppliers' payment, will be recouped from the sales proceeds.

The reply is not acceptable as:

- The Company's financial position was affected mainly because of irregularity in procurement for which the Company alone was responsible. An amount of ₹ 2.99 crore, that was to be received by the Company, has been withheld by the Social Welfare Department on instructions (August 2015) of the Government due to irregularity in the procurement and supply of items by the Company to the Social Welfare Department. Moreover, the Company was also asked by the Government to withhold an amount of ₹ 2.17 crore due to the supplier (Karnataka Coir Foam and Allied Industrial Corporation) from whom the Company had sourced the material for execution of Social Welfare Department's order. Thus, the diversion of Government grants irregularly to remedy that, and to give Utilisation Certificate for the same, was improper.
- The diverted money has been used to pay off the debts of the suppliers, which were outstanding since March 2017 and in some cases even prior to that.

The fact remains that the Company diverted the grants totalling to ₹ 1.60 crore received under Market Development Assistance for purposes not envisaged under the Scheme.

Karnataka State Warehousing Corporation

6.2.3. Non-achievement of intended objective

Failure to implement the pilot project at Davanagere, even though funds of ₹ 94.50 lakh were released, resulted in non-achievement of intended objectives of online reservation of storage space at warehouses, issue of online electronic warehouse receipts and negotiable electronic warehouse receipts.

The Government of Karnataka notified (July 2010) the establishment of a 'Challenge Fund' of ₹ 10 crore for Organisations in the Government, which came out with innovative and cost effective projects, which could later be scaled up. An Empowered Committee would approve the expenditure required for the implementation of a pilot project¹⁴⁸ after scrutinising the proposals. The implementation of the pilot project was to be monitored by the Administrative Department concerned.

¹⁴⁸ Chaired by the Chief Secretary to the Government and included Additional Chief Secretary to Government, Department heads of Finance, Planning, e-Governance, DPAR-AR, ITBT and Development Commissioner to the Government.

The Karnataka State Warehousing Corporation (the Corporation) approached (December 2013) the Government of Karnataka for release of ₹ 5 crore from the Challenge Fund in order to undertake innovative methods of operation. The Corporation stated that it operated seven Regional Offices and warehouses at 130 locations and the funds were required in order to undertake online reservation of storage space, getting accreditation¹⁴⁹ for the warehouses, issue of online electronic warehouse receipt and negotiable electronic warehouse receipts, *etc.* apart from enabling the Management to review the reports at the Corporate Office on a daily basis.

In the meeting of the Empowered Committee (EC) held in December 2013, the Corporation submitted that in order to facilitate the farmers to avail loans for their produce, create awareness through the media and to avoid middlemen, action was to be taken to start the project initially at Davanagere (a Regional Office, with warehouses in 17 locations) for which the funds were requested under the Challenge Fund. The EC recommended (December 2013) to release funds of Rupees one crore for implementing the pilot project at Davanagere using software and hardware and to report the results within three months. The Government of Karnataka released (April 2014) an amount of ₹ 94.50 lakh under the Challenge Fund for the pilot project at Davanagere.

In June 2014, while discussing the need for computerisation of the activities of the Corporation, the Board of Directors (BoD) were informed that action was taken for calling tenders for providing hardware and software required for the Corporate Office, Regional Offices and the warehouses at an approximate cost of ₹ 3.50 crore (Hardware: ₹ 1.50 crore; Software: ₹ 2 crore). The funding was proposed to be met from funds received from the Challenge Fund (₹ 94.50 lakh) and the remaining from internal resources. The BoD authorised (June 2014) the Managing Director of the Corporation to computerise the activities of the Corporation by utilising the funds provided under the Challenge Fund. In the meeting, the BoD were not informed nor did they discuss about the need for setting up a pilot project at Davanagere with the funds received under the Challenge Fund.

The Corporation invited tenders for supply of Hardware in June 2014 and software in September 2014. The Corporation procured (October/ November 2014) a total of 77 desktop computers, 119 printers and 80 Uninterrupted Power Supply (UPS), which were then distributed to its Regional Offices and warehouses. Of these, 20 desktops, 18 printers and 19 UPSs were allocated to Davanagere Regional Office and warehouses under it.

The work of software development was entrusted to three agencies. It was seen that the software development did not progress, as M/s. IT Catalyst, to whom the work of studying the work flow of the Corporation and preparing the software was entrusted, did not submit modified software incorporating changes. Further, the work of Document and Work Flow Management System, which was awarded to M/s. Newgen Software was not finalised due to

¹⁴⁹ A Certificate of Accreditation are issued to warehouses registered with Warehousing Development Regulatory Authority enabling them to issue Negotiable Warehouse Receipts (NWR). The NWRs can be utilised by the farmers for availing loans.

frequent change¹⁵⁰ of the Managing Director of the Corporation. The digitalising of records undertaken by M/s. BaeHAL was complete to an extent of 70 per cent (September 2018) but could not be integrated as the work of Document and Work Flow Management System was not finalised.

Audit observed that instead of implementing a Pilot Project at Davanagere and then scaling it up for the entire Corporation, the Corporation went ahead with total computerisation of the Corporation and ended up procuring only hardware, without the software required for meeting the warehousing activities. The computers procured out of the Fund are being utilised as stand-alone systems only to send manually generated reports from/to the Corporate Office over email. As evidenced from the file notings on computerisation of activities, there was no mention about the requirement of setting up a pilot project for implementation in Davanagere. Further, though the pilot project was not taken up, the Corporation informed (April 2015/February 2018) the GoK that the funds released (₹ 94.50 lakh) under Challenge Fund were utilised for the intended purpose by furnishing details of procurement of computers, printers and UPS.

The Government replied (November 2018) that the project was partially implemented across the State including warehouses in Davanagere also. The Corporation attributed the non-completion of the project to the failure of the agencies to provide the software for warehousing activities.

The reply is not acceptable as the essence of the release of funds under the Challenge Fund was to implement an innovative measure in one pilot location, in this case at Davanagere, before scaling it up. By procuring computer hardware for the entire Corporation without requisite software for warehousing activities, the objective of release of funds under the Challenge Fund was defeated. The failure also resulted in non-achievement of the intended objectives of online reservation of storage space at warehouses, issue of online electronic warehouse receipts and negotiable electronic warehouse receipts besides foregoing further financial assistance under the Challenge Fund.

Avoidable Payment of penal interest

6.3. The compliance audit of 16 PSUs has been carried out during 2017-18, out of which 10 PSUs were profit-making and liable for payment of advance tax under the provisions of Income Tax Act, 1961 in the manner prescribed therein. Audit scrutiny of payment of advance tax in these profit-making PSUs with reference to the applicable provisions of the Income Tax Act revealed that PSUs paid penal interest to the Income Tax Department on account of failure to assess the profit realistically and consequential short payment of advance tax. Audit observed that penal interest paid on short payment of advance tax in nine PSUs was not significant, while one PSU paid penal interest of ₹ 1.19 crore over a period of four years 2013-14 to 2016-17 due to unrealistic approach in estimation of income which is discussed below.

¹⁵⁰ As informed (September 2018) by the Corporation.

Mysore Sales International Limited

Unrealistic approach in estimation of income for payment of advance income tax led to avoidable payment of penal interest amounting to ₹ 1.19 crore.

Mysore Sales International Limited (the Company) is engaged in the business of Chit Funds, Paper, Liquor and Tours & Travels (each being a separate Division of the Company). The Company is a profit making Company and hence, liable for payment of income tax under the Income Tax Act, 1961 (IT Act).

Section 208 of the IT Act made it obligatory on the part of an assessee to pay advance tax in every quarter (on or before specified due dates¹⁵¹) at prescribed rates. Further, Sections 234B¹⁵² and 234C¹⁵³ of the IT Act stipulate levy of penal interest for default/shortfall/failure to pay the advance tax. It was therefore, imperative that the Company had a mechanism for proper estimation of its profit and made payment of income tax thereon.

On a scrutiny of the records of the Company, Audit observed (January 2018) that during the period 2013-14 to 2016-17 the Company worked out quarterly tax on the basis of the profit estimated from the targeted turnover and other expenses projected in the beginning of the year from its various Divisions. Tax on estimated profit is to be considered for the purpose of payment of the quarterly instalments of Advance tax.

The estimated profit, tax payable on the estimated profit and the actual tax paid for the four quarters during the four years ended 31 March 2017 are given in the following table:

Table No. 6.3.1: Statement showing estimated profit, advance tax payable, actual tax paid and shortfall/ excess of tax

(₹ in crore)

Sl. No.	Financial year	Estimated Profit				Estimated Advance Tax payable				Short fall/ Excess (-) (Tax payable – tax paid)
		June	September	December	March	Actual advance tax paid				
						I	II	III	IV	
1	2013-14	45.81	45.81	40.96	46.83	<u>2.40</u> 2.21	<u>7.22</u> 6.64	<u>12.03</u> 9.81	<u>16.05</u> 15.46	0.59
2	2014-15	49.13	45.23	45.23	48.08	<u>3.04</u> 2.49	<u>9.12</u> 6.89	<u>15.21</u> 11.51	<u>20.27</u> 17.61	2.66
3	2015-16	54.64	54.64	54.64	49.39	<u>2.56</u> 2.56	<u>7.68</u> 8.35	<u>12.80</u> 13.92	<u>17.06</u> 18.44	-1.38
4	2016-17	51.15	51.15	51.15	51.15	<u>2.67</u> 2.65	<u>8.00</u> 7.96	<u>13.35</u> 13.27	<u>17.79</u> 17.16	0.63

¹⁵¹ 15 per cent, 45 per cent, 75 per cent and 100 per cent of advance tax payable by 15th June, 15th September, 15th December and 15th March, respectively.

¹⁵² If advance tax paid was less than 90 per cent of the assessed tax, interest was payable at the rate of 1 per cent per month or part thereof on amount falling short of assessed tax.

¹⁵³ Interest at the rate of 1 per cent per month or part thereof on the amount short deposited against cumulative instalments of advance tax for the period of three months.

As observed from the Table above, except for the year 2015-16, the Company short remitted the advance tax payable in all the four quarters. Audit observed that the Company did not estimate the actual profit realistically, though it had revised the profit in some of the quarters.

As against the above estimation, the details of actual profit and the quarter wise tax to be paid as per the same for the four years ended 31 March 2017 are given in the following table:

Table No. 6.3.2: Statement showing the difference between estimated profit and actual profit, shortfall/excess payment of tax

(₹ in crore)

Sl. No.	Financial year	Estimated profit	Actual profit before tax	Tax to be paid based on actual profit				Difference between the Actual profit and the Estimated profit in March	Shortfall / excess (tax paid - tax payable as per actual profit)
				June	September	December	March		
1	2013-14	46.83	47.36	2.28	6.86	11.44	15.26	0.53	-0.20 ¹⁵⁴
2	2014-15	48.08	55.53	2.82	8.48	14.14	18.85	7.45	1.24
3	2015-16	49.39	53.42	2.72	8.17	13.61	18.15	4.02	-0.29 ¹⁵⁵
4	2016-17	51.15	56.78	2.94	8.84	14.73	19.65	5.63	2.49

During the financial year 2013-14, difference between the estimated profit and the actual profit was marginal. However, in the subsequent years, the variation in estimated profit from the actual profit was 15.50 per cent in 2014-15, 8.16 per cent in 2015-16 and 11 per cent in 2016-17.

The short payment¹⁵⁶ of the requisite advance tax as detailed above resulted in payment of penal interest of ₹ 119.32 lakh¹⁵⁷ under Sections 234B and 234C of the IT Act for the four years as detailed below:

Table No. 6.3.3: Payment of penal interest

Sl. No.	Financial Year	Under Section 234B	Under Section 234C	Total (₹)
1	2013-14	38,30,663	6,16,998	44,47,661
2	2014-15	24,54,490	23,12,348	47,66,838
3	2015-16	Nil	97,473	97,473
4	2016-17	13,03,465	13,16,510	26,19,975
Total				1,19,31,947

¹⁵⁴ There was shortfall in first three quarters. The profit was estimated more only in the last quarter.

¹⁵⁵ There was shortfall in the first quarter.

¹⁵⁶ Short Payment is the difference between Advance Payable under Section 234B and the Advance Tax paid. The Advance Tax paid is cumulative total of the quarterly payments upto 15th March plus advance tax paid after 15th March on self-assessment of tax by the Company.

¹⁵⁷ The penal interest considered is compiled from the Assessment Order of IT Department for the F.Y. 2013-14 and on the Income Tax Returns filed by the Company for the remaining F.Ys.

Audit further observed from a test-check¹⁵⁸ of nine performance reports for the years 2013-14 to 2016-17 that the Board reviewed only the sales performance and not the working results of the Company. The Company never reviewed the quarterly profitability and the adequacy of advance tax payment despite paying huge amount of interest as penalty for short payment of advance tax.

The current approach of the Company in estimation of taxable income by ignoring the working results resulted in avoidable expenditure of ₹ 119.32 lakh towards penal interest for short payment of advance income tax. The Company was a profit-making Company during the period 2013-17 and its financial and cash positions were healthy enough to make payments towards income tax.

The Government forwarded (January 2019) the reply of the Company and stated that the Company's sales fluctuated from season to season and based on the anticipated sales, the advance tax was calculated and paid. The reply also stated that income varied on account of unanticipated orders from the Government/PSUs/other organisations, Government Policy and disallowances of expenses by the Income Tax Department. The Company, however, assured that proper mechanism for estimation would be implemented to avoid penal interest.

The Company should endeavour to reduce the gap between the estimated profit and actual profit with robust management information system so as to avoid payment of penal interest.

PSU specific observations

6.4. Two PSUs, viz. Karnataka State Minerals Corporation Limited and The Mysore Paper Mills Limited are unique in terms of their nature of activities, the former carries-out the mining of minerals (iron ore, etc.), while the latter produces Writing, Printing and News Print Paper. The compliance audit of these two PSUs conducted during 2017-18 revealed certain lapses in management of their operations, which are discussed in *Paragraphs 6.4.1 and 6.4.2.*

¹⁵⁸ Audit test checked nine periods (April 2013 to Nov 2013, April 2013 to January 2014, April 2014 to May 2014, April 2014 to July 2014, April 2015 to September 2015, April 2015 to December 2015, April 2016 to June 2016, April 2016 to September 2016, and April 2016 to December 2016, for which the Board had carried out the performance reviews.

**Karnataka State Minerals Corporation Limited
(Formerly, Mysore Minerals Limited)**

6.4.1. Excavation of minerals in contravention to the Act

The Company excavated minerals without obtaining prior approval of Government of India resulting in forfeiture of minerals valued ₹ 15.21 crore.

The Karnataka State Minerals Corporation Limited (the Company) was incorporated in 1966 with the objective of exploiting the available mineral resources in various regions of Karnataka. As at the end of September 2018, the Company had 80 Mining/Quarry leases for mining Iron Ore, Chromite, Limestone, Dolomite, Magnesite, China clay, Aluminous clay, Granite, *etc.* covering an area of 6,885.35 hectares. During the compliance audit of the operations of the Company, Audit observed certain non-compliances to the statutes, terms of contract agreements and other systemic lacunae, *viz.* award of contract in violation of KTPP Act, 1999, Non-recovery of environment protection fee, avoidable payment of dead rent, non-levy of penalty for short-production, non-obtaining of prior approval in violation of Mines and Minerals Act, 1957, *etc.* Amongst these observations, Audit noticed a significant lapse wherein the Company had foregone revenue of ₹ 15.21 crore due to non-adherence to the provisions of Mines and Minerals Act, 1957 as discussed *infra*.

As per Section 4 of the Mines and Minerals (Development and Regulation) Act, 1957 (the MMDR Act), no person can carry out any mining operations except in accordance with the terms and conditions of a mining lease. Section 5 (1) of the MMDR Act specifies that no mining lease for the minerals listed in the First Schedule¹⁵⁹ of the MMDR Act can be granted except with the prior approval of the Central Government. As per Rule 63 of the Mineral Concession Rules, 1960 (MCR), the application for prior approval has to be made to the Central Government (GoI) through the State Government (GoK).

The Company was mining Chromite ore over an area of 1,200 acres in the villages of Tagaduru and Chikkanahalli in Hassan District since December 1976, after obtaining approval (December 1977) from GoI. During the mining operations, the Company discovered¹⁶⁰ some other minerals such as Titaniferous Magnetite, Dunite, Serpentinite, Talc and Quartz in the leased area. Titaniferous Magnetite was listed under Part-B of the First Schedule of the MMDR Act as an Atomic Mineral.

The Company applied (November 1995) to the Department of Mines and Geology (DMG), Government of Karnataka (GoK) to grant a fresh mining

¹⁵⁹ The First Schedule contained three Parts; Part-A specified Hydrocarbons/Energy Minerals, Part-B specified Atomic Minerals and Part-C specified Metallic and Non-Metallic Minerals.

¹⁶⁰ The date of discovery of the associated minerals is not available.

lease for Chromite, Dunite, Serpentine, Titanomagnetite¹⁶¹, Quartz and Talc for a period of 20 years. The GoK approved the Lease to the Company in January 2005 for extracting Chromite, Dunite, Serpentine, Titanomagnetite, Quartz and Talc all for a period of 20 years. The production and sale of minerals from the mine after obtaining the lease (2005-06) up to April 2017¹⁶² are as given in the following table:

Table No. 6.4.1.1.: Statement showing production and sale of minerals from the mine

(in MTs)

Sl. No.	Mineral ¹⁶³	Opening balance	Production (2005-17)	Sales (2005-17)	Closing balance
1	Chromite	3,306	24,919 ¹⁶⁴	8,576	19,649
2	Titaniferous Magnetite	13,338	1,03,138 ¹⁶⁵	63,138	53,337

During January-February 2016, the Company invited tenders for the sale of Chromite and Titaniferous Magnetite. Based on the offers received, Letters of Intent were issued (February/March 2016) for sale of 29,000 MTs of Titaniferous Magnetite to Noor Enterprises at ₹ 862 per MT and 5,000 MTs of Titaniferous Magnetite at ₹ 822.52 per MT and 21 MTs of Chromite at ₹ 5,509.54 per MT to Balaji Enterprises.

The Company requested (April/May 2016) the DMG, GoK to issue Mineral Dispatch Permits (MDP)¹⁶⁶ to the buyers, so as to enable them to lift the minerals from the mine. The DMG, however, refused (July 2016) permission to lift the minerals stating that prior approval from the Government of India (GoI) was not obtained before grant of mining lease as required under Section 5(1) of the MMDR Act.

The DMG further stated that the issue was referred (April 2016) to the Commerce and Industries Department (Administrative head of DMG) and clarifications were sought for granting permits for sale of minerals when approval under Section 5 (1) had not been obtained. The DMG recommended (January 2017) to the Commerce and Industries Department for cancellation of the mining lease.

The Commerce and Industries Department, GoK ordered (April 2017) cancellation of the mining lease given to the Company as it was not in

¹⁶¹ Titanomagnetite mentioned in the application form is synonymous with Titaniferous Magnetite.

¹⁶² Mining Lease was cancelled in April 2017, for reasons given *infra*.

¹⁶³ Minerals, other than those given in the Table No. 6.4.1.1, specified in the lease, were not extracted.

¹⁶⁴ Produced in all the years (2005-17), but there were sales only during 2005-10.

¹⁶⁵ Production and sales during 2005-09 and production thereafter in 2015-17 with the balance lying in stock undisposed from 2009.

¹⁶⁶ MDP is a permit issued for transport of any mineral outside the mining lease area, as defined under Rule 3 of the Karnataka (Prevention of Illegal Mining, Transportation and Storage of Minerals), Rules, 2011.

accordance with the law and directed the Company to deposit the amount received so far for the auctioned minerals to the Government. Also, by the Order dated April 2017, the mined minerals, which were in stock¹⁶⁷, stood forfeited to the Government of Karnataka.

Audit observed that the Company did not seek prior approval of the GoI through the State Government as mandated under Rule 63 of the MCR when it had submitted the application to the State Government in November 1995. The Company also did not report the information pertaining to the discovery of atomic minerals during the course of the mining operations to the Director, Atomic Minerals Directorate for Exploration and Research, Hyderabad (AMDER) as required under Rule 66 of the MCR.

The Government forwarded (November 2018) the reply (August 2018) of the Company. It was replied that the DMG issued Mineral Dispatch Permits for dispatch of ore till 2016 for Titaniferous Magnetite mined. But, in April/May 2016, the DMG refused permission to lift the minerals stating that prior approval of GoI was not obtained. The reply further stated that Titaniferous Magnetite was included in the Order granting mining lease and also in the lease agreement (January 2005) and contended that loss on account of forfeiture of ore was not due to violation of any mining lease conditions of the part of the Company.

It is apparent from the reply that the Company had failed to inform about the discovery of atomic minerals during the course of mining operations to the Atomic Minerals Directorate for Exploration and Research (AMDER), even though it was a mandatory procedure under the statutes. The justification that it was sold in earlier years (2005-06 to 2008-09) was also not in order as the discovery should have been informed to AMDER as soon as the discovery was made. The Company had also failed to seek prior approval of GoI as mandated under Rule 63 of the MCR for mining the ore.

Thus, failure to seek prior approval of the GoI as per the MCR and failure to inform the discovery of the atomic mineral to AMDER resulted in cancellation of the mining lease and forfeiture of minerals valued ₹ 15.21 crore¹⁶⁸.

The Mysore Paper Mills Limited

6.4.2. Avoidable loss

Failure to take timely action to dispose of the excess raw material (Pulpwood) resulted in moisture losses and diminution in stock and consequent loss of ₹ 4.74 crore.

The Mysore Paper Mills Limited (the Company), a lone State PSU involved in manufacture of paper, was running a wood and agro based Paper Mill

¹⁶⁷ 19,649 MTs of Chromite and 53,337 MTs of Titaniferous Magnetite.

¹⁶⁸ 19,649 MTs of Chromite valued ₹ 5,509.54 per MT plus 53,337 MTs of Titaniferous Magnetite valued ₹ 822.52 per MT.

producing Writing, Printing and News Print Paper with an installed capacity of 300 Tons Per Day (TPD). The raw material for the Paper Mill, viz. Pulpwood from Acacia, Eucalyptus and Pine Wood trees was obtained from the captive plantations of the Company. The Compliance audit of the transactions of the Company, conducted during 2016-17, revealed that the Company incurred losses on account of sale of raw materials such as bagasse, imported hard wood and soft wood pulp, disposal of pulp wood, coal, etc. Audit noticed that, on account of failure to dispose the excess stock of raw material, the Company incurred an avoidable loss of ₹ 4.74 crore as discussed below.

The Central Pollution Control Board (CPCB), which inspected the Paper Mill in November 2013 and June 2014 found that the Unit was violating the prescribed emission standards¹⁶⁹, posing a potential threat to ambient water and air quality. The CPCB directed¹⁷⁰ (1 December 2014) the Company to close down all the manufacturing operations until the air pollution control system was upgraded. The operations of the Paper Mill were closed on 11 December 2014.

The Company filed (16 December 2014) an Appeal before the National Green Tribunal (NGT) challenging the directions of the CPCB and sought permission to resume the operations. The NGT permitted (May 2015) the Company to operate the Paper Mill up to December 2015, with a restricted production of 220 Tonnes Per Day (TPD).

In order to operate the Paper Mill, the Company required Pulpwood. The Company estimated (September 2015) the requirement of Pulpwood as 74,775 Metric Tonnes (MTs) and invited (September 2015) tenders for extraction from the captive plantations. The Orders were placed (October 2015) on various contractors for extraction of 45,845 MTs of Pulpwood and the contractors commenced supplies.

Meanwhile, on 20th November 2015, the Company stopped the production activities of the Paper Mill in compliance with the orders of the NGT. The stock of Pulpwood as at end of November 2015 was 12,103 MTs. On 4th December 2015, the stock of Pulpwood was 14,378 MTs and the Company, considering the need to maintain buffer stock of 20,000 MTs, instructed (December 2015) to extract only 5,622 MTs.

Though the Company placed orders for 45,845 MTs of Pulpwood, the Company decided (December 2015) to limit the extraction to 38,450 MTs in areas where works were in progress as the stoppage of extraction in partially extracted plantations could lead to theft, fire, etc. posing serious problems. Thereafter, the supplies continued and during the period December 2015 and June 2016, a total of 29,027 MTs of Pulpwood was received to stock. At the

¹⁶⁹ The coal fired boiler of the Company recorded particulate matter emission of 3,107 mg/Nm³ as against the norm of 150 mg/Nm³.

¹⁷⁰ The initial Order of CPCB was in September 2014, against which the Company made a request (October 2014), but was not considered by CPCB.

end of June 2016, the Company had Pulpwood stock of 41,114 MTs (after adjusting for small usages).

Audit observed that there was prolonged indecisiveness on the part of the Management in taking action to dispose of the Pulpwood lying in stock.

The Additional Principal Chief Conservator of Forests (APCCF), who was also the Director (Forests) of the Company, while informing the Government in October 2016 and November 2016 that there was about 40,000 MTs of extracted Pulpwood available in the factory, alerted the Managing Director about the importance of immediate sale of stock or else, it could later be sold only as firewood and there would be loss to the Company. It was also seen in Audit that in an earlier BoD meeting held in August 2015, the BoD, approved to sell the surplus/buffer stock of Pulpwood. But when there was actual surplus stock after December 2015, action was not taken to dispose off the stock immediately.

On 25 January 2017, the Company¹⁷¹ noted that the moisture content in the Pulpwood decreased from 45 *per cent* to about 20 *per cent*. As a result, the quantum of Pulpwood reduced from 41,114¹⁷² MTs to 28,300¹⁷³ MTs.

The Company invited tenders for sale of Pulpwood in February 2017, but due to receipt of a single bid with a low price as compared to estimated costs, it cancelled the tenders and re-tendered in April 2017. Considering the rates offered, a Disposal Order was issued to M/s. Shree Rajarajeshwari & Company (SRC-bidder) in July 2017 for 27,000 MTs (quantity offered to be lifted by the highest bidder). The bidder lifted 8,000 MTs of pulpwood as of July 2018.

Considering the sale price offered by SRC for the entire 28,300 MTs, the loss due to depletion in the quantity of Pulpwood worked out to ₹ 4.74 crore¹⁷⁴.

The Government forwarded (July 2018) the reply of the Company, stating that the Government had leased forest land for plantation of pulpwood and it took substantial time to obtain permission for sale from the Forest Department. The reply further stated that in the normal course, the reduction in weight due to reduction in moisture would have been absorbed by the Company in the consumption. In view of shift in transaction from consumption to sale, the moisture loss is expressed as loss. Considering the value of stock as per books, there was a profit of ₹ 1.507 crore on the sale as against a loss of ₹ 4.74 crore indicated by audit.

¹⁷¹ Assistant General Manager, Chemical Utility Section.

¹⁷² Acacia – 30,699 MTs, Eucalyptus – 7,536 MTs and Pine – 2,869 MTs. There was a difference of 9 MTs in Eucalyptus stock, between reported figures and stock registers.

¹⁷³ Acacia – 21,100 MTs, Eucalyptus – 5,200 MTs and Pine – 2,000 MTs.

¹⁷⁴ Though the Bidder offered to purchase 27,000 MTs, the loss of ₹ 4.74 crore was worked out considering the entire quantity of 28,300 MTs.

The contention of the Company that there was a profit is not correct. For arriving at the profit of ₹ 1.507 crore, the Company considered value as per books for the reduced quantity (instead of the total quantity) and compared it with the offer of the bidder.

Thus, indecisiveness on the part of the Management to decide on the sale of Pulpwood for more than a year (up to January 2017) resulted in loss of ₹ 4.74 crore.



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The 14 NOV 2019

Countersigned



(RAJIV MEHRISHI)

New Delhi

The 14 November, 2019

Comptroller and Auditor General of India