CHAPTER IV

4. Transaction Audit Observations

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

Government companies

Bangalore Electricity Supply Company Limited

4.1 Blocking up of funds

Procurement of line materials in excess of requirement resulted in blocking up of funds of Rs. 4.90 crore.

The Company invited (March 2005) tenders for procurement of line materials to meet the requirement of the first quarter of 2005-06 as well as for regularising 60,000 unauthorised Irrigation Pumpsets (IP sets). The total cost of the line materials was assessed at Rs. 28.80 crore, based on the lowest offer received. The Central Purchase Committee (CPC) placed (July 2005) purchase orders on the two bidders, Dhanalaxmi Engineering Enterprises and Ratnatray Enterprises for a total value of Rupees five crore, the limit up to which it was vested with powers. The supplies were to be made between August 2005 and January 2006. The Board, approved (September 2005) the procurement of balance quantity of line materials for Rs. 23.72 crore with delivery schedule between December 2005 and March 2006. The delivery schedule was extended to August 2006 and subsequently up to December 2006.

Audit observed (February 2008) that the Board of Directors, while approving the procurement of balance materials in September 2005, did not consider the fact that only 14,670 IP sets were registered for regularisation till then. Audit further observed that the Company extended delivery schedule twice to avoid inventory pile up and lack of adequate storing space. Inspite of this, line materials valued Rs. 4.90 crore supplied between August 2005 and March 2008[76] were lying idle at the end of June 2008. Thus, improper assessment of the requirement and consequent procurement of line materials resulted in blocking up of funds of Rs. 4.90 crore.

The Government stated (June 2008) that the non-utilisation of the materials was due to the receipt of only 15,000 applications for regularisation of IP sets as against 60,000 unauthorised IP sets despite extension of due dates for regularisation of the same. The reply is not acceptable as 14,670 applications for regularisation of IP sets were received as on September 2005 and in spite of non-receipt of further applications for regularisation, the Company placed

[76] **details for extension of delivery schedule from December 2006 to March 2008 were not on record.**

purchase orders in September 2005 for balance quantities required for the entire 60,000 IP sets.

4.2 Undue favour to a contractor

Extending the completion period of the contract without levy of penalty resulted in undue benefit of Rs. 88.90 lakh to the contractor.

The Company issued (December 2003) Letter of Award (LOA) to Deepak Cables at Rs. 17.78 crore for the supply and erection of the extension and improvement works in Chickballapur Division on turnkey basis. As per the terms and conditions of LOA, the work was to be completed within six months from the date of issue of LOA (*i.e.,* by June 2004). For any delay in completion of the work, penalty of half a *per cent* per week of delay subject to a maximum of five *per cent* on the portion of work not completed was to be levied.

Audit observed (May 2007) that the contractor failed to commence the work as on June 2004 by which period the work was to be completed. Instead, he submitted (August 2004) a revised plan for completion of the work by November 2004. Due to lack of progress in the work, the Company issued (January / February 2005) notices to the contractor. The Company, however, failed to take action to terminate the contract. The Contractor approached (November 2005) the Company seeking extension of completion period. The Company extended (December 2005) the completion period up to the end of December 2005 without levy of penalty, which lacked justification as there were no valid reasons attributed to the delay in execution of the work by the contractor. The contractor expressed (December 2005) his inability to take up works in Chickballapur Division. The partial penalty of Rs. 25.01 lakh, levied initially, was refunded (July 2006) to the contractor and the work was short-closed (November 2006).

Thus, the injudicious decision of extending the delivery period and waiving of penalty without proper justification resulted in undue benefit of Rs. 88.90 lakh[77] to the contractor.

The Government stated (June 2008) that as per the Manual of Financial Powers delegated, the Company was fully empowered to condone the delay and as the contractor had already procured materials by investing huge amount of capital and had already commenced the work, the Company decided to condone the delay and penalty. The reply is not acceptable as the short closure of the contract was made at the instance of the contractor who showed his inability to take up the 11 KV line works at Chickballapur. Mere procurement of materials by the contractor cannot be considered as justification for condoning delay and waiver of penalty. Further, there were no valid reasons for the delay on the part of the contractor.

[77] **penalty restricted to five *per cent* of the contract value.**

4.3 Loss of revenue

Providing more than one meter to an individual consumer resulted in loss of revenue of Rs. 42.54 lakh.

As per Clause 19 of General Terms and Conditions of Tariff for Electricity Supply, for individual installations more than one meter shall not be provided under the same tariff and wherever two or more meters existed for individual installation, the sum of consumption recorded by meters was to be taken for billing till they are merged. The Company provided (1983), a High Tension (HT) connection (6EHT8) to Hotel Leela Venture Limited (earlier Leela Scottish Lace Limited) under HT2(b) tariff. During March 2001, a new HT connection (6EHT29) was provided to Leela Hotel Scottish Lace Limited also under HT2(b) tariff.

Audit observed (November 2007) that both the installations are registered in the same premises and more than one meter was provided under the same tariff. The Company was not considering the sum of their consumption for billing purposes and as such the consumer was benefited by lower rates for the first slab of two lakh units per month. This resulted in loss of revenue of Rs. 42.54 lakh for the period June 2002[78] to May 2008 as per tariff orders issued from time to time.

The Government stated (June 2008) that the premises of the consumer had two inter-connected blocks of which one block was used for software business (6EHT8) and the other block was used for a hotel (6EHT29) and hence, levy of short claims did not arise. The reply is not acceptable as 6EHT8 and 6EHT29 connections were for a hotel and not for software business.

4.4 Failure to return old meters

Failure to return old meters under buy back scheme resulted in extra expenditure of Rs. 29.88 lakh.

The Company decided (March 2004) to procure 650 Electronic Trivector (ETV) Meters under buy back scheme from Elster Limited as the then existing meters were not suitable for Real Time Remote Automatic Meter Reading (RRAMR) system. These meters were to be utilised in Low Tension (LT) Power Installations having a load of 40 HP and above. The Company placed (May 2004) purchase order on Elster Limited for 650 ETV meters. The rate specified was Rs. 1,553 per meter under buy back scheme and Rs. 6,149.38 per meter without buy back. The supplies were to be completed by July 2004 and the released meters were to be returned to Elster Limited.

Audit observed (February 2008) that even though the supplies were completed in September 2004, the Company failed to return the old meters till January 2007. The main reason attributed was that the field staff in the Operating and Maintenance Divisions (O&M) could not identify the old meters. The actual number of meters used for the intended purpose / other purposes was not on

[78] **the Company was formed in June 2002.**

record. Elster Limited intimated (January 2007) the Company to pay Rs. 29.88 lakh being the difference between the price for normal supplies and the price under buy back scheme, due to its inability to take back the released meters as the same were not returned even after a lapse of two years.

The Company approved (September 2007) the payment of Rs. 29.88 lakh. Thus, failure of the field staff of the Company to identify the old meters resulted in extra expenditure of Rs. 29.88 lakh apart from defeating the objective of RRAMR.

The Management stated (July 2008) that since the meters were not replaced under buy back scheme and also since the supplier refused to take back the meters due to lapse of time, it became imperative for the Company to use the meters for new installations and for replacement of faulty meters. The reply is not acceptable as the decision to use the meters for new installations and for replacement of faulty meters was only an afterthought and the fact remained that the old meters, which were not suitable for RRAMR, continued to be in service due to the failure of the field staff to identify such meters.

The matter was reported to the Government (April 2008); their reply was awaited (July 2008).

Karnataka Power Corporation Limited

4.5 Irregular payment of ex-gratia

The Company paid ex-gratia in excess of the limits prescribed by the State Government.

The Karnataka State Bureau of Public Enterprises (KSBPE) issued (August 2001) guidelines for implementation of Voluntary Retirement Scheme (VRS) in respect of surplus staff in Public Sector Enterprises in Karnataka. According to the guidelines, each organisation was to prepare its VRS and obtain approval of the concerned administrative department. The ex-gratia amount was fixed subject to a maximum amount of Rupees five lakh.

Audit observed (March 2007) that contrary to above guidelines, the Managing Director of the Company without the approval of the Board of Directors (BoD), approved (February 2004) enhanced payment of ex-gratia for Rupees six lakh per employee who opted for VRS. The Company had also not submitted its proposal for VRS / enhanced ex-gratia to the concerned administrative department.

Audit further noticed (March 2007) that the Company released (February 2004 to April 2005) ex-gratia in excess of Rupees five lakh per employee to 531 employees amounting to Rupees five crore. The Managing Director, as authorised by the BoD, approached (February 2006) the Government for *post facto* approval, which has not been received so far (June 2008).

The Government stated (March 2008) that the ex-gratia paid under the Scheme was beneficial to the Company as the scheme had been successful in attracting a large number of employees who were identified as surplus. The reply is not acceptable as the Company failed to obtain prior approval of the Government for payment of the enhanced ex-gratia beyond the ceiling specified in the guidelines.

4.6 Excess backfilling

The Company back filled over-excavated area in excess of the quantity approved by the consultant / Technical Committee resulting in extra expenditure of Rs. 1.21 crore.

The Company entered (April 2002) into an agreement with Shankaranarayana Construction Company Ltd for construction of civil works for the power house at the negotiated price of Rs. 113.95 crore. As per the agreement the contractor shall not be entitled to any additional allowance over and above the unit rates indicated in the agreement. Further, any damage done to the works by blasting including the shattering or loosening of the material beyond required excavation lines shall be repaired at the expense of the Contractor.

The Contractor, during 2002-05, excavated 82,587.75 cum of hard rock as against 62,140.75 cum as per the drawings resulting in over excavation of 20,447 cum. The Company paid Rs. 68.55 lakh[79] for 14,710 cum as excavation was considered due to geological reason *viz.,* jointing pattern of the rock and payment for the balance quantity of 5,737 cum was disallowed.

Audit reviewed (November / December 2007) the details of the over excavation of 20,447 cum and observed that the field office did not report the over excavation to head office as soon as the same was noticed. The matter was reported after backfilling 7,152 cum of over excavated area by cement concrete. The Company appointed (April 2003) a consultant[80] to re-design the concreting plan. The consultant after the visit to the powerhouse reported that by the time of his visit to the site (April 2003), 7,152 cum was already backfilled and recommended backfilling in 943 cum in Machine hall area and 800 cum in Tail race pond area. The Technical Committee accepted (June 2003) the recommendations of the consultant but limited the backfilling in tail race pond area to 700 cum[81]. Thus, a quantity of 8,795 cum[82] was to be backfilled.

Audit, however, observed that the Company approved (2003-05) the payment for 13,812 cum of back filling in the over excavated area as against 8,795 cum recommended by consultant / Technical Committee. Thus, backfilling of

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[79] **mucking charges of Rs. 15.68 lakh is claimed but not yet paid.**

[80] **former Technical Director of Company.**

[81] **while the consultant recommended backfilling up to chainage 156M (800 cum), the Technical Committee recommended backfilling up to chainage 146M (700 cum).**

[82] **943 cum in Machine hall area and 700 cum as per Technical Committee decision was to be done and 7,152 cum was already backfilled.**

additional 5,017 cum was unauthorised and resulted in extra expenditure of Rs. 1.21 crore[83].

The Management stated (June 2008) that quantities projected were only a tentative provision and the actual quantities were to be assessed as and when concreting was done. The Management further stated that the final excess quantity was 3,813 cum for which approval was obtained.

The reply is not acceptable as the quantities and tentative provision for additions were projected in March 2003, whereas the Company decided to backfill based on report of consultant in April 2003. The Consultant and Technical committee had not made any tentative provision for backfilling in their report / discussions.

The matter was reported to Government (May 2008); their reply was awaited (July 2008).

Karnataka Power Transmission Corporation Limited

4.7 Blocking up of funds

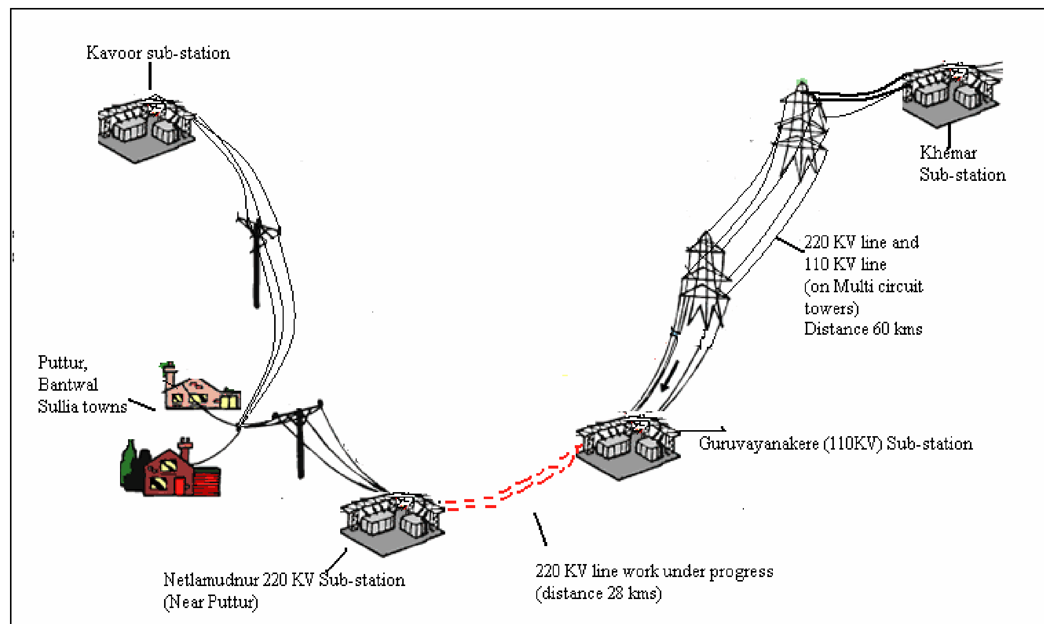
Improper planning and execution of line / station works for feeding 220 KV Netlamudnur Station resulted in blocking up of funds of Rs. 33.83 crore.

To improve the power supply to the consumers of electricity of Puttur and nearby towns who were at the tail end point of Kavoor Receiving Station (KRS) and were experiencing poor voltage due to overloading of transmission line and transformers, the Company prepared two project reports. These reports were in October 2002 and June 2003 respectively. The plan *inter alia* included construction of a 220 KV sub-station at Netlamudnur (near Puttur); construction of additional transformer (including terminal bay) at Khemar; supply power from Khemar (*via* Guruvayankere) through 220KV transmission lines at a total cost of Rs. 49 crore. These works were executed as under:

- the construction of 220 KV line from Khemar to Guruvayanakere (60 kilometres) was completed in (August 2003) at a cost of Rupees six crore.
- the work of establishing a (220 KV) sub-station at Netlamudnur was completed in March 2006 at a cost of Rs. 19.15 crore.
- the additional transformer (including terminal bays) at Khemar Station was commissioned in January 2007 at a cost of Rs. 8.68 crore[84].

[83]for 13,812 cum Rs. 3.33 crore was paid and proportionate for 5,017 cum worked out to Rs. 1.21 crore.
[84]transformer, bus, terminal bays (Rs. 6.89 crore) and interest during construction (Rs. 1.79 crore).

The illustrative diagram of the above mentioned stations / lines is given below:



Audit observed (June 2007) that the work of construction of balance 220 KV line from Guruvayanakere to Netlamudnur was awarded (April 2006) to Deepak Cables (India) Limited at a cost of Rs. 13.20 crore with the condition that the completion period will be nine months of clearance from Forest Department. Though, the work was to be completed in nine months, from date of obtaining forest clearance, the work is yet to be completed (May 2008) despite clearance from Forest Department in October 2006. Audit observed (June 2007) that the 220 KV line work from Khemar to Guruvayanakere, the sub-station at Netlamudnur and additional transformer at Khemar, remained idle after its completion due to non-completion of the line between Guruvayanakere and Puttur till date (May 2008). Thus, delay in construction of 220KV line and non-synchronization with station works resulted in blocking of funds of Rs. 33.83 crore[85] and loss of interest of Rs. 3.38 crore.

The Management stated (June 2007) that proposals for forest and railway clearances for Guruvayankere lines were submitted in February 2003 but approvals were received in October 2005 / October 2006. The Management, further stated that 89 out of 134 towers in this route were erected by December 2006, but there were objections from villagers / pending cases in court, which hampered the progress of work.

The reply is not acceptable as the Company is in the business of power supply for many decades and therefore it was aware of the problems arising out of forest / railway clearances and the objections of the villagers. Hence, the Company should have planned its activities and resolved these issues so as to implement the project without any delay. Failure to do so in the instant case

[85] **the loss of interest from June 2007 (nine months from date of obtaining clearance from forest Department) to May 2008 (rate of interest: 10 *per cent*).**

resulted in non achievement of the objective to provide quality power to Puttur town and the investment of Rs. 33.83 crore remained idle.

The matter was reported to the Government (March 2008); their reply was awaited (August 2008).

4.8 Idle investment

Partial execution of the multi circuit line rendered Rs. 1.79 crore idle.

The construction of 66KV multi circuit line between Tubinkere sub-station and Mandya sub-station to facilitate the evacuation of power from Tubinkere sub-station, was estimated (1999) at Rs. 3.13 crore. The work involved material cost of Rs. 2.04 crore to be supplied by the Company, cost of erection of Rs. 43.05 lakh and other charges of Rs. 65.32 lakh. The work of erection was awarded (June 2000) to Lekhashree Electricals, Bangalore at a cost of Rs. 51.80 lakh as against the estimate of Rs. 43.05 lakh to complete the work within one month from the last date of issue of materials.

Audit observed (April 2005) that the work involved stub concreting and erection of towers in 43 locations. Although stub concreting was completed in all the 43 locations by June 2004, the towers have not been erected till date (December 2007) as some of the line / tower materials originally procured for the work was diverted by the Company to other works and 5.94 MTs of tower parts were not-supplied / missing.

Thus, the expenditure of Rs. 1.79 crore incurred on the work till December 2007, remained idle and the objective of evacuation of power from Tubinekere sub-station (completed in November 2000) was not achieved.

The Government stated (June 2008) that the way-leave[86] problems were overcome in the year 2004 but the towers could not be erected in view of cases filed during 2006-07, in the District Magistrate's court. The reply is not acceptable as the Company should have proceeded with erection of towers immediately after overcoming the way-leave problems in 2004.

4.9 Extra expenditure due to re-tendering

The Company failed to approve the variations resulting in extra expenditure of Rs. 1.52 crore.

Based on the preliminary survey, the work of extending 110 KV Double Circuit (DC) line from Khemar to Manipal for a distance of 30 kilometres was awarded (April 2000) to ARM Limited, Hyderabad, at a total turnkey price[87] of Rs. 3.55 crore, to be completed in 10 months. The scope of work of the contract included detailed survey of the route.

[86] way-leave is the path the line travels.
[87] the total turnkey price was Rs. 4.40 crore, which included Rs. 0.85 crore for Manipal to Nittur line also.

While conducting (March 2002) the detailed survey of the route, it was found necessary to deviate the line by 5.35 kilometres due to presence of hilly terrain and objections from villagers. ARM Limited submitted (April 2002) variations in quantities involving additional cost of Rs. 1.21 crore. As the tender conditions provided for variations up to 15 *per cent* of the awarded cost and the additional work of Rs. 1.21 crore was in excess of 34 *per cent*, ARM Limited sought (April 2002) approval for the variations. The Chief Engineer, Electrical, Major Works, Bangalore Zone, while on a inspection of the Division, held (May 2002) a joint review meeting and directed (May 2002) ARM Limited not to hold the work as the variations would be got approved by the competent authority at the earliest. ARM Limited did not commence the work pending approval of the variations. The Company too did not approve the variations and the reason for not amending the contract was also not on record. ARM Limited expressed (July 2002), its inability to execute the work. The Company terminated the contract in December 2002.

Audit observed (May 2007) that the Company invited (March 2003) fresh tenders and awarded (October 2003) the work to Deepak Cables (India) Limited on turnkey basis for Rs. 6.28 crore. The non-approval of the variations in work and the delay in re-tendering resulted in increase in the cost of the works. The Company had to bear extra expenditure of Rs. 1.52 crore[88].

The Management stated (July 2007) that ARM Limited could have started the work on the assurance given by the Company that the variations shall be got approved and failure to start the work indicated that the contractor was at fault. The reply is not acceptable, as the Company, even though fully convinced of the amount of variation in the joint review meeting, failed to approve the same even by July 2002. Thus, failure to approve variations resulting in termination of the contract and subsequently award to another contractor led to extra expenditure of Rs. 1.52 crore.

The matter was reported to the Government (April 2008); their reply was awaited (July 2008).

Karnataka State Beverages Corporation Limited

4.10 Fixing of lower margin

The Company fixed lower margin on the landed cost of liquor resulting in non-recovery of operating loss.

The Company was incorporated in June 2003 to function as a sole distributor of liquor under Rule 3(11) of the Karnataka Excise (Sale of Indian and Foreign Liquors) (Amendment) Rules, 2003. Under this Rule, all liquor had to be channelised through the Company by the manufacturers / suppliers.

[88] **Rs. 6.28 crore – (Rs. 3.55 crore + Rs. 1.21 crore).**

The State Government, while permitting (June 2003) the Company to function as a distributor licensee *inter-alia* stipulated a margin[89] not exceeding five *per cent* of the landed cost to the distributor. As the Company was the channelising agency, the margin so collected was the main source of its revenue / profits. The State Government, further, demanded *privilege fee*[90] after allowing the Company to retain a part of the profits. As such, the margin collected by Company was a source of revenue to the State Government also.

Audit observed (February 2008) that the Board of Directors of the Company, considering the urgency to specify the margin in order to facilitate manufacturers to indicate their maximum retail price and the likely volume / revenue expected from operations, decided (June 2003) to fix the margin at two *per cent* on the landed cost, as against the maximum permissible limit of five *per cent.* The Company had not carried out any cost-benefit analysis before fixation of this margin. Hence, the net margin[91] of the Company was not adequate to meet the administrative and general expenses, finance charges and managerial expenses, which resulted in operating loss of Rs. 8.21 crore[92] during 2004-07.

The matter was reported to Government (April 2008); their reply was awaited (July 2008).

4.11 Undue benefit to the manufacturers / suppliers of liquor

The Company paid insurance charges of Rs. 2.10 crore on the stock in which it had no insurable interest.

The Company is the sole distributor and channelising agent for liquor and spirit in the State of Karnataka. The Company entered into agreement with manufacturers / suppliers of liquor and spirit for its sale. The agreement *inter alia* stipulated that the manufacturer / supplier shall be liable for all costs, taxes and levies or such other contingent liability that may prevail upon the stocks supplied by the manufacturer / supplier and held for sale / distribution by the Company, till liquidation of the same and that the sale is concluded only upon such liquor being sold and delivered to buyers by the Company.

Audit observed (November 2006) that in spite of the clauses stipulating that the stocks were held only under an agreement to sell with no transfer of the property till the stocks were sold and delivered to the buyers, the insurance charges were borne by the Company instead of recovering from the suppliers.

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[89] **the wholesale licensees were allowed a margin not exceeding five *per cent* on the sale price of the distributor licensee and the retail licensees were allowed a margin not exceeding 20 *per cent* on the sale price of the wholesale licensees.**

[90] **the privilege fee demanded by the Government varied from year to year.**

[91] **Net margin is the difference between margin collected at two *per cent* and privilege fee paid to government.**

[92] **Rs. 1.41 crore in 2004-05, Rs. 0.56 crore in 2005-06 and Rs. 6.24 crore in 2006-07.**

The insurance cost so borne by the Company was Rs. 2.10 crore[93] during the period 2003-07.

The Management stated (March 2008) that the Company had insurable interest in the stocks stored in their premises as damage to the goods in its depots would lead to loss of potential revenue; that as per their Liquor Sourcing Policy, the Company was to take necessary care of the stock as was reasonably possible and expected of it. The reply is not acceptable as the Company did not account for stock of liquor in its books and merely acts as a channelising agency with a margin on sales. Further, the agreement clearly stipulated that the manufacturer / supplier was liable for all costs until the stocks were liquidated and as such insurance cost had to be recovered from them.

The matter was reported (April 2008) to Government; their reply was awaited (July 2008).

Mysore Minerals Limited

4.12 Faulty agreement

Non-revision of prices as stipulated in the agreement resulted in loss of Rs. 16.51 crore.

The Company entered (May 2003) into a 'marketing agreement' with Kalyani Ferrous Industries Limited (KFIL) for supply of iron ore. As per this agreement, a price of Rs. 250 per tonne was fixed for the supply of an earlier[94] commitment of 80,940 tonnes of iron ore, with a condition (clause 5) that the supplies to be made thereafter shall be at such terms and conditions as mutually decided by the parties in April each year. The agreement also contained another condition (clause 6) by which price was fixed for the next three years and thereafter, the prices were to be reviewed and re-fixed on first of April of each year, taking into consideration the revision of prices by MMTC.

Audit observed (December 2007) that there were conflicting terms in the agreement with regard to due date for revision of prices. The Company supplied 80,940 tonnes of iron ore as per commitment, and further quantity of 66,064 tonnes of iron ore up to March 2004. Though, the prices were due for revision in April, the Company did not revise the prices during April of subsequent two years and continued to supply iron ore to KFIL at Rs. 250 per tonne. A total of 3.47 lakh tonnes was supplied during 2004-06. The supplies were stopped on expiry of the agreement on 31 March 2006. Had the Company revised the prices (in April each year) as stipulated in the

[93] **Rs. 19.66 lakh in 2003-04, Rs. 29.88 lakh in 2004-05, Rs. 65.85 lakh in 2005-06 and Rs. 94.19 lakh in 2006-07.**

[94] **the Company had entered into a Memorandum of Understanding on 26 August 1998.**

agreement, the Company could have avoided the loss of Rs. 16.51 crore[95] for iron ore supplies during 2004-06.

The Management stated (June 2008) that as per clause 6 the prices were fixed for three years and they were to be re-fixed thereafter on 1st April each year. The reply is not acceptable as it is silent about the inclusion of conflicting terms in the agreement. The Company should have revised the prices during April of each year as provided under clause 5 of the agreement and protected its financial interest. Incorporating conflicting clauses in the agreement had resulted in loss of Rs. 16.51 crore.

The matter was reported (April 2008) to the Government; their reply was awaited (July 2008).

4.13 Avoidable liability on interest

Failure to pay advance tax and delayed filing of Income Tax Return resulted in avoidable liability of Rs. 3.90 crore towards interest.

Under section 208 of the Income Tax Act, 1961 (Act) it was obligatory to pay advance tax during the financial year in every year in every case where amount of tax payable exceeded Rs. 5,000 and advance tax on the current income as calculated under Section 209 of the Act was payable in four instalments between June and March of each financial year, failing which the assessee was liable to pay simple interest for default in payment of advance tax at the rate one *per cent* under Section 234B of Act and one *per cent* per month for deferment of advance tax under Section 234C of the Act. Section 139(1) of the Act further requires filing of return of income on due date (October) failing which penalty was leviable under Section 234A of the said Act.

Audit observed (May 2006) that the Company failed to estimate the income properly and pay the quarterly advance tax as stipulated in the Act, for the financial year 2004-05 despite having sufficient funds. The Company assessed a tax liability of Rs. 16.85 crore, which was paid in December 2005 (Rs. 10 crore) and March 2006 (Rs. 6.85 crore) and filed the return (29 March 2006), after a lapse of five months from the due date for the total tax liability (excluding interest) of Rs. 16.85 crore. The Income Tax Department issued (February 2007) a demand for interest of Rs. 3.90 crore for violations under section 234 of the Act *viz.,* late filing of return, non-payment of advance tax and deferment in payment of advance tax. The Company filed (March 2007) an appeal before the Assistant Commissioner of Income Tax, Bangalore for waiver of interest, which is pending (March 2008).

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[95] **computed by considering the iron ore price of MMTC as on April 2004 and April 2005 on 3.47 lakh MTs.**

The Management while admitting the fact stated (April 2008) that it was under the impression that the net profit for the year 2004-05 would be set-off against the accumulated losses. The Management also stated that filing of return was delayed as the accounts for the year 2004-05 were finalised only in March 2006. The reply is not acceptable as adjustment of the accumulated losses is not permissible due to delayed filing of returns and the onus of finalising the accounts within the prescribed time, estimating the income correctly and paying of advance tax was the responsibility of the Company. This indicated the weak monitoring system, which resulted in payment of Rs. 3.90 crore, which was avoidable.

The matter was reported to the Government (March 2008); their reply was awaited (July 2008).

Karnataka Soaps and Detergents Limited

4.14 Delay in procurement of Sandalwood oil

Delay in procurement of sandalwood oil resulted in stoppage of production and consequent loss in contribution of Rs. 2.67 crore.

Sandalwood oil is an important raw material in production of many of the branded products of the Company. The Company generally procures sandalwood from auction held by the Forest Department and distills it in-house to extract sandalwood oil. The Inventory Level Fixation Committee (Committee) of the Company, constituted to study inventory levels and fix norms for various materials had *inter-alia*, recommended (August 2005) planning and procurement by closely monitoring stocks at stores. The Committee had fixed minimum stock level for sandalwood oil at 30 days' consumption with a lead time of 30 days for procurement.

The Company participated in the sandalwood auction held on 25 January 2006 at Salem, Tamilnadu but did not purchase the sandalwood as the floor prices fixed by the Forest Department were 15 to 20 *per cent* higher than the previous auction rates. The auction sale, however could not take place as the merchants boycotted the auctions due to high floor prices.

The Company had a stock of 700 kilograms of sandalwood oil as on 31 January 2006, which was sufficient to meet the requirement for only one month. The production of various sandalwood oil based products was stopped on 8 March 2006, due to its non-availability. Based on the decision (7 March 2006) of the Board of Directors, the Company placed (3 April 2006) purchase order for supply of sandalwood oil for 1,000 kilograms. The production resumed only on 17 April 2006. The Company also procured 17.63 MTs sandalwood in the next auction at Salem on 24 March 2006, with a minimum delivery period of 45-50 days.

Audit observed (December 2007) that though the Company was aware of the lead time required and the low stock position, it failed to adhere to the time schedule prescribed by the committee and delayed the procurement till March 2006. The Company should have initiated the process of placing orders for sandalwood oil in January 2006 itself as it had a stock for only a month and the lead time for sandalwood oil was one month. The delay in procurement of sandalwood oil to March 2006 instead of January 2006 led to stock out situation and stoppage of production. This resulted in loss in contribution of Rs. 2.67 crore.

The matter was reported to the Management / Government (March 2008); their replies were awaited (July 2008).

4.15 Wasteful expenditure

Decision to continue to make payment in spite of breach of contractual terms resulted in wasteful expenditure of Rs. 32.22 lakh.

An endorsement agreement was entered into (3 January 2006) between Marketing Consultants and Agencies (MCA), a State Government Company on behalf of Karnataka Soaps and Detergents Limited (Company) and Mr. M.S. Dhoni (Cricketer), through Sporting and Outdoor Solutions and Gameplan Sports Pvt Limited. The agreement was for a period of two years from 3 January 2006 to 2 January 2008. The remuneration fixed was Rs. 70 lakh[96] during the contract period payable in eight quarterly instalments of Rs. 8.75 lakh each commencing from January 2006. As per the agreement, the cricketer was to make himself available for photographic and filming sessions for five days during each year. The Company had the exclusive right to use his endorsement in connection with advertisement, marketing, sale and distribution of all its products**.**

Audit observed (December 2007) that the cricketer had attended only for three days (one day each in January, August and September 2006) till the end of the agreement (2 January 2008) as against 10 days (five days in a year) as per agreement. The cricketer also failed to appear on two occasions on 21 February 2007 (Pune) and on 17-18 June 2007 (Mumbai), though the Company made arrangements for launching products / filming sessions. The payments were, however, not linked with the filming session / appearance of the cricketer and the Company released Rs. 64.43 lakh[97] inspite of breach of contractual terms. Considering that the cricketer had made himself available for only three days up to September 2006, out of the agreed 10 days, the proportionate payments of Rs. 32.22 lakh[98] incurred after September 2006 had become wasteful. The Company terminated the contract on 20 December 2007 and decided to nominate an Arbitrator to resolve the issue. The appointment of the arbitrator is still pending (May 2008).

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[96] **in addition, MCA was eligible for an agency commission of 10 *per cent*.**

[97] **of which Rs. 52.50 lakh (six instalments) was towards remuneration and the balance towards agency commission (Rs. 5.25 lakh) and service tax (Rs. 6.68 lakh).**

[98] **Rs. 26.25 lakh to the cricketer, Rs. 2.63 lakh to the agent and Rs. 3.34 lakh service tax.**

The Government stated (April 2008) that the loss in terms of not appearing for remaining seven days as per the agreement has been made good by retaining the last two instalments and utilising his advertisement for entire two years. The reply is not acceptable as the cricketer did not turn up for the film shooting in spite of Company's request and commitment as per agreement. Further, the agreement itself was defective and the payments were not linked with his appearing for photographic and filming sessions. While the agreement provided for termination in the event the Company failed to make payments, the agreement did not provide for quantum of damages / loss sustained by either parties in the event of violation of its terms.

Karnataka State Industrial Investment and Development Corporation Limited

4.16 Mobilisation of funds at higher rate of interest

Failure to take appropriate decision in line with the prevailing market conditions resulted in additional financial burden of Rs. 8.28 crore.

The Company had been engaged in the activity of extending financial assistance to medium and large scale industries, for which it had borrowed from various sources. The Company had various financial commitments of Rs. 348.80 crore during 2005 and early 2006, which were in the nature of repayments of loans to financial institutions and settlement of high cost borrowings *etc.* To meet these financial commitments, the Company decided to mobilise Rs. 200.20 crore (Rs. 150.20 crore in 2005-06 and Rs. 50 crore in 2006-07).

The Company decided (August 2005) to exercise call option thereby replacing the high cost borrowings with cheaper borrowings. Two arrangers[99] were awarded (September 2005) the contract to mobilise funds of Rs. 150 crore at coupon rate of 7 *per cent* per annum. As the arrangers mobilised only Rs. 8.60 crore till 15 January 2006, the contract was terminated.

In response to Company's request for bonds issue, ICICI Bank and UTI Bank agreed (January 2006) to subscribe up to Rs. 75 crore and Rs. 100 crore respectively at a coupon rate of 7.85 p*er cent* semi-annually (8 *per cent* per annum) and IDBI offered Rs. 66.60 crore at 7.60 *per cent*. The Company accepted the offer of IDBI but did not accept (January / February 2006) the offers of ICICI Bank and UTI Bank even though it was aware of the possibility of further increase in rates due to hike in repo rates announced by Reserve Bank of India and that mobilisation of funds at a coupon rate less than 7.8 *per cent* per annum was doubtful.

[99] **A K Capital Services Limited and Allianz Securities Limited.**

The Company invited (March 2006) fresh tenders to mobilise the balance amount of Rs. 74.80 crore. Stratcap Securities India Private Limited was awarded (March 2006) the contract for mobilisation of funds at coupon rate of 8 *per cent* per annum but the arranger could mobilise (March 2006) only Rs. 24.60 crore.

As the second attempt to raise funds from market had failed, the Company decided (June 2006) to mobilise the balance amount of Rs. 100.20 crore from banks / institutions. Against the Company's request, UTI Bank offered funds at coupon rate of 8.95 *per cent*. The Company awarded (June 2006) the contract to UTI Bank, who subscribed to bonds[100] valuing Rs. 100.20 crore.

Audit observed (January 2008) that the Company failed to consider the initial offer of UTI Bank and ICICI Bank who were ready to subscribe up to Rs. 175 crore at a coupon rate of 8 *per cent* per annum even though it had assessed the difficulties in raising funds in open market as early as in October 2005. Had the Company subscribed to the offer of the banks in the first instance, the Company could have saved an additional interest commitment of Rs. 8.28 crore.

The Management stated (March 2008) that it acted prudently under the circumstances to keep the average cost of borrowings lower by resorting to a basket of rates rather than contracting with one arranger. The Company made a comparison between direct subscription to Rs. 100 crore by banks (UTI Bank) *vis-à-vis* the actual mobilisation in failed attempts and mobilisation from IDBI and stated that there was a savings of Rs. 2.28 crore.

The reply is not acceptable as the interest liability is to be taken into account when IDBI funds of Rs. 66.60 crore were raised *i.e.,* when offer of ICICI Bank, UTI bank were received and then compared with the funds actually required / raised. The Company's claim of interest savings of Rs. 2.28 crore is notional and misleading because the Company had ignored the rate at which funds of Rs. 100.20 crore were mobilised in June 2006. During January 2006, when the first attempt to raise funds had failed, the Company was aware of the unfavourable market conditions and as such the Company should have accepted the offers of UTI Bank and ICICI Bank. Considering these aspects, the comparison revealed that the company is now faced with additional interest commitment of Rs. 8.28 crore.

The matter was reported to the Government (June 2008); their reply was awaited (July 2008).

[100]**unsecured bonds (in the nature of debentures) of seven year tenure, with call and put option at end of five years.**

D. Devaraj Urs Backward Classes Development Corporation Limited

4.17 Non-recovery of Term Loan-Transport Sector

Failure to take legal action against defaulters rendered the loans doubtful of recovery.

The Company is appointed as the channelising agency for implementing the various schemes of National Backward Classes Finance and Development Corporation (NBCFDC). The Company sanctions and disburses loans to the members of backward classes for purchase of taxi, tata sumo, power-tiller and tractor with the financial aid provided by NBCDFC. Under the scheme, while NBCDFC provided 85 *per cent* of the loan amount, the Company provided 10 *per cent* and balance 5 *per cent* was to be contributed by the beneficiary. The loans were secured by hypothecation of the vehicles purchased. The beneficiaries were required to furnish promissory note, guarantee from two sureties besides submission of post dated cheques. The beneficiaries were to repay the full loan with interest in 20 quarterly instalments If a beneficiary failed to repay the instalments, the Company was entitled to initiate recovery action like issuing legal notice to the defaulter, seizure of vehicle financed and invoking personal guarantee of sureties. Between 2000 and 2004, the Company extended Rs. 8.51 crore as loans to 244 applicants. The progress of recovery of the loans was poor and out of 244 beneficiaries, 50 defaulted in making the payment and the Board of Directors resolved (March 2004) to discontinue the scheme. Up to November 2007, a sum of Rs. 5.56 crore was recovered.

Audit observed (December 2007) that out of 50 defaulters, 11 borrowers to whom loans of Rs. 31.89 lakh were disbursed (2000-2004), did not pay even a single instalment as of November 2007. Similarly, in 39 cases, against loans of Rs. 1.37 crore, only Rs. 39.91 lakh was received and repaid up to March 2005 and none of these beneficiaries repaid beyond March 2005. The principal amount due from them was Rs. 97.23 lakh. The Company, however, had not taken action to recover the amounts, initiate legal proceedings against the defaulters, seize the vehicles financed, and invoke personal guarantees (December 2007).

The financial assistance sanctioned by the NBCFDC for advancing loan to the members of backward classes is repaid by the Company. In the absence of loan recoveries from beneficiaries, the Company has repaid NBCFDC out of funds given by the State Government, which could otherwise have been utilised to extend financial assistance to other needy members of the backward classes. Thus, the failure of the Company in initiating timely action to recover the dues from the defaulters led to recovery of Rs. 1.29 crore becoming doubtful.

The Management stated (May 2008) that it had noted the audit observation and action was being initiated to present the advance cheques, seize the assets, issue legal notices to the loanees and file suits.

The matter was reported to the Government (March 2008); their reply was awaited (July 2008).

Krishna Bhagya Jala Nigam Limited

4.18 Non-stacking of excavated hard rock

Avoidable payment of stacking charges of Rs. 92.96 lakh for excavated hard rock not found stacked.

The Construction of Indi Lift Canal from Kilometre (Km.) 25 to 32 and Km. 33 to 40 was awarded (August / March 2002) to two contractors at their bid price of Rs. 11.06 crore and Rs. 10.23 crore as against the estimated cost of Rs. 24.85 crore and Rs. 23.00 crore respectively. The works were completed and final bills passed for Rs. 14.55 crore (September 2005) and Rs. 13.93 crore (March 2005) respectively.

As per the terms of the agreement, the excavated hard rock had to be stacked at the site for facilitating measurements and measured with a deduction of 40 *per cent* towards voids. The quantity so arrived had to be verified with the sectional measurements of hard rock excavated. In special circumstances, stacking could be dispensed with, with the prior approval of the Chief Engineer, in which case suitable deduction towards the stacking charges was to be made based on the current schedule of rates.

The Company paid Rs. 11.42 crore for excavation of 13.28 lakh cum of hard rock in the canal reaches. This included Rs. 92.96 lakh towards stacking charges. The excavated hard rock generated 18.59 lakh cum of rubble, of which the Company re-used 1.06 lakh cum in other works leaving a balance of 17.54 lakh cum of rubble valued Rs. 8.77 crore unused.

Audit observed (July 2005 / February 2008) that during the inspection of the works in March 2005, the Chief Engineer Canal Zone- 2, Kembhavi, recorded in his inspection notes that due to practical difficulties the excavated rocks were not stacked separately and had been laid all along the acquired land. The Chief Engineer accorded (March 2005) *post facto* sanction for non-stacking of the excavated hard rock and ordered not to deduct the stacking charges, which was deductible as per the Section 11.8.3 of the contract.

It is evident that excavated hard rock rubble was not found in stacked state at the time of inspection by the Chief Engineer but the Company had paid (March 2002 to September 2005) stacking charges (Rs. 92.96 lakh). Further, as the hard rock was dumped in spoil dumps, it lost its value of Rs. 8.77 crore (if in stacked form) which needed further investigation.

The Government stated (August 2008) that directions had been issued to recover the excess amount from the contractor. As the work was already completed and final bills passed in September 2005, the recovery of the amount remained doubtful.

Karnataka Road Development Corporation Limited

4.19 Extra expenditure

Hasty decision in withdrawal of letter of intent resulted in extra expenditure of Rs. 29 lakh.

The Company invited (November 2004) tenders for construction of Bridge across Yagachi river at Chikkaballapur – Mudigere Road at an estimated cost of Rs. 4.31 crore. Only one firm (National Projects Constructions Corporations Limited) submitted (December 2004) the completed bid. The offer was rejected (15 January 2005) as the firm had not satisfied the pre-qualification requirement of having executed similar work of Rupees five crore earlier.

The work was re-tendered (January 2005), and in response one bid from Valecha Engineering Limited (VEL) was received (March 2005) which was found technically fit. Letter of Intent (LOI) was issued (March 2005) to VEL for Rs. 4.76 crore with direction to proceed with incidental works such as location of plant site, quarries *etc.,* and also mobilise personnel and equipments. The LOI stipulated that detailed work order covering all aspects of the contract would be issued separately. VEL requested (5 April 2005) the Company to intimate the details of consultants for their assistance in starting the work immediately. The Company, however, instead of intimating the details of consultants[101] (appointed in October 2004), withdrew the LOI on 13 April 2005, stating that their Divisional Engineer had reported (13 April 2005) that VEL had not done any mobilisation work at site.

The work was re-tendered in April 2005. As the tender evoked no response, the Company cancelled (May 2005) the earlier withdrawal of LOI and requested VEL to start the work and enter into agreement immediately. VEL did not accede to this request and stated (July 2005) that as it had already de-mobilised the survey team / work force, it would not be possible to re-start the work.

The Company invited (July 2005) tenders for the fourth time and awarded (September 2005) the work to Gammon India Limited at a negotiated price of Rs. 5.05 crore, which was 17.16 *per cent* above amount put to tender. The work was completed (September 2007) at a cost of Rs. 5.22 crore[102].

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[101] **Secon Surveys Private Limited were appointed (October 2004) Project Management Consultants to prepare the Detailed Project Report of the work.**

[102] **the final cost was Rs. 5.22 crore due to execution of additional works not included in negotiated price of Rs. 5.05 crore.**

Audit observed (January 2008) that the decision of the Company to withdraw the LOI issued to VEL was taken inspite of the poor response to tenders when the bridge was to be constructed urgently, as is evident from the reduction in time for submission of tender. This resulted in extra expenditure of Rs. 29 lakh[103].

The matter was reported to the Management / Government (May 2008); their replies were awaited (July 2008).

KPC Bidadi Power Corporation Private Limited

4.20 Non-firming up of source of fuel

Non-firming up the source for supply of gas as fuel even after 13 years of conception of project, indicated that the project would be further delayed and result in consequential cost escalation.

The State Government approved (November 1995) the setting up of a Combined Cycle Power Plant (CCPP)[104] at Bidadi near Bangalore with a capacity of 300 MW (enhanced to 700 MW during May 2001 and to 1,400 MW during October 2003) to be developed in joint sector with a private developer. A Joint venture under the name KPC Bidadi Power Corporation Private Limited (Company) was incorporated (April 1996) as a subsidiary of the Karnataka Power Corporation Limited (KPCL) and the main objective of the Company was to generate power by setting up coal / gas / naptha / diesel / bagasse or multi-fuel or combined cycle plants. Audit scrutiny of the records relating to firming up of source of supply of raw materials required for the project revealed the following:

- The Company took up (1997) the project as a joint venture with UNOCAL Corporation, USA with naphtha as fuel. The process of implementation of the project was delayed hence UNOCAL withdrew from the project. It was decided (February 2001) to switch-over to Liquefied Natural Gas (LNG), since the increasing prices of naptha rendered the cost of generation of power exorbitant. As per the revised Detailed Project Report (October 2003) for the 1,400 MW plant, the project was to be completed within 36 months. The cost of the project was estimated at Rs. 3,712.26 crore. The cost of generation of power worked out to Rs. 2.11 per unit at 85 *per cent* Plant Load factor (PLF) based on cost of natural gas at $3.7 per Million British Thermal Units (MMBTU) as compared to the cost of thermal power which ranged from Rs. 3 to 4 per unit. The annual requirement of gas at 85 *per cent* PLF was estimated at 1.26 Million Metric Tonne Per Annum (MMTPA). KPCL floated (2003) tenders for supply of gas and three firms submitted (March 2004) techno-commercial bids, but none of the bidders submitted price bids. The Empowered Committee constituted (May 2005) by the Board to explore the options for obtaining gas, indicated (April 2006) that availability of

[103] **Rs. 5.05 crore – Rs. 4.76 crore.**

[104] **a combined cycle is characteristic of a power producing engine or plant that employs more than one thermodynamic cycle**.

domestic natural gas as well as imported LNG was uncertain and long term contracts were difficult. The Company directed (August 2007) the firms who had participated in the earlier tender (2003) to submit their price bids. Gas Authority of India Limited (GAIL) and Indian Oil Corporation Limited (IOCL) indicated (September 2007) that they could supply gas only if the indicative date of commencement of gas supply is extended to the year 2011-2012. Thus, the source of raw material is yet to be firmed up (March 2008). The Company had so far incurred Rs. 16.30 crore towards the project which is yet to be established (March 2008).

Audit observed that:

- The Government of India (GOI) is primarily responsible for requisite gas supply for power stations. As early as in March 2006, GOI ruled out the possibility of allocation of a share in the natural gas reserves to the states. GAIL and IOCL had also expressed their inability to supply gas till 2012.

- Non-firming up of the source for supply of raw material indicated that the project implementation would run into further delay and would result in consequential cost escalation. With the cost of gas rising from $3.7 to $8.75 per MMBTU between 2003 to 2008, and cost per unit now being equal to cost per unit of thermal generation and as the implementation of the project is delayed and uncertain, the cost per unit would further increase. This makes the viability of the project doubtful.

- The Company is incurring an expenditure of Rs. 73 lakh (approximately) annually towards administrative expenses.

The Government stated (July 2008) that the implementation of the project is on hold due to non-availability of gas at a reasonable price. The Management stated that there were some positive developments regarding laying of gas pipeline and it was in touch with concerned agencies regarding supply of gas. The Government also stated (July 2008) that the expenditure now being incurred should be looked at as a pre-operative expenditure in creation of an asset with great potential.

As the project is at a very nascent stage even after 13 years of conception, and in view of the precarious state of availability of gas and as GOI had already ruled out (March 2006) the possibility of allocation of a share in the natural gas reserves to the states, the Company's plans to implement a gas-based plant requires a re-look.

Karnataka Sheep and Wool Development Corporation Limited

4.21 Failure to achieve the objectives

Due to lack of long-term plan and adequate technical staff to formulate / execute the schemes, the performance of the Company remained sub-optimal and resulted in non-achievement of the objectives of its formation.

As the sheep rearers of Karnataka were not getting suitable market for their sheep and sheep products, the Government established in 1975 (under Act of 1974[105]) the Karnataka Sheep and Sheep Products Board, which was converted and registered under Companies Act 1956, in December 2001 as Karnataka Sheep and Wool Development Corporation Limited (Company). The Government repealed (March 2003) the Act of 1974 and the Company was established from April 2002.

The main objectives of the Company are:

- Sheep breeding – development of cross breed for breed improvement, sheep rearing, maintenance and grazing;
- Shearing of sheep;
- Manufacture of sheep products belonging to textile sector and Grading and processing of wool.

Grants received and utilised

The State Government funded the schemes of the Company by budget allocation every year. The Company received Rs. 32.74 crore during last seven years (since inception), which included a total plan grant of Rs. 19.30 crore, non-plan grant of Rs. 7.44 crore and share deposit of Rs. 6 crore.

- Of the plan grant received, Rs. 3.43 crore was spent for purchase of medicines (health coverage), Rs. 2.43 crore for insurance of sheep / shepherds, Rs. 1.47 crore as security charges (in sheep breeding farms) and Rs. 77.05 lakh for maintenance of buildings and Rs. 3.24 crore was spent on its core activity of sheep up-gradation and development.
- As against Rs. 7.44 crore received as non-plan grant, the Company spent Rs. 11.23 crore towards pay and allowances, administrative expenses. The excess non-plan expenditure of Rs. 2.95 crore[106] was met by diverting the plan funds.

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[105] **under the Karnataka Sheep and Sheep Products Development Act, 1974.**
[106] **excluding interest earned on fixed deposits**.

- The Company is having Rs. 13.74 crore in banks (fixed deposits and savings account[107]) as at March 2008.

Audit undertook (June 2008) a review of activities of the Company, to examine extent of achievement of its objectives since its formation. The Company has not formulated a long-term plan for implementation of various schemes. Even the schemes implemented in pursuit of the objectives since inception indicated that the performance of the Company was sub-optimal.

The audit findings are discussed below:

Development of cross breed for breed improvement, sheep rearing, maintenance and grazing

- The Company purchases sheep (rams and ewes) and after breeding, sells / distributes them to the beneficiaries / farmers for further breed development. While the sheep and goat population in the State was 72.55 lakh and 44.83 lakh respectively, the Company remained as a marginal contributor even after seven years of formation as it sold only 2,620 lambs. The mortality of animals during the period was 3,986, which was 48.43 *per cent* of the total animals reared in the farms as against the norm of 20 *per cent*. The Company had distributed on an average 357 cross breed rams every year up to March 2008. Compared to the annual requirement of 24,000 good quality rams to upgrade the breed quality of 72.55 lakh sheep in the State, the contribution of the Company was marginal. The Management accepted (July 2008) the high mortality and attributed it to various diseases, and stated that treatments have been carried out as per advice of Institute of Animal Health and Veterinary Biologicals. The Management further stated that the lower contribution to sheep population / breeding was due to limited infrastructure and technical personnel.

- The Company utilised only Rs. 1.02 crore as against Rs. 2.81 crore received under various schemes for developing indigenous and exotic breeds. The Management attributed (July 2008) the non-achievement to lack of technical officers and supporting staff in sheep breeding farms.

- In order to strengthen the families below poverty line, a scheme was formulated to benefit 2,222 number of families by providing a flock of 10+1 sheep (10 ewe : one ram) to each family. The unit cost of the flock of sheep was Rs. 18,000 and the total cost of the scheme was Rupees one crore. Audit observed that only 377 families availed the scheme and the total amount utilised was Rs. 16.96 lakh (up to 2007-08). The Management stated (July 2008) that the scheme was discontinued due to poor response from beneficiaries.

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[107] **Rs. 8.72 crore in fixed deposit and Rs. 5.02 crore in savings account/treasury (including share deposit amount).**

- The performance of the six[108] sheep breeding centres revealed that the total expenditure incurred for maintenance of these farms in the five years (2002-07) was Rs. 5.13 crore for average number of 2,000 sheep for each year as against the total income of Rs. 35.23 lakh. The Management stated (July 2008) that commercial activities will be taken up in future.

Shearing of sheep

- While the amount of Rs. 60 lakh released (2004-05) for providing machine facilities for shearing the sheep to farmers to replace the traditional facilities, the purchase of 18 shearing machines at a total cost of Rs. 59.99 lakh was made after a delay of three years (June 2007). The Management while accepting (July 2008) that traditional shearers were not available, stated that action was taken to popularise mechanised shearing. Audit observed that in the absence of a concrete plan fixing the targets for shearing sheep by the company, the utilisation of these machines would be doubtful.

Manufacture of sheep products belonging to textile sector and Grading and processing of wool

- As only Rs. 18.89 lakh was incurred towards construction of sheds and purchase of electronic weighing machines for undertaking scientific system for marketing sheep and sheep products as against sanction of Rs. 1.10 crore, the benefits of marketing sheep and sheep products remain under-achieved.

- The amount of Rs. 65 lakh was released (2004-05) as Special Grant-in-aid for providing facilities for wool collection, storage and processing and also for marketing facilities for wool and woollen articles with the construction of multipurpose commercial complex. The multipurpose commercial complex remained unutilised even after a lapse of four years.

- An Integrated Sheep and Wool Development Scheme**,** to utilise the wool properly in the manufacture of financially profitable products was launched by the Company to construct wool godowns in the places where the number of sheep is very high in the State. Prior to formation of Company, two godowns were constructed at a cost of Rs. 38.83 lakh and the work of balance three godowns were yet to be completed (May 2008). The Management stated (July 2008) that due to slash in wool rates, the godowns were used as a carpet weaving centre and office establishment of respective district branches.

- The wool production of the Company during the six years (2002-03 to 2007-08) ranged between 0.15 MT (2004-05) and 0.98 MT (2006-07). The schemes formulated to improve the wool production, processing

[108] **Kundhapura, Ullavathy, Dhanagur, Guttal, Anagawadi and Suttatti.**

and use in the State, have not been implemented inspite of sanction and release of funds of Rs. 41.25 lakh for value addition to Deccani wool, Rs. 10.50 lakh for mini wool souring plant, Rs. 30 lakh for spinning and carding unit and Rs. 6.29 lakh towards Wool analysis laboratory. Audit observed that inspite of the Company funding (up to 2003-04) Rs. 10,000 each to establish 76 of the 151 co-operative societies registered with the Company and creating infrastructure facilities, the Company has been unsuccessful to collect wool. The Management stated (July 2008) that value addition to Deccani wool could be done only after the souring plant was established and there were no technical personnel to run the Wool analysis laboratory.

The Company, established with a set of well defined and laudable objectives, could not achieve the same due to lack of long-term plan. In the absence of a long-term plan and lack of adequate technical staff to formulate and execute the schemes, within the timeframe, implementation of most of the schemes has been sub-optimal. As commercial activities could not be made effective, generation of income remained insignificant.

The matter was reported (June 2008) to the Government; their reply was awaited (July 2008).

General

4.22 Follow-up action on Audit Reports

Explanatory notes outstanding

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

Audit Reports for the years 2004-05 and 2005-06 were presented to the State Legislature in March 2006 and March 2007. Eleven departments, which were commented upon, did not submit explanatory notes on 47 out of 56 paragraphs / reviews as on September 2008, as indicated below:

Year of the Audit Report (Commercial)	Total paragraphs and reviews in Audit Report	No. of paragraphs and reviews for which explanatory notes were not received
2004-05	25	18
2005-06	31	29
Total	**56**	**47**

Department wise analysis is given below:

Name of the department	2004-05	2005-06
Commerce and Industries	7	9
Energy	0	7
Water Resources	5	4
Forest	1	0
Tourism	2	1
Social Welfare	1	0
Finance	0	1
Co-operation	0	2
Information technology	0	2
Public works	0	1
Agriculture and Horticulture	0	1
General	2	1
Total	**18**	**29**

Departments largely responsible for non-submission of explanatory notes were Commerce and Industries and Water Resources.

Compliance to reports of Committee on Public Undertakings (COPU) outstanding

4.22.2 As per the instructions the compliance (Action Taken Notes-ATN / Action Taken Report- ATR) to recommendations of COPU were required to be furnished within six months of placement of the Report in the Legislature. Replies to eight Reports of the COPU containing recommendations to 50 paragraphs, presented to the State Legislature between February 2004 and July 2008, had not been received as on September 2008, as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
2003-2004	1	2
2005-2006	5	27
2006-2007	2	21
Total	**8**	**50**

4.23 Response to inspection reports, draft paragraphs and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2008 pertaining to 77 PSUs disclosed that 3,479 paragraphs relating to 969 inspection reports remained outstanding at the end of September 2008; of these, 14 inspection reports containing 123 paragraphs were pending due to non-receipt of even first replies. Department wise break-up of inspection reports and audit observations outstanding as on 30 September 2008 is given in **Annexure 13.**

Similarly, draft paragraphs and reviews on the working of Public Sector Undertakings are forwarded to the Principal Secretary/ Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. All the reviews have been discussed in the Audit Review Committee on Public Sector Enterprises and the Government have confirmed minutes of meeting in respect of two reviews. It was, however, observed that 13 paragraphs forwarded to the various departments during March to June 2008 as detailed in **Annexure 14**, had not been replied so far (September 2008). Their views have been taken into consideration while finalising the reviews / paragraphs wherever replies from Government / Department have been received.

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

BANGALORE **(USHA SANKAR)**
The **Principal Accountant General**
(Civil and Commercial Audit), Karnataka

COUNTERSIGNED

NEW DELHI **(VINOD RAI)**
The **Comptroller and Auditor General of India**