

CHAPTER - IV

4. MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

4A. GOVERNMENT COMPANIES

4A.1 Government companies - General

4A.1.1 Expenditure on Foreign travels by State Public Sector Undertakings

Drawal of daily allowance (DA) in excess of prescribed limits, without submission of vouchers in respect of hotel accommodation and entertainment expenditure, payment of lumpsum allowances and out of pocket allowance led to excess/irregular payment of US\$ 1,29,524 (Rs.55.36 lakh).

Government of Karnataka, Finance Department issued guidelines during April 1997 for regulating the foreign travels of the State Government Officials. These guidelines were also applicable to State Public Sector Undertakings (PSUs) where the expenditure is borne by these undertakings. These guidelines, *inter alia*, include the following:

- ◆ Officials would get daily allowance as per the rates prescribed for each Country i.e., US\$ 100 per day in USA/Japan and US\$ 75 per day in other countries
- ◆ The officials were entitled for reimbursement of actual expenditure on hotel accommodation subject to limits prescribed. i.e., US\$ 250 for Grade I officers and US\$ 175 for Grade II Officers.
- ◆ Where the official is treated as state guest and provided free boarding and lodging, he will be entitled to only 25 per cent of admissible daily allowance.
- ◆ In case of business delegation, the leader of delegation may be paid entertainment allowance to a maximum of US \$ 1,000 per trip subject to production of necessary vouchers

- ◆ Officials would get local transportation charges of US\$ 25 per day.

Examination of the records produced to Audit by 12* Companies revealed instances of violation of these guidelines as discussed below:

(i) Irregular/Excess payment of daily allowance (DA) and non submission of vouchers in support of hotel accommodation

On a review of foreign travel claims of PSUs for journeys undertaken between July 1997 and December 2000 it was observed that DA was not regulated as per the entitlement and expenditure on hotel accommodation was paid without production of vouchers. In respect of 44 Officials of 12 PSUs and 4 Officers of Government of Karnataka, an amount of US\$ 97,956 (Rs 42.34 lakh) was paid over and above the entitlement as detailed in Annexure 19. Payment of DA in excess of limits prescribed by state government and payment of hotel rentals without production of supporting vouchers is not permissible under the rules. This had resulted in irregular payment of Rs.42.34 lakh. The correctness of the amount paid to these executives could not be ensured in Audit.

(ii) Non regulation of DA where free lodging and boarding was provided

In the case of Karnataka Power Transmission Corporation Limited (erstwhile Karnataka Electricity Board), 3 Officials had undertaken official foreign tours between June 1997 and January 2001 to participate in United States Energy Association/United States AID energy partnership programmes at USA. The Corporation paid the total cost of the programme, which included living accommodation, breakfast, refreshment breaks, receptions, lunches, transportation etc., from Monday to Friday. As such the Officials of the Corporation were entitled only to 25 per cent of the prescribed daily allowance for these days. However they were paid daily allowance at regular rates US \$ 100 resulting in excess payment of US\$ 5800 (Rs.2.22 lakh) as detailed in Annexure - 20.

(iii) Irregular payment of lump sum allowance and out of pocket expenses

No lumpsum allowance and out of pocket expenses were payable as per the Government guidelines. However, lump sum allowance of US\$ 7500 (Rs.3.02 lakh) was paid to 12 Officials of Karnataka Power Corporation Limited on 15

* 1) Karnataka State Agricultural Produce Processing and Export Company Limited, 2) The Mysore Paper Mills Limited, 3) Karnataka State Industrial Investment and Development Corporation Limited, 4) Karnataka State Financial Corporation, 5) Mysore Minerals Limited, 6) Karnataka Road Development Corporation Limited, 7) Karnataka State Powerloom Development Corporation Limited, 8) Karnataka Silk Industries Corporation Limited, 9) Karnataka State Small Industries Development Corporation Limited, 10) Karnataka Urban Infrastructure Development and Finance Corporation Limited, 11) Karnataka Power Corporation Limited, 12) Karnataka Power Transmission Corporation Limited.

occasions and out of pocket expenses of US\$ 6100 (Rs.2.67 lakh) were paid to 7 Officials of Karnataka Power Transmission Corporation Limited resulting in irregular expenditure as detailed in Annexure-21.

(iv) Entertainment allowance

As per the guidelines entertainment allowances to a maximum of US\$ 1000 were payable subject to production of vouchers. However, in respect of 5 Officers of 4 PSUs, entertainment allowance of US\$ 12,168 (Rs.5.11 lakh) was paid without any vouchers as detailed in Annexure-22.

The matter was reported to the Government (July 2001); their reply is awaited (August 2001).

4A.2 Karnataka Power Transmission Corporation Limited

4A.2.1 Avoidable payment on purchase of ACSR conductors

Non-evaluation of cost of conductors under ICB with Local Competitive Bids (LCB) resulted in additional expenditure of Rs.8.17 crore.

Purchase of conductors at higher rates under ICB led to additional expenditure of Rs.8.17 crore.

The erstwhile Karnataka Electricity Board invited (April 1995) International Competitive Bids (ICB) for design, manufacture and supply of ACSR Drake, Lynx, Coyote and Rabbit conductors for its transmission and urban distribution improvement schemes. The Board accepted the offer (July 1995) of a consortium led by Deepak Cables (India) Limited (other members were Sharavathy Conductors Private Limited and Mohan Aluminium Private Limited, Bangalore), for supply of ACSR Drake, Lynx, and Coyote and National Small Industries Corporation for Rabbit conductors. The prices for conductors were based on the price of aluminium and steel as in July 1995 and the contracts were awarded in April 1996. It was observed (July 2000) in Audit that when the above offers were under process, the Company placed orders for the purchase of the same type of conductors on various local manufacturers (including present consortium leader Deepak Cables (India) Limited) under Local Competitive Bids (LCB) at much lower prices which were also based on the price of aluminium and steel prevailing as in July 1995. Purchase of conductor under ICB contract from local firms led to an additional expenditure of Rs.8.17 crore when compared with purchases under LCB as detailed below:

		Type of conductors			
		Drake	Lynx	Coyote	Rabbit
A	Quantity purchased (in kms)	892	965	2,376	3,725
B	Price in US \$	3,898	1,917	1,341	434
C	Price in Indian Rupees (Rs.35.05 per US \$)	1,36,625	67,191	47,002	15,212
D	Total (A x C) (Rs. in lakh)	1218.70	648.39	1116.77	566.65
E	Add Incidentals (Rs. in lakh)	2.86	1.96	4.33	17.79

		Type of conductors			
		Drake	Lynx	Coyote	Rabbit
F	Total (D + E) (Rs. in lakh)	1221.56	650.35	1121.10	584.44
G	Corresponding Prices of supplies received in LCB (in Rs)	1,04,223	51,506	34,048	14,087
H	Expenditure as per LCB (A X G) (Rs. in lakh)	929.67	497.03	808.98	524.74
I	Difference (F-H) (Rs. in lakh)	291.89	153.32	312.11	59.70
J	Total extra expenditure	Rs. 817.02 lakh			

Thus, the failure of the Company to evaluate the cost of conductors quoted under ICB with those rates at which the Company was buying from other firms under LCB contracts resulted in the additional expenditure of Rs.8.17 crore.

The matter was reported to the Government/Company (July 2001); their reply is awaited (August 2001).

4A.2.2 Inclusion of Entry Tax in FORD prices

Inclusion of Karnataka Entry Tax not payable by the company and freight and insurance at higher rates to local firms resulted in extra expenditure of Rs.6.30 crore.

The erstwhile Karnataka Electricity Board (now Karnataka Power Transmission Corporation Limited) invited (June 1997) tender for procurement of 25,150 distribution transformers of various capacities ranging from 25 kVA to 500 kVA. The offers of Jhonson Electric Company, Baroda for 25 kVA, 250 kVA and 500 kVA transformers and Ramakrishna Electricals Private Limited, Nagpur for 63 kVA and 100 kVA transformers were the lowest.

Failure to exclude the element of entry tax and higher rate of freight and insurance to local firms resulted in extra expenditure of Rs.6.30 crore.

The Central Purchase Committee (CPC) (June 1998) while computing the free on road destination (FORD) prices for placement of order included Central Excise Duty at 13 per cent, Central Sales Tax at 4 per cent and Karnataka State Entry Tax at 4 per cent. In addition to this, the freight and insurance at Rs.720 to Rs.2,530 applicable to outside suppliers was also included. The Board placed (August 1998 to March 2000) orders on 14 Karnataka based firms for purchase of 4,825 numbers of 25 kVA, 17,577 numbers of 63 kVA, 10,326 numbers of 100 kVA, 1,844 numbers of 250 kVA and 397 numbers of 500 kVA transformers at the rate offered by Jhonson Electric Company, Baroda and Ramakrishna Electrical Private Limited, Nagpur.

It was observed in Audit (August 2000) that the Company was not paying Entry Tax on materials purchased locally and should have excluded the same while calculating FORD prices offered to the local manufacturers. Further freight and insurance payable to local firms was Rs.485 to Rs.1440 only. Thus, by inclusion of Karnataka entry tax at 4 per cent, which was not payable

and freight and insurance at higher rates in the FORD prices of local firms, the Company had incurred an extra expenditure of Rs.6.30 crore.

The Company stated (April 2001) that ex works prices offered to the local firms were much below their quoted rates. The reply is not acceptable as the FORD prices of outside state firms offered to local manufacturers should, as a matter of fact be exclusive of Entry Tax and equitable freight and insurance.

The matter was reported to the Government (April 2001); their reply had not been received so far (August 2001).

4A.2.3 Establishment of 220 kV Station at Gadag

Creating capacity in excess of demand resulted in idle investment of Rs.5.72 crore

In order to meet the projected peak load demand of 100.32 MVA (92.87 MW) by 1996, the erstwhile Karnataka Electricity Board approved (September 1993) a project for establishing a sub-station with 2x100 MVA transformers at Gadag at a cost of Rs.12.24 crore. As the projected demand was only 100.32 MVA, the Company could have established a station with only one 100 MVA transformer. Thus, going in for a station with two 100 MVA transformers was not need based, as during December 1993, one more project was approved for installation of 2x10 MVA transformer at Gadag by replacing one 10 MVA and 5 MVA transformers under Urban Distribution Improvement Scheme (UDIS).

The work of establishing the station with 2x100 MVA transformers was started during September 1996 and completed in October 1999 at a cost of Rs.11.44 crore thereby increasing the capacity to 200 MVA. In this connection, it was observed that the Company had neither reassessed the demand at Gadag during September 1996 before implementing the project of establishing 2x100 MVA transformers nor was any assessment of future requirement made before going ahead with 2x100 MVA transformers. It was also observed that the peak load during March 2000 was only 61.06 MVA (55 MW) recorded at Gadag. Hence establishment of 1x100 MVA transformer was sufficient to meet the requirement of peak load demand at Gadag. This had resulted in idle investment of Rs.5.72 crore towards cost of one additional 1x100 MVA transformer.

The Government in its reply (August 2001) accepted that the two transformers have not been loaded upto their capacity and the peak load reached was not commensurate with the capacity created. It was further stated that the Company had plans to upgrade the stations presently connected to Gadag Station to utilise the excess capacity. The reply is not acceptable as the upgradation plans for the sub-stations to be attached to Gadag are still under proposal stage and the Company could have taken up both the upgradation as well as installation of new transformer after reassessing the demand.

Commissioning of 2x100 MVA transformers instead of 1x100 MVA resulted in avoidable expenditure of Rs.5.72 crore.

4A.2.4 Additional expenditure due to change of conductor

Additional expenditure of Rs.4.42 crore was incurred on the execution of 220 kV DC line from Ambewadi to Narendra due to use of AAA Moose conductor

Use of AAA Moose conductor instead of ACSR Drake resulted in additional expenditure of Rs.4.42 crore.

The erstwhile Karnataka electricity Board approved (April 1991) a project report for construction of 220 kV DC line with ACSR Drake Conductor from Ambewadi to Narendra (Hubli-II station) for a distance of 53 Km at a cost of Rs.5.72 crore with the period of completion as two years. However, the Company delayed the execution of the work for more than seven years and only in May 1998 the project report was revised for a distance of 60 Km with All Aluminium Alloy (AAA) moose conductor at a cost of Rs.27.50 crore. However, the specific reasons for change of conductor from ACSR Drake to AAA Moose, which involved an additional expenditure was not specifically brought to the notice of the Board. The work was awarded (September 1999) on turnkey basis to RPG Transmission Limited, New Delhi at a cost of Rs.23.05 crore plus taxes and duties. It was observed in Audit that use of AAA Moose conductor was not need based as in all subsequent construction of 220 kV lines ACSR Drake conductor was used and the same was sufficient to evacuate the entire power transmitted through Nagjhari- Ambewadi - Ponda line. This had resulted in additional expenditure of Rs.4.43 crore due to use of AAA Moose conductor.

The Company in its reply (April 2001) stated that AAA moose conductor was used because of its superior features such as long life and reduced losses. The reply of the Company is contrary to the fact that all other 220 kV lines constructed subsequently were executed with ACSR Drake conductor only.

The matter was reported to the Government (July 2001); their replies had not been received (August 2001).

4A.2.5 Extra expenditure due to preparation of unrealistic estimates

Failure of the Board to compute rates for mechanical excavation and entrusting the work based on Schedule of Rates resulted in an additional expenditure of Rs.1.05 crore.

The erstwhile Board (now KPTCL) approved (September 1998) the estimates (based on SR 1996-97) for site grading of the proposed 400kV station at Nelamangala and Talaguppa at Rs 1.30 crore and Rs.48 lakh respectively based on manual ways excavation. As the work involved excavation of huge quantity of ordinary soil, hard soil, hard rock etc., the Chief Engineer Major Works (South) Bangalore proposed (March 1999) to use mechanical ways of excavation by using earth-moving equipment. However, no data rates were

prepared for mechanical excavation and leveling of land. The Schedule of Rates (SR) of both Karnataka Power Transmission Corporation Limited and Karnataka Public Works Department (KPWD) also did not contain the rate for mechanical excavation.

The Company entrusted (July 1999) the work to Karnataka Land Army Corporation (KLAC) a Government of Karnataka Enterprise on direct entrustment basis at SR of the year of execution plus 10 per cent as per the decision of the Board to entrust all civil works costing more than Rs.10 lakh to KLAC. Accordingly the KLAC submitted the revised estimate at Rs.1.72 crore and Rs.69 lakh (based on the SR 1999-2000), in respect of Nelamangala and Talaguppa respectively which was duly approved by the Company (July 1999).

Direct entrustment of work without working out data rates for mechanical execution resulted in additional expenditure of Rs.1.05 crore.

KLAC, who had no infrastructure to execute the work, re-tendered it to private agencies at 42 and 56 per cent below SR for Nelamangala and Talaguppa works. The work was completed by using earth moving equipment at a total cost of Rs.1.72 crore (Rs.1.42 crore for Nelamangala and Rs.30.06 lakh for Talaguppa) as against Rs.2.79 crore and Rs.78.94 lakh respectively payable to KLAC (including 10 per cent service charge and 4 per cent composite tax) based on actual work executed. Thus, the failure of the Board to compile data rates for mechanical excavation inspite of Chief Engineer's opinion that the work requires mechanical excavation and entrusting the same to KLAC based on SR resulted in additional expenditure of Rs.1.86 crore.

On ascertaining the fact of subcontracting the work, which was in violation of agreement with KLAC, the Board was able to recover Rs.80.74 lakh (Rs 58.46 lakh on Nelamangala and Rs.22.28 lakh on Talaguppa works) for violation of agreement. Despite this recovery, the Company had to incur an additional expenditure of Rs.1.05 crore

The matter was reported to the Company/Government (August 2001); their reply had not been received so far (August 2001).

4A.2.6 Avoidable investment

Avoidable investment of Rs.1.25 crore on the construction of 66kV DC line from Gowribidanur to Bagepally.

The power requirement of Bagepally was fed from Gowribidanur 220/66 kV sub-station through 66kV Single Circuit (SC) line. The erstwhile Karnataka Electricity Board decided (November 1996) to construct a new 66 kV Double Circuit (DC) line with higher capacity coyote conductor along with one additional bay at Gowribidanur and at Bagepally at a cost of Rs.4.54 crore on the ground that the existing support system for the transmission lines were not suitable for uprating the conductor. The work was completed in February 2000 at a total cost of Rs.4.86 crore.

Construction of double circuit line instead of single circuit resulted in an avoidable investment of Rs.1.25 crore.

In this connection, it was observed (August 2000) in Audit that the maximum peak load recorded (2 March 1997) at Gowribidanur Station on the 66kV SC Bagepally line was 200 Amps and the future load growth was estimated at 220 Amps. As such in place of Double Circuit Line construction of a Single Circuit line with coyote conductor (carrying capacity 367 Amps) along with existing 66kV SC line (180 Amps) was more than sufficient to cater to the existing and future load growth in and around Bagepally. Even after considering the construction of a Single Circuit line on Double Circuit towers, the avoidable investment was Rs.1.25 crore.

The Government justified (June 2001) the construction of the Double Circuit line on the ground that the peak load on No.1 66kV circuit is about 250 Amps and No.2 66kV circuit is carrying around 180 Amps. The reply of the Company is not acceptable as the existing 66 kV line with rabbit conductor (180 Amps) would have taken the load of No.2 circuit.

4A.2.7 Extra expenditure due to not invoking risk purchase clause

The company did not invoke the risk purchase clause against defaulting suppliers for recovery of extra expenditure of Rs.0.83 crore on procurement of LT wiring kits

Based on offers received against open tenders issued during May 1999, the Company placed (December 1999) purchase orders on Gani & Sons, Bangalore and Power Tech Engineers, Bangalore for supply of 10,060 numbers of Low Tension (LT) wiring kits of various capacities valued at Rs.3.85crore. As per the delivery schedule of the order, the supplies were to commence from January 2000 and be completed by March 2000.

As the firms did not supply the material, the Company included the quantities of these purchase order in the quantities of tender invited in March 2000 for supply of LT wiring kits and decided (August 2000) to procure the same material at a higher rate ranging from 7 to 43 per cent as compared to previous purchase rates.

Not invoking of risk purchase clause resulted in non recovery of Rs.0.83 crore.

In this connection, it was observed (February 2001) in Audit that the Company did not invoke the risk purchase clause against the defaulting suppliers for recovery of extra expenditure of Rs. 82.78 lakh incurred in purchase of these kits.

The Company stated (June 2001) that as the firms had not responded to the final notices issued in May 2001, and the matter would be placed before Central Purchase Committee (CPC) for final decision. The reply is not convincing, as due to inaction of the Company to invoke risk purchase clause even after a lapse of 15 months, it could not recover Rs.82.78 lakh.

The matter was reported to Government (May 2001); their replies had not been received (August 2001).

4A.2.8 Construction of link line from Malur Station**Avoidable expenditure of Rs.0.75 crore on the construction of 66kV link line from Malur Station to Kolar Gold Fields.**

Power to Kolar Gold Fields (KGF) and Bangarpet is being fed from Hoody-Hoskote- KGF Double Circuit (DC) 66kV line. In order to improve voltage conditions at KGF, reduce energy losses and to cater future load, one more 66kV DC line from Kolar 220 kV Station to KGF was constructed to interlink with the existing DC Hoody-Hosakote-KGF line at a cost of Rs.1.57 crore which was commissioned in August 1997. In addition, the Company also constructed (September 1999) a 66kV DC link line at a cost of Rs.75.24 lakh from Malur 220 kV station to the old Hoody- Hoskote-KGF line to feed power to KGF. As power to KGF is being supplied from Kolar 220 kV station and also from Hoody station, the construction of this link line from Malur 220 kV station to the old KGF line was not need based. This has resulted in avoidable expenditure of Rs.75.24 lakh.

Construction of a link line to Hoody-KGF line resulted in avoidable expenditure of Rs.0.75 crore.

The Government replied (August 2001) that the construction of link line would help in restoring power supply to KGF Station under condition of outage of Kolar-Bangarpet 66kV line. The reply is not tenable as power to Bangarpet and KGF can be supplied through the existing 66kV line from Hoody in case of outage of Kolar Bangarpet 66kV DC line.

4A.2.9 Extra expenditure on purchase of PCC poles**Incorrect adoption of the base cost of PCC poles resulted in extra expenditure of Rs.0.44 crore.**

The erstwhile Karnataka Electricity Board invited (June 1998) tenders for supply of 7.5 meter and 8.0 meter long Prestressed Cement Concrete (PCC) poles. Since the rate quoted by the qualified tenderers were on the higher side (Rs.818.11 and Rs.900.81 for 7.5 meter and 8 meter poles respectively) it was decided (December 1998) to update the prices of running purchase orders and offer the same to manufacturers. Accordingly the prices were updated (as on 1 December 1998) at Rs.610.22 and Rs.658.23 per pole for 7.5 meter and 8.0 meter respectively and offered the same to the manufacturers. All the firms accepted the rates offered by the Company and orders were placed accordingly for 1,34,600 numbers of 7.5 meters and 1,42,000 of 8 meters PCC Poles.

It was observed in Audit (December 2000) that while updating the prices in January 1999, the Company considered the base price of cement and steel prevailing on 1 May 1994. However, the Company did not consider the corresponding prices of poles as on January 1995 (Rs.549.41 for 7.5 meters pole and Rs.589.74 for 8 meters pole) and instead incorrectly considered price of Rs.561.77 for 7.5 meters pole and Rs.603.00 for 8 meters pole fixed during September 1995. This led to incorrect computation of rates offered to the manufacturers and resulted in avoidable expenditure of Rs.44.04 lakh.

The Government stated (June 2001) that the orders were placed at prices lower than the lowest offer obtained while tendering. The reply is not acceptable as while calculating the rates to be offered to the manufacturers in January 1999, the Company incorrectly considered the updated prices as on September 1995 instead of January 1995.

4A.2.10 Procurement of EHV transformer oil

Decision of the company to place order of EHV transformer oil on KAVIKA instead of considering the next lowest offer had resulted in additional expenditure of Rs.0.25 crore

The Company invited (February 2000) tenders for procurement of 2000 KL of Extra High Voltage (EHV) Grade transformer oil for repairs and maintenance of power transformers and distribution transformers. The purchase Committee of the Company decided (January 2000) to procure 1200 KL of transformer oil on firm price basis from six firms at a computed price of Rs.23,545.19 per KL. Accordingly Purchase Orders were placed (February 2000) on these six firms for supply of 200 KL each. Only one firm i.e. Sharavathy Petrochemicals Pvt Limited, Bangalore accepted the offer and supplied only 50KL. All other firms refused on the ground that the price was not workable due to increase in crude oil price.

In order to meet the urgent requirement of transformer oil, the Company approached (February 2000) Karnataka Vidyuth Karkhane Limited (a State Government Company) (KAVIKA), which manufactures transformers, for supply of 500 KL of transformer oil, instead of negotiating with the next lowest bidder (L2) and others. KAVIKA agreed to supply oil at Rs.31,250 per KL with price variation and the Company placed an order (March 2000) for supply of 550 KL of transformer oil. KAVIKA in turn placed (April 2000) an order on Raj Lubricants Private Limited at Rs.26,256.34 per KL and Savitha Chemicals Limited, Mumbai at a cost of Rs.26,140.85 per KL. These two firms were regular suppliers of transformer oil to the Company and had quoted Rs.25,648.95 and Rs.25,023.73 per KL respectively against the above tender. Thus, decision of the Company to place order on KAVIKA at Rs.31,250 per KL instead of considering the next lowest offer had resulted in an additional expenditure of Rs.24.50 lakh on supply of 385.603 KL of transformer oil.

The Government in its reply stated (June 2000) that Directors of the Company had taken a considered decision to procure the urgent requirement to safeguard the equipment of the Company. The reply is not acceptable as KAVIKA also supplied the oil after getting it from other suppliers of the Company and the Company had not made any efforts to procure oil from these suppliers.

Purchase of transformer oil from KAVIKA resulted in avoidable expenditure of Rs.0.25 crore.

4A.2.11 Failure to invoke penal clause

The failure of Company to invoke penal clause on the defaulting contractor resulted in additional expenditure of Rs.0.14 crore

The Irrigation Department, Government of Karnataka deposited (February 1993) Rs.1.77 crore with the erstwhile Karnataka Electricity Board for execution of 66 kV line from Ramanathapura to Karadilakkanakere.

The labour portion of the above work was awarded (November 1996) to Sree Vyshnavi Enterprises at Rs.23.89 lakh with a stipulation to complete the work within 8 weeks from the last day of issue of material. As per terms of the agreement, the contractor was liable to pay damages for abandoning the work. The contractor commenced the work in June 1997 and abandoned the work after excavating 14 pits even though the required materials were supplied. Thereafter, the contractor did not resume the work nor did he claim any amount for the work executed. The balance work (re-estimated at Rs.27.41 lakh at SR 1997-98) was awarded (July 1998) to Sufi Constructions for Rs.37.84 lakh. The Company has not taken any action to recover the additional expenditure of Rs.14.00 lakh from Vyshnavi Enterprises so far under the risk purchase clause of the agreement.

Failure of the Company to invoke the risk purchase clause resulted in additional expenditure of Rs.14.00 lakh.

The matter was reported to Management/Government (April 2001); their replies had not been received (August 2001).

4A.3 Visveswaraya Vidyuth Nigam Limited

4A.3.1 Payment of irregular advances

Payment of advances even after deposit of Rs.1.00 crore under new system resulted in loss of interest of Rs.1.45 crore.

Fuel required for the Diesel Generating Plant of the Company at Yelahanka is being procured from Indian Oil Corporation Limited (IOCL) against advance payment. During April 1995 it was decided to switch over from advance payment to payment against bills against a deposit of Rs.1.00 crore. Accordingly, the Company deposited Rs.30.46 lakh on 18 April 1995 and Rs.69.54 lakh on 19 April 1995. However, it was observed in Audit that the Company made further advances during April and May 1995 on the old system amounting to Rs.3.76 crore against which supplies were not received as the Company had switched over to new system after payment of deposit. After adjusting supplies against earlier advances, an amount of Rs.3.03 crore was recoverable. The Company neither approached IOCL for refund nor adjusted the same against supply bills. On being pointed out by Audit (August

1998), the Company adjusted Rs.3.03 crore during March 1999 against supply bills.

Thus, payment of advances after switching over to new system and delay in adjusting the same resulted in loss of interest of Rs.1.45 crore. The Company, however, failed to initiate action against the officials responsible for this lapse.

The Government stated (June 2001) that owing to paucity of funds, payment could not be made to IOCL within the stipulated time and payments have always been made after a lapse of 15 to 20 days and for these delayed payments, IOCL never claimed any interest. The reply is not convincing as the Company took up the matter with IOCL for refund only after being pointed out in Audit and did not mention the circumstances under which advance payments were made even after deposit of Rs.1.00 crore under new scheme.

4A.4 Krishna Bhagya Jala Nigam Limited

4A.4.1 Formation of Service roads and inspection paths

Payment for additional thickness for service roads and inspection paths was made at Rs175 per cum in place of applicable rate of Rs 40 per cum resulting in additional expenditure of Rs.1.93 crore.

The construction of distributories No.10, 12, 12a and 12b on Indi Branch Canal including lateral and sub-laterals was entrusted to Gayathri Engineering Company (lowest tenderer) at Rs.13.97 crore being 18.95 per cent above the estimated cost of Rs.11.74 crore during September 1992. This work inter-alia included formation of Service Roads and Inspection Paths, which was to be treated as B-Zone work (payable at Rs.40 per cum).

Payment at higher rates led to additional expenditure of Rs.1.93 crore.

Based on the instruction of Chief Engineer to spread murrum for a maximum thickness of 30 cms in an another distributory (No.11 of IBC) the Superintending Engineer, (SE) IBC Circle No.2, Rampur ordered in December 1997 to cover the top of Service roads and Inspection paths with murrum for a maximum thickness of 30 cm in these distributaries. However, decision to lay murrum on these distributaries (10,12,12a and 12b) was not based on any survey/study as to specific site conditions. The work was executed during the period from December 1997 to March 1999 and payments were made at Rs.175 per cum at the rates of embankment works in A-Zone. Even if this additional thickness was considered necessary, the payment should have been made at Rs.40 per cum (applicable in B-Zone). Thus, payment of Rs.175 per cum instead of Rs.40 per cum resulted in excess payment of Rs.192.83 lakh.

The Company replied (July 2001) that Service roads and Inspection paths were found unsuitable for the movement of vehicles with pneumatic tyres due to its uneven, rough and undulating surface conditions. Hence murrum covering was done only on the top most layer to facilitate movement of

vehicles and this work was executed as an additional item in accordance with the power vested with the Superintending Engineer.

The Company's reply is not tenable as

- No survey/study was conducted before entrusting this work.
- Claim for this work should have been regulated as per rates applicable for B-Zone work under which the main work of Service roads and Inspection paths were classified.

The matter was reported to Government (May 2001); their replies had not been received (August 2001).

4A.4.2 Avoidable expenditure due to improper planning

Shifting the location of a structure and consequential delay in furnishing approved drawing resulted in avoidable expenditure of Rs.1.17 crore.

The construction of Mudbal Branch Canal (MBC) from Km 39 to 50.80 with an estimated cost of Rs.14.17 crore (based on 1993-94 Schedule of Rates) was entrusted (June 1994) to R.S. Shetty and Company being the lowest at Rs.11.01 crore. The work was scheduled to be completed within 27 months (including monsoon) from the date of letter of acceptance (13 June 1994) i.e. upto September 1996.

To regulate the water at the entry of the aqueduct at Km 39.50 due to heavy embankment on either side, Chief Engineer, Canal I Zone, Upper Krishna Project recommended (May 1996) to shift the location of escape¹ at Km 39.15 and cross regulator² at Km 40.40 to Km 39.

Revised designs and drawings for shifting of location were approved by the Chief Engineer (Design) on 19 July 1996. The drawings for fabrication and erection of steel gate were approved during December 1997 and January 1998 i.e. beyond (September 1996) the contract period. The estimated quantity of steel was also revised from 33 MT to 113 MT. Hence, the contractor demanded (June 1998) revision of rates for structural steel works stating that the rates quoted by him were not workable, as he had to carry out these works beyond the contract period. The rate of steel for the above work was revised from Rs.16,000 per MT to Rs.1.20 lakh per MT worked out as per the guidelines of Central Water Commission. The additional expenditure incurred on account of increase in quantity of steel and upward revision of rate was Rs.1.17 crore.

The Company replied (June 2000) that due to site conditions and technical reasons shifting of location was inevitable. The reply is not acceptable as the Chief Engineer (Design) while scrutinising the drawings observed (July 1996)

¹ Used for removal of surplus or excess water

² A structure through which water discharge is regulated or varied

Increase in quantities and rate of steel due to shifting of location of a structure and delay in approval of drawings led to an avoidable expenditure of Rs.1.17 crore.

that there was no need to shift the escape cum regulator to Km 39 due to the following reasons:

- i) The height of embankment of MBC being 7 Mtrs with larger top width and flatter side slopes of 2:1, there should not be any sort of danger to the embankment.
- ii) There are no major distributories between the regulator at Km 32.456 and aqueduct.
- iii) If the purpose is only to regulate flow in the aqueduct the same can be done from any of the four regulators constructed in the earlier reach, which could take care of the problem.
- iv) If the water is to be let out in the distributories between Km 32 and Km 39 then temporary cross walls could be raised as was done in Narayanpur Left Bank Canal.

The matter was reported to Government (May 2001); their replies had not been received (August 2001).

4A.4.3 Excess payment of additional lead charges

Failure to adopt the item rates of neighbouring projects resulted in excess payment of lead charges of Rs.0.62 crore

The Engineer-in-Chief cum project co-ordinator, Upper Krishna Project of the Company inspected (February 1998) the work sites of Narayanpur Right Bank Canal (NRBC) at Kms 26 (A) and 27 and recommended for payment of extra water lead charges as the lead involved was more than 1 Km as stipulated in the agreement.

As no item rate was available in the Schedule of Rates (SR) of the Company, the Superintending Engineer, Rodalbanda worked out the lead charges at Rs.2.00 per Km/cum of work executed and the rate was approved (September 1999) by the then Managing Director. Accordingly Rs.10 and Rs.12 per cum was paid for 5 Kms and 6 Kms respectively. However, it was observed that for similar site of neighbouring Ghataprabha circle for additional lead of 5 Kms and 6 Kms the rate works out to Rs.1.59 and Rs.1.99 respectively.

Thus, failure on the part of the Company to adopt the item rates of neighbouring circle had resulted in excess payment of water lead charges of Rs.61.77 lakh.

The matter was reported to the Government/Company (June 2001); and their reply is awaited (August 2001).

4A.4.4 Non revision of rates for change in lead for execution of earthwork embankment

Failure to fix the rate for the excavated material of contractor's own reach as a source to carry out the work resulted in extension of undue benefit of Rs.0.20 crore.

The construction of distributory No.26 on Mudbal Branch Canal (MBC) involved inter alia the following bank works for which the estimated rates and the rates quoted by the contractor are detailed there against:

Item	Specification	Estimated rate	Rate quoted by the contractor
B-1 (b)	Earthwork embankment using excavated stuff from borrow area.	Rs.123.26 per cum	Rs.9 per cum
B-2 (b)	Construction of embankment with materials from excavation of spoil bank	Rs.64.29 per cum	Rs.126 per cum

These rates were accepted by the irrigation department of Government of Karnataka in July 1994 and the work was transferred to the Company.

The excavated stuff available at 40th km of MBC (borrow area) was identified as source to carry out work at Item B-1 (b). As the work of excavation at 40th km of MBC had not commenced due to non-completion of land acquisition process, this source could not be tapped. Hence, the Company permitted the contractor to make use of the excavated stuff available on the spoil bank with lesser lead and allowed the rates applicable to item B-2(b), for which the contractor had quoted a freak rate of Rs.126 per cum. It is not clear how did the Company identify the 40th Km of MBC as borrow area when the process of land acquisition was not over. Further the work involved in item B-2 (b) was more as compared to B-1 (b).

This has resulted in an additional benefit to the contractor amounting to Rs.20.26 lakh.

The Government replied (August 2001) that the excavation stuff from borrow area could not be tapped and the contractor was permitted to make use of the excavation stuff from spoil bank. This item was treated as additional items and paid as per clause 52 (5) (ii) of the agreement.

The reply of the Government is not tenable as the lead involved for excavated stuff was negligible and the nature of work was different from B-2 (b).

4A.4.5 Erroneous payments due to incorrect working of rates

Non-deduction of tender premium as provided in the contract resulted in erroneous payment of Rs.0.20 crore.

Construction of Indi Branch canal (IBC) from chainage 123.380 to 123.640 was awarded (January 1997) to Patil & Company at Rs.81.44 lakh (first lowest) being 25 per cent below the estimated cost of Rs.108.58 lakh as per schedule of rates of 1995-96 with a stipulation to complete the work within twelve months from the date of work order (14 February 1997).

During the execution of work two items (E4-earthwork excavation etc. for soft rock and E5-earthwork excavation etc. for hard rock) of work were ordered for execution by controlled blasting using "Aconex Powder Method" on the advice (20 February 1997) of South Central Railways. These works were treated as alternate items and payments were made at the rates approved by Chief Engineer in July 1997.

On a scrutiny of the bills it was observed in Audit (September 1999) that in respect of earthwork excavation in hard rock (item E-5) using above method, the tender premium (25 per cent below estimated cost) had not been deducted from the item rate as required under clause 13 (c) of conditions of contract according to which, for additional, substituted or altered items of work, rate shall be as specified for or derived from similar items of work in the agreement. Further in respect of earthwork excavation in soft rock (item E-4) using above method, the tender premium had been incorrectly deducted by calculating on the basic rate instead of the completed item rate in contravention of clause 13 (c) of the contract referred above. This had resulted in erroneous payment of Rs.19.67 lakh to the contractor.

The Government in its reply (August 2001) had not offered any remarks regarding non deduction of tender premium.

4A.4.6 Payment of additional lift charges

Incorporation of defective rate in the Schedule of Rates resulted in payment of additional lift charges of Rs.0.20 crore

The rate for excavation in soft rock with blasting and removal using heavy machinery was not initially available in the Schedule of Rates (SR) of the Karnataka Public Works Department, which was adopted by the Company. While finalising Schedule of Rates of the Company for the year 1996-97 this was indicated as Rs.120 per cum for lead of 50 metres and lift of 1.5 metres. This decision was based on recommendations (April 1996) of Superintending Engineer (SE), Rampur, for adoption of rate of Rs.120 per cum which was already inclusive of all lead and lifts. Thus, payment at Rs.120 per cum for lead of 50 meters and lift of 1.5 meters included in SR against initial recommendation (all inclusive) resulted in excess payment of lift charges of Rs.19.64 lakh for the execution of Indi Branch Canal from Km 113 to Km118.

The Government replied (August 2001) that the data rates of Rampur circle was applicable for works of Indi Branch Canal Km 64 to Km 112 only. The reply is not acceptable as rate of Rs.120 for all lifts and leads proposed by SE Rampur circle has been incorporated in the SR of the Company for the year 1996-97 after approval of DSR committee.

4A.5 Mysore Sugar Company Limited

4A.5.1 Injudicious investments in short term deposits

Investment of funds in separate current account/short-term deposits instead of liquidating cash credit resulted in avoidable payment of interest of Rs. 0.74 crore

To meet the funds requirement for the proposed co-generation project, the Company opened (July 1998) a separate Current Account and deposited all the collections from its arrack units into the said account. Out of the funds so accumulated, the Company invested Rs.1.51crore, Rs.3.16 crore and Rs.1.33 crore in fixed deposits for period of 90 to 180 days between August 1998 and November 1998. These deposits were renewed upto 393 days and earned interest of Rs.81.42 lakh at the rates ranging from 6.5 to 11.5 per cent.

In this connection it was observed in Audit (December 2000) that during the same period, the Company had availed cash credit from Banks ranging from Rs.10.63 crore to Rs.41.75 crore for its regular operations and paid interest of Rs.1.55 crore. The Company closed the fixed deposits of Rs.1.51 crore and Rs.1.33 crore during March 2000 and Rs.3.16 crore during April 2000 and utilised the same to clear the cash credit and term loans taken from Banks. Had the Company credited these funds to cash credit accounts instead of depositing in Current/Short term deposits in the first place, it would have avoided payment of interest of Rs.1.55 crore on the cash credit account.

Thus, the injudicious decision of keeping funds in Current Account/Short term deposits instead of crediting the funds to cash credit accounts resulted in avoidable payment of interest of Rs.74 lakh (after deducting amount of Rs.81.42 lakh earned on fixed deposit)

The Government stated (June 2001) that the Company invested funds to increase its cash reserves so that a project for co-generation could be implemented by availing loans. The reply is not acceptable as the cash reserves were created at the cost of borrowed funds.

Injudicious decision of keeping funds in current account/short-term deposits instead of liquidating cash credit resulted in avoidable payment of interest of Rs.0.74 crore.

4A.5.2 Improper planning in purchase of power

Failure to utilise captive generation facilities during power cut period resulted in avoidable expenditure of Rs.0.39 crore.

The erstwhile Karnataka Electricity Board imposed power cuts/energy cuts from time to time. During energy cut period, consumption over and above the entitlement fixed attracted penal rates of twice/thrice the normal rate of energy charges. It was observed that during the period from April 1995 to September 1997, the Company exceeded the consumption ranging from 14,798 units to 1,55,291 units over and above the monthly entitlements and paid penal charges of Rs.57.31 lakh on the excess consumption of 8,06,797 units.

In this connection, it was observed (February 2001) in Audit that the Company's 500 and 625 kVA Diesel Generator sets (DG Sets) were used only during power shut down and were not utilised to keep the consumption within the entitlement during periods of energy cut. The Company had also not worked out the cost benefit analysis of operating the DG Sets during the period of the energy cuts. Considering the generation norm of 3.6 units of energy per litre of diesel consumed, generation of 8,06,797 units of electricity would have cost the Company around Rs.18.80 lakh.

Thus, the failure to utilise the DG Sets for generation of additional energy required over and above the entitlement fixed by KPTCL resulted in extra expenditure of Rs.38.51 lakh.

The matter was reported to Government/Company (May 2001); their replies had not been received (August 2001).

4A.6 The Mysore Paper Mills Limited

4A.6.1 Avoidable expenditure on preparation of tenders and its evaluation.

Preparation of DPR, tender documents and its evaluation without making necessary funding arrangements for the projects resulted in avoidable expenditure of Rs.0.36 crore

Avoidable expenditure of Rs.0.36 crore on preparation of DPR/tender documents and its evaluation.

The Company got licence from Government of India for the expansion of Sugar Mill unit from 2,500 Tonnes Crushing per Day (TCD) to 5000 TCD during July 1996. The Company also decided (June 1997) for setting up a 10 MW bagasse based co-generation plant in view of high cost of power of Karnataka Electricity Board. The cost of the two projects viz., expansion of sugar mill and co-generation plant was estimated at Rs.47.91 crore and Rs.29.90 crore respectively. Without getting the approval of Government of

Karnataka for the investment and making arrangements for funding of the projects, the Company appointed (May 1997) A.P. Chinnaswamy and Associates as consultants for preparation of Detailed Project Report (DPR) for the above at a cost of Rs.8.50 lakh. The DPR was submitted during August 1997 and the Company entrusted (September 1997) the work of preparation of tender documents and its evaluation at a cost of Rs.26 lakh plus incidentals to the same consultant. Accordingly, the tender documents were prepared and tender enquiry was floated in March 1998, which were evaluated (October/November 1998) by the consultants for which Rs.27.62 lakh were paid.

The Company, however approached only in December 1997 to Industrial Finance Corporation Limited and Sugar Development Fund for financial assistance of 50 per cent and 40 per cent respectively of the Sugar Mill expansion cost. The Company also approached (February 1998) Indian Renewable Energy Development Agency (IREDA) for sanction of term loan for co-generation project. IREDA sanctioned (April 1998) a term loan of Rs.2240 lakh for co-generation project whereas IFCI expressed (November 1998) their inability to provide assistance. Consequent to delay in financial closure of Sugar Mill Expansion and State Government's approval for investment, the Sugar Mill Expansion Project as well as co-generation project were deferred.

As a result the entrustment of work of preparation of DPR, preparation of tenders and its evaluation before getting approval of Government of Karnataka and without making financial arrangement led to an avoidable expenditure of Rs.36.12 lakh.

The Company replied (June 2001) that the amount spent on the consultant is not a waste and the information available can be utilised in future. The reply is not acceptable as the Company has to invite tenders afresh and evaluate the same as and when the project is revived.

The matter was reported to Government (April 2001); their replies had not been received so far (August 2001).

4A.7 Hutti Gold Mines Limited

4A.7.1 Purchase of power at higher rate

Non availment of power at cheaper rates resulted in additional expenditure of Rs. 0.38 crore

The energy requirements of the Hutti and Chitradurga units of the Company were met mainly from erstwhile Karnataka Electricity Board and partly from captive diesel generation sets. Based on competitive offers received (November 1998-January1999) from two independent power producers (IPP) for supply of energy, the Company started purchasing energy from Kirloskar

Power Supply Company Limited (KPSCO) at Rs.3.25 per unit from February 1999 and at Rs.3.33 per unit from October 1999 as against the then existing rates of Rs.3.55 to Rs.4.00 of KPTCL. Though the KPSCO offered to supply 16 lakh units per month, the Company purchased only 10 lakh units per month from February 1999 to November 1999 and remaining power, which ranged from 3.27 lakh units to 11.47 lakh units from State Electricity Board at higher rates. In this connection it was observed that by not purchasing the entire 16 lakh units offered by KPSCO, the Company incurred an additional expenditure of Rs.38.04 lakh.

The Company stated (May 2001) that although KPSCO offered to supply 16 lakh units initially, during discussions they had indicated supply of 10 lakh units only. However, from the records it is observed that at no stage KPSCO had lowered their offer from 16 lakh units to 10 lakh units.

The matter was reported to Government (April 2001); their replies had not been received (August 2001).

4A.7.2 Undue benefit to the supplier

Inclusion of central sales tax in import parity price and enhancement in basic price and exchange rate in violation of the terms agreed resulted in undue benefit of Rs.0.27 crore

a) The Company had been purchasing sodium cyanide based on competitive tenders every year. A Memorandum of Understanding (MOU) with Cyanides and Chemicals Company Limited (CCC) Mumbai, was entered into (November 1997) for a period of three year from January 1998 to December 2000 for supply of sodium cyanide on import parity basis (on firm basis for one year) on the basic price declared by Degussa (a German Company), plus customs duty, countervailing duty, Central Sales Tax (CST) at 4 per cent, insurance at 0.19 per cent and miscellaneous charges at 2 per cent of the basic price so as to compensate the notional expenses which would have been incurred by the Company towards Letter of Credit charges in the event of import.

In this connection it was observed (January 2000) that while arriving at import parity price, CST of 4 per cent should have been excluded as no CST is payable on imported goods. This had resulted in extension of undue benefit of Rs.13.30 lakh on supplies of 451.25 MTs sodium cyanide made from January 1998 to December 1999.

The Company replied (July 2001) that CCC has imported the sodium cyanide and paid CST on sales to the Company. The reply is not acceptable as the component of CST does not form part of the import price and the same should have been excluded while arriving at import parity price.

The matter was reported to Government (June 2001); and their replies had not been received (August 2001).

Inclusion of CST while calculating import parity price and enhancement in basic price and exchange rate due to absence of understanding resulted in undue benefit of Rs.0.27 crore.

b) As per above MOU the basic price declared by Degussa during December each year was firm for the next calendar year. Accordingly the rate was reduced to US \$ 925 with effect from 1 January 1999 based on the prices prevailed in December 1998. However, the basic rate was enhanced to US \$ 1050 from US \$ 925 at the request of the supplier based on the international prices as on 1 July 1999 and conversion rate of Rs.43.50 per US \$ was adopted with effect from July 1999 in place of Rs.42.56 per US \$ prevailing in December 1998. Thus, the unwarranted enhancement of price during the middle of the year resulted in an additional expenditure of Rs.13.74 lakh on 126.35 MTs of sodium cyanide supplied between July 1999 and December 1999.

Thus, the total undue benefit of Rs.27.04 lakh was extended to CCC. The matter was reported to Company/Government (June 2001); and their replies had not been received (August 2001).

4A.8 Karnataka Soaps and Detergents Limited

4A.8.1 Extra expenditure on transportation of coal

Extra contractual payments to liaison agent and transportation of coal without inviting tenders resulted in extra expenditure of Rs.0.48 crore

The Company entered (May 1995) into an agreement with T Rajendra Prasad (a liaison agent) to carry out the liaison-cum-transport agency work of procurement of coal from Singareni Collieries Company Limited (SCCL) at an agreed rate of Rs.135 per MT upto February 1997 which was increased to Rs.155 per MT with effect from March 1997. The scope of work included obtaining allotment of coal and wagons, supervision at loading point, unloading from wagons and reloading in lorries at Bangalore (Byappanahalli) and transportation to the Company.

It was observed that the Company permitted (August 1995) the liaison agent to transport 2000 MTs of coal from the Collieries by Road on the plea that the contractor found extreme difficulty in getting allotment of wagons. For this the Company agreed to pay an extra amount of Rs.40 per MT for transportation by road over and above the normal liaison charges plus railway freight charges. This system of extra contractual payment of Rs.40 per MT continued till date (August 2001) without any cost benefit analysis and a quantity of 37,914 MTs was carried by road. As the liaison charges included getting allotment of wagons from railways as per clause 4 of the agreement, payment of Rs.40 per MT amounting to Rs.15.17 lakh was extra contractual. During the entire period, no tenders were invited to ascertain the competitiveness of the rate being paid to the liaison agent.

It was further observed in Audit that the cost incurred by the Company for transportation of coal by road from SCCL to Bangalore through liaison agent was higher by Rs.50.25 to Rs.132.75 per MT when compared to the cost of

transportation by road, incurred by Karnataka Small Scale Industries Development Corporation during the period from August 1995 to July 1999. The extra expenditure on transportation of 33320 MTs of coal works out to Rs.32.71 lakh.

The Government replied (June 2001) that it was transporting coal through wagons and only when allotment of wagons became scarce, it had decided to transport coal by road. It was further stated that the Company had agreed to pay Rs.40 against Rs.80 asked by the contractor only after ascertaining that Mandya Milk Union was paying Rs.910 per MT against Rs.899 paid by the Company for transportation of coal.

The reply of the Government is not acceptable, as the Company had not ascertained the competitiveness of rates paid by the Company by inviting tenders. Further, the rates paid by Mandya Milk Union cannot be compared directly as the distance between SCCL to Mandya is more by 110 Km than the distance between SCCL to Bangalore.

4A.9 Karnataka Land Army Corporation Limited

4A.9.1 Avoidable payment of interest on income tax

Failure to file income tax return in time, default in payment of advance tax and deferment of advance tax resulted in an avoidable interest payment of Rs. 0.54 crore.

As per section 234 A of the Income Tax Act 1961, an assessee is liable to pay interest at the rate of 2 per cent every month on the amount of tax as reduced by advance tax deducted in case of delay where return of income is furnished after due date. Further as per section 234B an assessee is liable to pay interest at the rate of 2 per cent every month for failure to pay advance tax of less than 90 per cent of the assessed tax. Similarly as per section 234C the assessee is also liable to pay simple interest at 1.5 per cent for three months if the advance tax is not paid before the due date or is less than the amount prescribed under Section 208 of the Income Tax Act 1961.

It was noticed (January 2001) in Audit that the Company had paid advance taxes of Rs.63.49 lakh (Rs.58.42 lakh on 18 June 1997, Rs.4.35 lakh on 30 November 1998 and TDS of Rs.0.72 lakh) for the Assessment Year 1997-98 on a total income of Rs.1.27 crore. The income of the Company was revised (June 1998) to Rs.1.74 crore based on its Audited accounts and the tax liability was worked out to Rs.74.73 lakh. The Income Tax return was filed only on 30 November 1998 instead on 30 November 1997. Consequently, for the delay in filing of return, default in payment of advance tax and deferment of advance tax, the Income Tax Department charged interest of Rs.53.87 lakh (Rs.17.76 lakh, Rs.30.50 lakh and Rs.5.61 lakh under sections 234 A, 234 B and 234 C respectively of Income Tax Act 1961).

Failure to furnish income tax return and to pay advance tax in time resulted in avoidable payment of Rs.0.54 crore.

Thus, failure on the part of the Company to furnish income tax return and to pay the prescribed advance income tax in time resulted in avoidable payment of interest of Rs.53.87 lakh.

The Company stated (July 2001) that, sales tax paid during the year was not considered in return of income and hence represented for rectification of assessment. The reply is not correct in as much as the sales tax paid is already considered in arriving at taxable income.

The matter was reported to Government (June 2001); their replies had not been received so far (August 2001).

4A.10 Karnataka Urban Infrastructure Development and Finance Corporation Limited

4A.10.1 Purchase of flats without requirement and delay in vacating hired accommodation

Purchase of flats without actual requirement and delay in vacation of hired accommodation resulted in avoidable rent of Rs.0.25 crore and loss of interest of Rs. 0.24 crore.

The Company hired (October 1996) a building on a monthly rent of Rs.96,000 with a security deposit of Rs.11.52 lakh towards office accommodation of the consultants of the Company.

The Company in the mean time purchased (March 1997) five flats at National Games Complex, Koramangala, Bangalore at a cost Rs.90.32 lakh, with a view to provide residential accommodation to the officers of the Company. As there was no immediate requirement of residential accommodation to any of the officers of the Company, the office of consultant was shifted to two flats during November 1999.

In this connection it was observed in Audit (October 2000) that as the Company had no definite plan for making use of the five flats purchased, it could have vacated the rented accommodation of consultant at least by July 1997 (allowing three months to assess the requirement of accommodation to its staff and for internal furnishings of flats etc.). Thus, delay of 29 months (July 1997 to November 1999) on the part of the Company to vacate the rented accommodation resulted in avoidable payment of Rs.25.05 lakh and loss of interest of Rs.3.48 lakh on Security Deposit of Rs.11.52 lakh. Further, the remaining three flats have not been allotted/put into use till date (August 2001) resulting in locking up of funds of Rs.54.19 lakh from April 1997 and loss of interest of Rs.23.93 lakh.

The Company replied (May 2001) that the flats were purchased as a facility to the staff. It was further stated that as there were no immediate requirement for

residential accommodation, it had decided to shift the consultants to the flats. The reply is not tenable, as the Company should have explored the possibilities of utilising the flats before taking a decision to acquire the flats.

The matter was reported to the Government (April 2001); their replies had not been received so far (August 2001).

4B. STATUTORY CORPORATIONS

4B.1 Karnataka State Road Transport Corporation

4B.1.1 Interest subsidy on Housing loans taken by employees from HDFC

Extra expenditure of Rs.2.08 crore due to providing excess subsidies of interest on housing loans.

As per terms of Karnataka State Road Transport Corporation Employees house building/house purchasing loan advance scheme 1979, the rate of interest shall be the same for such advances as applicable to the State Government employees. During the year 1984, due to non-availability of funds the Corporation decided to participate in the deposit linked loan arrangement of Housing Development Finance Corporation Limited (HDFC) by giving an undertaking to recover the instalments from salary and pay the same to HDFC. Further, the Corporation also extended a subsidy of 2.5 per cent to 4 per cent of the loan outstanding to HDFC during the period from 1984-85 to 1990-91.

The extension of uniform subsidy irrespective of rate of interest of HDFC resulted in additional expenditure of Rs.2.08 crore.

Following enhancement of rate of interest by HDFC during the year 1990-91, the Corporation decided to limit the subsidy on interest to 4 per cent. Accordingly, a flat subsidy of 4 per cent was allowed to all employees of the Corporation. It was observed in Audit that the maximum interest subsidy given by the State Government on loans taken from HDFC by State Government employees during the period from 1998-99 to 2000-01 varied from 0.5 per cent to 2 per cent, whereas from 1998-99 onwards, the Corporation employees were availing loans at interest rates lower than the State Government employees, and the subsidy extended by the Corporation at 4 per cent was more than the subsidy payable as per the Scheme. This had resulted in an extra expenditure of Rs.36.64 lakh towards interest subsidies to its employees on housing loans taken from HDFC during the years 1998-99 to 2000-01. Considering the loans already availed by the employees during the last three years from 1998-99 to 2000-01, the Corporation is liable to incur an extra expenditure of Rs.171.30 lakh over the remaining period of loans.

The Government stated (July 2001) that if the subsidy extended to the employees is to be brought on par with the State Government employees the same is to be taken up with the recognised federation of the union of employees. The reply is not tenable as the Management decision to extend the subsidy uniformly without ceiling, has resulted in employees availing additional subsidy than being extended to by the State Government to its employees.

4B.1.2 Purchase of precured tread rubber and Brake Parts

Non-placement of orders at lowest rates resulted in additional expenditure of Rs. 0.95 crore.

(a) Tenders were invited (October 1998) for supplies of precured tread rubber and allied materials for Elgi and Indag plants for the period from January 1999 to December 1999. The Corporation after negotiation (January 1999) with the tenderers issued (May 1999) purchase orders on 15 firms for supply of 1688 MTs of tread rubber and allied materials.

It was observed in Audit (March 2001) that out of 1688 MTs ordered 800 mts (47 per cent) was placed on Indag Rubber Limited (Indag) and Elgitread India Limited (Elgi). The quoted prices of these firms were the highest at Rs.95.18 and Rs.95.15 respectively when compared to the lowest offer of 12 other firms whose prices ranged from Rs.79.05 to Rs.85.65 on whom 868 MTs of the balance quantity was ordered. The additional expenditure incurred by placing orders on the highest quoted firms i.e. Elgi and Indag resulted in additional expenditure of Rs.76.00 lakh.

Purchase of tread rubber at higher rates from Elgi and Indag and brake parts from original equipment manufacturer resulted in extra expenditure of Rs.0.95 crore.

The Corporation justified (May 2001) the purchases at higher rates from Elgi and Indag in view of supply of good quality of materials by these two firms and free maintenance of tyre re-treading plants erected by these two firms. The reply of the Corporation is not tenable as the cost per Km of Elgi was Rs.0.038 per Km as against Rs.0.028 of Vamshi rubber on whom 60 MTs was ordered. Cost per Km of Indag was the highest at Rs.0.035 per Km as against Rs.0.029 of Kaycee rubber on whom 120 MTs was ordered. Further, the Corporation had not assessed the maintenance cost of these plants to justify the additional expenditure when the capital cost of the plants of both Elgi and Indag itself was around Rs.1.53 crore.

(b) Similarly in the purchase of brake parts during the period from 1996-97 to 1999-2000, the Company ignored the lowest offer of Suri Products (rate contract holder) and Burji Speed on Clutches and placed order for only Rs.0.91 lakh as against Rs.44.49 lakh placed on TELCO and Brakes India at higher rates ranging from 120 per cent to 365 per cent during that period resulting in avoidable expenditure of Rs.19.23 lakh.

The Corporation justified (September 1999) the purchase from TELCO and Brakes India on the ground that they were original equipment manufacturers. The reply is not acceptable as there were no adverse report on quality and supply of Suri Products and Burji Speed on Clutches.

The matter was reported to the Government (June 2001); their replies had not been received (August 2001).

BANGALORE
The

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Principal Accountant General (Audit) I
Karnataka

COUNTERSIGNED

NEW DELHI
The

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