CHAPTER II

2. REVIEWS RELATING TO GOVERNMENT COMPANIES

2.1 KARNATAKA HANDLOOM DEVELOPMENT CORPORATION LIMITED

Highlights

The Company was formed in October 1975 with a twin objective of promoting the growth and development of handloom industry particularly outside the co-operative sector and to provide continuous remunerative employment to the handloom weavers.

(Paragraph 2.1.1)

The accumulated loss of Rs.43.82 crore totally eroded the paid-up capital of Rs.15.72 crore as at the end of March 2003.

(Paragraph 2.1.6)

For want of firm commitment from the State Government to release its share of margin money and funds for Voluntary Retirement Scheme and for conversion of loan and interest thereon into equity, the revival proposal was yet to be sanctioned by the Government.

(Paragraph 2.1.7)

Though the looms coverage increased from 46,391 to 48,210 during 1998-2003 the working looms decreased from 16,908 to 11,801 during the same period.

(Paragraph 2.1.9)

The Company's turnover mainly constituted sale under two schemes of the State Government indicating excessive dependence on the Government.

(Paragraph 2.1.20)

The stock of finished goods (other than schemes' stock) varied from 12 to 22 months' sales during last four years. Holding of finished goods of more than one year old at showrooms resulted in incurring interest burden of Rs.7.74 crore.

(Paragraph 2.1.25)

All the 62 show rooms were under loss during 2002-03 and none of the showrooms could even recover cost of production.

(Paragraph 2.1.22)

Supply of uniform clothes under Vidya Vikasa Scheme below the cost of production resulted in non-recovery of cost of production of Rs.12.70 crore and delay in release of sale proceeds resulted in additional interest burden of Rs.3.45 crore.

(Paragraph 2.1.15)

The Company has established pre-loom and post-loom processing facilities, which were grossly under-utilised during the last five years upto 2002-03. However, due to poor production planning the Company had to resort to outsourcing of post-loom processing during the same period. The Company could have avoided the processing charges paid during 2000-03 on outsourcing to the extent of Rs.7.69 crore if the job was done in-house.

(Paragraphs 2.1.13 and 2.1.14)

Introduction

2.1.1 The Company was incorporated in October 1975 for promoting growth and development of the handloom industry particularly outside the co-operative sector and also to provide continuous remunerative employment to the handloom weavers. The Company has nine cotton projects with 105 production centres and eight silk projects with 15 production centres, besides one pre-loom unit each at Banhatti and Ranebennur. The Company is having a raw material bank at Banhatti, five warehouses for finished products/seconds at Bangalore, two warehouses at Hubli. In addition, it has a processing unit at Peenya, Bangalore and 62 showrooms called "Priyadarshini Handloom showrooms" for sale of silk and cotton fabric produced by the Company.

Objectives

2.1.2 The main objects of the Company are to:

- promote growth and development of the handloom industry particularly outside the co-operative sector;
- provide financial assistance to handloom and other allied industries such as preparatory, processing and finishing industries;
- undertake manufacturing, distribution and sale of key raw-materials and stores required for the handloom industry; and

- undertake marketing of handloom cloth in wholesale, retail or for commission within and outside the country and to take such further necessary steps in furtherance of this objective.

Presently, the activities undertaken by the Company are to :

- procure and provide raw materials to weavers;
- to arrange loans to weavers for construction of living-cum-worksheds, working capital and for improvement of looms;
- to arrange for technical training to weavers;
- to procure finished fabrics from the weavers; and
- to manufacture ready-made garments and to provide pre-loom and post-loom processing facilities.

The Company did not undertake manufacturing/sale of raw materials.

Organisational set up

2.1.3 The management of the Company is vested in the Board of Directors. The Managing Director is the Chief Executive of the Company and function as per the delegation of powers. He is assisted by the Joint Managing Director, Financial Controller, Chief Manager (Personnel and Administration) and seven other Chief Managers in charge of various lines of activities. Though, the registered office of the Company was shifted from Bangalore to Hubli in 1996-97, all top executives except the Joint Managing Director and the Chief Manager for production of cotton, are stationed in Bangalore.

Seven officers were appointed as Managing Directors of the Company during the last five years up to 2002-03 and only one officer had held that post for more than three years, although the Committee on Public Undertakings (COPU) in its 21st Report presented to the Legislature on 30 November 1984 recommended that the Managing Director should be posted continuously for a minimum period of three to five years.

Scope of Audit

2.1.4 Working of the Company covering transactions relating to "Marketing" was reviewed and reported in the Report of the Comptroller and Auditor General of India (Commercial) for the year 1991-92. The report was deemed to have been discussed by the Committee on Public Undertakings (COPU).

The present audit was undertaken to assess whether the Company has

- achieved its stated objectives, and
- carried out its operations with economy and efficiency.

The present review conducted between January and March 2003 covers the performance of the Company for the five years ending March 2003. Records at three cotton projects (Banhatti, Rabkavi and Ranebennur) covering 47 production centers, two silk projects (Kallur and Kollegal) covering seven production centers, three showrooms at Kolkata, processing unit at Peenya and registered office were test checked.

Audit findings, as a result of test check, were reported to the Government/Company on 20 May 2003 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view point of Government / Company was taken into account before finalising the review. The meeting of ARCPSE was held on 6 June 2003.

Capital structure

2.1.5 The authorised share capital of the Company was Rs.20 crore comprising 20 lakh shares of Rs.100 each as on 31 March 2003, against which the paid up capital was Rs.15.72 crore, fully subscribed by the State Government. This includes Rs.1.64 crore being interest dues converted into equity by the State Government during 1998-99.

Financial position and working results

The accumulated loss of Rs.43.82 crore totally eroded the paid-up capital of Rs.15.72 crore as at the end of March 2003.

2.1.6 The financial position and working results of the Company for the last five years up to 2002-03 are given in Annexe 10 and 11.

Due to decrease in turnover from 1998-99 onwards and increase in administrative expenses, the Company had incurred losses during the last four years ended 31 March 2003. The accumulated losses of Rs.43.82 crore as at 31 March 2003 has eroded the paid up capital of Rs.15.72 crore.

On further analysis of the financial position and the working results, the major contributors for the losses are:

- heavy overheads on production and selling and distribution (as discussed in paragraphs 2.1.12 and 2.1.21);
- low capacity utilisation (as discussed in paragraphs 2.1.13 and 2.1.14);
- huge inventory carrying cost (as discussed in paragraphs 2.1.24 and 2.1.25), and
- losses incurred in showrooms (paragraph 2.1.22 and 2.1.23).

Restructuring of the Company

2.1.7 Government of India launched (September 2000) Deendayal Hathkarga Prothsahan Yojana, a centrally sponsored comprehensive scheme for handloom sector. This scheme provided for component of financial restructuring and rehabilitation in handloom sector, with equal margin money contribution from Central and State Governments. The scheme was to be implemented within two years from April 2002. Other financial requirements were to be met by the respective State Governments.

For seeking assistance under the scheme, the Company hired the services of National Institute of Fashion Technology, co-assisted by Nathan and Nathan Consultants Private Limited. The consultant submitted (November 2002) the revised project report, which, inter alia, suggested for modernisation of existing pre-loom and post-loom processing units and warehouses and reduction in manpower by offering voluntary retirement.

Based on the report, the Company closed down nine out of 12 unviable showrooms in 2002-03. The Company sought finance of Rs.1.47 crore for modernisation of the existing pre-loom and post-loom processing units and Rs.14.00 crore, in two instalments (Rs.7.00 crore each in 2002-03 and in 2003-04) for Voluntary Retirement Scheme (VRS). The Company also sought conversion of outstanding loans and interest thereon of Rs.26.44 crore into equity. Considering the financial assistance under the scheme, the Company projected surplus cash generation of Rs.30 lakh to Rs.7.05 crore over next five years from 2002-03.

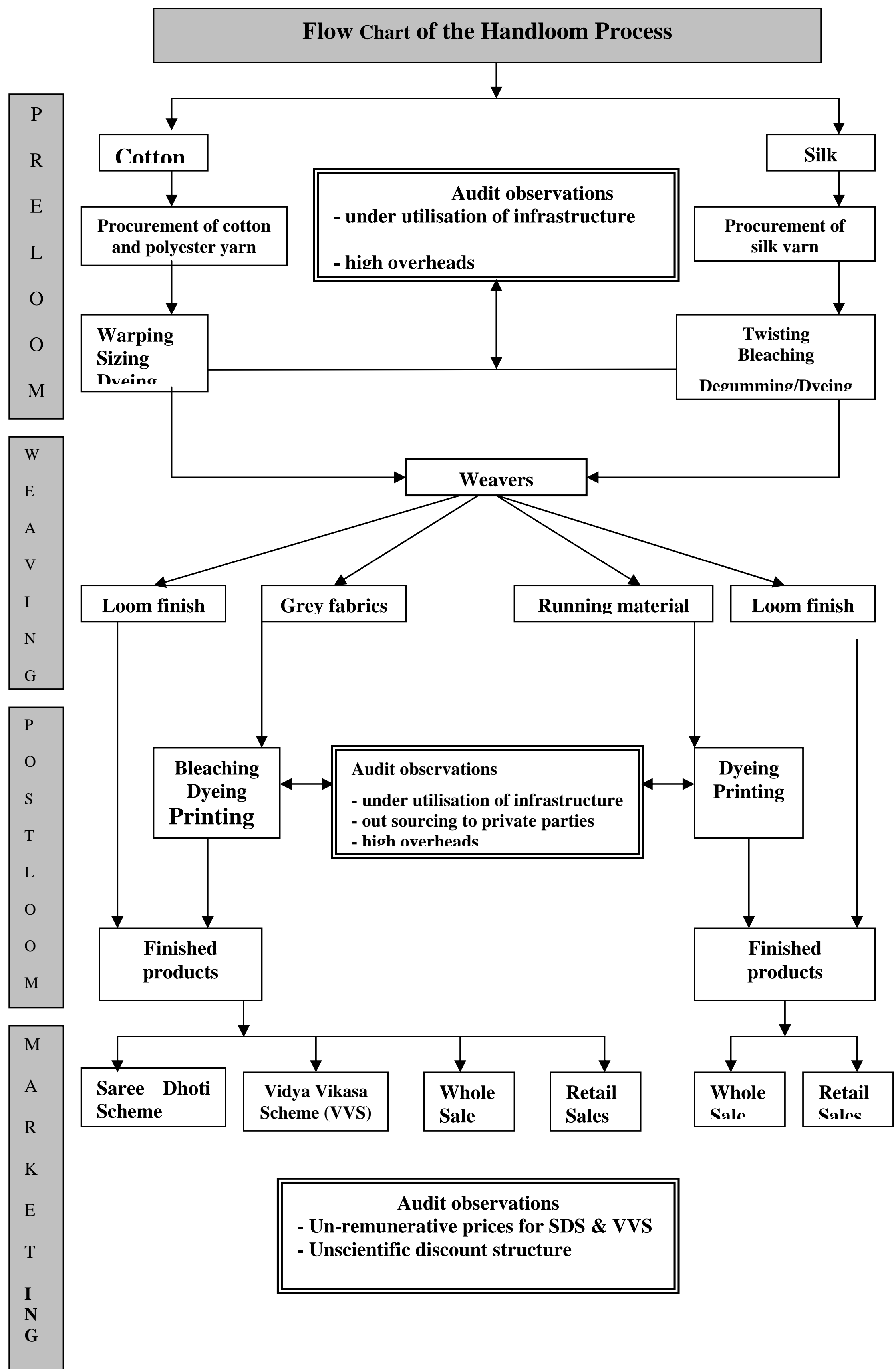
The proposal for revival of the Company was yet to be sanctioned by the Government.

The proposed restructuring of the Company was discussed (June 2003) in High Power Committee on Disinvestment. The Committee recommended (June 2003) for placing the proposal before the cabinet after concurrence of the Finance Department. The proposal is yet to be placed before cabinet (September 2003). Any delay in the proposed financial restructuring would further jeopardise the revival of the Company.

Review of activities

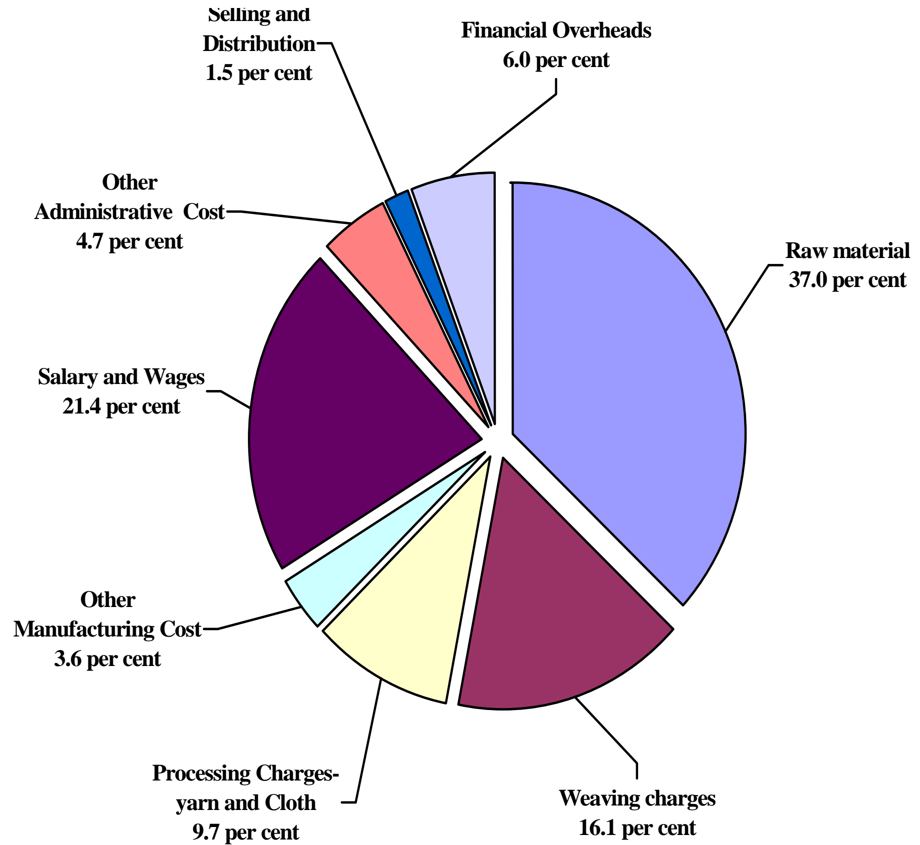
The activities undertaken by the Company in the process of production and sale of cotton and silk fabrics and the main weakness at different stages of the

process is depicted in the chart given below:



Activity-wise cost analysis

2.1.8 The chart below depicts the average expenses incurred over the five years ended 31 March 2003, in various activities relating to production and sale of silk and cotton fabrics.

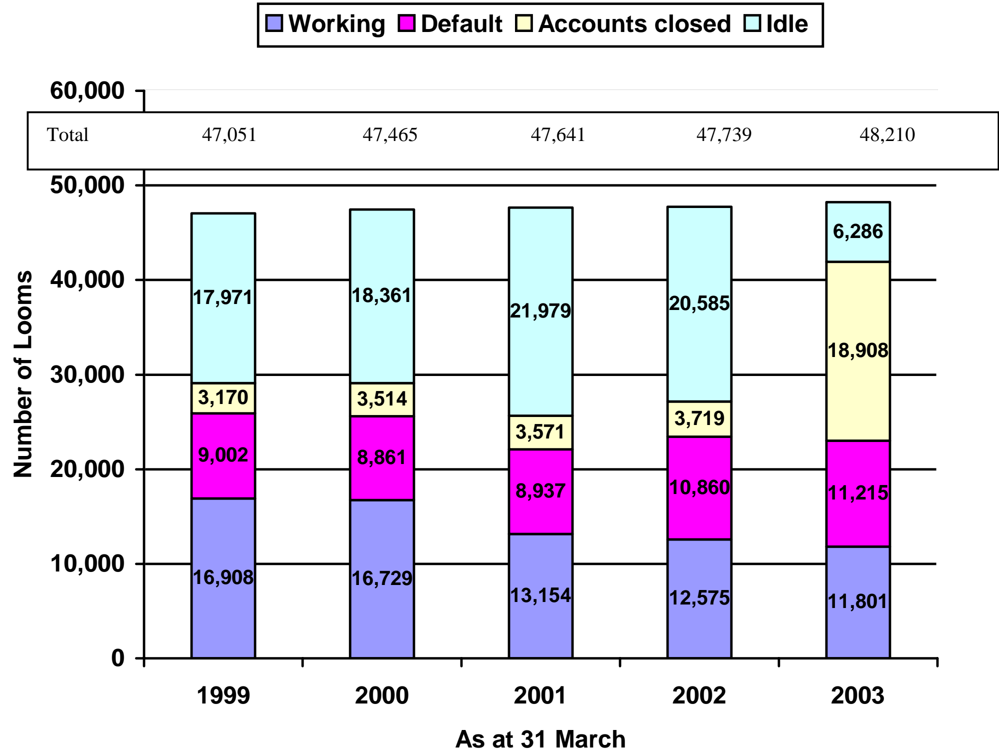


Audit observed that the net sale realisation during the last four years ended 2002-03 was less than the cost of sales resulting in loss during these years.

The observations on the activities of the Company are discussed in the following paragraphs.

Looms coverage-cotton and silk projects

2.1.9 The looms are owned by the concerned weavers. The weavers are registered with the Company to undertake the weaving of yarn on job work basis. Chart below shows the looms covered under cotton and silk projects by the Company for the last five years up to 2002-03:



Though the looms coverage increased from 46,391 to 48,210 during 1998-2003, the working looms decreased from 16,908 to 11,801 during the same period.

Even though the looms covered increased from 46,391 (40,242 cotton and 6,149 silk) at the beginning of 1998-99 to 48,210 (41,862 cotton and 6,348 silk) at the end of 2002-03, the working looms decreased from 16,908 (15,343 cotton and 1,565 silk) to 11,801 (10,930 cotton and 871 silk) during the same period. Due to irregular supply of raw materials, 14,379 looms were closed during 2002-03, indicating Company's inability to achieve its basic objective of promoting the growth and development of handloom industry.

The Company attributed (June 2003) negative growth to reduction in number and migration of weavers. The Company had not maintained 'data base' on the profile of the weavers.

Production performance – cotton

2.1.10 The production of the cotton fabrics mainly depends upon the receipt of the orders from the Government for two major schemes viz. Vidya Vikasa Scheme (VVS) and Subsidised Saree-Dhoti Scheme (SSDS). In anticipation of orders, the Company fixes production targets for these schemes in addition to wholesale/retail sales. Accordingly, the Company produces cotton and polyester fabrics. Entire production of all the schemes is classified under Janatha (SSDS), non-Janatha and Polyester (VVS, whole sale and retail sale) variety. The budgeted vis-à-vis the actual production of cotton (including

polyester) fabrics for the five years up to 2002-03 is given below:

Year	Physical (in lakh metre)			Financial (Rupees in crore)		
	Target	**Actuals**	**Achievement (Percentage)**	**Target**	**Actuals**	**Achievement (Percentage)**
1998-99	203.00	208.40	102.6	42.18	43.52	103.2
1999-2000	217.10	231.23	106.5	40.31	42.05	104.3
2000-01	174.22	163.91	94.1	36.29	34.72	95.7
2001-02	194.20	116.23	59.9	43.15	27.30	63.3
2002-03	193.90	163.02	84.1	42.38	35.00	82.6

As could be seen from the table, the Company could achieve the physical targets during 1998-99 and 1999-2000, but fell short of the target by 6, 40 and 16 per cent in 2000-01, 2001-02 and 2002-03 respectively. Decrease in the production was mainly due to receipt of lesser orders from Government. The Company did not explore alternative avenues to secure orders to avoid excessive dependence on the Government.

Production performance – silk

2.1.11 The production of silk fabrics is mainly to cater the needs of the wholesale and retail sales through Company showrooms. The budgeted vis-a-vis the actual production of silk sarees and fabrics for the last five years up to 2002-03 is given below:

Year	Physical (in lakh metre)			Financial (Rupees in crore)		
	Target	**Actual**	**Achievement (Percentage)**	**Target**	**Actual**	**Achievement (Percentage)**
1998-99	6.00	6.04	100.7	10.50	11.21	106.8
1999-2000	5.50	5.45	99.1	9.65	9.41	97.5
2000-01	4.50	3.87	86.0	6.50	6.42	98.7
2001-02	3.60	2.48	68.9	7.02	4.49	63.9
2002-03	3.00	2.30	76.7	6.53	4.80	73.5

It could be seen that there has been steady reduction in the targets both in physical and financial terms. Even the reduced targets could not be achieved by the Company.

The Company attributed (June 2003) the decline in production to stiff competition for silk products, non-supply of raw materials continuously due to inadequate working capital and irregular payment of conversion charges to weavers.

Production overheads

2.1.12 The cost of cloth per metre from weavers and the production overheads of the Company for both cotton and silk fabrics for the five years ended

31 March 2003 are detailed below:

Year	Procurement cost[♦] per metre (Rupees)		Production overheads* per metre (Rupees)		Percentage of production overheads to procurement cost	
	Cotton	Silk	Cotton	Silk	Cotton	Silk
1998-99	20.96	184.10	3.91	30.15	18.7	16.4
1999-2000	18.15	170.72	3.33	31.12	18.3	18.2
2000-01	21.29	162.78	4.67	41.41	21.9	25.4
2001-02	23.55	180.15	6.32	67.23	26.8	37.3
2002-03	27.47	208.66	4.82	75.65	22.4	36.3

Percentage of production overheads to the procurement cost increased from 18.7 to 22.4 in respect of cotton and from 16.4 to 36.3 in respect of silk.

As could be seen from the above table, the production overheads in respect of cotton and silk increased from Rs.3.91 to Rs.4.82 per metre and from Rs.30.15 to Rs.75.65 per metre respectively during 1998-2003. The percentage of production overhead to the procurement cost during the same period increased from 18.7 to 22.4 in respect of cotton and 16.4 to 36.3 in respect of silk. The increase in production overhead per metre was mainly due to decrease in the production. The Company concurred (June 2003) with the audit observation. However, the Company did not find alternate source to utilise its surplus capacity to avoid its excessive dependence on the Government and also to absorb its fixed overheads evenly with increased production.

Pre-loom process

Utilisation of pre-loom process facilities ranged from 25 to 32 per cent for warping and 27 to 33 per cent for sizing.

2.1.13 The Company is having pre-loom facilities at Banhatti and Ranebennur units, where conversion of yarn into beams through warping and sizing is made. These are transferred to raw material bank at Banhatti, for issue to weavers to convert into finished fabric. Each of the units at Banhatti and Ranebennur is having three warping and two sizing machines. The Company was not able to utilise the warping and sizing machines to full capacity both at Ranebennur and Banhatti. The utilisation of warping machines ranged from 25 to 29 and 26 to 32 per cent at Banhatti and Ranebennur respectively. In respect of sizing machines, it ranged from 27 to 33 and 28 to 33 per cent in respect of Banhatti and Ranebennur respectively during the last five years up to 2002-03. Underutilisation of warping and sizing machines was attributed to:

- inadequacy of manpower for three shifts;
- irregular supply of raw materials due to working capital problem;
- improper production planning due to delay in receipt of confirmed orders from the Government departments for Vidya Vikasa Scheme and Subsidised Saree-Dhoti Scheme; and
- occasional problems like power failure, water supply, machinery breakdown and absenteeism.

[♦] Procurement cost = Raw material cost *plus* conversion charges paid to weavers.
* Production overheads = Maintenance costs of production centres.

However, the Company had not taken remedial action to overcome these problems.

Post-loom process

Company was outsourcing post - loom processing even as its in-house capacity was under-utilised.

2.1.14 The process unit situated in Peenya has facility for bleaching, dyeing, printing, folding and finishing. It was noticed that the process unit has not been able to work to its full capacity. The percentage of idle hours varied between 7 and 63 per cent of the total hours available for production.

During 2000-03 the Company outsourced bleaching, dyeing and printing jobs of Rs.19.01 crore. Considering the available in-house capacity and the cost of material for processing, processing charges of Rs.7.69 crore could have been avoided.

The Company has attributed (August 2003) increase in idle hours to absenteeism, delay in receipt of work orders under major sponsored schemes of the Government, old machinery and non-availability of spares, etc.,

The Company have to broadbase its clientele instead of continuing to depend on a single client (the Government), and plan its production activities so as to reduce idle time/outsourcing. Replacement of old machinery could have been considered in a phased manner, to modernise its processing unit.

Implementation of schemes

Vidya Vikasa Scheme

2.1.15 With a view to encourage primary education and also to improve attendance at schools, the State Government introduced (1985-86) Vidya Vikasa Scheme (VVS) for supply of free uniform sets, to the children studying in Government schools and also to provide continuous remunerative employment to the weavers.

The Company was supplying uniform clothes below cost of production.

As per the scheme, for each academic year, the Education Department places indents on the Company followed by confirmed orders for supply of the required uniform sets. The uniforms are to be supplied by May each year. Considering the production cycle of ten months from processing raw-material to the production of uniforms, the orders should have been placed by August of the previous financial year. The Company has to supply uniform sets at the rates fixed from time to time, by the Education Department based on the cost data of the Company. Keeping its obligation to provide continuous employment to weavers, the Company accepts the order. As per arrangement of the scheme, the Education Department, while placing confirmed orders, also pays initial advance to the Company, which is adjusted against the future supplies. Payments against the supplies are released based on despatches.

Audit observed that

- the Department has not placed indents by August in any of the

preceding five years and there were delays ranging from 4 to 13 months beyond due dates for placing indents. The Department while placing the indents specifically instructed the Company to complete the supply of entire uniform sets within three months period. As a result, the Company could not plan its production and had to go for outsourcing of post-loom process to the extent of Rs.28.74 crore during these years. In addition, the Department had imposed penalty of Rs.43.74 lakh for the delayed supply of uniform in 2002-03;

- the rates fixed by the Department did not cover the cost of production. Consequently, the Company supplied uniform clothes below cost of production resulting in non-recovery of cost of production of Rs.12.70 crore during these years; and

- there were delays ranging from 1 to 11 months, in release of payments to the Company in all the years. Since the Company had resorted to cash credit to tide over its cash flow, the delay in release of payments resulted in additional interest burden of Rs.3.45 crore on the Company.

Subsidised Saree-Dhoti Scheme

2.1.16 The State Government introduced (with effect from October 1985) the Subsidised Saree-Dhoti Scheme (SSDS) with the twin objectives to subsidise the cost of cloth supplied to the rural poor and to support the weavers in the handloom sector. The Company was made the nodal agency for implementation of the scheme in all the districts, except Kolar district, in the State. With the discontinuance of the central subsidy from April 1998, the State Government continued with their subsidy, which was fixed by the State Level Implementation Committee (SLIC), from time to time. While finalising the subsidy payable to the Company, the State Level Implementation Committee (SLIC) considered, overhead at 25 per cent only as against actual overheads ranging from 43 to 59 per cent. On approval of the cost price, the Company was required to despatch fabrics to the wholesale points of the Karnataka Food and Civil Supplies Corporation Limited and Taluk Agricultural Produces Marketing Committee. The sale takes place only when the fabric are distributed through the Public Distribution System (PDS) for selling at subsidised prices. Based on the budget provision, the State Government releases in advance the subsidy amount to the Company at the beginning of each year.

Audit observed that

Due to decrease in the amount of subsidy released by the Government there has been reduction in the number of beneficiaries.

- the number of eligible beneficiaries was not assessed either by the Government or by the Company. However as per the records of the Company, there were 61.5 lakh green card holders in the State as on 1 April 2001.

- there has been reduction in the number of beneficiaries covered under the scheme due to decrease in the amount of subsidy released by the Government during 1998-2003.

- the sale takes place through PDS. There was a time lag of two to three years between the completion of production and the sale through the PDS. Consequently, the Company incurred inventory carrying cost of Rs.9.21 crore during the five years ended 31 March 2003.

- stock of Rs.9.82 crore as on 31 March 2003 was with the wholesale points relating to the scheme.

- the Company has not analysed the profitability of the scheme in view of the fact that it could load maximum overheads of 25 per cent only compared to actual overheads ranging from 43 to 59 per cent in these years.

The Company purchased saree clothes at higher rates than the supply rates resulting in loss of Rs.72.49 lakh.

- the Company purchased (2000-2003) 6.21 lakh metre (1,12,872 sarees) of polyester saree clothes. Against the cost of Rs.187.83 per saree, the Company could recover Rs.123.60 per saree as per price fixed for the scheme. This resulted in loss of Rs.72.49 lakh.

Financial assistance

Living/housing-cum-workshed schemes

2.1.17 In order to improve the quality and productivity and also the standard of living of the weavers, it was decided to provide living-cum-workshed (LCW) to weavers with proper shelter, providing proper lighting and free flow of air. The State Government nominated (June 1981) the Company as a nodal agency for implementation of the scheme. In the first instance, construction of 1,942 living-cum-work sheds (LCWs) under the Dutch Assisted Scheme (DAS) was entrusted to the Company. The Karnataka Industrial Area Development Board was to acquire and develop the required land for this scheme at various locations. Based on the proposal of the Company, the State Government entrusted, between 1992-1998, construction of 1,634 LCWs under three centrally sponsored schemes. The cost of land and its development was to be borne by the State Government. The Company implemented all the four schemes between 1987 and 2003.

Audit observed that 1,942 LCWs under DAS were constructed on the Company's land costing Rs.12.58 lakh. The Company incurred infrastructure cost of Rs.1.07 crore thereon. As these expenditure were not specifically covered under the scheme, the Company could not recover this amount from the beneficiaries. The Company's request to convert the same into grant has not been approved by the State Government so far (September 2003). Similarly, in respect of 551 LCWs under the centrally sponsored schemes, the Company could not recover the cost (Rs.10.09 lakh) of its own land from the beneficiaries. Thus, the Company could not recover a total cost of Rs.1.30 crore from the beneficiaries under the above four schemes.

The Company had borrowed Rs.2.37 crore from Housing Development Finance Corporation (HDFC) on the guarantee of the State Government for implementing centrally sponsored schemes. The Company is required to pay

guarantee commission of Rs.26.41 lakh to the Government. However, the Company could not recover this amount from the beneficiaries.

Delay in recovery of loan and interest instalments

2.1.18 As per funding of the schemes, the loan amount including interest was to be recovered from the beneficiaries in equated monthly instalments (EMI) over a period of 22 to 27 years. The Company was to bear the interest burden of four per cent per annum on the loan amount drawn under DAS and in case of loans taken from HDFC, it was to pay EMI amount as fixed by HDFC irrespective of recoveries from the beneficiaries. The recovery of loan from the beneficiaries as at 31 March 2003 was as follows:

Name of scheme	No. of LCWs	Amount of EMIs		
		Recoverable	Recovered	Balance
		(Rupees in lakh)		
Dutch assisted scheme	1,942	218.29	74.67	143.62
Centrally sponsored schemes	431	36.21	17.78	18.63
	750	45.01	13.20	31.80
	453	7.63	2.78	4.85
Total	**3,576**	**307.14**	**108.43**	**198.90**

The Company incurred extra interest burden of Rs.59.21 lakh due to poor recovery of Equated Monthly Instalments.

The poor recovery was attributed to irregular supply of raw material by the Company and irregular work habits of the weavers. Consequent to poor recovery of EMIs from the beneficiaries, the Company incurred additional interest burden of Rs.43.93 lakh on the defaulted amount in respect of Dutch assistance scheme during 1993-2002. Similarly in respect of loans taken from HDFC, the Company could not recover Rs.55.28 lakh. This resulted in extra interest burden of Rs.15.28 lakh.

Project package scheme

2.1.19 Government of India sanctioned (March 1994) a handloom development project under project package scheme for handloom weavers of Kinnal village in Raichur district. Besides, Government of India also sanctioned four project package schemes for Kolar, Tumkur, Dharwad and Gulbarga districts in September 1994 and for Molkalmur in March 1996, with the objectives to :

- provide necessary support to beneficiaries for pre/post-loom operations so as to increase production and marketing of handloom products;
- assist weavers to switch over from weaving grey/ janatha cloth to yarn dyed fabrics;
- extend subsidy of Rs.4,000 and an equal amount as a loan to each of beneficiaries for extension to the existing building, where the accommodation was insufficient for work place, subject to the condition that the beneficiary should not have availed benefit under LCW schemes of the Government; and

- upgrade skill of weavers and provide infrastructure support.

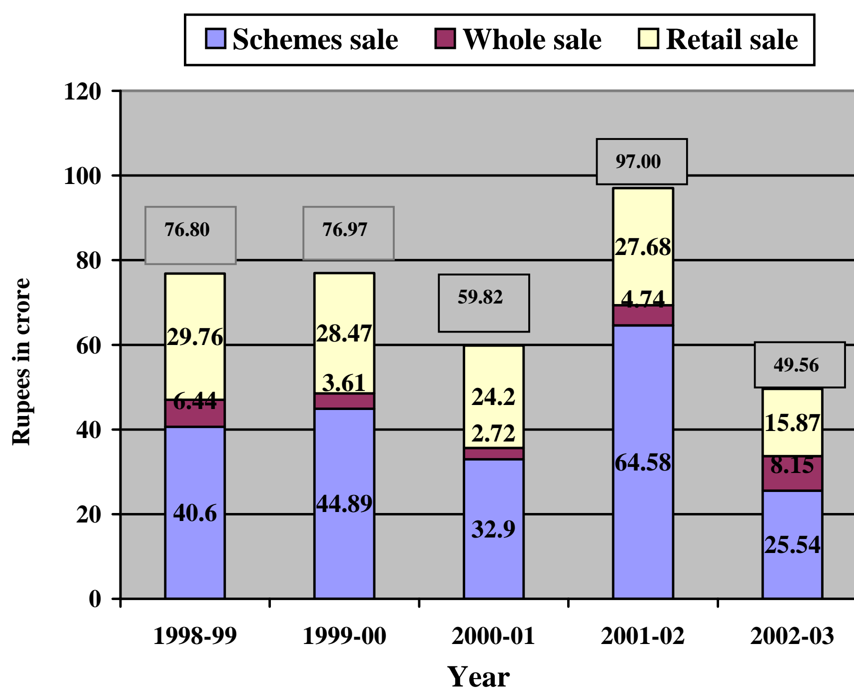
The Government of India released, between 1996 and 1998, Rs.91.71 lakh for implementation of the scheme over a period of one to two years. Audit observed that :

- the Company has not been able to implement the scheme even after a lapse of seven years from the date of receipt of financial assistance,
- out of Rs.91.71 lakh , Rs.84.26 lakh from December 1997 to May 1999 and Rs.19.00 lakh from June 1999 to February 2003 remained unspent,
- the difference in unspent balance between the initial records (Rs.19.00 lakh) and as per accounts (Rs.16.21 lakh) as on 31 March 2002 has not been reconciled so far (September 2003).

The Company stated that due to delay in release of fund by the State Government and the Central Government, the scheme could not be operated within the time frame.

Sales performance

2.1.20 The Company has been selling silk and cotton fabrics through wholesale orders and in retail through its 62 **"**Priyadarshini Handloom Showrooms". The sales under Government schemes, wholesale and the retail for the last five years up to 2002-03 is shown in the chart below:



The schemes' sales varied from Rs.25.54 crore to Rs.64.58 crore and it contributed around 51.5 to 67.1 per cent of the total sales during last five years up to 2002-03. The turn over of the Company largely depends upon the orders received under the Government sponsored schemes.

The Company depends mainly on one single client viz. the State Government for its sales turnover.

The Company did not evolve marketing strategy for improving retail sales. The showrooms did not breakeven and incurred loss due to inventory carrying cost and overheads. The Company stated (August 2003) that as part of new marketing strategy, retail outlets would be developed as strategic business units by introducing profit-centre concept for realistic achievement. The Company needs to take steps to broad base its activities.

Retail sale pricing policy

2.1.21 The Company has limited role in pricing the supplies to the Government sponsored schemes and had to supply at the prices fixed by the Government, which include overhead at 25 per cent of the cost of production as against actual overheads ranging from 43 to 59 per cent of cost of production. The overheads considered for pricing fabrics meant for retail sale was 60 per cent for silk and polyester fabrics and 45 per cent for cotton fabrics. The figure so arrived at was further marked up by 25 to 35 per cent to arrive at the retail selling price. From time to time, the Company allowed normal discount of 20 to 40 per cent both on cotton and silk fabric. In addition to normal discount, depending upon the festival season and peak season, additional discount of 10 per cent over and above the normal discount was also allowed.

The Company was not able to recover the cost of production due to discount structure.

As a result of the discount structure, the Company was able to recover cost of sales only in respect of category-A (less than one year old) silk and polyester fabrics under normal discount. Other categories were always sold at below cost of sales. In respect of cotton fabrics, the Company was not able to recover even the cost of production and these were sold at 22 per cent below cost under additional discount sales.

The Company, while accepting the facts stated (August 2003) that the situation of selling price sometimes going below the cost needs to be accepted. Though the Company’s reply is acceptable in the short-term, it is required to take corrective steps to stop selling at loss continuously for long period.

Performance of showrooms

2.1.22 The Company sells the finished fabrics through its showrooms and through different sales campaigns elsewhere. The table below gives the target of the showrooms vis-à-vis their achievement and their profitability for last five years up to 2002-03:

(Amount in crore rupees)

Year	Sales			Showrooms						
				Total No.	Under profit			Under loss		
	Target	Actual	Per cent		No.	Amount	Per-centage of profit to sales	No.	Amount	Per-centage of loss to sales
1998-99	26.46	21.62	81.7	54	20	0.78	3.6	34	0.98	4.6
1999-00	34.01	22.44	66.0	64	15	0.33	1.5	49	1.22	5.5
2000-01	31.45	20.23	64.3	64	14	0.58	2.8	50	1.55	7.7
2001-02	28.78	23.15	80.5	64	----	----	----	64	4.60	19.9
2002-03	32.61	13.61	41.7	62	----	----	----	62	4.09	30.1

All the showrooms of the Company suffered loss during 2001-03.

It could be seen from the above that the number of showrooms, earning profit, came down from 20 in 1998-99 to 14 in 2000-01, and during 2001-03 none of the showrooms earned any profit. The quantum of losses from the showroom sales varied from Rs.98.36 lakh to Rs.4.60 crore over last five years upto 2002-03 and the percentage of loss to the total sales increased from 4.6 to 30.1 during the same period. The number of showrooms which could not recover cost of production during last five years up to 2002-03 were six, three, four, thirty-one and sixty-two respectively.

As a part of restructuring plan, the Company decided (September 2002) to close down, before end of March 2003, 12 unviable showrooms including three showrooms located outside the State. The Company closed nine showrooms in the State and could not close the remaining showrooms as these showrooms are located in the handloom complex and funded by the National Handloom Development Corporation Limited.

2.1.23 The Company took up renovation of its four showrooms located in Bangalore at a cost of Rs.12.75 lakh. Though it was decided (August 2002) that the renovation should be completed before Dussehra festival, the work was awarded only in October 2002. The work which was to be completed by 15 November 2002 could be completed by March 2003 only. During this period, no sales were effected in these showrooms. Thus, due to delay in taking decision to award the work and delay on the part of the contractors in completion of renovation work, the Company lost the opportunity of selling its products during the festival season from October 2002 to February 2003 (valued at Rs.1.95 crore equivalent to the sale in the corresponding previous year).

Inventory

Inventory of raw materials

2.1.24 The inventory holdings of yarn and dyes and chemicals in terms of

months consumption for last five years up to 2002-03 are given below:

Year	Stock		Consumption		Stock in months consumption	
	Yarn	Dyes & chemicals	Yarn	Dyes & chemicals	Yarn	Dyes & chemicals
	(Rupees in crore)					
1998-99	12.27	0.25	41.9	1.14	4	3
1999-00	10.16	0.42	38.43	1.02	3	5
2000-01	7.51	0.51	29.62	1.06	3	6
2001-02	11.94	0.53	22.43	1.22	6	5
2002-03	5.67	0.39	28.39	1.56	3	3

It may be seen from above that both the stock of yarn as well as that of dyes and chemicals ranged from three to six months' consumption. The Company had no system of fixing the minimum, maximum and reordering level of stock holdings and also the management had not analysed the inventory holdings so far (March 2003) to take corrective measures to control the inventory holdings.

Inventory of finished goods

2.1.25 The stock of finished goods includes stock meant for Vidya Vikasa Scheme and Saree-Dhoti Scheme. The stock of Vidya Vikasa Scheme is sold during the academic year. The Company has no control over the stock of Saree-Dhoti Scheme as the sale takes place through the Public Distribution System (PDS) throughout the year. The classification of the stock of finished goods held at showrooms, warehouses and projects, other than the schemes' stock, as at end of March for last five years up to 2002-03 is given below:

Category	Stock held at the end of March				
	1999	2000	2001	2002	2003
	(Rupees in crore)				
A. Less than one year	35.62	35.13	37.47	17.43	21.96
B. 1 to 2 years	3.78	6.83	6.63	6.45	2.76
C. 2 to 3 years	2.80	2.59	3.58	3.01	4.15
D. above 3 years	1.44	2.15	2.47	3.91	2.77
E. Damaged	0.04	0.01	0.19	0.02	0.06
F. cut-bits	0.01	0.01	0.01	0.02	0.01
Total	**43.69**	**46.72**	**50.35**	**30.84**	**31.71**
Sales-retail and wholesales (other than schemes' sales)	**36.17**	**31.50**	**27.01**	**31.69**	**24.02**
Stock in terms of number of months' sales	**14**	**18**	**22**	**12**	**16**

The stock of finished goods at showrooms, warehouses and projects increased from 14 months' sales in 1998-99 to 22 months' sales in 2000-01. Due to reduced production during 2000-01 and 2001-02 and increased sales during

Holding of finished goods of more than one year old at showrooms resulted in incurring interest burden of Rs.7.74 crore.

2001-02, the stock of finished goods at the end of the year 2001-02 had reduced to 12 months' sale. Thirty one per cent of the stock of finished goods held as at 31 March 2003, was more than one year old. By holding stock for more than one year, the Company had to incur inventory carrying cost (interest at 14 per cent per annum) of Rs.7.74 crore. In addition, these fabrics are subject to sale at heavy discount of 40 per cent.

Thus, it is evident that the Company failed to estimate the demand on realistic basis and control production accordingly.

Internal audit

2.1.26 The internal audit wing of the Company is headed by an Audit Officer, who reports to the Joint Director (Planning and Development). A unit of the wing in Bangalore conducts the audit of offices/ showrooms located in southern Karnataka and the Hubli office unit conducts the audit in the northern Karnataka. In addition, the internal audit of some projects and showrooms was entrusted to the firms of chartered accountants. From March 2003, the Company has entrusted the work of pre-audit of payments of Rs.250 and above to the internal audit wing, in a few selected projects in addition to regular internal audit functions. Thus, the Company has diluted the scope of the internal audit wing further by entrusting it with pre-audit functions. It is suggested that the internal audit wing be strengthened and placed under the direct control of the Managing Director in order to conduct its functions independently and effectively.

Manpower analysis

2.1.27 The Indian Institute of Management, Bangalore, submitted (1998) a detailed report for downsizing the manpower of the Company and suggested VRS package to 354 surplus employees and removal of 112 security personnel (out of 1,358 employees of the Company). The Company has terminated the services of 112 security men only. The Company requested (November 2002) the State Government for Rs.14.03 crore for meeting the VRS liability. The State Government though agreed, is yet to release the amount (September 2003).

Pending disciplinary cases

2.1.28 As on 31 March 2003, the Company had 134 cases of misappropriation of cash, shortages of stock and other financial irregularities involving Rs.2.09 crore pending against its employees as detailed below:

Particulars	No. of cases	Amount involved (Rupees in lakh)
Misappropriation of cash	33	31.13
Shortage of stock	51	105.00
Misappropriation of cash and stock	10	27.90
Other financial irregularities	40	45.46
Total	**134**	**209.49**

A review of some of the pending cases revealed that:

- there was a delay of more than five years in conducting enquiry in four cases involving Rs.38.36 lakh,

- in eight cases involving Rs.8.05 lakh, though the enquiry was concluded during 2002-03, enquiry report was awaited. As a result of this delay, action could not be initiated in these cases for recovery.

- in one case of misappropriation of Rs.10.24 lakh by a PCQA Inspector, the amount was ordered to be recovered in 228 monthly instalments.

Conclusion

The Company had failed in its objective of providing continuous remunerative employment to weavers as out of 48,210 weavers registered with the Company only 11,801 were working at the end of 2002-03.

Audit observed significant mismanagement in various aspects of working of the Company, which includes reduction in production resulting in increase in overheads and consequent increase in cost per unit. Retail sales prices were non-competitive and large discounts offered for disposal of stocks led to non-recovery of even cost of sales. Supplies of fabrics under Vidya Vikasa Scheme and Subsidised Saree-Dhoti Scheme were made at un-remunerative prices leading to further losses. There was excessive dependence on a single client, namely, the Government. Retail showrooms, which catered to other clientele, showed poor performance.

2.2 KARNATAKA POWER CORPORATION LIMITED

SECTORAL REVIEW ON THE IMPLEMENTATION OF SHARAVATHY TAILRACE PROJECT, GERUSOPPA

Highlights

The detailed project report prepared in 1981 envisaged construction of a dam of 56 metre height and 545 metre long on river Sharavathy near Gerusoppa village for power generation with four generating units each of 60 mega watt (MW) totalling to 240 MW.

(Paragraph 2.2.1)

As against the targeted period of five years, the Company took more than 12 years to complete the project. Out of this, more than two years were lost due to environmental problems, which were beyond the control of the Company. However, even after receipt of fresh environmental clearances (September 1993), the Company took more than eight years to complete the project.

(Paragraph 2.2.8)

The Company enhanced the multiplying factor from 0.75 to 0.85 for calculation of escalation in the supplementary agreements. This resulted in undue benefit of Rs.2.06 crore to the contractors.

(Paragraphs 2.2.12 and 2.2.15)

Premature closure of work by diverting the work to gate contractor resulted in undue benefit of Rs.2.60 crore to dam contractor. Adoption of wrong date of commencement of work also resulted in payment of end point bonus of Rs.8.35 crore instead of recovering penalty of Rs.3.89 crore.

(Paragraph 2.2.14)

The decision to pay incentive of Rs.17.60 lakh instead of recovering penalty of Rs.5.20 crore for delay in completion of work was not justified.

(Paragraph 2.2.16)

Failure to lower the riverbed resulted in generation loss of 47.69 million units with consequent revenue loss of Rs.13.02 crore.

(Paragraph 2.2.19)

Failure to synchronise unit–I till February 2001 due to non-availability of transmission lines resulted in loss of revenue of Rs.24.18 crore.

(Paragraph 2.2.20)

Introduction

2.2.1 The river Sharavathy is an important west flowing river in Karnataka. A series of dams were built in its valley for power generation. The Gerusoppa dam is the last in the series of dams built across the river. Dam is located near Gerusoppa village. The detailed project report (DPR) prepared in 1981 envisaged construction of a dam of 56 metre height and 545 metre long. The power house is at the toe of the dam on the right bank of the river with four generating units each of 60 mega watt (MW) totalling to 240 MW.

The project on completion was to serve as a peaking station and was expected to augment 240 MW to the state grid. The annual energy generation was expected to be 622 million units (MU) at an average station load factor of 30 per cent. The zero date of the project was November 1989. The estimated cost was Rs.145.42 crore. The cost of generation estimated was 27 paise and the selling price 31 paise per unit.

2.2.2 The project envisaged clearance of 700 hectares of forest for which environmental clearance was obtained in March 1987. The tenders for major hydraulic and electrical equipment required for the project were invited in January 1989. The work of clearance of forests was stayed (September 1989) by the Honourable High Court of Karnataka on the basis of writ petition filed (June 1988) by the environmentalists. The fresh forest clearance for release of 700 hectares was issued by Ministry of Environment and Forest, Government of India in September 1993.

Scope of Audit

2.2.3 The implementation of the project, since commencement of works from January 1989 to March 1994 and the procurement of major hydraulic and electrical equipments, was reviewed and the findings included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1994. The Committee on Public Undertakings (COPU) discussed the Report and recommended (69th Report) the following remedial actions:

- to take utmost care while entering into contract for balance works as the implementation of the project had already been delayed and considerable additional expenditure incurred by the Company;
- to firm up the basis of settlement with contractors in writing and to report the progress in settlement of compensation claims; and
- to post efficient officers and hold them responsible for timely completion of the project and guard against any further lapses.

2.2.4 In the present review, resumption of various components of the project, after receipt of fresh environmental clearance from Government of India (September 1993) including commissioning of units have been covered.

Audit findings were reported to the Government/Company on 6 May 2003 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view point of

Government / Company was taken into account before finalising the review. The meeting of ARCPSE was held on 20 May 2003.

Project finance

2.2.5 The techno-economic clearance from Central Electricity Authority (CEA) was obtained in May 1987. The Board accorded its administrative approval in August 1987 for Rs.212 crore. The project was to be completed with World Bank assistance and a loan of US$ 130 million was sanctioned by the World Bank. The World Bank stopped (August 1993) release of loan due to slow progress of work. This aspect has been discussed in paragraph 4A.1.2 of Audit Report (Commercial), Government of Karnataka for the year ending March 1998. Later, the Company availed a loan of Rs.180 crore from Power Finance Corporation Limited to finance the project.

Implementation of the project

2.2.6 Under international competitive bidding, the work for construction of dam was entrusted (November 1989) to Naveen Mechanised Construction Company (Private) Limited, (NMCC), Hubli at the tendered cost of Rs.51.84 crore. The work was to be completed in 60 months, i.e. by November 1994. The construction of power house was awarded (August 1989) to Chinna Nachimuttu Construction Company Limited (CNCC), Bangalore with scheduled completion period of 54 months i.e. April 1994 at tendered cost of Rs.16.36 crore. The work order for purchase of generating unit was placed (February 1990) on Bharat Heavy Electricals Limited (BHEL) at a cost of Rs.28.48 crore. The delivery of unit was to be completed by February 1993.

2.2.7 Though the works were commenced in 1989, their progress was interrupted / retarded between January 1991 and July 1992 due to availability of only 60 hectares of land, non-availability of designated quarry, agitations by environmentalists and stay order of the court. The works were completely stopped from August 1992 due to withdrawal of forest clearance by Government of India and were resumed only after receipt of fresh environmental clearance in September 1993. As the major part of the contract period was lost, the contractors demanded compensation and extension of time for execution of balance works beyond the contract periods.

The Company entrusted the balance works to the same contractors at enhanced rates. The supplementary agreements with revised terms and conditions were entered during August/September 1997. According to the supplementary agreements, dam and power house work was to be completed by May and July 2001 respectively. The issue of claims for compensation for stoppage of works including waiver of interest on advances was de-linked on mutual acceptance.

Time overrun

Even after receipt of fresh environmental clearance, the Company took more than eight years to complete the project.

2.2.8 The project was to be completed by November 1994. However, the work was finally completed and the last unit commissioned in April 2002 only. As against the targeted period of five years, it took 12 ½ years to complete the project. Out of this, about 2 ½ years were lost due to environmental problems, court orders, etc., which were beyond the control of the Company. However, even after receipt of fresh environmental clearances (September 1993), the Company took about 8 ½ years to complete the project.

The slow progress after September 1993 was due to failure of the Company to negotiate an early settlement with the contractors. While restarting the balance works, the Company did not consider the option of re-tendering in order to avoid further loss of time of two seasons and allowed the original contractors to continue the works beyond original agreement period (August/ November 1994), pending final decision on revision of rates, compensation claims, etc., as demanded by them.

Four years were spent in the process of negotiations with the contractors and deliberations within the Company at various levels. The fresh agreements could be signed by August / September 1997.

Primary purpose of avoidance of "re-tendering" to save two years was not achieved and thereby the possibility of generating power to an extent of 1,244 MU was lost.

The Government stated (August/May 2003) that though it had considered option of re-tendering the work it did not proceed with it due to possible litigation it might have to face, which would have further delayed the work by several years. It further stated that only 12 per cent of the work was done up to the date of implementation of the revision of rates, the balance work was done in less than five years.

However, the fact remains that the primary purpose of not re-tendering to save two years was not achieved resulting in loss of potential generation of 1,244 million unit (MU).

2.2.9 Keeping in view the shortage of power in the State, COPU in its report (83rd Report) fixed the target dates for completion of the project and directed the Company to report the progress of work to them. The Company could not adhere to the target dates fixed by COPU, as detailed below:

Units	Date of completion fixed by COPU	Actual date of completion	Delay in Completion (months)
Unit I	15.06.2000	20.02.2001	8
Unit II	31.10.2000	15.05.2001	6
Unit III	28.02.2001	01.11.2001	8
Unit IV	30.06.2001	26.04.2002	9

The Company also did not submit periodical progress report to the COPU as per its directions.

Cost overrun

2.2.10 The cost of the main components of the project at the commencement of works based on estimates/tendered prices and the actual expenditure as at 31 March 2003 was as detailed below:

Sl. No.	Major components of the Project	As per estimates/ tender at commencement of the project	Actual expenditure as at December 2002	Difference	Increase in percentage
		(Rupees in crore)			
1	Dam and spillway works	51.84	245.86	194.02	474.27
2	Power house	16.36	96.33	79.97	588.81
3	Gates	9.78	22.83	13.05	233.43
4	Penstock	2.76	11.80	9.04	427.53
5	Turbine and generator	32.25	77.62	45.37	240.68
	Total	**112.99**	**454.44**	**341.45**	**402.19**

After the resumption of works on receipt of environmental clearance in September 1993, negotiations were carried out in respect of settlement of compensation claims preferred by dam and power house contractors and for revision of rates for the balance works beyond the original agreement period. Revised agreements were drawn in August/September 1997 de-linking the issues of compensation claims. The cost of the balance works worked out to Rs.134.31 crore for dam works and Rs.37.16 crore for power house works. The Company did not prepare revised estimates at any time from DPR to completion stage. The final bills and the compensation claims have not so far been settled (March 2003).

The steep increase in the cost of the project had increased the cost of generation to 269 paise per unit.

The excess over estimates was mainly due to inordinate delay in execution of the project, as there were neither enlargement in the scope of works nor notable increase in quantum of works executed. The steep increase in the cost of the project had an effect of increasing the cost of generation of electricity from 27 paise (estimated at DPR stage) to 269 paise per unit and the selling price from 31 paise to 273 paise per unit.

The Government/Company stated (August 2003) that increase in tariff was due to non-inclusion of interest during construction at DPR stage as per the practice prevalent in those days and subsequent changes in the parameters for calculating tariff.

Civil works

Dam and appurtenant works

2.2.11 The construction of dam and appurtenant works was entrusted (October 1989) to Naveen Mechanised Construction Company (Private)

Limited (NMCC). The works could not be completed within the contract period of 60 months due to environmental problems, litigations, etc. The Company entered into a supplementary agreement (September 1997) with NMCC to avoid further delay in re-tendering the works. The work was scheduled for completion by May 2001.

Undue benefit to the contractor

2.2.12 Audit observed that while entering into supplementary agreement undue benefits of Rs.3.32 crore were given to NMCC. These are discussed below:

Enhancement of the multiplying factor in the supplementary agreement resulted in undue benefit of Rs.1.56 crore.

- The multiplying factor for calculating escalation was revised from 0.75 in the original agreement to 0.85 in the supplementary agreement. This was done despite the fact that the Company had earlier rejected the multiplying factor of 0.85 given by NMCC. This resulted in undue benefit of Rs.1.56 crore. The Government stated (August 2003) that the enhancement in multiplying factor was in accordance with the projects which were under construction at that time. The reply may be seen in the light of the fact that even at the time of the original agreement the factor was restricted to 0.75 and there was no change in the scope of work in the supplementary agreement.

- The Company paid (between May 1994 and September 1995) ad hoc advance of rupees five crore to NMCC, which was not covered under the original agreement. While entering into supplementary agreement, the Company waived interest accrued up to December 1996 on all the advances including ad hoc advance in proportion to the shortfall in the work up to that date. Since the ad hoc advance was not covered under original agreement, the same should not have been considered at the time of interest waiver. This resulted in undue benefit of Rs.1.76 crore.

The Government/Company stated (August / May 2003) that NMCC had sought for total waiver of interest up to the date of settlement of revision of rates as the delay in works was beyond their control. While negotiating revision of rates, waiver of interest on advances was considered as a package deal. The reply is not tenable since the ad hoc advance paid was not covered under the terms of the original agreement, the same should not have been considered at the time of supplementary agreement.

Non restriction of pre-cooled concrete

Allowing rate of pre-cooled concrete to other than main body of the dam resulted in extra payment of Rs.1.32 crore.

2.2.13 As per agreement with NMCC, only 3,92,700 cubic metre of concreting in the main body of the dam was to be pre-cooled. NMCC was to be paid extra for pre-cooling. However, while giving item rates for pre-cooling, the entire quantity of 4,60,000 cubic metre required for the construction of dam was treated for pre-cooling purpose. This resulted in extra-expenditure of Rs.1.32 crore.

The Government/Company stated (May/August 2003) that mass concreting is governed by width and height of the monolith and not by the grade of concrete used. This reply is not tenable since pre-cooling of concrete was required only for the main body of dam and not for the other area.

Payment of end point bonus

2.2.14 As per terms of the supplementary agreement, NMCC was eligible for end point bonus if the work was completed 15 days ahead of scheduled date of completion of the project. The work was completed in December 2000 against scheduled date of May 2001. Audit noticed that:

Premature closure of the dam contract by diverting the work of wall plate concreting to gates contractor resulted in NMCC gaining Rs.2.60 crore.

- The scope of work included concreting of the radial gates wall after all the radial gates were erected and welding completed in all respects. The concreting was programmed between February and March 2001. However, this work was withdrawn from NMCC under clause 6 of the agreement "closure of the contract pending completion of minor items of work" and got executed through gates contractor between February and March 2001. The withdrawal of this work, which had duration of 52 days, resulted in completing the contract 52 days ahead of the scheduled date of completion and gaining bonus of Rs.2.60 crore.

  The Government/Company stated (August/May 2003) that as per the programme given to gates contractor, the erection of radial gates and finishing the wall plates of all the blocks should have been over by 10 June 2000. However, wall plates could be erected only after entire radial gates were erected and welded. Hence, the dam contractor had to wait till the gates contractor finished the work and proceeded with concreting behind the wall plate. As this involved concreting of 50 cubic metre only, the technical committee took a decision to divert the work of concreting behind the wall plate to the gate contractor. The reply is not tenable as both the contractors had agreed for the above time schedule and pre-mature withdrawal of work from NMCC has given them an undue benefit of Rs.2.60 crore without any benefit to the Company.

- As per the agreement, curing of minimum 14 days was required for concrete works depending upon the nature of cement used in concreting. Audit noticed that the date of completion of last batch of concreting done by NMCC on 14 December 2000 was taken as 15 December 2000 without considering the curing period of 14 days required for this work. This resulted in extra payment of end point bonus of Rs.70 lakh. The Government/ Company stated (August 2003) that the Chief Engineer at the site had certified that the dam was fully functional from 15 December 2000 and the management accepted the same. But the fact remains that the Company did not take into account the curing period of 14 days provided in the agreement, which resulted in extra payment of Rs.70 lakh.

Concreting of power blocks 15 and 16 up to reservoir level (RL) 58 metre was to be completed by April 2000, to facilitate erection of hoist, gantry and

for the gates in 16th block to be executed by another agency. There was a provision for penalty/incentive of Rs.20 lakh for belated/early completion.

Based on the request of NMCC to utilise their cableway to its optimum level, the milestone was shifted to 5 May 2000. This milestone was further extended to 31 October 2000 as NMCC pleaded that there was frequent power interruption and if the two blocks (15 and 16) are raised to RL 58 metre by 4 May 2000, they would be denied access to blocks 14 to 1A for placing concrete with reasonable speed. As the work was completed before the extended date, the Company paid lump sum incentive of Rs.20 lakh.

The Government/Company stated (August/May 2003) that this work was rescheduled as per requirements of the Company and NMCC would have completed it but for the request of the Company. The reply is not acceptable as the milestone was extended on the request of NMCC and as such there was no need to pay incentive.

Adoption of wrong date of commencement of work resulted in payment of end point bonus of Rs.8.35 crore instead of recovering of penalty of Rs.3.89 crore.

- The Company, while working out the quantum of work and the time required to complete the work, arrived at a period of 47 months for the completion of balance work. The supplementary agreement also indicated August 1996 as the commencement of the work. Audit noticed that the Company took the date of agreement (September 1997) as the date of commencement of work and accordingly fixed the expected date of completion (taking 44 months required for completion). This resulted in giving 10 months extra to NMCC for completion of work and had a direct impact on the payment of end point bonus. Had the Company fixed the completion date from August 1996 instead of from September 1997, there would not have been payment of end point bonus of Rs.8.35 crore, instead the Company would have recovered penalty of Rs.3.89 crore (maximum 7.5 per cent of the contract value).

The Government / Company stated (August / May 2003) that since the execution of balance quantity was assessed in October 1997 whereas the progress between August 1996 and September 1997 was very small, it was decided to allow 44 months from October 1997. The reply is not tenable as the supplementary agreement indicated the date of commencement of work as August 1996 only and also while making payment of escalation to NMCC, rates prevalent in August 1996 (Schedule of Rates of 1996-97) was taken. The slow progress in the work was not due to any fault of the Company.

Power house

The work of power house was entrusted to Chinna Nachimuthu Construction Company Limited (CNCC), Bangalore in October 1989. The work was to be completed in April 1994. Due to delay in getting environment clearance the works were stopped. A supplementary agreement was entered (August 1997) for resuming the works.

Undue benefit to the contractor

2.2.15 Audit observed that while entering into supplementary agreement, undue benefit of Rs.1.17 crore was given to CNCC, as detailed below:

Revision in multiplying factor resulted in undue benefit of Rs.50 lakh.

- The Company revised the multiplying factor for calculating escalation from 0.75 to 0.85 as was done in case of NMCC (refer paragraph 2.2.12). This resulted in undue benefit of Rs.50 lakh to CNCC. The Government/Company stated (August/May 2003) that the enhancement in the multiplying factor has been considered in view of that (i) the percentage components towards labour, material and diesel, petrol, oil and lubricants provided in the price variation formulae in the contract were inadequate and (ii) as per general practice and World Bank contracts, it is to treat escalation components up to 100 per cent. The reply is not tenable in view of the fact that in the original agreement also the Company had restricted the multiplying factor to 0.75 and there was no change in the scope of work.

- The Company paid (between July 1994 to October 1995) ad hoc advance of Rs.1.5 crore, which was not covered under the original agreement. While entering into the supplementary agreement, the Company agreed to waive interest on outstanding advances in proportion to shortfall in the progress of work. Since, the ad hoc advance was not as per the terms of the original agreement, it should not have been considered at the time of interest waiver. Moreover, while working out the pro rata waiver, the Company granted waiver at 87.36 per cent instead of 75 per cent, being the actual shortfall in the work. This has resulted in undue benefit of Rs.67.11 lakh.

  The Government/Company stated (August / May 2003) that waiver of interest in proportion to balance work of 75 per cent to be executed, when the agency had carried out more work as per the agreement, was not justified and was against the principles of natural justice. The reply is not tenable since CNCC was paid after adjusting the advances proportionate to the progress. Therefore, the waiver should have been proportionate to the actual short fall in execution.

Waiver of penalty

The decision to pay incentive of Rs.17.60 lakh on the achievement of intermediate milestone and waiving of penalty of Rs.5.20 crore for delay in completion of work was not justified.

2.2.16 According to the agreement, work was to be completed by 31 July 2001. The agreement provided for intermediate lump sum incentive at every stage of completion of milestones within the targeted dates for specific critical items. The contract also provided for penalty for delayed completion.

However, during execution there were delays ranging from 14 - 339 days, attributable to the contractor, in achieving the milestones prescribed. The Company granted extension of time up to 31 March 2002 for completion of work subject to the condition that the provisions relating to the payment of milestone incentive and end point bonus were not applicable. The work could be completed only on 25 May 2002 i.e. with a further delay of 55 days. The penalty leviable for the delayed completion worked out to Rs.5.20 crore.

Audit observed that while the Company on one hand waived the penalty leviable on CNCC, on the other hand paid incentive of Rs.17.60 lakh for achievement of four out of 12 milestones, contemplated in the agreement, in time.

The Government/Company stated (August / May 2003) that the logical thing to do in a contract when the entire work is achieved, is not to enforce the intermediate milestone penalties for non-achievement of intermediate milestones. Further, the agency had facilitated the critical milestone of mechanical rotation of unit -I on 14 July 2000 and the incentive was meager in nature.

The reply is not tenable since the intermediate milestones were prescribed to achieve the ultimate target i.e. completion of works in time. As the work was not completed in time due to delays attributable to CNCC, the waiver of penalty of Rs.5.20 crore was not in the interest of the Company and hence not justified.

Mechanical works

Gates

Loss of potential energy

2.2.17 The Kerala Electrical and Allied Engineering Company (KEL) was to supply and erect gates at a total cost of Rs.15.65 crore. Audit observed that in order to replace the teflon claded rubber seal by ordinary rubber seal for river sluice gates (service gate), KEL lowered (11 April 2002) the emergency gate and lifted the service gate. As the service gate was lifted without lowering the emergency gate fully; the service gate got stuck and could not be closed fully. Both the emergency and service gates of river sluice remained in open condition and the water oozed out without an arrest. The rectification of the gates and replacement of the teflon rubber seals by ordinary seals could be finished only by 14 April 2002, by which time 6,300 cusecs (1,524 million cubic feet) of water oozed out through the gates resulting in loss of energy valuing Rs.1.08 crore. The Government / Company stated (August / May 2003) that matter was being examined.

The Company lost potential revenue of Rs.1.08 crore due to fault of the contractor.

However, the Company had already released the bank guarantee of Rs.91 lakh in September 2001 before settlement of final bills, compensation for the loss sustained and even without ensuring due performance of contract.

Performance

Generation details

2.2.18 The generation details of the four units for 2001-03 are given in the Annexe -12. The generation during 2001-02 was 414.347 million unit (MU), (69.06 per cent), against the target of 600 MU. The Company reduced the targeted production to 550 MU for 2002-03. Even with the commissioning of the fourth unit in April 2002, the generation for 2002-03 (up to

December 2002) was 222.441 MU (40.44 per cent) only. The auxiliary consumption also increased from 0.01 per cent in July 2002 to 4.35 per cent in January 2003. The Company stated that the shortfall in generation was due to poor monsoon.

Loss of generation due to higher tailrace water level

2.2.19 In the DPR, lowering of the riverbed level at tailrace was envisaged to obtain an additional head of nearly two metre for power generation and a provision of Rs.50 lakh was made therefor. However, the deepening of the riverbed was not taken up till the commissioning of all the four units. This resulted in higher water level at tail race with consequent loss of generation of electricity.

The Company took (October 2002) action to lower the riverbed only after noticing reduction in generation. The work was completed in December 2002.

Delay in lowering the river bed resulted in revenue loss of Rs.13.02 crore.

Audit observed that the generating capacity was reduced right from the commissioning of Unit-I and the generation loss sustained due to higher level of water at the tail race worked out to 47.69 MU between June 2001 and December 2002. This resulted in revenue loss of Rs.13.02 crore. The Government/ Company stated (August 2003) that during construction of dam and power house the diverted water could only flow in the proposed tailrace area and hence it could not be lowered till the completion of construction. The only possibility of lowering the riverbed was when the unit was shut down during non-peaking hours. As such the process of lowering the riverbed has been taken up during October 2002.

The reply is an afterthought since the work was taken up only after noticing reduction in generation.

Generation loss due to non-availability of transmission lines

Non-availability of transmission lines resulted in loss of revenue of Rs.24.18 crore.

2.2.20 After commissioning of the project, the electricity was to be evacuated through the transmission line to be laid by Karnataka Power Transmission Corporation limited (KPTCL). Though unit- I of the project was ready in July 2000, it could not be synchronized till February 2001 due to non-availability of transmission lines. This resulted in generation loss of 88.56 MU (at 30 per cent availability) and consequent loss of revenue of Rs.24.18 crore.

The Government/Company stated (August / May 2003) that KPTCL could not erect towers due to non-clearance of forest land by the Forest Department. The Company could have saved this loss had it co-ordinated with Karnataka Power Transmission Corporation Limited, for laying the transmission line in time.

Conclusion

The project has not been able to achieve the target of its generation. In addition, the project exhibited huge time and cost overrun with its consequent impact on the cost of generation. Compliance of the recommendations of COPU relating to fiscal prudence, operational efficiency and timely completion of the project was not ensured. Changes in terms and conditions of the contract was against the financial interest of the Company.

2.3 KARNATAKA POWER TRANSMISSION CORPORATION LIMITED

SECTORAL REVIEW ON THE PROCUREMENT, PERFORMANCE AND REPAIR OF ENERGY METERS

Highlights

The Company is required to install and maintain correct energy meters on each point of supply of energy to consumers for measuring the energy sold as per Section 26(2) of the Indian Electricity Act, 1910.

(Paragraph 2.3.2)

The Company submitted (March 2001) an action plan for 100 per cent metering of all un-metered installations by 2003-04. As against 40.82 lakh un-metered installations, the Company proposed to cover, only 37.82 lakh installations by target date.

(Paragraph 2.3.8)

The Company incurred avoidable extra expenditure of Rs.21.41 crore on the purchase of 7.8 lakh meters by placing extension orders at higher rates.

(Paragraph 2.3.12)

The decision to install costly meters for Bhagya Jyothi / Kutir Jyothi installations would result in extra expenditure of Rs.63.62 crore.

(Paragraph 2.3.14)

Condonation of delay in orders placed to meet urgent requirement resulted in undue favour of Rs.64.90 lakh to the suppliers.

(Paragraph 2.3.15)

Test check of seven divisions revealed that 10,664 meters costing rupees one crore failed within guarantee period, were lying in stores/section offices.

(Paragraph 2.3.19)

The Bangalore East and West divisions scrapped 5,882 meters costing Rs.67.98 lakh supplied by Bharat Heavy Electricals Limited even though the meters were within the guarantee period.

(Paragraph 2.3.21)

Introduction

2.3.1 Energy meters are static/electronic/electro-mechanical and high precision electro mechanical equipment installed for recording of the quantum of energy supplied. Energy meters are of five types viz. single phase, three phase, low tension (current transformers operated), high-tension (tri vector) and feeder meters. First four types of meters are installed at the supply points for measuring the energy supplied to consumers, while the feeder meters are installed at the sub-stations for recording the electricity received through incoming feeder meter and electricity supplied from the sub-station through outgoing feeder meter to a number of consumers or single high tension consumer. These are also installed at the generating stations and sub-stations for preparing energy account and determining system losses.

2.3.2 In order to assess the quantum of energy sold, the Company is required to install and maintain correct energy meters on each point of supply of energy to consumers for measuring the energy sold as per Section 26(2) of the Indian Electricity Act, 1910. At the end of March 2002, the Karnataka Power Transmission Corporation Limited (KPTCL) was having 84.14 lakh metered consumers and 40.82 lakh un-metered consumers. The un-metered consumers constituted 32.66 per cent of total consumers.

2.3.3 The distribution function of the Company has been unbundled and four electricity supply companies (ESCOMS) were formed on regional basis to carry on distribution and retail supply business. Four distribution companies viz., Bangalore Electricity Supply Company Limited (BESCOM), Mangalore Electricity Supply Company Limited (MESCOM), Hubli Electricity Supply Company Limited (HESCOM) and Gulbarga Electricity Supply Company Limited (GESCOM) were incorporated on 30 April 2002 under the provisions of the Companies Act, 1956.

Organisational set up

2.3.4 The Chief Engineer (Electrical) Material Management and Purchase Department (MM&P) at Corporate Office is entrusted with the work of procuring energy meters centrally and allocating to various operation and maintenance divisions. The Executive Engineer (Electrical) and Assistant Executive Engineers (Electrical) assist the Chief Engineer (Electrical).

Installation of new or repaired meters and removing of defective meters is carried out by technical staff of sub-divisions and unit section offices working under sub-division offices.

After formation of electricity supply companies (ESCOMS) with effect from April 2002 the procurement has been decentralised with ESCOMS procuring their requirement. The Managing Director of the Company is the Chairman of all ESCOMS.

Scope of Audit

2.3.5 As per the commitment (March 2001) made by the Company to the Government as a part of implementation of power sector reforms, 100 per cent metering was to be achieved by March 2004. The review covers the progress made in metering for the last five years ending 31 March 2003.

During the course of review, files, records, registers and documents of Company and four ESCOMS were test checked and audit conclusions drawn. Audit examination and verifications were restricted to energy metering aspects only. The records at Corporate Office and seven[|] operation and maintenance (O&M) divisions out of total 58 O&M divisions for the period from 1998-99 to 2002-03 were test checked during January to March 2003.

The above selection of units was made to ensure coverage of all four electricity zones, high installation divisions and units in each of the supply companies (ESCOMS).

2.3.6 Audit findings were reported to the Government/Company on 30 May 2003 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view point of Government / Company was taken into account before finalising the review. The meeting of ARCPSE was held on 16 July 2003.

Objective

2.3.7 Audit objective was to see whether :

- the targets were achieved;
- energy meters of good quality and in accordance with the requirement were purchased at the competitive rates;
- their performance was as expected; and
- they were being replaced/repaired expeditiously.

Memorandum of Agreement

2.3.8 A Memorandum of Agreement (MOA) was signed in February 2000 between Government of India and the Government of Karnataka as a joint commitment for implementation of reforms programme in Power Sector.

As per the MOA, the problem of transmission and distribution (T&D) losses including theft could be substantially solved by taking up installation of electronic meters for all consumers linked to high tension (HT) line and domestic consumers, installation of prepaid electronic meters at sub-stations, installation of capacitors, etc.

[|] Mysore,Udupi,Gulbarga,Haveri,Chikkaballapur,Tumkur and Bangalore Rural North.

As against 40.82 lakh un-metered installations, the Company proposed to cover only 37.82 lakh installations by target date of March 2004.

The Government, keeping the above objectives in view, directed the Company to undertake a programme of universal metering of own installations and all categories of electricity consumers. As a part of energy audit programme, this was to be completed within a period of three years. The Company submitted (March 2001) an action plan for 100 per cent metering of all un-metered installations by 2003-04. It was observed that as against 40.82 lakh un-metered installations, the Company proposed to cover only 37.82 lakh (93 per cent) installations by March 2004.

As against the above metering plan, the Company was able to achieve metering of own installations by installing meters in all 11kV feeders during 2000-01. Regarding metering of consumer installations, the planned vis-à-vis actual progress made up to March 2003 are given below:

(in lakh meters)

Category	Planned			Total	Actual progress up to March 2003
	2001-02	2002-03	2003-04		
Irrigation pump sets	2.50	4.61	5.44	12.55	1.32
Bhagya Jyothi / Kutir Jyothi consumers	5.90	8.59	10.17	24.66	8.24
Street lights	0.16	0.22	0.24	0.62	0.02

In view of progress achieved till date, the Company is not likely to achieve the target committed by it to the Government.

As per progress achieved till date, the Company is not likely to achieve target committed by it to the Government. The Company stated (July 2003) that as per MOA the target for completion of metering was up to the year 2005 and it was confident of achieving 100 per cent metering of irrigation pump (IP) sets and Kutir Jyothi (KJ)/ Bhagya Jyothi (BJ) by 2005 and street lights by March 2004. The achievement of the Company up to March 2003 is not in tune with the action plan submitted.

Procurement of meters

2.3.9 The Company procured 32.63 lakh energy meters during 1998-2002. The category-wise procurement of meters made during last four years ending 31 March 2002 are detailed below:

Specification of meter	1998-99	1999-2000	2000-01	2001-02[•]
Single phase	6,86,000	8,90,000	3,00,475	10,16,000
Three phase	1,43,000	1,35,000	0	70,500
Tri-vector meters	8,807	4,985	7,550	512
Total	**8,37,807**	**10,29,985**	**3,08,025**	**10,87,012**

[•] No meters were procured by KPTCL during 2002-03. Information in respect of meters procured by ESCOMS was not available.

Purchase procedure

2.3.10 The Company on the basis of estimated number of new connections, number of defective and damaged meters to be replaced and also based on average consumption of meters in the past, assesses the requirement of meters for each year. Material Management and Purchase Department (MM&P) procure energy meters centrally in the Corporate Office with the approval of Central Purchase Committee (CPC).

2.3.11 The Company (including erstwhile KEB) placed 56 purchase orders during 1998-2003 and procured 32.63 lakh meters consisting of single phase, three phase and tri-vector meters. The meters procured included ordinary electro-mechanical, electronic and high precision electro-mechanical meters of various capacities. The value of meters procured aggregated Rs.300 crore (approximately). Audit scrutiny revealed the following:

Extension of purchase orders in violation of Manual provisions

2.3.12 Para 62 of Accounts Manual-Volume-II Part-'A' stipulates inter alia that the Chief Engineer (MM&P) can place an extension order to a purchase order subject to condition that the prices had not fallen during the period.

Company incurred avoidable extra expenditure of Rs.21.41 crore in purchasing 7.80 lakh energy meters by placing extension orders.

The Company had placed purchase order No.11667 dated 19 July 2001 for 2.55 lakh meters and order no.11668 dated 19 July 2001 for 2.53 lakh meters on Siemens and TTL respectively at their quoted rate of Rs.900.74 per meter after inviting tenders. Audit noticed that during November 2001 to May 2002, the Company issued seven extension orders on the same suppliers for supply of 7.80 lakh meters. In the meantime, the Company invited tenders in October 2001 for the purchase of meters. The technical bids for the same were opened in November 2001 but the financial bids were opened only in May 2002. The rate quoted by these parties was Rs.626.30 per meter. Thus delay in opening of the financial bids by seven months resulted in extra expenditure of Rs.21.41 crore on the procurement of 7.80 lakh meters by placing extension orders at the higher rates.

On being pointed out by Audit, the Company issued (June 2003) an office memorandum to restrict the payment to Rs.626.30 per meter only. However, payments have been made to the parties at their previous rate of Rs.900.74 per meter and recoveries are yet to be made (September 2003).

Delay in finalisation of price bids

2.3.13 The Company invited (June 2000) tender enquiry No.2644 for supply of 60,000 pieces of three-phase energy meters and 16 firms participated in the tender.

Failure to persuade the suppliers to consider the lower prices offered in the subsequent tender resulted in excess expenditure of Rs.72.80 lakh.

The technical bids were opened in October 2000 and sample meters were sent (January 2001) to Central Power Research Institute (CPRI) for testing (13 samples of pre-qualified firms). While the Company was yet to receive test reports from CPRI, it placed six extension orders (P.O 11442 and P.O. 11443) between September 2001 and May 2002 on two suppliers (Seahorse Industries and VXL-L&G) who had earlier supplied similar meters. While placing extension orders, it was intimated to the firms that in case their quoted prices against tender enquiry no:2644 was lower than prices at which extension orders were placed, the price benefit was to be passed on to the Company. However, the Company failed to persuade the suppliers to consider the lower price offered in the subsequent tender and this resulted in excess payment of Rs.72.80 lakh

On being pointed out by Audit, the Company issued (June 2003) an office memorandum to restrict the payment as per the prices indicated in tender enquiry. However, payments have already been made to the parties and recoveries are yet to be made (September 2003).

Fixing of electro-mechanical meters at Bhagya Jyothi and Kutir Jyothi installations

2.3.14 To alleviate the conditions of those below the poverty line and to improve their living conditions by providing 'one point' (bulb) installations, the Government of Karnataka and the Central Government formulated Bhagya Jyothi (BJ) and Kutir Jyothi (KJ) schemes. The Government directed (June 2000) the Company to fix meters to all the BJ and KJ installations. As per the operational plan submitted (March 2001) by the Company to the Government, 100 per cent metering of BJ/KJ installations (24.66 lakh meters) at a total cost of Rs.281.25 crore was to be completed during 2001-04.

Karnataka Electricity Regulatory Commission (KERC) in its 3rd Annual Report opined (October 2001) that metering of all BJ and KJ installations have to be justified on cost benefit basis and it was not convinced that metering of all BJ/KJ installations would be practical and economically justifiable programme. The KERC wanted the Company to first examine the options available in order to identify possible alternatives to universal metering of all BJ/KJ installations. The KERC directed that metering of BJ and KJ installations should be taken up on last priority subject to availability of funds. The Company did not agree with the opinion of the KERC and stated (December 2001) that as per the directions of the Government it had already initiated action to procure meters for these installation on turnkey basis. The Company proceeded with procuring high precision electro-mechanical meters and started installing meters at BJ/KJ installations and the work is under progress (July 2003).

Audit observed that installation of high precision electro-mechanical meters was not justified considering that:

- BJ / KJ installations consumed very less energy with only one bulb point and as such revenue generation would be insignificant;
- the installation of ordinary energy meter, which was cheaper by Rs.258 would have been prudent; and
- even domestic consumers having light connections were not considered (November 1998) for installation of high precision electro-mechanical meters.

Installation of costly meters would result in extra expenditure of Rs.63.62 crore.

Thus installation of 24.66 lakh high precision meters at BJ/KJ installations would result in avoidable extra expenditure of Rs.63.62 crore. The Company has already procured 9.32 lakh meters so far (September 2003).

The Company stated (July 2003) that with the objective of energy audit as well as realisation of revenue, installation of high precision meters is a well thought out plan. The reply is not tenable, as even by installing ordinary energy meters, the Company would have achieved these objectives.

Undue benefit due to condoning delays in supplies

2.3.15 Every purchase order placed for supply of energy meters inter alia included a penalty clause for delayed supplies. The penalty levied was half per cent per week or part thereof, subject to a maximum of 10 per cent of the contract value.

Condonation of delay in orders placed to meet urgent requirement defeated the purpose of placement of order.

On a review of extension orders placed to meet immediate requirement, Audit observed that Rs.66.20 lakh was initially withheld as penalty in respect of 10 purchase orders for the delayed supplies (the delay ranged from 12 to 41 days). The CEE (MM&P) condoned delay without levy of penalty in seven cases and ordered recovery of token penalty (Rs.1.30 lakh) in three cases.

The condonation of delay defeated the purpose of placing extension orders (issued for immediate requirement) and resulted in undue favour of Rs.64.90 lakh to the suppliers.

The Company stated (July 2003) that the purchasing authority, after in depth study in each case and using his discretionary powers had condoned the delay on case-to-case basis.

The reply is not tenable, as the decision to condone delays in respect of orders issued to meet the urgent requirements was not justified.

Testing and installation of energy meters

2.3.16 The meters are tested at the manufacturers works by Chief Engineer Electrical (Technical Audit and Quality Control). Based on his report, despatch instructions are issued by CEE (MM&P) to the manufacturers for delivery to the O&M divisional stores or central stores division, Bangalore.

As per the provisions of KEB Supply Regulations as well as KERC (Supply and Distribution) Code 2000-01, the meters are to be tested periodically as follows:

- HT power installations — Every year
- LT power installations — Once in two years
- Other installations — Once in five years

Engineers from meter rating and testing (MRT) division carry out rating of HT meters, whereas rating of LT installations are carried out by LT rating sub division.

The following table indicates the number of installations tested in relation to the number of installations in service during 1998-2003.

Year	High tension power			Low tension power			Others		
	Total No. of installations as at end of	No. of installations checked during the year	Per cent	Total No. of installations as at end of	No. of installations checked during the year	Per cent	Total No. of installations as at end of	No. of installations checked during the year	Per cent
1998-99	3,040	2,148	71	3,09,050	28,434	9	67,09,755	45,177	0.67
1999-00	3,416	1,558	46	2,78,733	33,447	12	70,24,395	86,010	1.22
2000-01	4,002	2,753	69	2,91,599	40,505	14	73,88,602	1,19,976	1.62
2001-02	4,520	3,376	75	3,02,442	34,767	12	81,06,598	1,23,800	1.53
2002-03	5,022	3,688	73	2,42,399	28,602	12	1,12,11,892	1,02,412	0.91

It could be seen from the above that testing of installations is not carried out as per the provisions of KEB Supply Regulations/KERC (Supply and Distribution) Code 2000-01.

In the absence of meter history records or such other related documents, it could not be verified in Audit as to how many installations (particularly with reference to HT and LT power) have remained untested for more than one and two years, respectively.

The Company stated (July 2003) that since there are only 4,400 HT installations, the rating batches were able to carry out periodical rating as prescribed. However, due to the sheer volume of work, it was not possible to adhere to the rating schedule in respect of LT installations. The Company is going in for high precision meters having 10 years warranty and these do not require frequent testing. The fact remains that testing of meters was grossly inadequate in respect of installations other than HT.

Performance of the meters

2.3.17 The Company has been procuring high precision electro-mechanical meters, electronic meters and electronic trivector meters from 1998-99. The performance of these meters are guaranteed for 10 years. The Company has not evolved any mechanism or prescribed any norms for evaluating their performance, unlike in UP Power Corporation Limited where according to the Hydel Manual of Orders, history card of each meter is to be maintained. Further, assignment of watching the performance of these meters and to report thereon has not been entrusted to any particular officer of the Company.

The following table indicates the number of meters found faulty during testing of the meters by MRT division (HT meters) and LT rating sub-division (LT meters).

Year	High tension installations			Low tension installations			Other installations		
	No. of installations checked	No. of faulty meters noticed	Per-cent-age	No. of installations checked	No. of faulty meters noticed	Per-cent-age	No. of installations checked	No. of faulty meters noticed	Perc-entage
1998-99	2,148	193	8.9	28,434	3,332	11.7	45,177	1,066	2.4
1999-00	1,558	134	8.6	33,447	3,186	9.5	86,010	2,039	2.4
2000-01	2,753	261	9.5	40,505	2,707	6.7	119,976	1,523	1.3
2001-02	3,376	246	7.3	34,767	2,869	8.3	1,23,800	2,385	1.9
2002-03	3,688	247	6.7	28,602	2,231	7.8	1,02,412	1,741	1.7

It could be seen from the above table that percentage of failure of HT and LT power meters was more than that of other meters. The Board/Company has not analysed the reasons for such high rate of failure of HT and LT power meters.

The Company stated (July 2003) that it has analysed the reasons for failure and will be made known to audit after receipt of information. This information is still awaited (August 2003).

Downloading and analysis of data

2.3.18 The Company has been procuring electronic tri-vector (ETV) meters for installing in HT and also LT power installations with a sanctioned load of 40 HP and above. These tri-vector meters are capable of display and storing around 13-37 parameters depending upon the make.

These data are required to be downloaded through meter reading instruments (MRIs) and used for meaningful management analysis for power data management/commercial decisions with respect to the consumers like back billing for slow recording etc. Though tri-vector meters were installed as early as in 1998-99, the advantage of downloading the parameters periodically was not made use of in most of the divisions except in O&M division, Mysore where MRI were used to some extent as evident from the records maintained in the division. In absence of such down loading and analysing the results, the purpose of installing tri-vector meters was not fully served. At present, the data are downloaded only when O&M units intimate LT rating sub-division about the failure of ETV meters or on receipt of complaint from the consumers. Even during normal routine rating, the data are not downloaded.

Failure of meters within guarantee period

2.3.19 The electro-mechanical meters procured up to 1997-98 were guaranteed for performance for a period of 18 months from the date of supply or 12 months from the date of installation whichever is earlier, under the terms of respective purchase orders. In the absence of history cards, failure of meters within the guarantee period could not be determined. The failed meters are repaired (without incurring any material cost) / cannibalized at departmental laboratories/declared as scrap. The high precision meters procured during 1998-99 and onwards are guaranteed for a performance of 10 years.

10,664 meters costing rupees one crore failed within guarantee period and were lying in stores/section offices.

On a test check in seven divisions, it was observed that 10,664 meters costing rupees one crore failed within guarantee period and were lying in stores/section offices. In three O&M divisions (Gulbarga, Mysore and Haveri), failed meters were not returned to stores but held in the respective O&M divisions itself. These divisions did not have centralised data of meters failed within guarantee period. In other O&M divisions (Chickballapur, Tumkur, Rural North and Udupi) failed meters were returned to stores. Thus, uniform procedure was not followed by the Company with regard to collection of failed meters.

The Company stated (July 2003) that a review by it revealed that divisions had taken action for getting meters repaired/replaced.

Since audit observation is only a test check of few divisions, the Company needs to frame uniform policy to improve the system so that these meters could be repaired / replaced in time.

Failure of electronic meters

2.3.20 During 1999-2000, Udupi division received 4,340 single-phase electronic meters. All these meters were installed in the same year. Out of these, 1,991 meters (46 per cent) failed within one year and were replaced by high precision meters. The main reason for the high rate of failure of electronic meters was that they could not withstand the lightning strikes during the monsoon season. During 2000-01 and 2001-02,the division did not receive electronic meters.

Of 5,171 electronic meters received in the division during 2002-03, 1,319 meters failed. The failure was again attributed to severe lightning strikes during monsoon season. Even though these electronic meters are guaranteed for 10 years, the Company is yet to get replacement resulting in locking up of funds of Rs.10.30 lakh.

The Company stated (July 2003) that failure of meters due to lightning is not confined to electronic meters only. The fact remains that the Company did not take action to get these meters replaced.

Loss due to treating electronic energy meters as scrap

2.3.21 The Company procured (July 1997) 10,000 single phase, 1,000 three phase (5-20 amps) and 1,000 three phase (10-20 amps) electronic meters from Bharat Heavy Electricals Limited. As per the terms and conditions of the purchase order, the meters supplied were guaranteed for 10 years from the date of supplies. The maintenance and repair of the meters was to be carried out at supplier's factory premises free of cost during the guarantee period.

Scrapping of meters within the guarantee period resulted in loss of Rs.67.98 lakh.

Audit observed that out of the above supply, the O&M West and East divisions, Bangalore were holding 4,092 electronic energy meters of single phase and 1,190 three-phase energy meters costing Rs.67.98 lakh. These meters were defective and were held in the divisional stores for more than three years without repair and were scrapped in the annual accounting of stores during 2002-03. These meters were neither got repaired by contacting supplier nor replacements were obtained from it at free of cost as per the terms of the agreement. Thus, the Company lost Rs.67.98 lakh due to not insisting on repair or replacements of defective meters supplied by the supplier.

On being pointed out by Audit, the Company stated (July 2003) that action has been taken to withhold amount equivalent of the total cost involved and is awaiting the details from divisions.

Conclusion

As per progress achieved till date, the Company is not likely to achieve target committed by it to the Government upto 2004. The Company had not rationalised the purchase system. Extension orders were placed at higher rates when prices were falling. The testing of meters after their installation was grossly inadequate in respect of installations other than HT. The meters that failed within the guarantee period were not replaced.