CHAPTER III

3. TRANSACTION AUDIT OBSERVATIONS RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

Important audit findings noticed as a result of test check of transactions made by the State Government companies/corporations, are included in this Chapter. These paragraphs have been discussed with the respective Administrative Department and the Management of the companies/corporations. Their views have been taken into consideration while finalising the paragraphs.

GOVERNMENT COMPANIES

Krishna Bhagya Jala Nigam Limited

3.1 Bonds

Failure to exercise the call option in bonds (series IV and V) deprived the Company of an opportunity to save Rs.41.07 crore.

The Company has been raising funds for the Upper Krishna Project by issuing Regular Return Bonds and Deep Discount Bonds. The Regular Return bondholders were paid periodical interest (half yearly) and the bond amount was paid on maturity, while the Deep Discount bondholders were paid the cumulative amount on maturity. These bonds were raised under various series viz., Series I (1994-1995) to the latest Series XI (2003-04). The terms and conditions for issue of bonds, *interalia*, contained an option called the "call/put option". This option enabled the Company/bondholders to redeem the bond prematurely at such dates as was prescribed in the offer document. The 'call' option is very helpful for companies in a regime of falling interest as they could swap high cost borrowing with low cost debt, whereas the 'put' option is helpful for bondholder in a rising interest regime as they could withdraw the money and invest it elsewhere.

The Company raised Rs.588.31 crore under series IV and Vas detailed below :

Bond series	Month & year of issue	Amount raised (Rs.in crore)	Coupon rate (per cent)	Interest payable	Normal redemption	Call option to be exercised in
IV	January 1997	184.33	17.5	Half yearly	50 per cent at the end of 6th year and balance at the end of 7th year from issue.	January 2002
V	July 1997	403.98	15.75	Half yearly		July 2002

Audit observed that, though the interest rate had fallen and the Company raised bonds at 11.75 per cent in January 2002, it failed to exercise the 'call option' for early redemption. The loss to the Company due to not exercising this option worked out to Rs.41.07 crore, since it paid higher rate of interest until the normal redemption period (January / July 2004).

The Government stated (July 2004) that the Board of the Company had discussed the precarious financial position of the Company in the meeting held during November 2001 and therefore it was decided not to exercise the call option. The reply is not acceptable as the Board in this meeting had only discussed the financial position regarding treasury account and regular interest payments and no discussion on the issue of exercising the call option was held.

3.2 Non-synchronisation of purchase of pumps

Purchase of pumpsets much ahead of commissioning of jackwells and erection of electricity transmission lines resulted in blocking up of funds of Rs.7.23 crore.

The Mulwad Lift Irrigation scheme involved construction of two jackwells, one at Baluti village and another at Hanumapur village, with a lead off canal of 5.5 Km. between them. Irrigation benefits could be realised only on commissioning of both the jackwells. Audit observed that in respect of Baluti village jackwell, the Company entered (February 2001) into an agreement with Kirloskar Brothers for supply of five vertical turbine pump sets with required accessories, including erection, testing, commissioning, operation and maintenance at a price of Rs.9.09 crore. The equipment was delivered during December 2001 and an amount of Rs. 7.23 crore was paid towards the same. Since then, the pumps could not be subjected to performance test for want of power supply. The work of construction of a 220 KV transmission line and terminal bay for arranging power supply was expected to be completed by December 2004 only.

Purchase order for pumpsets required for the second jackwell at Hanumapur was issued only in September 2003 and the same is scheduled for completion by December 2004. It is thus evident that the purchase of pump sets made during 2001 was not synchronised with the date of completion of balance works. This resulted in blocking up of Rs.7.23 crore, which could have been avoided. The Government admitted (July 2004) the audit observation.

3.3 Non-regulation of payment as per contract

Adoption of old rates for making payment for excavation in soft rock with or without blasting resulted in additional expenditure of Rs.1.39 crore.

As per standard Clause 13(b) of the agreements executed by the Company, additional quantities executed in excess of 125 per cent of the tendered quantity should be paid at the rates derived from Schedule of Rates of the year of execution of the work after adjustment of premium or discount quoted at the time of tendering. A composite rate of Rs.78 per cubic metre was introduced in the Schedule of Rates with effect from February 1997 for excavation in soft rock with or without blasting, replacing the rates of Rs.49 and Rs.120 per cubic metre for excavation in soft rock without blasting and with blasting respectively.

Audit scrutiny of the work in Almatti Right Bank canal (reach at Km. 17 to 38 and Km. 48 to 58) and Indi Lift canal (Km. 40 to 48) revealed that the Company paid (2001-03) for quantities exceeding 125 per cent of the tendered quantity at old rates which existed prior to February 1997 viz., Rs.49 and Rs.120 per cubic metre for excavation in soft rock without blasting and with blasting respectively. This resulted in extra expenditure of Rs.1.39 crore.

The Company stated (August 2004) that the corrigendum issued in February 1997 was superseded by a decision taken by the Technical sub-committee (TSC) in its meeting held on 30 August 1997.

The reply is not tenable as the Audit observed that the Company was making payments at the rate of Rs.78 per cubic metre in respect of other contracts[♣] being executed during the same period.

3.4 Excess payment

Payment of market rates for cement and steel, instead of rates as per Schedule of rates as indicated in the contract, resulted in excess payment of Rs.78.27 lakh.

The Company entrusted construction of canals/distributories to various agencies on tender/direct entrustment basis. The works were completed during the period 1998 to 2001. The work included earthwork and cross drainage works. The earthwork was entrusted below schedule of rates ranging from 6 to 25 per cent and the cross drainage work at schedule of rates.

Audit observed that while making the payment to contractors, the Company adopted market rates for cement and steel instead of rates as per the schedule of rates as indicated in the contracts. This resulted in excess payment of Rs.78.27 lakh (during March 1999 to September 2001) in respect of three works.

The Government stated (July 2004) that the quoted rates were against the sanctioned estimate and not as per schedule of rates. The reply is not tenable as the Company has mentioned in the respective proceedings/orders that the rates were as per schedule of rates while entrusting the work. Besides, the Company has already recovered Rs.4.94 lakh and has proposed to recover Rs.5.85 lakh out of Rs.78.27 lakh pointed out.

[♣] Almatti right bank canal from Km. 14 to 17; Distributory No.7 and 8 of ARBC, Indi lift canal from Km. 66 to 71; Indi Lift canal from Km. 48 to 55; Cross regulator cum canal escape at chainage 15.678 of Indi lift canal; Mulwad lift irrigation from Km. 10 to 20.

3.5 Wrong estimation

Preparation of estimates without conducting stability studies resulted in extra-expenditure of Rs.42.37 lakh due to payment of higher rates.

The construction of Distributory canal No.18 from Km. 20 to 40 of Narayanpur Right Bank Canal was entrusted (February 2001) to a contractor at his quoted price of Rs.10.20 crore, which was 42.36 per cent below the estimated cost. It was observed that the contract was finalised based on line estimates♥ with nominal side slope of 1.5:1 for embankment works.

The side slope, based on stability studies conducted (August 2001), was changed to 2:1 during execution of the works. Further, berms of two metre width were also made, wherever the embankment height was more than six metres. These changes resulted in increase in quantities of work to be executed by Rs.2.63 crore at the contract rates. The increase was 38 per cent of the quoted price for earthwork portion of the contract indicating that the estimates were not prepared after conducting proper studies at the initial stage.

The increase in quantities resulted in extra expenditure of Rs.42.37 lakh due to payment of higher rates for quantities in excess of 125 per cent of the estimated quantities.

The Government stated (May 2004) that it may not be appropriate to presume that if all the quantities have been estimated and provided in the tender itself, the contractors would have quoted the same rates. The reply is not tenable as in a highly competitive tender, where the Company obtained discount of as high as 42 per cent on the estimated cost, it was all the more likely that the Company would have obtained better rates with higher accuracy in estimated quantities and therefore, could have avoided the extra expenditure.

Karnataka Neeravari Nigam Limited

3.6 Non-rationalisation of rates

Defective estimation and awarding the contract without rationalisation of rates resulted in avoidable expenditure of Rs.1.88 crore.

As per paragraph 182 of Karnataka Public Works Department Code, negotiations with the contractors, who had quoted erratic rates, should be undertaken for the purpose of rationalization and moderation subject to ensuring that the overall percentage after rationalization of rates should not exceed the original percentage quoted by the tenderer.

The Company awarded the work for the construction of canal works in Upper Tunga Project packages Km. 91-92, Km. 94-95, Km. 98-99, Km. 103, Km 105-106 to the contractors, who had quoted lowest rates with discount ranging between 3.15 per cent and 59.64 per cent of the estimated/tendered cost during December 2001 and December 2002. The contracts included canal

♥ A rough estimate based on the length of the canal and typical cross section.

excavation in (i) all kinds of soil, (ii) soft rock with or without blasting, (iii) hard rock and (iv) hard rock with controlled blasting. A scrutiny of the tender evaluation reports of these works revealed that the selected contractors had quoted abnormally low rates for hard rock excavation (Rs.10 / Rs. 30 per cubic metre), which was even less than the estimated rate for excavation in all kinds of soil (Rs.30 per cubic metre) and quoted relatively higher rates for soft rock excavation ranging from Rs.65 to Rs.156 per cubic metre as against the estimated cost ranging from Rs.77.51 to Rs.97.52 per cubic metre. The Company, however, did not negotiate with the contractors to rationalise the rates as provided in the Code *ibid.*

Audit observed that during excavation, the quantities of the soft rock, for which the contractors had quoted higher rates, increased from 3.67 lakh cubic metre to 6.66 lakh cubic metre and the quantities of hard rock, for which low rates were quoted, decreased from 2.42 lakh cubic metre to 0.64 lakh cubic metre in these reaches.

Had the Company negotiated with the contractors and rationalised the rates as provided in the Code, it could have avoided extra expenditure of Rs.1.88 crore (as compared to the second /other lowest tenderers).

The Government stated (August 2004) that it was a mere coincidence that the soft rock quantities increased and the hard rock quantities decreased during excavation. The Government further stated (September 2004) that even the rationalization procedures were not foolproof. The reply is not tenable as the erratic rates and the variation of quantities in all the five contracts defies the coincidence theory. The fact remains that the Company failed to protect its financial interest by rationalising the erratic rates.

3.7 Excavation of canal in hard rock

Payment of extra item rates for controlled blasting even though it was the responsibility of the contractors resulted in excess payment of Rs.1.62 crore.

The work of construction of main canal of Upper Tunga Project from Km. 45 to Km. 53 was awarded (November 2000 and February 2001) to four contractors. As per tender conditions, the contractors were required to inspect the site and satisfy themselves the nature of work involved, before quoting. The work included excavation in hard rock of all toughness and under all conditions. For this item of work, the four contractors had quoted the rates ranging from Rs.87.50 to Rs.110 per cubic metre, which was 30.1 per cent to 48.02 per cent below the estimated cost of Rs.191.53 to Rs.203.44 per cubic metre.

During execution of the work, the contractors claimed a separate rate for 'controlled blasting' on the plea that High tension/Low tension lines of Karnataka Power Transmission Corporation Limited were crossing/running parallel, in many reaches of the canal alignment. The Company treated this item of work as an extra item not contemplated in the contract and paid

(July 2002 to Jan 2003) Rs.200 to Rs.300 per cubic metre extra for 'controlled blasting'.

Audit observed that the contracts were for excavation in hard rock under all conditions and blasting was normal mode of excavation in hard rock. It was, therefore, the responsibility of the contractors to carry out the blasting operations in such a way that the life and property of others along the canal alignment was not harmed/damaged. Payment of extra item rate for 'controlled blasting' resulted in excess payment of Rs.1.62 crore for excavating 92,764.69 cubic metre hard rock.

The Government stated (September 2004) that this item was not in the schedule-B of the contract and hence was treated as extra item. The reply is not tenable as the tender conditions stipulated that the contractors were to inspect the work and satisfy themselves of the nature of work involved before quoting the rates. The contractors had agreed to excavate for canal in hard rock under all conditions, at the rates specified in schedule-B of the contract and since excavation in hard rock required blasting under controlled conditions, the contractors were required to carry out the same at no extra cost.

3.8 Payment of dewatering charges

The Company extended undue benefit of Rs.1.14 crore to the contractors in violation of the contract conditions.

The work of construction of Mallaprabha Left Bank Canal at Km. 136 and Km. 137 was entrusted (November 1996) to two contractors at their quoted rates of Rs.2.28 crore and Rs.2.43 crore, respectively. As per clause 1.03.2 of the Contract, all items in schedule-B were inclusive of dewatering or pumping out water at all stages of work till final completion of the work and included cost of shoring, bunds, dam, channels or other devices necessary for directing the water away. Rates quoted were to include dewatering charges and all damages caused during construction to any part of the work including natural calamities, floods, etc.

During execution of the works, both the contractors claimed (March 1997) additional dewatering charges and the Company approved (December 2003) dewatering charges at 20 per cent of the rate quoted for excavation in hard rock in contravention of the contract conditions. The Company paid (January 2004) Rs.1.14 crore towards dewatering charges to the contractors.

The Government stated (September 2004) that the additional dewatering charges were paid due to specific site conditions, which could not be anticipated at the time of estimation/tendering; the contract conditions referred to by Audit were of general nature and apply only to excavation under normal conditions, and that the quantum of water seeping through was unreasonably high and therefore, the payment was made as special case taking a pragmatic view.

The reply is not tenable as the specific site conditions detailed in the reply were those, which should have been anticipated considering the geology/topography of the area. The fact remains that the Company extended undue benefit of Rs.1.14 crore in contravention of the contract conditions.

3.9 Execution of tunnel works

Failure to adopt suitable rates in the Schedule of Rates of the Division carrying out the tunnel works resulted in extra expenditure of Rs.92.56 lakh.

The construction of tunnel and related works from Km. 168.500 to Km.174.000 of Upper Tunga Project (UTP) main canal was awarded (October 2001) to R.S.Shetty & Company, Hubli at their quoted rate of Rs.16.28 crore, which was 29.06 per cent below the estimated cost. The work is yet to be completed (August 2004).

As per clause 13(b) of the Contract, additional quantity in excess of 125 per cent of the tendered quantity had to be paid at the rates entered into or derived from the schedule of rates of the Division, prevalent at the time of execution of additions, plus or minus overall percentage of the original tendered rates over the current schedule of rates of the year in which the tender was accepted.

During execution, quantities involved in the work to be executed were revised due to various reasons and sanction for extra financial implications of Rupees seven crore was accorded (June 2003). Audit observed that in respect of four items[§] of work, involving extra financial implications of Rs.2.33 crore, schedule of rates of another circle (Mallaprabha Left Bank Canal circle) of the Company was used for preparing the estimates at the time of tendering. But, these rates were not suitably incorporated in the schedule of rates of UTP circle, which was executing the work. Since these rates were not incorporated in UTP circle, the Company decided to apply the tendered rates even for quantities beyond 125 per cent of the estimated quantities. This resulted in extra payment of Rs.92.56 lakh to the contractor.

The Government stated (September 2004) that it is not the usual practice to revise the Schedule of Rates very often in the middle of the year. The reply is not tenable since at the time of finalising the estimates, schedule of rates of another circle was used and it would have been appropriate if these rates were also included in the schedule of rates of the Division executing the work.

3.10 Inadmissible payment of premium

Payment of premium on construction of feeder channel and tail channel, not contemplated in the contract resulted in extra expenditure of Rs.25.56 lakh.

The construction of dam and allied works of Harinala Irrigation Project, estimated to cost Rs.26.95 crore, was entrusted to Karnataka State Construction Corporation Limited (KSCC) as per Government order dated

[§] Removal of over fallen muck, providing permanent support, steel for support and providing and fixing rock belts.

1 September 1998. An expenditure of Rs. 32.86 crore was incurred on the Project up to June 2003. As per Government order and the agreement, the work was to be carried out at a premium of 12 per cent for concrete work and masonry work and five per cent for earthen dam work over the current schedule of rates. No premium was payable for the various other items of work, including construction of feeder and tail channels, as per Government order. Audit observed (January 2004) that five per cent premium was also paid on works related to construction of feeder and tail channels, for which no premium was specified in the Government order or in the agreement. This resulted in excess payment of Rs.25.56 lakh.

The Government stated (August/September 2004) that the feeder and tail channel were considered most essential part of the dam, construction of earthen dam and construction of feeder channel and tail channel both involves earthwork and therefore premium was paid for feeder and tail channel also. The reply is not tenable as the Government order specified premium only for earthen dam and not for all earth work items of the project, as there were other items like construction of canals and branches involving earthwork for which no premium was specified/payable.

Karnataka Power Transmission Corporation Limited

3.11 Implementation of state-wide computerisation project

The Company failed to achieve the objective of state wide computerisation project due to implementation of only one module, which was also faulty, even after spending Rs.14.44 crore.

The Company approved (April 1997) a “State wide computerization” project based on a strategic study conducted (July 1996) by Tata Consultancy Services (TCS). As TCS had already done the strategic study, the software development was also awarded (January 1998) to them for Rs.70 lakh without calling for tenders. The software development covered computerization of five modules of the business activities of ‘Finance and accounts’, ‘Personnel and payroll’, ‘Project management’, ‘Maintenance’ and ‘Billing and Collection’ of revenue. The entire project was to be executed by February 1999.

Audit observed that only the ‘Billing and Collection’ (BNC) module was test run in August 1999 and that too failed to deliver functionalities like generation of statement of Demand, Collection and Balance, disconnection and re-connection memos, partial billing, etc. On the assurance of TCS to modify the module, the implementation across 239 sub-divisions was undertaken (July to December 2000). The Company procured (August/September 2000) hardware valuing Rs.13.75 crore for the second phase implementation.

Meanwhile, as a part of power reforms, the Company was split up and it retained only the transmission activity. The function of distribution was divested (June 2002) to four[♦] electricity supply companies; of these only one Company, Bangalore Electricity Supply Company Limited (BESCOM), continued to use the BNC module in parallel with manual ledger system. The contract with TCS was rescinded (January 2003) after payment of Rs.26.10 lakh (against Rs.70 lakh) and BESCOM awarded (June 2003) the work of re-designing, customizing, tuning and maintenance in 52 sub-divisions to Zygox Software Private Limited (Zygox) for Rs.43.20 lakh and hired the consultancy of Can Bank Computer Services Limited at Rs.0.70 lakh for two months. As Zygox also could not rectify the errors in the statement of 'Demand, Collection and Balance' (DCB), the work of development of software for preparation, consolidation and analysis of DCB was awarded (August 2003) to MN Dastur and Company for Rs.12.73 lakh.

Audit of the Billing and Collection software was conducted (November 2003 to January 2004) at one of the pilot sites (E6 sub-division, Bangalore), revealed that:

- there was no check to ensure that bills were raised on all consumers; bills with zero amounts were generated even when there was consumption; bills generated had errors and required manual correction; bills and receipts were raised without master details making it impossible to reconcile with accounts;
- there were unexplained gaps in system generated receipt, duplicate receipt numbers and posting of receipts to ledger was not traceable to its master details;
- manual bills continued to be used for certain categories of tariff; interest was not calculated properly; arrears were carried forward in-spite of its clearance; bills with negative amounts were generated; specific rebate omission; double levy of taxation;
- the statement of 'Demand, Collection and Balance' generated by the module was erroneous and the same was not used for accounting purpose; and
- access control regarding security of operation and changing of data were inadequate to the size and nature of business.

The objectives of computerisation was, thus, not achieved even after spending Rs.14.44 crore on the project.

The Government stated (June 2004) that the package was used in BESCOM with little modifications. The reply is not tenable as the test check in BESCOM has revealed the above major shortcomings. Further, the reply is silent about the implementation of only one module and the discontinuance of the computerization in other three electricity distribution companies after spending Rs.14.44 crore.

[♦] Bangalore Electricity Supply Company Limited (BESCOM), Mangalore Electricity Supply Company Limited (MESCOM), Gulbarga Electricity Supply Company Limited (GESCOM) and Hubli Electricity Supply Company Limited (HESCOM).

3.12 Procurement of PCC poles

Procurement of PCC poles of higher working load resulted in extra expenditure of Rs.63.92 lakh.

The Company had been purchasing reinforced cement concrete (RCC) poles of eight metre length with 115 Kg. working load required for distribution networks. The Company decided (November 2000) to procure 75 per cent for its requirement of poles in RCC poles and 25 per cent in pre-stressed cement concrete (PCC) poles. A comparative evaluation of the poles by Torsteel Foundation of India showed that the PCC poles of eight metre height with same design load, could support a working load of 140 Kg as against the working load of 115 Kg. of the eight metre height of RCC poles and would be suitable for overhead 11 KV and LT power lines (both tangent and dead end locations) and double pole structures for 11/4.0 KV sub-stations. Since the PCC poles were procured to replace RCC poles of 115 Kg working load, there was no necessity to procure PCC poles of 200 Kg working load. The Company, however, purchased (July 2001 to November 2001) 32,950 number of eight metre PCC poles of working load of 200 Kg at a cost of Rs.890 per pole as against Rs.696 per pole for eight metre PCC poles of working load of 140 Kg. This resulted in extra expenditure of Rs.63.92 lakh.

The Government stated (June 2004) that PCC poles of 200 kg working load were procured based on the recommendations made by the Civil wing of the Company after conducting a study in Kerala. It was also stated that the PCC poles of higher working load was used for the dead ends/anchor points, transformer centers in addition to wind load on conductor poles. The reply is not tenable in view of the fact that the study conducted by Torsteel Foundation of India clearly mentioned that the eight metre PCC pole with 140 Kg. working load could be used for dead end locations also. Audit also observed that the Company did not purchase PCC poles of eight metre length with 200 Kg working load after November 2001.

3.13 Theft of transmission line materials

Failure to make proper security arrangements for incomplete transmission lines resulted in recurring theft of conductors and other transmission line materials valuing Rs. 62.02 lakh.

The work on 220 KV double circuit line from Somanahalli to Malur commenced in 1999, at an estimated cost of Rs.9.81 crore. The work was to be completed by July 2000. Due to delay in obtaining forest clearance and leave of way, the work could not be completed. The erection of towers and stringing of lines was, however, undertaken at various locations and the lines were left uncharged, as the transmission line was not fully ready. Audit observed that thefts of conductors and other line materials were being reported from February 2002 onwards at various locations where the stringing works were undertaken. The Company, however, did not take any action to arrange security for the work done to avoid further thefts. This led to further thefts and

24 thefts of material valuing Rs. 62.02 lakh were reported up to February 2004.

The Government stated (June 2004) that patrolling the area was commenced from March 2004. The fact remains that the Company failed to take necessary steps for securing the transmission line immediately after reporting of initial thefts.

3.14 Under-insurance of transformer

Under-insurance of a transformer in transit, has resulted in loss of Rs.29.77 lakh in insurance claim.

The erstwhile Karnataka Electricity Board (now KPTCL) approved (April 1999) the transporting of a repaired 100 MVA transformer from NGEF, Bangalore to Tubinekere 220 KV station. The Chief Engineer, Electricity, Major works, Bangalore instructed the Major works Division, Mysore to insure the transformer at a value of Rs.1.92 crore. The transformer was, however, insured (November 1999) for Rs.50 lakh only. The reasons for taking out the insurance at a lower value than indicated by the Chief Engineer could not be ascertained in Audit.

During transit, the transformer toppled and was damaged (November 1999). The transformer was subsequently got repaired at NGEF, Bangalore at a total cost of Rs.62.59 lakh. Audit observed that the insurance company restricted the claim and paid (June 2003) only Rs.10.61 lakh, being the pro-rata value of claim, as the transformer was under-insured.

Thus, under-insurance of the transformer inspite of instruction issued by the Chief Engineer, Bangalore to insure the transformer at Rs.1.92 crore resulted in a loss of Rs.29.77 lakh of insurance claim.

The Government confirming the facts stated (June 2004) that it has filed a case against the insurance company, which is pending (September 2004).

The Mysore Paper Mills Limited

3.15 Purchase of power

The Company failed to avail of the full benefit of power purchase agreement it had entered into in order to obtain cheaper energy from an independent power producer resulting in extra expenditure of Rs.18.24 lakh.

The requirement of 100 to 200 lakh units per month of electrical energy of the Company was being met from captive generation and supply from the erstwhile Karnataka Electricity Board. In order to obtain cheaper electrical energy, the Company entered into (July 1999) an agreement with Kirloskar Power Supply Company Limited, an Independent Power Producer (IPP), for purchase of 30 lakh units of electrical energy per month at the rate of

Rs.3.10 per unit, for a period of one year. According to the agreement, if the supplier fails to supply the contracted quantity of 30 lakh units, the supplier shall reimburse differential cost of purchase of energy from other Independent Power Producers/Karnataka Electricity Board (now Karnataka Power Transmission Corporation Limited).

Audit observed that the Company did not draw the full quantity of energy, as provided in the agreement, from the IPP from November 1999 to March 2000. The Company, therefore, had to purchase 30.21 lakh units of energy from Karnataka Electricity Board and other Independent Power Producers at higher cost, resulting in extra expenditure of Rs.18.24 lakh.

The Government stated (July 2004) that it had to commit the units to be drawn from the IPP by 15th of every month. It further stated that it had to pay for the committed units irrespective of actual drawal and that the actual power requirements was subject to changes in production programme. The reply is not tenable as the requirement of 30 lakh units per month was based on its own assessment and the total purchase of energy was always more than the agreed quantity.

Karnataka State Coir Development Corporation Limited

3.16 Non-reimbursement of central share of rebate

Lapse on the part of the State Government deprived the Company of Central share of rebate of Rs.53.28 lakh.

The State Government allowed the Company to sell the coir products at a rebate of 20 per cent on 90 days in a year. The rebate was to be reimbursed to the Company by the Central and State Governments in equal proportions. As per the scheme, the State Government, after releasing their share of rebate, was to forward the claim for the Central share alongwith proof of release of States' share to the Central Government. Audit observed that the Company claimed rebate of Rs.1.25 crore during 1998-2000. The Company, however, received Rs.62.42 lakh being the share of the State Government and Rs.9.14 lakh from the Central Government, leaving a balance of Rs.53.28 lakh. The main reasons for non-receipt of the amount was stated to be due to belated release of its share by the State Government and consequently the claims for Central share, which were forwarded late, lapsed. The lapse of the State Government to forward claims in time deprived the Company of the Central share of Rs.53.28 lakh.

The Government stated (September 2004) that Government of India did not pay its share of rebate for 1998-2000 in view of the introduction of Marketing Development Assistance Scheme. The fact, however, remains that the Government of Karnataka did not receive the Central share of Rs.53.28 lakh due to its failure to submit claims to Central Government in time.

STATUTORY CORPORATIONS

Karnataka State Road Transport Corporation

3.17 Implementation of Oracle Financials Software

Purchase and implementation of software without ensuring its suitability resulted in infructuous expenditure of Rs.67.29 lakh

The Corporation placed (July 1999) orders on NIIT Limited (NIIT) for supply of Oracle Financials Software (Rs.12.40 lakh), customization and implementation of the package at seven locations in Bangalore (Rs.15.36 lakh) and technical support (Rs.2.48 lakh per annum). The software envisaged centralized database for all the units of the Corporation and the package was purchased with 25 user licenses initially with the option to purchase additional user licenses in order to roll over the application to various other units. The software was delivered in August 1999. The Corporation placed further orders (March to July 2000) on NIIT for customization and implementation of the software and for personnel training at a cost of Rs.21 lakh and professional fees for hand holding support at Rs.8.5 lakh. The Corporation incurred expenditure of Rs.67.29 lakh on the software, customization and implementation, personnel training and hand holding support.

Audit observed that:

- even though the Computer Implementation Committee had suggested (February 1998) to evaluate the benefits of continuing the in-house development of software or to buy a ready made software like Tally, EX, etc., or to get the software developed by an external agency, no such evaluation was made;
- no feasibility study both technical and financial was made before deciding to purchase the package and
- no analysis matching the needs of the Corporation for computerisation and features available in the package was made.

The Corporation, therefore, was not able to derive the desired benefits on the implementation of computer software since:

- package could be implemented only in four locations instead of nine envisaged. Now the package is being actually used in Corporate office only to a limited extent;
- Bangalore Central Division noticed large scale errors in data in cash accounting and consequently the system was withdrawn in April 2000;
- even though the software was to be implemented with centralized database requiring network connectivity between various units and Corporate Office, the cost and feasibility of the same was not considered while deciding to purchase the software. As the cost of establishing network connectivity was found to be very high, the

proposal was deferred (March 2001). The Corporation, therefore, could not roll over the software to other units. The proposal of network connectivity has not been taken up so far (August 2004).

The Government stated (August 2004) that the software was a sophisticated one and hence all the benefits could not be derived, and that the possibilities of deriving more benefits out of the system with minimum changes/ customization was being explored. The reply is not tenable as the software was purchased without carrying of feasibility study as stated above and as such full benefit of the software could not be derived even after five years of purchase.

General

3.18 Implementation of Voluntary Retirement Scheme in Public Sector Undertakings in Karnataka

Introduction

3.18.1 As on 31 March 2004, there were 82 Public Sector Undertakings (76 Government companies and six statutory corporations) in the State of which 17 were non-working. In order to improve the performance of these Public Sector Undertakings viz., to optimise manpower, improve productivity, etc., the Karnataka State Bureau of Public Enterprises (KSBPE), now the Department of Disinvestment and Public Sector Enterprises Reforms (DDPER), formulated (November 1997 and August 2001) a Voluntary Retirement Scheme (VRS).

3.18.2 The salient features of the Scheme formulated in August 2001 are:

- all employees on regular pay scales and identified as surplus can opt for VRS;
- before introducing VRS, excess staff should be identified, otherwise VRS cannot be implemented;
- the employees opting for VRS are entitled to ex-gratia of maximum Rupees five lakh in addition to provident fund, gratuity and other terminal benefits;
- once the option for VRS is accepted, the related posts vacated be simultaneously abolished and not even held in abeyance; and
- the VRS amount is to be settled within 90 days from the date of notification by the Company, on the basis of one time settlement after collecting all the dues outstanding to the Company.

3.18.3 As per the details received (September 2004) from 32 companies, out of the 82 PSUs, 17 companies have not implemented VRS. The study conducted, between February and March 2004 covers the examination of implementation of VRS during the period 1999-04 in 13 companies out of 15 companies. In addition to these companies, a paragraph relating to this subject in respect of Mysore Minerals Limited has been included at paragraphs 2.1.30 and 2.1.35 of this Report.

In case of Karnataka Handloom Development Corporation Limited, a paragraph No.2.1.27 on the subject has been included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2003.

3.18.4 The details of the companies in respect of which test check was conducted have been placed at **Annexure 11**. From the annexure it could be observed that out of 6,594 employees identified as surplus by 12 companies, 5,726 employees opted for VRS and only 5,019[≠] employees were relieved. The total amount paid / payable to these officials worked out to Rs.175.18 crore including loan/subsidy of Rs.95.06 crore from the Government to three companies. The amount needed to retrench the balance surplus staff in six companies worked out to Rs.31.06 crore.

A review of the records of these companies revealed the following:

Operation of surplus staff

3.18.5 The management of 12 companies identified 6,594 number of employees as surplus; of which only 5,019 employees were relieved leaving a balance of 1,575 number employees. In seven[♦] companies, the scheme was implemented partially, resulting in recurring expenditure ranging from Rs.6.90 lakh to Rs.15.05 lakh per month on salaries of surplus employees. In respect of the other two[♣] companies the scheme was not implemented, resulting in recurring expenditure ranging from Rs.20 lakh to Rs.27.33 lakh per month on salaries of surplus employees.

The Government stated (July 2004) that:

(a) **Mysore Sales International Limited:** Due to formation of Karnataka State Beverages Corporation Limited there was no excess staff, hence there was no extra expenditure. The reply is not tenable as the scheme was approved and implemented (January 2004) after formation (June 2003) of Karnataka State Beverages Corporation Limited

(b) **Karnataka State Electronics Development Corporation Limited:** The surplus staff identified would be reduced in phased manner. It further stated that extension of VRS to surplus staff again depended upon availability of funds. The reply is not tenable as the Company was aware of its liability and had decided to meet liability out of its own funds at the time of approval of the scheme.

[≠] including three employees superannuated.

[♦] Mysore Lamp Works Limited, Karnataka State Construction Corporation Limited, Karnataka Silk Industries Corporation Limited, Karnataka Soaps and Detergents Limited, Karnataka Vidyut Karkhane Limited, Mysore Sales International Limited, Karnataka State Electronics Development Corporation Limited.

[♣] Karnataka Pulpwood Limited, Karnataka Forest Development Corporation Limited.

(c) **Karnataka State Construction Corporation Limited:** All the employees have not opted for VRS. Further, action would be taken after approval by an application under section 25(O) of Industrial Disputes Act, by the Labour Department.

(d) **Karnataka Soaps and Detergents Limited:** The Company has not identified surplus staff. The reply was not acceptable as the Company had identified (June 2003) surplus staff and notified (February 2004) the scheme.

(e) **Karnataka Forest Development Corporation Limited:** The identification of surplus staff was under process. The reply is not correct as the Company has already identified (September 2003) 302 employees as surplus but not implemented the scheme even after Government's rejection of its modified scheme.

Non-fixing of ex-gratia limit

3.18.6 Karnataka Agro Industries Corporation Limited has not adhered to the limit of Rupees five lakh in the payment of ex-gratia and made an excess payment of Rs.41.81 lakh in respect of 38 employees. Further, a sum of Rs.12.54 lakh (at 30 per cent) being the tax on income, on amount paid above Rupees five lakh, as per section 10(C) of Income Tax Act, has not been recovered. The Government stated (July 2004) that the ceiling limit of Rupees five lakh as per Government order dated 10 August 2001 did not apply to this special scheme. In the meeting held on 26 July 2004, the Government promised to furnish a copy of the special scheme. It further stated that income tax liability has been deducted on the one time settlement (OTS) amount in one case. The Government did not furnish the copy of the special scheme even after repeated requests. Regarding Income Tax, the amount was to be recovered on the ex-gratia amount only and not on the one time settlement scheme.

Implementation of VRS by a defunct company

3.18.7 Karnataka Telecom Limited paid Rs.5.45 crore towards the settlement of VRS dues during 2002-03. Audit observed that the Company has not been working since July 1996 and no employee was on pay roll as on April 2002. The Company failed to produce any document in support of the payment. This fact was also commented by the Statutory Auditors of the Company in their Report on the accounts for the year 2002-03. In the meeting (26 July 2004) the Government assured to examine the issue.

Follow-up action on Audit Reports

3.19 Outstanding Action Taken Notes

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

Though the Audit Reports for the years 2000-01, 2001-02 and 2002-03 were presented to the State Legislature in March 2002, March 2003 and June 2004 respectively, eight out of 11 departments, which were commented upon, did not submit explanatory notes on 30 out of 92 paragraphs/reviews as on September 2004, as indicated below:

Year of the Audit Report (Commercial)	Total paragraphs and reviews in Audit Report	No. of paragraphs and reviews for which explanatory notes were not received
2000-01	32	1
2001-02	32	1
2002-03	28	28
Total	**92**	**30**

Department wise analysis is given below.

Name of the department	2000-01	2001-02	2002-03
Agriculture	-	-	1
Commerce & Industries	-	-	4
Energy	-	-	8
Water Resources	-	-	9
Transport	-	1	3
Finance	-	-	2
Public works	-	-	1
General	1	-	-
Total	**1**	**1**	**28**

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

Outstanding compliance to reports of Committee on Public Undertakings (COPU)

The replies to paragraphs were required to be furnished within six months from the presentation of the Reports. Replies to 126 paragraphs pertaining to 15 Reports of the COPU, presented to the State Legislature between April 1998 and February 2004, had not been received as on September 2004, as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received.
1997-1998	3	56
1998-1999	1	6
1999-2000	3	23
2000-2001	1	15
2001-2002	3	10
2002-2003	2	13
2003-2004	2	3
Total	**15**	**126**

Action taken on persistent irregularities

With a view to assist and facilitate discussion of the paragraphs of persistent nature by the State COPU, an exercise was carried out to verify the extent of corrective action taken by the concerned auditee organisation and results thereof are indicated in **Annexure 12**.

Government Companies

The following table gives an overview of the nature of the persistent irregularities observed in Audit and included in the Report of Comptroller and Auditor General of India for the years 1992-93 to 2002-03 (Commercial) – Government of Karnataka.

Sl. No.	Nature of the persistent irregularity	No. of paras involved	Amount (Rs. in crore)
	Karnataka Power Transmission Corporation Limited (including erstwhile KEB)		
1	Idling of equipment due to failure	3	1.55
2	Idling of equipment due to injudicious purchases	4	1.83
3	Idling of equipment due to other reasons	9	68.86
4	Ignoring of L1 suppliers	5	11.87
5	Wrong inclusion of Entry tax in FORD prices	2	9.02
6	Extra expenditure in purchase of PCC poles	2	1.48
7	Non invoking of risk purchase clause	2	1.06
	Total	**27**	**95.67**
	Krishna Bhagya Jala Nigam Limited		
1	Incorrect payment of lead charges	3	1.54
2	Defective estimation	2	0.82
3	Payment of additional lift charges	1	0.20
4	Non regulation of payment as per contract	1	1.06
5	Loss due to non specification of norms	1	0.36
	Total	**8**	**3.98**
	Bangalore Mass Rapid Transit Limited		
1	Injudicious funds management	2	2.12

Action taken by the companies/State Government on the irregularities as scrutinised in Audit (June 2004) revealed that the actions were belated and inadequate/not taken as per details in **Annexure 12.**

The Government stated (July 2004) that the matter would be looked into and corrective action would be taken.

3.20 Response to inspection reports, draft paragraphs and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2004 pertaining to 76 PSUs disclosed that 3,642 paragraphs relating to 781 inspection reports remained outstanding at the end of September 2004; of these, 16 inspection reports containing 90 paragraphs were pending due to non-receipt of even first replies. Department wise break-up of inspection reports and audit observations outstanding as on 30 September 2004 is given in **Annexure 13.**

Similarly, draft paragraphs and reviews on the working of Public Sector Undertakings are forwarded to the Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. All the reviews have been discussed in the Audit Review Committee on Public Sector Enterprises. The paragraphs have also been discussed with the respective Administrative Department and the Management of the companies / corporations. Their views have been taken into consideration while finalising the reviews/ paragraphs.

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

BANGALORE **(K.P.LAKSHMANA. RAO)**
The **Principal Accountant General**
(Civil and Commercial Audit)
Karnataka

COUNTERSIGNED

NEW DELHI **(VIJAYENDRA N. KAUL)**
The **Comptroller and Auditor General of India**