# REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

## FOR THE YEAR ENDED 31 MARCH 2007

## COMMERCIAL

## GOVERNMENT OF KARNATAKA

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# PREFACE

Government commercial enterprises, the accounts of which are subject to audit by the Comptroller and Auditor General of India, fall under the following categories:

(i) Government companies,

(ii) Statutory corporations and

(iii) Departmentally managed commercial undertakings.

2. This Report deals with the results of audit of Government companies and Statutory corporations and has been prepared for submission to the Government of Karnataka under Section 19 A of the Comptroller and Auditor General's (CAG) (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time. The results of audit relating to departmentally managed commercial undertakings are included in the Report of the Comptroller and Auditor General of India (Civil) - Government of Karnataka.

3. Audit of accounts of Government companies is conducted by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act, 1956.

4. In respect of Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Western Karnataka Road Transport Corporation and North Eastern Karnataka Road Transport Corporation, which are Statutory corporations, the Comptroller and Auditor General of India is the sole Auditor. As per State Financial Corporations (Amendment) Act, 2000, CAG has the right to conduct the audit of accounts of Karnataka State Financial Corporation in addition to the audit conducted by the Chartered Accountants, appointed by the Corporation out of the panels of auditors approved by the Reserve Bank of India. In respect of Karnataka State Warehousing Corporation, CAG has the right to conduct the audit of their accounts in addition to the audit conducted by the Chartered Accountants, appointed by the State Government in consultation with CAG. In respect of Karnataka Electricity Regulatory Commission, CAG is the sole auditor. The Audit Reports on the annual accounts of all these corporations are forwarded separately to the State Government.

5. The cases mentioned in this Report are those, which came to notice in the course of audit during 2006-07 as well as those which came to notice in earlier years, but were not dealt with in the previous Reports. Matters relating to the period subsequent to 2006-07 have also been included, wherever necessary.

6. The audit in relation to the material included in this Report has been conducted in conformity with the Auditing standards issued by the CAG.

# OVERVIEW

## 1. Overview of Government companies and Statutory corporations

As on 31 March 2007, the State had 82 Public Sector Undertakings (PSUs) comprising 76 Government companies (including 17 non-working companies) and six Statutory corporations as against 82 Public Sector Undertakings comprising 76 Government companies and six Statutory corporations as on 31 March 2006. In addition, there were four deemed Government companies under Section 619 B of the Companies Act, 1956 as on 31 March 2007.

***(Paragraphs 1.1 and 1.28)***

The total investment in working PSUs increased from Rs. 41,202.28 crore as on 31 March 2006 to Rs.43,968.73 crore as on 31 March 2007 The total investment in non-working PSUs increased from Rs.576.51 crore to Rs.593.79 crore during the same period.

***(Paragraphs 1.2 and 1.16)***

The budgetary support in the form of capital, loans, grants and subsidy disbursed to the working PSUs increased from Rs.6,479.40 crore in 2005-06 to Rs.8,361.57 crore in 2006-07. The State Government guaranteed loans aggregating Rs.315.76 crore during 2006-07 to six working Government companies. Guarantees amounting to Rs.6,483.65 crore against 22 working Government companies were outstanding as on 31 March 2007.

***(Paragraphs 1.5 and 1.17)***

Forty six out of 59 working Government companies and all of the six Statutory corporations finalised their accounts for the year 2006-07. The accounts of the remaining Government companies were in arrears for periods ranging from one to three years as on 30 September 2007. The accounts of five non-working Government companies were in arrears for periods ranging from one to four years as on 30 September 2007.

***(Paragraphs 1.6 and 1.19)***

According to latest finalised accounts, 45 working PSUs (40 Government companies and five Statutory corporations) earned aggregate profit of Rs.1,019.58 crore. Out of 46 working Government companies, which finalised their accounts for 2006-07 by September 2007, only eight companies declared dividend aggregating Rs.20.63 crore. Twelve working PSUs (11 Government companies and one Statutory corporation) incurred aggregate loss of Rs.84.86 crore as per their latest finalised accounts. Of the loss incurring PSUs, four companies and the Statutory corporation had accumulated losses aggregating Rs.194.07 crore and Rs.248.39 crore respectively, which exceeded their aggregate paid up capital of Rs.15.14 crore and Rs.103.50 crore respectively.

***(Paragraphs 1.7 to 1.11)***

## 2. Reviews relating to Government companies

Reviews relating to the Implementation of Raichur Thermal Power Station Unit-7 by **Karnataka Power Corporation Limited,** Accelerated Power Development Reforms Programme (APDRP) implemented by **Karnataka Power Transmission Corporation Limited** and **Electricity Supply Companies**, Implementation of Lift Irrigation Schemes by **Irrigation Companies** and performance of Pulp and miscellaneous plantation activities of the **Karnataka Forest Development Corporation Limited** were conducted and some of the main findings are as follows:

### Review on the Implementation of Raichur Thermal Power Station Unit-7 by Karnataka Power Corporation Limited

Karnataka Power Corporation Limited was incorporated (July 1970) as a wholly owned State Government Company with the main objective of planning, promoting and organising development of power including construction, generation and maintenance of power stations in the State. In pursuit of these objectives, the Company commissioned (1985-1999), a coal based thermal power station at Raichur with six units of 210 Mega Watt (MW) each, besides other Hydel and Wind generating stations. The Central Electricity Authority (CEA) estimated (1995) a gap of about 790 MW in meeting the demand at the end of the IX Plan. The Board of Directors (BoD) considered (August 1998) the proposal for construction of Unit-7 at Raichur Thermal Power Station (RTPS) with capacity of 210 MW. The proposal was approved (March 1999) by the state Government and the work began in October 2000. The Unit was synchronised (December 2002) at a cost of Rs.561.98 crore and the commercial operation commenced from April 2003. Some of the important points noticed in audit are as under:

- The Company's decision (August 1998) to implement a Unit of 210 MW instead of a 500 MW or higher capacity was not justified in view of the recommendations (April 1986/April 1990) of the Sub-group under the Advisory Group on Technology Development set up by the Union Ministry of Power (MoP). This self inflicted decision has deprived the State of an additional 290 MW and 40 MW permanently after implementing the Unit-8 of 250 MW, for which approval has been accorded by the State Government.

- The technical specification/design parameter of the boiler was at variance with Union Ministry of Environment and Forests' stipulations. There was excess consumption of 3.89 lakh tonnes of coal valued at Rs.80.09 crore during the period 2003-07 as compared to the specification of the equipment supplied. The latest technology offered by the equipment suppliers of Variable Frequency Drive and Cooling Tower was not adopted.

- The Company allocated Rs.114.21 crore of cost of generation of Unit-7 to other six units to avoid low demand for the electricity generated from this unit.

- There was short billing of primary fuel charges of Rs.63.22 lakh and excess claim of secondary fuel charges, fixed charges and incentive of Rs.41.72 crore by the Company due to application of different formulae than that stipulated in the Power Purchase Agreement.

***(Chapter 2.1)***

**Performance of Accelerated Power Development Reforms Programme (APDRP) implemented by the Karnataka Power Transmission Corporation Limited and Electricity Supply Companies.**

The MoP identified distribution reforms as a key area to bring about the efficiency and commercial viability of SEBs/Utilities. As a sequel to this, Accelerated Power Development Programme (APDP) was launched during 2000-01, with the objectives of Renovation and Modernisation /life extension/ up-rating of old power plants (thermal/hydel) and up-gradation of sub-transmission and distribution network (below 66 KV) including energy accounting and metering. With a view to restructure the concept of APDP, from merely an investment window, to a mechanism for supporting power sector reforms in the States, linked to the fulfillment of certain performance criteria by way of benchmarks and to incentivise the reform process, APDP was renamed (March 2003) as Accelerated Power Development Reforms Programme (APDRP). APDRP is being implemented by the power sector companies with the objective of improving financial viability of State Power Utilities, reduction of Aggregate Technical and Commercial (AT & C) losses to around 15 *per cent*, improving customer satisfaction and increasing reliability and quality of power supply. Some of the important points noticed in audit are as under:

- Two APDP projects sanctioned during 2000-01 and 31 out of 35 APDRP projects sanctioned during 2002-03, 2004-05 and 2005-06 are yet to be completed (March 2007).

- Non-fulfillment of obligation by State Government in repaying the loan taken from Rural Electrification Corporation (REC) adversely affected the implementation of APDRP schemes.

- APDRP funds were diverted for other purposes as well as for short-term investments. No penalty was, however, levied by Ministry of Power (MoP).

- Physical and financial progress was inflated by including the meters procured by consumers/procured against deposits from consumers for new installations by two Utilities (BESCOM and HESCOM).

- Unrealistic preparation of Detailed Project Reports resulted in award of distribution works at high tender premium. It also resulted in a loss of grants amounting to Rs.47 crore from the MoP.

- There was no significant reduction in Aggregate Technical and Commercial Losses (AT&C losses) except in some towns.

***(Chapter 2.2)***

**Performance of Implementation of Lift Irrigation Schemes by Irrigation Companies.**

In order to utilise the State's share of water expeditiously, the State Government set-up three Irrigation Companies, *viz.,* Krishna Bhagya Jala Nigam Limited (KBJNL) in 1994, Karnataka Neeravari Nigam Limited (KNNL) in 1998 and Cauvery Neeravari Nigam Limited (CNNL) in 2003 under the Companies Act, 1956. These companies are in the nature of special purpose vehicles equipped to raise funds through issue of bonds and term loans from financial institutions. The main functions of these companies, *inter-alia,* include completion of ongoing projects, including Lift Irrigation Schemes (LISs) and to build, operate and maintain new irrigation projects in Krishna and Cauvery basins. Fifty ongoing LISs at an estimated cost of Rs.2,133.14 crore with outlay of Rs.231.74 crore (expenditure incurred till that date) and 57 completed LISs were transferred to these companies at the time of their formation. In addition 24 new schemes involving estimated cost of Rs.2,361.31 crore were taken up by these companies. At present (June 2007) these companies are implementing 68 LISs and maintaining 63 completed LISs, apart from other projects relating to flow irrigation. Some of the important points noticed in audit are as under:

- Seventy four LIS with an estimated cost of Rs.4,494.45 crore are being implemented by the Irrigation Companies against which an expenditure of Rs.2,061.02 crore had been incurred as on 31 March 2007. These companies are operating 63 completed lift irrigation schemes. Review of the ongoing schemes revealed that only six schemes were completed during the period, and the benefits achieved were negligible.

- Even after spending Rs.1,399.88 crore (2002 to 2007) only six schemes of Rs.9.42 crore were completed as on August 2007.

- Execution of all the schemes simultaneously without prioritisation led to non-completion of the schemes, time and cost over-run and consequent delay in providing irrigation facilities to farmers. The utilisation of irrigation potential created also was low due to delay in repairs and maintenance, non-development of land for irrigation *etc.*

- Deviations from instructions/codal provisions by the companies resulted in extra expenditure, excess payment *etc.,* amounting to Rs.15.59 crore. The financial viability of LIS is doubtful in view of high electricity charges.

- The utilisation of irrigation potential created was very low due to delay in repairs and maintenance.

***(Chapter 2.3)***

**Performance Review on Pulp and Miscellaneous plantation activities of the Karnataka Forest Development Corporation Limited.**

The Karnataka Forest Development Corporation Limited incorporated in January 1971 presently has activities in management of plantations of rubber, eucalyptus, teak *etc.,* already raised by Forest Department and Karnataka Pulpwood Limited (a Government Company) and transferred to the Company; raising of Rubber, Eucalyptus, Bamboo, Teak and other miscellaneous plantations in clear felled areas transferred by the Forest Department on lease basis. The Company presently has seven divisions under three sectors. The area covered under the plantations (as per accounts) as at the end of March 2006 was 54,604.61 hectare (Ha) which consists of 42,582.91 Ha of Pulpwood plantations, 7,578.38 Ha having natural growth (to be replanted) of species like honne, mati, bamboo and other jungle plants and 4,443.32 Ha of rubber Plantations. Some of the important points noticed in audit are as under:

- The Company has not reconciled the land available/transferred to it from Forest Department and handed over back to Government.
- The re-plantation was done in 4,464 Ha as against the target area of 16,115 Ha (28 *per cent*).
- In the Urban Fuel Wood project the Company deviated from its intended objective of providing the produce as poles and fuel wood deprived the area of social benefit as poles and fuel wood was not made available to local people. Loss of revenue of Rs.4.28 crore was incurred on the project.
- In the Small Timber and Fuel Wood project at Kolar, the Company deviated from its intended objective of providing the produce to local people. Also, the society was deprived of social benefits such as rural employment, encouragement to cottage industries and amelioration of the environment. Loss of revenue of Rs.1.71 crore was incurred on the project.

***(Chapter 2.4)***

## 3. Review relating to Statutory corporations

Information technology review on Information Technology Systems Application and General Controls of the **Bangalore Metropolitan Transport Corporation** was conducted and some of the main findings are as follows:

**Information Technology Systems Application and General Controls of the Bangalore Metropolitan Transport Corporation.**

The Bangalore Metropolitan Transport Corporation formed (August 1997), after bifurcation from the Karnataka State Road Transport Corporation (KSRTC), to cater to the transportation needs of Bangalore city. The Corporation had a two-tier system of administration with Corporate Office and Depots, under the management of one non-official Chairman and nine official

Directors in the Corporation. There were 28 Depots and one Central Workshop under its jurisdiction as on 31 March 2007. The Corporation had undertaken a project for On-line tracking of buses over Global Positioning System (GPS) and also computerisation of all operations of its depots. The On-line Vehicle Tracking System over GPS was introduced with the objective of achieving improvement in trip operations, which in turn could help in enhancing citizen services like electronic display of arrival/departure timings, *etc.* The other benefits intended were the automatic calculation of hire charges for private hired buses based on actual distances covered and facilitating passenger information system. Two firms were entrusted with the project under separate agreements on Build-Own-Operate-Transfer (BOOT) basis. The Corporation had so far invested around Rs.8.14 crore on Information Technology (IT) assets including expenditure on various computerised activities. Some of the important points noticed in audit are as under:

- The limitations in Global Positioning System (GPS) in tracking data had resulted in gaps in trip data and thus the facility could not support calculation of hire charges on actual kilometres performed by private owners.

- Irregular intimation of schedules and trips to the service provider, the system could not link the tracked data to schedules On-line and help in monitoring deviations in operations on real-time basis.

- Non-integration of the vehicle tracking facility with other application packages, calculations with regard to earnings per kilometre (EPKM), effective kilometres, cancelled kilometres, *etc.,* had to be carried out manually.

- Free access of the firm's representatives to the Server of the depot exposed to the risk of loss of revenue. Moreover, risk of leakage of vital information and manipulation of the reports during downloading of tracking reports from On-line vehicle tracking system in editable worksheets by firm's representatives could not be ruled out.

- Failure to update the information and correct errors in the Website limited its utility.

- The entire investment of Rs.79.50 lakh, made by the Corporation on the Off-line Vehicle Tracking System was unfruitful due to lack of feasibility study of the system.

- Incorrect application of rates for On-line GPS vehicle tracking facility had resulted in excess payment of Rs.14.50 lakh over a period of 13 months.

***(Chapter 3.1)***

## 4. Transaction Audit Observations

Audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

- There were 17 cases of losses amounting to Rs.76.32 crore on account of extra/avoidable/unproductive expenditure/idle investments.

  ***(Paragraphs 4.3, 4.6,4.8,4.10,4.11,4.12,4.13,4.15,4.16, 4.19, 4.21,4.23,4.24, 4.25.3, 4.25.11, 4.27 and 4.28)***

- There were two cases of losses amounting to Rs.94.82 crore on account of over payment and violation of regulatory provisions.

  ***(Paragraphs 4.5 and 4.9)***

- There were three cases of losses of revenue amounting to Rs.21.83 crore on account of wrong application of tariff, non exercise of option to buy/ sell contractually entitled share and non-claiming of increase in price.

  ***(Paragraphs 4.1, 4.4 and 4.14)***

- There were seven cases of losses amounting to Rs.29.80 crore on account of undue favour to contractor, failure to claim discount/rebate, *etc.*

  ***(Paragraphs 4.2, 4.7, 4.17, 4.18, 4.20, 4.22 and 4.26)***

Gist of the important observations are given below:

The failure of **Mysore Minerals Limited** to procure and sell the contractually entitled share of iron ore lumps at the fixed transfer price from Joint Venture Company resulted in loss of revenue of Rs.20.82 crore

***(Paragraph 4.1)***

Introduction of a new Voluntary Exit Scheme in **Karnataka Power Corporation Limited** to medically unfit employees resulted in avoidable expenditure of Rs.46.89 crore

***(Paragraph 4.6)***

Not adhering to the provisions of the power purchase agreement in 'annual true-up' calculations by **Karnataka Power Transmission Corporation Limited** resulted in over payment of Rs. 89.98 crore to an independent power producer

***(Paragraph 4.9)***

The **Bangalore Electricity Supply Company Limited** procured coyote conductor without any specific requirement resulting in blocking-up of funds of Rs.4.69 crore

***(Paragraph 4.12)***

The **Karnataka Neeravari Nigam Limited** allowed contractor to make modifications in the quoted rates while he was accepting to take up the work and revision was made in the method of calculating item rates in violation of the guidelines approved by the Board of Directors which resulted in extra expenditure of Rs.8.85 crore

***(Paragraph 4.15)***

Failure to identify a suitable executing agency by the Government resulted in **Karnataka Road Development Corporation** incurring loss of Rs.84.70 lakh.

***(Paragraph 4.18)***

Avoidable delay in deciding the merchant bankers by **Karnataka State Financial Corporation** for the proposed issue of bonds to redeem the high cost bonds resulted in extra payment of interest amounting to Rs.11.61 crore.

***(Paragraph 4.26)***

# CHAPTER I

## Overview of Government companies and Statutory corporations

### *Introduction*

**1.1** As on 31 March 2007, there were 76 Government companies (59 working companies and 17 non-working companies[1]) and six Statutory corporations (working) under the control of the State Government, as against same number of Government companies and Statutory corporations as at 31 March 2006. One new Company (Karnataka Scheduled Tribes Development Corporation Limited) was formed during the year and one Company (Visveswaraya Vidyuth Nigam Limited) was amalgamated with another (Karnataka Power Corporation Limited). The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619(4) of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

| Sl. No. | Name of the Corporation | Authority for audit by the CAG | Audit arrangement |
|---|---|---|---|
| 1 | Karnataka State Road Transport Corporation (KSRTC) | Section 33(2) of the Road Transport Corporations Act, 1950 | Sole audit by the CAG |
| 2 | Bangalore Metropolitan Transport Corporation (BMTC) | | |
| 3 | North Western Karnataka Road Transport Corporation (NWKRTC) | | |
| 4 | North Eastern Karnataka Road Transport Corporation (NEKRTC) | | |
| 5 | Karnataka State Financial Corporation (KSFC) | Section 37(6) of the State Financial Corporations Act, 1951 | Audit by Chartered Accountants and Supplementary Audit by the CAG |
| 6 | Karnataka State Warehousing Corporation (KSWC) | Section 31(8) of the State Warehousing Corporations Act, 1962 | Audit by Chartered Accountants and Supplementary Audit by the CAG |

The State Government formed (August 1999) the Karnataka Electricity Regulatory Commission, whose audit is entrusted to the Comptroller and Auditor General of India (CAG) as per Item II (2) of Part I of the Schedule to Section 8(7) of the Karnataka Electricity Reform Act, 1999.

## Working Public Sector Undertakings (PSUs)

### *Investment in working PSUs*

**1.2** As on 31 March 2007, the total investment in 65 working PSUs (59 Government companies and six Statutory corporations) was

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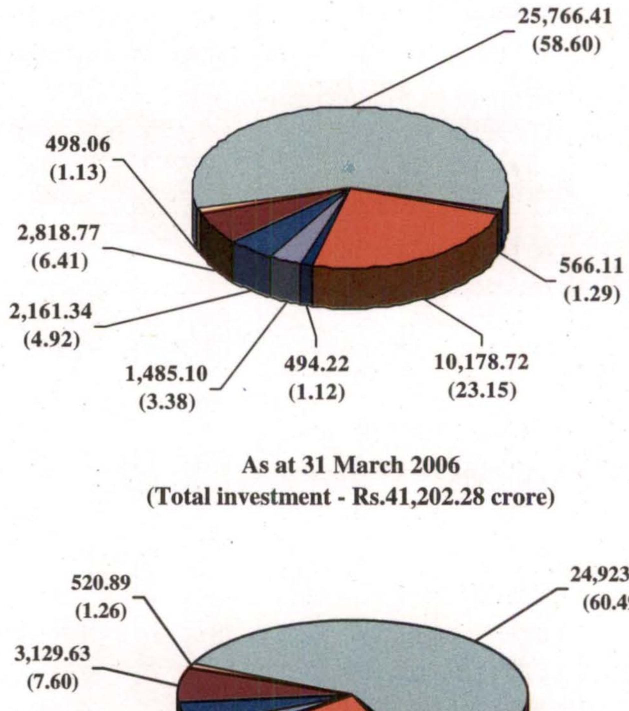
[1] **Non-working companies/corporations are those, which are under the process of liquidation/closure/merger, *etc*.**

Rs.43,968.73 crore[2] (equity: Rs.15,582.63 crore; long-term loans[3] Rs.22,804.42 crore and share application money Rs.5,581.68 crore) as against 65 working PSUs (59 Government companies and six Statutory corporations) with total investment of Rs.41,202.28 crore (equity: Rs.13,753.79 crore; long-term loans: Rs.22,309.64 crore and share application money Rs.5,138.85 crore) as on 31 March 2006. The analysis of investment in working PSUs is given in the following paragraphs.

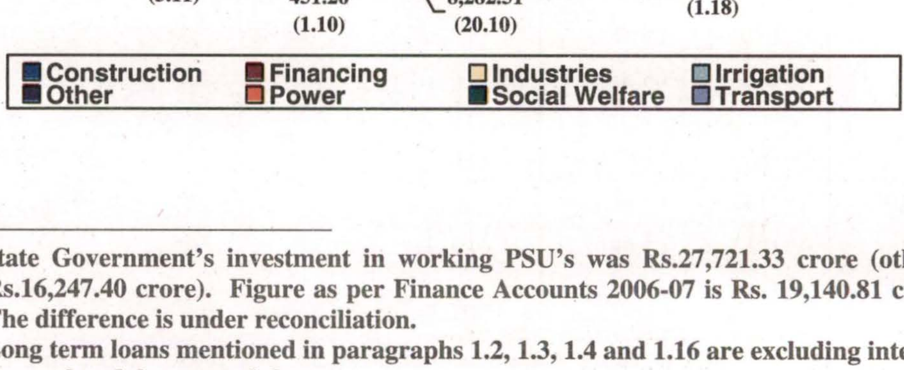
The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2007 and 31 March 2006 are indicated below in the pie charts:

**Sector-wise investment in working Government companies and Statutory corporations (Figures in bracket are percentage)**

**As at 31 March 2007**
**(Total investment - Rs.43,968.73 crore)**




**As at 31 March 2006**
**(Total investment - Rs.41,202.28 crore)**

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[2] State Government's investment in working PSU's was Rs.27,721.33 crore (others: Rs.16,247.40 crore). Figure as per Finance Accounts 2006-07 is Rs. 19,140.81 crore. The difference is under reconciliation.

[3] Long term loans mentioned in paragraphs 1.2, 1.3, 1.4 and 1.16 are excluding interest accrued and due on such loans.

Due to significant increase in paid-up capital of irrigation sector companies the debt equity ratio decreased from 1.18:1 in 2005-06 to 1.08:1 in 2006-07.

### *Working Government companies*

**1.3** Total investment in working Government companies at the end of March 2006 and March 2007 was as follows:

**(Rupees in crore)**

| Year | Number of companies | Equity | Share application money | Loans | Total |
|---|---|---|---|---|---|
| 2005-06 | 59 | 13,103.21 | 5,100.29 | 19,948.10 | 38,151.60 |
| 2006-07 | 59 | 14,866.60 | 5,543.02 | 20,522.05 | 40,931.67 |

As on 31 March 2007, the total investment of working Government companies comprised 49.86 *per cent* of equity capital and 50.14 *per cent* of loans as compared to 47.71 *per cent* and 52.29 *per cent* respectively as on 31 March 2006.

Increase in total investment was due to increase in equity and loans in power and irrigation sectors.

The summarised statement of Government investment in working Government companies in the form of equity and loans is given in **Annexure-1**.

### *Working Statutory corporations*

**1.4** The total investment in six working Statutory corporations at the end of March 2006 and March 2007 was as follows:

**(Rupees in crore)**

| Name of the Corporation | 2005-06 | | 2006-07 (provisional) | |
|---|---|---|---|---|
| | Capital | Loan | Capital | Loan |
| Karnataka State Road Transport Corporation (KSRTC) | 233.39 | 237.38 | 233.39 | 275.29 |
| Bangalore Metropolitan Transport Corporation (BMTC) | 92.72 | 26.42 | 158.16 | 22.65 |
| North Western Karnataka Road Transport Corporation (NWKRTC) | 115.64 | 172.86 | 115.64 | 226.13 |
| North Eastern Karnataka Road Transport Corporation (NEKRTC) | 103.50 | 61.33 | 103.50 | 83.30 |
| Karnataka State Financial Corporation (KSFC) | 97.84 (36.01) | 1,825.79 | 97.84 (36.01) | 1,652.30 |
| Karnataka State Warehousing Corporation (KSWC) | 7.50 (2.55) | 37.75 | 7.50 (2.65) | 22.70 |
| **Total** | **650.59 (38.56)** | **2,361.53** | **716.03 (38.66)** | **2,282.37** |

**(Figures in bracket indicate share application money)**

The summarised statement of Government investment in working Statutory corporations in the form of equity and loans is given in **Annexure -1**.

### *Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity*

**1.5** The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government companies and working Statutory corporations are given in **Annexures 1 and 3.**

The budgetary outgo in the form of equity, loans and grants/subsidies from the State Government to working Government companies and Statutory corporations for the three years up to March 2007 are summarised below:

**(Amount: Rupees in crore)**

| | 2004-05 | | | | 2005-06 | | | | 2006-07 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Companies | | Corporations | | Companies | | Corporations | | Companies | | Corporations | |
| | No. | Amount | No. | Amount | No. | Amount | No. | Amount | No. | Amount | No. | Amount |
| Equity outgo from budget | 9 | 2,787.24 | 3 | 30.00 | 10 | 3,183.24 | 5 | 65.10 | 9 | 2,108.14 | 2 | 65.54 |
| Loans given from budget | 9 | 209.64 | 1 | 42.00 | 11 | 222.07 | - | - | 5 | 124.07 | - | - |
| Grants | 14 | 377.27 | - | - | 17 | 823.39 | 2 | 27.66 | 20 | 2,975.37 | 1 | 25.13 |
| Subsidy towards (i)Projects/ Programme/ schemes | 4 | 215.05 | - | - | 4 | 316.69 | 1 | 2.66 | 9 | 1,079.60 | 1 | 1.46 |
| (ii)Other subsidy | 5 | 1,585.00 | 5 | 141.48 | 8 | 1,714.69 | 4 | 123.90 | 9 | 1,705.83 | 4 | 276.43 |
| Total subsidy | 9 | 1,800.05 | 5 | 141.48 | 9 | 2,031.38 | 4 | 126.56 | 14 | 2,785.43 | 4 | 277.89 |
| **Total outgo[4]** | **25** | **5,174.20** | **5** | **213.48** | **28** | **6,260.08** | **5** | **219.32** | **33** | **7,993.01** | **4** | **368.56** |

During 2006-07, the Government guaranteed loans aggregating Rs.315.76 crore obtained by six working[5] Government companies. At the end of the year, guarantees amounting to Rs.6,483.65 crore against 22 working[6]

**[4] These are actual number of companies/corporations, which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during the year.**

**[5] Karnataka Soaps and Detergents Limited, Karnataka State Police Housing Corporation Limited, Cauvery Neeravari Nigam Limited, D.Devaraj Urs Backward Classes Development Corporation Limited, Hubli Electricity Supply Company Limited, Karnataka State Industrial Investment and Development Corporation Limited (Annexure 3).**

**[6] Karnataka Soaps and Detergents Limited, The Mysore Electrical Industries Limited, Karnataka State Electronics Development Corporation Limited, The Karnataka Handloom Development Corporation Limited, The Karnataka Handicrafts Development Corporation Limited, Karnataka Cashew Development Corporation Limited, Karnataka Land Army Corporation Limited, Karnataka State Police Housing Corporation Limited, Rajiv Gandhi Rural Housing Corporation Limited, Karnataka Road Development Corporation Limited, Krishna Bhagya Jala Nigam Limited, Karnataka Neeravari Nigam Limited, Cauvery Neeravari Nigam Limited, D.Devaraj Urs Backward Classes Development Corporation Limited, Dr.B.R.Ambedkar Development Corporation Limited, The Karnataka Minorities Development Corporation Limited, Karnataka Food and Civil Supplies Corporation Limited, The Mysore Sugar Company Limited, Karnataka Power Corporation Limited, Karnataka Power Transmission Corporation Limited, Hubli Electricity Supply Company Limited, Karnataka State Industrial Investment and Development Corporation Limited (Annexure 3).**

Government companies were outstanding. During the year, the Government converted loan into equity of Rs.51.95 crore in respect of two companies[7] (including Rs.22.00 crore converted into preference shares in respect of Karnataka Silk Industries Corporation Limited). The guarantee commission paid/payable to the Government, by Government companies and Statutory corporations, during 2006-07 was Rs.7.32 crore/Rs.325.93 crore and Rs.0.74 crore/Rs.0.59 crore, respectively. Four working Government companies[8] and one Statutory corporation[9] defaulted in repayment of guaranteed loan of Rs.29.04 crore and payment of interest of Rs.22.32 crore.

### *Finalisation of accounts by working PSUs*

**1.6** The accounts of the Companies for every financial year are required to be finalised within six months from the end of relevant financial year under Sections 166, 210, 230, 619 and 619 B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory corporations, their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Forty six working companies[10] out of 59 working Government companies and all the six working[11] Statutory corporations, finalised their accounts for the

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**[7] Bangalore Metro Rail Corporation Limited and Karnataka Silk Industries Corporation Limited.**

**[8] Karnataka Cashew Development Corporation Limited, D.Devaraj Urs Backward Classes Development Corporation Limited, The Karnataka Minorities Development Corporation Limited, The Mysore Sugar Company Limited.**

**[9] Karnataka State Warehousing Corporation.**

**[10] Karnataka State Agricultural Produce Processing and Export Corporation Limited, Karnataka Togari Abhivridhi Mandali Limited, Karnataka Compost Development Corporation Limited, Karnataka Soaps and Detergents Limited, Karnataka State Coir Development Corporation Limited, Karnataka State Small Industries Development Corporation Limited, The Mysore Paper Mills Limited, Karnataka Vidyuth Karkhane Limited, The Mysore Electrical Industries Limited, NGEF (Hubli) Limited, Karnataka State Electronics Development Corporation Limited, Karnataka Silk Industries Corporation Limited, Karnataka Silk Marketing Board Limited, Karnataka State Power loom Development Corporation Limited, Karnataka Handloom Development Corporation Limited, Karnataka State Handicrafts Development Corporation Limited, Karnataka Cashew Development Corporation Limited, Karnataka Forest Development Corporation Limited, The Hutti Gold Mines Company Limited, Karnataka State Police Housing Corporation Limited, Rajiv Gandhi Rural Housing Corporation Limited, Karnataka Road Development Corporation Limited, Krishna Bhagya Jala Nigam Limited, Cauvery Neeravari Nigam Limited, Karnataka State Women's Development Corporation, Dr.B.R.Ambedkar Development Corporation Limited, The Karnataka Minorities Development Corporation Limited, Karnataka Food and Civil Supplies Corporation Limited, The Mysore Sugar Company Limited, Jungle Lodges and Resorts Limited, The Mysore Paints and Varnish Limited, Karnataka Power Corporation Limited, Karnataka Power Transmission Corporation Limited, Bangalore Electricity Supply Company Limited, Hubli Electricity Supply Company Limited, Mangalore Electricity Supply Company Limited, Chamundeswari Electricity Supply Corporation Limited, Gulbarga Electricity Supply Company Limited, KPC Bidadi Power Corporation Private Limited, Karnataka State Industrial Investment and Development Corporation Limited, Karnataka Urban Infrastructure Development and Finance Corporation Limited, Karnataka State Beverages Corporation Limited, Bangalore Metro Rail Corporation Limited, Sree Kanteerava Studios Limited, Marketing Consultants and Agencies Limited and Mysore Sales International Limited (Annexure-2).**

**[11] Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Western Karnataka Road Transport Corporation, North Eastern Karnataka Road Transport Corporation, Karnataka State Financial Corporation and Karnataka State Warehousing Corporation.**

year 2006-07 within stipulated period up to September 2007 (**Annexure-2**). During October 2006 to September 2007, 20 working[12] Government companies finalised 20 accounts[13] for previous years.

The accounts of 13 working Government companies were in arrears for periods ranging from one to three years as on 30 September 2007, as detailed below:

| Sl. No | Number of companies / corporations | | Year for which accounts are in arrears | Number of years for which accounts are in arrears | Reference to serial number of Annexure 2 | |
|---|---|---|---|---|---|---|
| | Government companies | Statutory corporations | | | Government companies | Statutory corporations |
| 1 | 1 | - | 2004-05 to 2006-07 | 3 | A-7 | - |
| 2 | 2 | - | 2005-06 to 2006-07 | 2 | A-5, 45 | - |
| 3 | 10 | - | 2006-07 | 1 | A-1, 4, 23, 24, 26, 27, 32, 34, 37 and 41 | - |

The administrative departments need to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. The concerned administrative departments were informed every quarter by the Audit regarding arrears in finalisation of accounts.

### *Financial position and working results of working PSUs*

**1.7** The summarised financial results of working PSUs (Government companies and Statutory corporations) as per latest finalised accounts are given in **Annexure-2**. Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years, for which accounts finalised are given in **Annexures 4 and 5** respectively.

According to the latest finalised accounts of 59 working Government companies and six working Statutory corporations, 11 companies[14] and one

[12] Karnataka State Agro Corn Products Limited, Karnataka Togari Abhivridhi Mandali Limited, The Karnataka Fisheries Development Corporation Limited, Karnataka Sheep and Wool Development Corporation Limited, Karnataka Leather Industries Development Corporation Limited, Karnataka Soaps and Detergents Limited, Karnataka Handloom Development Corporation Limited, Karnataka Forest Development Corporation Limited, Mysore Minerals Limited, Karnataka State Construction Corporation Limited, Karnataka Land Army Corporation Limited, D.Devaraj Urs Backward Classes Development Corporation Limited, Karnataka State Women's Development Corporation, The Karnataka Minorities Development Corporation Limited, The Karnataka State Tourism Development Corporation Limited, Jungle Lodges and Resorts Limited, Karnataka Renewable Energy Development Limited, Bangalore Electricity Supply Company Limited, Chamundeshwari Electricity Supply Corporation Limited, Gulbarga Electricity Supply Company Limited (Annexure 2).

[13] excludes the amalgamated company (Visveswaraya Vidyuth Nigam Limited).

[14] Karnataka Sheep and Wool Development Corporation Limited, Karnataka Leather Industries Development Corporation Limited, Karnataka State Coir Development Corporation Limited, Karnataka Silk Marketing Board Limited, Karnataka Cashew Development Corporation Limited, Karnataka Land Army Corporation Limited, Karnataka Road Development Corporation Limited, D.Devaraj Urs Backward Classes Development Corporation Limited, Karnataka State Women's Development Corporation, The Karnataka State Minorities Development Corporation Limited and The Mysore Sugar Company Limited (Annexure-2).

corporation[15] incurred an aggregate loss of Rs.55.33 crore and Rs.29.53 crore, respectively and 40 companies and five corporations earned an aggregate profit of Rs.730.78 crore and Rs.288.80 crore, respectively. Five companies[16] had not commenced commercial activities as these companies are under construction and in case of two companies[17] excess of expenditure over income was capitalized and no profit and loss account was prepared. One company (Karnataka Scheduled Tribes Development Corporation Limited) has not yet finalised its first accounts for the period 26 July 2006 to 31 March 2007.

## *Working Government companies*

### *Profit earning working companies and dividend*

**1.8** Out of 46 working Government companies, which finalised their accounts for 2006-07 by September 2007, 33 companies earned an aggregate profit of Rs.657.65 crore and only eight companies[18] declared dividend aggregating Rs.20.63 crore. The dividend as percentage of share capital in these eight profit making companies worked out to 2.94 *per cent*. The total return to the Government by way of its share of dividend of Rs.18.39 crore worked out to 0.13 *per cent* in 2006-07 on total equity investment of Rs.14,704.18 crore by the State Government in all Government companies as against 0.12 *per cent* in the previous year. The State Government had not formulated any dividend policy for payment of minimum dividend.

Similarly, out of 10 working Government companies, which finalised their accounts for previous years by September 2007, six companies[19] earned an aggregate profit of Rs.71.27 crore and only three companies[20] earned profit for two or more successive years.

### *Loss incurring working Government companies*

**1.9** Of the 11 loss incurring working Government companies, four companies[21] had accumulated losses aggregating Rs.194.07 crore, which exceeded their aggregate paid up capital of Rs.15.14 crore. Despite poor performance and

**[15] North Eastern Karnataka Road Transport Corporation (Annexure-2).**

**[16] Krishna Bhagya Jala Nigam Limited, Karnataka Neeravari Nigam Limited, Cauvery Neeravari Nigam Limited, KPC Bidadi Power Corporation Private Limited and Bangalore Metro Rail Corporation Limited (Annexure-2).**

**[17] Karnataka State Police Housing Corporation Limited and Rajiv Gandhi Rural Housing Corporation Limited (Annexure-2).**

**[18] Karnataka State Agricultural Produce Processing and Export Corporation Limited, Karnataka State Small Industries Development Corporation Limited, The Hutti Gold Mines Company Limited, The Mysore Paints and Varnish Limited, Karnataka Power Corporation Limited, Karnataka State Beverages Corporation Limited, Marketing Consultants and Agencies Limited and Mysore Sales International Limited (Annexure-2).**

**[19] Karnataka State Agro Corn Products Limited, The Karnataka Fisheries Development Corporation Limited, Mysore Minerals Limited, Karnataka State Construction Corporation Limited, The Karnataka State Tourism Development Corporation Limited and Karnataka Renewable Energy Development Limited (Annexure-2).**

**[20] Mysore Minerals Limited, The Karnataka State Tourism Development Corporation Limited and Karnataka Renewable Energy Development Limited.**

**[21] Karnataka Sheep and Wool Development Corporation Limited, Karnataka Leather Industries Development Corporation Limited, Karnataka State Coir Development Corporation Limited and The Mysore Sugar Company Limited (Annexure-2).**

complete erosion of paid up capital, the State Government continued to provide financial support to these companies in the form of contribution towards grant and loan. According to available information, the total financial support provided by the State Government by way of grant and loan during 2006-07 to three companies[22] amounted to Rs.20.76 crore.

## *Working Statutory corporations*

### *Profit earning Statutory corporations and dividend*

**1.10** Out of six Statutory corporations which finalised their accounts for 2006-07 five corporations[23] earned an aggregate profit of Rs.288.80 crore and one Corporation (Karnataka State Warehousing Corporation) declared dividend of Rs.99.18 lakh. The dividend as a percentage to its share capital worked out to 13.22 *per cent.* The total return to the State Government by way of its share of dividend of Rs.54.22 lakh worked out to 0.09 *per cent* in 2006-07 on total equity investment of Rs.634.07 crore in all Statutory corporations as against 0.03 *per cent* in the previous year. Four corporations had earned profit for two or more successive years.

### *Loss incurring Statutory corporations*

**1.11** One Statutory corporation (North Eastern Karnataka Road Transport Corporation) which finalised their accounts for the year 2006-07, incurred loss of Rs.29.53 crore and its accumulated loss amounted to Rs.248.39 crore, which exceeded its paid up capital of Rs.103.50 crore.

### *Operational performance of working Statutory corporations*

**1.12** The operational performance of the Statutory corporations is given in **Annexure-6.**

## *Return on capital employed*

**1.13** As per the latest annual accounts finalised up to September 2007, the capital employed[24] worked out to Rs.44,309.47 crore in 59 working companies and total return[25] thereon amounted to Rs.1,916.06 crore, which was 4.32 *per cent* as compared to capital employed of Rs.45,275.36 crore and total return of Rs.1,530.91 crore (3.38 *per cent*) in the previous year. Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest annual accounts finalised up to September 2007,

**[22] Karnataka Sheep and Wool Development Corporation Limited, Karnataka State Coir Development Corporation Limited and The Mysore Sugar Company Limited.**

**[23] Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Western Karnataka Road Transport Corporation, Karnataka State Financial Corporation and Karnataka State Warehousing Corporation (Annexure 2).**

**[24] Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).**

**[25] For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.**

worked out to Rs.3,070.34 crore and Rs.436.77 crore (14.23 *per cent*) respectively, as against Rs.2,988.31 crore and Rs.252.17 crore (8.44 *per cent*) in the previous year. The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in **Annexure-2.**

## Reforms in the power sector

### *Status of implementation of MOU between the State Government and the Central Government*

**1.14** A Memorandum of Understanding (MOU) was signed in February 2000 between the Ministry of Power, Government of India and the Department of Energy, Government of Karnataka as a joint commitment for implementation of the reforms programme in power sector with identified milestones.

Status of implementation of the reform programme against each commitment made in the MOU is detailed below:

| Sl. No. | Commitment as per MOU | Targeted completion schedule | Status (as on 31 March 2007) |
|---|---|---|---|
| **Commitments made by the State Government** | | | |
| 1 | 100 *per cent* electrification of all villages. | By 2012 | As per 2001 census, there are 27,481 inhabited villages, of which 27,125 villages have been electrified, leaving a balance of 356 villages to be electrified. |
| 2 | Reduction in transmission and distribution (T & D) losses by 10 to 15 *per cent.* | Five *per cent* reduction in T & D losses every year. | T & D Losses reduced from 35.50 *per cent* during 2000-01 to 28.96 *per cent* during 2006-07. Thus, the reduction in T & D Losses achieved over the last six years is only 6.54 *per cent* as against the target of 20 *per cent.* |
| 3 | 100 *per cent* metering of all distribution feeders. | September 2001 | Completed by December 2002. |
| 4 | 100 *per cent* metering of all consumers. | Original target : 2003-04 (Revised to 2004-05) | Out of 33.47 lakh consumers in the un-metered category, only 17.12 lakh consumers (51.15 *per cent*) were provided with meters up to 31 March 2007. |
| 5 | Energy audit at 11 KV sub-station level. | September 2001 | Energy audit of 11 KV feeders, on monthly basis, has commenced from June 2003. |
| 6 | Securitised outstanding due of CPSUs. | --- | The dues were securitised by issue of bonds in August 2003. No dues were securitised during 2006-07. |
| 7 | **State Electricity Regulatory Commission (SERC)** | | |
| | i) Establishment of Karnataka Electricity Regulatory Commission (KERC). | The State Electricity Regulatory Commission was to be made functional within six months. | The Karnataka Electricity Regulatory Commission was established in August 1999, and started functioning from November 1999. |
| | ii) Implementation of tariff orders issued by KERC during the year. | --- | Implemented from time to time. |

| Sl. No. | Commitment as per MOU | Targeted completion schedule | Status (as on 31 March 2007) |
|---|---|---|---|
| **Commitment made by the Central Government** | | | |
| 8 | Supply of additional power. | The GOI agreed to supply additional 180 MW. | With the introduction of availability based tariff mechanism, the allocation from Central Generating stations is no longer valid as the excess or short drawal is left to the individual electricity supply companies considering the price prevailing at the time of drawal linked to the frequency. |
| 9 | Any other help. | Reduction in interest rate on loans availed of from CPSUs *i.e.*, PFC/REC. | Interest rate on loans from Power Finance Corporation has been reduced. |
| **General** | | | |
| 10 | Monitoring of MOU. | Monitoring was done at Secretary level in the Government on issue-to-issue basis. | |

### *State Electricity Regulatory Commission*

**1.15** The State Government constituted (August 1999) the Karnataka Electricity Regulatory Commission (KERC) under the Karnataka Electricity Reform Act, 1999 (Act). The Commission comprises three members including a Chairman, who are appointed by the State Government. As per Section 8(4) of the Act, all expenditure of the Commission is to be charged to the Consolidated Fund of the State. Accounts of the Commission have been finalised up to the year ending 31 March 2007.

## Non-working Public Sector Undertakings

### *Investment in non-working PSUs*

**1.16** As on 31 March 2007, the total investment in 17 non-working Government companies was Rs.593.79 crore[26] (equity: Rs.101.81 crore, long-term loans: Rs.429.11 crore and share application money: Rs.62.87 crore) as against total investment of Rs.576.51 crore (equity: Rs.101.81 crore, long-term loans: Rs.425.74 crore and share application money: Rs.48.96 crore) in the same number of non-working Government companies as on 31 March 2006. The classification of non-working PSU's was as follows:

**(Rupees in crore)**

| Sl. No. | Status of non-working PSU's | Number of companies | Investment | |
|---|---|---|---|---|
| | | | Equity* | Long-term loans |
| 1 | Closed[¢] | 5 | 82.62 | 178.45 |
| 2 | Defunct[¥] | 4 | 29.84 | 4.48 |
| 3 | Under liquidation[ø] | 8 | 52.22 | 246.18 |
| | **Total** | **17** | **164.68** | **429.11** |

*** includes share application money of Rs.62.87 crore**

[26] State Government's investment in non-working PSU's was Rs.573.77 crore (others: Rs.20.02 crore). Figure as per Finance Accounts 2006-07 is Rs.629.81 crore. The difference is under reconciliation.

[¢] Karnataka Agro Industries Corporation Limited, Karnataka Small Industries Marketing Corporation Limited, The Mysore Lamp Works Limited, The Mysore Acetate and Chemicals Company Limited and Karnataka Film Industries Development Corporation Limited (Annexure -1).

[¥] The Mysore Tobacco Company Limited, Vijayanagar Steel Limited, Karnataka Pulpwood Limited and The Karnataka State Veeners Limited (Annexure -1).

[ø] Karnataka Agro Proteins Limited, The Mysore Cosmetics Limited, Karnataka Telecom Limited, The Mysore Chrome Tanning Company Limited, NGEF Limited, Chamundi Machine Tools Limited, Karnataka State Textiles Limited and The Mysore Match Company Limited (Annexure -1).

### *Budgetary outgo, grant/subsidy, guarantees, waiver of dues and conversion of loans into equity*

**1.17** The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to non-working PSUs are given in **Annexures 1 and 3**.

### *Total establishment expenditure of non-working PSUs*

**1.18** The year wise details of total establishment expenditure of non-working Government companies and the sources of financing them during the last three years up to 2006-07 are given below:

**(Rupees in crore)**

| Year | Number of PSUs | Total establishment expenditure | Financed by | | |
|---|---|---|---|---|---|
| | | | Loans from private parties | Loans from Government | Others[27] |
| 2004-05 | 17 | 3.17 | - | - | 3.17 |
| 2005-06 | 17 | 1.42 | - | - | 1.42 |
| 2006-07 | 17 | 0.91 | - | - | 0.91 |

### *Finalisation of accounts by non-working PSUs*

**1.19** Out of 17 non-working companies, the accounts of five non-working companies (including one company[28] under liquidation) were in arrears for periods ranging from one to four years as on 30 September 2007 (**Annexure-2**).

### *Financial position and working results of non-working PSUs*

**1.20** The summarised financial results of non-working Government companies as per latest finalised accounts are given in **Annexure-2**. The year wise details of paid-up capital, net worth, cash loss and accumulated loss/profit of non-working PSUs as per their latest finalised accounts are given below:

**(Rupees in crore)**

| Year of latest finalised accounts | No. of companies | Paid-up capital | Net worth | Cash loss | Accumulated loss |
|---|---|---|---|---|---|
| 1998-99 | 1 | 0.50 | (-) 8.41 | 0.87 | 8.91 |
| 2002-03 | 3 | 59.29 | (-) 377.08 | 155.63 | 436.37 |
| 2003-04 | 2 | 3.16 | (-) 36.54 | 0.96 | 39.23 |
| 2004-05 | 1 | 1.00 | (-) 5.30 | 0.44 | 8.85 |
| 2005-06 | 2 | 57.61 | (-) 87.89 | 4.73 | 156.16 |
| 2006-07 | 8 | 43.12 | (-) 181.07 | 12.91 | 239.13 |
| **Total** | **17** | **164.68** | **(-) 696.29** | **175.54** | **888.65** |

**(Note: Net worth, cash loss and accumulated losses/profit are as per last certified accounts.)**

[27] **includes income from sales, building rent, interest, *etc*.**
[28] **Karnataka Agro Proteins Limited (Annexure 2).**

## Status of placement of Separate Audit Reports of Statutory corporations in Legislature

**1.21** The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by the CAG, in the Legislature by the Government:

| Sl. No. | Name of Statutory corporation | Year up to which SARs placed in Legislature | Years for which SARs not placed in Legislature | |
|---|---|---|---|---|
| | | | Year of SAR | Date of issue to the Government |
| 1 | KSRTC | 2005-06 | 2006-07 | 25.09.2007 |
| 2 | BMTC | 2005-06 | 2006-07 | 10.09.2007 |
| 3 | KSFC | 2005-06 | 2006-07 | Audit in progress as on 30 September 2007 |
| 4 | NEKRTC | 2005-06 | 2006-07 | |
| 5 | NWKRTC | 2005-06 | 2006-07 | |
| 6 | KSWC | 2005-06 | 2006-07 | |

## Disinvestment, privatisation and restructuring[*] of Public Sector Undertakings

**1.22** The State Government has approved and adopted (February 2001) a comprehensive policy on Public Sector Reforms and privatisation of Public Sector Undertakings (PSUs) in the State. Accordingly, the Government identified 31 PSUs for closure, privatisation and restructuring. One defunct company (Karnataka Tungsten Moly Limited) was dissolved (2005-06) and one Company (Visveswaraya Vidyuth Nigam Limited) was amalgamated with another Company (Karnataka Power Corporation Limited) during the year. The position of action taken by the Government in respect of the remaining 29 companies identified for closure/privatisation/restructuring is as follows:

| | No. of companies | Government order issued | Government order not yet issued |
|---|---|---|---|
| Non-working Government companies decided for closure | 17 | 17[϶] | - |
| Working Government companies decided for closure | 3 | 1[¢] | 2[@] |
| Working Government companies decided for privatisation | 8 | 6[♥] | 2[♣] |
| Restructuring of Working Government companies | 1 | 1[Ω] | - |

* **restructuring includes merger and closure of PSUs.**

϶ **All the non-working companies as per Annexure 2.**

¢ **Karnataka State Construction Corporation Limited.**

@ **The Karnataka Fisheries Development Corporation Limited, Karnataka Electronics Development Corporation Limited.**

♥ **Karnataka Silk Industries Corporation Limited, Karnataka Soaps and Detergents Limited, The Mysore Electrical Industries Limited, Karnataka Vidyuth Karkhane Limited, Mysore Minerals Limited, Sree Kanteerava Studios Limited.**

♣ **The Mysore Sugar Company Limited, The Mysore Paper Mills Limited.**

Ω **The Karnataka State Forest Industries Corporation Limited to be merged with Karnataka Forest Development Corporation Limited.**

## Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

**1.23** During October 2006 to September 2007, the audit of 69 accounts of 61 Government companies (54 working and seven non-working) and five accounts of five Statutory corporations (all working) were selected for review. As a result of the observations made by the CAG, 15 companies revised their accounts.

Some of the major errors and omissions noticed in the course of review of annual accounts of corporations are mentioned below:

### *1.24 Errors and omissions noticed in case of Statutory corporations*

***Karnataka State Road Transport Corporation (2006-07)***

- Non-provision of liability for gratuity as per actuarial valuation (past service gratuity) has resulted in understatement of liabilities and overstatement of profit by Rs.115.41 crore.

- Non-provision of difference in gratuity payable to employees who retired, removed, dismissed or expired during 28 November 1995 to 31 March 1998 as per Supreme Court Order (November 2006) resulted in understatement of liabilities and overstatement of profit by Rs.38.76 crore.

- Non-provision of Motor vehicle Tax payable on subsidies received from the Government towards concession bus passes (Motor vehicle Tax is payable as a percentage of traffic revenue) has resulted in understatement of liabilities and overstatement of profit by Rs.2.87 crore.

***Bangalore Metropolitan Transport Corporation (2006-07)***

- Non-provision of additional amount payable on account of house rent allowance and city compensatory allowance for the period from 1 April 2006 to 31 March 2007 payable as per Government Order of April 2007 resulted in understatement of liabilities and overstatement of profit for the year by Rs.7.56 crore.

- Non-provision of Motor vehicle Tax payable on subsidies received from the Government toward concession bus passes (Motor vehicle Tax is payable as a percentage of traffic revenue) has resulted in understatement of liabilities and overstatement of profit by Rs.6.03 crore.

- Non-provision for liability towards gratuity and leave encashment based on actuarial valuation (amount not ascertained) payable to its employees for past service.

***Karnataka State Financial Corporation (2005-06)***

- Treating the interest earned on deposits of sinking fund as income of the corporation instead of crediting it to the sinking fund has resulted in overstatement of receivables and understatement of accumulated loss by Rs.9.72 crore.
- Non-provision of guarantee commission payable to the State Government has resulted in overstatement of profit for the year by Rs.1.23 crore and understatement of accumulated loss by Rs.6.43 crore.
- Non-provision of leave encashment and past service gratuity liabilities has resulted in overstatement of profit for the year by Rs.11.77 crore.

## Recoveries at the instance of audit

**1.25** Test check of records of irrigation sector companies disclosed wrong interpretation of contract, wrong working of rates payable and other observations aggregating Rs.25.47 crore in 86 cases. The companies accepted the audit observations and a sum of Rs.2.73 crore was recovered during 2006-07 at the instance of Audit.

## Internal audit / Internal control

**1.26** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued to them by the CAG under 619 (3)(a) of the Companies Act, 1956 and to identify areas which need improvement. Such direction/sub-directions were issued to the Statutory Auditors in respect of 57 Government companies involving 57 accounts between October 2006 and September 2007 and such reports involving 49 accounts were received (September 2007) from the Statutory auditors of 40 Government companies.

An illustrative resume of major recommendations/comments made by the Statutory Auditors on possible improvements in the internal control system/ internal audit in respect of State Government companies are indicated in the table below:

| Nature of recommendation/comments made by the Statutory Auditors | Number of companies where recommendations/ comments were made | Reference to serial number of Annexure 2 |
|---|---|---|
| Inadequate internal audit according to size and nature of business | 13 | A-4, 8, 15, 23, 33, 39, 44, 47, 49, 51, 53, 57 and C-1 |
| Lack of proper system of internal audit | 7 | A-6, 30, 34, 38, 46, 48 and 58 |
| Non-formation/non-functioning of Audit Committee | 6 | A-34, 38, 41, 43, 51 and C-17 |

**Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)**

**1.27** The table below indicates the position of reviews/paragraphs appeared in the Audit Reports and were discussed by the COPU as on 30 September 2007:

| Period of Audit Report | No. of reviews/paragraphs appeared in the Audit Report | | No. of reviews/paragraphs discussed | |
|---|---|---|---|---|
| | Reviews | Paragraphs | Reviews | Paragraphs |
| 2000-01 | 3 | 29 | 3 | 28 |
| 2003-04 | 4 | 20 | 1 | 16 |
| 2004-05 | 3 | 22 | - | 2 |
| 2005-06 | 5 | 26 | - | - |
| **Total** | **15** | **97** | **4** | **46** |

**619 B Companies**

**1.28** There were four companies (all working) coming under the purview of Section 619B of the Companies Act, 1956 as on 31 March 2007 as against the same number of companies as on 31 March 2006. **Annexure -7** indicates the details of paid up capital, investment by way of equity, loans and grants and summarised working results of these companies based on their latest available accounts.

# CHAPTER II

## 2 PERFORMANCE REVIEWS RELATING TO GOVERNMENT COMPANIES

## 2.1 KARNATAKA POWER CORPORATION LIMITED

## IMPLEMENTATION OF RAICHUR THERMAL POWER STATION UNIT-7 BY KARNATAKA POWER CORPORATION LIMITED

### Highlights

**The Company's decision (August 1998) to implement a Unit of 210 MW instead of a 500 MW or higher capacity was not justified in view of the recommendations (April 1986/April 1990) of the Sub-group under the Advisory Group on Technology Development set up by the Union Ministry of Power (MoP). This self inflicted decision has deprived the State of an additional 290 MW and 40 MW permanently after implementing the Unit-8 of 250 MW, for which approval has been accorded by the State Government.**

***(Paragraph 2.1.7)***

**As against Central Electricity Authority (CEA) guidelines for finalisation of bids within 12 months from pre-project activities (date of Government approval) to zero date (date of placement of order), the delays in award of contracts ranged from 8 to 14 months.**

***(Paragraph 2.1.9)***

**Revision of synchronisation schedule from 24 to 28 months and compression later to 26 months resulted in payment of bonus of Rs.1.03 crore to contractors.**

***(Paragraph 2.1.10)***

**Lack of clarity in tender process in hiving off the Ash Handling System resulted in increasing the Project cost by Rs.5.57 crore.**

***(Paragraph 2.1.11)***

**The technical specification/design parameter of the boiler was at variance with Union Ministry of Environment and Forests' stipulations. There was excess consumption of 3.89 lakh tonnes of coal valued at Rs.80.09 crore during the period 2003-07 as compared to the specification of the equipment supplied. The latest technology offered by the equipment suppliers of Variable Frequency Drive and Cooling Tower was not adopted.**

***(Paragraphs 2.1.12, 2.1.13 and 2.1.14)***

**The Unit did not achieve the Plant Availability Factor as compared to that of 158 numbers 200/210MW stations in the country (national average as compiled by CEA) resulting in shortfall of generation of 549.67 million units of energy for 2004-06.**

*(Paragraph 2.1.15)*

**The Company allocated Rs.114.21 crore of cost of generation of Unit-7 to other six units to avoid low demand for the electricity generated from this unit.**

*(Paragraph 2.1.16)*

**The increased use of washed coal did not yield expected benefits.**

*(Paragraph 2.1.17)*

**The Company has no control on the important indices of performance such as Gross Calorific Value, Heat Loss, Gross Station Heat Rate, Specific Coal Consumption and Auxiliary Energy Consumption.**

*(Paragraphs 2.1.18 and 2.1.26)*

**There was short billing of primary fuel charges of Rs.63.22 lakh and excess claim of secondary fuel charges, fixed charges and incentive of Rs.41.72 crore by the Company due to application of different formulae than that stipulated in the Power Purchase Agreement.**

*(Paragraphs 2.1.22 to 2.1.24)*

## Introduction

**2.1.1** Karnataka Power Corporation Limited (KPCL) was incorporated (July 1970) as a wholly owned State Government Company, with the main objective of planning, promoting and organising development of power including construction, generation and maintenance of power stations in the State. In pursuit of these objectives, the Company commissioned (1985-1999), a coal based thermal power station at Raichur with six units of 210 Mega Watt (MW) each, besides other Hydel and Wind generating stations. The Raichur Thermal Power Station (RTPS) was conceived for construction during 1970s on the assurance given by Singareni Collieries Company Limited (SCCL), for supply of sufficient quantity of coal for running its six units.

The Central Electricity Authority (CEA) estimated (1995) (15th Power Survey Report) the peak load demand in the State at the end of IX plan period *i.e.*, 2001-02 at 5,422 MW. The generating capacity available was 3,520 MW and there were various projects of around 1,112 MW proposed to be commissioned during the IX plan period, leaving a projected gap of about 790 MW in meeting the demand at the end of IX Plan. It was in this context that the Board of Directors (BoD) considered (August 1998) the proposal for construction of Unit-7 at RTPS with capacity of 210 MW, at a cost of Rs.520 crore, which was approved (March 1999) by the State Government and the work began in October 2000. The Unit was synchronised (December 2002) at a cost of Rs.561.98 crore and the commercial operation commenced (April 2003).

The affairs of the Company are managed by a BoD comprising a Chairman, a Vice-Chairman, a Managing Director (MD) and three functional Directors. The Chief Minister of the State is the Chairman of the Board. The MD is the Chief Executive of the Company. The Executive Director (Thermal), assisted by four Chief Engineers and three Deputy General Managers, is responsible for the operation and maintenance of RTPS. The Superintending Engineer (Thermal Design) was the task force leader for implementation of Unit-7.

## Scope of audit

**2.1.2** The performance audit conducted (October 2006 to February 2007) covers examination of overall efficiency of the Company in conception, planning, financing and implementation of Unit-7 and its operational performance during the period from 2003-04 to 2006-07.

The records selected for detailed scrutiny were based on conventional judgmental sampling method on the basis of financial materiality. Out of 58 packages/contracts valued at Rs.479.29 crore, 20 major packages valued at Rs.458.96 crore were reviewed in audit.

The reviews on execution of Units 1 and 2 and Units 3 to 6 were included in the Audit Report (Commercial) – Government of Karnataka of the Comptroller and Auditor General of India for the years ended 31 March 1987 and 31 March 2000 respectively. The report on Units 1 and 2 was deemed to have been discussed (July 1998) by the Committee on Public Undertakings (COPU). COPU discussed (November 2001 and January 2002) the report on Units 3 to 6, on which no recommendations have been made.

## Audit objectives

**2.1.3** The performance review of implementation of RTPS, Unit-7 was conducted to ascertain whether:

- the project was conceived with adequate groundwork and planning and implemented in an economic, efficient and effective manner;
- financial propriety was adhered to in tendering process; and the technical specifications and design parameters were in conformity with the requirements;
- the Unit achieved efficiency parameters specified by the equipment suppliers and operational performance of the Unit was effective; and it had not affected the performance of other units;

- generation of power was achieved to the extent envisaged;
- the consumption of fuel was as per norms and the cost of generation was correctly assessed;
- the claims for sale of energy were in line with the provisions of the Power Purchase Agreement; and
- the internal control system was efficient and effective.

## Audit criteria

**2.1.4** The Audit criteria considered for assessing the achievement of audit objectives were:

- projections made in the Feasibility Report, Detailed Project Report (DPR);
- project implementation schedule;
- design specifications and efficiency standards set by the equipment suppliers;
- norms of operation prescribed by the Central Electricity Authority (CEA), Karnataka Electricity Regulatory Commission (KERC), national averages and World Energy Council reports;
- linkage of coal, terms of Fuel Supply Agreement (FSA) and Power Purchase Agreement (PPA); and
- provisions of Karnataka Transparency in Public Procurement Act.

## Audit methodology

**2.1.5** The following mix of Audit methodology was adopted for achieving the audit objectives with reference to audit criteria of the performance review were:

- study of the Government Orders, CEA guidelines, KERC guidelines, Minutes of Meetings of the Board of Directors, Technical Committee and Contract Management Group;
- examination of Feasibility Report;
- study of loan and financial arrangement files/records;
- analysis of power generation details, progress reports *etc*;
- scrutiny of PPAs, FSAs and claims; and
- issue of audit enquiries and interaction with the Management, Entry and Exit conferences.

## Audit findings

**2.1.6** Audit findings arising from the performance review were reported (April 2007) to the Government/Management and were discussed (8 May 2007) in the meeting of Audit Review Committee on Public Sector Enterprises (ARCPSE). The meeting was attended by the Principal Secretary to the Government of Karnataka, Energy Department, the MD of the Company and the Technical Consultant from Central Power Research Institute. The views expressed by the representatives of the Government/Management and replies furnished (May 2007) by the Government/Management have been taken into consideration while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

## Planning, capacity and linkage

### *Planning*

**2.1.7** The Technical Committee (TC) decided (November 1997) to prepare a feasibility report for establishing an additional unit (Unit-7) at Raichur. The TC further decided (November 1997) to explore the possibility of establishing Unit-7 of 500 MW at Raichur and placed (November 1997) feasibility reports for setting up a 210 MW or a 500 MW unit before the BoD. The BoD was aware of the advantages[29] of 500 MW units in adding substantial capacity in a relatively short period of time *i.e.,* provide efficient power at lower cost as demonstrated elsewhere in the country, lesser operation and maintenance cost and the fact that equipment manufacturers were phasing out 210 MW units. Nevertheless, the BoD, decided (August 1998) to start the construction of a 210 MW Unit (Unit-7) from January 1999 for Rs.520 crore and complete (synchronise) it within 24 months (January 2001). 2 & 4

It was noticed that:

- Unit-7 was constructed only on the basis of feasibility report and no DPR was prepared.
- a Sub-group, under the Advisory Group on Technology Development set up (1985) by the MoP to recommend the next higher size of Thermal Turbo Generator for future projects in India, had recommended (April 1986) that 500 MW units would be adequate to meet the requirement of power development till the year 2000 and that the situation would be required to be reviewed in 1990-91. In pursuance of this recommendation, the Sub-group, reconstituted (1989) by the MoP recommended (April 1990) that next higher size units of 750 MW rating may be adopted and the choice of sub-critical/super-critical parameters may be left open to the utilities to decide.

[29] **A Detailed Project Report of Bellary Thermal Power Station (BTPS - another project by the Company) for 500 MW was approved in April 1998. While discussing the implementation of this project in December 2002, the Board had recorded the above advantages in going for 500 MW (in 1998) at BTPS.**

- the BoD evaluated (August 1998) that the infrastructural facilities existing at RTPS, such as land, raw water pump house, availability of de-mineralised water, circulating water pump house, station building, cooling tower, coal handling plant, power evacuation, *etc.*, were inadequate for an additional 500 MW unit. However, audit examination of these requirements **(Annexure-8)** proves otherwise. The fact that the Company subsequently (September 2006) proposed to set up eighth unit of 250 MW within the same available resources goes to disprove the earlier contentions of the BoD.

**The State is now deprived of an additional 290 MW and 40 MW permanently after implementing the Unit-8 of 250 MW, for which approval has been accorded by the State Government.**

Thus, non-adherence to the recommendation (April 1990) of the Sub-group constituted by MoP for 500/750MW thermal station had not only resulted in foregoing annual savings on account of reduced requirement of coal and auxiliary consumption of approximately valuing Rs.10.86 crore but also deprived the State of 290 MW till the implementation of eighth Unit and 40 MW of power permanently thereafter.

The Government informed (May 2007) in the ARCPSE meeting, that, the Company faced constraints of station layout, coal handling system, water availability, height of Chimney, interchangeability of spares, *etc.*, apart from financial constraints, in establishing a 500 MW unit.

As could be seen from **Annexure-8,** the Company did not have major constraints as regards the problem areas. The requirement of land, water, *etc.,* for Unit-7 of 210 MW and the proposed Unit-8 of 250 MW, put together, is more than the requirement for a unit of 500 MW. So far as the problem of interchangeability of spares for 500 MW is concerned, availability of spares for 500 MW could also have catered to the thermal power station of two units of 500 MW each (proposal for the first unit of 500 MW was approved in April 1998) which are being constructed at BTPS (located 150 kilometers away from Raichur). In fact, it would have reduced the inventory carrying cost, if viewed against the decision to implement a stand alone eighth Unit of 250 MW.

### *Non-materialisation of dedicated mine*

**2.1.8** As per the Feasibility Report (June 1998), proposals for coal linkage for Unit-7 was proposed to be met either from Singereni Collieries Company Limited (SCCL) or from Talcher coal fields and the Company was having continuous dialogue with the coal companies to find out the feasibility of entering into an agreement for dedicated mine for the supply of coal. It was observed that the Company was not successful in entering into an agreement with coal companies for a dedicated mine for the supply of coal to RTPS.

The Company stated (February 2007) that it had made efforts (June 1998) for getting coal from dedicated mines from SCCL and Western Coal Fields Limited (WCL). But the SCCL authorities had expressed (September 1998) their inability to supply additional quantity of coal for the above units. In respect of WCL, the Company stated that some of the conditions laid down in the draft agreement by WCL were not acceptable to the Company. It was observed that these conditions insisted by WCL were deposit of Earnest

Money Deposit equal to 1/12th of the cost of annual quantity of coal to be lifted (Rs.25 crore) and commitment advance of 1/6th of annual cost of coal (Rs.49 crore). Compared to the higher cost (Rs.550-700 per tonne as mentioned in paragraph 2.1.20) involved in bringing coal from distant mines of Mahanadi Coal Fields Limited (MCL), these conditions were definitely economical.

## Award of work and contract management

### *Time overrun*

**2.1.9** The Company awarded 58 packages/contracts aggregating Rs.479.29 crore for the implementation of Unit-7. The details of time taken for award of major contracts are given below:

①

| Package | Commencement of pre-project activities (Government approval) | Scheduled period for award of packages considering the norm of 12 months from Government approval as per CEA | Actual Month of Award | Delay from the month of Govt. approval (Months) | Time required for completion as per Feasibility Report (Months) | Actual period allowed in the agreement (Months) |
|---|---|---|---|---|---|---|
| Boiler Turbine Generator | March 1999 | February 2000 | October 2000 | 08 | 26 | 30 |
| Station Building | | | October 2000 | 08 | 24 | 30 |
| Circulating Water System | | | April 2001 | 14 | 15 | 20 |
| Re-inforced Concrete Cement Chimney | | | February 2001 | 12 | 24 | 22 |
| Cooling Tower | | | January 2001 | 11 | 24 | 26 |

It was noticed that:

**As against Central Electricity Authority (CEA) guidelines for finalisation of bids within 12 months from pre-project activities (date of Government approval) to zero date (date of placement of order), the delays in award of contracts ranged from 8 to 14 months.**

- as against CEA guidelines for finalisation of bids within 12 months from pre-project activities (date of Government approval) to zero date (date of placement of order), the delays in award of contracts ranged from 8 to 14 months. This was inspite of the decision to dispense with the tendering process in procurement of the Boiler, Turbine and Generator package from Bharat Heavy Electricals Limited (BHEL). ⑦
- as per the decision (August 1998) of the BoD, the project was to be completed in 24 months. The Company, however, revised the schedule three times:
    - from 24 months to 26 months (June 1999),
    - from 26 months to 28 months (June 2000) and
    - from 28 months to 26 months (compression) in March 2002.

The project was synchronised (December 2002) in 25 months at a cost of Rs.561.98 crore. But commercial operation started (April 2003) in 30 months after four months from the date of synchronisation though it was planned to be commenced within two months. ③ & ⑤

The Government replied (May 2007) that awarding contracts was delayed due to delay in tying up finances and that contracts were awarded after signing (October 2000) of a multipartite agreement for required funds. It was also stated that there was no delay in commercial operation with reference to the contract.

The reply is not tenable as the Company had planned (1998) to raise Rs.3,000 crore for 1,000 MW to be implemented over next three to five years. The MD had informed (August 1998) the BoD in one of their meeting that during the investors conference (July 1998) the financing of Unit-7 was posed and the response from the Banks/Financial institutions was encouraging. There is no evidence to suggest that the Company had initiated action for issue of bonds as specified in the Government approval. The proposed financing of the project through lease finance was also not implemented.

The Company did not award contracts until the multipartite agreement was entered (October 2000), inspite of initiating the tender processes (1998) and receiving Government approval for the project (March 1999). The reply of the Company that there was no delay in commercial operation was with reference to original schedule of 28 months and not with reference to the revised compressed schedule of 26 months.

***Avoidable payment of bonus***

**Revision of synchronisation schedule from 24 to 28 months and compression later to 26 months resulted in payment of bonus of Rs.1.03 crore to contractors.**

**2.1.10** A bonus clause envisaging payment of premium not exceeding Rs.1.87 crore[30] was included in four civil packages for early completion considering synchronisation of the project in 28 months (February 2003). The bonus was to be paid proportionately for each day of saving beyond a saving of two months subject to the maximum of Rs.1.87 crore. The date of synchronisation was reduced (May 2002) to 26 months. The project was synchronised in 25 months (December 2002). The Company paid bonus of Rs.1.03 crore (based on proportionate days) considering the date of synchronisation as 28 months.

Thus, considering the pace of project, the Company was aware (June 1999 and March 2002) that the project could be completed in 26 months. Yet, the civil packages were awarded considering the synchronisation period as 28 months, which led to avoidable payment of bonus of Rs.1.03 crore.

The Government stated (May 2007) that bonus was paid as per the contractual obligations. The fact, however, remained that unwarranted revisions in the completion dates while awarding the contract resulted in payment of bonus.

[30] **station building (Rs.1.25 crore), circulating water system (Rs.0.20 crore), chimney (Rs.0.15 crore) and cooling tower (Rs.0.27 crore).**

## *Evaluation of bids*

### Ash handling system

**2.1.11** The ash generated in the process of burning coal is useful in cement and brick industries. The Company had already handed over the ash handling systems in units one to six to various cement/brick industries for operation and maintenance in consideration of removing the ash free of cost. The Company was also required to achieve[31] 100 *per cent* fly ash utilisation in nine years (by 2011 for Unit-7). The BoD decided (April 2002) to transfer the fly ash disposal system of Unit-7 to interested parties on own and operate basis to bring down the project cost. The fly ash handling system (excluding bottom ash system) was constructed at a cost of Rs.13.38 crore. The fly ash handling system was transferred (May 2002) to a cement manufacturer (ACC) on "own and operate" basis for Rs.7.81 crore for a period of 10 years.

Audit scrutiny of the award of this contract revealed that the Company sent (February 2002) limited enquiries to ACC, Rajashree Cements, Vasavadatta and ARV Society calling for their expression of interest in sharing the cost of the fly ash handling system and for lifting the entire fly ash generated. The enquiries lacked clarity as to the components of the ash handling system proposed to be transferred - there was no indication about sharing the cost of wet ash handling system. The tenders were opened (20 February 2002) in the presence of the representatives of all the firms. The offers received also lacked clarity and the Company interpreted them differently at different times. Initially, it was stated that the bid of ACC was for the fly ash system only for Rs.3.80 crore. It was revised many times subsequently, deriving various conclusions from the terms in the offer and finally fixed at Rs.7.81 crore. The wet ash handling system, constructed at a cost of Rs. 3.46 crore, was also included in the assets to be transferred. Similarly, Rajashree Cements' offer, initially (February 2002) evaluated at Rs.3 crore, was later (March 2002) revised to Rs.7.14 crore. The wet ash handling system was not part of their offer as the tender enquiries were not explicit about it. The Rajashree Cements, however, had agreed (March 2002) to share 100 *per cent* of cost and was open to further discussions on the cost issue. After many interpretations and re-interpretations, it was decided in the TC Meeting (February 2002) to entrust the Ash Handling System on "own and operate" basis to ACC and it included the wet ash handling system also.

**Lack of clarity in tender process in hiving off the Ash Handling System resulted in increasing the Project cost by Rs.5.57 crore.**

Thus, the decision of the Company (i) to send limited enquiries, (ii) to not include the details of the components to be hived off (transferred) in the tender, (iii) to accept offers that were prone to different interpretations and (iv) to reject the offer of Rajashree Cements even when it was willing to share the entire cost resulted in increase in the project cost by Rs.5.57 crore.

The Government replied (May 2007) that the tender was limited only to firms based in the State, with a view to encourage local investments. As regards the offer of Rajashree Cements, it was stated that it was a post-tender and conditional one and not superior to that of ACC.

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[31] **as per the Ministry of Environment and Forests notification (September 1999).**

The reply is not tenable as many of the modifications effected in the terms of offer of ACC were also post-tender and the Company did not annul the tender despite the ambiguity in tender specifications as well as the offers received, which resulted in the Company failing to take advantage of emerging market for ash.

## Execution of contracts

### *Appropriateness of technical specifications*

**Boiler**

**2.1.12** The BoD was informed (January 2000) that the Company obtained coal linkage from Standing Linkage Committee of the Ministry of Coal from Mahanadi Coal Fields (MCL), Talcher (1,850 kilometres) for Unit-7. The Gross Calorific Value[32] (GCV) of the coal sourced from MCL ranged between 3,206 Kcal/Kg and 3,629 Kcal/Kg with ash content ranging between 39.3 and 43.6 *per cent.* Based on the nature, type and characteristics of this coal, the equipment suppliers designed major critical equipments like Boiler (steam generator), turbine generator, *etc.*, to work at 3,500 Kcal/Kg (GCV) with ash content of 40.03 *per cent.*

It was noticed that:

- the Company was aware of the stipulation of the Ministry of Environment and Forests (MoEF) (September 1997) that Thermal Power Stations located more than 1,000 kms away from the collieries were to operate with coal containing less than 34 *per cent* ash content only (washed coal[33] or raw coal with less than 34 *per cent*). As the washed coal with 34 *per cent* ash content has GCV of more than 4,300 Kcal/Kg, the current specifications/designs of the boiler are not in line with the guidelines of the MoEF.

- the impact of the current specifications/designs of the boiler is as follows:

    - increase in the usage of washed coal with GCV of 4,300 Kcal/Kg did not result in reduction in quantity of coal consumed as brought out in Paragraph 2.1.17. The specific coal consumption had, in fact, increased from 0.618 Kg/Kwh to 0.662 Kg/Kwh.

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**[32] Gross Calorific Value is the energy per kilogram of coal expressed in Kilocalorie (Kcal) per Kg.**

**[33] Washed coal (beneficiated coal) is the coal received after the process of washing by Washeries, which reduces its ash content. The Gross Calorific Value of washed coal is above 4,300 Kcal with ash content of less than 34 *per cent.***

- at 3,500 Kcal/Kg, using raw coal with 40 *per cent* ash, the quantity of ash generated is more resulting in higher emissions to atmosphere, increased ash handling and disposal costs, excess load on transportation system and increase in operating and maintenance costs.

The Government replied (May 2007) that as the concept of washed coal was not thought, the use of the same in Unit-7 was not envisaged and while placing orders on BHEL, washeries did not exist for MCL Coal. Further, it was stated that while clearing Unit-7 project, the MoEF had not specified usage of coal with less than 34 *per cent* ash content.

The reply is not tenable as the Company was contemplating usage of washed coal with lesser ash content in all the units as is evident from the discussions of the Technical Committee (April 1998) and as per the techno-economic clearance accorded (January 2001) by CEA, the GCV of coal specified was 4,200 Kcal/Kg. The quantity of washed coal used had been increasing over the years.

Further, as per MoEF's specification use of coal with ash content of less than 34 *per cent* was applicable to all projects located more than 1,000 kms away from the collieries.

**There was excess consumption of 3.89 lakh tonnes of coal valued at Rs.80.09 crore during the period 2003-07 as compared to equipment supplier's specification. The latest technology offered by the equipment suppliers of Variable Frequency Drive and Cooling Tower was not adopted.**

- the Boiler Equipment supplier's specifications provide turbine heat rate of 1,966 Kilo calories (Kcal) and Boiler Efficiency at 86.17 *per cent* for Unit-7, thus requiring heat of 2,281.54 Kcal to generate one Kwh of electric energy. The details of consumption of coal as per standards adopted for actual generation, coal actually consumed *vis-à-vis* excess consumption of coal are given in **Annexure-9**. It could be seen from the Annexure that during 2003-07, there was excess consumption of coal of 3.89 lakh tonnes valued at Rs.80.09 crore as compared to the equipment supplier's specification.

The Government replied (May 2007) that coal consumption data cannot be considered as the actual consumption as it is an apportioned quantity. The reply is not tenable as the Audit analysis is based on data furnished (November 2006) by the Company; the same data that was reported to other statutory authorities like CEA and KERC. No other data was furnished to substantiate the reply or refute the audit findings.

**Variable Frequency Drive (VFD)**

**2.1.13** BHEL had proposed Variable Frequency Drive (VFD) for Induced Draft (ID) fans stating that if ID fan operates at less than 80 *per cent* of rated speed with VFD, there was a potential saving of 300 to 500 KW in auxiliary consumption and that various Units of National Thermal Power Corporation at Unchahar and Dadri are being operated with VFD.

The case of going for VFD for ID Fans in place of Hydraulic Coupling in the BTG Package of Unit-7 was discussed (January 2001) by the Contract Management Group (CMG) and also in the meeting (February 2001) of Technical Committee. The CMG had concluded that the additional investment of approximately Rupees three crore on VFD was unviable and decided for hydraulic coupling.

It was observed that the Company lost the opportunity to increase the sale of energy of 8.55 MUs (2003-04 to 2006-07) and would further lose 47.74 MUs during the remaining life of the Unit due to reduced auxiliary consumption. The consequent additional revenue foregone was Rs.1.10 crore (2003-04 to 2006-07) and further revenue of Rs.7.16 crore in the remaining life of the Unit. In this connection, it is pertinent to mention that Units 5 and 6 are fitted with VFDs for ID fans.

The Government replied (May 2007) that VFD was not opted for due to initial problems experienced in Units 5 and 6 and poor servicing support from BHEL. It was also stated that provision for VFD has been made, if required, at a later stage. The reply is not tenable as inspite of these stated de-merits, the Company had proposed (October 2002/ February 2003) to fit Unit-8 and BTPS with VFDs, thereby substantiating the audit observation.

**Cooling Tower**

**2.1.14** The note (November 1997) to the Technical Committee explaining the relative merits of cooling tower, mentioned that there were two types of Natural Draft Cooling Tower (NCDT) *viz.*, Splash Type Fill (STF) and Poly Vinyl Chloride (PVC) Film Type Fill. The cost and time required to implement PVC Film Type Fill was stated to be lesser due to reduction in height of the tower from 146.2 metres to 110 metres besides lower cost of pumping power by Rs.60.99 lakh per annum.

The Technical Committee, however, opted (May 1999) for STF cooling tower as that type of tower was installed in other six units of RTPS.

It was observed that the increase in cost of pumping power due to implementation of STF cooling tower was Rs.1.29 crore (2003-07) and in the remaining life of the unit the avoidable recurring cost would be Rs.40.15 lakh per annum.

The Government replied (May 2007) that raw water drawn directly from Krishna river during rainy season could not be used in PVC Film Fill cooling tower due to high turbidity (impurities). It was further stated that in case, clarified water was used, PVC Fill type NDCT could be used effectively.

The reply is not tenable as the Company did not explore the possibility of utilising the existing clarifier or going for a new one. In fact, the high turbidity of water during the rainy season was never a subject of discussion while taking the decision. The Company is now constructing a separate clarifier for Unit-8, which option was available for Unit-7 as well.

## Performance of the Unit

**2.1.15** The table below indicates the operational performance of Unit-7 for the four years ended 2006-07.

| Sl. No. | Particulars | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---|---|---|---|---|
| 1 | Annual generating capacity (Million Units) | 1,844.640 | 1,839.600 | 1,839.600 | 1,839.600 |
| 2 | Total available hours in a year | 8,784.000 | 8,760.000 | 8,760.000 | 8,760.000 |
| 3 | i) Planned outage hours | 535.767 (6.10 *per cent*) | 408.033 (4.66 *per cent*) | 1,026.320 (11.72 *per cent*) | - |
| | ii) Forced outage[34] hours | 301.950 (3.44 *per cent*) | 331.983 (3.79 *per cent*) | 896.513 (10.23 *per cent*) | 74.670 (0.85 *per cent*) |
| | iii) Hours lost due to build-up (shortage) of coal stock | - | 316.000 (3.61 *per cent*) | 180.530 (2.06 *per cent*) | - |
| | iv) Hours lost due to No Load Demand (Backing down of generation on despatch instructions from the purchaser) | - | 239.000 (2.73 *per cent*) | 1,525.450 (17.41 *per cent*) | 712.130 (8.13 *per cent*) |
| | v) Total outage hours (excluding planned outages) | 301.950 (3.44 *per cent*) | 886.983 (10.13 *per cent*) | 2,602.493 (29.71 *per cent*) | 786.80 (8.98 *per cent*) |
| | vi) Total outage hours | 837.717 (9.54 *per cent*) | 1,295.016 (14.78 *per cent*) | 3,628.813 (41.42 *per cent*) | 786.800 (8.98 *per cent*) |
| 4 | Budgeted outage hours | 1,784 (20.31 *per cent*) | 1,618 (18.47 *per cent*) | 1,618 (18.47 *per cent*) | 1,618 (18.47 *per cent*) |
| 5 | Actual running hours | 7,946.283 | 7,464.984 | 5,131.187 | 7,973.200 |
| 6 | Percentage of Plant Availability Factor (PAF) (5/2 x 100) | 90.46 | 85.22 | 58.58 | 91.02 |
| 7 | Possible generation with reference to actual hours operated (MUs) (0.21 MUs x Sl.No.5) | 1,668.719 | 1,567.647 | 1,077.549 | 1,674.372 |
| 8 | Actual generation (MUs) | 1,644.352 | 1,495.826 | 1,033.251 | 1,663.830 |
| 9 | Shortfall in actual generation to possible generation (MUs) (7-8) | 24.367 | 71.821 | 44.298 | 10.542 |
| 10 | Shortfall in possible generation for total available hours (MUs) (1-8) | 200.29 | 343.77 | 806.35 | 175.770 |
| 11 | Plant Load Factor[35] (*per cent*) (8/1 x 100) (Actual generation/Capacity) | 89.14 | 81.31 | 56.17 | 90.45 |
| 12 | Heat Rate of Unit-7 (Kcal/Kwh) | 2,507 | 2,522 | 2,571 | 2,578 |
| 13 | Thermal Efficiency[36] (*per cent*) (859.8452 /Sl.No.12) | 34.30 | 34.09 | 33.44 | 33.35 |

[34] **Outages are of two types: Planned and Forced. Planned outage is time spent for any scheduled maintenance activity calling for de-synchronisation of unit for a certain period. Forced outages is the time spent for synchronising back the unit subsequent to failure of any plant/equipment.**

[35] **Plant Load Factor is the percentage of Energy generated to the capacity to generate energy during the period.**

[36] **Thermal Efficiency of a power station is an index which measures the efficiency of conversion of thermal energy to electrical energy. It is the output of electrical energy denoted as a percentage of heat energy contained in the fuel used in generation; 1 Kwh = 859.8452 Kcal.**

It was observed that:

- the outages varied from 8.98 *per cent* to 41.42 *per cent* during 2003-2007. As per the norm fixed by CEA, the total outages of a unit should not exceed 20 *per cent* of the available hours. The actual outages, however, for Unit-7 was 41.42 *per cent* due to shortage of coal stock and No Load Demand (NLD) from KPTCL.

  The Government replied (May 2007) that the outages had increased mainly due to increase in the idle hours due to shortage of coal and NLD. The reply is not tenable as NLD was on account of high cost of generation of Unit 7, which the Company was unable to keep within the limits specified by the CEA.

**The Unit did not achieve the Plant Availability Factor as compared to that of 158 numbers 200/210MW stations in the country (national average as compiled by CEA) resulting in shortfall of generation of 549.67 million units of energy for 2004-06.**

- as per the data compiled by CEA based on the working of 158 numbers of 200/210 MW thermal stations (national average), the average operating availability was 87.24 *per cent* (2004-05) and 86.44 *per cent* (2005-06). However, in respect of Unit-7, the actual operating availability was 85.22 and 58.58 *per cent* in the corresponding years, indicating lesser availability of operating hours and consequent reduction in generation. The shortfall in generation as compared to this national average was 549.67 million units of energy.

- further, as against the national average of 5.81 (2004-05) and 6.80 *per cent* (2005-06) in respect of forced outage, the actual forced outage (including NLD and build-up of coal stock) was 10.13 and 29.71 *per cent* respectively.

  The Government replied (May 2007) that as the data compiled by CEA was for the power stations, it could not be compared on unit basis. The reply is not tenable as the performance evaluated by CEA was with reference to that of the similar units spread over the entire country, including old units; the RTPS unit being a new station should have lesser forced outage than the national average.

- as against the designed thermal efficiency of 37.69 *per cent*, the efficiency achieved varied from 33.35 to 34.30 *per cent*.

  The Government replied (May 2007) that it was not appropriate to compare the thermal efficiency achieved as the designed efficiency is for ideal conditions. The Company contended that there are a number of factors, such as ageing, excess moisture, excess air, low PLF, *etc.*, for lower efficiency. The reply is not tenable as the unit besides being a new one was fed with higher GCV of coal and annual maintenance done regularly and as such there was no reason for lower thermal efficiency in the initial years of operation.

- the purchasers preferred hydel energy and low-cost thermal energy, and the Company had to curtail/back down generation in Unit-7 due to the higher cost of generation of Unit-7 though it was capable of generating and delivering energy.

The Government replied (May 2007) that the generation in Unit-7 had to be backed down due to comfortable hydel position and low grid demand and not due to higher cost of generation.

The reply is not tenable as even when the hydel generation was favourable, Karnataka Power Transmission Corporation Limited (KPTCL) was drawing power from RTPS. Among the RTPS units, Unit-7 was the least favoured. It is evident from the fact that Unit-7 had generated the least energy during the last four years as compared to the other six units. The only explanation for this low demand is the higher cost of generation of this unit.

***Increase in cost of generation of other units due to implementation of Unit-7***

**2.1.16** The table below gives the cost of generation of RTPS and Unit-7:

| | Particulars | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---|---|---|---|---|
| A | Annual consumption of coal of RTPS (tonne) | 70,39,782 | 69,41,493 | 60,51,311 | 75,36,280 |
| B | Annual consumption of coal of Unit-7 (tonne) | 10,18,157 | 9,66,372 | 6,85,110 | 11,01,891 |
| C | Annual weighted average rate of consumption of RTPS considering coal from all sources (Rs. per tonne) | 1,794.77 | 1,967.38 | 2,186.59 | 2,069.37 |
| D | Annual weighted average rate of consumption for Units 1 to 6 without MCL coal (to the extent of consumption in Unit-7) (Rs. per tonne) | 1,742.00 | 1,928.86 | 2,156.33 | 2,008.90 |
| E | Annual weighted average rate of consumption for Unit-7 allocating MCL coal (Rs. per tonne) | 2,106.86 | 2,205.51 | 2,423.56 | 2,432.46 |
| F | Annual gross generation of RTPS (MUs) | 11,393.69 | 10,730.97 | 9,182.27 | 11,483.43 |
| G | Annual gross generation of Unit-7 (MUs) | 1,644.352 | 1,495.826 | 1,033.251 | 1,663.83 |
| H | Average primary fuel cost per Kwh of all Units **{(A x C)/F}** (Rs.) | 1.109 | 1.273 | 1.441 | 1.358 |
| I | Average primary fuel cost per Kwh for each Unit from 1 to 6 (each) **[{(A-B) x D}/(F-G)]** (Rs.) | 1.076 | 1.248 | 1.420 | 1.316 |
| J | Average primary fuel cost per Kwh of RTPS Unit-7 **(B x E)/G** (Rs.) | 1.305 | 1.425 | 1.607 | 1.611 |
| K | Amount by which primary fuel cost per Kwh for Unit-7 is higher than fuel cost per Kwh for units 1 to 6 **((J-I)*100)** (paise) | 22.90 | 17.70 | 18.70 | 29.50 |
| L | Increase in primary fuel cost due to implementation of Unit-7 **((H-I)*F/10)** (Rs. in crore) | 37.60 | 26.83 | 19.28 | 48.23 |
| M | Excess primary fuel cost of Unit-7 recovered through the other six Units **((J-H)*G/10)** (Rs. in crore) | 32.23 | 22.74 | 17.15 | 42.09 |

It was observed in audit that:

The primary fuel (coal) cost per unit of generation[37] of Unit-7 was Rs.1.305, Rs.1.425, Rs.1.607 and Rs.1.611, as against the cost per unit of Rs.1.076, Rs.1.248, Rs.1.420 and Rs.1.316 of the other six Units in the years 2003-04, 2004-05, 2005-06 and 2006-07 respectively. The excess cost of 22.90 paise,

[37] **Based on specifications in the Feasibility Report and as per the design parameters of the critical equipments. This is computed based on average fuel cost, consumption and generation.**

**The Company allocated Rs.114.21 crore of cost of generation of Unit-7 to other six units to avoid low demand for the electricity generated from this unit.**

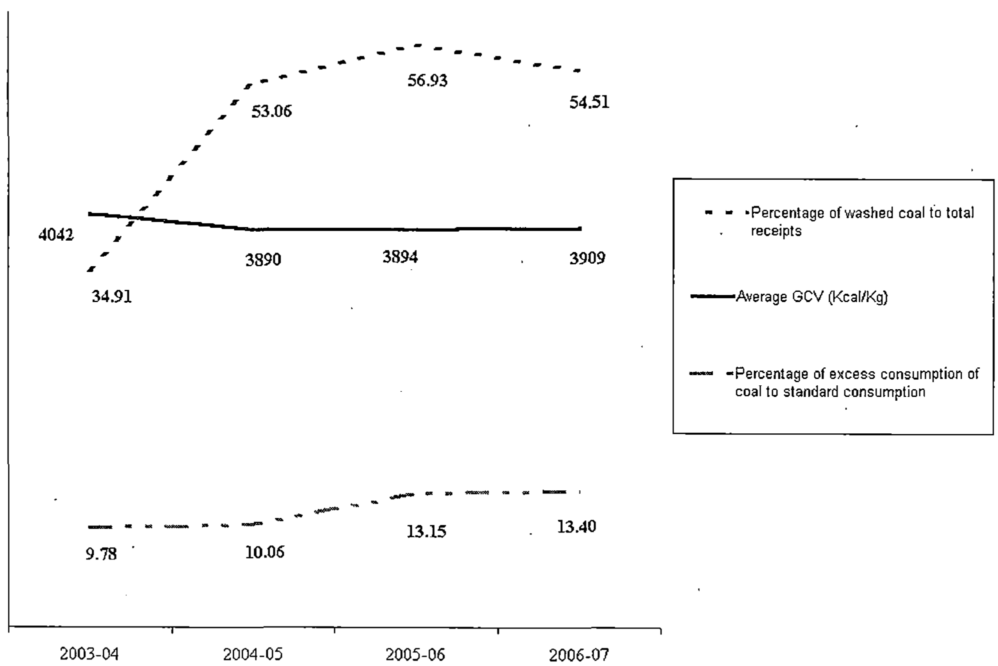
17.70 paise, 18.70 paise and 29.50 paise per unit for Unit-7 was mainly on account of use of costlier MCL coal. The increase in cost of coal consumption comes to Rs.131.94 crore (2003-07) was attributable to implementation of Unit-7. The amount of Rs.114.21 crore was, however, allocated to units 1 to 6 and recovered from the energy sold to Karnataka Power Transmission Corporation Limited (KPTCL)/Electricity Supply Companies (ESCOMs).

The Government replied (May 2007) that there was no additional burden to the consumers as fuel cost of the station is fully recovered from all the units due to adoption of station tariff without considering the performance of individual units due to technical reasons. The fact, however, remains that implementation of Unit-7 had increased the cost of generation of the other six units.

## Consumption of coal

**2.1.17** The World Energy Council[38] reported that the field trials conducted at one of the Thermal Power stations in India using washed coal showed that there was reduction in specific coal consumption from 0.777 Kg/Kwh to 0.533 Kg/Kwh and improvement in boiler efficiency by two *per cent.*

The chart below shows the percentage of washed coal to total receipts, the percentage of excess consumption of coal to standard consumption of Unit-7 and average GCV of coal consumed by Unit-7:




[38] http:\\www.worldenergy.org/wec-geis/publications.

It was observed that:

- the percentage of excess consumption of coal of Unit-7 to standard consumption (equipment specification) had been increasing year-after-year. This is despite the fact that the quantity of washed coal of GCV of 4,300 Kcal/Kg with less than 34 *per cent* ash increased from 34.91 *per cent* to 54.51 *per cent* during 2003-04 to 2006-07. The percentage of washed coal was as high as 56.93 *per cent* in 2005-06. But the difference between the actual coal consumption and standard coal consumption, which was 9.78 *per cent* in 2003-04 increased to 13.40 *per cent* in 2006-07.

- though the quantity of washed coal procured increased (coal of higher GCV) yet the average GCV of the coal consumed decreased.

**The increased use of washed coal did not yield expected benefits.**

- with the usage of more quantity of washed coal of higher calorific value, the specific coal consumption should have come down and the boiler efficiency improved. On the contrary, the specific coal consumption increased from 0.618 Kg/Kwh to 0.662 Kg/Kwh and the Boiler Efficiency reduced from 87.10 *per cent* in 2003-04 to 85.58 *per cent* in 2006-07.

- while the average GCV of coal received actually increased (unloading point), the average GCV of coal tested at belt measurement point (consumption accounted by the Company) showed a decreasing trend.

The Government replied (May 2007) that the coal consumption had increased, due to decline in the GCV of coal as a result of decline in the quality of raw coal over the years and stacking/reclaiming process and spontaneous combustion. It was also stated that increase in the moisture, as well as percentage of combustibles in ash and low PLF had contributed to reduction in the efficiency of boiler and performance of mills, leading to increased consumption of fuel.

The reply is not specific; the reasons for increasing percentage of excess consumption need to be investigated and adequate steps need to be taken to control excess consumption.

***Unexplained heat loss***

**2.1.18** The Company receives its coal supply through rail rakes at the Coal Handling Plant (CHP; two Nos. - Stage I and II). The coal supplied is of two types *viz*., raw coal[39] and washed coal. On receipt at the rail yard (Marshalling yard) the wagons are unloaded by wagon tipplers. At this unloading point the washed coal only is tested in terms of GCV by a sample quality check whereas the raw coal is accepted (without testing) based on Useful Heat Value (UHV- as declared by collieries at the time of loading in collieries by joint sampling[40]).

[39] **raw coal is unwashed coal.**

[40] **Company officials, Colliery officials and representative of the transport Company.**

From the unloading point the coal is fed onto the conveyors. The coal then passes on to the crushers and later joins the washed coal on the conveyor. Then the coal (now in mixed state) is conveyed to the bunkers, (called belt measurement point) where a quality check is done again (for the mixed coal) to determine the average GCV. This average GCV of mixed coal is adopted by the Company for the purposes of consumption and billing the energy as per Power Purchase Agreement (PPA).

Audit observed that the Company accepted the raw coal at the unloading point based on UHV but did not test for its GCV. Only the washed coal was tested for its GCV. The average UHV of raw coal was 2,973, 2,869, 2,953 and 2,950 (2003-04 to 2006-07) and the average GCV of washed coal was 4,358, 4,503, 4,487 and 4,606 respectively. The Company, however, measured the average GCV (mixture of raw and washed coal) at the belt measurement point, which was 4,042, 3,890, 3,894 and 3,909 respectively during the above period.

It could be seen that while the average UHV of raw coal and average GCV of washed coal was increasing at unloading point, the average GCV of mixed coal at belt measurement point decreased. In the coal handling plant, the coal merely moves from unloading point to belt measurement point through the conveyor and as such there is no reason for reduction in heat content or GCV. The Company has not analysed/investigated the reasons for the same. It is pertinent to mention here that lower GCV also meant higher cost of electricity to the buyer as the primary fuel charges payable by the buyer is inversely proportional to the GCV of coal consumed.

The Government replied (May 2007) that the losses in calorific value between the unloading point and belt measurement point had happened due to the sprinkling of water at wagon tippling, storage, *etc.*

The reply is not acceptable as the total heat content of coal, which depends only on the carbon content, is not lost due to sprinkling of water. The Company had not investigated/analysed the reasons for the loss in calorific value between unloading and belt measurement points.

## Fuel supply

**2.1.19** The CEA fixes power generation targets for Thermal Power Stations considering capacity of plant, average plant load factor and past performance. The Company works out coal requirements on the basis of targets so fixed and past coal consumption trends. Based on the Company's quarterly requirement, the CEA recommends the requirement to Standing Linkage Committee (SLC) which allots coal based on the availability at various collieries. The quantity, mode of transit, nearness of mines, *etc.*, are taken into account by the SLC while determining the linkage. On the basis of linkage source approved by SLC, the Company enters into Fuel Supply Agreements[41] with collieries for supply of quality coal.

[41] **The Company has entered into Fuel Supply Agreements (April and September 2000) with SCCL and WCL for supply of coal.**

The Company lifts coal from the mines of Singareni Collieries Company Limited (SCCL), Western Coalfields Limited (WCL), South Eastern Coalfields Limited (SECL) and Mahanadi Coalfields Limited (Talcher Area) (MCL) based on quantity allotted by the SLC. The mines of SCCL, WCL and SECL are nearer *i.e.,* 550 kms, 660 kms and 1,300 kms respectively and the quality of coal is comparatively better than that of MCL's (1,850 kms).

***Extra expenditure due to non-lifting of coal from nearby sources***

**2.1.20** The table below indicates the coal linkage, supplies from SCCL, WCL, SECL and MCL and the consumption of RTPS and Unit-7:

| Year | Linkage (excluding MCL's) | Lifting (excluding MCL's) | Shortfall in lifting | Supplies from MCL | Consumption | |
|---|---|---|---|---|---|---|
| | | | | | RTPS | Unit-7 |
| | (in lakh tonnes) | | | | | |
| 2003-04 | 71.70 | 64.08 | 7.62 | 10.27 | 70.40 | 10.19 |
| 2004-05 | 67.35 | 66.45 | 0.90 | 13.17 | 69.41 | 9.66 |
| 2005-06 | 67.35 | 58.14 | 9.21 | 14.60 | 60.51 | 6.86 |
| 2006-07 | 67.11 | 57.40 | 9.71 | 14.55 | 75.36 | 11.02 |
| **Total** | **273.51** | **246.07** | **27.44** | **52.59** | **275.68** | **37.73** |

From the above it can be observed that as against the allotment/linkage of 273.51 lakh tonnes of coal (excluding MCL), the Company lifted only 246.07 lakh tonnes of coal (2003-07) resulting in short lifting of 27.44 lakh tonnes. It could also be seen that the quantity lifted from nearby sources has been gradually coming down over the years whereas the lifting from far away MCL has been increasing.

The Company was not lifting the entire quantity from nearby sources (SCCL/WCL); but increasing its procurement from far away sources (MCL). As the MCL coal is costlier by Rs.550-700 tonne, the extra expenditure on procurement of shortfall quantity of 27.44 lakh tonnes of coal was Rs.166.68 crore during the period 2003-07.

The Government replied (May 2007) that the shortfall in lifting of the allotted quantity from the nearby sources was due to factors beyond the control of the Company and the coal companies such as diversion of rakes by Railways, strike, rain, *etc.*

The reply is not tenable as the Company should have lifted the entire allotted quantity by taking up the matter with SLC and Ministry of Railways and persuading the coal companies to supply the entire allotted quantity.

## Sale of energy

**2.1.21** The Company initialed a separate Power Purchase Agreement (PPA) with KPTCL for Unit-7 and submitted (August 2000) it to KERC for approval. KERC pointed out (August 2001) that certain sections of the PPA dealing with metering, plant load factor, deemed generation, *etc.,* could not be adopted in view of the fact that the auxiliary consumption, net power output and net metered energy could not be measured accurately exclusively for Unit-7 with the metering systems specified in the PPA. As directed by KERC, KPTCL submitted (January/March 2002) the re-negotiated PPA for RTPS (Units 1 to 7) to KERC for approval with revised clauses incorporating the re-negotiated and mutually agreed parameters. A few major parameters are given below:

| Parameter | Proposed in PPA (August 2000) | Re-negotiated and mutually agreed parameters (January/March 2002) | As approved by KERC (July 2002) |
|---|---|---|---|
| Plant Load Factor | 70 *per cent* | 72 *per cent* | 77 *per cent* |
| Heat Rate | 2,500 Kcal/Kwh or actuals whichever is lower in post-stabilisation period | 2,495 Kcal/Kwh or actuals whichever is lower in post-stabilisation period | 2,450 Kcal/Kwh or actuals whichever is lower in post-stabilisation period |
| Secondary Fuel Oil Consumption | 3.5 Ml/Kwh or actuals whichever is lower | 2.5 Ml/Kwh or actuals whichever is lower | 2 Ml/Kwh or actuals whichever is lower |
| Auxiliary consumption | 9.5 *per cent* or actuals whichever is lower | 9 *per cent* or actuals whichever is lower | 8.5 *per cent* or actuals whichever is lower |

The common PPA for RTPS Units 1 to 7 was approved (July 2002) by KERC with modifications as shown above. As the modified parameters were stated to be adverse, the Company approached (September 2002) the Honorable High Court of Karnataka. As per the Government Order (10 May 2005), trading of electricity was taken over from KPTCL and entrusted (10 June 2005) to newly set up Electricity Supply Companies (ESCOMs). Pending decision by the Court, energy bills in respect of Unit-7 are raised as per the re-negotiated/mutually agreed PPA initiated in January/March 2002 on KPTCL/ESCOMs.

In this connection, the following points deserve mention:

**Short claim of Primary fuel (Coal) charges - and excess claim of Secondary fuel charges**

**There was short billing of primary fuel charges of Rs.63.22 lakh and excess claim of secondary fuel charges, fixed charges and incentive of Rs.41.72 crore by the Company due to application of different formulae than that stipulated in the Power Purchase Agreement.**

**2.1.22** As per the PPA (January/ March 2002) the "Energy charges for each billing month shall be the sum of recoverable cost of primary fuel and secondary fuel" as per the respective formula. The Company, however, has been applying different formulae other than that stated in the PPA resulting in short-billing of primary fuel charges by Rs.63.22 lakh and excess claim of secondary fuel charges by Rs.15.72 crore for the period April 2003 to March 2007.

The Government replied (May 2007) that the formulae for calculation of primary and secondary fuel charges would be suitably modified in the PPA to be executed with ESCOMs, on receipt of the judgement from the High Court of Karnataka.

The reply is not convincing as the formulae for recovery of primary and secondary fuel charges and the parameters mentioned therein were agreed to by both the Company and the KPTCL after negotiation and re-negotiations. The matter in the court related only to the parameters fixed by the KERC.

**Excess claim of Operation and Maintenance (O&M) expenses**

**2.1.23** Clause 4.3 (b)(iv) of the PPA stipulates that "the O&M and insurance expenses for the first tariff year will be equal to 2.5 *per cent* of capital expenditure of Unit-7 and in each subsequent tariff period after the first tariff period shall be increased by six *per cent*."

The Company, however, claimed the entire O&M expenditure incurred without limiting it to the applicable percentage on the final capital expenditure of Rs.561.98 crore as on the date of commissioning resulting in excess claim of Rs.16.65 crore for the period 2003-07.

The Government replied (May 2007) that the formulae would be suitably modified on receipt of judgment from Honorable High Court. The reply is not acceptable as the case in the Honorable High Court is against the orders of KERC and not against the PPA finalised on the basis of several rounds of negotiations, to which the Company is a signatory.

**Excess incentive claim**

**2.1.24** The PPA provides for payment of incentive at the rate of 8 paise per Kwh for every additional unit of "electricity delivered to the interconnection point" beyond Actual Plant Load Factor (APLF) of 72 *per cent* and up to and inclusive of 75 *per cent* PLF during a tariff period (one year) and at the rate of 40 paise per Kwh for PLF beyond 75 *per cent*.

The payment of such incentive shall be for the electricity delivered to the interconnection point *i.e.*, net energy exported (Gross generation – auxiliary consumption). The auxiliary consumption was to be the lower of nine *per cent* of gross generation and actual. The Company, however, adopted a flat rate of nine *per cent* of gross generation as auxiliary consumption. Further, the Company considered PLF which takes into account the deemed generation also for calculation of incentive instead of APLF as stated in the PPA which excludes deemed generation. This resulted in excess claim of Rs.9.35 crore for the period from April 2003 to March 2007 due to erroneous application of formula stipulated for calculating PLF. This included Rs.99.15 lakh for the year 2005-06 when the Company was not eligible for any incentive.

The Government replied (May 2007) that the Company had considered PLF including deemed generation for preferring the incentive claim in line with the clause specified in PPA and that the claim for 2005-06 had been withdrawn in the books of the Company. The reply is not acceptable as the formula for claiming incentive in the PPA is APLF and not PLF which takes into account deemed generation also. No record in support of the withdrawal of the claim (2005-06) was furnished in support of the reply.

## Financial management

**2.1.25** The BoD estimated (August 1998) the total cost of Unit-7 (210 MW) at Rs.520 crore which was approved (March 1999) by the Government. The Company was also permitted (March 1999) to raise loan from market with Government guarantee. The cost was therefore revised (February 2000) to Rs.613 crore[42], based on final prices for earlier units (Units 5 and 6). The CEA gave (January 2001) the techno-economic clearance for the project with a debt-equity ratio of 80:20.

The Company undertook the project with an estimated debt of Rs.490 crore (80 *per cent*) through loans and Rs.123 crore (20 *per cent*) by way of equity contribution through internal accruals. The final cost of the project on the scheduled date of reporting (three months after completion) to the CEA was Rs.561.98 crore.

It was noticed that the Company did not submit the final cost to CEA (August 2007), even though it was required to do so within three months (July 2003) of commercial operation. The Financial Institutions and Commercial Banks contributed Rs.490 crore by way of loans and the Company's share through internal accruals (equity) was Rs.71.98 crore. The actual debt-equity ratio was 87:13 as against the CEA approved debt-equity ratio of 80:20. As the tariff mechanism[43] provides for 16 *per cent* Return on Equity (RoE), the RoE forgone was Rs.6.47 crore per annum[44] and Rs.97.05 crore over the 15 years currency of the PPA.

The Government replied (May 2007) that the actual ratio considering the total cost as Rs.572.56 crore at the end of March 2004 worked out to 85:15 (Rs.490 crore debt and Rs.82.56 crore equity) and the equity contribution was less only by Rs.31.95 crore and RoE on this worked out to Rs.127.81 crore over the life of the asset (25 years). Similarly, the increase in finance charges due to increased debt was Rs.17.39 crore and hence the difference in cash flow worked out to Rs.110.42 crore during the life of the plant (Rs.127.81 crore - Rs.17.39 crore) resulting in reduction in tariff to the extent of 3.68 paise per unit, which benefited the consumers. It was further stated that certain works and expenditure (like procurement of insurance spares) which were envisaged earlier and not executed at the time of commissioning of the project would be undertaken and this would raise the equity to 20 *per cent*. It was also replied that the envisaged equity could not be invested due to cash shortages resulting from poor realisation from KPTCL.

The reply is not acceptable as although the consumers are perceived to be beneficiaries by way of reduction of 3.68 paise per unit, the loss of return on equity to the Company could reduce the financing of its ongoing and future expansion projects and life extension works. As regards cash shortage, it was noticed that the Company had earned profits of over Rs.220 crore and had paid

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[42] **Hard cost of Rs.520.39 crore and Soft cost of Rs.92.61 crore; Hard cost means package cost; Soft cost means interest during construction, overhead, administration expenses *etc.***

[43] **Tariff mechanism is a method of determining the cost of energy and consists of two parts; fixed cost and variable cost. The return on equity assured in this case was 16 *per cent.***

[44] **Rs.112.40 crore – Rs.71.98 crore = Rs.40.42 crore * 16 *per cent.***

dividend of Rs.75.37 crore in the last five years ending 2005-06; implying investment by way of equity of Rs.40.42 crore was in fact possible.

**Derived values adopted by the company**

### *Station Heat Rate*

**2.1.26** Gross Station Heat Rate[45] (GHR) is the heat energy input in Kilocalories required for generating one KWh (one unit) of electrical energy at generator terminals. GHR is an important index for assessing the efficiency of a thermal power station. Higher GHR meant loss to the Company as payment is limited to the value specified in the PPA (2,495 Kcal/KWh).

The Company has to multiply GCV of coal with the specific coal consumption to arrive at the station heat rate. The Company, however, does not have a method to determine the specific coal consumption and therefore the station heat rate is assumed. The specific coal consumption is arrived at by dividing the assumed station heat rate by the GCV of the coal fed and is thus a derived value. Based on this derived value of specific coal consumption and gross generation, the Company arrives at the total coal consumption for the entire station.

The comparative details are given below:

| Particulars | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---|---|---|---|
| Station heat rate achieved by RTPS | 2,498 | 2,517 | 2,566 | 2,564 |
| Station heat rate as per PPA | 2,495 | 2,495 | 2,495 | 2,495 |
| Station heat rate as per KERC | 2,450 | 2,450 | 2,450 | 2,450 |

From the above, it could be seen that the station heat rate was on an increasing trend despite improvement in quality of coal received. Further, the station heat rate had not met the values set by KERC/PPA.

In this context, it is pertinent to mention that KERC in its order (July 2002) on PPA for RTPS (Units 1 to 7) had remarked that data relating to station heat rate was unreliable and had directed the Company to set up a proper procedure for computation of the same and obtain ISO certification or any other certification.

Despite a lapse of five years (July 2002 to August 2007), the Company had not deliberated or formulated any procedure for arriving at a realistic Station heat rate. As a result the efficiency of the plant could not be determined.

[45] **Formula as prescribed by CEA for working out GHR is:**
**Gross Station Heat Rate=GCV of Coal (Kcal/Kg) x Specific Coal Consumption (Kg/Kwh)**
**and Specific Coal Consumption =** $\dfrac{\textbf{Total coal consumption in a month (Kg)}}{\textbf{Gross Generation in the month (Kwh)}}$

### *Auxiliary Energy Consumption*

**2.1.27** Auxiliary Energy Consumption in relation to a period means the quantum of energy consumed by auxiliary equipments of the Unit and transformer losses within the generating station and shall be expressed as a percentage of the gross energy generated at the generator terminals of the Unit. The Company has no energy meters for measuring the quantum of energy consumed by auxiliary equipments. The Auxiliary Energy Consumption is arrived at by deducting net energy exported from the gross generation of the Station. This is then allocated to all the Units in proportion to the gross generation of the respective Units. This methodology of 'more generation more auxiliary consumption' is not scientific in as much as the two parameters hold an inverse relationship than a direct one.

The Government replied (May 2007) that as it was not practically possible to measure auxiliary consumption of each equipment and therefore, of each Unit; the Company had adopted the above method for calculation of auxiliary consumption as per CEA guidelines.

The reply is not acceptable as the KERC had suggested (September 2002) introduction of metering system to measure the net metered energy from the plant and the net power output, which has not been adhered to (August 2007).

## Internal control

**2.1.28** Internal control is a management tool used to provide reasonable assurance that management objectives are being achieved in an efficient and effective orderly manner. Following deficiencies were noticed in the internal control systems being followed by the Company:

- Internal control in respect of project appraisal, finalisation of bids, project planning, controlling outages was not commensurate with the guidelines prescribed by CEA.
- Internal control with respect to fuel management (coal linkages) was inadequate.
- Internal control in respect of claims management for sale of energy as per the PPA was weak.
- Internal control in identifying heat loss and develop a procedure for computation of station heat rate was absent.
- The statutory auditors also opined that internal control procedures need to be strengthened commensurate with the size and nature of business.

The Government replied (May 2007) that the above suggestions on the internal control would be considered for further improvements in future.

## Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and the Management of the Company at various stages of conducting the performance review.

## Conclusion

**By not considering the recommendations of the 'Committee to recommend next higher size of Coal fired Thermal Power Stations' the Company lost an opportunity for setting up a 500MW high capacity plant as Unit-7, especially when the demand for power in the State was increasing. Lack of clarity in tenders for hiving off the handling and disposal of fly ash system resulted in ambiguity in the offers received and the best offer was not accepted. The specifications/design parameters of the boiler were not in line with the guidelines of the MoEF as regards the ash content. The latest technologies available and offered by equipment suppliers/builders were not adopted. There was shortfall in generation due to higher outage hours as compared to national averages. The cost of generation in Unit-7 being on the higher side the excess cost was being apportioned to other units for recovery from KPTCL to avoid a situation of low demand for Unit-7. The consumption of coal was in excess of the specification of the equipment supplied and the additional cost incurred on washed coal did not yield the desired benefits. The reduction in heat of coal when it is moved from unloading point to belt measurement point was not analysed/ investigated. There was short billing and excess claim due to incorrect application of formula in the PPA. The data on important indices of performance such as Gross Calorific Value, Heat Loss, Specific Coal Consumption and Auxiliary Energy Consumption is unreliable and therefore, do not reflect the true position. The Company had not complied with KERC instructions for setting up proper procedures for computation of the indices as mentioned above.**

## Recommendations

- **The Company should focus on setting plants of higher capacity to avoid obsolescence and meeting increased demand.**

- **Procedures for procurement of coal, both washed and raw, acceptance and issue should be streamlined and closely monitored for improving efficiency. Because of non-proximity to coal mines, Ministry of Coal should be convinced for allowing drawal of coal from dedicated mines.**

- **The Unit should strive to perform as per equipment supplier's specification.**

- **The Company should analyse/investigate reasons for heat loss. The recommendations of KERC to set up a proper procedure for computation of parameters and obtain ISO certification need to be implemented.**

- **The Company should exercise due care in raising claims for sale of energy.**

## 2.2 KARNATAKA POWER TRANSMISSION CORPORATION LIMITED AND ELECTRICITY SUPPLY COMPANIES

## ACCELERATED POWER DEVELOPMENT REFORMS PROGRAMME (APDRP) IMPLEMENTED IN KARNATAKA BY THE KARNATAKA POWER TRANSMISSION CORPORATION LIMITED AND ELECTRICITY SUPPLY COMPANIES

### Highlights

**Two Accelerated Power Development Programme projects sanctioned during 2000-01 and 31 out of 35 APDRP projects sanctioned during 2002-03, 2004-05 and 2005-06 are yet to be completed (March 2007).**

***(Paragraphs 2.2.7 and 2.2.11)***

**Non-fulfillment of obligation by the State Government in repaying the loan taken from Rural Electrification Corporation (REC) adversely affected the implementation of APDRP schemes.**

***(Paragraph 2.2.13)***

**APDRP funds were diverted for other purposes as well as for short-term investments. No penalty was, however, levied by Ministry of Power.**

***(Paragraphs 2.2.15 and 2.2.16)***

**Physical and financial progress was inflated by including the meters procured by consumers / procured against deposits from consumers for new installations by two ESCOMs.**

***(Paragraph 2.2.19)***

**Unrealistic preparation of Detailed Project Reports resulted in award of distribution works at high tender premium. It also resulted in a loss of grants amounting to Rs.47 crore from the Ministry of Power.**

***(Paragraph 2.2.20)***

**The objective of installing tamper proof and static/high precision energy meters with measuring and data storing capabilities for the purpose of downloading data by computers was not fulfilled as ESCOMs used high precision electro mechanical meters.**

***(Paragraph 2.2.21)***

**Milestone relating to privatisation of distribution is yet to be achieved.**

***(Paragraph 2.2.30)***

**There was no significant reduction in Aggregate Technical and Commercial Losses (AT&C losses) except in some towns.**

***(Paragraph 2.2.36)***

## Introduction

**2.2.1** Power is a critical infrastructure for economic growth. Accelerated development of the power sector depends on efficiency and commercial viability of the State Electricity Boards (SEBs). The Ministry of Power (MoP) identified distribution reforms as a key area to bring about the efficiency and commercial viability of SEBs/Utilities. As a sequel to this, 'Accelerated Power Development Programme (APDP)' was launched during 2000-01, with the objectives of Renovation and Modernisation/life extension/up-rating of old power plants (thermal/hydel) and up-gradation of sub-transmission and distribution network (below 66 KV) including energy accounting and metering.

With a view to restructure the concept of APDP, from merely an investment window, to a mechanism for supporting power sector reforms in the States, (linked to the fulfillment of certain performance criteria by way of benchmarks and to incentivise the reform process), APDP was renamed (March 2003) as "Accelerated Power Development Reforms Programme" (APDRP).

APDRP is being implemented by the power sector companies with the objective of improving financial viability of State Power Utilities, reduction of Aggregate Technical and Commercial (AT & C) losses to around 15 *per cent*, improving customer satisfaction and increasing reliability and quality of power supply. The MoP, entered (May 2002) into a Memorandum of Agreement (MOA) with Karnataka Power Transmission Corporation Limited (KPTCL) for implementation of APDRP by KPTCL and Electricity Supply Companies (ESCOMs)[46]. National Thermal Power Corporation Limited was the lead advisor-cum-consultant under the overall guidance of MoP for implementation of the programme. Central Power Research Institute, Bangalore was deployed as the field advisor-cum-consultant to monitor the implementation in the State.

The Managing Director is the chief executive of KPTCL. The Managing Director, KPTCL is Chairman of all ESCOMs. Implementation of the APDRP programme in the respective companies is undertaken by the Superintending Engineers at the Circle level and by the Executive Engineer at the Division level. The Finance wing of KPTCL is headed by Director (Finance) who is assisted by Financial Advisor and Chief Accounts Officer, while in ESCOMs the Finance wing is headed by Financial Advisor who is assisted by Controller (Accounts) and Controller (Finance) at Head office and by Accounts officers at Field level.

[46] **Bangalore Electricity Supply Company Limited (BESCOM), Hubli Electricity Supply Company Limited (HESCOM), Gulbarga Electricity Supply Company Limited (GESCOM), Mangalore Electricity Supply Company Limited (MESCOM) and Chamundeswari Electricity Supply Corporation Limited (CESC).**

## Scope of Audit

**2.2.2** The performance audit conducted between June 2006 and February 2007 covers the implementation of APDP/APDRP by KPTCL and five ESCOMs in Karnataka during 2000-01 to 2006-07 as part of power sector reforms and their achievements with reference to the objectives set. Audit selected fourteen[47] APDRP projects (sanctioned cost of Rs.1,015.49 crore) out of 35 projects (sanctioned cost Rs.1,186.32 crore) for review. The documents/information maintained in respect of these 14 projects relating to their formulation and planning, funding, implementation, monitoring and evaluation of actuals *vis-à-vis* targets were test checked.

## Audit objectives

**2.2.3** The performance review of implementation of APDP/APDRP projects by the power sector companies in the State was conducted with a view to ascertain whether:

- the Detailed Project Reports (DPRs) were prepared realistically, to achieve the programme objectives;
- funding requirements were realistically assessed and funds were sanctioned and released by the Government of India and State Government in time;
- released funds were utilised efficiently, economically and effectively for achievement of the objectives of the programme;
- AT&C losses were reduced in accordance with the action plan and targets;
- programme had provided for an effective and working monitoring mechanism at all levels;
- satisfaction level of consumers had improved in terms of quality, regularity and cost of power supplied; and,
- commitments agreed to in terms of MOAs between (i) MoP and State Government and (ii) MoP and KPTCL were complied with.

## Audit criteria

**2.2.4** The Audit criteria adopted for assessing the achievement of Audit objectives were:

- MoP guidelines on APDP/APDRP;
- milestones agreed to in the MOAs;

[47] **Bangalore City, Tumkur, Davangere, Robertsonpet (KGF), Bangarpet, Ramanagara, Mangalore, Gulburga, Bidar, Raichur, Hassan, Hubli Circle, Belgaum Circle and Mysore Circle.**

- targets set for reduction of AT&C losses;
- monitoring mechanism envisaged in the guidelines and the MOA between MoP and KPTCL; and,
- targets for Distribution Transformer (DT) failure rates and other parameters.

## Audit methodology

**2.2.5** The following mix of Audit methodology was adopted for achieving the audit objectives with reference to audit criteria of the performance review:

- examination of DPRs of schemes;
- review of Reports on compliance to conditions of MOA and guidelines issued by MoP;
- review of details of funds received and utilised;
- review of tenders, bids, award of works and their execution;
- review of monthly progress reports on physical and financial performance;
- scrutiny of monthly reports on 'Benchmark parameters' of MoP; and,
- issue of Audit enquiries and interaction with Management of KPTCL/ESCOMs.

## Audit findings

**2.2.6** Audit findings arising from the performance review were reported (April 2007) to the Government/Management and were discussed in the meeting (21 May 2007) of Audit Review Committee on Public Sector Enterprises (ARCPSE). The meeting was attended by the Principal Secretary to the Government of Karnataka, Energy Department, Managing Directors of the companies and a Technical consultant from the Central Power Research Institute. The views expressed by the representatives of the Government/ Management and replies furnished (May 2007) by them have been taken into consideration while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

## APDP/APDRP projects

**2.2.7** MoP approved (2000-01) 11 APDP projects with an outlay of Rs.162.98 crore. These eleven projects involved eight projects on transmission, metering and distribution transformers by KPTCL (Rs.114.50 crore), two projects for renovation and modernisation by Karnataka Power Corporation Limited (KPCL) (Rs.44.84 crore) and one project on renovation and modernisation by Visveswaraya Vidyuth Nigam Limited (VVNL) (Rs.3.64 crore). The MoP released (February 2001) Rs.40.75 crore as grant and Rs.40.75 crore as loan. Out of 42 schemes forming part of 11 projects, 39 were completed, two were under progress and one had been dropped as of January 2007 (**Annexure-10**). The project relating to establishment of 2 x 5 MVA 33/11 KV sub-station at Uttur for Rs.1.73 crore under transmission scheme was not taken up as higher capacity sub-station had already been established nearby. But, the grant of Rs.43 lakh received from MoP for this project was not refunded.

**2.2.8** APDRP focuses on up-gradation of Sub-transmission and Distribution in densely electrified zones in the urban and industrialised areas and improvement in commercial viability of the State Electricity Boards. Its components include investment for strengthening and up-gradation of the sub-transmission and distribution system and incentive to encourage/motivate utilities to reduce losses.

## Funding pattern

### *Investment component*

**2.2.9** MoP was to provide funds up to 50 *per cent* of the scheme cost through a combination of 25 *per cent* grant and 25 *per cent* loan. The balance 50 *per cent* of the scheme cost was required to be arranged by borrowings from Power Finance Corporation (PFC) / Rural Electrification Corporation (REC)/ other financial institutions/own sources as counterpart fund.

### *Incentive component*

**2.2.10** MoP would provide grants to the State Governments up to 50 *per cent* of the actual loss reduction by SEBs/Utilities. The year 2000-01 was to be the base year for the calculation of loss reduction in subsequent years. The amount under incentive component was to be utilised for improvement of power sector only.

KPTCL preferred (August 2005) a claim for incentive amounting to Rs.256.81 crore for 2002-03 and Rs.362.51 crore for 2003-04. MoP, after scrutiny of the incentive claims of all the entities in Karnataka on a consolidated basis as per the guidelines, intimated (April 2006) that the net losses of the Karnataka State for 2002-03 and 2003-04 had not reduced over the base year 2000-01 and as such the State was not eligible for incentive.

The matter was not pursued further by KPTCL. This indicated that the entities had not achieved the parameters. No action was taken to work out the actual loss reduction for the year 2004-05 and 2005-06 to determine the eligibility for incentive amount.

## *Project cost and Finance*

**2.2.11** Thirty-five projects aggregating Rs.1,186.32 crore were sanctioned (2002-03, 2004-05 and 2005-06) for Karnataka. The details of project cost, funds received and utilised as on 31 January 2007 are as detailed below:

| Year of sanction | Name of the executing agency | No. of projects | Sanctioned cost | Funds (MoP grant and loan and REC loan) received as on 31.01.2007 | Funds utilised as on 31.01.2007 |
|---|---|---|---|---|---|
| | | | (Rs. in crore) | | |
| 2002-03 | BESCOM | 4 | 372.22 | 335.44 | 346.21 |
| | MESCOM | 2 | 26.19 | 31.96 | 16.23 |
| | CESC | 2 | 164.44 | 147.66 | 104.91 |
| | HESCOM | 3 | 505.16 | 439.67 | 384.55 |
| | GESCOM | 2 | 72.22 | 55.67 | 52.16 |
| | KPTCL* | - | - | 31.89 | 21.40 |
| **Sub-total** | | **13** | **1,140.23** | **1,042.29** | **925.46** |
| 2004-05 | BESCOM | 10 | 24.55 | 5.37 | 16.08 |
| | MESCOM | 4 | 5.44 | - | - |
| | CESC | 1 | 0.29 | - | - |
| | GESCOM | 1 | 1.32 | - | - |
| **Sub-total** | | **16** | **31.60** | **5.37** | **16.08** |
| 2005-06 | GESCOM | 6 | 14.49 | - | - |
| **Sub-total** | | **6** | **14.49** | **-** | **-** |
| **Grand total** | | **35** | **1,186.32** | **1,047.66** | **941.54** |

*** 66 KV and above sub-station works executed by KPTCL.**

The financial progress achieved was 79 *per cent* of the sanctioned cost and 31 out of 35 projects were under execution (January 2007).

**2.2.12** The general terms and conditions issued by the MoP for utilisation of funds, *inter alia*, include that:

- the State Government shall release the funds provided under APDRP to the State power utility within a week of the said amount being credited in the State Government account by MoP;
- the State Government shall release the funds to the State utility under the same terms and conditions as they receive it from the MoP;
- the funds received under APDRP shall not be diverted for other purposes either by the State Government or utilities;
- the utilities shall open a separate bank account in the first instance itself in a scheduled/nationalised bank for the purpose of implementing the Schemes under APDRP. Funds from the Government/internal resources or loans from REC earmarked for the purpose shall be credited to this account;
- funds were to be released by MoP as per the procedure stipulated in the MOA.

Audit scrutiny revealed the following:

***Non-fulfillment of obligation to repay REC loans by the State Government resulted in REC adjusting the same from APDRP loan releases***

**Non-fulfillment of obligation by the State Government in repaying the loan taken from Rural Electrification Corporation adversely affected the implementation of APDRP schemes.**

**2.2.13** Following the unbundling of KPTCL and formation of five Electricity supply companies (ESCOMs), the State Government decided (May 2002) to take over and repay the long-term debt of KPTCL up to Rs.1,050 crore including Rs.271.34 crore from REC. Although State Government was to repay the loans taken over, KPTCL continued to make repayment to REC till August 2004. Thereafter, due to deteriorating financial conditions, KPTCL was unable to repay the loan installments on behalf of State Government.

In view of the above, REC adjusted Rs.39.50 crore (2004-05) and Rs.47.36 crore (2005-06) out of APDRP loan releases to KPTCL. As against Rs.86.86 crore adjusted by REC, State Government released an amount of Rs.45.34 crore (against 2005-06 REC adjustments) leaving a balance of Rs.41.52 crore as of March 2007. The impact of REC adjustments on the APDRP works could not be quantified in audit. The interest burden on the adjusted loans (Rs.7.40 crore till March 2007) was being borne by KPTCL.

The Government stated (May 2007) that the Energy department had taken up the issue with the Finance department of the State Government.

The fact remained that the State Government failed to honour its commitments, thereby depriving the Company of APDRP funds.

***Delay in release of funds by State Government***

**2.2.14** As per APDRP guidelines, amounts released by MoP is to be released by State Government within a week to KPTCL/ESCOMs; otherwise, it would be treated as diversion of funds. It was also provided that in the event of diversions, the equivalent amount would be adjusted with 10 *per cent* penal interest against the next installment of Central Plan assistance. On a review of funds released by MoP to State Government and then by State Government to KPTCL, it was observed that the State Government made piece meal releases to KPTCL and that too with delays ranging from 21 days to 258 days, as indicated in the table.

**(Rs.in crore)**

| Date on which amount was released | Amount released by MoP | Due date for release by State Government | Amount released by State Government | Date of release | Delay (in days) |
|---|---|---|---|---|---|
| 04.04.2002 | 29.77 | 11.04.2002 | 29.77 | 27.05.2002 | 46 |
| 28.01.2003 | 57.69 | 04.02.2003 | 28.84 | 25.02.2003 | 21 |
| | | | 28.85 | 28.03.2003 | 52 |
| 04.04.2003 | 57.69 | 11.04.2003 | 57.69 | 05.06.2003 | 55 |
| 31.03.2004 | 290.30 | 07.04.2004 | 100.80 | 21.06.2004 | 75 |
| | | | 94.25 | 30.09.2004 | 176 |
| | | | 95.25 | 21.12.2004 | 258 |
| **Total** | **435.45** | | **435.45** | | |

The delays in releasing the funds by State Government had amounted to diversion of funds. No penalty has, however, been adjusted by the MoP so far (July 2007).

The Government while agreeing (May 2007) to the facts, stated that the APDRP works were not hampered for want of funds. The fact remained that 31 out of 35 projects were yet to be completed (July 2007).

### *Diversion of funds for other purposes*

**2.2.15** As per MOA, a separate bank account was opened by KPTCL, for APDRP projects. Audit, however, noticed (November 2006) that funds from this account were also utilised for making payments to parties/contractors not connected with the implementation of APDRP by issuing cheques and by transferring amounts to different bank accounts. A test check of transactions (January 2003 to June 2005) revealed that Rs.38.42 crore was paid to parties/contractors not connected with the implementation of APDRP and Rs.55.58 crore was transferred to various other bank accounts, in violation of the provisions of the MOA. These amounts were made good subsequently. Though these constituted diversion of funds, no penalty was levied by MoP.

The Government stated (May 2007) that by utilising the idle funds from the dedicated account, KPTCL saved interest by avoiding borrowings. The fact is that utilisation of funds for other than APDRP works is in violation of APDRP guidelines.

### *Short term investments*

**2.2.16** KPTCL invested APDRP funds in short term deposits and earned interest (January 2003 to June 2005), of Rs.1.59 crore. The interest so earned was not treated as APDRP funds. It was also noticed that the APDRP guidelines or in the MOA entered into between MoP and KPTCL no where state that KPTCL can invest and earn interest.

The Government stated (May 2007) that instead of having idle funds in dedicated current account, short term deposits were made and interest earned. The fact remained that this constituted diversion of funds and the interest earned was not credited to APDRP account. Further, MoP funds were not for earning interest.

## Implementation of the programme

**2.2.17** Implementation of 35 projects was to be done as per DPRs which specify details of targets with respect to each item of work and overall objectives to be achieved. DPRs, prepared by KPTCL/ESCOMs, were approved by the MoP.

Following deficiencies were noticed in execution of these projects.

**2.2.18** The physical progress achieved as of January 2007, in respect of projects sanctioned during 2002-03 are given in **Annexure-11.** As against the completion schedule of six months for priority works and eighteen months for overall completion of the projects, none of the 13 projects[48] sanctioned during 2002-03 was completed even after four years. In respect of 22 projects[49] sanctioned during 2004-05 and 2005-06, work was complete in respect of four projects of BESCOM and the rest are under progress as at January 2007. The Government attributed (May 2007) the delay in completion to delay in obtaining statutory clearances, objections from private land owners and legal proceedings resorted to by these private land owners.

### *Incorrect reporting and claims by ESCOMs*

**2.2.19** The DPR for Bangalore City approved (October 2002) at a total cost of Rs.338.30 crore included Rs.151.75 crore under consumer metering for replacement of 11,70,401 Electromechanical Meters by Electronic/High precision Electro Mechanical (HPEM) Meters. As against this, BESCOM reported (March 2006) a physical progress of 8,23,292 meters with a financial progress of Rs.102.80 crore. A review of the details of expenditure disclosed that BESCOM had included 5,47,234 single phase and 25,377 three phase HPEM meters, valued at Rs.56.83 crore, pertaining to new installations serviced with meters purchased by the customers. Thus, the financial progress was inflated to the same extent and inflated claims preferred to MoP for grant and loan and for counterpart funding from REC.

In the case of Hubli Circle (HESCOM), the DPR, approved (October 2002) at a cost of Rs.239.74 crore included Rs.32.06 crore under consumer metering towards replacement of 2,87,354 Electromechanical Meters by Electronic/ HPEM Meters. HESCOM serviced (October 2002 to November 2005), 86,576 new installations with electronic/high precision meters. The Company, however, considered it as progress under APDRP with a financial progress of Rs.11.23 crore and claimed for release of funds.

As meters required for new installations was not in the scope of APDRP and also meters were either provided against deposit or procured by customers themselves, the financial progress claimed was inflated and incorrect.

In the ARCPSE meeting (May 2007) the Management accepted the audit contention and agreed to withdraw the physical and financial progress relating to new installations. Accordingly, BESCOM intimated (June 2007) that they would be withdrawing financial progress of Rs.116.59 crore. The ESCOMs

[48] **Mysore, Belgaum, Bijapur, Hubli, Gulbarga, Bidar, Hassan, Managalore, Robertsonpet, Raichur, Bangalore, Tumkur and Davangere.**

[49] **Anekal, Chandapura, Chitradurga, Chickballapur, Doddabalapur, Ramnagara, Bangarpet, Harihar, Chanpatna, Chintamani, Shahbad, Shimoga, Bhadravathi, Sagar, Chickmanglur, Holenarasimpura, Hospet, Basavakalyana, Bellary, Koppal, Yadgir and Gangavathi.**

will not only have to withdraw the financial progress but will have to refund the already received grants and loans from MoP and counterpart funding from REC. In the absence of details in respect of other ESCOMs, the extent to which claims were inflated could not be ascertained.

### *Loss due to preparation of unrealistic project reports*

**2.2.20** MoP sanctioned the APDRP schemes based on the DPRs submitted by KPTCL / ESCOMs. These projects included works relating to Distribution, Sub-stations, Consumer metering and Information Technology. The projects sanctioned (2002-03) for Rs.1,140.23 crore included Rs.820.90 crore towards distribution works. Audit observed that out of the said distribution works, works estimated at Rs.634.55 crore were awarded at Rs.870.60 crore, as detailed below:

| ESCOM | DPR cost for distribution | Amount put to tender | Awarded cost | Percentage of tender premium |
|---|---|---|---|---|
| | Rs. in crore | | | |
| BESCOM | 203.06 | 224.27 | 292.74 | 30.53 |
| MESCOM | 24.60 | 22.35 | 33.03 | 47.79 |
| CESC | 33.33 | 32.00 | 36.86 | 15.19 |
| HESCOM | 376.09 | 314.23 | 451.25 | 43.61 |
| GESCOM | 45.53 | 41.70 | 56.72 | 36.02 |
| **Total** | **682.61** | **634.55** | **870.60** | **37.20** |

**Unrealistic preparation of Detailed Project Reports resulted in award of distribution works at high tender premium. It also resulted in a loss of grants amounting to Rs.47 crore from the Ministry of Power.**

While the aggregate premium worked out to 37.20 *per cent* over the tender cost, the contract-wise premium varied from 14.36 *per cent* to 55.69 *per cent*, as per details in **Annexure-12.** While the variations between DPR cost and amount put to tender were due to revision of quantities upwards/downwards taking into account the field requirements before floating the tender. The variations between tender cost and award cost were due to the following:

- The DPRs were prepared based on Schedule of Rates (SR) for the year 2001-02, but works were tendered/awarded much later.

- Non-provision towards works contract tax, service tax, employees cost, interest during construction, contingencies, transportation, watch and ward, insurance against theft and accident, performance guarantee, loss of interest on margin money *etc*., in the estimates as the works were awarded on turnkey basis, which was not the general practice of the ESCOMs earlier.

Failure to factor the above cost elements in the DPRs resulted in ESCOMs bearing the excess over DPR cost. Consequently, it also resulted in foregoing Rs.47 crore (being 25 *per cent* of the difference between DPR cost for distribution and award cost), by way of APDRP grants from MoP.

In the ARCPSE meeting (May 2007) the Management accepted the facts and stated that in respect of projects sanctioned during 2002-03, the premium obtained reflected market realities as there was time gap between preparation of estimates and award of contracts, which contributed to the increase in cost.

***Use of High Precision Electro Mechanical meters instead of tamper proof, Static / High Precision meters.***

**The objective of installing tamper proof and static/high precision energy meters with measuring and data storing capabilities for the purpose of downloading data by computers was not fulfilled as ESCOMs used high precision electro mechanical meters.**

**2.2.21** As per MOA (May 2002) between MoP and KPTCL, it was mandatory to install tamper proof, static/high precision, energy meters for all customers within seven months of the signing of the MOA. Considering the APDRP requirements of 100 *per cent* feeder metering, energy audit, consumer indexing, computerised billing, Demand Side Management[50] *etc.*, energy meters required measuring and storage of various data, which could be downloaded by computers. Accordingly, the MoP intimated (July 2003) KPTCL that only static/electronic meters shall be procured from the funds under the APDRP/PFC/ REC.

It was, however, noticed that in the projects sanctioned during 2002-03, the type of meters to be used was not specified clearly. While some projects envisaged the replacement of electro mechanical meters by electronic meters, some projects specified the use of either 'electronic/high precision electro mechanical meters' or 'electronic/high precision meters'.

The number of electronic meters used by BESCOM and HESCOM against the total number of meters used was as under:

| Name of the ESCOM | Total meters used | | Electronic meters used | | Percentage of electronic meters to total meters used |
|---|---|---|---|---|---|
| | Quantity | value | Quantity | value | |
| | (value: Rs. in crore) | | | | |
| BESCOM | 9,70,067 | 123.86 | 36,834 | 20.90 | 3.30 |
| HESCOM | 4,96,817 | 56.88 | 1,794 | 1.35 | 0.36 |

Thus, due to non incorporation of MOA condition regarding use of electronic meters clearly in the DPRs and approving the projects with different options, less number of electronic meters were used under priority works, defeating the mandate of installing tamper proof, static/high precision energy meters with measuring and data storing capabilities for the purpose of downloading the data by computers later on and preventing commercial loss of power.

In the ARCPSE meeting (May 2007) the Management stated that there was no mandatory requirement. As the experience with electronic meters was unsatisfactory, it was decided to procure limited quantity of electronic meters. Further, the Management stated that the proposal of procuring meters, which had the capability of transmitting data to a computer was futuristic and not viable at present for the Domestic/Bhagya Jyothi - Kutir Jyothi/Irrigation Pumpset category.

The reply is not acceptable as the use of Static/High precision meters was agreed to in the MOA. The non-installation of these meters was self defeating as the objectives of energy audit, downloading data from such meters for usage in computerisation programme, already provided for in the APDRP would not be achieved.

**[50] a process by which the peak load (demand) is assessed, to facilitate procurement action for additional quantity or to resort to load shedding/power cuts *etc.***

***Large scale failure of transformers***

**2.2.22** Distribution work relating to Karwar O&M Division (under Hubli Circle) was awarded (October 2003) to ABB Limited, on turnkey basis at a cost of Rs.37.91 crore (Rs.31.95 crore towards supplies and Rs.5.96 crore towards erection).

The above work, *inter-alia*, included the supply and erection of 552 distribution transformers. Based on the field requirements, the firm supplied and commissioned 592 transformers. Out of 592 transformers commissioned, 297 transformers failed within the guarantee period. The supplier had replaced only 163 transformers leaving 132 transformers to be replaced (December 2006).

It was further noticed that the Division released (December 2005) Rs.1.34 crore being the retention money at 3.25 *per cent* of the value of the contract, against two bank guarantees valid up to 5 October 2006. These bank guarantees were not got renewed further. In addition, two more bank guarantees for a sum of Rs.4.17 crore provided by the supplier towards performance guarantees, which had expired (January 2007) were not renewed. Though the Division requested (August 2006) the Corporate office of HESCOM to recover the costs by invoking the guarantees, no action was taken (January 2007).

Thus, due to non-replacement of failed transformers the anticipated benefits of distribution improvement works were not derived.

In the ARCPSE meeting the Management of HESCOM stated (May 2007) that the failure is due to inability of withstanding the rigors of overloading/ handling of high voltage winding and that if the failed transformers are not replaced, the cost would be recovered from the pending bills of the supplier. Report on replacement/recovery is awaited (August 2007).

***Delay in commissioning of Under Ground cables***

**2.2.23** The project approved (October 2002) for Hubli Circle at a cost of Rs.239.74 crore included 'conversion of 11 KV overhead lines to underground cable' in respect of 12 feeders in Hubli city, at a cost of Rs.35.73 crore. The work was awarded (August 2003) to ABB Limited for Rs.37.25 crore on turnkey basis, for completion within nine months (May 2004).

The project was ultimately completed (December 2006) after a delay of two and half years. The delay was mainly on account of delay in getting the approval from Power Telecommunication Coordination Committee (PTCC). Thus, due to delay in completion of these works, the anticipated benefits of the distribution improvement work could not be achieved in time.

***Incomplete works***

**2.2.24** The DPR for Mysore Circle included Rs.39.06 crore towards Distribution Improvement works in Chamarajanagar Division. This work was awarded (October 2001) to KAVIKA, Bangalore (contractor) for completion in six months at a cost of Rs.39.06 crore.

As of May 2003, work was completed in full in respect of 38 feeders and in respect of balance 18 feeders work was partially completed. Since the contractor did not take up the balance work, the purchase order was cancelled (October 2004). As against the order value of Rs.39.09 crore, amount paid was Rs.30.44 crore, leaving a balance of Rs.8.62 crore. A proposal for completing the balance work departmentally at a cost of Rs.1.33 crore was approved (November 2004). Audit noticed (January 2006) that though the proposal to complete the work departmentally was approved (November 2004), no action was taken (May 2007). Neither the balance work was completed, nor the grant amounting to Rs.1.62 crore (75 *per cent* of 25 *per cent* grant received) was refunded.

The Government stated (May 2007) that need based works were carried out departmentally.

### *Projects/Works dropped*

**2.2.25** The following APDRP works of KPTCL and HESCOM relating to Hubli Town under Hubli Circle project were not taken up:

- Establishing 110/11 KV sub-station and 110 KV line to Gabbur at a cost of Rs.4.74 crore. This was considered not required in view of a proposal to establish 220 KV receiving sub-station at Bidnal which is about two kms from Gabbur (KPTCL);

- Establishing 33/11 KV sub-station at Mahadeva Textiles at a cost of Rs.5.10 crore due to non availability of land (HESCOM);

- Providing additional 5 MVA Transformer at PH compound at a cost of Rs.50 lakh, in view of upgrading 33KV sub station to 110/11 KV sub station (HESCOM).

MoP had released the grant amounting to Rs.1.94 crore and loan amounting to Rs.1.94 crore (February/March 2003 and June 2004) to KPTCL/HESCOM in respect of these works. The grant amount of Rs.1.94 crore is yet to be refunded to MoP (March 2007).

The Government stated (May 2007) that MoP is yet to release Rs.47.55 crore towards grant portion of the APDRP works and may adjust the grants relating to works not taken up. No adjustment was reported to date (August 2007).

### *Un-metered installations*

**2.2.26** One of the performance conditions agreed (May 2002) with MoP was to install tamper proof, static/high precision, energy meters for all customers within seven months of the signing of the MOA except for agricultural consumers for whom the works were to be completed within two years. It was also agreed that, henceforth, no new connections would be released without meters.

It was observed in audit that, even after four years, large number of installations remained un-metered (March 2006). The status of metering of un-metered installations is summarised below:

| ESCOM | Category of consumers | No. of installations existing as on 31.03.2005 | No. of installations for which meters are fixed as on 31.03.2005 | No. of installations for which meters were to be fixed as on 31.03.2005 | No. of installations for which meters were fixed during 2005-06 | Balance as on 31.3.2006 |
|---|---|---|---|---|---|---|
| BESCOM | IP sets | 4,89,630 | 21,746 | 4,67,884 | 18,661 | 4,49,223 |
| | BJ/KJ installations | 3,67,841 | 2,27,436 | 1,40,405 | 1,15,897 | 24,508 |
| | Street lights | 18,389 | 13,342 | 5,047 | 2,970 | 2,077 |
| MESCOM | IP sets | 3,20,310 | 1,74,483 | 1,45,827 | 14,737 | 1,31,090 |
| | BJ/KJ installations | 2,23,018 | 1,12,176 | 1,10,842 | 8,206 | 1,02,636 |
| | Street lights | 19,672 | 11,021 | 8,651 | 1,736 | 6,915 |
| HESCOM | IP sets | 3,90,305 | 1,29,404 | 2,60,901 | 10,608 | 2,50,293 |
| | BJ/KJ installations | 2,79,588 | 2,43,283 | 36,305 | 5,418 | 30,887 |
| | Street lights | 9,767 | 9,767 | - | - | - |
| GESCOM | IP sets | 2,05,634 | 10,707 | 1,94,927 | NA | NA |
| | BJ/KJ installations | 4,07,474 | 2,04,534 | 2,02,940 | NA | NA |
| | Street lights | 7,337 | 7,337 | - | NA | NA |
| CESC | IP sets | | | 1,84,754 | 54,886 | 1,29,868 |
| | BJ/KJ installations | | | 1,54,291 | 84,546 | 69,745 |
| | Street lights | | | 12,872 | 7,212 | 5,660 |

**IP = Irrigation pumps ; BJ/KJ = Bhagya Jyothi/Kutir Jyothi**

Non-metering of installations as indicated above had a direct bearing on AT&C losses and revenue realisation as the above installations were billed on assessment basis.

In the ARCPSE meeting the Government admitted (May 2007) that the progress under IP, BJ/KJ installations was poor because there was opposition from farmers and beneficiaries.

## Monitoring

### *Formation and functioning of DRC*

**2.2.27** As per MOA signed (May 2002) between MoP and KPTCL, a State Level Distribution Reforms Committee (DRC) was to be constituted within one month of signing the MOA. The Committee was to comprise the State Government representative, Head of the Utility, a representative from National Thermal Power Corporation and a representative from MoP. The Committee so constituted was to meet once in two months, to review the progress of implementation of APDRP projects, compliance to MOA conditions and performance against APDRP targets/benchmarks.

The DRC was, however, constituted (May 2003) by KPTCL after a delay of 11 months. It was also noticed that, as against 23 bimonthly meetings required to be held (May 2003 to March 2007), only eight meetings were held.

The delays in constituting the DRC and not holding the meetings as envisaged indicate that implementation of APDRP projects was not monitored as required. This has also contributed to delays in completion of the projects and non-accrual of anticipated benefits to the State/Utilities.

The Government stated (May 2007) that due to administrative and technical reasons the DRC meetings could not be held once in two months as required and that progress of APDRP works was reviewed in the internal review meetings of KPTCL/ESCOMs. The fact remained that even review meetings were not held as required.

## Implementation of MOA commitments

A review of commitments made as per MOA entered into with the State Government *vis-à-vis* actual achievement revealed as under:

### Unbundling and privatisation

**2.2.28** To provide quality power on demand to all consumers, State Government committed (February 2000) to undertake unbundling of transmission and distribution functions, formation of distribution companies and privatisation of distribution of electricity in a time bound manner. The status of implementation of the milestones are as under:

| Milestone | Target date | Actual date |
|---|---|---|
| Privatisation of Distribution Company/ Companies. | December 2001 | Not yet done |
| Separation of distribution function, incorporation of Distribution Companies and notifying the effective date of transfer. | 31 December 2000 | 31 May 2002 |
| Separation and transfer of assets and liabilities of KPTCL and VVNL. | 30 April 2000 | 1 April 2000 |

### Unbundling

**2.2.29** The distribution function was unbundled (February 2002) from KPTCL and four distribution companies were set up to take over the distribution function in the State in line with the commitment. These were BESCOM, HESCOM, GESCOM, MESCOM, One more distribution Company – CESC was setup (December 2004), by carving out certain circles/divisions from MESCOM.

There was, however, a delay of seventeen months in achieving the target set for unbundling the distribution function.

### Privatisation

**2.2.30** The Financial and Distribution Privatisation (FDP) Consultants of the Government had proposed a 'Distribution Margin[51]' (DM) approach for privatisation of the distribution sector. The State Government vide its order (December 2002) accorded in-principle approval for the 'Summarised Final

[51] **the distributor is entitled to a fixed margin on the quantity distributed.**

Strategy Paper for inviting private sector participation in distribution of electricity' and to undertake further steps to invite private sector participation in the newly formed distribution companies.

Further, the FDP consultants had proposed certain legislative amendments to the KER Act for implementation of the privatisation strategy under the proposed 'Distribution Margin' approach. In the meeting of the Steering Committee of the Government (February 2004), the FDP Consultants were requested to come out with an 'Options paper' regarding alternative privatisation models. In the Steering Committee meeting (July 2004), the FDP Consultants presented an 'Options paper' and legislative amendments proposed in the KER Act. The Consultants discussed three options *viz.*, (i) privatising ESCOMs as they were, in accordance with privatisation strategy; (ii) privatising concentrated zones/cities and (iii) maintaining status *quo*. The Government decision in the matter is awaited (July 2007).

**APDRP and Power Reforms**

**2.2.31** The MoP entered (May 2002) into a MOA with KPTCL to implement APDRP and Power reforms. In terms of the MOA, KPTCL agreed, *inter-alia,* to the following reform measures:

- Metering of 11 KV feeders, energy accounting and audit at 11 KV feeder level;
- 11 KV feeders to be operated as business units;
- Each Distribution Circle to be an independent profit centre, with the Superintending Engineer as the Chief Executive Officer (CEO);
- Penal provisions for theft, including special laws as well as special courts.

**Feeder metering and Energy audit**

**2.2.32** Metering of all the 11KV feeders was envisaged in APDRP. In line with this commitment, all the 11KV feeders (5,174 numbers) have been metered.

Mandatory energy audit and commercial accounting for each 11 KV feeder on actual meter reading basis, as detailed below, was agreed (May 2002) to be undertaken:

- From point of import upto 11KV outgoing feeder – sub-station wise accounting of input and output on monthly basis, with immediate effect.
- Individual feeder wise accounting and audit to cover all consumers on the feeder once in two months commencing within three months of date of installation of feeder meters.

Though feeder wise energy audit was being carried out in all the ESCOMs, Commercial accounting was not being done in any of the ESCOMs.

### Anti-theft legislation

**2.2.33** Anti-theft legislation was brought into force in Karnataka during 2002. Under this legislation, various stringent provisions have been made including a minimum term of imprisonment for theft of electricity. Special courts have been set up (April 2002) throughout the State to deal with the theft cases.

The details of cases detected by the vigilance squads and the revenue collected during the last five years were as under:

**(Rs. in lakh)**

| Year | BESCOM | | MESCOM | | CESC | | HESCOM | | GESCOM | |
|---|---|---|---|---|---|---|---|---|---|---|
| | No. of cases detected | Amount realised (Rs.) | No. of cases detected | Amount realised (Rs.) | No. of cases detected | Amount realised (Rs.) | No. of cases detected | Amount realised (Rs.) | No. of cases detected | Amount realised (Rs.) |
| 2002-03 | 504 | 34.90 | 349 | 40.37 | 742 | - | - | - | 2400 | 50 |
| 2003-04 | 5,611 | 121.99 | 340 | 35.55 | 536 | - | - | - | 1554 | 79 |
| 2004-05 | 9,908 | 124.72 | 395 | 39.93 | 552 | - | - | - | 1961 | 63 |
| 2005-06 | 11,403 | 191.64 | 621 | 49.44 | 549 | - | - | - | 2318 | 51 |
| 2006-07 | 10,457 | 340.42 | 515 | 57.12 | 1088 | 134.92 | 353 | 38.95 | 2,309 | 210.34 |
| **Total** | **37,833** | **813.67** | **2,220** | **222.41** | **3,467** | **714.21*** | **9,972*** | **1,350.17*** | **10,542** | **453.34** |

*** represents the total amount realised from 2000-2007; the year-wise break up (except 2006-07) is not available**

As may be seen from the above data, the number of cases detected and the amount realised varied from one ESCOM to the other but was generally showing an increasing trend.

### *Performance of benchmark parameters*

**2.2.34** The project reports approved by MoP set out certain benchmarks/parameters to be achieved by ESCOMs. Performance of ESCOMs against each of the benchmark/parameters as at the end of 31 March 2007 are discussed hereinafter:

## Aggregate Technical and Commercial Losses (AT&C losses)

**2.2.35** AT&C losses[52] is considered a clear measure of the overall efficiency of power distribution since it measures technical and commercial losses.

One of the objective of APDRP was to reduce the AT&C losses to around 15 *per cent.* The status of AT&C losses, ESCOM wise, for the last five years are as under:

**(percentage)**

| Utility | 2002-03 (from 1.6.2002) | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---|---|---|---|---|
| BESCOM | 25.06 | 36.35 | 31.77 | 33.33 | 26.85 |
| HESCOM | 39.54 | 45.15 | 41.90 | 47.28 | 37.16 |
| GESCOM | 33.91 | 53.16 | 49.27 | 50.58 | 48.66 |
| MESCOM | 27.34 | 31.64 | 26.74 | 22.13 | 15.37 |
| CESC[53] | - | - | - | 45.03 | 34.43 |

[52] **AT&C loss is calculated as { (Energy input – Energy realised)/Energy input}x 100**
**Where, Energy realised = Energy billed x Collection efficiency,**
**and Collection efficiency = (Amount realised / Amount billed) x 100.**

[53] **CESC was formed in December 2004.**

It can be seen from the above that AT&C losses increased with reference to the base year (2002-03) in all the utilities except in respect of MESCOM where it reduced to 15.37 *per cent* and in respect of HESCOM where it decreased marginally to 37.16 *per cent.*

**2.2.36** The AT& C losses of selected towns, where APDRP projects were being implemented, for the last five years, are indicated below:

**(percentage)**

| Name of the town | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---|---|---|---|---|
| Bangalore City | 16.84 | 14.15 | 12.19 | 11.74 | 9.99 |
| Tumkur | 18.83 | 14.13 | 10.23 | 17.90 | 11.22 |
| Davangere | 20.41 | 25.69 | 17.19 | 25.71 | 20.55 |
| Robertsonpet (KGF) | 42.83 | 39.20 | 29.80 | 33.09 | 10.77 |
| Bangarpet | 32.11 | 30.30 | 24.16 | 36.19 | 16.13 |
| Ramanagara | 23.46 | 31.04 | 24.71 | 31.62 | 21.81 |
| Mangalore | 17.01 | 13.11 | 11.40 | 13.10 | 5.62 |
| Gulburga | 35.35 | 34.55 | 33.57 | 35.21 | 26.28 |
| Bidar | 27.99 | 43.26 | 40.49 | 58.85 | 25.18 |
| Raichur | 48.46 | 44.79 | 39.88 | 35.28 | 24.12 |
| Hassan | 23.41 | 20.50 | 17.03 | 19.01 | 12.10 |
| Hubli Circle | 26.23 | 30.33 | 35.67 | 41.25 | 27.26 |
| Belgaum Circle | 28.50 | 24.25 | 41.28 | 45.03 | 35.57 |
| Mysore Circle | 34.20 | 37.39 | 20.55 | 11.87 | 10.87 |

**There was no significant reduction in Aggregate Technical and Commercial Losses (AT&C losses) except in some towns.**

As may be seen from the above, only in respect of six towns[54], AT&C losses were less than 15 *per cent*. It was between 15 to 20 *per cent* in one town[55]. The rest were above 25 *per cent* despite implementing APDRP with huge investments.

The Government stated (May 2007) that AT&C loss is dependent on revenue collection. It further stated that while the revenue collection in respect of IP sets was very poor, the revenue collection in respect of water supply, street light of Local Bodies and Government installations was irregular.

The fact is that KPTCL was unbundled into ESCOMs to reduce AT&C losses. The ESCOMs showed marginal improvement only. In respect of Government departments only Government can ensure total revenue collection.

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[54] **Bangalore City, Tumkur, Robertsonpet (KGF), Mangalore, Hassan and Mysore Circle.**

[55] **Bangarpet.**

### Metering, Billing and Collection efficiency

**2.2.37** The performance during 2005-06 *vis-à-vis* targets as per DPRs in respect of Metering, Billing and Collection efficiencies in the projects selected for review in Audit was as under:

**(percentage)**

| Name of the town | Metering efficiency | | Billing efficiency | | Collection efficiency | |
|---|---|---|---|---|---|---|
| | Target | Actual | Target | Actual | Target | Actual |
| Bangalore City | 90.04 | 86.96 | 90.04 | 89.43 | 100.00 | 98.28 |
| Tumkur | 91.29 | 83.63 | 91.29 | 89.68 | 100.00 | 91.55 |
| Davangere | 90.82 | 84.20 | 90.82 | 85.25 | 100.00 | 87.15 |
| Robertsonpet (KGF) | 90.47 | 60.04 | 90.47 | 77.30 | 100.00 | 86.56 |
| Bangarpet | 83.48 | 80.52 | 83.48 | 83.26 | 100.00 | 76.87 |
| Ramanagara | 89.74 | 63.34 | 89.74 | 81.46 | 100.00 | 83.94 |
| Mangalore | 95.18 | 89.20 | 95.18 | 89.51 | 100.00 | 97.09 |
| Gulburga | 88.56 | 72.03 | 88.56 | 74.90 | 100.00 | 91.41 |
| Bidar | 88.41 | 49.63 | 88.41 | 71.57 | 100.00 | 85.23 |
| Raichur | 89.05 | 71.83 | 89.05 | 71.83 | 100.00 | 90.09 |
| Hassan | 92.00 | 77.66 | 92.00 | 87.32 | 100.00 | 92.75 |

The shortfall in achievement of these efficiencies/DPR targets had resulted in higher AT&C losses. This had also resulted in non-accrual of the anticipated benefits to the Utilities.

The Government stated (May 2007) that revenue collection in respect of IP sets was very poor and in respect of water supply, street light of Local Bodies and Government installations revenue collection was not regular. The fact remained that the basic objective was not achieved.

### Failure rate of Distribution Transformers

**2.2.38** One of the objectives of APDRP was to improve the quality and reliability of power supply by reducing the failure rate of Distribution Transformers (DT). Target *vis-à-vis* actual DT failure rate during the last three years in respect of selected towns are as under:

**(percentage)**

| Name of the town | Target | Actual | | |
|---|---|---|---|---|
| | | 2003-04 | 2004-05 | 2005-06 |
| Bangalore City | 0.20 | 0.00 | 0.00 | 0.00 |
| Tumkur | 2.00 | 2.42 | 1.74 | 0.82 |
| Davangere | 1.00 | 3.50 | 1.33 | 0.00 |
| Robertsonpet (KGF) | 2.00 | 3.72 | 4.58 | 3.72 |
| Bangarpet | 1.00 | 6.10 | 4.22 | 0.00 |
| Ramanagara | 1.00 | 8.06 | 1.23 | 2.30 |
| Mangalore | 1.00 | 4.96 | 5.00 | 4.90 |
| Gulburga | 1.00 | 1.20 | 0.88 | 3.18 |
| Bidar | 1.00 | 3.70 | 2.16 | 0.00 |
| Raichur | 1.00 | 6.50 | 6.50 | 7.52 |
| Hassan | 1.00 | 3.24 | 2.90 | 0.30 |

It can be seen from the above details that the DT failure rates showed an improvement and the same was less than the targets in respect of six towns[56]. The failure rate in Raichur showed an increasing trend.

**Employee productivity**

**2.2.39** The employee productivity, in terms of input energy per employee and revenue realised per employee during the last four years *vis-à-vis* the base year are summarised below:

**Input energy per employee (in lakh units):**

| Name of the town | Target | Actual | | | |
|---|---|---|---|---|---|
| | | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Bangalore City | 12.64 | 14.27 | 14.96 | 17.13 | 19.56 |
| Tumkur | 6.40 | 6.33 | 6.21 | 7.06 | 8.86 |
| Davangere | 6.35 | 6.62 | 6.52 | 7.33 | 6.88 |
| Robertsonpet (KGF) | 20.37 | 7.57 | 8.13 | 7.20 | 7.79 |
| Bangarpet | 6.00 | 6.00 | 11.75 | 12.04 | 18.59 |
| Ramanagara | 16.14 | 16.13 | 16.19 | 17.85 | 14.07 |
| Mangalore | 6.51 | 9.46 | 9.68 | 9.17 | 10.05 |
| Gulburga | 5.44 | 6.32 | 6.63 | 7.48 | 7.42 |
| Bidar | 8.65 | 4.83 | 4.83 | 6.08 | 6.67 |
| Raichur | 10.14 | 9.26 | 9.20 | 8.57 | 11.37 |
| Hassan | 3.43 | 3.46 | 3.91 | 4.03 | 4.46 |

Targets set for input energy per employee were not achieved in Robertsonpet, Ramanagara, and Bidar towns.

The Government replied (May 2007) that the input energy per employee could not be achieved in Bidar and Raichur towns since the annual input energy had not grown substantially during the years.

**Revenue realised per employee (Rs. in lakh)**

| Name of the town | Target | Actual | | | |
|---|---|---|---|---|---|
| | | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Bangalore City | 45.12 | 51.53 | 59.74 | 69.63 | 83.06 |
| Tumkur | 18.97 | 21.33 | 24.66 | 26.09 | 31.90 |
| Davangere | 19.30 | 21.52 | 25.71 | 26.19 | 24.95 |
| Robertsonpet (KGF) | 65.72 | 21.88 | 23.08 | 16.49 | 24.75 |
| Bangarpet | 18.49 | 15.80 | 32.84 | 42.63 | 70.01 |
| Ramanagara | 51.66 | 40.22 | 48.61 | 48.28 | 32.86 |
| Mangalore | 28.65 | 36.21 | 39.81 | 37.18 | 44.84 |
| Gulburga | 16.76 | 16.65 | 17.15 | 17.71 | 19.23 |
| Bidar | 24.88 | 14.22 | 14.87 | 12.57 | 14.42 |
| Raichur | 10.23 | 25.05 | 26.96 | 21.72 | 26.69 |
| Hassan | 10.63 | 11.80 | 14.06 | 15.85 | 16.48 |

Targets set for revenue realisation per employee were not achieved in Robertsonpet, Ramanagara and Bidar towns.

[56] **Bangalore City, Tumkur, Davangere, Bangarpet, Bidar and Hassan.**

The Government stated (May 2007) that GESCOM was putting all efforts to increase revenue collection so that revenue realised per employee is achieved.

## Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and the Management of the Companies at various stages of conducting the performance review.

## Conclusion

**Two APDP projects sanctioned in 2000-01 and 31 out of 35 APDRP projects sanctioned in 2002-03, 2004-05 and 2005-06, were yet to be completed. This resulted in delay in accrual of anticipated benefits to ESCOMs. Preparation of project estimates based on old SR, non-inclusion of essential elements in cost and awarding the contract at higher tender premium resulted in ESCOMs bearing the incremental costs and foregoing of grants from MoP. ESCOMs used high precision electro mechanical meters instead of electronic meters defeating the purpose for which they were included in the project. The delay in releasing APDRP funds by State Government to the ESCOMs amounted to diversion of funds. Two Utilities (BESCOM and HESCOM) included meters procured by consumers/procured against deposits from consumers for new installations, in the physical and financial progress under APDRP. Grants relating to dropped/short closed APDP/APDRP works was not refunded to MoP. Milestone relating to privatisation of distribution is yet to be achieved. There was no significant reduction in AT&C losses except in some towns. As there was no reduction of loss, the State was not eligible for any incentive for the years 2002-03 and 2003-04. Claims for 2004-05 and 2005-06 were yet to be worked out.**

## Recommendations

- **KPTCL / ESCOMs should make all out efforts to complete the projects at the earliest in order to derive the benefits anticipated.**
- **KPTCL / ESCOMs should ensure that all the cost components are properly loaded in the estimates in future so that no financial benefit is lost.**
- **State Government should ensure that APDRP funds are released promptly.**
- **ESCOMs should report the progress of the work on the basis of actual expenditure and not on the basis of new installation serviced with meters procured by customers.**
- **ESCOMs should make concerted efforts to reduce the AT&C losses.**

# 2.3 KRISHNA BHAGYA JALA NIGAM LIMITED, KARANATAKA NEERAVARI NIGAM LIMITED AND CAUVERY NEERAVARI NIGAM LIMITED

## IMPLEMENTATION OF LIFT IRRIGATION SCHEMES BY IRRIGATION COMPANIES

### Highlights

**Seventy four Lift irrigation schemes (LIS) with an estimated cost of Rs.4,494.45 crore are being implemented by the Irrigation Companies against which an expenditure of Rs.2,061.02 crore had been incurred as on 31 March 2007. These companies are operating 63 completed lift irrigation schemes. Review of the ongoing schemes revealed that only six schemes were completed during the period, and the benefits achieved were negligible.**

***(Paragraphs 2.3.1, 2.3.7, 2.3.8 and 2.3.29)***

**Even after spending Rs.1,399.88 crore (2002 to 2007) only six schemes of Rs.9.42 crore were completed as on August 2007.**

***(Paragraph 2.3.7)***

**Execution of all the schemes simultaneously without prioritisation led to non-completion of the schemes, time and cost over-run and consequent delay in providing irrigation facilities to farmers. The utilisation of irrigation potential created also was low due to delay in repairs and maintenance, non-development of land for irrigation *etc.***

***(Paragraphs 2.3.8 and 2.3.29)***

**Lack of prioritisation of works and lack of planning was observed in respect of six LISs and expenditure of Rs.232.50 crore incurred on these LISs remained infructuous as of date.**

***(Paragraphs 2.3.14 to 2.3.20)***

**Deviations from instructions/codal provisions by the companies resulted in extra expenditure, excess payment *etc.*, amounting to Rs.15.59 crore.**

***(Paragraphs 2.3.21 to 2.3.28)***

**The utilisation of irrigation potential created was very low due to delay in repairs and maintenance.**

***(Paragraph 2.3.31)***

**The financial viability of LIS is doubtful in view of high electricity charges.**

***(Paragraph 2.3.35)***

**The companies failed to avail Central Excise Duty exemption on machineries and equipments used in the projects.**

***(Paragraph 2.3.36)***

## Introduction

**2.3.1** The geographical area of Karnataka is divided into seven river basins. The average annual yield of these rivers is 97,352 million cubic meters[57] ($mm^3$) (3,437.95 thousand million cubic feet – TMC) of water of which the economically utilisable water potential for irrigation is about 48,000$mm^3$ (1,695 thousand million cubic feet-TMC). The net sown area of the State is 107 lakh hectare (Ha). While the irrigation potential from all sources has been estimated at about 61 lakh Ha comprising 35 lakh Ha under major and medium irrigation, 10 lakh Ha from minor irrigation using surface water and 16 lakh Ha from ground water resources.

The State Government had prepared master plans (1993/revised in 2002) for the various river basins. According to these plans the total utilisation of water under major[58], medium[59] and minor[60] irrigation projects using surface water was 1,142.62 TMC in Krishna and Cauvery river basin. In order to utilise the State's share of water expeditiously, the State Government set-up three Irrigation companies, *viz.*, Krishna Bhagya Jala Nigam Limited (KBJNL) in 1994, Karnataka Neeravari Nigam Limited (KNNL) in 1998 and Cauvery Neeravari Nigam Limited (CNNL) in 2003 under the Companies Act, 1956. These companies are in the nature of special purpose vehicles equipped to raise funds through issue of bonds and term loans from financial institutions. The main functions of these companies, *inter-alia,* include completion of ongoing projects, including Lift Irrigation Schemes (LISs) and to build, operate and maintain new irrigation projects in Krishna and Cauvery basins. Fifty ongoing LISs at an estimated cost of Rs.2,133.14 crore with outlay of Rs.231.74 crore (expenditure incurred till that date) and 57 completed LISs were transferred to these companies at the time of their formation. In addition 24 new schemes involving estimated cost of Rs.2,361.31 crore were taken up (2002-07) by these companies. At present (June 2007) these companies are implementing 68 LISs and maintaining 63 completed LISs, apart from other projects relating to flow irrigation.

LISs envisage pumping up (lifting) of water from a source to a certain height from where water is supplied for irrigation through canals. This facility is resorted to where topographical conditions are unsuitable for flow irrigation. A typical LIS comprises storage (in take channel and jack well), pump house, pumping machineries, raising main, distribution chamber and canal distribution network.

The Chief Minister and the Water Resources Minister respectively are the Chairman and Vice Chairman of these companies while the Chief Secretary, the Principal Secretary, Finance Department and the Secretary, Water Resources Department are the members of the Board of Directors of these companies. The Water Resources Department is headed by the Principal

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[57] **As per administrative report 2003-04 of Irrigation Department, Government of Karnataka.**

[58] **Major irrigation work means an irrigation work having an irrigable area of more than 10,000 Ha.**

[59] **Medium irrigation work means an irrigation work having an irrigable area of more than 2,000 Ha and upto 10,000 Ha.**

[60] **Minor irrigation work means an irrigation work having an irrigable area upto 2,000 Ha.**

Secretary to the State Government who monitors the activities of the department including those of the Irrigation companies. The Irrigation companies are headed by the Managing Directors who monitor the activities through Chief Engineers at Zonal level, Superintending Engineers at Circle level and Executive Engineers at Divisional level.

## Scope of Audit

**2.3.2** The performance audit conducted between November 2006 and April 2007 covers LISs executed and maintained for the period 2002-07. Of the 68 LISs being executed and six completed LISs by these Irrigation Companies, 25 LISs on which expenditure of Rs.1,483 crore was incurred for creating envisaged irrigation of 2.91 lakh Ha spread over 10 districts[61] were selected based on risk assessment with due consideration given to investments, irrigation potential and return on investment envisaged as per the project reports, locations and media reports. Besides, out of 57 completed LISs being maintained by these companies, 15 LISs spread over five districts[62] were selected for performance audit.

## Audit objectives

**2.3.3** The performance review on the implementation of irrigation schemes by irrigation companies was conducted with a view to ascertain whether:

- the project survey and investigation were carried out before taking up a project;
- estimates were prepared based on survey and investigation reports;
- availability of water was assessed properly;
- works were executed as per plan and economically, efficiently and effectively;
- fund provided were sufficient to carry out the work;
- the progress of the work was properly monitored;
- the irrigation potential was created as per project report and utilised to the extent created;
- maintenance was carried out promptly;
- payments were made as per agreement/codal provisions.

[61] **Bangalore Rural, Belgaum, Bijapur, Coorg, Gadag, Gulbarga, Hassan, Haveri, Mandya and Mysore.**

[62] **Bangalore Rural, Belgaum, Coorg, Hassan and Mandya.**

## Audit criteria

**2.3.4** The Audit criteria adopted for assessing the achievement of audit objectives were:

- Provisions in the Karnataka Public Work Department Code, Irrigation manual of the State Government, Indian Standards Specifications and Government Orders issued by State Government from time to time;
- Investigation reports, estimates, design and plan of detailed project report and completion reports;
- Schedule of rates;
- Water allocation statements;
- Budget provisions;
- PERT chart and Management Information System reports.

## Audit methodology

**2.3.5** The following mix of Audit methodology was adopted for achieving the audit objectives with reference to audit criteria of the performance review:

- scrutiny of the records such as detailed project reports, estimates, tender documents, status reports, work bills *etc.,* maintained in various offices of the Companies, proceedings of the discussions of the Executives;
- review of minutes and agenda of the meetings of the Board of Director's and various publications brought out by the Government on irrigation;
- interaction with management and issue of audit queries.

## Audit findings

**2.3.6** Audit findings arising from the performance review were reported (May 2007) to the Government/Management and were discussed in the meeting (21 June 2007) of Audit Review Committee on Public Sector Enterprises (ARCPSE). The meeting was attended by the Principal Secretary to the Government of Karnataka, Water Resources Department, Managing Director of KNNL/Representatives of the Companies and a Technical Consultant (Retired Chief Engineer) from Water Resources Department. The views expressed by the representatives of the Government/Management and replies furnished (June 2007) by the Government/Management have been taken into consideration while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

## Financial management

**2.3.7** The financial position of the irrigation companies is given in **Annexure 13**. The capital expenditure incurred on the works in respect of schemes in progress and schemes already completed is shown under 'Capital work-in-progress' and the Revenue expenditure incurred on such assets, after deducting the income earned during the period is being shown under Miscellaneous Expenditure - Expenditure during construction period pending capitalisation.

The estimated cost of the 74 schemes (68 being executed and six completed) being implemented by the irrigation companies was Rs.4,494.45 crore. The total expenditure incurred on these schemes as at 31 March 2007 was Rs.2,061.02 crore and the amount required for completion of the 68 LISs was Rs.2,433.43 crore. The expenditure incurred by the irrigation companies on the LISs during the last five years was as follows:

| Company | 2002-03 | 2003-04 | 2004–05 | 2005-06 | 2006-07 | Total |
|---|---|---|---|---|---|---|
| | (Rs. in crore) | | | | | |
| KNNL | 12.84 | 26.99 | 92.75 | 197.01 | 209.47 | 539.06 |
| KBJNL | 151.01 | 133.92 | 143.43 | 163.87 | 161.17 | 753.40 |
| CNNL | - | - | 19.94 | 49.96 | 37.52 | 107.42 |
| **Total** | **163.85** | **160.91** | **256.12** | **410.84** | **408.16** | **1,399.88** |

Against requirement (April 2002) of Rs.3,833.31 crore[63] for completion of 74 LISs, the total annual work plan (2002-07) for five years was Rs.1,985.41 crore[64] and an amount of Rs.1,399.88 crore (36.52 *per cent*) only was made available. Out of 74 schemes only six schemes with an outlay of Rs.9.42 crore were completed and put to use, after a delay of two and half years to fourteen years since initiation. These Irrigation companies were formed as special purpose vehicles to raise funds from the market. The borrowings are guaranteed by the State Government. It was observed, that the available resources were spent on large number of works without giving priority to complete the projects in advance stage. Consequently most of these schemes remained incomplete and negligible irrigation benefits had accrued.

The Government stated (June 2007) that priority was given to development of flow irrigation owing to relative ease and quickness in execution. The reply is not relevant since the audit observation speaks for intra-priority among the LISs.

[63] **Rs.4,494.45 crore – (Rs.2,061.02 crore –Rs.1,399.88 crore).**

[64] **CNNL – information in respect of some works not furnished by the Company.**

### *Time and cost over-run*

**2.3.8** Taking up LISs simultaneously without due prioritisation and adequate planning resulted in prolonging the works (as of March 2007) of some of the LISs, as detailed below:

**(Rupees in crore)**

| Company | No. of LISs | Original estimated cost (as on date of commencement) | Revised estimated cost or as on date expenditure | Cost overrun (estimated) | Time overrun |
|---|---|---|---|---|---|
| KNNL | 8* | 395.69 | 2,171.74 | 1,776.05 | One year three months to two years nine months |
| CNNL | 47 | 255.72 | 552.03 | 296.31 | One year six months to thirteen years six months |
| KBJNL | 5 | 793.57 | 1,165.49 | 371.92 | One year three months to two years nine months |
| **Total** | **60** | **1,444.98** | **3,889.26** | **2,444.28** | |

*** - One LIS in 1973 and two in 1993 were taken up without targeted date of completion.**

It was observed that out of above 60 LISs, three major LISs[65] of KNNL were taken up by Government between 1973 and 1993 for irrigation of 1,47,712 Ha with original estimated cost of Rs.358.02 crore and without any definite target date for completion. These were transferred (1998) to KNNL after incurring an expenditure of Rs.41.96 crore on its formation. Based on the Schedule of Rates (SR) 2003-04, the cost of these LISs was revised (2003-04) to Rs.2,045.53 crore. The Company had funded Rs.415.69 crore as at March 2007 and Rs.1,587.88 crore is required to complete these LISs. At this pace, it might take another 19 years to complete these three LISs. The slow progress of works in these LISs as stated by the Management were:

- heavy floods in the river;
- increase in the scope of the scheme;
- land acquisition problem;
- heavy rainfall in work spots.

In respect of LISs of KBJNL meant to irrigate 1,29,320 Ha, the reasons for cost and time over-run as stated by the Management were:

- delay in finalisation of designs of head works;
- increase in quantities;
- land acquisition problem and delay in clearance from Chief Electrical Inspector to the Government (CEIG) and Karnataka Power Transmission Corporation Limited (KPTCL).

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[65] **Hipparagi (1973), Singatallur and Bhima (1993).**

The reasons for cost and time over-run in respect of LISs of CNNL meant to irrigate 49,946 Ha as stated by the Management were:

- insufficient allocation of funds;
- delay by the agencies/contractors;
- land acquisition problems *etc.*

## Project planning and Management

### *Defective estimates*

**2.3.9** With a view to ensuring financial discipline in limiting the expenditure on works, the State Government issued instructions (June and November 1991) to ensure the accuracy of estimates, *inter-alia*, directing that in no case extra financial implication should exceed 20 *per cent* of the estimated cost. Guidelines were also issued by the State Government (1973) on preparation of estimates emphasising the need for taking trial pits for every 100 feet or closer intervals so as to estimate the different classification of soil strata close to actuals. Audit scrutiny revealed that trial pits were taken at 100 metre interval only instead of 100 feet or closer intervals as required, in respect of four works. Consequently, the soil strata and ground levels noticed during excavation widely varied from the estimates. The design of embankments also had to be changed to suit actual site conditions. As a result there was huge increase in quantities of excavation and embankment works, which resulted in avoidable extra expenditure of Rs.5.40 crore as detailed below:

- In respect of three works of KBJNL[66], as against estimated quantity of 12.85 lakh cubic metre of excavation and embankment, the actual quantity excavated was 24.09 lakh cubic metre. The quantities in excess of 125 *per cent* of tender quantities were paid at higher rates than quoted rates as per clause 13 of the contract, resulting in additional expenditure of Rs.2.92 crore, which could have been avoided had the estimates been more accurate.

- In respect of two works[67] of KBJNL the increase in quantities resulted in increase of cost of works to Rs.25.43 crore as against the tendered cost of Rs.15.96 crore. Further, the evaluated prices for these two works on actual quantities at the rates of the second lowest bidders, worked out to Rs.12.61 crore and Rs.10.34 crore as against the actual costs of Rs.14.46 crore and Rs.10.97 crore respectively (During execution there was huge increase in quantities of items of works for which the successful contractors quoted workable rates necessitating higher payment as per clause 13(b) of tender conditions and the quantities for non-workable rates either decreased or were not recorded). Thus, award of works based on defective estimates led to vitiation of contracts resulting in additional expenditure of Rs.2.48 crore.

**66 ARBLC Km 48 to 55, ILC Km 0.225 to 6 and MLIWC Km 30 to 40.**

**67 ILC 25 to 32 and MLIWC Km 30 to 40.**

The Government stated (June 2007) that trial pits were taken at 100 metre interval only to economise, early finalisation and approval of estimates. The reply is not tenable as the deviations in taking trial pits by the Management have not only resulted in incorrect estimates but also in avoidable extra expenditure of Rs.5.40 crore as mentioned above.

***Changes in designs after entrustment of works***

**2.3.10** The designs for the work are to be approved by the competent authority before commencement of the work and approved drawings should constitute part of the contract. Audit scrutiny revealed that in case of three LISs estimated (1999-2004) and executed (2002-2007) at a cost of Rs.37.38 crore, the designs had to be changed to suit the site conditions. This resulted in increase in scope of works amounting to Rs.12.85 crore as detailed below:

**Ainapur canal (KNNL)**

**2.3.11** The design of aqueduct was changed (October 2004) from double vented trough[68] to single vented trough[69] and the reasons attributed for the change were that construction of double vented trough was difficult and would pose maintenance problems. The change in design resulted in extra expenditure of Rs.2.37 crore. The construction and maintenance problems which double vent trough would pose, were however, not on record.

**Lead off canal of Mulwad LIS (KBJNL)**

**2.3.12** The estimate of the work was prepared in July 1999 with provision for service road of six metre width, size of 0.5:1 for hard rock and cross drainage works. During execution, the site conditions necessitated for;

- increase in width of service road to seven metre,
- modification of hard rock slope to 1:1,
- taking up of nine additional cross drainage works, and
- increase in canal length by 100 metre.

Failure to finalise proper estimate based on site conditions resulted in these changes and incurring of extra expenditure of Rs.5.86 crore.

**Head works of Nanjapura LIS (KNNL)**

**2.3.13** The project authorities were aware that raising main pipes were to be laid in Banur Town and that too below the heavy traffic road, with insufficient space for two rows of pipes; yet the estimates for raising main of two rows with pre-stressed concrete pipes were finalised (May 1999) and work was taken up. During execution, considering the site conditions of heavy traffic of vehicles on the road and non-availability of sufficient space, the design of raising-main was changed (February 2000) to mild steel pipes with one row and the resultant additional expenditure was Rs.4.62 crore. Interestingly, the

**[68] Aqueduct with two channels for passage of water.**
**[69] Aqueduct with single channel for passage of water.**

proposal for change of concrete pipes to mild steel pipes took six years between initiation (February 2000) and final decision (January 2006). Meanwhile the cost of steel plate had increased from Rs.20,748.89 per tonne to Rs.35,324 per tonne. Delay in finalisation resulted in avoidable extra expenditure of Rs.1.19 crore.

## Inadequate planning

**2.3.14** The lack of prioritisation and planning of works was observed in respect of the below mentioned LISs and expenditure of Rs.232.50 crore incurred (1986 to 2005) on these LISs remained unfruitful as of date (June 2007).

***Daddinaganur LIS of KNNL***

**2.3.15** The Daddinaganur LIS was conceived (1994) and sanctioned (March 1999) at an estimated cost of Rs.5.67 crore envisaged construction of a weir[70] across Ghataprabha river to lift 0.653 TMC of water in two lifts to irrigate 5,357 acres of land of rehabilitated persons affected by construction of Hidkal Dam. The works such as construction of weir, head works and raising main, canal and distributaries of first lift were completed (2005) at a cost of Rs.7.20 crore. The first lift could not be commissioned (2005) due to non-supply of power even though required deposit of Rs.21.63 lakh were made (July 2002) with the Electricity Supply Company. Thus, despite creation (2005) of irrigation potential (IP) of 3,438 acres in the first lift, water could not be lifted and IP created could not be utilised. Failure to synchronise all the components of LIS resulted in non-commissioning of the project and expenditure of Rs.7.20 crore incurred for the first lift also remained unfruitful for the last two years as the purpose for which LIS was created was defeated as agriculture were deprived of water.

***Hipparagi Barrage Lift Irrigation Schemes (HBLIS) of KNNL***

**2.3.16** The HBLIS conceived (1973) at an estimated cost of Rs.186.70 crore envisaged construction of a gated barrage across Krishna river with two foreshore LISs (Haliyal and Ainapur) on the left bank of the river to provide irrigation to 74,742 Ha. Subsequently, (2001) the scope of the project was increased with two more LISs (Karimasuti and Savalagi Tungal) off taking at Haliyal east canal and the utilisation proposed was 11.64 TMC. The cost of the project as per the latest revision (2003-04) was Rs.1,113.50 crore. Though the barrage was completed (September 2004) at a cost of Rs.54.72 crore and water was being stored since then, it could not be utilised for irrigation purposes during the last three years as the Lift Irrigation works were still (August 2007) under progress. At Haliyal, water is to be lifted in two stages and then released into Haliyal lift Canal. The Haliyal Lift canal works of Rs.61.92 crore were not taken up (May 2007). But the head works for both Karimasuti and Savalgi Tungle LISs which take off from the Haliyal East Lift Canal had been taken up during March 2004 and were under progress with

[70] **Weir is solid wall across the river which raises water surface level upstream without causing submergence of land, in order to supply in a canal taking off above it; which allows the excess water to pass over it.**

expenditure of Rs.11.01 crore as against the contract cost of Rs.22.92 crore. These schemes are in advanced stage of completion and have no source of water until the Haliyal Canal itself is completed and water is fed into the canal. Thus the purpose for which HBLIS was set up defeated as the targetted group was not benefited.

The Government (June 2007) while accepting the audit findings informed that it is confident that these LISs would be completed by 2009-2010.

*Delay in taking up of command area development works*

**2.3.17** Three LISs[71] of Cauvery Neeravari Nigam Limited (CNNL) taken up during 1986 and 1991 to irrigate 15,233 Ha of land were completed partially and IP of 8,427 Ha was created (May 2007) at a cost of Rs.111.69 crore. These LISs were commissioned in December 1998 and September 2005. The IP created could not be utilised as command area was not developed and land levelling (which is required to be done for getting the irrigation benefits) by farmers was not taken up enthusiastically by the farmers. As such the expenditure of Rs.111.69 crore incurred on these LISs remained largely unfruitful for the last two to nine years. The purpose for which the IP was created was defeated. The Government stated (June 2007) that land owners (farmers) were gradually developing their land to accept the irrigation facilities in a phased manner.

*Indi Lift Irrigation Scheme of KBJNL*

**2.3.18** The Indi LIS was conceived (May 1999) at an estimated cost of Rs.337.92 crore to irrigate 62,582 Ha of land utilising 11.31 TMC of water from Narayanapur Left Bank Canal. The scheduled date of completion was December 2005. The lift canal is 97.30 kms long with 47 distributories. The canal works were started in December 2000 itself and completed in March 2003, at a cost of Rs.58.89 crore. The work relating to the head works for lifting of water was taken up only in September 2003 and was still (August 2007) under progress. Thus, canal works were taken up much in advance of head works, without synchronising the connected component of the works according to priorities and irrigation potential of 37,434 Ha created at a cost of Rs.58.89 crore could not be utilised for want of water. The purpose for which the IP was created was defeated.

*Projects inordinately remaining incomplete*

**2.3.19** Audit scrutiny of six works (**Annexure-14**) revealed specific lapses such as finalisation of contract before starting the land acquisition process, non-closure of contracts even though the agency had not started the work for three years, improper monitoring of the work, award of work without ascertaining the financial condition of the contractor, delay in acceptance of tender and delay in finalisation of design *etc.*, involving additional financial burden of Rs.37.02 crore to these companies.

[71] **Hallimysore, Huchanakoppalu and Kamasamudra.**

***Excessive cement concrete lining for canal sides and beds***

**2.3.20** As per Indian Standard Code 3873 (IS) – 1993, the thickness of cement concrete (CC) lining of canal shall be fixed depending upon the full supply depth of water and canal capacity as indicated below:

| Capacity of Canal (in Cum) | Depth of Water (in metre) | Thickness of CC lining (in millimetre) |
|---|---|---|
| 0-5 | 0-1 | 50-60 |
| 5-50 | 1-2.5 | 60-75 |
| 50-200 | 2.5-4.5 | 75-100 |

The estimates in respect of six[72] canal works provided for CC lining thickness of 100 mm, instead of a maximum 75 mm thickness required as per the design section of discharge and full supply depth. The works executed (2001-07) accordingly resulted in excess CC lining of 85,533 cum over and above the required quantity of 2,52,862 cum and the consequential extra expenditure was Rs.9.76 crore.

The Government stated (June 2007) that as per IS code 456, the maximum size of the aggregate[73] used should not be more than one-fourth of the size of the member[74] and since 20 mm and down size aggregate is normally used for CC lining, it is necessary to increase lining thickness to 100 mm. The reply is not tenable as the size of the aggregate could have been reduced instead of increasing the thickness of the lining. It is also pertinent to note that Chief Engineer (Gorur) had issued (October 2006) circular instructions to follow the IS code 3873 – 1993.

## Contract management

**Deviations from instructions/codal provisions by the companies resulted in extra expenditure, excess payment *etc.*, amounting to Rs.15.59 crore.**

**2.3.21** Effective management of contracts requires strict compliance of the relevant codal provisions and instructions of the Government by these companies with regard to award of works, regularisation of payments as per contract terms, recovery of dues, promptness in taking decision *etc*. Audit scrutiny revealed that the project authorities while implementing the works of LISs had flouted these instructions/codal provisions resulting in avoidable extra expenditure, excess payment *etc*., to the tune of Rs.15.59 crore as indicated in the succeeding paragraphs.

[72] **KBJNL-ARBC Km 4.92 to 67 (seven packages), MLEC Km 0 to 17.40, MLWC Km 0 to 78, ALBC Km 51 to 85; KNNL - BLIS Balundgi Lift canal Km 0 to 25; CNNL - Hallimysore Lift canal Km 1, 2, 3, 6, 7, 10, 11, 13, 14, 15 and 17.**

[73] **Metal (Jelly).**

[74] **in a structural system column, beam, slab *etc.*, are members, likewise in canal concrete lining is considered as member.**

***Payment of lift charges***

**2.3.22** In respect of the work of construction (March 2001 to November 2003) of trough cum aqueduct in Km 0.00 to Km 1.00 of Almatti Right Bank Lift Canal (ARBLC), the contractor quoted a rate of Rs.1,950 per cum for the item of 'M20 concrete' which included charges for all lifts. Lift charges of Rs.40.39 lakh were, however, paid (January 2005) separately for laying 13,179.74 cubic metre of M-20 grade concrete to the aqueduct, resulting in excess payment of Rs.40.39 lakh.

The Government stated (June 2007) that the contractor laid foundation as per item No.14 (M-20 grade concrete item) and for construction of super structure he was paid under Extra Item Rate List (EIRL) item in terms of general conditions of the schedule of rates 1996-97 and as such there was no over payment. The reply is not acceptable as the contract was for construction of the trough cum aqueduct and therefore laying concrete for the main structure, *i.e.*, the trough cum aqueduct, is not an extra item and the payment referred to was for lift charges for laying M-20 grade concrete to the trough cum aqueduct only and not for construction of the structure.

***Over-excavation***

**2.3.23** As per the design norms recommended (1991) by the State Government, the side slope in soft rock cutting was 0.5 : 1. During execution of Indi Lift Canal (ILC) works in Km 10 to 23 of (four packages), taken up in October 2001, the side slope in soft rock cutting was modified to 1:1. The reason stated was that the slope of 0.5:1 is very steep and unstable for soft rock. This deviation from norms resulted in increase in quantities of excavation by 2,07,645 cum and the consequential avoidable expenditure of Rs.1.24 crore.

The Government stated (June 2007) that the side slopes were changed to 1:1, so that the concrete lining could stick. The reply is not acceptable as the design norms recommended by the Government had not been amended.

***Tender evaluation***

**2.3.24** As per Karnataka Public Works Department (KPWD) Code (Vol-I), negotiations should be undertaken with the contractors who had quoted erratic and irrational rates (compared to the estimates). This was for the purpose of rationalisation and moderation subject to ensuring that overall percentage of rates quoted by the contractors after rationalisation of rates do not exceed the original percentage. KBJNL had also issued (February 2001) norms for awarding contracts specifying the acceptable levels of premium over the estimated rates: (a) for Earth work above Rs.50 lakh – 25 *per cent* below, (b) for cross drainage works – 5 *per cent* above, and (c) for concrete lining works – 8 *per cent* above.

KBJNL invited (June 2002) separate tenders for construction of two consecutive sections of ILC works - (i) Km 40 to 48 and (ii) Km 48 to 55.693. After evaluation of tenders (November 2002) the lowest bid for second work, which was 1.11 *per cent* below the tendered amount, was negotiated twice to rationalise the rates and also to adhere to the norms and the offer was reduced to 13.99 *per cent* below the tendered amount. The lowest bid for the first work at 10.99 *per cent* below the tendered amount contained irrational and unworkable rates – *e.g.* Rs.5 per cum for hard rock excavation as against the estimated rate of Rs.181.70 per cum where as Rs.240 per cum for soft rock excavation as against the estimated rate of Rs.78.90 per cum was accepted (June 2003). The bid was accepted as such without rationalisation and moderation. During execution (June 2003 to December 2005), the quantities of items of work for which the contractor had quoted rates favourable to him increased while the quantities of items of work for which the contractor had quoted unfavourable rates decreased. Thus, due to non preparation of realistic estimates and quantities therein, as well as failure to rationalise the rates resulted in avoidable extra expenditure of Rs.8.26 crore.

The Government stated (June 2007) that overall percentage of the lowest offer was within the acceptable norms, and as such there was no scope for any further negotiation. The reply is not acceptable as rationalising of rates was in the interest of the Company.

***Delay in finalisation of tender***

**2.3.25** The tenders for head works of Indi LIS costing Rs.11.22 crore were opened (October 2002) by KBJNL (Company). The work was to be completed by December 2004. The Company, however, after a delay of 10 months from opening of tender, entered (September 2003) into an agreement with the contractor at his quoted rate (*minus* 24.69 *per cent*) for Rs.8.45 crore. Reasons for delay were not available on record. The contractor executed (September 2003 to June 2006) the work. He claimed Rs.2.41 crore on account of increase in cost of material, which was agreed to by the Company.

The Government (June 2007) while accepting the delay stated that the revised rates for steel *etc.*, have been paid as per general conditions of Scheduled of rates. The reply is not acceptable. The contractor had quoted 24.69 *per cent* below the estimates. Had the work been awarded without delay of 10 months, the Company would have avoided loss of Rs.2.41 crore.

***Payment for additional quantities***

**2.3.26** As per Clause 13 of the general contract conditions, any additional work which the contractor may be directed to do shall be carried out by the contractor at the same rates as are specified in the tender for the main work. Any additional quantity of work over and above 125 *per cent* of the tendered quantity shall be paid at the rates as per the schedule of rates or derived from the schedule of rates prevalent at the time of execution of additional quantities. Audit scrutiny revealed that in respect of the below mentioned item of works payment for the quantities in excess of 125 *per cent* of tender quantities was made (2002-06) either at new rates or at rates not based on the prevalent schedule of rates resulting in extra benefit of Rs.1.96 crore to the contractors:

| Name and duration of the work | Quantity in excess of 125 *per cent* of tender quantities | Rate of payment | Rate payable as per clause 13 of agreement | Difference in rate/amount (Rs.) |
|---|---|---|---|---|
| Hipparagi Barrage vertical gates by KNNL (March 2002 to November 2005) | Additional work of five gates was entrusted. In respect of three of these gate works the quantities had exceeded 125 *per cent.* | Rs.403.35 lakh | Rs.265.82 lakh | 137.53 lakh |
| Head work of ILS by KBJNL (October 2001 to December 2003) | Additional work of concrete (12,342.18 cum) | Rs.1,965.81 per cum | Rs.1,494.28 per cum | 471.53 per cum<br>58.20 lakh |
| **Total** | | | | **195.73 lakh** |

In respect of Hippargi Barrage, the Government stated (June 2007) that the rates were approved by the Technical Sub-Committee. This reply does not explain why Clause 13(b) was not applied while approving the rate. In respect of ILS, the Government stated that the new Schedule of Rate was communicated on 10 September 2004 to the concerned Division and therefore the additional work of January 2004 was paid based on the then prevailing Schedule of Rates. The reply is not tenable since the new Schedule of Rates 2003-04, issued by Water Resources Development Organisation (WRDO) came into force with effect from 15 October 2003.

### *Extra payment in violation of tender conditions*

**2.3.27** The construction of intake canal of Haliyal LIS was awarded (July 2003) to a contractor on tender basis for Rs.96.08 lakh which was 54.57 *per cent* below the amount put to tender. As per tender condition the contractors were required to inspect the site and satisfy themselves about the nature of work involved before quoting. As per the canal alignment finalised at the time of calling for tenders, there was necessity of controlled blasting. Therefore the quoted rate of Rs.90 per cum was for excavation of hard rock of all toughness and under all conditions. During execution (July 2003 to June 2006), the alignment of the canal was slightly changed and in the modified alignment there was necessity for excavation of hard rock through controlled blasting. The project authorities however, treated the excavation of hard rock with controlled blasting as new item with the rate of Rs.154.39 per cum. 67,729.31 cum of hard rock excavation had been paid at Rs.154.39 per cum instead of at the quoted rate of Rs.90 per cum resulting in excess payment of Rs.43.61 lakh.

The Government replied (July 2007) that the contractor had quoted his rates taking into the field realities of the original agreement, where the controlled blasting was not necessary, and that the controlled blasting arose subsequently due to shifting of the alignment. The reply is not acceptable as the change in alignment did not warrant payment at new item rates since the work of hard rock excavation involved controlled blasting also both in the original alignment as well as the new alignment.

***Payment not in accordance with tender condition***

**2.3.28** Four packages of canal excavation in Km 10 to Km 23 of ILC were taken up (October 2001) on tender basis through four contractors. The rates quoted by the contractor were 49.44 to 50.06 *per cent* below the estimated cost. One of the schedule items of work was excavation in soft rock with or without blasting. The KBJNL authorities combined the two separate items of SR *viz.,* excavation without blasting and with blasting and included in the tender with estimated quantity of 5,60,832 cum and the estimated rate for the combined item ranged between Rs.79.25 and Rs.80.27 per cum. The works were put to tender and the accepted rate for this item ranged between Rs.70 and Rs.80 per cum. During execution (October 2001 to December 2003) the recorded quantity of this item was 9,65,591 cum. The quantity in excess of 125 *per cent* of the tender quantity was 2,64,551 cum. In terms of clause 13(b) of the agreement the quantities in excess of 125 *per cent* of the tender quantities were to be paid at the rates of SR of the year of execution plus or minus tender premium. Accordingly, the correct rates payable for 2,64,551 cum (in excess of 125 *per cent* of the tender quantity) were ranging between Rs.40.02 and Rs.40.36 per cum. The Company, however, paid at rates ranging between Rs.71.04 and Rs.74.68 per cum treating this quantity as new item of excavation in soft rock with blasting in violation of the agreement resulting in excess payment of Rs.87.92 lakh.

The Government stated (June 2007) that the soft rock was excavated with blasting and therefore the classification and payment was correct. The reply is not tenable as one of the contract items of work was excavation of soft rock with or without blasting and therefore the quantities in excess of 125 *per cent* of tender quantity should have been paid at Clause 13(b) rates derived on the basis of Schedule of Rates (estimates) for soft rock with or without blasting.

## Performance of completed schemes

**2.3.29** IP in Ha created and utilised in respect of 63 completed/partially completed LISs for which information have been furnished are indicated below:

**(area in Ha)**

| Irrigation Company | Date of taking up | No. of LISs | Envisaged IP | Created IP | Shortfall in creation (percentage) | Maximum registered utilisation | Shortfall in utilisation (percentage) |
|---|---|---|---|---|---|---|---|
| KNNL | between 1973 and 1994 | 18 | 1,90,519 | 35,269 | 82 | 11,194 | 68 |
| KBJNL | between 1993-94 and 2000-01 | 5 | 1,29,320 | 98,564 | 24 | 1,338 | 98 |
| CNNL | between 1986 and 2002-03 | 40 | 54,340 | 21,836 | 60 | 27,748 | - |
| | | 63 | 3,74,179 | 1,55,669 | 58 | 40,280 | 74 |

The shortfall in IP creation was due to the fact that three LISs of KNNL taken up in 1973 and 1993 with envisaged IP creation of 1,47,712 Ha are under initial stage even after lapse of 13 – 34 years and no IP has been created so far (June 2007).

As can be seen from the above table that the IP created fell short of target by 58 *per cent* and the reasons for shortfall as informed by Management were:

- delay in clearance of forest land,
- project clearance delay by Government,
- the works being in initial stages,
- shortage of funds, and
- delay by contractors/agencies.

The reasons for shortfall of 74 *per cent* in utilisation of created IP as informed (March 2007) by the Management were:

- shortage of water,
- Non-construction of laterals, field irrigation channels, outlets, *etc*.,
- Non-taking up land development works by farmers,
- overlapping of atchkat (command area),
- disrupted power supply, and
- leakages in pipes, repairs in motors, pumps, valves *etc*.

Out of the 15 completed LISs selected for test check, it was noticed that 13 LISs which were completed between 1978 and 2002 at a cost of Rs.153.99 crore had created irrigation potential of 38,014 Ha and out of this only 10,322 Ha (27 *per cent*) was being utilised during the last five years even though the expenditure on operation, maintenance is being incurred at an average cost of Rs.3,530 per Ha per year .

The Government stated (June 2007) that necessary action is been taken to minimise the gap between potential created and utilised.

***LISs under Malaprabha Project (KNNL)***

**2.3.30** The Malaprabha river Project was envisaged to irrigate 2,14,151 Ha with 48.70 TMC of water. Under this project 11 LISs were completed (1978-2006) with a irrigation potential of 33,877 Ha. Based on the river gauging done (1972-2002), the dependable yield (at 75 *per cent*) was estimated at 27 TMC after construction of the Munoli dam on the river, which was sufficient to irrigate only 1,28,490 Ha.

It was observed that:

- out of the 27 TMC of water, the water requirement for flow and LIS were 19.881 TMC and 7.119 TMC. The actual utilisation, however, was 0.529 TMC to 3.658 TMC under LIS and 9.39 TMC to 32.14 TMC under flow irrigation, in 2001-02 and 2005-06 respectively.

- out of the IP of 33,877 Ha created under the LISs, the utilisation was between 11,507 Ha (33.97 *per cent*) in 2001-02 and 22,387 Ha (66.08 *per cent*) in 2005-06.

The Company had taken up these LIS inspite of being aware that the total irrigatable land would not increase. The implementation of LIS had merely diverted water from flow irrigation to LIS and also resulted in additional cost on operation and maintenance. The cost of operation and maintenance for 2002-07 was Rs.12.34 crore. Thus, the available water was being shared for creation of irrigation potential under flow irrigation as well as LIS, with the result that neither of the facilities was fully utilised.

The Government confirmed (June 2007) that water is being shared both for flow and LIS proportionately.

**The utilisation of irrigation potential created was very low due to delay in repairs and maintenance.**

***Delay in repairs***

**2.3.31** Six LISs of CNNL which were completed (1981 and 2002) at a total cost of Rs.9.51crore were not functioning (August 2007) as indicated below:

| Name of LIS | Cost/Period of completion | IP created in acres | Remarks |
|---|---|---|---|
| C-II Igglur Barrage | Rs.200.71 lakh 1999 | 1,000 | Remained non-functional since 2000 due to leakages in raising main pipes, damages to pipes, valves *etc*. Repair estimate of Rs.50 lakh sanctioned in October 2006. |
| D-Igglur Barrage | Rs.606.15 lakh 2000 | 1,890 | Remained non-functional since 2000 due to leakages in raising main pipes, damages to pipes, valves *etc*. Repair estimate of Rs.89.25 lakh sanctioned in October 2006. |
| Budeguppe and Kodihalli | Rs.64.84 lakh 2002 | 680 | Functioned for two years. Due to frequent power fluctuations, the RCC pipes of raising main pipes damaged. Remained non-functional since 2004. Repair estimate of Rs.60.90 lakh sanctioned in October 2006 for Kodihallli. |
| Kyathaghatta and Madehalli | Rs.79.57 lakh 1981-82 | 1,218 | Functioned upto October 2001. Due to non-payment of power charges, electricity was disconnected during November 2001. In the mean while, due to floods in 2005, motors got damaged. Repair estimate not yet approved (May 2007). |

Four estimates for repairs and replacements at a total cost of rupees two crore were prepared and sanctioned (October 2006) for four LISs and no estimate was prepared for the other LISs. No further action was taken in these cases and the repairs were yet to be carried out (May 2007). This rendered these six LISs non-functional (2002 to 2007) and 4,788 acres of IP created at a cost of Rs.9.51 crore remained unfruitful resulting in crop loss of Rs.110.70 crore at the rate of Rs.34,855 per acre per annum (based on the project estimate of C-II Igglur) for a period of six years. Further, the Company incurred a minimum power charges liability of Rs.82.66 lakh in respect of four LISs payable to

Electricity Supply Company (information not available for other two LISs) for the period 2002-07.

The Government stated (June 2007) that efforts are being made to attend to repairs and replacements.

*Avoidable payment of penalty*

**2.3.32** As per electricity tariff, High Tension (HT) power consumers are required to maintain an average power factor of not less than 0.85 upto 31 March 2003 and 0.90 thereafter. Any shortfall in power factor attracts penalty at the prescribed rates. The HT power connections of 11 LISs of Malaprabha Project (KNNL) and Almatti Left Bank LIS (KBJNL) were serviced before 1994-95 and August 2001 respectively. It was observed that the average power factor was ranging from 0.01 to 0.89 in respect of Malaprabha Project LISs and 0.54 to 0.88 in respect of ALB LIS and therefore these companies paid a penalty of Rs.1.21 crore for the period 2002-2007.

The Government stated (June 2007) that capacitors have been fixed in two LIS and the action would be taken up in respect of other LISs.

*Avoidable payment of power charges*

**2.3.33** The Kamasamudra I & II LISs of CNNL were commissioned (June 1998) with 12 pumps with capacity of 6,210 Horse Power (HP) of which four were to be stand-by and only eight pumps of total 4,140 HP were to operate at any time. Agreement for HT power connection with contract demand for 5,700 HP was entered (June 1998) into with the Karnataka Electricity Board. The Company had to pay minimum tariff ranging from Rs.115 per HP per quarter to Rs.250 per HP per quarter as per the electricity tariff regulations. Availing power supply at higher capacity rating than required resulted in avoidable payment of Rs.70.20 lakh for the period 2002-2007.

The Government stated (June 2007) that efforts are being made to reduce the contract demand.

## Demand and Collection of water charges

**2.3.34** The sustainability and efficient utilisation of irrigation assets created by incurring huge capital cost depends on effective maintenance. Such maintenance cost needs to be met mainly through the recovery of water charges. Based on the recommendations of Finance Commissions and independent studies, the State Government observed that the State should get reasonable return or at least minimise the losses on operation and maintenance. On the recommendations of the Planning Department of the State, it was decided (October 1988) that water users pay for water utilised for irrigation so as to fully cover all the operational and maintenance costs and also yield a reasonable return on investment.

The power to levy and collect water charges is vested in the State Government till 2002. The amendment (2002) of Irrigation Act, permitted the Irrigation Companies to levy and collect water charges. KNNL and CNNL are operating and maintaining 63 completed LISs. KNNL started (2004) collection of water rates since 2004. The details of levy, collection and balance of water rates for the years 2002-03 to 2006-07 in respect of area irrigated through LISs were not furnished (August 2007) by the Companies and as such, it was not possible in audit to ensure that the Companies were able to get reasonable revenue from water charges for LISs to cover the maintenance cost.

The Government stated (June 2007) that the Companies are raising demands on the users but the collection record is very poor due to lack of infrastructure in the Companies, absence of coercive power to collect water charges and also on account of concentrating on capital works rather than collection of water charges. The reply is silent regarding corrective measures proposed to be taken, if any.

***Viability of Lift Irrigation Schemes***

**The financial viability of LIS is doubtful in view of high electricity charges.**

**2.3.35** LISs incur recurring maintenance cost and bulk of it is attributable to energy charges. These LISs are designed to lift water during one or two crop seasons only in a year. Electricity charges are levied based on actual consumption or minimum tariff (HT 3(a)) amount which ever is higher. Further minimum charges are imposed even if the plant or machines are not operated and no power is consumed. Accordingly, the cost of power charges in respect of three KBJNL projects[75] ranged between Rs.6.71 and Rs.35.72 per month per acre, whereas the average water rates leviable as per Irrigation Act are Rs.9.67 per acre per month, leaving an enormous gap between maintenance cost and water rates. Based on the cost of operating of LISs, KNNL and KBJNL had apprised (July 2002 and December 2003) the State Government of the necessity to evolve a policy on sharing of cost of power incurred for operating these LISs for sustaining them. The Government, however, is yet (May 2007) to formulate policy on LISs.

***Failure to avail Central Excise Duty exemption***

**The companies failed to avail Central Excise Duty exemption on machineries and equipments used in the projects.**

**2.3.36** The GOI fully exempted (8 January 2004) Central Excise Duty (CED) on all items of machineries, equipments, pipes, instruments *etc*., required for setting up of water supply plants and delivery of water for irrigation and drinking purpose. In order that the contractor may avail the benefit of CED exemption a certificate (to the effect that the goods are cleared for the intended use *i.e.*, the plant and equipments *etc.,* which are going to be used for setting up of water supply plants) has to be issued by the Deputy Commissioner of the district (in which the plant is located) on the basis of the information provided by the Company that these equipments would be utilised for lift irrigation systems. Test check of records of 14 contracts relating to head works involving Rs.168.50 crore finalised between May 1999 and September 2005, revealed the following omissions:

[75] **Almatti Left Bank Canal, Almatti Right Bank Canal and Mulwad LIS.**

- In case of 11 contracts valuing Rs.113.62 crore, finalised after 9 January 2004, the companies failed to include appropriate clause that would bind the contractor to avail the CED exemption so that benefits could be passed on to the Company.

- Even though the companies had made necessary arrangements for issue of CED exemption certificates by the Commissioner in four contracts of Rs.53.65 crore, no follow-up action was taken to ascertain whether the CED exemption was availed by the contractors or not in order to adjust the same in their work bills.

- In the case of 10 contracts of Rs.114.85 crore finalised between February 2003 and September 2005 no action was taken by the companies for issue of CED exemption certificates even though the supplies of machineries were made after 9 January 2004.

As per the terms of contracts, the contractors were required to furnish price break up for machineries and equipments. The price break up were, however, not obtained and kept on record by the companies. In view of the same, Audit could not ascertain the amount of CED exemption foregone by the Companies.

The Government stated (June 2007) that the Chief Engineers have been directed to arrange for necessary exemption certificates and to watch the availment of exemption and to recover the same from the work bills of the contractors.

## Internal control

**2.3.37** Internal control is a management tool used to provide reasonable assurance that management objectives are being achieved in an efficient and effective orderly manner. Audit observed that Internal Control:

- in respect of survey, preparation of estimates of schemes is weak as seen from grossly inaccurate estimates.

- in respect of scrutiny of tenders and award of contracts need to be strengthened.

- on contract management is weak resulting in incurring of avoidable expenditure.

- in respect of demand, collection of water charges is weak.

## Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and the Management of the Companies at various stages of conducting the performance review.

## Conclusion

**The LIS were taken up for providing water to those who could not be provided water through flow irrigation. There were substantial delay in completing the schemes as the funds required for completing the schemes were not made available. Though the irrigation companies were formed for expeditious completion of the ongoing projects, fresh schemes were taken up without due prioritisation and adequate planning and allocation of available resources on many projects resulted in non-completion of ongoing projects. The LIS schemes were not properly synchronised as in some cases canal works were completed without ensuring completion of head works; in some cases sub projects were taken up without first completing the main projects. Many LISs were lying unutilised for period ranging from four to seven years for want of repairs though substantial amounts were invested in these LISs.**

## Recommendations

- **Allocation of available funds needs to be streamlined / prioritised so that works of LIS are not left incomplete.**

- **Action needs be taken to synchronise completion of canal works, head works, installation of pumps and electrification works, development of atchkat *etc.***

- **The Company should expedite repairs/maintenance of LIS so as to put them into operation.**

- **Company should pursue State Government to share cost of Power incurred for operating LISs for sustaining them.**

## 2.4 KARNATAKA FOREST DEVELOPMENT CORPORATION LIMITED

## PULP AND MISCELLANEOUS PLANTATION ACTIVITIES OF THE KARNATAKA FOREST DEVELOPMENT CORPORATION LIMITED

### Highlights

**The Company has not reconciled the land available/transferred to it from Forest Department and handed over back to Government.**

*(Paragraph 2.4.7)*

**The re-plantation was done in 4,464 Ha as against the target area of 16,115 Ha (28 *per cent*).**

*(Paragraph 2.4.10)*

**In the Urban Fuel Wood project the Company deviated from its intended objective of providing the produce as poles and fuel wood deprived the area of social benefit as poles and fuel wood was not made available to local people. Loss of revenue of Rs.4.28 crore was incurred on the project.**

*(Paragraph 2.4.12)*

**In the Small Timber and Fuel Wood project at Kolar, the Company deviated from its intended objective of providing the produce to local people. Also, the society was deprived of social benefits such as rural employment, encouragement to cottage industries and amelioration of the environment. Loss of revenue of Rs.1.71 crore was incurred on the project.**

*(Paragraph 2.4.13)*

**Going in for a full fledged project without waiting for the results of pilot project coupled with lack of proper maintenance rendered the Tamarind orchard project unviable.**

*(Paragraph 2.4.16)*

**The internal control mechanism and the management information system were not commensurate with the size and nature of the Company. The Company has not maintained basic records relating to raising of nurseries in Bangalore division and plantation, extraction and maintenance of pulpwood plantations in all the divisions. Further, the Company had not maintained cost records and has not constituted Audit Committee as prescribed under Companies Act, 1956.**

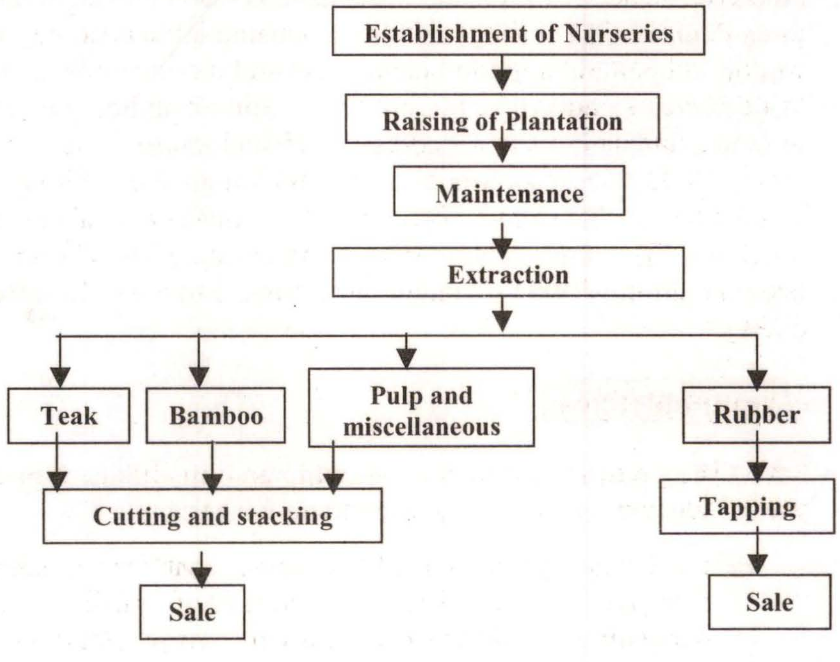
*(Paragraph 2.4.17)*

## Introduction

**2.4.1** The Karnataka Forest Development Corporation Limited (Company) was incorporated (January 1971) with the following main objectives:

- to develop land for raising of forest plantations and in particular eucalyptus, tropical pines, rubber, teak, bamboo, cocoa, cashew and such other species in the State of Karnataka for the purpose of development of wood based industries;
- to plant, grow, cultivate, produce and raise plantations of all kinds of forest plants, trees and crops and market them;
- to carry on the business of planters, cultivators, sellers and dealers in timber, pulpwood *etc.*, and to establish, administer, own and run industries for manufacturing of forest product;
- to take up fuel wood/fodder Projects in the State to minimise the biotic pressure on natural forests.

The activities of the Company are presently confined to management of plantations of rubber, eucalyptus, teak *etc.*, already raised by Forest Department and Karnataka Pulpwood Limited (a Government Company) and transferred to the Company. It is also engaged in raising of Rubber, Eucalyptus, Bamboo, Teak and other miscellaneous plantations in clear felled areas transferred by the Forest Department on lease basis; tapping of rubber plants for collection of latex at fixed intervals of time and commercial operation mainly felling, cutting of trees and transportation, recovery of centrifuged latex from field latex and sale of plantation produce by auction/tender. Flow chart of the activities of the Company is given below:



The Management of the Company is vested in the Board of Directors (BoD) consisting of seven Directors including the Managing Director (MD). The MD is the Chief Executive Officer and is assisted by three Executive Directors who in turn are assisted by a Finance Manager and a Chief Accounts Officer.

The Company presently has seven divisions under three sectors *viz.*, Pulpwood Division at Bangalore under Bangalore Sector; Shimoga, Chickamaglur and Dharwar under Shimoga Sector; Rubber Divisions at Puttur, Sullia and Aivernadu; and a Rubber Factory at Sullia under Mangalore Sector. The financial position and working results of the Company are given in below **Annexure-15.**

The area covered under the plantations (as per accounts) as at the end of March 2006 was 54,604.61 hectare (Ha) which consists of 42,582.91 Ha of Pulpwood[76] plantations, 7,578.38 Ha having natural growth (to be replanted) of species like honne, mati, bamboo and other jungle plants and 4,443.32 Ha of rubber Plantations.

The working of the Company for the five years ended 31 March 1997 was last reviewed and reported in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1997 (Commercial), Government of Karnataka. The report was discussed (May 1999 and August 2000) by the Committee on Public Undertakings (COPU) and recommendations were made in 84th Report of the COPU in August 2000. The Company has not yet complied with the recommendations given by the COPU (March 2007).

## Scope of audit

**2.4.2** The performance audit conducted between January to May 2007 covers the Performance of Pulp and miscellaneous wood division (commonly referred to as Pulpwood Division) relating to raising and harvesting of pulpwood, fuel wood, timber and tamarind plantations and its sale by the Company during the last five years ended 31 March 2007. Audit examined the records of projects initiated, plantation harvested/extracted and sale of the produce during the period 2002-07 at Corporate office and Bangalore, Shimoga, Chickamaglur and Dharwar Divisions. The projects which were taken up after 1993-94 involving first cut/extraction during the period 2002-07 and also the projects taken up during 2002-07 though not extracted/harvested were also reviewed in audit.

## Audit objectives

**2.4.3** The performance review on pulp and miscellaneous plantation activities was conducted with a view to ascertain whether:

- the Company maintained proper account for the land held by it and achieved its mandated objectives of raising, maintenance and harvesting of pulp wood and miscellaneous plantations effectively;

**[76] Pulpwood refers to timber grown with the principal purpose of making wood pulp for paper production.**

- fuel wood/small timber projects were taken up efficiently, effectively and economically to minimise the biotic pressure[77] on natural forests;
- adequate funds were available and utilised judiciously;
- economy and efficiency in raising of nurseries and re-plantation of felled land was achieved;
- the business of planters, cultivators, sellers and dealers in timber, pulpwood *etc.*, were carried out profitably;
- the yield and revenue per hectare achieved was as per the Project Report and projects were finalised/executed on realistic basis; and
- internal control mechanism was effective and efficient.

## Audit criteria

**2.4.4** The Audit criteria adopted for assessing the achievement of audit objectives were:

- prescribed procedures and policies, provisions in the forest manual and forest code;
- instructions/guidelines issued by BoD, State Government and GOI from time to time
- working plans for extraction and regeneration/re-plantation;
- budgets, targets and other parameters contained in the Project Reports; and
- the provisions of Cost accounting records (Plantation products) Rules, 2002.

## Audit methodology

**2.4.5** The following mix of Audit methodology was adopted for achieving the audit objectives with reference to audit criteria of the performance review:

- Minutes and Agenda papers of meetings of the Board of Directors and those of its Sub-Committees;
- Certified Annual Accounts, Internal Audit Reports and Project Reports;
- Records relating to Plantation activities like raising of nurseries, plantation and their maintenance, felling *etc.*,
- Working Plan and guidelines issued by the Company and procedures adopted for extraction and sale of produce;
- Test check of vouchers; and,
- Issue of Audit enquiries and interaction with the Management.

[77] **Pressure on environment.**

## Audit findings

**2.4.6** Audit findings arising from the performance review were reported (May 2007) to the Government/Management and were discussed in the meeting (12 July 2007) of Audit Review Committee on Public Sector Enterprises (ARCPSE). The meeting was attended by the Secretary to the Government of Karnataka, Forest, Ecology and Environment Department and the MD of the Company. The views expressed by the representatives of the Government/Management and replies furnished (July 2007) by the Management have been taken into consideration while finalising the review.

The Company has not maintained/updated basic records[78] relating to raising of nurseries in Bangalore division and plantation, extraction and maintenance of pulpwood plantations in all the divisions (Bangalore, Shimoga, Chickamaglur and Dharwar). Audit findings discussed in succeeding paragraphs are based on information furnished by the Company/records made available to audit.

## Non-reconciliation of land transferred by Forest Department

**2.4.7** The Company held land to the extent of 86,640.63 Ha as per the latest ten year working plan for the period 1999-00 to 2008-09. The details of land held by various sectors (excluding rubber plantation)[79] are as follows:

| Sector | Land held as per working plan (Ha) | Land surrendered/ transferred back to Forest Department (Ha) | Balance land with Company as at March 2006 |
|---|---|---|---|
| Bangalore | 22,425.23 | 3,693.00 | 18,732.23 |
| Shimoga | 64,215.40 | 29,425.43 | 34,789.97 |
| **Total** | **86,640.63** | **33,118.43** | **53,522.20** |

**The Company has not reconciled the land available/transferred to it from Forest Department and handed over back to Government.**

The above table shows that out of 86,640.63 Ha land available with the Company as per working plan 1999 to 2009, the Company handed over/transferred back 33,118.43 Ha land to the Forest Department (2003-06) as the raising of plantations was not economical on this land. The balance land available with the Company as on 31 March 2006 was thus 53,522.20 Ha. It was, however, noticed that as per annual accounts for the year ending 31 March 2006, the land held by the Company was 50,161.29 Ha. There was, thus, a difference of 3,360.91 Ha between the land as per working plan and as shown in the annual accounts. The Company had neither reconciled the difference and nor the reasons for the difference were available in the Company's records. Besides, information in respect of expenditure incurred on the surrendered land was not available.

The Management stated (July 2007) that transfers of land between Company and Forest Department was a regular feature and as such reconciliation was an ongoing process and cannot be taken as final at any point of time. The reply is

**[78] plantation journals, extraction registers, register indicating the details of plantations expenditure *vis-à-vis* sanctions, nursery register, sanction order register.**
**[79] the rubber plantation held by the Company (Mangalore sector) is 4,443.32 Ha.**

not acceptable as the Company should have information of land held by it at any particular time.

## Financial performance of Pulpwood division

**2.4.8** The financial performance of Pulpwood division as furnished (January/ July 2007) by the Company for the five years ended 31 March 2007 is given below:

| Year | Total revenue | Total expenditure | Loss | Cumulative loss |
|---|---|---|---|---|
| | (Rs. in crore) | | | |
| 2002-03 | 7.59 | 9.82 | 2.23 | 11.44 |
| 2003-04 | 4.13 | 7.27 | 3.14 | 14.58 |
| 2004-05 | 8.24 | 20.49 | 12.25 | 26.83 |
| 2005-06 | 10.16 | 15.56 | 5.40 | 32.23 |
| 2006-07 | 8.59 | 11.28 | 2.69 | 34.92 |

The Company, in none of the years during last five years ended 31 March 2007 earned profit from its Pulpwood activities and the accumulated loss was Rs.34.92 crore. The Company had not been analysing plantation-wise profitability of its operations and remedial action taken to increase profitability.

The Management accepted (July 2007) the audit observation and agreed in the ARCPSE meeting (July 2007) to study the system of segment-wise/ plantation-wise accounting prevalent in Mysore Paper Mills Limited (another Government Company engaged in plantation activities) and make efforts to adopt the same.

The Company raised 4,114 Ha of Pulpwood plantations during 1995 to 1999 in Bangalore, Chickamaglur, Dharwar and Shimoga divisions under "Pulpwood project 1995-97", "Acacia project 1998-99" and "Pulpwood project 1999". Audit scrutiny revealed that in respect of following plantations there was a shortfall in revenue of Rs.4.13 crore compared to the revenue anticipated as per Project report.

| Division/Plantation | Year | Area (Ha) | Expen-diture | Revenue | | Shortfall |
|---|---|---|---|---|---|---|
| | | | | as per DPR | actual | |
| | | | Rs. in lakh | | | |
| **Chickamaglur** | | | | | | |
| Bisilemane | 1997 | 60.50 | 16.37 | 62.92 | 1.34 | 61.58 |
| Ganidal | 1998 | 25.50 | 6.62 | 33.25 | 2.96 | 30.29 |
| Kanagalsara | 1999 | 54.00 | 17.80 | 61.00 | 13.97 | 47.03 |
| **Shimoga** | | | | | | |
| Muddinakoppa | 1996 | 100.00 | 30.08 | 104.00 | 13.67 | 90.33 |
| Bharathipura | 1996 | 55.00 | 12.55 | 57.20 | 10.99 | 46.21 |
| Mrugavadhe | 1996 | 50.00 | 10.51 | 52.00 | 8.27 | 43.73 |
| Dhanasale | 1996 | 34.00 | 7.89 | 35.36 | 3.26 | 32.10 |
| Guddinakoppa | 1997 | 75.00 | 21.75 | 78.00 | 16.07 | 61.93 |
| **Total** | | 454.00 | 123.57 | 483.73 | 70.53 | 413.20 |

Reasons for loss were not on record.

The Management stated (July 2007) that the plantation in the above regions were found to suffer from die back (drying from top), pathogen attack and fire damage. The Management further stated that there was plantation available for extraction in part of the land and that all the above projects except for Muddinakoppa and Dhanasale would turn to be profitable in the future.

The reply is not acceptable, as the shortfall of Rs.4.13 crore has been worked out after considering the actual revenue from the harvested plantations and also yield expected from the plantation pending[80] to be extracted. Further, as compared to expenditure incurred on these plantations, there was a loss of Rs.53.04 lakh.

## Unrealistic project report

**2.4.9** The Company has been preparing project reports for implementation of various projects. The Company had taken up Urban Fuel Wood project for Bangalore City and Small Timber and Fuel Wood project for Kolar during 1994-97 and the Internal Rate of Return (IRR) projected were 10.14 *per cent* and 11.50 *per cent* respectively. The IRR's of these projects were not achieved as the actual revenue realised was far less than projected revenue.

Further, the Company under took projects during 2001 to 2004. The projected IRR in respect of the test check cases is given below:

| Project | Project Area (Ha) | Total cost (Rs. in lakh) | Yield assumed (tonne/Ha) | Selling rate assumed (Rs. Per tonne) | IRR of the Project (*per cent*) |
|---|---|---|---|---|---|
| Pulpwood project (2001)<br>Project for raising pulpwood plantation of high yielding species in Shimoga/ Chickamaglur/Dharwad Division. | 300 | 62.85 | 80 | 821 | 18.65 |
| Pulpwood project (2001)<br>Project for raising pulpwood plantation in Bangalore Division during 2001. | 100 | 10.85 | 35 | 821 | 16.75 |
| Pulpwood project (2004)<br>Pulpwood plantation project – Shimoga sector during 2004. | 800 | 223.14 | Aca Hy- 100<br>Aca Spi- 60<br>Eucalyptus- 80<br>Euc Com- 40 | 1,250 | 19.65 |
| Pulpwood project (2004)<br>Project for raising clonal pulpwood plantation during 2004-Bangalore Division | 393 | 70.41 | Under veg propagation- 50<br>Seed origin- 30 | 1,250 | 19.99 |

80 **expected yield from balance Kanagalasara plantation was 1,700 MT; balance eucalyptus plantation for second/third cut in the above lands was only 29.5 Ha.**

It was observed in audit that:

- the projected IRR varied from 16.75 to 19.99 *per ce*nt even though the IRR of earlier projects were lower (10.14 / 11.50 *per cent*) and that too was not achieved (as projects were under loss as discussed in paragraph 2.4.12 and 2.4.13).

- Compared to a project (Girishringa- acacia), which had the highest yield of 61 tonne per hectare, the average return on investment was 'Nil' (at 8 *per cent* compound interest).

Thus, IRR ranging from 16.75 *per cent* to 19.99 *per cent* envisaged in the project reports during 2001 to 2004 were not realistic.

In this connection, it is pertinent to mention that during the Board meeting (August 1993) one of the Directors stated that in almost all projects, the IRR had been arrived at projecting higher yield as well as assuming the selling price on the higher side as compared to the actual yield and selling price fetched by the Company. He further opined that the projects were cleared for the purpose of seeking the approval of Banks/NABARD/Government.

The Management stated (July 2007) that seedlings of earlier projects upto 2003 were of 'seed origin' and its genetic makeup was not known. Further, it was stated that from 2004 onwards clonal (genetic-high yielding varieties) of plantations were being raised and as such, the high IRR was achievable in future.

The reply of the management that earlier projects were based on seed origin and its yield was not predictable confirms to the audit observation.

## Physical performance

### *Shortfall in target area for raising pulpwood plantation*

**2.4.10** As per the Working Plan approved (2000-01 and revised approved in 2005-06) by the GOI the targeted areas for third cut in the case of eucalyptus and first cut in the case of acacia would form the target for replanting in the immediate next year of such cut/harvest made. The table below indicates the annual replanting target fixed for plantation of pulpwood by the Company and the plantations raised against them during the period 2002-07.

| Year | Targeted area | Area planted | Shortfall |
|---|---|---|---|
| | | in Ha | |
| 2002-03 | 4,041.08 | 0.00 | 4,041.08 |
| 2003-04 | 3,054.15 | 5.00 | 3,049.15 |
| 2004-05 | 1,901.56 | 1,194.90 | 706.66 |
| 2005-06 | 3,799.89 | 1,651.88 | 2,148.01 |
| 2006-07 | 3,318.71 | 1,611.94 | 1,706.77 |
| | **16,115.39** | **4,463.72** | **11,651.67** |

**The replantation was done in 4,464 Ha as against the target area of 16,115 Ha (28 *per cent*).**

It was observed that the Company had identified the targeted area for replanting based on the annual target area in working plan, it had not fixed any physical target for actual replacement of plantations. The Company raised plantation in 4,464 Ha as against the target area of 16,115 Ha (28 *per cent* achievement). It was also noticed that the Company had not replanted during 2002-03 and 2003-04 due to financial constraints/austerity measures. The reasons for shortfall in respect of other years were not on record. Further, as per divisional records, the Company has plantations in an area of 30,142 Ha as against 48,472 Ha of land held as at 31 March 2007 representing 38 *per cent* of land without plantations. Non-replantation would hamper future yield.

The Management stated (July 2007) that due to paucity of funds, there was shortfall in replantation. Further, the Management stated that in some of the areas, eucalyptus plants had good coppice[81] growth even after their third cut and thus were not replanted.

The reply is not tenable as the details of areas not replanted due to good coppice growth (after third cut) were not made available to audit and also this fact was not considered in the working plan for replantation. By not achieving the replantation target, the Company is not only foregoing future revenue but also contributing to environmental degradation.

### *Extraction of Pulpwood – Shortfall in Potential Revenue*

**2.4.11** The Company identified 27,999 Ha of plantations raised by it due for extraction during the period 2002-03 to 2006-07 as per its Annual working plan for the period 1999-2000 to 2008-09. The division wise extraction performance of the Company during the period 2002-03 to 2006-07 is given below.

| Name of the Division | | Area due for extraction (Ha) | Area extracted (Ha) | Total yield obtained (tonne) | Yield per hectare (tonne) | | | Work in progress (as on Mar-07) Ha | Extraction not done (Ha) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Lowest | Highest | Average | | |
| **First cut** | | | | | | | | | |
| Shimoga | Eucalyptus | 358 | 229 | 4,544 | 18.00 | 24.00 | 19.84 | 19 | 110 |
| | Acacia | 1,112 | 1,000 | 60,649 | 19.10 | 103.00 | 60.65 | 112 | - |
| Chickmagalur | Eucalyptus | 454 | 280 | 4,489 | 3.30 | 111.41 | 16.03 | 174 | - |
| | Acacia | 182 | 122 | 6,836 | 6.62 | 106.73 | 56.03 | 60 | - |
| Bangalore | Eucalyptus | 3,357 | 3,151 | 38,858 | 1.15 | 39.41 | 12.33 | 98 | 108 |
| | Acacia and Casuarina | 921 | 738 | 9,338 | 0.41 | 38.95 | 12.65 | 12 | 171 |
| Dharwad | Eucalyptus | 201 | 184 | 4,643 | 10.36 | 44.87 | 25.23 | 17 | - |
| | Acacia | 691 | 686 | 31,029 | 9.88 | 100.28 | 45.23 | 5 | - |
| **Second cut** | | | | | | | | | |
| Shimoga | Eucalyptus | 2,353 | 858 | 5,078 | 1.28 | 25.10 | 5.92 | - | 1,495 |
| Chickmagalur | Eucalyptus | 3,605 | 2,844 | 31,130 | 2.88 | 35.30 | 10.94 | - | 761 |
| Bangalore | Eucalyptus | 1,796 | 1,796 | 17,457 | 0.63 | 35.64 | 9.72 | - | - |
| Dharwad | Eucalyptus | 2,296 | 1,187 | 2,647 | 0.78 | 12.13 | 2.23 | - | 1,109 |

[81] **wood sprouts from cut stumps.**

| Name of the Division | | Area due for extraction (Ha) | Area extracted (Ha) | Total yield obtained (tonne) | Yield per hectare (tonne) | | | Work in progress (as on Mar-07) Ha | Extraction not done (Ha) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Lowest | Highest | Average | | |
| hird cut | | | | | | | | | |
| himoga | Eucalyptus | 3,058 | 694 | 5,287 | 2.44 | 18.86 | 7.62 | | 2,364 |
| hickmagalur | Eucalyptus | 625 | 392 | 4,562 | 0.36 | 19.67 | 11.64 | 202 | 31 |
| angalore | Eucalyptus | 5,220 | 3,819 | 20,009 | 0.47 | 19.34 | 5.24 | 199 | 1,202 |
| harwad | Eucalyptus | 1,770 | 978 | 3,125 | 0.21 | 8.65 | 3.19 | | 792 |
| | | **27,999** | **18,958** | **2,49,681** | | | | **898** | **8,143** |

It was observed that:

- the anticipated yield of eucalyptus wood was 25 to 50 tonne per hectare for first extraction and 20 tonne per hectare in the second extraction in respect of plantation raised prior to 1993. As per the project report, the anticipated yield of plantations raised during 1994 to 1997 was 40 tonne, 30 tonne and 25 tonne for the first, second and third cut rotation respectively. The average per hectare yield obtained, however was lower and ranged from 12.33 to 25.23 tonne in the first cut, 2.23 to 10.94 tonne in the second cut and 3.19 to 11.64 tonne in the third cut.

- the anticipated yield as per the project report in the case of acacia and casuarina was 80 tonne per hectare. The average yield obtained, however, ranged from 12.65 to 60.65 tonne per hectare.

- out of 27,999 Ha, as on March 2007, the Company extracted 18,958 Ha of plantations in full. An area of 110 Ha of plantations (Basavapur 20 Ha and Hanumapura 90 Ha) was not extracted as it was handed over to the State Government as wild life area. The plantations to the extent of 8,033 Ha were not extracted due to poor density of pulpwood trees and existence of natural growth of jungle plants. The extraction work is in progress in the balance area of 898 Ha.

- considering the lowest anticipated yield of 25 tonne per hectare, the yield deficit in respect of first and second cut harvested during the last five years ended 31 March 2007, worked out to 1,20,954 tonne with a shortfall in potential revenue of Rs.9.68 crore. On the same analogy, the potential revenue loss for not extracting 3,473 Ha of plantations due to poor growth, which were due for first and second cut during 2002-03 to 2006-07 worked out to Rs.5.60 crore.

It was further observed that out of 8,143 Ha not extracted, 4,572 Ha in Shimoga Division were proposed to be transferred to the State Government without considering for harvest as these were not economically viable. The details of actual transfer/proposed to be transferred were not available on record.

The Management stated (July 2007) that the balance plantation was not extracted as there was poor density of pulpwood trees and high density of natural growth. The Management while accepting the shortfall in yield in many areas, further stated that these were due to poor soil, poor rainfall and other natural calamities. The reply is not acceptable as these factors were not unknown to Company and Annual Working Plan should have been prepared considering these factors.

## Miscellaneous activities

### *Urban Fuel Wood Project for Bangalore city*

**2.4.12** The Company approved (January 1993) a Project for Urban Fuel Wood Project for Bangalore city. The main objective of the project was to sell the produce as poles and fuel wood. The State Government approved (April 1994) the project proposal of the Company. As per the Project Report, the total area to be planted was 2,400 Ha at the rate of 800 Ha per year from 1993-94. The total cost of the project was Rs.5.68 crore which was to be financed by grants from National Waste Land Development Board (NWDB) (Rs.64.14 lakh), investment by the State Government (Rs.2.18 crore) and loan from Banks (Rs.2.86 crore). The total revenue expected[82] to be realised from sale of poles and wood was Rs.9.02 crore (internal rate of return 10.14 *per cent).*

The Company, during the years 1994-97, raised plantations in 2,359.76 Ha, eucalyptus in 1,940.29 Ha, acacia in 183.86 Ha and casuarina plants in 235.61 Ha of land. The first cut of the plantations was expected in 2002-03/ 2003-04. The total cost incurred towards plantation and maintenance was Rs.3.94 crore. In addition, Rs.3.02 crore was paid as interest charges on the loan of Rs.2.86 crore availed from banks. Hence, the total cost incurred on the project was Rs.6.96 crore as on August 2007.

**In the Urban Fuel Wood project the Company deviated from its intended objective of providing the produce as poles and fuel wood deprived the area of social benefit as poles and fuel wood was not made available to local people. Loss of revenue of Rs.4.28 crore was incurred on the project.**

It was observed that:

- Between 2003-04 and 2006-07 the Company harvested 2,273.33 Ha of the above plantations and realised a total quantity of 27,830 tonne (23,323 tonne of eucalyptus 3,966 tonne of acacia and 541 tonne of casuarina). The cut produce was sold[83] as pulpwood and revenue of Rs.1.87 crore[84] was realised. Thus, selling the produce as pulpwood instead of poles and fuel wood defeated the very objective of the project. Justification for the deviation in usage of wood was not on record.

- Out of 2,359.76 Ha, only 2,273.33 Ha was harvested. In the balance area, there was no yield due to failed plantations (72.35 Ha), illicit felling (8 Ha) and dispute (6.08 Ha). The proportionate revenue

**[82] the expected yield and revenue per Ha from sale of fuel wood was in the form of poles – 600 poles/Ha at selling rate of Rs.40 per pole and in the form of fuel wood – 16 tonne per Ha at Rs.850/tonne.**

**[83] to Harihara Polifibres Limited and Mysore Paper Mills Limited.**

**[84] 24,950 tonne at Rs.660/tonne and 2,579 tonne at Rs.800/tonne.**

expected from the plantation harvested was Rs.8.54 crore (based on project report estimations). Against this, the Company realised revenue of Rs.1.87 crore only. Compared to the investment of Rs.6.96 crore (proportionate cost for 2,353.68 Ha) on the project, operation of the project resulted in a loss of Rs.4.28 crore (considering the revenue of Rs.0.81 crore[85] in second and third cuts).

- The projection was made in numbers of poles per Ha and fuel wood in tonne per Ha. Since Company sold entire produce as pulpwood, the projected yield per Ha could not be ascertained/compared.

- NWDB, while approving (April 1992) the grant of Rs.64.14 lakh in seven installments had, *inter alia,* stipulated that the Company had to furnish satisfactory quarterly physical and financial progress reports alongwith funds utilisation certificate. The Company had received (1992) the first installment of Rs.9.76 lakh. As the Company failed to submit the periodic progress reports/utilisation certificate, NWDB did not release the balance grant of Rs.54.38 lakh.

Thus, deviation of the project from its intended objective of providing the produce as poles and fuel wood has not only resulted in loss of revenue, but also deprived the area of the social benefit, as poles and fuel wood was not made available to local people and the Company failed to avail the grant of Rs.54.38 lakh.

The Management stated (July 2007) that the reasons for deviation from its intended objective was not immediately forthcoming from the records of the Company. The Management further stated (July 2007) in the ARCPSE meeting that the girth of the plants was not achieved (in the eighth year) as there was drought during 2001-04 and due to disease to the casuarina plants. Thus, due to non-uniformity in girth/height of plants and to maintain the balance rotation period (second/third cut) the crop was sold as pulpwood. The reply of the management is not tenable as no records in support of the justification were made available to audit.

### *Small Timber and Fuel Wood Project*

**2.4.13** The BoD approved (September 1991)the Project for providing Small Timber and Fuel Wood in Kolar District (under Bangalore division). The Company prepared (July 1993) a Project Report. As per the Project Report, the total area to be planted was 2,500 Ha at 500 Ha per year for five years with a total outlay of Rs.4.96 crore. The project was to be financed by grant from NWDB (Rs.50 lakh), financial assistance from the State Government (Rs.1.28 crore), loan from Banks (Rs.2.50 crore) and income from the project (Rs.68 lakh). NABARD approved (March 1994) the project over an area of 1,500 Ha for Rs.1.42 crore. (Promoter equity: Rs.65.58 lakh; Bank loan: Rs.76.75 lakh). One of the conditions of NABARD while sanctioning the project was that the Company should ensure that only pest-resistant, fast

[85] **Based on average yield of 12.02 tonne per Ha (23,323 tonne/1,940 Ha). The land available for second and third cuts was 1,674.41 Ha (after handing over 250 Ha land to Airport project of State Government). The anticipated revenue would be Rs.80.51 lakh (considering 50 *per cent* yield ) *i.e.,* 10,063 tonne * Rs.800 per tonne.**

growing and drought resistant varieties were planted and the Company must adopt proper species mix and avoid mono culture. The State Government subsequently approved (April 1994) the project over an area of 1,000 Ha for Rs.1.42 crore (Equity from State Government: Rs.35.58 lakh; Grant from NWDB Rs.15 lakh; Loan from banks; Rs.76.75 lakh and internal resources: Rs.15 lakh). The total revenue expected[86] to be realised as per project report from sale was Rs.4.61 crore (internal rate of return of 11.50 *per cent).*

The Company, during the years 1994-1997 raised plantations in 1,499 Ha with 1,093.90 Ha of eucalyptus, 336.50 Ha of acacia and 68.60 Ha of casuarina plants and first harvest was in 2002-03/2003-04. The total cost incurred on the project was Rs.3.30 crore (plantation and maintenance of Rs.2.50 crore; and interest of Rs.79.76 lakh).

It was observed that:

**The Company deviated from its intended objective of providing the produce to local people. Also the society was deprived of social benefits such as rural employment, encouragement to cottage industries and amelioration of the environment. Loss of revenue of Rs.1.71 crore was incurred on the project.**

- Between 2002 and 2006 the Company harvested 1,278.40 Ha of the above plantation and the yield obtained was 15,124 tonne (consisting of 11,979 tonne of eucalyptus, 3,116 tonne of acacia and 29 tonne of casuarina). The cutting of (28 Ha) plantation was under progress (July 2007). The balance 192.60 Ha was not extracted as the plants had failed during initial plantation (1994-97) and the area was not replanted. The cut produce was sold as pulpwood and revenue of Rs.1.04 crore[87] was realised. The BoD had stipulated (September 1991) that the material (Small Timber and Fuel wood) obtained from the plantations should not be sold to industries and these materials should be sold to public through authorised depots in towns of Kolar District. These were, however, sold as pulpwood to industries. Reason for deviation was not on record.

- Out of 1,499 Ha the produce was harvested in 1,278.40 Ha. The proportionate revenue expected to be realised was Rs.3.92 crore (based on project report estimations). As against this, the Company realised Rs.1.04 crore only. Even if 50 *per cent* of normal yield of first cut is considered for second and third cut, the additional revenue to be realised will be Rs.47.92 lakh. Compared to the investment of Rs.3.23 crore (proportionate cost for 1,471 Ha) the project had resulted in a loss of Rs.1.71 crore.

- The plantations raised in 41.10 Ha of acacia and 57.60 Ha of casuarina and 93.90 Ha of eucalyptus had not been harvested as the plants had failed. The reasons for failure were not analysed by the Company (August 2007).

**[86] The expected yield per Ha at 5th (thinning)- 4 tonne per Ha for fuel wood; at 9th year harvesting – 28 tonne per Ha of fuel wood and 2.5 cubic tonne per Ha of Small timber at an expected selling rate of Rs.850 per tonne of fuel wood and Rs.1,400 per cubic metre of Small Timber.**

**[87] 12,269 tonne at Rs.660 per tonne and 2,854 tonne at Rs.800 per tonne**

- Though NABARD had sanctioned (March 1994) the project for 1,500 Ha, the State Government approved (April 1994) the project for 1,000 Ha, the Company, however, raised plantation in 1,499 Ha during 1994 to 1997. The reason for deviation was not on record.

- The State Government contributed only Rs.25 lakh by way of share capital. The Company availed (1995-2001) Bank loan of Rs.76.74 lakh and paid interest charges of Rs.79.76 lakh. Further, the Company did not receive the grant of Rs.15 lakh from NWDB, the reasons for which were not on record.

It was observed that the main reason for loss was low yield. No analysis was made to take remedial action for improving the profitability. Besides, deviation of the project from its intended objective of providing the produce to local people. It has resulted in depriving of the society of the social benefits such as rural employment, encouragement to cottage industries and amelioration of the environment.

The Management stated (July 2007) that due to continuous drought situation the Company could sell the produce as pulpwood only. It further stated that the casuarina species was planted on an experimental basis in a smaller area as the environmental conditions in Kolar did not support such species and as such the plantation failed.

The reply is not acceptable as the Company should have planted fast growing and drought resistant varieties of species as per conditions stipulated by NABARD while sanctioning the project.

***Non-reconciliation of seedlings utilised***

**2.4.14** The total requirement of seedlings as per project report including casualty replacement is detailed below:

| Project | Net area (Ha) | Seedling required (per Ha) | Total seedling required (in lakh) |
|---|---|---|---|
| Urban fuel wood Project for Bangalore City (1994-97) | 2,359.76 | 3,000 | 70.79 |
| Small timber and fuel wood at Kolar (1994-97) | 1,499.00 | 2,000 | 29.98 |
| **Total** | **3,858.76** | | **100.77** |

On a check of field note books produced to audit, it was noticed that the divisions had raised 1.35 crore seedlings of different species. The Company did not furnish all the field note books and also the stock register of nurseries raised and utilisation of seedlings in Bangalore Division and hence the total seedling raised and utilised could not be verified in audit. Considering usage of seedlings as per the project report (100.77 lakh), the excess 34.23 lakh seedlings valued Rs.28.75 lakh (at Rs.0.84/seedling) remained unutilised. The division did not reconcile the nursery seedlings account for these projects. Details of usage of balance seedling was not available on record.

In the ARCPSE meeting, the Management stated (July 2007) that the reconciliation of seedlings was in progress and would be furnished.

## Unfruitful expenditure due to raising of plantation in wild life areas

**2.4.15** As per State Government notification (1974), certain areas (Hanumapura and Basavapura in Shimoga division), were classified as wild life areas and no timber operations[88] for exploitation of any forest produce of any kind could be done.

The Company raised (1995-97) teak plantation in 152 Ha of these areas under Shimoga Division by incurring Rs.41.80 lakh. As these plantations were falling under Bhadra wildlife sanctuary, the land was transferred (1998-99) to Karnataka Forest Department.

It was observed that despite of handing over the above plantation raised in wild life areas, the Company again raised (1997 to 2001) pulpwood, bamboo and teak plantations in 298.80 Ha in Hanumapura and Basavapura under Shimoga division by incurring an expenditure of Rs.62.60 lakh. These plantations were subsequently handed over (September 2004) to the Karnataka Forest Department rendering the investment unfruitful.

The Management stated (July 2007) that the Forest Department had transferred this land to the Company and the Company was allowed to plant, extract and replant in these areas. It further stated that after the Honorable Supreme Court's order (February 2000), raising of plantation in wild life areas was not continued and the Forest Department has been requested to reimburse the total investment made in wild life areas.

The reply is not tenable as the Management had not produced the relevant approval of the State Government for raising of plantation in these areas.

## Tamarind Orchard Project

**Going in for a full fledged project without waiting for the results of pilot project coupled with lack of proper maintenance rendered the Tamarind orchard project unviable.**

**2.4.16** The BoD approved (April 1993) a pilot project for raising tamarind plantation on 25 Ha of land at Dalasanur State Forest, Kolar District at a total cost of Rs.29.47 lakh during the period from 1993-94 to 1999-2000. The project was to be implemented on an experimental basis so that a bigger project of raising tamarind plantations could be taken up depending on the success of the pilot project. The Company raised tamarind plantations under pilot project in 1993 on 50 Ha of land of Dalasanur village at a total cost of Rs.17.94 lakh against 25 Ha decided by the Board. Against DPR norm of 5,000 trees at 100 trees per Ha, 4,250 trees finally survived in Dalasanur pilot plantations as on 31 March 2006.

Without waiting for the success or otherwise of the pilot project, the BoD approved (August 1993) the full scale tamarind plants project on 5,000 Ha of land with a financial outlay of Rs.43.28 crore. The Company proposed (July 1996) to NABARD for assistance of Rs.20.73 crore (for eight years

[88] **activity related to extraction of living wood from the forest for use as building materials.**

raising and maintenance for 5,000 Ha). NABARD, however, sanctioned (1996) the project for Rs.1.89 crore (three year raising and maintenance over an area of 1,270 Ha). The State Government approved (July 1998) the same *post facto*.

The Company raised (1996 and 1997) tamarind plantations on 410 Ha of land in Bangalore Division against the 1,270 Ha approved by Government/NABARD. No further plantation was carried out. The total amount spent on raising and maintenance of tamarind plantations raised under this project upto 2005-06 was Rs.1.73 crore (including interest of Rs.94.40 lakh).

In this connection it was observed that:

- As on 31 March 2006, against 41,000 trees planted in 410 Ha, 11,400 plants/trees had survived. The Company earned (2002-03 to 2005-06) revenue of Rs.0.07 lakh as against Rs.17.40 lakh anticipated in the project report. Further, the cost of trees existing as on 31 March 2006 represents only Rs.48.03 lakh against Rs.1.73 crore incurred on the project.

- The Company had carried out watering and other maintenance works for five years *i.e.,* upto 2001-02 from the year of plantation and 30,160 plants had survived during that period. At the end of March 2006, however, only 11,400 plants remained. The Company did not analyse the reasons for the death of plants in the interim period (2002 to 2006) even though the plants attained considerable growth to withstand adverse climatic conditions. It was, however, noticed that tamarind plants raised under pilot project (in Dalasanur village) had a survival rate of 85 *per cent* and watering, manuring and other cultural operation were carried out upto eighth year of plantation. Thus, had the Company taken preventive steps by way of carrying out the required culture operations, it could have at least avoided the death of 18,760 trees which survived upto the end of six years of plantation. By not doing so, the Company suffered a potential loss of Rs.79.16 lakh due to failure of plants in tamarind orchard plantation. The Company admitted (September 2005) to the State Government that there was 50 *per cent* diminution in the value of tamarind plantations.

- Further, it was noticed that plants grown on 15 Ha of land in Yeshwanthpur (approximate 1,500 trees) were destroyed by locals/villagers, which indicated that the failure of trees was due to biotic pressure and lack of watch and ward.

- In terms of project report, the tamarind trees were to start yielding from the eighth year and the expected yield was five kg per tree during first and second year and expected revenue was Rs.25 per tree. The basis for determining the yield and selling rate were, however, not on record. At the time of initiating (1996) the tamarind project, the Company had about 19,000 old tamarind trees in the plantation transferred by the State Government. The sale proceeds details of tamarind yield from these trees during the period prior to 1995 were not made available to audit to compare the same with the yield and revenue projected in the project report.

Thus, going in for a full fledged project without waiting for the results of pilot project coupled with lack of proper maintenance rendered the project unviable.

The Management stated (July 2007) that during 2001-04 there was severe drought in Kolar in which 17,085 seedlings died. During this period the Company faced severe financial crisis and as such cultural operations were not carried out. It further stated that the existing trees had a life span of over 100 years and the future yield would cover the investment cost.

The reply is not tenable as there was no mention of drought and its effect on plantation in the plantation registers. Further, details of taking up the matter with the State Government for making available funds for cultural operations were not made available to audit.

## Internal control

**2.4.17** Internal Control System is an essential management tool. An efficient and effective Internal Control System helps the management to achieve the objectives laid down. The following deficiencies in the internal control system in the Company were noticed.

- Though the Company was established in January 1971, it has not prepared Accounts Manual till date.
- The Company has also not prescribed/maintained the list of records to be maintained by the Head Office/Divisions in respect of raising of nurseries, utilisation of seedlings, raising of plantations with details of plantation wise and activity wise expenditure.
- Sales registers showing details of quantity sold to various agencies/Company's, revenue realised were also not maintained. In the absence of basic records for all the activities, audit could not ensure the correctness of the information furnished.
- The Company has not developed an adequate Management Information System (MIS) to apprise the top management regarding status of various activities of the Company, *viz.,* utilsation of land leased by Forest Department, raising of nurseries, plantation activities of different divisions *etc.*
- Progress reports on quantity of Pulpwood extracted and sold by the divisions, revenue realised were not maintained properly.
- The Company had also not brought to the notice of the Board the extent of failed plantations and low yield.
- Cost records have not been maintained by the Company as prescribed under sub-section (1) of Section 642, read with clause 'd' of Sub-section(1) of Section 209 of the Companies Act, 1956 in respect of

Commercial Plantation products including seeds thereof with effect from October 2002.

- As per section 292 A of the Companies (Amendment) Act 2000, every Public Company having paid up capital of not less than five crores of rupees shall constitute an 'Audit Committee'. The Company, however, has not constituted the Audit Committee so far.

The Management stated that it was maintaining records as required under the Companies Act and following the prescribed Accounting Standards. Further, though accounting manual was not available, it had prepared manual for maintaining records at head office/divisions. The Management stated that Audit Committee was not constituted as it was a Private Limited Company and Section 292A of the Companies Act was not applicable to it.

The reply is not tenable as the Company is not maintaining basic records as stated in paragraph 2.4.6. The Company was also not maintaining cost records in the prescribed format as per Cost accounting records (Plantation products) Rules, 2002. Further, the manual for maintaining records at head office/divisions was not produced to audit. The reply with regard to constitution of Audit committee is not tenable as the Company was incorporated as a '*Limited*' Company and had equity capital of more than rupees five crore; as such constitution of Audit Committee was mandatory.

## Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and the Management of the Company at various stages of conducting the performance review.

## Conclusion

**The Company has not reconciled the records relating to land available/transferred to it from Forest Department and handed over back to Government. The diversion from its intended objective of providing fuel wood and poles to cater to needs of local people under Urban Fuel Wood for Bangalore City and Small Timber and Fuel Wood for Kolar deprived the social benefits such as rural employment, encouragement of cottage industries and increased the biotic pressure on forests. The projects have also resulted in loss of revenue due to low yield. The Government and National Wasteland Development Board had not kept up their financial commitments for the projects. The re-plantation of land was achieved only in 28 *per cent* of identified area mainly due to financial constraints. In respect of Tamarind Orchard project, the full project was taken up without awaiting the results of pilot project. Non-maintenance of plants and increased biotic pressure resulted in high casualty in tamarind trees. New projects were undertaken by projecting unrealistic internal rate of returns. The non-maintenance of basic records, cost records and poor MIS affected the internal control and decision making process in the Company. Internal Control System was also very weak.**

**Recommendations**

**The Company needs to:**

- **re-orient and streamline its planning process to achieve the objectives envisaged in the Project Report of plantations thereby reducing biotic pressure on environment;**
- **improve the performance of plantation, minimise the failure of seedlings plants, introduce continuous watch and ward to monitor the plantations for taking timely remedial action;**
- **develop a long term strategy to maximise land utilisation through replantation; and**
- **strengthen the Internal Control System and introduce effective Management Information System.**
- **ensure all lands in its control are under plantation.**

# CHAPTER III

## PERFORMANCE REVIEW RELATING TO STATUTORY CORPORATIONS

## 3.1 BANGALORE METROPOLITAN TRANSPORT CORPORATION

## INFORMATION TECHNOLOGY SYSTEMS APPLICATION AND GENERAL CONTROLS OF THE BANGALORE METROPOLITAN TRANSPORT CORPORATION

### Highlights

**The limitations in Global Positioning System (GPS) in tracking data had resulted in gaps in trip data and thus the facility could not support calculation of hire charges on actual kilometres performed by private owners.**

*(Paragraph 3.1.3)*

**Irregular intimation of schedules and trips to the service provider, the system could not link the tracked data to schedules on-line and help in monitoring deviations in operations on real-time basis.**

*(Paragraph 3.1.4)*

**Non-integration of the vehicle tracking facility with other application packages, calculations with regard to earnings per kilometre (EPKM), effective kilometres, cancelled kilometres, *etc.*, had to be carried out manually.**

*(Paragraph 3.1.5)*

**Free access of the firm's representatives to the Server of the depot exposed to the risk of loss of revenue. Moreover, risk of leakage of vital information and manipulation of the reports during downloading of tracking reports from on-line vehicle tracking system in editable worksheets by firm's representatives could not be ruled out.**

*(Paragraph 3.1.8)*

**Failure to update the information and correct errors in the Website limited its utility.**

*(Paragraph 3.1.9)*

**The entire investment of Rs.79.50 lakh, made by the Corporation on the Off-line Vehicle Tracking System was unfruitful due to lack of feasibility study of the system.**

*(Paragraph 3.1.10)*

**Incorrect application of rates for On-line GPS vehicle tracking facility had resulted in excess payment of Rs.14.50 lakh over a period of 13 months.**

*(Paragraph 3.1.11)*

**A deposit of Rs.1.40 crore was made in excess of the minimum required in Escrow Account created for releasing payments to GPS service provider, resulting in blocking up of funds.**

*(Paragraph 3.1.12)*

**Premium against advertising rights in buses to the tune of Rs.12.25 lakh, was yet to be recovered.**

*(Paragraph 3.1.14)*

## Introduction

**3.1.1** The Bangalore Metropolitan Transport Corporation was formed in August 1997, after bifurcation of the Karnataka State Road Transport Corporation (KSRTC), to exclusively cater to the local transportation needs of the City of Bangalore. The Corporation had a two-tier system of administration with Central Office and Depots, under the management of one non-official Chairman and nine official Directors. There were 28 Depots and one Central Workshop under its jurisdiction as on 31 March 2007.

The Corporation had undertaken a project for On-line tracking of buses over Global Positioning System (GPS) and also computerisation of all operations of its depots.

The On-line Vehicle Tracking System over GPS was introduced with the objective of achieving improvement in trip operations, which in turn could help in enhancing citizen services like electronic display of arrival/departure timings, *etc.* The other benefits intended were the automatic calculation of hire charges for private hired buses based on actual distances covered and facilitating passenger information system. Two firms were entrusted with the project under separate agreements on Build-Own-Operate-Transfer (BOOT) basis.

The Corporation had so far invested around Rs.8.14 crore on Information Technology (IT) assets including expenditure on various computerised activities.

## Scope and methodology of audit

**3.1.2** The IT Audit was taken up to assess the achievement of objectives, as also to check effectiveness and adequacy of IT controls in operation of the On-line vehicle tracking system through GPS in particular and of other application packages/IT assets in general.

A test-check of records was carried out in the Central Office and the operation of application packages were checked in four[89] Depots of the Corporation.

## Audit findings

## Deficiencies in IT systems

**Limitations of technology**

**3.1.3** The On-line vehicle tracking system was designed to track the movement of each bus by satellite, via radio frequency signals from the 'On-bus transmitter unit' (OBU) and transmit the captured data to 'communication bankers' through Global Services for Mobile communication (GSM) technology, at intervals of every 10 seconds. The tracking data would then be processed at the control centre, using the inputs relating to trip schedules of each bus (Form IV), for generating reports through customised software.

The GPS tracking facility was reported to have inherent limitations like loss of connectivity due to selective availability of satellite constellation, buses not being in the direct and unobstructed 'line of sight' with the satellite, as large parts of the travel paths came under dense tree covers, flyovers and bridges; between a cluster of high-rise buildings, or while the bus was parked under a shelter. Further, technical problems like jamming of communication lines due to overload; cellular service not being available at remote areas; *etc.,* led to disruption in service. Due to such limitations the tracking data had not been continuous on many occasions, resulting in many gaps in trip data.

Thus, the purpose of utilising an advanced technology had not been served as achieving improvement in operations in terms of schedule adherence; control over deviations in routes, traffic load analysis; driving pattern analysis had not been fully possible. The facility also could not support calculation of hire charges and effective/cancelled kilometres performed by private operators.

The efforts in finding a solution with appropriate reflecting/boosting of signals to avoid loss of trip data were yet to bear fruits.

The Corporation had thus failed in making a thorough analysis of limitations of the system before implementation of a technology, on account of which, expenditure amounting to Rs.62.78 lakh (Rs.58.87 lakh towards charges for service and investments of Rs.3.91 lakh on hardware), remained unfruitful.

## Inadequate inputs

**3.1.4** The Corporation had not fixed a specific time frame for ensuring timely intimation of schedules and trips to the service provider of On-line vehicle tracking system, on account of which, the system could not link the tracked data to schedules On-line and help in monitoring deviations in operations on

[89] **Depot 7- Subhashnagar, Depot 3 – Shanthinagar, Depot 27- Jigani and Depot 28- Hebbal.**

real-time basis. Consequently, unreliable outputs could not help in improving efficiency of service, planning schedules for repairs and maintenance of buses.

## Non-integration of packages and depots

### *Vehicle tracking facility*

**3.1.5** The Corporation had not made any provision to integrate the data derived from the vehicle tracking facility with other application packages in order to automatically correlate data and cross-verify common information, for effective monitoring. In the absence of such integration, the calculations with regard to earnings per kilometre (EPKM), effective kilometres, cancelled kilometres, *etc.,* had to be carried out manually, on the basis of the Trip Sheet submitted by each conductor at day end. This manual intervention could have been avoided, had the module been integrated with the ERP package as well as the Ticket Revenue Accounting (TRA) module, in which, the GPS data would have served as inputs for such calculations automatically and also avoided duplication of data entry in the respective packages.

### *Enterprise Resource Planning (ERP) solution*

**3.1.6** Though the ERP solution was envisaged for automating and integrating the complete business functions of the Corporation, with the control at the Central Office, the same had been installed and operated on a stand-alone basis even in three depots for over two years despite the agency having been provided with additional resources.

The objective of integrating the data for effective monitoring was thus not achieved in spite of investments on the infrastructure.

### *Ticket Revenue Accounting (TRA) module*

**3.1.7** Since the TRA module database was not centrally managed, a consolidated picture of the revenue collections was not available at the Central Office at a given point of time. The manual task of collection of details from each depot and consolidation, as well as duplication of data entry for financial accounting could not be avoided. Lack of centralised management of the package also caused unintended delays in carrying out any modifications to the source code.

### *Inadequate access controls*

**3.1.8** The Servers at depots were at risk of physical damage/tampering as they had not been maintained in a protected environment and had easy accessibility. The Servers were also not maintained in dust-free surroundings, thereby exposing it to the risk of breakdown.

The firm which was entrusted with the implementation of the ERP solution hired people for data entry work in the three depots. These operators were not under constant supervision of the firm's staff nor were scrutinised by the Corporation prior to their deployment and had free access to the Server of the depot, which contained the important data of the TRA module of the Depot Computerisation package, as well as various other administrative documents. By allowing such unrestricted access to third parties without proper measures for security, the depots were exposed to the risk of loss of revenue.

Further, the tracking reports from On-line vehicle tracking system, received via electronic media by all depots were in editable worksheets and were thus open to the risk of tampering and manipulation, either in transit or at the destination. The risk of leakage of vital information and manipulation of the reports therefore could not be ruled out.

## Deficiencies in Website

**3.1.9** A website was hosted in January 2001 for providing information On-line to the general public on the operations of the Corporation, its financial status, types and timings of bus routes, various services offered, complaints registering, etc. The hosting and maintenance of the official website of the Corporation had been outsourced to Bhasinsoft India Ltd., involving an expenditure of Rs.6.94 lakh, apart from recurring expenditure towards updating specific information periodically, on an average of Rs. 0.10 lakh per update.

On a review of the official website of the Corporation during May 2007, it was noticed that the website had not been maintained up to date. There were variations between the English and Kannada versions, design errors and incomplete information, as illustrated below:

- The information and number of hyperlinks differed between the English and Kannada versions.
- Many of the pages did not have a hyperlink to navigate back to the 'Home' page.
- The fare table for 8 Volvo services out of 11 did not display the applicable stage-wise fares. The results page of the lottery scheme did not display necessary information.

The Corporation stated that action had been initiated to rectify the errors on the Website.

## Off-line Vehicle Tracking System

**3.1.10** The Corporation implemented an Off-line vehicle tracking system using GPS technology during March 1999. This system was implemented in technical collaboration with Bharat Electronics Limited (BEL) with an objective to monitor trip operations of hired vehicles from private operators and to automatically calculate hire charges according to the kilometres covered on a daily basis, in place of the unreliable manual accounting system. The GPS units were first installed and operated in 200 buses. However, the units supplied by BEL, failed and had to be replaced by another model. The data from each bus had to be downloaded, which required personnel to physically go to each bus unit to download the data every day. This was found impractical since one person could attend to only about 30 buses in a day. The feasibility of attending to 200 buses a day as also testing of working of the units, could have obviated the problem. In the absence of provision for automatic generation of reports, a large number of staff was required to analyse the data and prepare requisite reports, which involved around two to three days' time. Such delayed information was far from useful as it was not available on real time basis for initiating corrective action. The Off-line facility had therefore, completely failed in providing any tangible advantage to the Corporation in improving or in monitoring of the operations of private hired buses, though the system was in operation for four years. Consequently, the system was discontinued in March 2003 and the new on-line vehicle tracking system was taken up in its place, resulting in the entire investment of Rs.79.50 lakh, on the off-line system unfruitful.

## Incorrect application of contractual provisions

### *Incorrect application of rate for on-line GPS facility*

**3.1.11** The Corporation issued a Letter of Intent in February 2004 in favour of Arya Omnitalk Wireless Solutions Limited, Bangalore (AOTWSL) for On-line GPS services for 2,000 buses at the rate of Rs.879 per bus per month for five years, being the lowest amount quoted and entered into a BOOT Agreement in December 2004. However, the Corporation had allowed the higher rate of Rs.1,102 per bus per month, which was applicable for 500 buses against the applicable rate Rs.879 per bus per month only, though the implementation was being done in stages. This had resulted in an excess payment at Rs.223 per bus per month, over a period of 13 months (October 2005 to November 2006), amounting to Rs.14.50 lakh. The reasons for allowing the higher rate of Rs.1,102 per bus per month to the firm were yet to be provided.

### *Deposit in excess of minimum required in Escrow Account*

**3.1.12** In terms of Para 7.2 of the BOOT Agreement with AOTWSL, an Escrow Account would be maintained and operated by the Corporation through a Bank for charging off the Fixed Charge payments due to the GPS service provider on a monthly basis. The Escrow Account would have a minimum balance equal to three monthly fixed charge payments, assuming 100 *per cent* operation of all the GPS units, without allowances for outages of any kind. However, while executing the Escrow Agreement on 27 April 2005, the Corporation deposited a sum of Rs.1.53 crore in the form of a Fixed Deposit, for meeting the payments due to the service provider. Taking into account, the applicable rate of Rs.879 per bus per month, the minimum balance required to be maintained for 500 buses in the Escrow Account would have been Rs.13.19 lakh only. The deposit made in excess in the Escrow Account, had resulted in blocking up of funds to the tune of Rs.1.40 crore.

### *Loss of advantage of repetitive bids*

**3.1.13** On the basis of the Expression of Interest (April 2005), Abacus Computer Centre (Pvt) Limited was entrusted with the pilot project of developing the ERP solution - 'TTtrack' for customised automation of depot activities.

The firm took up the development and customisation in one depot in October 2005. Though the functioning of the ERP solution was not complete in all respects even after being in operation for over two years in the depot, the firm was entrusted with the work of two more depots (July-August 2006) on the same lines.

The Corporation again called for fresh tenders for computerisation in five more depots (April 2007). The Corporation also proposed to float yet another tender for the computerisation of remaining 23 depots after finalising and identification of the solution for the five depots.

This indicated that the Corporation had no confidence in extending the ERP solution of Abacus to the remaining depots and was exploring other alternatives by calling for fresh tenders. Due to such *ad hoc* measures taken for implementation of computerised projects, the Corporation had failed to achieve any benefits so far and had also lost the advantage of obtaining competitive rates and services through a single tender.

### *Non-receipt of premium amounts*

**3.1.14** Under the BOOT agreement with MobiApps (India) Limited, the agency would provide GPS tracking services and also pay a monthly premium to the Corporation for each of the 700 buses allocated, at the slab rates of Rs.50 in the first year, Rs.100 in the second year, Rs.250 in the third year, Rs.750 in the fourth year and Rs.1,000 in the fifth and sixth years, *in lieu* of panel advertising space inside the buses. Thus, apart from obtaining the GPS tracking service, the Corporation would earn an income of Rs.2.65 crore over a period of six years. A monthly premium, totalling to Rs.16.10 lakh, calculated for the period from April 2005 to May 2007 as per the agreed slab rates was however, not remitted by the firm to the Corporation regularly. It was replied to an audit query that the firm had remitted premium for only 11 months from May 2005 to March 2006 at the rate of Rs.50 per bus and had not paid any amounts thereafter. On the basis of data available, the arrears from the firm worked out to Rs.12.25 lakh[90] (May 2007). Early action was needed to recover the arrears from the firm.

## Conclusion

**Though the aim of the Corporation was to improve overall quality of operations through advanced facilities such as GPS and ERP solution, it had not been able to obtain the resultant benefits for improved services to citizens. This was attributable to lack of analysis of the limitations of GPS**

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[90] **Rs.16.10 lakh – Rs.3.85 lakh (Rs.50*700 buses*11months)**

**technology, poor logistics in implementing an ERP solution and not building up proper validation and security controls in use of other IT assets. The department could also not able to integrate the vehicle tracking facility with other application packages, calculations with regard to earnings per kilometre (EPKM), effective kilometres, cancelled kilometres, *etc.,* had to be carried out manually. The data either at the depot server level or during downloading from on-line system in editable worksheet was not secured.**

**Recommendations**

**The Corporation needs to**

- **resolve limitations in GPS tracking system considering introduction of appropriate enhancements to derive complete benefit of tracking buses**
- **establish seamless interface between the vehicle tracking system and other packages**
- **consider phasing out duplicate computerised activities and maintain uniformity in operations**
- **fine tune the official website to make it error free and to properly project the profile of the organisation, in addition to providing value-added information to the general public.**

# CHAPTER IV

## 4. TRANSACTION AUDIT OBSERVATIONS

*Important audit findings noticed as a result of test check of transactions made by the State Government companies and Statutory corporations are included in this Chapter.*

## GOVERNMENT COMPANIES

### Mysore Minerals Limited

### 4.1 Loss of revenue

**Failure to procure and sell the contractually entitled share of iron ore lumps at the fixed transfer price from Joint Venture Company resulted in loss of revenue of Rs.20.82crore.**

The State Government set up (January 1997) a Joint Venture between Jindal Vijayanagar Steel Limited (JVSL) and Mysore Minerals Limited (Company) to provide adequate supply of iron ore to the steel plant of JVSL at Torangallu. A MOU was signed (January 1997) between the Company and JVSL and a Joint venture company Vijayanagar Minerals Private Limited (VMPL) was incorporated (April 1998).

As per the MOU, out of the annual capacity development of 8 million tonne (Iron ore lumps and fines), JVSL was to purchase 3.5 million tonne of fines, while the Company was to purchase 1.5 million tonne of lumps at the transfer price (lower than market price) to be decided by joint venture partners. VMPL was free to sell the quantity of lumps in excess of 1.5 million tonne and fines in excess of 3.5 million tonne with the first option of refusal by the Company. The transfer price for lumps was fixed (January 1999) at Rs.164 per tonne. JVSL and the Company also agreed (June 1999) for the premium of Rs.30 per tonne for lump payable by VMPL to the Company for using mines of the Company.

Mention was made in Paragraph 2.1.34 of the Audit Report (Commercial) of the Government of Karnataka for the year ended 31 March 2004, that the Company did not exercise the option to buy lumps at transfer price (lower than the market price) as per MOU which resulted in loss of revenue of Rs.1.58 crore on the quantity of 2.57 lakh tonne of iron ore lumps during 2001-2004.

VMPL generated iron ore lumps of 1.53 lakh tonne in 2004-05 and 2.26 lakh tonne in 2005-06. As this quantity was less than 1.5 million tonne, the entire quantity of lumps should have been purchased by the Company at the transfer price fixed as per the MOU. The Company, however, did not procure the lumps generated, despite the audit observation (*supra*) and allowed JVSL to sell the entire quantity in open market. Compared to the prevailing prices being paid by MMTC to the Company for lumps supplied to MMTC, non-lifting of lumps by the Company resulted in loss of revenue of Rs.20.82 crore[91].

The matter was reported to the Management/Government (March 2007); their replies are awaited (August 2007).

## 4.2 Undue benefit

**Violation of terms of agreement resulted in undue benefit of Rs.9.84 crore to the contractor.**

The Company entered into a five year agreement (July 2003) with Orient Goa Limited (OGL) for sale of iron ore fines of different grades. As per agreement, the rates were to be firm for the year 2003-04. Thereafter, the prices were to be revised and re-fixed with effect from 1 April each year after mutual negotiation based on prevailing market conditions/MMTC prices. Further, as per Clause 3 of the agreement OGL was to purchase minimum of four lakh metric tonne of iron ore fines per annum against advance payment.

For the year 2003-04, the Company fixed a price of Rs.110 per dry metric tonne (DMT) and Rs.70 per DMT (excluding transportation charges) for '> 66% iron ore' and '< 65% iron ore' grade fines respectively.

It was observed (February 2006) that the prevailing prices of MMTC as on 1 April 2004 and 1 April 2005 had increased as detailed below:

| MMTC prices* prevailing as on | >66% grade | <65% (*i e.*,64/63%) grade |
|---|---|---|
| | Rs. per DMT | |
| 1 April 2004 | 999.30 | 861.79 |
| 1 April 2005 | 1,551.90 | 1,201.90 |

***The above prices are net of transportation charges of Rs.98.10 per dry metric tonne (DMT).**

The Company, however, did not revise/re-fix the prices of iron ore as stipulated in the agreement. Based on the prevailing MMTC prices and giving allowance of five *per cent* on the rates of MMTC as on 1 April of 2004 and 2005 the mutually agreed price could have been settled accordingly for different grades of ore. The Company should have atleast claimed Rs.33.55 crore for supplies made during 2004-05 and 2005-06. The Company, however, claimed Rs.21.81 crore only based on old rates/rates prevailing on date of delivery/date of issue of delivery order.

The Management stated (June 2007) that instead of fixing the price once in a year (1 April) the Company adopted prevailing price of MMTC as on the day

**[91] The MMTC prices during the period 2004 -06 (different months) ranged from Rs.347 to 847 per tonne, while the transfer price was Rs.164 per tonne. The loss of revenue worked out to Rs.21.96 crore. The Company, however, had received premium of Rs.1.14 crore on these lumps (Considering the actual premium received at Rs. 30 per tonne on 3.78 lakh tonne lumps). Hence, the actual loss in revenue worked out to Rs.20.82 crore.**

of issue of delivery order and was able to get the benefit of upward revision of MMTC prices. It further stated that based on the above audit observation, the matter of non-fixation of prices as required under contractual terms was negotiated (August 2006) with OGL and it was mutually agreed to charge the price prevailing at the time of receipt of advance. Accordingly, the Company recovered an amount of Rs.1.90 crore.

The reply of the Company is not tenable as the agreement provided that as on 1 April of each year the price had to be revised/re-fixed based on prevailing MMTC prices and not based on the prices prevailing as on date of receipt of advance. The fact that there was a loss of Rs.9.84 crore considering the prices prevailing on 1 April of each year indicates that the adoption of MMTC prices as on date of delivery was not beneficial to the Company and such arrangement was in violation of the terms of agreement.

The matter was reported to the Government (May 2007); their reply is awaited (August 2007).

## 4.3 Avoidable payment

**The Company failed to comply with provisions of IT Act which resulted in payment of interest of Rs.1.61 crore.**

Under Sections 208 to 219 of the Income Tax (IT) Act 1961, companies are required to assess and pay advance tax in respect of the total income chargeable to tax. Any failure, short payment or delay in payment of advance tax instalments on the due dates attracts penal interest at the prescribed rates under Section 234 B&C of the, *ibid,* Act.

It was observed (May 2006) that the Company estimated (March 2006) the income tax liability of Rs.21.88 crore on the estimated total income of Rs.65 crore for the financial year 2005-06 (assessment year 2006-07). The Company, however, did not pay the first two instalments of advance tax due on 15 June and 15 September 2005, but paid Rs.10 crore and Rs.8 crore on 15 December 2005 and 16 March 2006, respectively.

As per self assessment tax return filed (30 November 2006) by the Company the total tax liability worked out to Rs.30.65 crore, out of which Rs.18.89 crore was already paid (Rs.18 crore as advance tax and Rs.0.89 crore as TDS). Accordingly, the Company deposited the balance tax of Rs.11.76 crore (November 2006). In addition, it also paid penal interest of Rs.94.08 lakh and Rs.67.28 lakh as per the provisions of Section 234B and 234C of the Act *ibid,* respectively. Thus failure to pay advance tax inspite of having surplus funds resulted in payment of penal interest of Rs.1.61 crore.

The Company stated (February 2007) that due to oversight and non-availability of tax consultants, advance income tax was not paid. The Company further stated that the interest earned out of fixed deposits would reduce the interest liability on the Income Tax. The reply is not tenable as the non-compliance of provisions of IT Act leading to payment of penal interest of Rs.1.61 crore cannot be justified by the interest earned on fixed deposits. Even after taking into account the amount of interest (Rs.0.30 crore) that was earned on fixed deposits to the extent of instalments of advance tax due on 15 June and 15 September 2005, the company suffered a loss of Rs.1.31 crore.

The matter was reported to the Government (March 2007), their reply is awaited (June 2007).

## 4.4 Non-realisation of revenue

**The Company failed to claim additional adhoc increase in price agreed by MMTC Limited for iron ore supplied from 27 October 2003 to 31 December 2003, resulting in loss of revenue of Rs.82.82 lakh.**

The Company was supplying (2003-04) iron ore fines from its mines situated in the Bellary district of the State to MMTC. MMTC agreed (December 2003) to give additional adhoc increase over the agreed basic prices on the demand of suppliers of iron ore to share the benefit arising out of increased realisation on export of iron ore fines. Accordingly Memoranda of Settlement (MOS) was reached (December 2003) between MMTC and the Bellary-Hospet Sector Iron Ore Mine Owners' and Suppliers Association.

As per MOS, an additional adhoc price of Rs.455 per tonne for 66/66 grade fines and Rs.439 per tonne for 66/65 grade fines was payable for ore procured by MMTC during the period from 27 October 2003 to 31 December 2003. During this period, the Company supplied 18,631 tonne of iron ore fines from its Subbarayanahalli Mines to MMTC. The Company, however, made no claim in respect of the additional adhoc price on supplies made during the above period, which resulted in loss of revenue of Rs.82.82 lakh[92].

The matter was reported (April 2007) to the Management/Government; their replies are awaited (August 2007).

## 4.5 Donations

**The Company made donations in violation of statutory regulations.**

As per the Memorandum and Articles of Association, the Company can provide for contribution/assistance or to guarantee money to charitable, benevolent, religious, scientific, national, political or other institutions or objects or for any public, general or useful objects subject to provisions of Companies Act, 1956. Further, Section 293(e) of the Companies Act, 1956 provides that a Public Company shall not, except with the consent in General meeting, contribute to charitable and other funds not directly related to the business of the Company or the welfare of its employees, any amounts the aggregate of which would in any financial year exceed Rs.50,000 or

[92] **6,430.23 Metric tonne (66/66 grade) * Rs.455 *plus* 12,200.79 Metric tonne (66/65 grade) * Rs.439 = Rs.82.82 lakh.**

five *per cent* of its average net profits[93] during three financial years immediately preceding, which ever is greater.

It was noticed that the Company released (April 2004 to June 2006) Rs.4.84 crore as donations to various organisations. These donations were *prima facie* in violation of Section 293(e) of the Companies Act (*ibid*), as the Company contributed Rs.16 lakh in 2004-05, Rs.3.68 crore in 2005-06 and Rs.1 crore in 2006-07 (upto June 2006), as against the maximum amount of Rs.50,000 per year and these contributions were not directly related to the business of the Company.

It was also noticed that prior approval of the Board was taken only in eight cases[94] (Rs.1.69 crore); whereas sanctions for the majority of cases (26 cases[95] totalling Rs.3.14 crore) were obtained after disbursement (ratification). In respect of 14 cases (totalling rupees one lakh) the Board's sanction/ratification was not obtained as of August 2007. The consent of shareholder in the general meeting was, however, not obtained in all the cases as required in terms of the provisions of Section 292(e) of the Companies Act, 1956.

Thus, the Company made contributions in violation of the provisions of the Companies Act 1956; despite incurring continuous losses upto 2003-04 and having accumulated losses of Rs.39.10 crore as on 31 March 2004. The Company had secured loan of Rs.3.34 crore and unsecured loan of Rs.14.95 crore as on 31 March 2006. As such donations made were not financially prudent and priority should have been given for repayment of loans.

The matter was reported (April 2007) to the Management/Government; their replies are awaited (August 2007).

## Karnataka Power Corporation Limited

### 4.6 Payment of ex-gratia to medically unfit employees

**Introduction of a new Voluntary Exit Scheme to medically unfit employees resulted in avoidable expenditure of Rs.46.89 crore.**

The Board of Directors (BoD) approved (December 2000) a Voluntary Exit Scheme (VES) for medically unfit employees. This scheme was extended upto March 2004. The scheme was approved without the approval of the State Government. The Company approached (February 2006) the Government for ratification, which is yet to be received (August 2007).

A total number of 928 medically unfit employees were allowed VES from March 2001 to March 2004 and a total payment of Rs.46.89 crore was made on account of ex-gratia in addition to normal cessation benefits.

**[93] as determined in accordance with provisions of Section 349 and 350 of Companies Act, 1956.**
**[94] Date of payment was between 18 May 2004 and 31 March 2006.**
**[95] Date of payment was between January 2005 to June 2006.**

It was observed that the VES scheme was in violation of Cadre and Recruitment Rules of the Company, which provides as follows:

- an employee, who by bodily or mental infirmity, is permanently incapacitated for service in the Company, is entitled for an invalid pension;
- such employees were eligible only for the normal cessation benefits;
- the Company is empowered to cause a medical examination at any time on a workman by any qualified medical doctor specified by the management to find the fitness or otherwise of the workmen for continuance of his employment.

The Company instead of awarding invalid pension as per its Cadre and Recruitment Rules amended the rules and made the VES scheme applicable in such cases. As the rules provided for payment of invalid pension for medically unfit employees there was no need for the Company to bring this VES scheme, implementation of which has resulted in avoidable expenditure of Rs.46.89 crore.

The Management stated (April 2007) that savings on account of introduction of the scheme was substantial. The reply is not acceptable as the fact remained that the Company, instead of awarding invalid pension to the medically unfit employees, introduced the scheme and paid ex-gratia of Rs.46.89 crore (in addition to invalid pension) to medically unfit employees.

The matter was reported to the Government (July 2007); their reply is awaited (August 2007).

## 4.7 Failure to claim discount offered by the supplier

**Benefit of Rs.1.32 crore could not be availed due to non-availing of discount offered by the supplier.**

Visveswaraya Vidyuth Nigam Limited (VVNL) (merged with the Company from April 2006) was procuring Diesel and Low Sulphur Heavy Stock (LSHS) from Indian Oil Corporation Limited (IOC) for its Diesel Generation (DG) Plant. As per the agreement entered into (June 1989) with IOC, the price payable was fixed by the Ministry of Petroleum and Natural Gas from time to time. The yearly consumption of the above materials ranged from one lakh metric tonne (MT) to 1.50 lakh MT.

Based on the request (April 2004) of VVNL, IOC offered (April 2004) discount on supplies of Low Sulphur Heavy Stock (LSHS) procured in excess of 5,000 MT per month. IOC, however, stipulated that VVNL should commit a minimum monthly off-take for one year. Failure to lift the minimum quantity in any month would lead to non-admissibility of discount in that particular month.

Audit observed that VVNL failed to furnish the commitment letter to IOC, despite absence of any penalty for non-lifting of the committed quantity. The specific reason for not furnishing commitment letter to IOC was not available on record. VVNL, though, lifted LSHS in excess of 5,000 MT in six months, yet it could not avail the discount and thereby benefits to the tune of Rs.1.32 crore could not be availed.

The matter was reported to the Management/Government (August 2007); their replies are awaited (August 2007).

## 4.8 Purchase of stores and spares from local dealers

**Non-compliance of purchase procedure resulted in an extra expenditure of Rs. 49.23 lakh.**

As per procedure prescribed (June 2003) by the Company, purchases were to be made by offices located in the projects, in accordance with Karnataka Transparency in Public Procurement Act, 1999 (KTPP Act). Purchases can be made by field offices without inviting tenders only in the following cases:

- Purchases based on Stores Purchase Department Director General of Supplies and Disposals rates;
- Urgent/emergency purchases which do not brook delay involved in the making of an enquiry (for reasons to be recorded in writing); and
- Petty purchases, cost not exceeding Rs.5,000 per order.

The Company's annual requirement for 2005-06 of spares at Raichur Thermal Power Station (RTPS - a unit of the Company) was Rs.32.50 crore approximately. Test check of 60 cases of local purchases valuing Rs.2.50 crore made during 2005-06 and 2006-07 by RTPS for which Superintending Engineer (Purchase) was the designated purchase officer, revealed that the requirement of spares for the year was not assessed in the beginning of the year and tenders were not called for as per the prescribed procedure. The purchases were made from local dealers as and when required. These were not urgent/emergency purchases as the time taken between placing the purchase order to the date of supply ranged from three to nine months. The local dealers charged higher prices than the prices charged by the original equipment manufacturers (OEM) and the test check indicated that the unit had incurred extra expenditure of Rs.49.23 lakh compared to the prices charged by the OEM. It was also observed that in 45 out of the 60 cases test checked, purchases were made from three suppliers namely Jayashree Engineering, Jayashree Enterprises and Swati Sales.

Purchases made in violation of the prescribed purchase procedure resulted in an extra expenditure of Rs. 49.23 lakh.

The Company stated (June 2007) that proprietary items which form accessories/spares to major equipments were required to be procured only from OEM and in these cases enquiries were sent only to OEMs, but in some cases, OEMs did not supply the materials directly but authorised the dealer to quote the rates. The Company further stated that there was no mechanism to know the Excise Duty invoice value of the manufacturer, at the time of placing purchase order.

The reply of the Company is not tenable as its own purchase procedure was flouted which resulted in an avoidable payment of Rs.49.23 lakh being the difference between the prices of the OEMs and that charged and paid to the agents. It paid a sum of Rs.250.19 lakh to the agents as against the all inclusive price of Rs.200.96 lakh of the OEMs.

The matter was reported to the Government (May 2007); their reply is awaited (August 2007).

## Karnataka Power Transmission Corporation Limited

### 4.9 Over-payment in 'annual true-up'

**Not adhering to the provisions of the power purchase agreement in 'annual true-up' calculations resulted in over payment of Rs. 89.98 crore to an independent power producer.**

The Company had been purchasing energy from Tannir Bavi Power Corporation Limited, now GMR Energy Limited (GMR), an independent power producer (IPP), with effect from June 2001. The power plant of IPP has an installed capacity of 220 MW which could generate 1,927 million units annually, working 24 hours a day. As per the power purchase agreement (PPA), the charges towards supply of energy is to be calculated and paid in two parts - fixed charges and variable charges. The Company has to pay fixed charges not only for energy purchased but also for energy not purchased; the payment for energy not purchased was termed as 'deemed generation charges.' No variable charges are payable for energy not purchased.

The monthly total fixed charges are to be calculated based on the formula adopted for the purpose in the agreement, which takes into account the cumulative quantities from 1 April to the end of the month. Thus the monthly bill for March every year takes into account the quantities for the whole year. The PPA also provides for an 'annual true-up' to assure that the total 'deemed generation charges' paid in the monthly bills were not any more or any less than those which would have been paid had deemed generation charges been calculated for the entire year (Clause 7.6). This meant that the monthly bills, generated using the formula prescribed for it, could be erroneous, thus requiring a re-calculation called 'annual true-up'. No procedure or formula to calculate the 'annual true-up' was however provided in the agreement.

As per clause 3.3 of the agreement, the energy supplied by the Company (KPTCL) to the IPP for start-up *etc.,* shall be deducted on monthly basis from the electricity purchased by the Company. As per Clause 6.4 of the PPA, the deemed generation payment shall not exceed (the payment for) 85 *per cent* of the declared capacity[96] multiplied by the hours *minus* the energy delivered. The

[96] **Declared capacity is the net electrical generating capacity of the facility available for delivery as declared by the IPP from time to time.**

impact of these two clauses was not reflected in the formula for calculation of monthly fixed charges. The same were, however, ensured in the monthly bills by suitably adjusting the quantities of net metered energy and deemed generation payable for the month.

While examining the 'annual true-up' statements for the years 2001-02 to 2006-07 audit observed (July 2006) that the Company failed to ensure that the above clauses (Clauses 3.3 and 6.4) were adhered to while making the annual true-up calculations. In the 'annual true-up' for the respective years, total fixed charges for whole year were calculated for so much of units of energy arrived at by multiplying 85 *per cent* of the contract capacity by the hours available in that year. The difference between the amount so calculated and the aggregate of monthly total fixed charges paid were released in the 'annual true-up'. The payments were released without ensuring (i) that fixed charges for the energy supplied by it to the IPP was deducted, and (ii) that the payment for deemed generation was limited to 85 *per cent* of the declared capacity.

Thus, not ensuring the contractual conditions regarding deemed generation payment resulted in overpayment of Rs.89.98 crore during the period from June 2001 to March 2007. Even though the Clause regarding 'annual true-up' was designed to rectify possible errors in monthly bills and to ensure that the IPP was not paid in monthly bills any more than that would have been payable for the whole year, the Company failed to do so resulting in the over payment.

The Company in its reply (February 2007) has furnished an extract of the relevant provisions of the contract (as quoted above) and has not offered any remarks on the over payment.

The matter was reported to the Government (May 2007); their reply is awaited (August 2007).

## 4.10 Improper evaluation

**The Company had to incur extra expenditure of Rs.65 lakh due to improper evaluation of the tender.**

The Company invited (June 2004) tenders for establishing 2x8 MVA, 66/11KV sub-station at Dalasanur at an estimated cost of Rs.2.92 crore on turnkey basis. Out of five firms which responded to the offer, three firms were technically qualified. Alstom Ltd, quoted the highest rate of Rs.5.31 crore. Alstom Ltd, however, indicated a discount of 0.6 *per cent* in the discount column, six *per cent* in the remarks column and an amount equivalent to 60 *per cent* of the quoted value in the amount column of the schedule of discount to the offer. The Company instead of rejecting the offer of Alstom Ltd, as their financial bid was inaccurate, assumed a discount of 60 *per cent* and evaluated (November 2004) the tender as the lowest at Rs.2.12 crore and letter of intent issued (February 2005). Alstom Ltd rejected (March 2005) the letter of intent (February 2005) and confirmed that the discount was 0.6 *per cent* and not 60 *per cent.* As Alstom Ltd rejected the offer, the Company forfeited (August 2005) the Earnest Money Deposit of Rs.2.74 lakh. The Company, then offered (March 2005) the work to Siddhartha Engineering Private Ltd (lowest offer) for Rs.2.12 crore against its offer of Rs.3.13 crore. Siddhartha Engineering Private Ltd also rejected the offer.

The Company then re-tendered (October 2005) the work at revised cost of Rs.3.60 crore. Narayan Electricals Ltd, whose offer was lowest at Rs.3.78 crore in this re-tendered bid was awarded (December 2005) the work.

Thus, due to wrong evaluation and non-rejection of offer of Alstom Ltd, and non award to lowest bidder for Rs.3.13 crore, the Company had to incur an avoidable extra expenditure of Rs.65 lakh.

The Government stated (June 2007) that the Company evaluated the tenders with utmost care and had several discussions regarding the discount and freak rate and that the letter of intent was issued to Alstom Ltd thereafter. The reply is not tenable as there was no logic or rational in considering the offer of Alstom and then offering the same rate to the lowest bidder.

## 4.11 Extra expenditure due to re-tendering

**The Company rejected the original bid on the ground that the quoted rate was on the higher side and resorted to re-tendering thereby incurring extra expenditure of Rs.26.66 lakh.**

The Company invited (October 2004) tenders for establishing 2x8 MVA 66/11kv sub-station at Holavanahalli, Tumkur District at an estimated price of Rs.3.47 crore based of Schedule of Rates (SR) of 2003. Three firms responded to the offer (December 2004). The offer of only Siddhartha Engineering Works was technically suitable. The price bid of the Siddhartha Engineering Works of Rs.3.78 crore which was 9.16 *per cent* above the cost put to tender, was rejected (March 2005) by the Central Purchase Committee (CPC) on the ground that the quoted rate was on higher side. The price increase in the intervening period since SR2003 was not considered while rejecting the tender. Tenders were floated afresh (March 2005) with a tender cost of Rs. 3.50 crore against which four firms participated of which three firms were found technically suitable. K.G.N. Electricals quoted the lowest rate at Rs.4.34 crore, which was 24.03 *per cent* above the amount put to tender. CPC decided (June 2005) to offer the lowest bidder a rate of five *per cent* above the cost put to tender and letter of intents was issued to the firm accordingly. The firm, while rejecting the counter offer (June 2005) requested the Company to compare their quoted price with SR for 2005-06 which were under finalisation. Accordingly, the estimated cost was re-cast (July 2005) to Rs.3.86 crore and as per the norms followed by the Company, the firm was offered an all inclusive rate of Rs.4.05 crore which was five *per cent* above the re-cast estimate. The same norms were, however, not applied at the time of evaluation of the original tender (March 2005).

Hence, by not following uniform standard norms, the Company rejected the bid of Siddhartha Engineering and ended up in awarding (July 2005) the contract at a higher rate, thereby incurring an extra expenditure of Rs.26.66 lakh.

The Government stated (August 2007) that the prices quoted by Siddhartha Engineering Works were compared with SR of 2003 and updated circulars of Major works Division (of 2004-05). The reply is not acceptable as the original estimate of Rs.3.47 crore was based only on SR 2003 and did not consider the updated circulars of Major works.

## Bangalore Electricity Supply Company Limited

### 4.12 Avoidable expenditure

**The Company procured Coyote Conductor without any specific requirement resulting in blocking-up of funds of Rs.4.69 crore.**

Against a requirement (March 2004) of 60 kilometres (kms) Coyote Conductor by Bangalore Rural Area Zone, the Company placed (April 2005) purchase order on Sharavathi Conductors, for supply of 750 kms of Coyote Conductor costing Rs.4.82 crore, with a delivery schedule of June 2005 to November 2005. The supplies were, however, completed in May 2006.

Audit scrutiny revealed that the Company already had a stock of 24.236 kilometres of the Coyote Conductor as of 31 March 2005 and the specific requirement was for 60 kilometres only against which the purchase order for 750 kilometres was placed.

It was further noticed that the Company itself contemplated (January 2006) whether to cancel the orders or not when there was a stock of 286.35 kilometres of Coyote Conductor in the stores and no drawal was expected in the immediate future. Meanwhile, (January 2006) the supplier had supplied 457.312 kilometres out of the ordered quantity of 750 kilometres leaving a balance of 292.688 kilometres. The Company, however, could consume 195.198 kilometres in 2005-06 till January 2006. Though the Company had the option of cancelling the remaining order, it did not consider the same and instead granted (January 2006) extension of supply upto 2006. Thus, improper assessment of the requirement of coyote conductors resulted in blocking-up of funds of Rs.4.69 crore.

The Management stated (March 2007) that the order was not cancelled due to non-availability of UG Cable at any stores. The reply is not tenable as 621.080 kilometres of the conductor, valued at Rs.4.69 crore, were lying idle in Company's stores as of February 2007.

The Government stated (July 2007) that the purchase order was not cancelled for the reason that the cost of procuring Coyote Conductors afresh would have been on the higher side. The reply is not tenable as there was no immediate requirement for the material in January 2006 and it remained unused till now (August 2007).

## 4.13 Avoidable payment

**The Company placed orders for 13,500 kilometres of Rabbit ACSR conductors after a delay of two months resulting in avoidable payment of Rs.1.67 crore on account of price variation claims.**

The Company invited tenders (January 2005) for purchase of 30,000 kilometres of Rabbit ACSR conductors. Out of the 11 bids received, bids of seven firms were found technically feasible. Deepak Cables, Pondichery was the lowest with a free on road destination (FORD) price of Rs.23,340.53 per km computed on the basic ex-works price of Rs.19,900 per kilometre. As per the Industrial Policy 2001 of Government of Karnataka, 75 *per cent* of the items reserved for the Small Scale Industries (SSI) Sector by the GOI, would be procured from the units located within the State. ACSR Conductor is one of the items reserved by the Central Government for exclusive manufacture in the SSI Sector. Accordingly, the Board of Directors (BoD) decided (July 2005) to split the quantity and allotted 25 and 75 *per cent* of the total quantity to the outside firm and local firms respectively. Deepak Cables, Pondichery was allotted 7,500 kilometres and Deepak Cables, Tumkur, was allotted 22,500 kilometres. The supplies were to be completed by April 2006.

Deepak Cables, Tumkur while accepting the offer of the Company (September 2005), intimated that it could supply 9,000 kilometres only against the allotted quantity of 22,500 kilometres. Accordingly, the Company placed orders (October/November 2005) on Deepak Cables, Pondichery and Tumkur for 7,500 kilometres and 9,000 kilometres respectively, on ex-works price of Rs.19,900 per kilometre which included price variation clause without ceiling. The Company did not consider placing orders for the shortfall of 13,500 kilometres on any other firms.

Subsequently, the BoD decided (January 2006) to place orders on other firms who had responded to the tenders (January 2005), and placed orders (February 2006) on three local firms for 13,500 kilometres with the same ex-works price of Rs.19,900 per kilometre including price variation clause and supplies to be completed by June 2006.

It was observed (December 2006) that the Company failed to place orders in October/November 2005 for the remaining 13,500 kilometres on these firms, so as to complete the supplies by April 2006. The Company placed orders for the balance quantity after two months, resulting in payment of price variation claims for supplies effected by these firms to the tune of Rs.1.67 crore, which was avoidable.

On this being pointed out, the Government stated (May 2007) that the materials were procured exclusively for Rural Load Management System (RLMS) and due to delay in taking decision regarding RLMS, the purchase orders were not placed immediately. The reply is not tenable, as the Company had assessed the requirement at 30,000 kilometres during 2005-06 with supplies to be completed by April 2006 and should have placed orders at the first instance itself to meet the shortfall of 13,500 kilometres. Failure to do so made the Company liable to pay price variation claims of Rs.1.67 crore for supplies made after April 2006, which was avoidable.

## 4.14 Loss due to wrong application of tariff

**Application of HT 2(a) instead of HT 2(b) resulted in loss of revenue Rs.16.22 lakh.**

The LT installation standing in the name of Ghousia College of Engineering, Ramanagaram, was converted (August 2001) to HT installation, and the tariff applicable indicated as HT 2(b).

It was observed (March 2007) that the installation was billed under HT 2(a) instead of HT 2(b) for the period from October 2001 to February 2007. This resulted in short-billing of revenue by Rs.16.22 lakh for the above period.

As per Clause 29.08 of Conditions of Supply of Electricity of Distribution Licensees in the State of Karnataka, the licensee shall not recover any arrears after a period of two years from the date when such sum became first due, unless such sum was shown continuously in the bills as recoverable as arrears of the charges of electricity supplied. As no amount was shown as arrears, the Company was forced to lose revenue to the tune of Rs.16.22 lakh.

The Government accepted (August 2007) the audit observation and stated that demand was raised (March 2007) on the consumer. It further stated that the Consumer had appealed (June 2007) to the Company against the demand raised.

## Karnataka Neeravari Nigam Limited

## 4.15 Extra expenditure

**The Company allowed contractor to make modifications in the quoted rates while he was accepting to take up the work and revision was made in the method of calculating item rates in violation of the guidelines approved by the BoD which resulted in extra expenditure of Rs.8.85 crore.**

The Company noticed (2005) that the bidders participating in the tenders were quoting very high rates and after opening of the tenders (other than lowest) were offering substantial rebate. Consequently, the lowest bidder, was also reducing the rates at the intervention of Chief Engineer/Managing Director level. Noticing this trend, the Technical Sub-Committee (TSC), of the Company framed (May 2005) guidelines for evaluating tenders which were accepted (June 2005) by the Board of Directors (BoD). As per these guidelines, the tender premium was to be worked out on the basis of the following:

- 20 *per cent* below the Schedule of Rates (SR) in respect of all canal excavations and embankments,
- five *per cent* above SR in respect of cross drainage and lining works.

These guidelines also provided that in case the overall premium percentage tendered was more than the worked out premium, the bid price could be negotiated with the lowest bidder and the quoted premium was to be reduced to the worked out premium.

It was observed that tenders were floated (February 2005) for the work of earthwork excavation, formation of embankment including lining and cross drainage (CD) works from kilometre 182 to 192 of Upper Tunga Main Canal at a estimated cost of Rs.25.04 crore. The bid of Sri M.Y.Kattimani, Category I Contractor, was the lowest at Rs.27.46 crore.

Keeping in view the guidelines (June 2005) the bid amount of the lowest bidder was re-worked out to Rs.22.81 crore which was 8.91 *per cent* below SR and the work was awarded (August 2005) to him.

The lowest bidder while accepting to take up work at the above offered price, modified the item rates at his own discretion. The matter was placed before the TSC and new formula[97] was given (October 2005) which was based on the rates quoted by the contractor which resulted in higher rates for earthwork items and lesser rates for concrete items.

As per the above guidelines, the tender accepting authorities and/or the contractor are not authorised to vary the individual rates at their discretion. Therefore, to arrive at the item rates on the basis of the quoted rates, the conditions prescribed in the guidelines should have been followed strictly. The formulae for computing the item rates suggested by the TSC in October 2005 after the award of contract was not in the best interest of the Company. The deviation had resulted in undue benefit to the contractor amounted to Rs.8.85 crore.

The Company agreed and stated (May 2007) that if the revised procedures were adopted for evaluation of all the subsequent tenders, a lot of savings would accrue. Fact remains that due to incorrect application of the revised procedure (guidelines), the Company incurred extra expenditure of Rs.8.85 crore in the instant case.

The matter was reported to the Government (August 2007); their reply is awaited (August 2007).

## 4.16 Unfruitful expenditure

**Failure to implement E-Governance rendered the expenditure of Rs.67.31 lakh unfruitful.**

The State Government decided (September 2000) to implement E-Governance in the Water Resources Department (WRD). The major activity as per WRD's E-Governance Plan was the development of a Management Information System covering the entire hierarchy of the Department catering to the Project

[97] **Item rate of (x) will have to be revised to (y)**
**y=x (price bid as worked out based on norms)/(tendered amount)**

Monitoring, Project Evaluation and Establishment Information System requirements of the WRD, Karnataka Neeravari Nigam Limited (KNNL) and Krishna Bhagya Jala Nigam Limited (KBJNL). In this direction, a High Level Committee (HLC) was constituted (September 2000) to pursue the implementation of E-Governance.

Based on the request (January 2001) of the WRD, Computer Maintenance Corporation (CMC) Limited undertook a Systems Requirement and Specification Study and submitted the report (March 2001). The HLC decided (July 2001) to assign the development of Application Software to CMC Limited at a total cost of Rs.1.25 crore out of which Rs. 64.72 lakh was towards development of customised application software, testing and implementation in seven pilot sites and the balance amount of Rs.60.28 lakh was towards implementing the software in all the sites of KNNL, KBJNL and among WRD. The project was to be completed within 20 weeks from the date of the agreement (February 2002). The State Government selected (February 2002) KNNL as the nodal agency and directed it to enter into an agreement with CMC Limited for the development of application software, testing and implementation in the pilot sites at a cost of Rs.64.72 lakh. Accordingly, an agreement (Neeravari Agreement) was entered into (February 2002) by KNNL with CMC Limited. The agreement, *inter alia,* provided for testing and implementation in seven pilot sites coming under KBJNL and WRD. A Nodal Officer of WRD was entrusted with the responsibility of granting approvals to the test plan, input and output formats, application software and commissioning of the software. These approvals were to be enclosed to the bills submitted for payment.

The software was installed in the pilot sites (November/December 2002). While expressing difficulties experienced during live data entry and generating required reports, KBJNL requested (July 2003) KNNL to ensure the rectification of the software before the release of final payment. Full payment (May 2002 to February 2004) of Rs. 67.31 lakh including four *per cent* sales tax was, however, made by KBJNL based on the certification of the Nodal Officer without rectification of defects. As the pilot project was not successful, the software could not be implemented in the remaining sites and the balance amount of Rs.60.28 lakh was not paid.

CMC Limited assured (October 2004) that the problems existing at the pilot sites would be rectified. Due to the continued existence of the problems, the software could not be operationalised in the pilot sites, even after four years of initiating the project. As there was no progress in implementation of the software, KNNL approached (May 2006) the Centre for Development of Advanced Computing (C-DAC), Pune to conduct System Requirement Study to develop Management Information System.

Due to improper planning, ineffective monitoring and failure to include a suitable clause to protect against unsatisfactory performance, the expenditure of Rs.67.31 lakh was rendered unfruitful.

The matter was reported to the Management/Government (July 2007); their replies are awaited (August 2007).

## Karnataka Road Development Corporation Limited

### 4.17 Loss in execution of Hemagiri Bridge

**Failure to include financial and other incidental charges in the estimate resulted in non-re-imbursement of Rs.1.03 crore.**

The State Government entrusted (January 2001) the work of construction of Hemagiri Bridge to Karnataka Road Development Corporation Limited (Company) with technical consultancy from MECON Limited.

The Company awarded (December 2002) the work to the lowest bidder Nagarjuna Construction Company Limited, at Rs.3.99 crore. The work was completed (December 2003) for Rs.4.38 crore which included five *per cent* administrative cost of the Company. In addition to the above, the Company incurred an expenditure of Rs.1.03 crore towards financial and other incidental charges.

At the time of taking up the work, the Company had projected (January 2003) to the Government Rs.4.37 crore as the cost of the project, which included Rs.20.33 lakh at five *per cent* of the total cost towards the administration expenditure of the Company. The Company claimed (January 2004) Rs.4.38 crore after completion of the work and against the above claim, the Government paid Rs.4.17 crore and no commitment was available from the Government regarding payment of administrative cost.

It was observed that the Company was executing all projects out of Government grants and borrowed funds which were reimbursed by the Government. In the subject case, in the absence of any specific commitment from the Government to provide funds in advance for execution of the project, the Company had to depend on borrowed funds. The Government released Rs.4.17 crore during December 2005 to September 2006 *i.e.,* after completion of work. As per the records, interest and other financial charges incurred on this work were Rs.1.03 crore.

Thus, failure on the part of the Company to include financial and other incidental charges attributable to the project in the estimate resulted in loss of Rs.1.03 crore to the Company.

The Government stated (May 2007) that it had reimbursed the expenditure of financial and other incidental charges of Rs.1.03 crore incurred by the Company during the financial year 2002-03. On verification it was noticed that the Company had not received the amount till August 2007.

### 4.18 Avoidable expenditure

**Failure to identify a suitable executing agency by the Government resulted in Company incurring loss of Rs.84.70 lakh.**

The Government entrusted (May 2001) the implementation of the Traffic Management and Traffic Infrastructure Project for Bangalore City to the

Company. As per Government order, the Company had to conduct detailed studies to assess the traffic, fix the alignment and establish the feasibility of flyovers and other works to be taken up and short-list the ones to be taken up immediately. Sanction was also accorded to raise a loan of Rs.175 crore from HUDCO for the first two years and the Company was entitled to two *per cent* of the project cost towards its charges.

During execution of the project, the Company engaged consultants and feasibility study, project report and designs were finalised (June 2002) at a cost of Rs.1.04 crore. When the Company was to execute the work, the Government in the meeting (July 2002) chaired by Chief Secretary, decided to entrust the execution of the work to Bangalore Development Authority (BDA)/Bangalore Mahanagara Palike (BMP).

Accordingly, the Company handed over the feasibility reports and designs already prepared by its consultants to BMP/BDA for its execution. As per the directions (August 2003) of the Board, the Company requested (August.2003) the Urban Development Department (UDD) to reimburse the entire expenditure incurred by it or to issue Government Order for re-imbursement of the same by BDA/BMP and UDD of Rs.29.71 lakh, Rs.22.94 lakh and Rs.50.92 lakh respectively. The Company also requested BDA/BMP for reimbursement of their proportionate expenditure incurred towards feasibility study and project preparation, against which BMP paid Rs.18.82 lakh to the Company but BDA refused to reimburse the expenditure. The BDA stated (January 2005) that conceptual changes had been effected in the projects and that these had been executed by obtaining the services of consultants.

The BDA further added (January 2005) that they had executed the works without any budgetary support from the Government. As BDA refused to reimburse the amount and there was no response from UDD, the Company had written-off of Rs.84.70 lakh in its accounts for 2005-06.

The Government stated (May 2007) that there was no loss to the Company or Government as the project is for public purpose and the feasibility report prepared by Company was utilised by BDA in the execution of the project. The reply is not acceptable as the Company had written off Rs.84.70 lakh as loss in its accounts of 2005-06.

## Gulbarga Electricity Supply Company Limited

### 4.19 Cancellation of tenders

**Cancellation of technically and financially responsive tenders without valid reasons resulted in extra expenditure of Rs.2.37 crore due to higher rates obtained in re-tendering.**

The Company floated (March 2006) tenders and invited bids in two parts, technical and commercial, from manufacturers of Aluminium Conductor - Steel Reinforced (ACSR) conductors for the requirement of 38,000 kilometres of Rabbit and 7,282 kilometres of Weasel conductors. The requirement was both for new lines and changing old conductors. In response, three manufacturers submitted their bids (April 2006) and the bids of all the three firms were found to be technically and commercially suitable. The requirement was reduced to 5,735 kilometres of Rabbit and 6,678 kilometres of Weasel conductors, as a separate tender had been invited for re-conductoring of lines on turnkey basis. Consequently, the manufacturers were asked (May 2006) to quote for the revised quantities. The price bid for the revised quantities were opened (May 2006) and the lowest unit computed rates obtained were Rs.28,655 for Rabbit conductor and Rs.17, 246 for Weasel conductor per kilometre.

The Purchase Committee, however, decided (June 2006) to invite fresh tenders for the revised quantities on the following grounds.

- The (original) bid has been amended with regard to quantity after opening the technical bid and time given only to those bidders who had applied. Since this could have a bearing on the pre-qualifying requirement also, the appropriateness of processing the tender on the basis of the tenders received has to be examined.

- The tender conditions do not provide for disqualifying those firms who had not performed either in Gulbarga Electricity Supply Company Limited (GESCOM) and other utilities. As this is a standard condition, this has to be incorporated in all future tenders.

- The non-applicability/loading of entry tax to Galaxy Cables Industries, Sangli and Traco Cable Company Limited, Kochi while evaluating their offers needs to be explained.

- The competitiveness of the prices of both Weasel and Rabbit ACSR conductors needs to be examined with reference to what other Electricity Supply Companies (ESCOMs) have obtained in the recent past.

Notice inviting tenders for procurement of the revised quantities of conductors were issued (July 2006) afresh. The lowest offers received against the fresh tenders were, much higher, resulting in extra- expenditure of Rs.2.37 crore on procurement of conductors as shown below.

| Type of conductor | Lowest price of the first tender (per km) | Lowest price of the second tender (per km) | Quantity (km) | Extra expenditure (Rs.) |
|---|---|---|---|---|
| Rabbit | 28,655.40 | 31,150.48 | 5,735 | 1,43,09,284 |
| Weasel | 17,246.10 | 18,650.90 | 6,678 | 93,81,254 |
| **Total** | | | | **2,36,90,538** |

It was observed that the reasons given by the purchase committee did not have any bearing on the competitiveness of the tenders received or its acceptability in view of the following:

- The qualification requirements as per tender conditions were that the bidder must have supplied a minimum quantity of 3,000 kilometres of weasel conductor and 5,000 kilometres of Rabbit conductors in an year to KPTCL/GESCOM or other ESCOMs in the preceding three financial years and that the bidder must not have defaulted in supplies.

- The tender conditions also provided for variation in quantities and the bidders had quoted for the revised quantities.
- Even after loading entry tax the lowest quoted price remained the same and there was no reason to reject any of them.
- If required, the committee could have obtained and compared the prices obtained by other ESCOMs in similar tenders to decide upon the reasonableness of the quoted prices. Thus, the decision to cancel the tender was not justified and resulted in extra-expenditure of Rs.2.37 crore.

The matter was reported to the Management/Government (April 2007); their replies are awaited (August 2007).

## Karnataka State Industrial Investment and Development Corporation Limited

### 4.20 Non-recovery of term loan

**Non-recovery of term loan assistance to Shambhavi Agrotech Private Limited.**

Shambhavi Agrotech Private Limited, Bidar approached (July 2001) the Company for financial assistance to set up a chemical industry for the manufacture of dust pesticides and liquid formulations. The estimated cost of the project was Rs.1.58 crore, which was proposed to be funded by way of term loan from the Company (Rs.90 lakh) and promoter's contribution (Rs.68 lakh). The Company sanctioned (August 2001) the term loan of Rs.90 lakh carrying interest at 15 *per cent* per annum. The loan was disbursed between November 2001 and March 2002. The loan was secured by mortgage of the loanee's movable and immovable properties in addition to personal guarantees of the promoters and collateral security worth Rs.27 lakh in the form of immovable properties. The loanee revised (July 2002) the project cost to Rs.1.90 crore and approached (July 2002) for an additional loan of Rs.23.50 lakh while Rs.8 lakh was to be by way of contribution of promoters. The revision was to put up additional facilities for the manufacture of 'weitable' powder which was proposed to be mixed with pesticides to give better results. The Company sanctioned (August 2002) the additional loan and disbursed the same in September 2002.

The loanee completed the trial runs and commenced production (September 2002) but stopped its operations immediately thereafter as it could not sell its products in the market due to availability of the similar products in the market at lesser price. Due to default in repayments, notices under Section 29 of State Finance Corporations Act were issued (August 2003 and May 2005) to the loanee and the unit was taken over (December 2005) by the Company. The total outstanding as on 31 December 2005 was Rs.1.93 crore.

In this connection, Audit observed that:

- the loanee reported to have made cash payment of Rs.15 lakh and bank payment of Rs.25.48 lakh towards machinery and laboratory equipments to Sneha Plastics Private Limited, Mumbai, during May 2001 to August 2002, which was not verified while disbursing the initial term loan of Rs.90 lakh. On verification with the Bank it was found (August 2007) by Audit that the payment of Rs.25.48 lakh was made either to the sister concerns of the loanee or was utilised for its own purposes.
- while the loanee approached the Company for assistance, the default ratio was 52.27 *per cent* in the sector.
- the promoters were engaged in money lending in addition to running a *dhal* mill.
- the production started in September 2002 and stopped immediately thereafter as cheaper products, both imported and indigenous were available in the market.
- the total net-worth of the promoters as per the appraisal was Rs.67.91 lakh which included investment of Rs.30.66 lakh in Sridevi Dhal Industries, a sister concern of the promoters. Sridevi Dhal Industries had availed term Loan of Rs.48 lakh from the Company in 1998 and defaulted in repayment to the Company since July 2001. Inspite of this, the Company accepted investment in Sridevi Dhal Industries as collateral security.

The Company did not study the background and networth of the promoters and did not conduct proper market survey indicating defective appraisal system. Even the collateral security offered valued at Rs.27 lakh in the appraisal was found (June 2006) to be worth only Rs.5.04 lakh.

Thus, failure to assess the viability of the project and the financial credentials of the promoters resulted in non-recovery of Rs.1.93 crore.

The matter was reported to the Management/Government (August 2007); their replies are awaited (August 2007).

## Karnataka State Police Housing Corporation Limited

### 4.21 Avoidable extra expenditure

**Usage of steel reinforcement in excess of requirement as per Indian Standard code for reinforcement resulted in avoidable extra expenditure of Rs.1.59 crore.**

The Company took up (March 2003) construction of 4,489 and 511 number quarters for Police Constables and Sub-Inspectors respectively at 271 different locations in the State at an estimated cost of Rs.180 crore under Accelerated Housing Scheme II. The project was to be financed by a grant of Rs.45 crore and loan of Rs.90 crore from HUDCO and Rs.45 crore from HDFC. The buildings were designed as three storied brick masonry structures with four quarters in each floor (total 12 quarters). As of June 2007, 2,870 quarters were completed and the work of balance quarters was in progress.

The floor/roof slabs of the Police Constables' quarters were designed to be simply supported by the brick masonry walls of the building. The requirement of steel reinforcement for the slabs depends upon the span of the slab and the live load apart from the self weight including floor finish. The maximum live load in residential buildings as per Indian Standard (IS) code 875 is 200 kilogram per square metre and the IS code 456 prescribes a safety factor of 1.5 for the total load. The IS code 456 specifies the methods and procedures of design of plain and reinforced concrete structures. The requirement of steel reinforcement required for the type of concrete slabs designed by the Company for the building was worked out in Audit based on the above IS specifications and was compared with the reinforcement provided in the structural drawing of floor/roof slabs issued for construction. It was observed (June 2006) that the Company provided steel reinforcement at closer spacing than required for the type of slabs designed for the building. *e.g.,* the tor steel rods of 10 millimetre (mm) diameter as main steel were provided at a spacing of 150 mm instead of required spacing of 280 mm. As against the total requirement of 1,049 kilogram of steel per floor as per IS Code, a provision of 1,773.60 kilogram was made. The excess reinforcement steel provided, amounted to 724.60. Kilogram per floor or 1.81 quintals per quarters. The extra expenditure incurred for 2,870 quarters completed as on June 2007 was Rs.1.02 crore and the balance expenditure that would be incurred for remaining 1,619 quarters would be Rs.57.49 lakh at an average steel price of Rs.1,962 per quintal

The Company replied (December 2006) that the design arrived at by Audit is theoretical one for an ideal situation and that in reality the competence of supervisory staff, skill of the construction worker and characteristics of the material were entirely different and it was further added that the slab design was appropriate as it was based on safety and durability considerations and engineering judgement based on experience. The Company further replied (June 2007) that the views of audit will be kept in mind in future designs.

The design arrived at by Audit was with reference to IS code and the Company had not justified excess quantity of steel with reference to relevant technical parameters and IS code specifications, rather it has agreed to consider the views of the audit for future designs.

The matter was reported to the Government (May 2007); their reply is awaited (August 2007).

## Mangalore Electricity Supply Company Limited

### 4.22 Non-availing rebate

**Failure to make payment within the due date resulted in non-availment of rebate of Rs.1.46 crore.**

The responsibility of purchase of power from various sources and its transmission to the Electricity Supply Companies (ESCOMs) rested with the Karnataka Power Transmission Company Limited (KPTCL) upto 9 June 2005. The enactment of the Electricity Act 2003, however, divested KPTCL from trading in electricity with effect from 10 June 2005, as per Section 39 of the

Electricity Act, 2003. Consequently, the State Power Procurement Co-ordination Centre (SPPCC) was entrusted with the function of procurement of power from various sources (KPC, Central Generating Stations, Independent Power Producers, *etc.*,) and its allocation to various ESCOMs. As a result, the Government of Karnataka assigned the Power Purchase Agreements (PPAs) entered into by KPTCL for the purchase of power from various sources including Independent Power Producers (IPPs) to the ESCOMs from 10 June 2005.

Clause 9.3 of the PPAs provide for rebate for payment of bills before the due date, as indicated below:

| Name of the Company | Rebate percentage per day for payment before due date | Number of days from invoice date to due date | Maximum Rebate (percentage) |
|---|---|---|---|
| Jindal Thermal Power Company Ltd. | 0.05 | 45 | 2.25 |
| G M R Energy Ltd. | 0.10 | 25 | 2.50 |
| Tata Power Company Ltd. | 0.10 | 25 | 2.50 |
| Sree Rayalaseema Alkalies and Allied Chemicals Ltd. | 0.10 | 25 | 2.50 |

The IPPs dispatched the monthly power purchase bills to SPPCC, with a copy to the respective ESCOMs. After scrutiny of the bills, the same were transmitted to the ESCOMs by SPPCC. It was observed that Mangalore Electricity Supply Company Limited was following the procedure of effecting payment of the bills only after receipt of the scrutinised bills from SPPCC. This resulted in payment of power purchase bills after the due dates and thereby losing out the opportunity of availing rebate of Rs.1.46 crore on payment of Rs.58.58 crore for the year 2006-07.

Incidentally, it was observed that Bangalore Electricity Supply Company Limited (BESCOM) followed the procedure of releasing payments on receipt of bills from IPPs without waiting for scrutiny of the bills and adjustments, if any, were effected on receipt of the scrutinized bills from SPPCC, thereby availing full rebate.

The Government stated (May 2007) that rebate could not be availed due to delay in receipt of some bills from SPPCC and that the Company had availed benefit of rebate wherever the bills were received in time and on availability of funds. The reply is not tenable as payment could have been made without waiting for the receipt of the scrutinised bills from SPPCC, as was being done by BESCOM. Further, the Company should have ensured the availability of funds considering the rate of rebate which was 36.50 *per cent* per annum in respect of three IPPs and 18.25 *per cent* per annum in respect of one IPP.

## Hubli Electricity Supply Company Limited

### 4.23 Extra expenditure

**The Company procured costlier line materials resulting in extra expenditure of Rs.81.82 lakh.**

The Company has been procuring line material made of mild steel since the time of erstwhile Karnataka Electricity Board. The Company, however, invited tenders (January 2005) for purchase of galvanised line materials, for finalising the rate contract for one year. The reasons for switching over to galvanized line material from mild steel material were not available on records. While evaluating the prices quoted by the firms, the Company opined (March 2005) that the rates quoted were on higher side and negotiations were held with the tenderers to arrive at the negotiated rates. After finalising the negotiated rates, the Company placed orders (March 2005) on urgent basis, for purchase of galvanised line materials at a total cost of Rs.2.41 crore, for two months requirement subject to ratification by the Central Purchase Committee (CPC) in their ensuing meeting which was ratified by the Committee (July 2005). Simultaneously the Chief Engineer (Electrical) and Superintending Engineer (Electrical) of the Company also placed (May/June 2005) orders for procuring galvanised line materials at a total cost of Rs.78.38 lakh, and the total value of all the orders worked out to Rs.3.19 crore. It was, however, observed that the CPC while ratifying (July 2005), the purchase order placed earlier, decided to procure mild steel line materials from the same firms. Thus, the decision to go for galvanised line materials in place of mild steel materials which was hitherto utilised without any complaints lacked justification and resulted in extra expenditure of Rs.81.82 lakh.

The Government stated (June 2007) that galvanised line material compared to MS line material is more water and weather resistant, more maintenance free, safe and reliable. The reply is not acceptable, as the Company has subsequently reverted back to purchase of mild steel line material.

## Karnataka State Coir Development Corporation Limited

### 4.24 Improper planning

**The Company had invested Rs.42.35 lakh to establish defibring unit, which became idle due to improper planning and execution.**

Under the Integrated Coir Development Scheme, the Company decided (May 1999) to establish a coir defibring unit at Sirigenahalli, Tarikere Taluk in 1999-2000. The estimated cost of the project was Rs.20 lakh against which the State Government released (December 1998) Rs.19 lakh in the form of grant (Rs.4 lakh), equity (Rs.5 lakh), and loan (Rs.10 lakh).

The cost incurred on the project was Rs.42.35 lakh as detailed below.

| Particulars | Year of Completion | Amount (Rs. in lakh) |
|---|---|---|
| Land Acquisition | 1999-2000 | 0.87 |
| Building-Machinery work shed | December 2002 | 8.26 |
| Building-Machinery bed and soaking tank | December 2002 | 5.22 |
| Plant and machinery | March 2001 | 18.91 |
| Electrical Work | March 2004 | 6.35 |
| Other Expenses including Electricity deposit, Electricity charges and borewell | 2002-05 | 2.74 |
| **Total** | | **42.35** |

Though the machinery was procured (March 2001), the same was not put to use mainly due to delay in arranging power supply. Even after power supply was finally arranged (March 2004), the machineries could not be commissioned due to defects/malfunctioning. The Company thereafter failed to get the machinery repaired/rectified by the supplier.

On being pointed out (March 2005) the Company got the machineries inspected by a Joint Director of the Coir Board who suggested (September 2005) that repairs were necessary for the machinery to be used in production. The Company decided (December 2005) to obtain another report from the Technical Consultancy Services Organisation of Karnataka (TECSOK). The machinery supplier was present on the day of inspection (23 August 2006) at the instance of TESCOK. TESCOK submitted (August 2006) a report concluding that the machinery which was in satisfactory working condition could be put to use provided good quality and big coconut husks is used as raw material (as the machine rejected small and inferior quality husks). Due to non-availability of required raw material the Company shifted the machinery (June 2007) from Sirigenahalli to Vakkawadi.

Thus, due to improper planning/execution and failure to ensure availability of basic raw material, the investment of Rs.42.35 lakh became idle and shifting of the unit would further render the expenditure on civil works and electrical works infructuous.

The Company stated (May 2007) that though the application for power supply was made (December 1999) to Electricity supply company, the power connection was made only in March 2004. It further stated that as raw material was a constraint it was decided to shift the unit to Vakkawadi and the building constructed at Sirigenahalli would be used as a centre of training and other production activities.

The reply is not tenable as no action was taken after procurement of machinery (March 2001) till pointing out by audit (March 2005). Meanwhile the warranty expired. There is no guarantee that the machine will run in Vakkawadi. Fact is that Company should have confirmed compatibility of the machinery to local raw material before procurement.

The matter was reported to the Government (May 2007); their reply is awaited (August 2007).

## Karnataka Power Transmission Corporation Limited, Bangalore Electricity Supply Company Limited and Gulbarga Electricity Supply Company Limited

## 4.25 Procurement, maintenance and repair of transformers

### Introduction

**4.25.1** Transformer is static equipment used for stepping up or stepping down of voltage in transmission and distribution of electricity. Electricity is usually generated at voltage of 11 Kilo volts (KV) and it is then stepped up through

Power Transformers to higher voltage (upto 400 KV or more) for transmission to the load centres. At the receiving substations the voltage is brought down to appropriate levels through step down transformers. The transformers used at the generating stations and in the high voltage substations are called power transformers, while transformers used in distribution systems are called distribution transformers.

In Karnataka, the transmission of power for 33KV and above capacity lines is handled by Karnataka Power Transmission Corporation Limited (KPTCL), while the distribution is done by five Electricity Supply Companies *viz.*, Bangalore Electricity Supply Company Limited (BESCOM); Gulbarga Electricity Supply Company Limited (GESCOM), Mangalore Electricity Supply Company Limited (MESCOM); Hubli Electricity Supply Company Limited (HESCOM); Chamundeswari Electricity Supply Corporation Limited (CESC).

The records of the procurement, maintenance and repair of Power and Distribution Transformers during the period 2003-04 to 2005-06 in KPTCL, BESCOM and GESCOM were reviewed during November 2006 to February 2007.

**Procurement**

**4.25.2** Based on targeted works and action plan for establishing new stations, augmentation works and system improvement works, the requirement of Power and Distribution Transformers was assessed and procurement made on tender basis. The number and cost of transformers purchased during the four years ended March 2007 was as follows.

**(Cost : Rs. in crore)**

| Year | KPTCL | | BESCOM | | GESCOM | | MESCOM | | HESCOM | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | Cost | Number | Cost | Number | Cost | Number | Cost | Number | Cost |
| 2003-04 | 109 | 60.57 | 2,965 | 8.34 | 300 | 1.08 | 3,762 | 11.05 | 1,375 | 4.55 |
| 2004-05 | 8 | 4.97 | 11,915 | 41.51 | 1,437 | 6.57 | 825 | 1.13 | Nil | Nil |
| 2005-06 | 168 | 225.59 | 16,850 | 98.50 | 1,482 | 12.02 | 2,005 | 11.69 | 2,400 | 11.94 |
| 2006-07 | 508 | 727.95 | 11,301 | 84.98 | 9192 | 56.74 | 1,383 | 12.12 | 5,120 | 31.48 |

The following audit observations are made on the procurement of transformers.

**KPTCL**

***Non-placing of Extension Order***

**4.25.3** EMCO, a supplier of Power Transformers, was approached (May 2004) with proposal for an extension order for the supply of two Power Transformers of 100 MVA 220/66/11 KV class as the transformers were required for commissioning at Nagarbhavi sub-station scheduled to be completed (February 2005). The firm, while accepting (May 2004) the extension order stated that since the rate quoted was in November 2002, they were agreeable to supply at the old rate with price variation formula of Indian Electrical and Electronics Manufacturers Association (IEEMA) formula, from October 2003 (the date of Letter of Intent) with a ceiling of 10 *per cent.* As per the calculations furnished by the firm, the final price for the transformers was Rs.2.81 crore each as against Rs.2.52 crore in November 2002. The firm agreed to supply the transformers within four months.

The Company, however, took a decision (August 2004) to call for fresh tenders on the following grounds:

- The updated schedule of rates (SR) as on April 2004 was Rs.2.65 crore on applying IEEMA formula on previous SR.
- The original purchase order was placed on firm basis.

In this connection, the following observations are made:

- The Company evaluated the offer of EMCO by applying price variation formula on SR prevalent in November 2002 and arrived at ex-works rate of Rs.2.65 crore whereas the price offered by the firm was Rs.2.81 crore considering price variation from October 2003.
- The transformers were proposed as an urgent requirement for 220 KV Station at Nagarbhavi sub-station which was to be commissioned in February 2005, and EMCO was ready to supply within four months.

In view of the price advantage and purported urgency, the Company could have considered the offer of EMCO by placing an extension order. Instead the transformers were ordered (May 2005) on the lowest tenderer at Rs.4.34 crore per transformer against fresh bids. This resulted in an extra-expenditure of Rs.3.06 crore as compared to the offer of EMCO for extension order.

The Chief Engineer replied (April 2007) that extension order was not considered since the extension order should be placed within six months of the date of original order as per provisions of Accounts Manual subject to the condition that the prices had not fallen during the period and the quantity ordered did not exceed 25 *per cent* of the original quantity; which were not satisfied. The original order was placed on firm basis. The reply is not tenable as the Company was aware of the increasing trend of rates and the rate offered by EMCO was advantageous to the Company and the fact stated was known to the Company at the time of approaching firm. The extension order was not considered for the reason of cost and not for expiry of six month.

### *Supply of sub-standard transformers*

**4.25.4** The transformers are procured by the Company directly from the manufacturer and in certain cases turn-key contracts are awarded for supply and installation of transformers. In both the cases, as per tender conditions the transformers are inspected and tested at the premises of manufacturer by the 'Technical Audit and Quality Control Staff (TA&QC)' of the Company and thereafter dispatch instructions are issued. The TA&QC staff issued dispatch instructions for supply of seven transformers which were purchased by turn-key contractors. Tests were conducted by the Company on five out of seven transformers and the results were found to be not according to the specifications. The losses/load and no load losses, found during testing were higher than the losses declared in the offer of the transformer manufacturer. Accordingly, orders for recovery of penalties for the excess losses over the declared losses along with the additional guarantees for the transformers were issued. The penalty recoverable as per the test results worked out to Rs.74.01 lakh being the differential value of losses. Thus, deficient inspection of transformers before issuing dispatch clearance resulted in acceptance of substandard transformers.

### *Allotment of transformer for un-planned work*

**4.25.5** A purchase order was placed (November 2003) on EMCO for two 100 MVA 220/110/66 KVA transformers. Out of the above, one Power Transformer costing Rs.2.30 crore was allotted (March 2004) to Sharavathy Receiving Station, Hubli for replacing the failed 100 MVA transformer. The transformer was, however, diverted (April 2004) to Haveri receiving station to be installed as an additional transformer. There was, however, no sanction for augmentation of Haveri station. The estimate was prepared (April 2004) only after receipt (April 2004) of the transformer at site. The transformer was commissioned after a lapse of 31 months (December 2006) from the date of supply. Thus, allotment of transformer before sanction resulted in idling of the transformer for over 31 months and blocking up of funds to the extent of Rs.2.30 crore. It was also not used for the purpose of which it was purchased.

## Maintenance of distribution transformers–BESCOM and GESCOM

### *Inadequate transformation capacity*

**4.25.6** Adequate transformation capacity is essential to meet the power requirement of the consumers with quality power and minimum interruptions and also for the safety of the transformers. The distribution transformation capacity *vis-à-vis* connected load of BESCOM and GESCOM for the four years ended March 2007 are indicated below:

| Year | Connected load (MW) | Transformation capacity (MW) | Excess (MW) | Percentage |
|---|---|---|---|---|
| **BESCOM** | | | | |
| 2003-04 | 8,359.08 | 6,920.36 | 1,438.72 | 20.79 |
| 2004-05 | 9,027.15 | 7,471.42 | 1,555.73 | 20.82 |
| 2005-06 | 12,334.71 | 7,944.72 | 4,389.99 | 55.26 |
| 2006-07* | - | - | - | - |
| **GESCOM** | | | | |
| 2003-04 | NA | 1,727.66 | - | - |
| 2004-05 | 2,610.97 | 1,770.76 | 840.21 | 47.44 |
| 2005-06 | 2,736.78 | 2,129.34 | 607.44 | 28.52 |
| 2006-07 | 2,873.25 | 2,174.80 | 698.50 | 32.12 |

* Details for 2006-07 are awaited; NA-Not available.

Audit observed that the transformers were overloaded. The gap between connected load and transformation capacity increased from 21 *per cent* to 55 *per cent* in BESCOM and between 29 *per cent* to 47 *per cent* in GESCOM during 2003-04 to 2005-06, which indicates that these Companies failed to create infrastructure commensurate with the load growth. The less transformation capacity would result in overloading of transformers and lead to failure of transformers and interruption in power supply besides loss of revenue and expenditure of repair and replacement.

### *Failure of transformers*

**4.25.7** The preventive maintenance of transformers involves periodical checking of bushings, earthing, and other connections, testing of oil, topping up of oil whenever required *etc.* No schedule, however, for preventive maintenance of transformers was prescribed. The total number of transformers in service, number of failures and percentage thereof for the four years ending 31 March 2007 in BESCOM and GESCOM are indicated below:

| Year | Total No. of distribution transformers | | Percentage of failure |
|---|---|---|---|
| | in service | failed | |
| **BESCOM** | | | |
| 2003-04 | 72,243 | 9,376 | 13.0 |
| 2004-05 | 82,940 | 11,003 | 13.3 |
| 2005-06 | 92,024 | 11,744 | 12.8 |
| 2006-07 | 1,06,101 | 9,517 | 9.0 |
| **GESCOM** | | | |
| 2003-04 | 27,215 | 4,454 | 16.36 |
| 2004-05 | 28,020 | 5,922 | 21.13 |
| 2005-06 | 34,883 | 6,580 | 18.86 |
| 2006-07 | 36,632 | 6,090 | 16.62 |

Audit observed that, there was no significant reduction in failure of transformers over the years. The analysis of failure of transformers in various zones has revealed that while the percentage of failure in the Bangalore Metropolitan Agglomeration Zone (BMAZ) was zero which was stated to be due to better management of load and better maintenance, the failure in the Bangalore Metropolitan Rural Zone (BMRZ) and Chitradurga Zone ranged from 13.24 to 15.46 *per cent* and from 17.11 to 18.53 *per cent* during the above period respectively. The Company (BESCOM) did not implement the measures taken in the BMAZ area in other zones, which cater to the rural areas to minimise the rate of failure of transformers.

### *Non-implementation of Transformer Management System (TMS)*

**4.25.8** Separate consultancy services contracts for development of software for TMS were awarded (GESCOM-August 2003 and BESCOM-December 2003 ) to KPMG Consultancy Services Private Limited. The TMS involved creation of real time data base for individual transformer from procurement, installation, failure, repair and scrapping of the same, which would help in evaluating vendor performance, stock position, and preventive maintenance, performance of repair center and history of failure of transformer at transformer center. It was expected to reduce the cost involved in procurement and repair of transformers by better management at all stages. The cost involved was a one time licence fee of rupees one lakh per district and implementation charges of rupees five lakh per division irrespective of the number of users.

The User Acceptance Test of the software was carried out (December 2003) and the same was rolled out in Tumkur Division (BESCOM) as a pilot division (January 2004). Though, the initial data of all the divisions were up loaded to the software, the same was not updated on day-to-day basis. In the absence of updated data, the software could not be used to evaluate the performance of transformers even after a lapse of three years of initial introduction of the TMS.

BESCOM replied (May 2007) that the divisions were updating the data, after which the software would be put to beneficial use. The Companies were not only deprived of an efficient management system but also the amount of Rs.16 lakh spent on the same (BESCOM-Rs.9.72 lakh and GESCOM Rs.7 lakh) remained unfruitful (August 2007).

**Repairs of Power transformers**

**4.25.9** While minor repairs are carried out departmentally, major repairs of transformers are outsourced on tender basis by KPTCL. Early repair of faulty transformers are essential to avoid huge replacement costs, overloading of neighbouring transformers and disruption in power supply. It was, however, noticed in audit that there were inordinate delays in getting the faulty transformers repaired ranging up to 75 months and beyond resulting in huge replacement costs and idling of costly equipments, besides deterioration of transformers. The loss on account of such idling could not be quantified. A few such instances are narrated in **Annexure-16.**

Annexure 16 shows that the Company was not taking action to get the failed transformers repaired immediately on its failure, which resulted in huge replacement cost, disruption of power supply, overloading of neighbouring transformers which could not be quantified. The reasons attributable for not attending to repairs in time bound schedule was not available on records.

**Repair of distribution transformers**

The Company owns repair centers at various Divisional Headquarters. The Company is inviting tenders for repairing the failed transformers by utilising the facilities at the centers. These tenders are being finalised/approved at the corporate offices. All the materials except oil have to be supplied by the repairers.

***Non-enforcement of guarantee clause***

**4.25.10** The Central Stores Division Bangalore (BESCOM) had a stock of 109 transformers of various make, which failed within the post-repair guarantee period (failed during the period from 1999 to 2001). No action was taken to get these transformers repaired free of cost within the guarantee period so far (January 2007), with the result that the Company had to bear the cost of repairs, which works out to Rs.16.31 lakh (approximately). No action was taken on the defaulting firms for recovery of the cost involved.

### *Non-reclamation of used oil*

**4.25.11** The contaminated and burnt oil released from faulty transformers can be reclaimed for re-use. The reclamation is a process to eliminate all contaminants to obtain oil with characteristics of new oil. As per the rate contract finalised (June 2006) with Subhadra Petrochemicals, Sangli, the oil is being reclaimed at 82 *per cent* of the contaminated oil at the rate of Rs.3,950 per kilolitre. It was observed that, the Companies were not regularly reclaiming the used oil, resulting in accumulation of stock of contaminated oil. As at November 2006/January 2007, 148.968 kilolitre and 739.408 kilolitre of contaminated oil was held in stock in GESCOM and BESCOM respectively, of which 122.15 kilolitre and 606.314 kilolitre of oil could have been reclaimed for use as fresh oil. Non-reclamation of the used oil resulted in procurement of fresh oil to the extent of 122 kilolitre and 606 kilolitre valued at Rs.55.48 lakh and Rs.2.75 crore by GESCOM and BESCOM respectively. Considering the cost of reclamation at Rs.3,950 per kilolitre, the companies could have avoided Rs.50.65 lakh and Rs.2.51 crore respectively in procurement of fresh oil.

### *Non-return of failed transformers*

**4.25.12** It was observed that, 238 transformers of various capacities valued at Rs.87.28 lakh failed during 2003-04 to 2006-07 at Tumkur Division (BESCOM) were not returned to stores by the field officers indicating lack of control in this regard. Further, exposure of these transformers to vagaries of nature would render them irreparable and may have to be scrapped besides incurring high replacement cost for the same.

### *Short claim of insurance*

**4.25.13** BESCOM proposed (July 2004) insuring the Distribution Transformers of 25 KVA and 63 KVA capacities, in service in the jurisdiction of identified divisions where failure rates were high to cover the risk of the cost of repair/damages to transformers failed 'After Guarantee Period'. Accordingly, machinery breakdown policies were taken for the period from July 2004 to July 2005 at 10 divisions and from January 2006 to December 2006 at 14 divisions respectively. The Company paid a total insurance premium of Rs.1.64 crore at 1.25 *per cent* of the value of transformers insured (Rs.131.12 crore.) with three insurers. The Company circulated the procedure to prefer claim which stipulated that;

- The damage to Distribution Transformers shall be recorded in the log book with brief description of the damage.
- The divisions shall intimate the Head Office about the failure with a request to insurance Company to arrange for the surveyor, where the estimated cost of repair exceeds Rs.20,000. In case the estimate does not exceed Rs.20,000, the repair shall be carried out departmentally and the bill thereof sent to Head Office for preferring claim with the insurer.

The Company preferred total claims of Rs.6.27 crore in respect of three policies during July 2004 to December 2006. The insurers settled claims for Rs.1.28 crore leaving a balance of Rs.4.99 crore as at March 2007.

In this connection, a test check of the relevant records at nine Divisions revealed that the Divisions have not maintained proper records to ensure that claims are preferred in respect of all the failed transformers. Out of a total of 24,130 insured transformers, 5,287 transformers failed during the period of insurance, the Company preferred claims for 4,264 transformers, resulting in a short claim of Rs.1.01 crore in respect of 1,023 transformers.

The matter was reported to the Government (May 2007); their reply is awaited (August 2007).

# STATUTORY CORPORATIONS

## Karnataka State Financial Corporation

### 4.26 Delay in swapping high cost borrowings

**Avoidable delay in deciding the merchant bankers for the proposed issue of bonds to redeem the high cost bonds resulted in extra payment of interest amounting to Rs.11.61 crore.**

In order to redeem high cost borrowing of the Corporation, which was 11.34 *per cent,* the Board of Directors (BoD) approved (3 June 2005) to raise bonds of Rs.300 crore and invited (23 June 2005) bids from Merchant Bankers. Further, considering the need for urgent mobilisation of funds to settle high cost loans, the time for submission of tender documents was reduced to 15 days from 30 days as stipulated under the Karnataka Transparency in Public Procurements Act and a time schedule to mobilise the entire funds before 25 August 2005 was ratified by the BoD.

Against the tender, the Corporation received (July 2005) quotations from seven Merchant Bankers under three options of tenure, *viz.,* 5 years, 7 years and 10 years. Two bidders quoted identical lowest offers with an average rate of 6.96 *per cent.* As their offer under five year tenure was less than the prevailing rate for Government Security paper, the Financial Bid Evaluation Committee of the Corporation felt that the mobilisation would be unlikely and decided (July 2005) to reject the lowest offer by two bidders.

The Committee decided (July 2005) to accept the second lowest offer of SPA Merchant Bankers Limited (SPAMBL) and also to give an opportunity to the other bidders to match their rates with the second lowest rates, so that the issue could be handled by a consortium. While the other Merchant Bankers accepted (July 2005) the rates, they did not agree to the ratio of amount to be raised among the three tenure options. The SPAMBL offered (July 2005) to further prune down their issue fee from 0.4 *per cent* to 0.3 *per cent* provided the ratio among the three tenure was 40:20:40 instead of 50:30:20 as desired by the Corporation. Even with the revised ratio, the IRR worked out to 7.25 *per cent* as compared to 7.20 *per cent* originally quoted. The Committee, recommended (July 2005) appointing SPAMBL as the sole arranger.

In the meanwhile, the lowest bidders issued (July 2005) a letter of clarification and modification to their offer. It was stated that the Government Security rate was expected to fall (during August) and that they were confident of mobilising the investment at a ratio of not less than 25:25:25 and the balance 25 *per cent* would be arranged in such ratio such that the overall IRR would be lower than the IRR of second lowest offer. They also agreed to give an upfront cheque against the five year tenure option. The Board took (July 2005) cognizance of the letter and issued (3 August 2005) mandate in their favour for mobilisation in the ratio of 50:30:20 within a period of 45 days. The Merchant Bankers did not agree to this and reiterated the ratio of 25:25:25 and requirement of 60 days to mobilise the funds. The BoDs felt (October 2005) that agreeing to the counter offer would result in higher cost of funds, delay in mobilisation. The BoDs also decided to cancel the mandate issued and blacklist them from participating in the future funds mobilisation programmes of the Corporation.

The BoDs decided (October 2005) to call fresh bids for raising funds. Accordingly, an advertisement was issued (November 2005) and in response, the five merchant bankers, who were second lowest in the previous attempt, gave (November 2005) identical bids with average rate of interest of 7.56 *per cent*. The approval of the BoDs was obtained between 17 and 21 November 2005 (by circulation resolution) and the arrangers were appointed on 2 January 2006. The offer, which opened on 4 January 2006 was fully subscribed in 17 days (20 January 2006).

It was observed that instead of appointing the second lowest bidders as the arrangers in the first instance, the tentativeness in decision making at every stage resulted in delay of about five months and additional interest burden of Rs.4.98 crore (higher interest for the period 25 August 2005 to 20 January 2006).

Further, the negotiated weighted average rate of the offer of the second lowest Merchant Banker in August 2005 was 7.25 *per cent*. This increased to 7.56 *per cent* in the second bid though the parties were the same. The extra interest burden on bonds, considering the ratio of issue as 40:20:40 for redemption in $5^{th}$, $7^{th}$ and $10^{th}$ years respectively, worked out to Rs.6.63 crore.

The Management accepted (August 2007) that despite its bonafide intention, prudent planning and sincere efforts, it was compelled to suffer some amount of financial losses, which could be solely attributed to the factors beyond its control. The reply is not acceptable as the factors were not beyond the control of the Management, rather it was tentativeness in the decision making and lack of planning on the part of the Management that led to the additional interest burden of Rs. 11.61 crore.

The matter was reported to the Government (August 2007); their reply is awaited (August 2007).

## Bangalore Metropolitan Transport Corporation

### 4.27 Extra expenditure

**Non-inclusion of suitable clause in the purchase order resulted in extra expenditure of Rs.54.52 lakh.**

The Corporation placed (October 2003) purchase order on Tata Motors for purchase of 450 bus chassis at the rates and terms applicable to STU's/State Government Undertakings or DGS&D rate whichever is lower. The supplies were to be completed by March 2004. Tata Motors supplied (March 2004) 311 chassis, and requested for extension of the period for supply of balance 139 chassis upto April and May 2004. The BoD, however, revised (July 2004) the schedule for supply for 139 chassis between July and September 2004. Tata

Motors supplied 35 chassis (July 2004), 60 chassis (August 2004) and 44 chassis (September 2004).

During the extended schedule of supply, the Central Government imposed two *per cent* education cess on excise duty with effect from 9 July 2004 and the State Government withdrew the concessional sales tax of five *per cent* with effect from 1 August 2004. Thus the Corporation had to pay an effective tax of 13.8 *per cent* with effect from 1 August 2004.

As a result of the increase in statutory levies, Tata Motors claimed Rs.54.52 lakh towards differential duties for 104 chassis supplied in August and September 2004.

It was observed that Karnataka State Road Transport Corporation (KSRTC), the parent organisation of the Corporation, in the cases of purchase of chassis included a clause in the purchase orders to the effect that the rate quoted was inclusive of all taxes and duties. The Corporation had not included such provision in the subject purchase order. Thus, non-incorporation of a suitable clause in purchase order safeguarding the financial interest of the Corporation resulted in extra expenditure of Rs.54.52 lakh.

The Management stated (June 2007) that in order to avoid such situations in future, corrective action has been taken to modify the terms and conditions of supply. The fact, however, remains that the Corporation has incurred extra expenditure of Rs.54.52 lakh in the instant case.

The matter was reported to the Government (April 2007); their reply is awaited (August 2007).

## Karnataka State Road Transport Corporation

### 4.28 Avoidable payment of Sales Tax

**Payment of Sales Tax on transportation charges charged by the supplier resulted in avoidable payments of Rs.48.14 lakh.**

The Corporation has been procuring High Speed Diesel (HSD) from Indian Oil Corporation (IOC) for its fleet. Test check of payments made to IOC during 2006-07 in 10 divisions of the Karnataka State Road Transport Corporation (KSRTC) and 28 Depots in Bangalore Metropolitan Transport Corporation (BMTC), revealed that IOC charged sales tax at 20 *per cent* on the total invoice price which was inclusive of transportation charges and the Corporation made payments accordingly. It was further observed that even though, transportation charges were shown distinctly in the invoices, but the Corporations could not avail exemption from Sales Tax on transportation charges as the agreements had not detailed transportation charges separately.

Failure to follow the provisions of Karnataka Sales Tax Act resulted in avoidable Sales Tax payment of Rs.48.14 lakh by the Corporation (Rs.45.29 lakh) and also by its sister corporations (Rs.2.85 lakh) for 2006-07.

The Management of KSRTC in their reply (August 2007) while quoting a case law pertaining to supply of cement where price was fixed free on rail (FOR) destination stated that the expenditure incurred by the seller before sale and to make the goods available to the intending customers at place of sale cannot be excluded from the taxable turnover. The reply is not acceptable as the case law cited by the Corporation is not relevant in the instant case as the price of diesel was not inclusive of freight charges. It was also observed that Mangalore Refinery and Petrochemicals Limited (another Government Company), which had supplied diesel to Depot No.6 of the Corporation, had excluded transportation charges for the purpose of calculation of Sales Tax in its invoice.

The matter was reported to the Government (August 2007); their reply is awaited (August 2007).

## General

## 4.29 Loss making Government Companies

### Introduction

**4.29.1** As on 31 March 2007, the State had 82 public sector undertakings (PSUs) comprising 76 Government Companies (59 working companies and 17 non-working companies) and six Statutory Corporations. Out of 59 working Government companies 14 were loss incurring working Government companies. Five companies[98] with accumulated losses of Rs.815.97 crore were selected for review, the details of their paid-up capital, accumulated losses, *etc.,* are given in **Annexure 17**. Reasons for losses suffered by these five companies are discussed in the succeeding paragraphs.

### *The Mysore Sugar Company Limited*

**4.29.2** The Company was incorporated (1933) to operate a sugar factory by utilising the sugarcane grown in and around Mandya District. To have the optimum utilisation, the management installed three additional units *i.e.,* distillery (1933-34), acetic acid (1968) and arrack unit (1993). At present all the three units are not working. The Company is incurring losses since 2000-2001 and accumulated loss as on 31 March 2006 was Rs.151.77 crore against paid up capital of Rs.8.73 crore. The reasons for losses as observed in audit are as follows:

- Non-availability of sugar cane due to decrease in reserved area for cultivation of sugarcane from 74,483 acres to 49,000 acres due to transfer of 25,483 acres to private factories by the State Government resulting in non-achieving the optimum utilisation of installed capacity.
- Non-achievement of the crushing capacity of 5,000 tonne per day, in the last five years due to shortage of sugarcane, non-availability of water, diversion of cane, casting doubts on the viability of the plant.

[98] **One each from Sugar sector, Engineering sector, Handloom and Handicrafts sector, Development of economically weaker section sector and Financing sector.**

- Decrease in capacity utilisation of plant from 74 *per cent* in 2001-02 to 29 *per cent* in 2005-06 and higher percentage of total hours lost to available hours which ranged between 26.14 in 2002-03 and 49 during 2005-06 due to various factors like non-availability of cane, mechanical and electrical troubles, and general cleaning *etc.*

- The Government of India fixes Statutory Minimum Price (SMP) for sugar cane linked to basic recovery of 8.5 *per cent* which is binding on every sugar factory. The Company, however, paid higher rates than SMP without prior approval of the State Government due to intense competition for sugarcane, lucrative jaggery price and extraneous reasons like political pressure. The total amount due to higher payment than SMP amounted to Rs.58.05 crore during 2001-02 to 2006-07 resulting in higher sugarcane cost.

- The Company ventured (January 1999) setting up a bagasse based power plant (Co-generation plant) of 30 MW capacity to generate energy for captive requirement and to sell excess, if any. The estimated cost of the plant was Rs.76.35 crore to be financed by equity of Rs.19.09 crore and a loan of Rs.57.26 crore from HUDCO. In order to fund the equity, the company issued debentures/bonds of Rs.14.84 crore. The work was, however, stopped (September 2004) due to constraints of funds and the plant is not yet commissioned (August 2007). Thus, delay in commissioning the project resulted in payment of interest of Rs.15.55 crore on loans and loss of expected revenue from sale of additional energy that would have accrued had the plant been commissioned.

### *Karnataka Vidyuth Karkhane Limited*

**4.29.3** During February 1976, the erstwhile Government Electric Factory, Bangalore was converted as public limited company under the name of 'Karnataka Vidyuth Karkhane Limited'. The Company started incurring loss from 2002-03 and accumulated loss as on 31 March 2006 was Rs.20.72 crore against the paid up capital of Rs.5.62 crore. The following are the reasons for losses as analysed in audit:

- Decline in receipt of orders for supply of transformers from electricity transmission/supply companies in Karnataka, leading to non-achieving the optimum production level.

- The operational expenses and financial charges remained almost constant whereas there was a sharp decline in production, leading to increase in manufacturing cost.

- The Company incurred a loss of Rs.23.22 crore in the turnkey project for extension, re-conducting of 11KV lines, providing of distribution transformers *etc.,* as the Company was not having technical know how for executing such type of works as it was only manufacturing transformers.

## *Karnataka State Handloom Development Corporation Limited*

**4.29.4** The Karnataka State Handloom Development Corporation Limited, Bangalore was incorporated in 1975 with the main objective to promote, aid, and assist the rehabilitation, growth and development of the handloom industry particularly outside the Co-operative Sector in the State. The Company was incurring loss continuously from 1999 onwards and its accumulated loss as on 31 March 2005 was Rs.52.79 crore against paid up capital of Rs.44.38 crore. The reasons for loss as analysed by audit are:

- The denial of financial subsidy by State Government had a negative impact on its income, though the State Government was providing budgetary support.
- Due to shortage of working capital, the Company on an average had to incur rupees four crore per annum towards higher rate of interest on cash credit during 2001-02 to 2005-06.
- The in-house processing of cloth at Peenya, Bangalore had become costlier than outsourcing due to high cost of overheads and the unit suffered a loss of Rs.10.94 crore during 2005-06.

## *Karnataka State Industrial Investment and Development Corporation Limited*

**4.29.5** The Company was setup (1964) to act as a catalyst for promoting industrial growth in the State, especially in the medium and large scale industries, and to act as a designated agency of the State Government in formulating proposal for industrial infrastructure development. The Company, which made profit upto 1997-98 started incurring losses from 1998-99 onwards. The accumulated loss as on 31 March 2006 was Rs.574.64 crore against the paid up capital of Rs.480.62 crore. The reasons for losses as observed in audit are as under:

- Defective control in respect of appraisal, sanction and disbursement and ineffective monitoring of demand and recovery of term loans resulted in accumulation of dues and non-performing assets which were 75.09 *per cent* of the total dues as at March 2006.
- The recovery of interest on loans ranged between 4.44 and 10.85 *per cent* of total interest due.
- The Company borrows from Industrial Development Bank of India (IDBI) / Small Industries Development Bank of India (SIDBI) and other sources to finance its lending activities. The average cost of borrowings (ranging between 6.94 to 12.73) and the average interest yield[99] (ranging between 4.19 and 6.85) received on its core activities indicated

[99] **Interest yield is based on income from core activity of term, bridge, bill discounting and corporate loans and does not include interest on Non-convertible debentures, other income *etc.*, and is expressed as a *per cent* to total secured and unsecured loans, exposure pending under the same activities.**

that the company was borrowing at a higher cost to lend at lower rates. This further indicated that the administrative and other expenses had to be met out of borrowed funds leading to losses.

- Asset-Liability Management (ALM) indicates the liquidity position of the Company. The net gap in ALM which was Rs.318.69 crore as at the end of March 2002 had increased to Rs.614.54 crore as at end of March 2006 indicating the continuance of liquidity problem.

- As against the Reserve Bank of India norm of nine *per cent,* the Capital Adequacy Ratio of the Company was negative in all the years and varied between (-) 9.39 in 2002-03 and (-) 13.28 in 2005-06.

- The State Government extended guarantees during 2005-06 to the extent of Rs.200 crore to raise money and the Company swapped the high cost borrowings through bond issues with the Government guarantee. Further, the re-financiers (IDBI/SIDBI) extended certain concessions, which, *inter alia,* included reduced rate of interest (6 *per cent*), re-schedulement of loan and conversion of Rs.190.63 crore outstanding dues as redeemable preference shares (IDBI - Rs.148.45 crore; SIDBI-Rs.42.18 crore). The company, however, continued to suffer losses.

### *Karnataka Minorities Development Corporation Limited*

**4.29.6** Karnataka Minorities Development Corporation Limited was setup (February 1986) to implement various development schemes and to provide financial assistance by way of loans for starting trade/business or for pursuing profession of doctors, engineers, lawyers *etc.* The main source of income of the company is interest on the loans advanced. Share capital released by the State Government is utilised for providing loan assistance for the approved schemes of National Minorities Development Finance Corporation (NMDFC).

Though the Company is charging 2.5 *per cent* over and above the interest paid to NMDFC (for loans taken from them for disbursement to beneficiaries) on the loans disbursed to the beneficiaries yet it was incurring losses since 1986-87 and its accumulated losses as at the end of March 2006 were Rs.16.05 crore against the paid up capital of Rs.45.57 crore. The main reasons for the losses analysed in audit are:

- The interest income realised from the loans advanced is far less than the interest paid to NMDFC. The gap to some extent is met out of interest earned on the term deposits. Every year the company provides for doubtful advances which constituted about 43.7 *per cent* of the loss in 2001-02 and increased to 55.3 *per cent* in 2005-06.

- The net interest income or the margin available is not sufficient to meet the administrative expenses including the employees cost.

- The Company had to provide for penal interest of Rs.90.57 lakh for delay in repayment of loans to the NMDFC.

- The company did not prepare statement of demand collection and balance in respect of principal and interest. Hence, loan amount due/overdue and not due and interest due at the end of each year is not known leading to lack of follow-up action.

- In respect of the margin money loans granted through banks to the beneficiaries the banks are not remitting to the Company the proportionate amount payable to the Company due to lack of proper documentation of these loans.

- The Company is operating the schemes in cooperation and co-ordination with D.Devraj Urs Backward Classes Development Corporation Limited (DBCDC). Due to heavy work load the District officers of DBCDC are unable to concentrate fully on the works of both the companies and this had an adverse effect on recovery.

- Recent announcements of the State Government for waiver of agricultural loans and interest thereon have created a misconception in the minds of the beneficiaries that such waiver schemes will be extended to them also. This also had effected the recovery.

The matter was reported to the Management/Government (May/August 2007); their replies are awaited (August 2007).

## 4.30 Follow-up action on Audit Reports

### *Explanatory note outstanding*

**4.30.1.** The Comptroller and Auditor General of India's Audit Reports represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in 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).

Audit Reports for the years 2000-01 to 2005-06 were presented to the State Legislature between March 2002 and March 2007. Eleven departments, which were commented upon, did not submit explanatory notes on 48 out of 88 paragraphs/reviews as on September 2007, 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 |
| 2004-05 | 25 | 18 |
| 2005-06 | 31 | 29 |
| **Total** | **88** | **48** |

Department wise analysis is given below:

| Name of the department | 2000-01 | 2004-05 | 2005-06 |
|---|---|---|---|
| Commerce and Industries | - | 7 | 9 |
| Energy | - | 0 | 7 |
| Water Resources | - | 5 | 4 |
| Forest | - | 1 | 0 |
| Tourism | | 2 | 1 |
| Social Welfare | - | 1 | 0 |
| Finance | - | 0 | 1 |
| Co-operation | - | 0 | 2 |
| Information technology | - | 0 | 2 |
| Public works | - | 0 | 1 |
| Agriculture and Horticulture | - | 0 | 1 |
| General | 1 | 2 | 1 |
| **Total** | **1** | **18** | **29** |

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

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

**4.30.2.** The replies to paragraphs were required to be furnished within six months from the presentation of the Reports. Replies to 33 paragraphs pertaining to 8 Reports of the COPU, presented to the State Legislature between February 2004 and March 2007, had not been received as on September 2007, as indicated below:

| Year of the COPU Report | Total number of Reports involved | No. of paragraphs where replies not received |
|---|---|---|
| 2003-2004 | 1 | 2 |
| 2005-2006 | 5 | 27 |
| 2006-2007 | 2 | 4 |
| **Total** | **8** | **33** |

## 4.31 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 2007 pertaining to 77 PSUs disclosed that 3,537 paragraphs relating to 998 inspection reports remained outstanding at the end of September 2007; of these, 14 inspection reports containing 190 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 2007 is given in **Annexure 18.**

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. It was, however, observed that 20 paragraphs and 3 reviews forwarded to the various departments during March 2007 to August 2007 as detailed in **Annexure-19**, had not been replied so far. Their views have been taken into consideration while finalising the reviews/paragraphs wherever replies from Government/Department has been received.

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

**BANGALORE**
**The** 20 DEC 2007

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

**COUNTERSIGNED**

28 DEC 2007

**NEW DELHI**
**The**

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

# ANNEXURES

# ANNEXURE 1

**Statement showing particulars of up-to-date paid-up capital, equity/loans received out of budget and loans outstanding as on 31 March 2007 in respect of Government companies and Statutory corporations.**

**(Referred to in paragraphs 1.3,1.4,1.5,1.16 and 1.17)**

**(Figures in column 3(a) to 4(f) are Rupees in lakh)**

| Sl. No. | Sector and name of company/corporation | Paid-up capital as at the end of the current year (Figures in bracket indicate share application money) | | | | | Equity/loans received out of Budget during the year | | Other loans received during the year | Loans * outstanding at the close of 2006-07 | | | Debt equity ratio for 2006-07 (Previous year) 4(f)/ 3(e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | State Government | Central Government | Holding Companies | Others | Total | Equity | Loans | | Government | Others | Total | |
| (1) | (2) | 3(a) | 3(b) | 3(c) | 3(d) | 3(e) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 4(f) | (5) |
| **A** | **WORKING GOVERNMENT COMPANIES** | | | | | | | | | | | | |
| | **AGRICULTURE AND ALLIED SECTOR** | | | | | | | | | | | | |
| 1 | Karnataka State Agro Corn Products Limited | 223.37 | - | - | 50.00 | 273.37 | - | - | - | - | - | - | - |
| 2 | Karnataka State Agricultural Produce Processing and Export Corporation Limited | 50.00 | - | - | - | 50.00 | - | - | - | - | - | - | - |
| 3 | Karnataka Togari Abhivridhi Mandali Limited | 500.00 | - | - | - | 500.00 | - | - | - | - | - | - | - |
| 4 | The Karnataka Fisheries Development Corporation Limited | 865.93 | - | - | - | 865.93 | 412.29 | - | - | 75.00 | - | 75.00 | 0.09:1 (0.17:1) |
| 5 | Karnataka Sheep and Wool Development Corporation Limited | 5.00 | - | - | - | 5.00 | - | - | - | - | - | - | - |
| | **SUBSIDIARIES** | | | | | | | | | | | | |
| 6 | Karnataka Compost Development Corporation Limited | - | - | 26.00 | 24.00 | 50.00 | - | - | - | - | 331.95 | 331.95 | 6.64:1 (6.64:1) |
| | **Sectorwise Total** | **1644.30** | - | **26.00** | **74.00** | **1744.30** | **412.29** | - | - | **75.00** | **331.95** | **406.95** | |
| | **INDUSTRY SECTOR** | | | | | | | | | | | | |
| 7 | Karnataka Leather Industries Development Corporation Limited | 334.67 | - | - | - | 334.67 | - | - | - | 1136.39 | 73.89 | 1210.28 | 3.62:1 (3.66:1) |

| Sl. No. | Sector and name of company/corporation | Paid-up capital as at the end of the current year (Figures in bracket indicate share application money) | | | | | Equity/loans received out of Budget during the year | | Other loans received during the year | Loans * outstanding at the close of 2006-07 | | | Debt equity ratio for 2006-07 (Previous year) 4(f)/ 3(e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | State Govern-ment | Central Govern-ment | Holding Compan-ies | Others | Total | Equity | Loans | | Govern-ment | Others | Total | |
| (1) | (2) | 3(a) | 3(b) | 3(c) | 3(d) | 3(e) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 4(f) | (5) |
| 8 | Karnataka Soaps and Detergents Limited | 3182.21 | - | - | - | 3182.21 | - | - | - | 1299.95 | - | 1299.95 | 0.41:1 (0.63:1) |
| 9 | Karnataka State Coir Development Corporation Limited | 301.15 | - | - | - | 301.15 | - | - | - | 41.25 | 5.10 | 46.35 | 0.15:1 (0.15:1) |
| 10 | Karnataka State Small Industries Development Corporation Limited | 2466.36 | - | - | - | 2466.36 | - | - | - | 1406.51 | - | 1406.51 | 0.57:1 (0.60:1) |
| 11 | The Mysore Paper Mills Limited | 7692.26 (4.86) | - | - | 4192.22 | 11884.48 (4.86) | - | - | 577.54 | 9267.09 | 5255.22 | 14522.31 | 1.22:1 (1.25:1) |
| | **Sectorwise Total** | **13976.65 (4.86)** | **-** | **-** | **4192.22** | **18168.87 (4.86)** | **-** | **-** | **577.54** | **13151.19** | **5334.21** | **18485.40** | |
| | **ENGINEERING SECTOR** | | | | | | | | | | | | |
| 12 | Karnataka Vidyuth Karkhane Limited | 561.92 | - | - | - | 561.92 | - | 83.26 | - | 783.91 | 92.11 | 876.02 | 1.56:1 (3.03:1) |
| 13 | The Mysore Electrical Industries Limited | 766.51 | - | - | 175.96 | 942.47 | - | - | - | 2854.00 | 50.80 | 2904.80 | 3.08:1 (3.08:1) |
| | **SUBSIDIARIES** | | | | | | | | | | | | |
| 14 | NGEF (Hubli) Limited | - | - | 320.00 | - | 320.00 | - | - | - | 70.00 | - | 70.00 | 0.22:1 (0.22:1) |
| | **Sectorwise Total** | **1328.43** | **-** | **320.00** | **175.96** | **1824.39** | **-** | **83.26** | **-** | **3707.91** | **142.91** | **3850.82** | |
| | **ELECTRONICS SECTOR** | | | | | | | | | | | | |
| 15 | Karnataka State Electronics Development Corporation Limited | 787.20 | - | - | - | 787.20 | - | - | - | 685.00 | 6000.00 | 6685.00 | 8.49:1 (8.49:1) |
| | **Sectorwise Total** | **787.20** | **-** | **-** | **-** | **787.20** | **-** | **-** | **-** | **685.00** | **6000.00** | **6685.00** | |
| | **TEXTILES SECTOR** | | | | | | | | | | | | |
| 16 | Karnataka Silk Industries Corporation Limited | 5800.47 | - | - | - | 5800.47 | - | 175.63 | - | 531.93 | - | 531.93 | 0.09:1 (0.71:1) |

| Sl. No. | Sector and name of company/corporation | Paid-up capital as at the end of the current year (Figures in bracket indicate share application money) | | | | | Equity/loans received out of Budget during the year | | Other loans received during the year | Loans * outstanding at the close of 2006-07 | | | Debt equity ratio for 2006-07 (Previous year) 4(f)/ 3(e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | State Govern-ment | Central Govern-ment | Holding Compan-ies | Others | Total | Equity | Loans | | Govern-ment | Others | Total | |
| (1) | (2) | 3(a) | 3(b) | 3(c) | 3(d) | 3(e) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 4(f) | (5) |
| 17 | Karnataka Silk Marketing Board Limited | 3145.00 | - | - | - | 3145.00 | - | - | - | - | - | - | |
| 18 | Karnataka State Power loom Development Corporation Limited | 221.52* | - | - | - | 221.52 | - | - | - | - | - | - | - |
| | **Sectorwise Total** | **9166.99** | **-** | **-** | **-** | **9166.99** | **-** | **175.63** | **-** | **531.93** | **-** | **531.93** | |
| | **HANDLOOM AND HANDICRAFTS SECTOR** | | | | | | | | | | | | |
| 19 | The Karnataka Handloom Development Corporation Limited | 3918.46 | 519.75 | - | - | 4438.21 | - | - | - | 1538.08 | 2400.81 | 3938.89 | 0.89:1 (0.41:1) |
| 20 | Karnataka State Handicrafts Development Corporation Limited | 280.00 (3.81) | 121.50 | - | - | 401.50 (3.81) | - | - | - | 68.12 | 85.30 | 153.42 | 0.38:1 (0.39:1) |
| | **Sectorwise Total** | **4198.46 (3.81)** | **641.25** | **-** | **-** | **4839.71 (3.81)** | **-** | **-** | **-** | **1606.20** | **2486.11** | **4092.31** | |
| | **FOREST SECTOR** | | | | | | | | | | | | |
| 21 | Karnataka Cashew Development Corporation Limited | 415.03 | 44.00 | - | - | 459.03 | - | - | - | - | 152.67 | 152.67 | 0.33:1 (0.33:1) |
| 22 | Karnataka Forest Development Corporation Limited | 931.40 | - | - | - | 931.40 | - | - | - | - | - | - | - |
| 23 | The Karnatak State Forest Industries Corporation Limited | 266.58 | - | - | - | 266.58 | - | - | - | 8.00 | - | 8.00 | 0.03:1 (0.03:1) |
| | **Sectorwise Total** | **1613.01** | **44.00** | **-** | **-** | **1657.01** | **-** | **-** | **-** | **8.00** | **152.67** | **160.67** | |
| | **MINING SECTOR** | | | | | | | | | | | | |
| 24 | Mysore Minerals Limited | 296.62 | - | - | 3.38 | 300.00 | - | - | - | 1343.56 | - | 1343.56 | 4.48:1 (6.50:1) |
| 25 | The Hutti Gold Mines Company Limited | 220.19 | - | 72.50 | 3.51 | 296.20 | - | - | 1278.04 | - | 1288.62 | 1288.62 | 4.35:1 (2.38:1) |
| | **Sectorwise Total** | **516.81** | **-** | **72.50** | **6.89** | **596.20** | **-** | **-** | **1278.04** | **1343.56** | **1288.62** | **2632.18** | |

*** the increase in share capital is on account of issue of bonus shares**

| Sl. No. | Sector and name of company/corporation | Paid-up capital as at the end of the current year (Figures in bracket indicate share application money) | | | | | Equity/loans received out of Budget during the year | | Other loans received during the year | Loans * outstanding at the close of 2006-07 | | | Debt equity ratio for 2006-07 (Previous year) 4(f)/ 3(e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | State Government | Central Government | Holding Companies | Others | Total | Equity | Loans | | Government | Others | Total | |
| (1) | (2) | 3(a) | 3(b) | 3(c) | 3(d) | 3(e) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 4(f) | (5) |
| | **CONSTRUCTION SECTOR** | | | | | | | | | | | | |
| 26 | Karnataka State Construction Corporation Limited | 205.00 | - | - | - | 205.00 | - | - | - | 553.11 | - | 553.11 | 2.70:1 (2.70:1) |
| 27 | Karnataka Land Army Corporation Limited | 1225.00 | - | - | - | 1225.00 | - | - | - | - | 11648.28 | 11648.28 | 9.51:1 (10.50:1) |
| 28 | Karnataka State Police Housing Corporation Limited | 12.00 | - | - | - | 12.00 | - | - | 2300.00 | - | 28092.80 | 28092.80 | 2341.07:1 (2401.70:1) |
| 29 | Rajiv Gandhi Rural Housing Corporation Limited | 300.00 | - | - | - | 300.00 | - | 7500.00 | 7243.43 | 12140.00 | 65062.58 | 77202.58 | 257.34:1 (255.54:1) |
| 30 | Karnataka Road Development Corporation Limited | 20000.00 (23481.72) | - | - | - | 20000.00 (23481.72) | 10448.00 | - | - | - | 53413.64 | 53413.64 | 1.23:1 (1.79:1) |
| | **Sectorwise Total** | **21742.00 (23481.72)** | - | - | - | **21742.00 (23481.72)** | **10448.00** | **7500.00** | **9543.43** | **12693.11** | **158217.30** | **170910.41** | |
| | **AREA DEVELOPMENT SECTOR** | | | | | | | | | | | | |
| 31 | Krishna Bhagya Jala Nigam Limited | 670678.95 (376403.21) | - | - | - | 670678.95 (376403.21) | - | - | 5000.00 | - | 153567.82 | 153567.82 | 0.15:1 (0.23:1) |
| 32 | Karnataka Neeravari Nigam Limited | 410269.47 | - | - | - | 410269.47 | 126081.82 | - | - | 490.00 | 85909.94 | 86399.94 | 0.21:1 (0.42:1) |
| 33 | Cauvery Neeravari Nigam Limited | 110005.00 (78209.73) | - | - | - | 110005.00 (78209.73) | 69206.18 | - | 12234.77 | 610857.21 | 80249.49 | 691106.70 | 3.67:1 (5.70:1) |
| | **Sectorwise Total** | **1190953.42 (454612.94)** | - | - | - | **1190953.42 (454612.94)** | **195288.00** | - | **17234.77** | **611347.21** | **319727.25** | **931074.46** | |
| | **DEVELOPMENT OF ECONOMICALLY WEAKER SECTION SECTOR** | | | | | | | | | | | | |
| 34 | D.Devaraj Urs Backward Classes Development Corporation Limited | 7438.91 (900.00) | - | - | - | 7438.91 (900.00) | 600.00 | - | 1423.20 | - | 5425.65 | 5425.65 | 0.65:1 (0.62:1) |
| 35 | Karnataka State Women's Development Corporation | 967.50 | 297.84 | - | - | 1265.34 | 16.25 | - | - | - | - | - | - |

| Sl. No. | Sector and name of company/corporation | Paid-up capital as at the end of the current year (Figures in bracket indicate share application money) | | | | | Equity/loans received out of Budget during the year | | Other loans received during the year | Loans * outstanding at the close of 2006-07 | | | Debt equity ratio for 2006-07 (Previous year) 4(f)/ 3(e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | State Govern-ment | Central Govern-ment | Holding Compan-ies | Others | Total | Equity | Loans | | Govern-ment | Others | Total | |
| (1) | (2) | 3(a) | 3(b) | 3(c) | 3(d) | 3(e) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 4(f) | (5) |
| 36 | Dr.B.R.Ambedkar Development Corporation Limited | 7231.66 (1057.49) | 6313.51 (434.00) | - | - | 13545.17 (1491.49) | 497.49 | - | 3468.18 | - | 9865.05 | 9865.05 | 0.66:1 (0.57:1) |
| 37 | Karnataka Schedule Tribes Development Corporation Limited | 1.00 (62.51) | - | - | - | 1.00 (62.51) | - | - | - | - | - | - | - |
| 38 | The Karnataka Minorities Development Corporation Limited | 4856.45 (1500.00) | - | - | - | 4856.45 (1500.00) | 1500.00 | - | - | - | 3070.03 | 3070.03 | 0.48:1 (0.59:1) |
| | **Sectorwise Total** | **20495.52 (3520.00)** | **6611.35 (434.00)** | **-** | **-** | **27106.87 (3954.00)** | **2613.74** | **-** | **4891.38** | **-** | **18360.73** | **18360.73** | |
| | **PUBLIC DISTRIBUTION SECTOR** | | | | | | | | | | | | |
| 39 | Karnataka Food and Civil Supplies Corporation Limited | 325.00 | - | - | - | 325.00 | - | - | - | 944.46 | - | 944.46 | 2.91:1 (2.91:1) |
| | **Sectorwise Total** | **325.00** | **-** | **-** | **-** | **325.00** | **-** | **-** | **-** | **944.46** | **-** | **944.46** | |
| | **SUGAR SECTOR** | | | | | | | | | | | | |
| 40 | The Mysore Sugar Company Limited | 780.75 | - | - | 92.68 | 873.43 | - | 1000.00 | - | 4608.77 | 7581.68 | 12190.45 | 13.96:1 (12.81:1) |
| | **Sectorwise Total** | **780.75** | **-** | **-** | **92.68** | **873.43** | **-** | **1000.00** | **-** | **4608.77** | **7581.68** | **12190.45** | |
| | **TOURISM SECTOR** | | | | | | | | | | | | |
| 41 | The Karnataka State Tourism Development Corporation Limited | 500.00 (141.36) | - | - | - | 500.00 (141.36) | - | - | - | 200.00 | 126.06 | 326.06 | 0.51:1 (0.51:1) |
| 42 | Jungle Lodges and Resorts Limited | 49.69 | - | - | 42.06 | 91.75 | - | - | - | 4.00 | 211.22 | 215.22 | 2.35:1 (2.35:1) |
| | **Sectorwise Total** | **549.69 (141.36)** | **-** | **-** | **42.06** | **591.75 (141.36)** | **-** | **-** | **-** | **204.00** | **337.28** | **541.28** | |

| Sl. No. | Sector and name of company/corporation | Paid-up capital as at the end of the current year (Figures in bracket indicate share application money) | | | | | Equity/loans received out of Budget during the year | | Other loans received during the year | Loans * outstanding at the close of 2006-07 | | | Debt equity ratio for 2006-07 (Previous year) 4(f)/ 3(e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | State Government | Central Government | Holding Companies | Others | Total | Equity | Loans | | Government | Others | Total | |
| (1) | (2) | 3(a) | 3(b) | 3(c) | 3(d) | 3(e) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 4(f) | (5) |
| | **CHEMICALS SECTOR** | | | | | | | | | | | | |
| 43 | The Mysore Paints and Varnish Limited | 94.73 | - | - | 8.92 | 103.65 | - | - | - | - | - | - | - |
| | **Sectorwise Total** | **94.73** | - | - | **8.92** | **103.65** | - | - | - | - | - | - | |
| | **POWER SECTOR** ∅ | | | | | | | | | | | | |
| 44 | Karnataka Power Corporation Limited | 66298.15 (8028.07) | - | - | - | 66298.15 (8028.07) | - | - | 112383.34 | 91.00 | 356764.17 | 356855.17 | 4.80:1 (4.41:1) |
| 45 | Karnataka Renewable Energy Development Limited | 49.80 (0.20) | - | - | - | 49.80 (0.20) | - | - | - | - | 5820.00 | 5820.00 | 116.40:1 (155.20:1) |
| 46 | Karnataka Power Transmission Corporation Limited | 69032.25 (4285.55) | - | - | - | 69032.25 (4285.55) | - | - | 88900.57 | 917.69 | 206087.32 | 207005.01 | 2.82:1 (1.86:1) |
| 47 | Bangalore Electricity Supply Company Limited | 20595.00 (1.51) | - | - | - | 20595.00 (1.51) | - | - | 26783.24 | 6608.12 | 64499.77 | 71107.89 | 3.45:1 (2.42:1) |
| 48 | Hubli Electricity Supply Company Limited | 23333.61 | - | - | - | 23333.61 | - | 3648.00 | 24022.00 | 9989.95 | 68852.85 | 78842.80 | 3.38:1 (2.72:1) |
| 49 | Mangalore Electricity Supply Company Limited | 5.00 (10028.99) | - | - | - | 5.00 (10028.99) | - | - | 7869.12 | 231.70 | 21655.14 | 21886.84 | 2.18:1 (1.49:1) |
| 50 | Chamundeshwari Electricity Supply Corporation Limited | 5.00 (2925.48) | - | - | - | 5.00 (2925.48) | - | - | - | 3545.80 | 15418.87 | 18964.67 | 6.47:1 (12.62:1) |
| 51 | Gulbarga Electicity Supply Company Limited | 5.00 (13008.61) | - | - | - | 5.00 (13008.61) | - | - | - | 2195.76 | 34812.22 | 37007.98 | 2.84:1 (1.78:1) |
| | **SUBSIDIARIES** | | | | | | | | | | | | |
| 52 | KPC Bidadi Power Corporation Private Limited | - | - | 5.00 | - | 5.00 | - | - | 95.71 | - | 2774.38 | 2774.38 | 554.88:1 (535.73:1) |
| | **Sectorwise Total** | **179323.81 (38278.41)** | - | **5.00** | - | **1793238.81 (38278.41)** | - | **3648.00** | **260053.98** | **23580.02** | **776684.72** | **800264.74** | |

∅ **The difference (increase/decrease) in Share deposit accounts of KPTCL/ ESCOMs with respect to previous year figures are on account of inter company adjustment and does not represent any budgetary outgo from the State Government towards equity in these companies.**

| Sl. No. | Sector and name of company/corporation | Paid-up capital as at the end of the current year (Figures in bracket indicate share application money) | | | | | Equity/loans received out of Budget during the year | | Other loans received during the year | Loans * outstanding at the close of 2006-07 | | | Debt equity ratio for 2006-07 (Previous year) 4(f)/ 3(e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | State Government | Central Government | Holding Companies | Others | Total | Equity | Loans | | Government | Others | Total | |
| (1) | (2) | 3(a) | 3(b) | 3(c) | 3(d) | 3(e) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 4(f) | (5) |
| | **FINANCING SECTOR** | | | | | | | | | | | | |
| 53 | Karnataka State Industrial Investment and Development Corporation Limited | 19032.51 (12018.40) | - | - | - (19063.41) | 19032.51 (31081.81) | 2052.32 | - | 10870.00 | 15.00 | 52326.23 | 52341.23 | 1.04:1 (1.42:1) |
| 54 | Karnataka Urban Infrastructure Development and Finance Corporation Limited | 606.48 | - | - | 200.00 | 806.48 | - | - | - | - | - | - | - |
| | **Sectorwise Total** | **19638.99 (12018.40)** | **-** | **-** | **200.00 (19063.41)** | **19838.99 (31081.81)** | **2052.32** | **-** | **10870.00** | **15.00** | **52326.23** | **52341.23** | |
| | **MISCELLANEOUS SECTOR** | | | | | | | | | | | | |
| 55 | Karnataka State Beverages Corporation Limited | 200.00 | - | - | - | 200.00 | - | - | 262187.43 | 241.65 | 7179.62 | 7421.27 | 37.11:1 (15.24:1) |
| 56 | Bangalore Metro Rail Corporation Limited | 3000.00 | 3000.00 | - | - | 6000.00 | - | - | - | 20704.00 | - | 20704.00 | 3.45:1 (4739.80:1) |
| 57 | Sree Kanteerava Studios Limited | 82.08 | - | - | 5.90 | 87.98 | - | - | - | 106.51 | - | 106.51 | 1.21:1 (1.21:1) |
| | **SUBSIDIARIES** | | | | | | | | | | | | |
| 58 | Marketing Consultants and Agencies Limited | - (345.74) | - | 357.25 | - | 357.25 (345.74) | - | - | - | - | - | - | - |
| 59 | Mysore Sales International Limited | - (746.33) | - | 366.23 (1651.43) | - | 366.23 (2397.76) | - | - | - | 500.00 | - | 500.00 | 0.18:1 (0.18:1) |
| | **Sectorwise Total** | **3282.08 (1092.07)** | **3000.00** | **723.48 (1651.43)** | **5.90** | **7011.46 (2743.50)** | **-** | **-** | **262187.43** | **21552.16** | **7179.62** | **28731.78** | |
| | **TOTAL A (All sectorwise Government companies)** | **1470417.84 (533153.57)** | **10296.60 (434.00)** | **1146.98 (1651.43)** | **4798.63 (19063.41)** | **1486660.05 (554302.41)** | **210814.35** | **12406.89** | **566636.57** | **696053.52** | **1356151.28** | **2052204.80** | **1.03:1 (1.10:1)** |
| **B** | **WORKING STATUTORY CORPORATIONS** | | | | | | | | | | | | |
| | **TRANSPORT SECTOR** | | | | | | | | | | | | |
| 1 | Karnataka State Road Transport Corporation | 18428.94 | 4909.76 | - | - | 23338.70 | - | - | 11700.00 | 4436.29 | 23093.24 | 27529.53 | 1.18:1 (1.02:1) |

| Sl. No. | Sector and name of company/corporation | Paid-up capital as at the end of the current year (Figures in bracket indicate share application money) | | | | | Equity/loans received out of Budget during the year | | Other loans received during the year | Loans * outstanding at the close of 2006-07 | | | Debt equity ratio for 2006-07 (Previous year) 4(f)/ 3(e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | State Govern-ment | Central Govern-ment | Holding Compan-ies | Others | Total | Equity | Loans | | Govern-ment | Others | Total | |
| (1) | (2) | 3(a) | 3(b) | 3(c) | 3(d) | 3(e) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 4(f) | (5) |
| 2. | Bangalore Metropolitan Transport Corporation | 15816.20 | - | - | - | 15816.20 | 6544.47 | - | 421.96 | - | 2264.92 | 2264.92 | 0.14:1 (0.28:1) |
| 3. | North Western Karnataka Road Transport Corporation | 11563.67 | - | - | - | 11563.67 | - | - | 10429.43 | 104.66 | 22508.28 | 22612.94 | 1.96:1 (1.49:1) |
| 4. | North Eastern Karnataka Road Transport Corporation | 10350.05 | - | - | - | 10350.05 | - | - | 4000.00 | 86.95 | 8242.65 | 8329.60 | 0.80:1 (0.59:1) |
| | **Sectorwise Total** | **56158.86** | **4909.76** | **-** | **-** | **61068.62** | **6544.47** | **-** | **26551.39** | **4627.90** | **56109.09** | **60736.99** | |
| | **FINANCING SECTOR** | | | | | | | | | | | | |
| 5. | Karnataka State Financial Corporation | 6837.88 (2683.00) | - | - | 2946.66 (917.69) | 9784.54 (3600.69) | - | - | 15299.41 | 245.00 | 164985.10 | 165230.10 | 12.34:1 (13.64:1) |
| | **Sectorwise Total** | **6837.88 (2683.00)** | **-** | **-** | **2946.66 (917.69)** | **9784.54 (3600.69)** | **-** | **-** | **15299.41** | **245.00** | **164985.10** | **165230.10** | |
| | **AGRICULTURE AND ALLIED SECTOR** | | | | | | | | | | | | |
| 6. | Karnataka State Warehousing Corporation | 410.00 (265.00) | 340.00 | - | - | 750.00 (265.00) | 10.00 | - | 10.00 | 1280.00 | 990.06 | 2270.06 | 2.24:1 (3.76:1) |
| | **Sectorwise Total** | **410.00 (265.00)** | **340.00** | **-** | **-** | **750.00 (265.00)** | **10.00** | **-** | **10.00** | **1280.00** | **990.06** | **2270.06** | |
| | **TOTAL B (all sectorwise Statutory corporations)** | **63406.74 (2948.00)** | **5249.76** | **-** | **2946.66 (917.69)** | **71603.16 (3865.69)** | **6554.47** | **-** | **41860.80** | **6152.90** | **222084.25** | **228237.15** | **2.95:1 (3.43:1)** |
| | **Grand total (A + B)** | **1533824.58 (536101.57)** | **15546.36 (434.00)** | **1146.98 (1651.43)** | **7745.29 (19981.10)** | **1558263.21 (558168.10)** | **217368.82** | **12406.89** | **608497.37** | **702206.42** | **1578235.53** | **2280441.95** | **1.08:1 (1.18:1)** |
| **C** | **NON WORKING GOVERNMENT COMPANIES** | | | | | | | | | | | | |
| | **AGRICULTURE AND ALLIED SECTOR** | | | | | | | | | | | | |
| 1. | Karnataka Agro Industries Corporation Limited | 754.09 (4836.32) | - | - | - | 754.09 (4836.32) | - | - | - | 6810.37 | - | 6810.37 | 1.22:1 (1.22:1) |
| 2 | Karnataka Agro Proteins Limited | 33.54 | - | - | 27.39 | 60.93 | - | - | - | - | - | - | - |

| Sl. No. | Sector and name of company/corporation | Paid-up capital as at the end of the current year (Figures in bracket indicate share application money) | | | | | Equity/loans received out of Budget during the year | | Other loans received during the year | Loans * outstanding at the close of 2006-07 | | | Debt equity ratio for 2006-07 (Previous year) 4(f)/ 3(e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | State Govern-ment | Central Govern-ment | Holding Compan-ies | Others | Total | Equity | Loans | | Govern-ment | Others | Total | |
| (1) | (2) | 3(a) | 3(b) | 3(c) | 3(d) | 3(e) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 4(f) | (5) |
| | **SUBSIDIARIES** | | | | | | | | | | | | |
| 3 | The Mysore Tobacco Company Limited | 2.00 (58.52) | - | 11.05 | 5.81 | 18.86 (58.52) | - | - | - | - | - | - | - |
| | **Sectorwise Total** | **789.63 (4894.84)** | **-** | **11.05** | **33.20** | **833.88 (4894.84)** | **-** | **-** | **-** | **6810.37** | **-** | **6810.37** | |
| | **INDUSTRY SECTOR** | | | | | | | | | | | | |
| 4 | Karnataka Small Industries Marketing Corporation Limited | 136.00 | - | 35.00 | - | 171.00 | - | - | - | - | - | - | - |
| 5 | The Mysore Lamp Works Limited | 1075.58 | - | - | 105.44 | 1181.02 | - | - | - | 9373.30 | 350.00 | 9723.30 | 8.23:1 (8.24:1) |
| 6 | Vijayanagar Steel Limited | 1290.58 | - | - | - | 1290.58 | - | - | - | 58.35 | - | 58.35 | 0.05:1 (0.05:1) |
| | **SUBSIDIARIES** | | | | | | | | | | | | |
| 7 | The Mysore Cosmetics Limited | - (1.14) | - | 15.00 | - | 15.00 (1.14) | - | - | - | - | - | - | - |
| 8 | Karnataka Telecom Limited | 78.00 | - | 222.00 | - | 300.00 | - | - | - | - | - | - | - |
| 9 | The Mysore Chrome Tanning Company Limited | - | - | 72.09 | 3.65 | 75.74 | - | - | - | 12.03 | 38.56 | 50.59 | 0.67:1 (0.67:1) |
| | **Sectorwise Total** | **2580.16 (1.14)** | **-** | **344.09** | **109.09** | **3033.34 (1.14)** | **-** | **-** | **-** | **9443.68** | **388.56** | **9832.24** | |
| | **ENGINEERING SECTOR** | | | | | | | | | | | | |
| 10 | NGEF Limited | 4198.70 | - | - | 452.00 | 4650.70 | - | - | - | 22724.00 | - | 22724.00 | 4.89:1 (4.89:1) |
| 11 | Chamundi Machine Tools Limited | 63.50 | - | - | - | 63.50 | - | - | - | 249.47 | 100.49 | 349.96 | 5.51:1 (4.61:1) |
| | **Sectorwise Total** | **4262.20** | **-** | **-** | **452.00** | **4714.20** | **-** | **-** | **-** | **22973.47** | **100.49** | **23073.96** | |
| | **TEXTILES SECTOR** | | | | | | | | | | | | |
| 12 | Karnataka State Textiles Limited | 50.00 | - | - | - | 50.00 | - | - | - | 1493.59 | - | 1493.59 | 29.87:1 (29.87:1) |
| | **Sectorwise Total** | **50.00** | **-** | **-** | **-** | **50.00** | **-** | **-** | **-** | **1493.59** | **-** | **1493.59** | |

| Sl. No. | Sector and name of company/corporation | Paid-up capital as at the end of the current year (Figures in bracket indicate share application money) | | | | | Equity/loans received out of Budget during the year | | Other loans received during the year | Loans * outstanding at the close of 2006-07 | | | Debt equity ratio for 2006-07 (Previous year) 4(f)/ 3(e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | State Govern-ment | Central Govern-ment | Holding Compan-ies | Others | Total | Equity | Loans | | Govern-ment | Others | Total | |
| (1) | (2) | 3(a) | 3(b) | 3(c) | 3(d) | 3(e) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 4(f) | (5) |
| | **FOREST SECTOR (SUBSIDIARIES)** | | | | | | | | | | | | |
| 13 | Karnataka Pulpwood Limited | - (1391.00) | - | 125.00 | - | 125.00 (1391.00) | - | - | - | 289.36 | 0.00 | 289.36 | 0.19:1 - |
| 14 | The Karnatak State Veeners Limited | - | - | 51.00 | 49.00 | 100.00 | - | - | - | - | 99.98 | 99.98 | 1.00:1 (1.00:1) |
| 15 | The Mysore Match Company Limited | 0.50 | - | 2.95 | 1.55 | 5.00 | - | - | - | - | - | - | - |
| | **Sectorwise Total** | **0.50 (1391.00)** | **-** | **178.95** | **50.55** | **230.00 (1391.00)** | **-** | **-** | **-** | **289.36** | **99.98** | **389.34** | |
| | **CHEMICALS SECTOR** | | | | | | | | | | | | |
| 16 | The Mysore Acetate and Chemicals Company Limited | 995.70 | - | - | 221.82 | 1217.52 | - | - | - | 1311.00 | - | 1311.00 | 1.08:1 (1.08:1) |
| | **Sectorwise Total** | **995.70** | **-** | **-** | **221.82** | **1217.52** | **-** | **-** | **-** | **1311.00** | **-** | **1311.00** | |
| | **MISCELLANEOUS SECTOR** | | | | | | | | | | | | |
| 17 | Karnataka Film Industries Development Corporation Limited | 90.00 | - | - | 12.38 | 102.38 | - | - | - | - | - | - | - |
| | **Sectorwise Total** | **90.00** | **-** | **-** | **12.38** | **102.38** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| | **TOTAL C (All sectorwise Government companies)** | **8768.19 (6286.98)** | **-** | **534.09** | **879.04** | **10181.32 (6286.98)** | **0.00** | **0.00** | **0.00** | **42321.47** | **589.03** | **42910.50** | **2.82:1 (2.82:1)** |
| | **Grand Total (A + B + C)** | **1542592.77 (542388.55)** | **15546.36 (434.00)** | **1681.07 (1651.43)** | **8624.33 (19981.10)** | **1568444.53^ (564455.08)** | **217368.82** | **12406.89** | **608497.37** | **744527.89** | **1578824.56** | **2323352.45** | **1.10:1 (1.19:1)** |

**Note: Figures are provisional and as furnished by the companies in respect of companies that have not finalised their accounts for 2006-07 (Sl.Nos. A – 1, 4, 5, 7, 23, 24, 26, 27, 32, 34, 37, 41, 45 and C – 1, 2, 4, 7, 8, 10, 12, 14, 16).**

* **Loans outstanding at the close of 2006-07 represent long term loans only.**

^ **State Government's investment in PSU's was Rs.28,295.09 crore (Others: Rs. 16,267.43 crore). Figures as per Finance Accounts, 2006-07 is Rs.19,770.62 crore. The difference is under reconciliation.**

# ANNEXURE 2

**Summarised financial results of Government companies and Statutory corporations for the latest year for which accounts were finalised.**
**(Referred to in paragraphs 1.6,1.7,1.8,1.13,1.19,1.20,1.22 and 1.26)**

**(Figures in column 7 to 12 and 15 are Rupees in lakh)**

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of accounts in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| A | WORKING GOVERNMENT COMPANIES | | | | | | | | | | | | | | |
| I | AGRICULTURE AND ALLIED SECTOR | | | | | | | | | | | | | | |
| 1 | Karnataka State Agro Corn Products Limited | Agriculture & Horticulture | Apr. 73 | 2005-06 | 2006-07 | 0.65 | - | 273.37 | 1052.59 | 1390.90 | 15.50 | 1.11 | 1 | 3597.65 | 304 |
| 2 | Karnataka State Agricultural Produce Processing and Export Corporation Limited | Agriculture & Horticulture | Apr. 96 | 2006-07 | 2007-08 | 29.18 | - | 50.00 | 508.75 | 781.83 | 29.18 | 3.73 | - | 1323.52 | 12 |
| 3 | Karnataka Togari Abhivridhi Mandali Limited | Agriculture & Horticulture | May 02 | 2006-07 | 2007-08 | 16.17 | - | 500.00 | 38.99 | 539.84 | 16.17 | 3.00 | - | 1339.29 | 5 |
| 4 | The Karnataka Fisheries Development Corporation Limited | Animal Husbandry and Fisheries | Oct .70 | 2005-06 | 2006-07 | 16.02 | - | 453.64 | -884.03 | -77.71 | 44.34 | - | 1 | 2375.20 | 209 |
| 5 | Karnataka Sheep and Wool Development Corporation Limited | Animal Husbandry and Fisheries | Dec. 01 | 2004-05 | 2006-07 | -7.93 | - | 5.00 | -20.51 | 729.86 | -7.93 | - | 2 | 2.82 | 71 |
| | SUBSIDIARY | | | | | | | | | | | | | | |
| 6 | Karnataka Compost Development Corporation Limited | Agriculture & Horticulture | Aug .75 | 2006-07 | 2007-08 | 22.91 | - | 50.00 | -47.76 | 472.28 | 33.12 | 7.01 | - | 162.30 | 47 |
| | **Sectorwise Total** | | | | | **77.00** | | **1332.01** | **648.03** | **3837.00** | **130.38** | **-** | **-** | **-** | **-** |

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of account s in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| | **INDUSTRY SECTOR** | | | | | | | | | | | | | | |
| 7 | Karnataka Leather Industries Development Corporation Limited | Commerce & Industries | Oct. 76 | 2003-04 | 2006-07 | -198.38 | - | 334.67 | -1617.49 | -526.54 | -178.40 | - | 3 | 265.97 | 108 |
| 8 | Karnataka Soaps and Detergents Limited | Commerce & Industries | July 80 | 2006-07 | 2007-08 | 203.97 | - | 3182.21 | 150.70 | 5557.69 | 250.45 | 4.51 | - | 11958.03 | 985 |
| 9 | Karnataka State Coir Development Corporation Limited | Commerce & Industries | Feb. 85 | 2006-07 | 2007-08 | -61.57 | - | 301.15 | -370.09 | 518.89 | -55.02 | - | - | 260.88 | 44 |
| 10 | Karnataka State Small Industries Development Corporation Limited | Commerce & Industries | June 64 | 2006-07 | 2007-08 | 233.33 | - | 2466.36 | 1530.22 | 7414.41 | 257.53 | 3.47 | - | 6043.50 | 386 |
| 11 | The Mysore Paper Mills Limited | Commerce & Industries | May 36 | 2006-07 | 2007-08 | 63.14 | - | 11889.34 | -5341.36 | 27742.52 | 2836.01 | 10.22 | - | 40043.98 | 2639 |
| | **Sectorwise Total** | | | | | **240.49** | | **18173.73** | **-5648.02** | **40706.97** | **3110.57** | - | - | - | - |
| | **ENGINEERING SECTOR** | | | | | | | | | | | | | | |
| 12 | Karnataka Vidyuth Karkhane Limited | Commerce & Industries | Oct. 76 | 2006-07 | 2007-08 | 242.71 | - | 561.92 | -1829.77 | -62.08 | 372.56 | - | - | 4890.09 | 219 |
| 13 | The Mysore Electrical Industries Limited | Commerce & Industries | Feb.45 | 2006-07 | 2007-08 | 43.61 | - | 942.47 | -2490.22 | 5347.48 | 257.91 | 4.82 | - | 3985.22 | 279 |
| | **SUBSIDIARY** | | | | | | | | | | | | | | |
| 14 | NGEF (Hubli) Limited | Commerce & Industries | Dec. 88 | 2006-07 | 2007-08 | 49.63 | - | 320.00 | 266.04 | 950.97 | 85.85 | 9.03 | - | 1382.97 | 158 |
| | **Sectorwise Total** | | | | | **335.95** | | **1824.39** | **-4053.95** | **6236.37** | **716.32** | - | - | - | - |

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of accounts in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| | **ELECTRONICS SECTOR** | | | | | | | | | | | | | | |
| 15 | Karnataka State Electronics Development Corporation Limited | Information Technology | Sep. 76 | 2006-07 | 2007-08 | 1977.89 | - | 787.20 | 621.29 | 7460.10 | 1992.64 | 26.71 | - | 904.16 | 193 |
| | **Sectorwise Total** | | | | | **1977.89** | | **787.20** | **621.29** | **7460.10** | **1992.64** | - | - | - | - |
| | **TEXTILES SECTOR** | | | | | | | | | | | | | | |
| 16 | Karnataka Silk Industries Corporation Limited | Commerce & Industries | Apr. 80 | 2006-07 | 2007-08 | 516.63 | - | 5800.47 | -4907.94 | 2140.01 | 534.55 | 24.98 | - | 3359.15 | 785 |
| 17 | Karnataka Silk Marketing Board Limited | Commerce & Industries | Nov. 79 | 2006-07 | 2007-08 | -316.65 | - | 3145.00 | -1413.87 | 1730.63 | -316.65 | - | - | 1164.97 | 160 |
| 18 | Karnataka State Power loom Development Corporation Limited | Commerce & Industries | Feb. 94 | 2006-07 | 2007-08 | 27.97 | - | 221.52 | 471.99 | 666.27 | 27.97 | 4.20 | - | 1739.49 | 11 |
| | **Sectorwise Total** | | | | | **227.95** | | **9166.99** | **-5849.82** | **4536.91** | **245.87** | - | - | - | - |
| | **HANDLOOM AND HANDICRAFTS SECTOR** | | | | | | | | | | | | | | |
| 19 | Karnataka Handloom Development Corporation Limited | Commerce & Industries | Oct. 75 | 2006-07 | 2007-08 | 436.70 | - | 4438.21 | -5195.33 | 9807.33 | 918.01 | 9.36 | - | 8318.73 | 911 |
| 20 | Karnataka State Handicrafts Development Corporation Limited | Commerce & Industries | Mar .64 | 2006-07 | 2007-08 | 320.46 | - | 405.31 | 487.51 | 1177.22 | 324.46 | 27.56 | - | 3716.46 | 232 |
| | **Sectorwise Total** | | | | | **757.16** | | **4843.52** | **-4707.82** | **10984.55** | **1242.47** | - | - | - | - |
| | **FOREST SECTOR** | | | | | | | | | | | | | | |
| 21 | Karnataka Cashew Development Corporation Limited | Forest Ecology & Environment | Feb. 78 | 2006-07 | 2007-08 | -19.91 | - | 459.03 | 5.27 | 614.79 | 56.78 | 9.24 | - | 385.04 | 125 |

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of accounts in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| 22 | Karnataka Forest Development Corporation Limited | Forest Ecology & Environment | Jan. 71 | 2006-07 | 2007-08 | 955.23 | - | 931.40 | 847.96 | 5709.27 | 955.23 | 16.73 | - | 3069.97 | 2690 |
| 23 | The Karnatak State Forest Industries Corporation Limited | Forest Ecology & Environment | Mar .73 | 2005-06 | 2006-07 | 186.75 | - | 266.58 | 259.04 | 806.77 | 186.75 | 23.15 | 1 | 1910.53 | 270 |
| | **Sectorwise Total** | | | | | **1122.07** | | **1657.01** | **1112.27** | **7130.83** | **1198.76** | - | - | - | - |
| | **MINING SECTOR** | | | | | | | | | | | | | | |
| 24 | Mysore Minerals Limited | Commerce & Industries | May 66 | 2005-06 | 2006-07 | 6638.77 | - | 300.00 | 5724.40 | 6764.13 | 6715.94 | 99.29 | 1 | 18149.77 | 2247 |
| 25 | The Hutti Gold Mines Company Limited | Commerce & Industries | July 47 | 2006-07 | 2007-08 | 5565.39 | - | 296.20 | 19942.03 | 13619.45 | 5586.14 | 41.02 | - | 22071.83 | 3981 |
| | **Sectorwise Total** | | | | | **12204.16** | | **596.20** | **25666.43** | **20383.58** | **12302.08** | - | - | - | - |
| | **CONSTRUCTION SECTOR** | | | | | | | | | | | | | | |
| 26 | Karnataka State Construction Corporation Limited | Public works | Sep. 68 | 2005-06 | 2006-07 | 204.09 | - | 205.00 | 1745.40 | 2811.88 | 277.67 | 9.87 | 1 | 6039.21 | 198 |
| 27 | Karnataka Land Army Corporation Limited | Rural Development & Panchayat Raj | Aug. 74 | 2005-06 | 2006-07 | -933.51 | - | 1225.00 | 207.55 | 15131.68 | -933.51 | - | 1 | 21534.29 | 1062 |
| 28 | Karnataka State Police Housing Corporation Limited | Home | June 85 | 2006-07 | 2007-08 | £ | - | 12.00 | - | 28104.81 | - | - | - | # | 188 |
| 29 | Rajiv Gandhi Rural Housing Corporation Limited | Housing | April 2000 | 2006-07 | 2007-08 | £ | - | 300.00 | - | 49933.41 | - | - | - | # | 32 |
| 30 | Karnataka Road Development Corporation Limited. | Public works | July 99 | 2006-07 | 2007-08 | -1218.81 | - | 43481.72 | -7144.89 | 91476.06 | -628.66 | - | - | 159.81 | 52 |
| | **Sectorwise Total** | | | | | **-1948.23** | | **45223.72** | **-5191.94** | **187457.84** | **-1284.50** | - | - | - | - |

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of accounts in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| | **AREA DEVELOPMENT SECTOR** | | | | | | | | | | | | | | |
| 31 | Krishna Bhagya Jala Nigam Limited | Water Resources | Aug. 94 | 2006-07 | 2007-08 | $ | - | 1047082.16 | - | 776608.25 | - | - | - | # | 3715 |
| 32 | Karnataka Neeravari Nigam Limited | Water Resources | Nov. 98 | 2005-06 | 2006-07 | $ | - | 284187.65 | - | 404085.59 | - | - | 1 | # | 5361 |
| 33 | Cauvery Neeravari Nigam Limited | Water Resources | June 03 | 2006-07 | 2007-08 | $ | - | 188214.73 | - | 831311.79 | - | - | - | # | 4610 |
| | **Sectorwise Total** | | | | | - | | **1519484.54** | - | **2012005.63** | - | - | - | - | - |
| | **DEVELOPMENT OF ECONOMICALLY WEAKER SECTIONS SECTOR** | | | | | | | | | | | | | | |
| 34 | D.Devaraj Urs Backward Classes Development Corporation Limited | Social welfare | Oct. 77 | 2005-06 | 2006-07 | -350.58 | - | 7738.91 | -2256.81 | 12820.29 | -256.60 | - | 1 | 439.72 | 74 |
| 35 | Karnataka State Women's Development Corporation | Women & Child Development | Sep. 87 | 2006-07 | 2007-08 | -27.89 | - | 1265.34 | 336.23 | 2625.17 | -27.88 | - | - | 100.76 | 44 |
| 36 | Dr.B.R.Ambedkar Development Corporation Limited | Social welfare | Mar. 75 | 2006-07 | 2007-08 | 198.25 | - | 15036.66 | 134.29 | 25112.72 | 465.28 | 1.85 | - | 1346.32 | 273 |
| 37 | Karnataka Schedule Tribes Development Corporation | Social welfare | July 06 | First account pending finsalisation | | - | | 63.51 | | | | | 1 | | |
| 38 | The Karnataka Minorities Development Corporation Limited | Social welfare | Feb. 86 | 2006-07 | 2007-08 | -176.67 | - | 6356.45 | -1781.69 | 6108.15 | -39.42 | - | - | 208.67 | 16 |
| | **Sectorwise Total** | | | | | **-356.89** | | **30460.87** | **-3567.98** | **46666.33** | **141.38** | - | - | - | - |

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of accounts in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| | **PUBLIC DISTRIBUTION SECTOR** | | | | | | | | | | | | | | |
| 39 | Karnataka Food and Civil Supplies Corporation Limited | Food Civil Supplies & Consumer Affairs | Sep. 73 | 2006-07 | 2007-08 | 498.76 | - | 325.00 | 8160.60 | 10952.83 | 665.07 | 6.07 | - | 101361.04 | 1419 |
| | **Sectorwise Total** | | | | | **498.76** | - | **325.00** | **8160.60** | **10952.83** | **665.07** | - | - | - | - |
| | **SUGAR SECTOR** | | | | | | | | | | | | | | |
| 40 | The Mysore Sugar Company Limited | Commerce & Industries | Jan. 33 | 2006-07 | 2007-08 | -2221.33 | - | 873.43 | -17398.57 | 79.06 | -1439.57 | - | - | 7306.78 | 928 |
| | **Sectorwise Total** | | | | | **-2221.33** | | **873.43** | **-17398.57** | **79.06** | **-1439.57** | - | - | - | - |
| | **TOURISM SECTOR** | | | | | | | | | | | | | | |
| 41 | The Karnataka State Tourism Development Corporation Limited | Information, Tourism & Youth Services | Feb. 71 | 2005-06 | 2006-07 | 261.76 | - | 641.36 | -117.97 | 2935.97 | 301.63 | 10.27 | 1 | 2096.47 | 321 |
| 42 | Jungle Lodges and Resorts Limited | Information, Tourism & Youth Services | Mar .80 | 2006-07 | 2007-08 | 152.91 | - | 91.75 | 398.36 | 1275.01 | 186.28 | 14.61 | - | 1844.87 | 175 |
| | **Sectorwise Total** | | | | | **414.67** | | **733.11** | **280.39** | **4210.98** | **487.91** | - | - | - | - |
| | **CHEMICALS SECTOR** | | | | | | | | | | | | | | |
| 43 | The Mysore Paints and Varnish Limited | Commerce & Industries | Nov .47 | 2006-07 | 2007-08 | 126.28 | - | 103.65 | 994.51 | 1067.75 | 126.28 | 11.83 | - | 1138.99 | 75 |
| | **Sectorwise Total** | | | | | **126.28** | | **103.65** | **994.51** | **1067.75** | **126.28** | - | - | - | - |
| | **POWER SECTOR** | | | | | | | | | | | | | | |
| 44 | Karnataka Power Corporation Limited | Energy | July 70 | 2006-07 | 2007-08 | 32231.68 | - | 74326.22 | 215148.82 | 805873.55 | 70559.97 | 8.76 | - | 343381.98 | 6347 |

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of accounts in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| 45 | Karnataka Renewable Energy Development Limited | Energy | Mar.96 | 2004-05 | 2006-07 | 5.65 | - | 50.00 | 141.75 | 10839.22 | 60.45 | 0.56 | 2 | 583.11 | 23 |
| 46 | Karnataka Power Transmission Corporation Limited | Energy | July 99 | 2006-07 | 2007-08 | 1889.59 | - | 73317.80 | 392.08 | 341649.45 | 35379.10 | 10.36 | - | 77587.00 | 5627 |
| 47 | Bangalore Electricity Supply Company Limited | Energy | Apr. 02 | 2006-07 | 2007-08 | 5030.78 | - | 20596.51 | 21319.52 | 297490.58 | 18714.64 | 6.29 | - | 526610.32 | 10400 |
| 48 | Hubli Electicity Supply Company Limited | Energy | Apr. 02 | 2006-07 | 2007-08 | 1050.46 | - | 23333.61 | 6595.54 | 175044.98 | 14033.21 | 8.02 | - | 172447.63 | 6845 |
| 49 | Mangalore Electricity Supply Company Limited | Energy | Apr. 02 | 2006-07 | 2007-08 | 2256.93 | - | 10033.99 | 7499.61 | 76863.11 | 6455.82 | 8.40 | - | 84682.88 | 3414 |
| 50 | Chamundeshwari Electricity Supply Corporation Limited | Energy | Dec.04 | 2006-07 | 2007-08 | 161.54 | - | 2930.48 | 885.51 | 67293.85 | 4133.35 | 6.14 | - | 78360.38 | 4996 |
| 51 | Gulbarga Electicity Supply Company Limited | Energy | Apr. 02 | 2006-07 | 2007-08 | 1098.56 | - | 13013.61 | 955.10 | 85910.22 | 7694.38 | 8.96 | - | 120397.41 | 4096 |
| | **SUBSIDIARY** | | | | | | | | | | | | | | |
| 52 | KPC Bidadi Power Corporation Private Limited | Energy | Apr. 96 | 2006-07 | 2007-08 | $ | - | 5.00 | - | 1199.33 | - | - | - | - | Nil |
| | **Sectorwise Total** | | | | | **43725.19** | | **217607.22** | **252937.93** | **1862164.29** | **157030.92** | **-** | **-** | **-** | **-** |

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of accounts in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| | **FINANCING SECTOR** | | | | | | | | | | | | | | |
| 53 | Karnataka State Industrial Investment and Development Corporation Limited | Commerce & Industries | July 64 | 2006-07 | 2007-08 | 6977.88 | - | 50114.32 | -50486.31 | 109825.41 | 11374.13 | 10.36 | - | 8802.53 | . 122 |
| 54 | Karnataka Urban Infrastructure Development and Finance Corporation Limited | Urban Development | Nov. 93 | 2006-07 | 2007-08 | 10.58 | - | 806.48 | 2773.69 | 37917.06 | 10.58 | 0.03 | - | 385.62 | 325 |
| | **Sectorwise Total** | | | | | **6988.46** | | **50920.80** | **-47712.62** | **147742.47** | **11384.71** | - | - | - | - |
| | **MISCELLANEOUS SECTORS** | | | | | | | | | | | | | | |
| 55 | Karnataka State Beverages Corporation Limited | Finance | June 03 | 2006-07 | 2007-08 | 297.37 | - | 200.00 | 1068.18 | 8714.57 | 450.96 | 5.17 | - | 360289.24 | 289 |
| 56 | Bangalore Metro Rail Corporation Limited | Urban Development | Sep. 94 | 2006-07 | 2007-08 | $ | - | 6000.00 | - | 31609.71 | - | - | - | # | 32 |
| 57 | Sree Kanteerava Studios Limited | Information, Tourism & Youth Services | Mar. 66 | 2006-07 | 2007-08 | 31.33 | - | 87.98 | -85.57 | 70.48 | 31.33 | 44.45 | - | 81.32 | 11 |
| | **SUBSIDIARIES** | | | | | | | | | | | | | | |
| 58 | Marketing Consultants and Agencies Limited | Commerce & Industries | Sep. 72 | 2006-07 | 2007-08 | 398.43 | - | 702.99 | 1484.82 | 2190.09 | 398.43 | 18.19 | - | 1134.55 | 43 |
| 59 | Mysore Sales International Limited | Commerce & Industries | Mar. 66 | 2006-07 | 2007-08 | 2648.34 | - | 2763.99 | 15452.40 | 14738.85 | 2674.26 | 18.14 | - | 124091.12 | 475 |
| | **Sectorwise Total** | | | | | **3375.47** | | **9754.96** | **17919.83** | **57323.70** | **3554.98** | - | - | - | - |
| | **TOTAL A (All sectorwise Government companies)** | | | | | **67545.05** | | **1913868.35** | **214210.56** | **4430947.19** | **191606.27** | **4.32** | - | - | - |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| B | WORKING STATUTORY CORPORATIONS | | | | | | | | | | | | | | |
| | TRANSPORT SECTOR | | | | | | | | | | | | | | |
| 1 | Karnataka State Road Transport Corporation | Transport | Aug.61 | 2006-07 | 2007-08 | 3389.77 | -158.05 | 23338.70 | -16600.09 | 37851.00 | 5257.41 | 13.89 | - | 117398.68 | 27255 |
| 2 | Bangalore Metropolitan Transport Corporation | Transport | Aug.97 | 2006-07 | 2007-08 | 22432.39 | -13.99 | 15816.20 | 46012.07 | 51177.00 | 22508.00 | 43.98 | - | 88758.94 | 19268 |
| 3 | North Western Karnataka Road Transport Corporation | Transport | Nov.97 | 2006-07 | 2007-08 | 1266.63 | - | 11563.67 | 19787.92 | 17475.00 | 3074.48 | 17.59 | - | 69171.40 | 20527 |
| 4 | North Eastern Karnataka Road Transport Corporation | Transport | August 2000 | 2006-07 | 2007-08 | -2952.58 | - | 10350.05 | -24838.66 | -3045.00 | -2345.68 | - | - | 45954.05 | 11493 |
| | **Sectorwise Total** | | | | | **24136.21** | | **61068.62** | **24361.24** | **103458.00** | **28494.21** | | | | |
| | FINANCING SECTOR | | | | | | | | | | | | | | |
| 5 | Karnataka State Financial Corporation | Finance | Mar.59 | 2006-07 | 2007-08 | 1295.37 | -2482.00 | 13385.23 | -60091.24 | 191587.00 | 14320.00 | 7.47 | - | 19571.40 | 1268 |
| | **Sectorwise Total** | | | | | **1295.37** | | **13385.23** | **-60091.24** | **191587.00** | **14320.00** | - | - | - | - |
| | AGRICULTURE AND ALLIED SECTOR | | | | | | | | | | | | | | |
| 6 | Karnataka State Warehousing Corporation | Co-operation | Nov.57 | 2006-07 | 2007-08 | 495.88 | - | 1015.00 | 3978.94 | 11989.26 | 863.02 | 7.20 | - | 2779.90 | 446 |
| | **Sectorwise Total** | | | | | **495.88** | - | **1015.00** | **3978.94** | **11989.26** | **863.02** | - | - | - | - |
| | **TOTAL B (all sectorwise Statutory Corporations)** | | | | | **25927.46** | - | **75468.85** | **-31751.06** | **307034.26** | **43677.23** | **14.23** | - | - | - |
| | **Grand total (A+B)** | | | | | **93472.51** | | **1989337.20** | **182459.50** | **4737981.45** | **235283.50** | **4.97** | - | - | - |

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of accounts in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| **C** | **NON WORKING GOVERNMENT COMPANIES** | | | | | | | | | | | | | | |
| | **AGRICULTURE AND ALLIED SECTOR** | | | | | | | | | | | | | | |
| 1 | Karnataka Agro Industries Corporation Limited | Agriculture & Horticulture | Sep. 67 | 2005-06 | 2007-08 | -508.74 | - | 5590.41 | -15828.98 | -1082.71 | -203.67 | - | 1 | - | NIL |
| 2 | Karnataka Agro Proteins Limited | Agriculture & Horticulture | Apr .75 | 2002-03 | 2003-04 | 233.92 | - | 60.93 | -219.61 | 5.45 | 233.92 | 4292.11 | 1 | Under liquidation since June 2004 | NIL |
| 3 | The Mysore Tobacco Company Limited | Agriculture & Horticulture | Apr .37 | 2006-07 | 2007-08 | -39.56 | - | 77.38 | -1203.30 | 139.34 | 15.19 | 10.90 | - | - | NIL |
| | **Sectorwise total** | | | | | **-314.38** | | **5728.72** | **-17251.89** | **-937.92** | **45.44** | - | - | - | - |
| | **INDUSTRY SECTOR** | | | | | | | | | | | | | | |
| 4 | Karnataka Small Industries Marketing Corporation Limited | Commerce & Industries | Sep. 84 | 2005-06 | 2006-07 | 7.27 | - | 171.00 | 213.06 | 384.05 | 7.27 | 1.89 | 1 | - | 15 |
| 5 | The Mysore Lamp Works Limited | Commerce & Industries | Aug.36 | 2006-07 | 2007-08 | -1254.96 | - | 1181.02 | -18659.32 | -1276.99 | -1254.87 | - | - | - | NIL |
| 6 | Vijayanagar Steel Limited | Commerce & Industries | Dec. 82 | 2006-07 | 2007-08 | - | - | 1290.58 | -1.23 | 1332.56 | - | - | - | - | 5 |
| | **SUBSIDIARIES** | | | | | | | | | | | | | | |
| 7 | The Mysore Cosmetics Limited | Commerce & Industries | Mar .66 | 2003-04 | 2004-05 | -95.77 | - | 16.14 | -311.72 | -23.11 | -4.05 | - | Under liquidation since September 2003 | | NIL |
| 8 | Karnataka Telecom Limited | Commerce & Industries | July 85 | 2003-04 | 2004-05 | 5.01 | - | 300.00 | -3610.93 | -2923.17 | 5.00 | - | Under liquidation since April 2002 | | NIL |
| 9 | The Mysore Chrome Tanning Company Limited | Commerce & Industries | Mar .40 | 2006-07 | 2007-08 | 10.36 | - | 75.74 | -988.74 | -518.69 | 10.36 | - | Under liquidation since December 2003 | | NIL |
| | **Sectorwise Total** | | | | | **-1328.09** | | **3034.48** | **-23358.88** | **-3025.35** | **-1236.29** | - | - | - | |

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of accounts in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| | **ENGINEERING SECTOR** | | | | | | | | | | | | | | |
| 10 | NGEF Limited | Commerce & Industries | Apr. 65 | 2002-03 | 2003-04 | -15747.89 | - | 4650.70 | -40885.00 | 9820.81 | -15769.57 | - | Under liquidation since December 2002 | | NIL |
| 11 | Chamundi Machine Tools Limited | Commerce & Industries | Oct. 75 | 2006-07 | 2007-08 | -0.90 | - | 63.50 | -796.65 | -370.74 | -0.90 | - | Under liquidation since February 2001 | | NIL |
| | **Sectorwise Total** | | | | | **-15748.79** | | **4714.20** | **-41681.65** | **9450.07** | **-15770.47** | **-** | **-** | **-** | |
| | **TEXTILES SECTOR** | | | | | | | | | | | | | | |
| 12 | Karnataka State Textiles Limited | Commerce & Industries | Dec. 84 | 1998-99 | 1999-00 | -87.78 | - | 50.00 | -891.46 | 431.91 | -47.09 | - | Under liquidation since November 1996 | | NIL |
| | **Sectorwise Total** | | | | | **-87.78** | **-** | **50.00** | **-891.46** | **431.91** | **-47.09** | **-** | **-** | **-** | |
| | **FOREST SECTOR (SUBSIDIARIES)** | | | | | | | | | | | | | | |
| 13 | Karnataka Pulpwood Limited | Forest ecology & Environment | Feb. 85 | 2006-07 | 2007-08 | -11.05 | - | 1516.00 | -2134.00 | -317.86 | -11.05 | - | - | - | NIL |
| 14 | The Karnatak State Veeners Limited | Forest ecology & Environment | Aug. 74 | 2004-05 | 2005-06 | -45.06 | - | 100.00 | -885.28 | 26.19 | -45.06 | - | 2 | - | 167 |
| 15 | The Mysore Match Company Limited | Forest ecology & Environment | May 40 | 2006-07 | 2007-08 | -0.65 | - | 5.00 | -27.11 | -20.54 | -0.65 | - | Under liquidation since August 2002 | | NIL |
| | **Sectorwise Total** | | | | | **-56.76** | | **1621.00** | **-3046.39** | **-312.21** | **-56.76** | **-** | **-** | **-** | |
| | **CHEMICAL SECTOR** | | | | | | | | | | | | | | |
| 16 | The Mysore Acetate and Chemicals Company Limited | Commerce & Industries | Dec .63 | 2002-03 | 2003-04 | -45.90 | - | 1217.52 | -2532.70 | 8.69 | -85.94 | - | 4 | 44.31 | 78 |
| | **Sectorwise Total** | | | | | **-45.90** | | **1217.52** | **-2532.70** | **8.69** | **-85.94** | **-** | **-** | **-** | |

| Sl. No. | Sector and name of company/ corporation | Name of department | Date of incorp-oration | Period of accounts | Year in which accounts were finalised | Net Profit (+) or Loss (-) | Net impact of audit comments | Paid-up capital | Accumula-ted profit (+)/ loss (-) | Capital employed (a) | Total Return on capital employed | Percentage of total return on capital employed (12/11) | Arrears of accounts in terms of years | Turn-over | Num-ber of emp-loyees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
| | **MISCELLANEOUS SECTOR** | | | | | | | | | | | | | | |
| 17 | Karnataka Film Industries Development Corporation Limited | Information, Tourism & Youth Services | Feb. 68 | 2006-07 | 2007-08 | -1.87 | - | 102.38 | -102.42 | - | - | - | - | - | 34 |
| | **Sectorwise Total** | | | | | **-1.87** | - | **102.38** | **-102.42** | - | - | - | - | - | |
| | **TOTAL C (Non working Government companies)** | | | | | **-17583.57** | | **16468.30** | **-88865.39** | **5615.19** | **-17151.11** | - | - | - | |
| | **Grand Total (A+B+C)** | | | | | **75888.94** | | **2005805.50** | **93594.11** | **4743596.64** | **218132.39** | **4.60** | - | - | |

**(a)** Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in case of finance companies/corporations where the capital employed is worked out as a mean of aggregate of the opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).

**$** No profit and loss account prepared, only pre-operative expenditure.

**£** Excess of expenditure over income capitalised. No profit and loss account prepared.

**#** No turnovers as the companies are engaged in development or social work.

# ANNEXURE – 3

**Statement showing subsidy/grants received, guarantees received, waiver of dues, loans on which moratorium allowed and loans converted into equity during the year and subsidy receivable and guarantees outstanding at the end of March 2007**

**(Referred to in paragraphs 1.5 and 1.17)**

**(Figures in columns 3 to 7 are Rupees in lakh)**

| Sl. No. | Name of Public Sector undertakings | Subsidy /grant received during the year | | | | Guarantees received during the year and outstanding at the end of the year ** | | | | | Waiver of dues during the year | | | | Loans on which Morot-orium allowed | Loans convert-ed into equity during the year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central Govern-ment | State Govern-ment | Others | Total | Cash credit from banks | Loans from other sources | Letters of credit opened by banks in respect of imports | Payment obligation under agreement with foreign consultants or contracts | Total | Loans repay-ment written off | Inte-rest waived | Penal inte-rest waived | Total | | |
| 1 | 2 | 3(a) | 3(b) | 3(c) | 3(d) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 5(a) | 5(b) | 5(c) | 5(d) | 6 | 7 |
| A | **WORKING GOVERNMENT COMPANIES** | | | | | | | | | | | | | | | |
| | **AGRICULTURE AND ALLIED SECTOR** | | | | | | | | | | | | | | | |
| 1 | Karnataka State Agricultural Produce Processing and Export Corporation Limited | - | 1161.00 (Project subsidy) | - | 1161.00 (Project subsidy) | - | - | - | - | - | - | - | - | - | - | - |
| 2 | Karnataka Togari Abhivridhi Mandali Limited | - | 300.00 (Grants) | - | 300.00 (Grants) | - | - | - | - | - | - | - | - | - | - | - |
| 3 | The Karnataka Fisheries Development Corporation Limited | - | 50.00 (Grants) | - | 50.00 (Grants) | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Karnataka Sheep and Wool Development Corporation Limited | - | 889.43 (Grants) | - | 889.43 (Grants) | - | - | - | - | - | - | - | - | - | - | - |

| Sl. No. | Name of Public Sector undertakings | Subsidy /grant received during the year | | | | Guarantees received during the year and outstanding at the end of the year ** | | | | | Waiver of dues during the year | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central Government | State Government | Others | Total | Cash credit from banks | Loans from other sources | Letters of credit opened by banks in respect of imports | Payment obligation under agreement with foreign consultants or contracts | Total | Loans repayment written off | Interest waived | Penal interest waived | Total | Loans on which Morotorium allowed | Loans converted into equity during the year |
| 1 | 2 | 3(a) | 3(b) | 3(c) | 3(d) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 5(a) | 5(b) | 5(c) | 5(d) | 6 | 7 |
| | **INDUSTRY SECTOR** | | | | | | | | | | | | | | | |
| 5 | Karnataka Soaps and Detergents Limited | - | - | - | - | 166.29 (166.29) | - | - | - | 166.29 (166.29) | - | - | - | - | - | - |
| 6 | Karnataka State Coir Development Corporation Limited | - | 186.25 (Grants) | - | 186.25 (Grants) | - | - | - | - | - | - | - | - | - | - | - |
| 7 | Karnataka State Small Industries Development Corporation Limited | - | 1253.07 (Grants) | - | 1253.07 (Grants) | - | - | - | - | - | - | - | - | - | - | - |
| | **ENGINEERING SECTOR** | | | | | | | | | | | | | | | |
| 8 | The Mysore Electrical Industries Limited | - | - | - | - | - (184.43) | - | - | - | - (184.43) | - | - | - | - | - | - |
| | **ELECTRONICS SECTOR** | | | | | | | | | | | | | | | |
| 9 | Karnataka State Electronics Development Corporation Limited | - | - | - | - | - | - (6000.00) | - | - | - (6000.00) | - | - | - | - | - | - |

| Sl. No. | Name of Public Sector undertakings | Subsidy /grant received during the year | | | | Guarantees received during the year and outstanding at the end of the year ** | | | | | Waiver of dues during the year | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central Govern-ment | State Govern-ment | Others | Total | Cash credit from banks | Loans from other sources | Letters of credit opened by banks in respect of imports | Payment obligation under agreement with foreign consultants or contracts | Total | Loans repay-ment written off | Inte-rest waived | Penal inte-rest waived | Total | Loans on which Morot-orium allowed | Loans convert-ed into equity during the year |
| 1 | 2 | 3(a) | 3(b) | 3(c) | 3(d) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 5(a) | 5(b) | 5(c) | 5(d) | 6 | 7 |
| | **TEXTILES SECTOR** | | | | | | | | | | | | | | | |
| 10 | Karnataka Silk Industries Corporation Limited | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2200.00 |
| 11 | Karnataka State Power loom Development Corporation Limited | - | 178.42 (Grants) | - | 178.42 (Grants) | - | - | - | - | - | - | - | - | - | - | - |
| | **HANDLOOM AND HANDICRAFTS SECTOR** | | | | | | | | | | | | | | | |
| 12 | The Karnataka Handloom Development Corporation Limited | 14.04 (Grants) 120.21 (Subsidy) | 14.05 (Grants) 293.97 (Subsidy) | | 28.09 (Grants) 414.18 (Subsidy) | - (2563.32) | - (198.03) | - | - | - (2761.35) | - | - | - | - | - | - |
| 13 | The Karnataka Handicrafts Development Corporation Limited | 32.82 (Grants) | 45.60 (Grants) | - | 78.42 (Grants) | - | - (85.30) | - | - | - (85.30) | - | - | - | - | - | - |
| | **FOREST SECTOR** | | | | | | | | | | | | | | | |
| 14 | Karnataka Cashew Development Corporation Limited | 114.28 (Grants) | - | - | 114.28 (Grants) | - (152.67) | - | - | - | - (152.67) | - | - | - | - | - | - |

| Sl. No. | Name of Public Sector undertakings | Subsidy /grant received during the year | | | | Guarantees received during the year and outstanding at the end of the year ** | | | | | Waiver of dues during the year | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central Govern-ment | State Govern-ment | Others | Total | Cash credit from banks | Loans from other sources | Letters of credit opened by banks in respect of imports | Payment obligation under agreement with foreign consultants or contracts | Total | Loans repay-ment written off | Inte-rest waived | Penal inte-rest waived | Total | Loans on which Morot-orium allowed | Loans convert-ed into equity during the year |
| 1 | 2 | 3(a) | 3(b) | 3(c) | 3(d) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 5(a) | 5(b) | 5(c) | 5(d) | 6 | 7 |
| | **CONSTRUCTION SECTOR** | | | | | | | | | | | | | | | |
| 15 | Karnataka Land Army Corporation Limited | - | - | - | - | - | -<br>(2080.00) | - | - | -<br>(2080.00) | - | - | - | - | - | - |
| 16 | Karnataka State Police Housing Corporation Limited | - | 17239.00<br>(Grants) | - | 17239.00<br>(Grants) | - | 2300.00<br>(28092.80) | - | - | 2300.00<br>(28092.80) | - | - | - | - | - | - |
| 17 | Rajiv Gandhi Rural Housing Corporation Limited | 242.80<br>(Subsidy) | 36509.56<br>(Project subsidy)<br>777.68<br>(Subsidy) | - | 36509.56<br>(Project subsidy)<br>1020.48<br>(Subsidy) | - | -<br>(64678.92) | - | - | -<br>(64678.92) | - | - | - | - | - | - |
| 18 | Karnataka Road Development Corporation Limited | - | 51000.00<br>(Grants) | - | 51000.00<br>(Grants) | - | -<br>(53413.64) | - | - | -<br>(53413.64) | - | - | - | - | - | - |
| | **AREA DEVELOPMENT SECTOR** | | | | | | | | | | | | | | | |
| 19 | Krishna Bhagya Jala Nigam Limited | - | 155305.03<br>(Grants) | - | 155305.03<br>(Grants) | - | -<br>(146510.34) | - | - | -<br>(146510.34) | - | - | - | - | - | - |
| 20 | Karnataka Neeravari Nigam Limited | - | - | - | - | - | -<br>(86399.94) | - | - | -<br>(86399.94) | - | - | - | - | - | - |
| 21 | Cauvery Neeravari Nigam Limited | - | - | - | - | - | 12234.77<br>(80249.49) | - | - | 12234.77<br>(80249.49) | - | - | - | - | - | - |

| Sl. No. | Name of Public Sector undertakings | Subsidy /grant received during the year | | | | Guarantees received during the year and outstanding at the end of the year ** | | | | | Waiver of dues during the year | | | | Loans on which Morot-orium allowed | Loans convert-ed into equity during the year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central Govern-ment | State Govern-ment | Others | Total | Cash credit from banks | Loans from other sources | Letters of credit opened by banks in respect of imports | Payment obligation under agreement with foreign consultants or contracts | Total | Loans repay-ment written off | Inte-rest waived | Penal inte-rest waived | Total | | |
| 1 | 2 | 3(a) | 3(b) | 3(c) | 3(d) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 5(a) | 5(b) | 5(c) | 5(d) | 6 | 7 |
| | **DEVELOPMENT OF ECONOMICALLY WEAKER SECTIONS SECTOR** | | | | | | | | | | | | | | | |
| 22 | D.Devaraj Urs Backward Classes Development Corporation Limited | - | 4482.11 (Project subsidy) | - | 4482.11 (Project subsidy) | - | 1423.20 (5425.64) | - | - | 1423.20 (5425.64) | - | - | - | - | - | - |
| 23 | Karnataka State Women's Development Corporation | - | 661.58 (Grants) | - | 661.58 (Grants) | - | - | - | - | - | - | - | - | - | - | - |
| 24 | Dr.B.R.Ambedkar Development Corporation Limited | - | 12767.88 (Grants) | - | 12767.88 (Grants) | - | - (8300.85) | - | - | - (8300.85) | - | - | - | - | - | - |
| 25 | Karnataka Schedule Tribes Development Corporation Limited | - | 2820.60 (Project subsidy) 212.64 (Subsidy) | - | 2820.60 (Project subsidy) 212.64 (Subsidy) | - | - | - | - | - | - | - | - | - | - | - |
| 26 | The Karnataka Minorities Development Corporation Limited | - | 3362.86 (Project subsidy) | - | 3362.86 (Project subsidy) | - | - (3070.13) | - | - | - (3070.13) | - | - | - | - | - | - |
| | **PUBLIC DISTRIBUTION SECTOR** | | | | | | | | | | | | | | | |
| 27 | Karnataka Food and Civil Supplies Corporation Limited | - | - | - | - | - (562.21) | - | - | - | - (562.21) | - | - | - | - | - | - |

| Sl. No. | Name of Public Sector undertakings | Subsidy /grant received during the year | | | | Guarantees received during the year and outstanding at the end of the year ** | | | | | Waiver of dues during the year | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central Government | State Government | Others | Total | Cash credit from banks | Loans from other sources | Letters of credit opened by banks in respect of imports | Payment obligation under agreement with foreign consultants or contracts | Total | Loans repayment written off | Interest waived | Penal interest waived | Total | Loans on which Morotorium allowed | Loans converted into equity during the year |
| 1 | 2 | 3(a) | 3(b) | 3(c) | 3(d) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 5(a) | 5(b) | 5(c) | 5(d) | 6 | 7 |
| | **SUGAR SECTOR** | | | | | | | | | | | | | | | |
| 28 | The Mysore Sugar Company Limited | - | - | - | - | - | - (7160.16) | - | - | - (7160.16) | - | - | - | - | - | - |
| | **POWER SECTOR** | | | | | | | | | | | | | | | |
| 29 | Karnataka Power Corporation Limited | - | 42000.00 (Project subsidy)∇ | - | 42000.00 (Project subsidy) | - (10810.71) | - (55617.80) | - | - | - (66428.51) | - | - | - | - | - | - |
| 30 | Karnataka Power Transmission Corporation Limited | - | 122.00 (Grants) 12000.00 (Project subsidy) ♣ 5302.75 (Subsidy) | - | 122.00 (Grants) 12000.00 (Project subsidy) 5302.75 (Subsidy) | - | - (62703.60) | - | - | - (62703.60) | - | - | - | - | - | - |
| 31 | Bangalore Electricity Supply Company Limited | 1813.23 (Grants) | 29878.74 (Subsidy) | - | 1813.23 (Grants) 29878.74 (Subsidy) | - | - | - | - | - | - | - | - | - | - | - |
| 32 | Hubli Electricity Supply Company Limited | 2091.72 (Grants) | 1627.66 (Grants) 64006.00 (Subsidy) | - | 3719.38 (Grants) 64006.00 (Subsidy) | 471.51 (471.51) | 2500.00 (2280.00) | - | - | 2971.51 (2751.51) | - | - | - | - | - | - |

**∇ the amount released by State Government with instructions to reduce the receivables from KPTCL/ESCOMs by Rs.84000 lakh. Accordingly, KPCL has written off a sum of Rs.42000 lakh receivables from KPTCL/ESCOMs towards power supply bills. In turn KPTCL/ESCOMs have reduced receivables from Government on account of subsidies (including dues of irrigation pumpsets and Bhagya Jyothi/Kutir jyothi schemes taken over by Government) and debt servicing to the extent of Rs.84300 lakh as instructed by State Government.**

**♣ Rs.12000 lakh is towards debt serving dues.**

| Sl. No. | Name of Public Sector undertakings | Subsidy /grant received during the year | | | | Guarantees received during the year and outstanding at the end of the year ** | | | | | Waiver of dues during the year | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central Government | State Government | Others | Total | Cash credit from banks | Loans from other sources | Letters of credit opened by banks in respect of imports | Payment obligation under agreement with foreign consultants or contracts | Total | Loans repayment written off | Interest waived | Penal interest waived | Total | Loans on which Morotorium allowed | Loans converted into equity during the year |
| 1 | 2 | 3(a) | 3(b) | 3(c) | 3(d) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 5(a) | 5(b) | 5(c) | 5(d) | 6 | 7 |
| 33 | Mangalore Electricity Supply Company Limited | - | 868.00 (Grants) 15752.17 (Subsidy) | - | 868.00 (Grants) 15752.17 (Subsidy) | - | - | - | - | - | - | - | - | - | - | - |
| 34 | Chamundeshwari Electricity Supply Corporation Limited | - | 5360.00 (Grants) 1321.12 (Project subsidy) 28581.49 (Subsidy) | - | 5360.00 (Grants) 1321.12 (Project subsidy) 28581.49 (Subsidy) | - | - | - | - | - | - | - | - | - | - | - |
| 35 | Gulbarga Electicity Supply Company Limited | 3461.00 (Grants) | 1376.38 (Grants) 25778.00 (Subsidy) | - | 4837.38 (Grants) 25778.00 (Subsidy) | - | - | - | - | - | - | - | - | - | - | - |
| | **FINANCING SECTOR** | | | | | | | | | | | | | | | |
| 36 | Karnataka State Industrial Investment and Development Corporation Limited | - | 4303.00 (Project subsidy) | - | 4303.00 (Project subsidy) | - | 12480.00 (21187.00) | - | - | 12480.00 (21187.00) | - | - | - | - | - | - |
| 37 | Karnataka Urban Infrastructure Development and Finance Corporation Limited | - | 48023.32 (Grants) | - | 48023.32 (Grants) | - | - | - | - | - | - | - | - | - | - | - |
| | **MISCELLANEOUS SECTOR** | | | | | | | | | | | | | | | |
| 38 | Bangalore Metro Rail Corporation Limited | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2995.00 |

| Sl. No. | Name of Public Sector undertakings | Subsidy /grant received during the year | | | | Guarantees received during the year and outstanding at the end of the year ** | | | | | Waiver of dues during the year | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central Government | State Government | Others | Total | Cash credit from banks | Loans from other sources | Letters of credit opened by banks in respect of imports | Payment obligation under agreement with foreign consultants or contracts | Total | Loans repayment written off | Interest waived | Penal interest waived | Total | Loans on which Morotorium allowed | Loans converted into equity during the year |
| 1 | 2 | 3(a) | 3(b) | 3(c) | 3(d) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 5(a) | 5(b) | 5(c) | 5(d) | 6 | 7 |
| 39 | Mysore Sales International Limited | - | 269.00 (Grants) | - | 269.00 (Grants) | - | - | - | - | - | - | - | - | - | - | - |
| | **TOTAL A (All sectorwise Government companies)** | **7527.09 (Grants) 363.01 (Subsidy)** | **297536.67 (Grants) 107960.25 (Project subsidy) 170583.44 (Subsidy)** | - | **305063.76 (Grants) 107960.25 (Project subsidy) 170946.45 (Subsidy)** | **637.80 (14758.47)** | **30937.97 (633606.31)** | - | - | **31575.77 (648364.78)** | - | - | - | - | - | **5195.00** |
| **B.** | **WORKING STATUTORY CORPORATIONS** | | | | | | | | | | | | | | | |
| | **TRANSPORT SECTOR** | | | | | | | | | | | | | | | |
| 1. | Karnataka State Road Transport Corporation | - | 5210.27 (Subsidy) | - | 5210.27 (Subsidy) | - | - | - | - | - | - | - | - | - | - | - |
| 2. | Bangalore Metropolitan Transport Corporation | 31.13 (Grants) | 2513.34 (Grants) 10965.87 (Subsidy) | - | 2544.47 (Grants) 10965.87 (Subsidy) | - | - | - | - | - | - | - | - | - | - | - |
| 3 | North Western Karnataka Road Transport Corporation | - | 9361.52 (Subsidy) | - | 9361.52 (Subsidy) | - | - | - | - | - | - | - | - | - | - | - |

| Sl. No. | Name of Public Sector undertakings | Subsidy /grant received during the year | | | | Guarantees received during the year and outstanding at the end of the year ** | | | | | Waiver of dues during the year | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central Govern-ment | State Govern-ment | Others | Total | Cash credit from banks | Loans from other sources | Letters of credit opened by banks in respect of imports | Payment obligation under agreement with foreign consultants or contracts | Total | Loans repay-ment written off | Inte-rest waived | Penal inte-rest waived | Total | Loans on which Morot-orium allowed | Loans convert-ed into equity during the year |
| 1 | 2 | 3(a) | 3(b) | 3(c) | 3(d) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 5(a) | 5(b) | 5(c) | 5(d) | 6 | 7 |
| 4 | North Eastern Karnataka Road Transport Corporation | - | 145.65<br>(Project subsidy)<br>2105.55<br>(Subsidy) | | 145.65<br>(Project subsidy)<br>2105.55<br>(Subsidy) | - | - | - | - | - | - | - | - | - | - | - |
| | **FINANCING SECTOR** | | | | | | | | | | | | | | | |
| 5 | Karnataka State Financial Corporation | - | - | - | - | - | -<br>(60225.87) | - | - | -<br>(60225.87) | - | - | - | - | - | - |
| | **AGRICULTURE AND ALLIED SECTOR** | | | | | | | | | | | | | | | |
| 6 | Karnataka State Warehousing Corporation | - | - | - | - | - | -<br>(634.72) | - | - | -<br>(634.72) | - | - | - | - | - | - |
| | **TOTAL B (all sector wise Statutory Corporations)** | **31.13<br>(Grants)** | **2513.34<br>(Grants)<br>145.65<br>(Project subsidy)<br>27643.21<br>(Subsidy)** | **-** | **2544.47<br>(Grants)<br>145.65<br>(Project subsidy)<br>27643.21<br>(Subsidy)** | **-** | **-<br>(60860.59)** | **-** | **-** | **-<br>(60860.59)** | **-** | **-** | **-** | **-** | **-** | **-** |
| | **Grand Total<br>(A + B)** | **7558.22<br>(Grants)<br>363.01<br>(Subsidy)** | **300050.01<br>(Grants)<br>108105.90<br>(Project subsidy)<br>198226.65<br>(Subsidy)** | **-** | **307608.23<br>(Grants)<br>108105.90<br>(Project subsidy)<br>198589.66<br>(Subsidy)** | **637.80<br>(14758.47)** | **30937.97<br>(694466.90)** | **-** | **-** | **31575.77<br>(709225.37)** | **-** | **-** | **-** | **-** | **-** | **5195.00** |

| Sl. No. | Name of Public Sector undertakings | Subsidy /grant received during the year | | | | Guarantees received during the year and outstanding at the end of the year ** | | | | | Waiver of dues during the year | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central Government | State Government | Others | Total | Cash credit from banks | Loans from other sources | Letters of credit opened by banks in respect of imports | Payment obligation under agreement with foreign consultants or contracts | Total | Loans repayment written off | Interest waived | Penal interest waived | Total | Loans on which Morotorium allowed | Loans converted into equity during the year |
| 1 | 2 | 3(a) | 3(b) | 3(c) | 3(d) | 4(a) | 4(b) | 4(c) | 4(d) | 4(e) | 5(a) | 5(b) | 5(c) | 5(d) | 6 | 7 |
| **C.** | **NON WORKING GOVERNMENT COMPANIES** | | | | | | | | | | | | | | | |
| | **AGRICULTURE AND ALLIED SECTOR** | | | | | | | | | | | | | | | |
| 1 | Karnataka Agro Industries Corporation Limited | - | - | - | - | - | - (90.89) | - | - | - (90.89) | - | - | - | - | - | - |
| | **Grand Total (C)** | - | - | - | - | - | - **(90.89)** | - | - | - **(90.89)** | - | - | - | - | - | - |
| | **Grand Total of (A+B+C)** | **7558.22 (Grants) 363.01 (Subsidy)** | **300050.01 (Grants) 108105.90 (Project subsidy) 198226.65 (Subsidy)** | - | **307608.23 (Grants) 108105.90 (Project subsidy) 198589.66 (Subsidy)** | **637.80 (14758.47)** | **30937.97 (694557.79)** | - | - | **31575.77 (709316.26)** | - | - | - | - | - | **5195.00** |

**Note: Figures are provisional and as furnished by the companies in respect of companies that have not finalised their accounts for 2006-07 (Sl.Nos. A – 3,4,15,20,22,25 and C-1).**

**** Guarantees outstanding at the end of the year is shown in brackets.**

# ANNEXURE 4

**(Referred to in Paragraph 1.7)**

**Statement showing financial position of Statutory corporations**

**Working Statutory corporations**

**1. Karnataka State Road Transport Corporation, Bangalore**

(Rupees in crore)

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| A. | **Liabilities** | | | |
| | Capital (including capital loan and equity capital) | 220.39 | 233.39 | 233.39 |
| | Borrowings (Government) | 44.36 | 44.36 | 44.36 |
| | (Others) | 179.13 | 193.01 | 230.93 |
| | Funds* | 34.34 | 37.07 | 38.43 |
| | Trade dues and other current liabilities (including provisions) | 188.38 | 218.53 | 236.78 |
| | **Total** | **666.60** | **726.36** | **783.89** |
| B. | **Assets** | | | |
| | Gross Block | 634.97 | 806.15 | 952.97 |
| | Less : Depreciation | 345.16 | 401.79 | 478.49 |
| | Net fixed assets | 289.81 | 404.36 | 474.48 |
| | Capital works-in-progress (including cost of chassis) | 49.74 | 21.84 | 30.36 |
| | Investments | 1.80 | 0.05 | 0.05 |
| | Current assets, loans and advances | 97.37 | 96.86 | 110.45 |
| | Deferred Cost | 1.20 | 3.35 | 2.55 |
| | Accumulated losses | 226.68 | 199.90 | 166.00 |
| | **Total** | **666.60** | **726.36** | **783.89** |
| C. | **Capital employed #** | **248.54** | **304.53** | **378.51** |

* **Excluding depreciation fund.**

# **Capital employed represents net fixed assets (including capital works-in-progress) plus working capital.**

## 2. Bangalore Metropolitan Transport Corporation, Bangalore

(Rupees in crore)

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| **A.** | **Liabilities** | | | |
| | Capital (including capital loan and equity capital) | 64.72 | 92.72 | 158.16 |
| | Borrowings (Government) | - | - | - |
| | (Others) | 28.93 | 26.42 | 22.65 |
| | Funds* | 197.24 | 298.56 | 525.35 |
| | Trade dues and other current liabilities (including provisions) | 64.02 | 49.10 | 61.36 |
| | **Total** | **354.91** | **466.80** | **767.52** |
| **B.** | **Assets** | | | |
| | Gross Block | 379.67 | 433.52 | 582.42 |
| | Less : Depreciation | 152.53 | 194.72 | 236.58 |
| | Net fixed assets | 227.14 | 238.80 | 345.84 |
| | Capital works-in-progress (including cost of chassis) | 27.01 | 55.86 | 91.57 |
| | Investments | - | - | 194.02 |
| | Current assets, loans and advances | 100.32 | 171.95 | 135.72 |
| | Deferred Cost | 0.44 | 0.19 | 0.37 |
| | **Total** | **354.91** | **466.80** | **767.52** |
| **C.** | **Capital employed #** | **290.45** | **417.51** | **511.77** |

* **Excluding depreciation fund.**

\# **Capital employed represents net fixed assets (including capital works- in- progress) plus working capital.**

### 3. North Western Karnataka Road Transport Corporation, Hubli

(Rupees in crore)

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| A. | **Liabilities** | | | |
| | Capital (including capital loan and equity capital) | 102.64 | 115.64 | 115.64 |
| | Borrowings (Government) | 1.05 | 1.05 | 1.05 |
| | (Others) | 121.92 | 171.81 | 225.08 |
| | Funds* | 24.76 | 25.90 | 28.72 |
| | Trade dues and other current liabilities (including provisions) | 134.15 | 157.58 | 180.59 |
| | **Total** | **384.52** | **471.98** | **551.08** |
| B. | **Assets** | | | |
| | Gross Block | 377.31 | 426.63 | 523.97 |
| | Less: Depreciation | 236.86 | 265.99 | 281.53 |
| | Net fixed assets (Goodwill) | 140.45 | 160.64 | 242.44 |
| | Capital works-in-progress (including cost of chassis) | 9.55 | 8.75 | 2.85 |
| | Current assets, loans and advances | 56.67 | 94.87 | 110.02 |
| | Deferred revenue expenditure | 0.41 | 0.08 | 0.80 |
| | Accumulated losses | 177.44 | 207.64 | 194.97 |
| | **Total** | **384.52** | **471.98** | **551.08** |
| C. | **Capital employed #** | **72.52** | **106.68** | **174.72** |

* **Excluding depreciation fund.**

\# **Capital employed represents net fixed assets (including capital works- in- progress) plus working capital.**

## 4. North Eastern Karnataka Road Transport Corporation, Gulbarga

(Rupees in crore)

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| A. | **Liabilities** | | | |
| | Capital (including capital loan and equity capital) | 92.50 | 103.50 | 103.50 |
| | Borrowings (Government) | 0.87 | 0.87 | 0.87 |
| | (Others) | 36.14 | 64.48 | 86.09 |
| | Funds* | 20.69 | 24.71 | 28.75 |
| | Trade dues and other current liabilities (including provisions) | 136.77 | 158.57 | 198.41 |
| | **Total** | **286.97** | **352.13** | **417.62** |
| B. | **Assets** | | | |
| | Gross Block | 178.72 | 226.10 | 264.71 |
| | Less: Depreciation | 136.56 | 136.51 | 147.86 |
| | Net fixed assets | 42.16 | 89.59 | 116.85 |
| | Capital works-in-progress (including cost of chassis) | 12.15 | 12.19 | 15.60 |
| | Investments | 0.05 | 0.05 | 0.05 |
| | Current assets, loans and advances | 41.02 | 30.46 | 35.51 |
| | Deferred revenue expenditure | 0.52 | 0.98 | 1.22 |
| | Accumulated losses | 191.07 | 218.86 | 248.39 |
| | **Total** | **286.97** | **352.13** | **417.62** |
| C. | **Capital employed #** | **(-) 41.44** | **(-) 26.33** | **(-) 30.45** |

* **Excluding depreciation fund.**

\# **Capital employed represents net fixed assets (including capital works- in- progress) plus working capital.**

## 5. Karnataka State Financial Corporation , Bangalore

(Rupees in crore)

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| A. | **Liabilities** | | | |
| | Paid up capital | 97.85 | 97.85 | 97.85 |
| | Share application money | 26.83 | 26.83 | 26.83 |
| | Reserve fund and other reserves and surplus | 4.25 | 4.25 | 4.25 |
| | Borrowings | | | |
| | i) Bonds and Debentures | 739.45 | 774.57 | 721.10 |
| | ii) Fixed Deposits | 24.85 | 33.5 | 31.45 |
| | iii) Industrial Development Bank of India & Small Industries Development Bank of India | 945.12 | 937.69 | 875.68 |
| | iv) Loan towards Share Capital- Industrial Development Bank of India | 9.18 | 9.18 | 9.18 |
| | (v) Others (including State Government) | 145.75 | 95.78 | 94.25 |
| | Other liabilities and Provisions | 486.11 | 484.42 | 428.36 |
| | **Total** | **2479.39** | **2464.07** | **2288.95** |
| B. | **Assets** | | | |
| | Cash and Bank balances | 133.52 | 289.23 | 149.48 |
| | Investments | 70.09 | 65.35 | 56.89 |
| | Loans and Advances | 1589.13 | 1438.01 | 1418.28 |
| | Net fixed Assets | 9.00 | 8.22 | 7.48 |
| | Other assets | 66.76 | 57.63 | 55.91 |
| | Miscellaneous expenditure | 610.89 | 605.63 | 600.91 |
| | **Total** | **2479.39** | **2464.07** | **2288.95** |
| C. | **Capital Employed*** | **2010.78** | **1982.22** | **1856.34** |

* **Capital employed represents the mean of the aggregate of opening and closing balances of paid-up capital, loans in lieu of capital, seed money, debentures, reserves (other than those which have been funded specifically and backed by investments outside), bonds, deposits and borrowings (including refinance).**

## 6. Karnataka State Warehousing Corporation, Bangalore

(Rupees in crore)

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| **A.** | **Liabilities** | | | |
| | Paid-up capital | 9.95 | 10.05 | 10.15 |
| | Reserves and Surplus | 36.68 | 38.58 | 42.39 |
| | Borrowings (Government) | 12.80 | 12.80 | 12.80 |
| | (Others) | 163.06 | 163.09 | 45.91 |
| | Trade dues and Current liabilities (including provisions) | 39.69 | 52.95 | 42.03 |
| | **Total** | **262.18** | **277.47** | **153.28** |
| **B.** | **Assets** | | | |
| | Gross block | 96.86 | 99.29 | 101.25 |
| | Less: Depreciation | 9.02 | 10.52 | 12.22 |
| | Net fixed assets | 87.84 | 88.77 | 89.03 |
| | Capital work-in-progress | 2.37 | 0.09 | 2.72 |
| | Investment | 0.11 | 0.11 | 0.00 |
| | Current assets, loans and advances | 171.86 | 188.50 | 61.53 |
| | **Total** | **262.18** | **277.47** | **153.28** |
| **C.** | **Capital employed** ** | **222.38** | **224.41** | **119.89** |

** **Capital employed represents net fixed assets, (including capital work-in-progress) plus working capital.**

# ANNEXURE 5

**(Referred to in Paragraph 1.7)**

## Statement showing working results of Statutory corporations

### 1. Karnataka State Road Transport Corporation, Bangalore

**(Rupees in crore)**

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| 1 | **Operating:** | | | |
| | a) Revenue | 798.99 | 989.12 | 1173.99 |
| | b) Expenditure | 830.99 | 1008.50 | 1187.36 |
| | c) Surplus (+) / Deficit (-) | (-) 32.00 | (-)19.38 | (-) 13.37 |
| 2 | **Non-operating:** | | | |
| | a) Revenue | 96.47 | 96.57 | 97.18 |
| | b) Expenditure | 36.65 | 40.95 | 50.54 |
| | c) Surplus (+)/Deficit (-) | (+) 59.82 | (+) 55.62 | (+) 46.64 |
| | | | | |
| 3 | **Total** | | | |
| | a) Revenue | 895.46 | 1085.69 | 1271.17 |
| | b) Expenditure | 867.64 | 1049.45 | 1237.90 |
| | c) Net prior period Expenditure | 1.19 | 9.46 | 0.62 |
| | d) Net profit (+)/ Loss (-) | 26.63 | 26.78 | 33.89 |
| 4 | Interest on capital and loans | 13.11 | 13.25 | 18.68 |
| 5 | Total return on capital employed* | 39.74 | 40.03 | 52.57 |
| 6 | Percentage of return on capital employed | 15.99 | 13.14 | 13.89 |
| | | | | |

* **Return on capital employed represents net surplus/deficit plus total interest charged to profit & loss account (less interest capitalised)**

## 2. Bangalore Metropolitan Transport Corporation, Bangalore

**(Rupees in crore)**

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| 1 | **Operating:** | | | |
| | a) Revenue | 506.18 | 623.34 | 707.43 |
| | b) Expenditure | 479.52 | 580.24 | 649.54 |
| | c) Surplus (+)/Deficit (-) | (+) 26.66 | (+) 43.10 | (+) 57.89 |
| 2 | **Non-operating:** | | | |
| | a) Revenue | 66.01 | 80.06 | 180.15 |
| | b) Expenditure | 12.66 | 8.28 | 13.72 |
| | c) Surplus (+)/Deficit (-) | (+) 53.35 | (+) 71.78 | (+) 166.43 |
| | | | | |
| 3 | **Total** | | | |
| | a) Revenue | 572.19 | 703.40 | 887.58 |
| | b) Expenditure | 492.18 | 588.52 | 663.26 |
| | c) Net profit (+)/loss (-) | (+) 80.01 | (+) 114.88 | (+) 224.32 |
| 4 | Interest on capital and loans | 1.85 | 2.33 | 0.76 |
| 5 | Total return on Capital employed* | 81.86 | 117.21 | 225.08 |
| 6 | Percentage of return on capital employed | 28.18 | 28.07 | 43.98 |

* **Return on capital employed represents net surplus/deficit plus total interest charged to profit & loss account (less interest capitalised)**

## 3. North Western Karnataka Road Transport Corporation, Hubli

(Rupees in crore)

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| 1 | **Operating :** | | | |
| | a) Revenue | 556.76 | 611.43 | 691.71 |
| | b) Expenditure | 630.81 | 702.30 | 765.74 |
| | c) Surplus (+)/deficit (-) | (-) 63.07 | (-) 90.87 | (-) 74.03 |
| 2 | **Non-operating :** | | | |
| | a) Revenue | 44.98 | 50.76 | 118.13 |
| | b) Expenditure | 16.91 | 21.68 | 31.43 |
| | c) Surplus (+)/deficit (-) | (+) 28.07 | (+) 29.08 | (+) 86.70 |
| 3 | **Total** | | | |
| | a) Revenue | 601.74 | 662.19 | 809.84 |
| | b) Expenditure | 647.72 | 723.98 | 797.17 |
| | c) Net prior period Expenditure/Credits(-) | 16.40 | (-)31.60 | - |
| | d) Net profit (+)/loss (-) | (-) 62.38 | (-) 30.19 | (+) 12.67 |
| 4 | Interest on capital and loans | 8.81 | 10.58 | 18.08 |
| 5 | Total return on Capital employed* | (-) 53.57 | (-) 19.61 | 30.75 |
| 6 | Percentage of return on capital employed | - | - | 17.60 |

* **Return on capital employed represents net surplus/deficit plus total interest charged to profit and loss account (less interest capitalised)**

## 4. North Eastern Karnataka Road Transport Corporation, Gulbarga

(Rupees in crore)

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| 1 | **Operating :** | | | |
| | a) Revenue | 324.74 | 367.35 | 424.81 |
| | b) Expenditure | 371.70 | 411.17 | 473.33 |
| | c) Surplus (+)/deficit (-) | (-) 46.96 | (-)43.82 | (-) 48.52 |
| 2 | **Non-operating :** | | | |
| | a) Revenue | 21.15 | 27.35 | 34.73 |
| | b) Expenditure | 10.53 | 11.32 | 14.92 |
| | c) Surplus (+)/deficit (-) | (+)10.62 | 16.03 | 19.81 |
| 3 | **Total** | | | |
| | a) Revenue | 345.89 | 394.70 | 459.54 |
| | b) Expenditure | 382.23 | 422.49 | 488.25 |
| | c) Net prior period Expenditure | 3.97 | - | 0.81 |
| | d) Net profit (+)/loss (-) | (-) 40.31 | (-) 27.79 | (-) 29.52 |
| 4 | Interest on capital and loans | 2.93 | 2.83 | 6.06 |
| 5 | Total return on Capital employed* | (-) 37.38 | (-) 24.96 | (-) 23.46 |

* **Return on capital employed represents net surplus/deficit plus total interest charged to profit and loss account (less interest capitalised)**

## 5. Karnataka State Financial Corporation, Bangalore

**(Rupees in crore)**

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| 1 | **Income** | | | |
| | a) Interest on Loans | 205.31 | 173.95 | 167.61 |
| | b) Other Income | 12.64 | 16.33 | 18.61 |
| | **Total (1)** | **217.95** | **190.28** | **185.82** |
| 2 | **Expenses** | | | |
| | a) Interest on long term and short term loans | 176.70 | 166.44 | 139.70 |
| | b) Other Expenses | 40.46 | 38.07 | 42.62 |
| | c) Provision for non performing assets | (1.95) | (19.88) | (9.89) |
| | **Total (2)** | **215.21** | **184.63** | **172.43** |
| 3 | Profit (+)/Loss (-) before tax (1-2) | (+) 2.74 | (+) 5.65 | (+) 13.39 |
| 4 | Total return on Capital Employed | 179.44 | 170.03 | 153.09 |
| 5 | Percentage of return on Capital employed | 8.92 | 8.59 | 8.25 |

## 6. Karnataka State Warehousing Corporation, Bangalore

(Rupees in crore)

| Sl. No. | Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|
| 1 | **Income:** | | | |
| | a) Warehousing charges | 17.26 | 22.01 | 28.71 |
| | b) Other income | 5.20 | 5.84 | 2.82 |
| | **Total (1)** | **22.46** | **27.85** | **31.53** |
| 2 | **Expenses:** | | | |
| | a) Establishment charges | 5.93 | 9.05 | 7.88 |
| | b) Other expenses | 12.44 | 13.93 | 15.83 |
| | **Total (2)** | **18.37** | **22.98** | **23.71** |
| 3 | Profit before tax | 4.09 | 4.87 | 7.82 |
| 4 | Provision for tax | 1.61 | 2.45 | 2.86 |
| 5 | Amount available for dividend | 2.48 | 2.42 | 4.96 |
| 6 | Dividend for the year | 0.25 | 0.48 | 0.99 |
| 7 | Total return on Capital employed | 6.17 | 6.43 | 8.63 |
| 8 | Percentage of return on Capital employed | 2.77 | 2.86 | 7.20 |

# ANNEXURE 6
## (Referred to in Paragraph 1.12)
### Statement showing operational performance of Statutory corporations

### Working Statutory corporations

### 1. Karnataka State Road Transport Corporation, Bangalore

| Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|
| Average number of vehicles held | 4567 | 5196 | 5650 |
| Average number of vehicles on road | 4347 | 4863 | 5225 |
| Percentage of utilisation of vehicles | 95.2 | 93.6 | 92.5 |
| Number of employees | 24989 | 24866 | 27255 |
| Employees vehicle ratio | 5.47 | 4.78 | 4.82 |
| Number of routes operated at the end of the year | 4608 | 4811 | 5752 |
| Route kilometres | 398380 | 407003 | 436729 |
| Kilometres covered (in lakh) – Own buses only | | | |
| a) Gross | 5608.62 | 6283.85 | 7062.25 |
| b) Effective | 5445.90 | 6072.55 | 6823.89 |
| c) Dead | 162.72 | 211.30 | 238.36 |
| Percentage of dead kms. to gross kilometres | 3.00 | 3.50 | 3.37 |
| Average kilometres covered per bus per day | 367 | 342 | 362 |
| Average operating revenue per kilometre (in paise) | 1541.30 | 1698.50 | 1842.00 |
| Increase in operating revenue per kilometre over previous year's income (*per cent*) | 134.50 (9.56) | 157.20 (10.20) | 143.50 (8.45) |
| Average expenditure per kilometre (paise) | 1495.50 | 1641.80 | 1792.40 |
| Increase in operating expenditure per kilometre over previous year's expenditure (*per cent*) | 134.70 (9.90) | 146.30 (9.78) | 150.60 (9.17) |
| Profit/Loss per kilometre (paise) | 45.80 | 56.70 | 49.60 |
| Number of operating depots | 50 | 57 | 59 |
| Average number of breakdowns per lakh kilometres | 0.5 | 0.6 | 0.8 |
| Average number of accidents per lakh kilometres | 0.17 | 0.18 | 0.16 |
| Passenger kilometres operated (in crore) | 2291.25 | 2411.89 | 2666.33 |
| Occupancy ratio | 70.7 | 68.6 | 70.6 |
| Kilometres obtained per litre of : | | | |
| Diesel oil | 5.38 | 5.13 | 5.07 |
| Engine oil | 6678 | NA | 1493 |

NA=Not available

## 2. Bangalore Metropolitan Transport Corporation, Bangalore

| Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|
| Average number of vehicles held | 3048 | 3468 | 3925.50 |
| Average number of vehicles on road | 2863 | 3293 | 3689.60 |
| Percentage of utilisation of vehicles | 93.90 | 95.00 | 94.00 |
| Number of employees | 17759 | 19019 | 20565 |
| Employees vehicle ratio | 5.60 | 5.40 | 5.00 |
| Number of routes operated at the end of the year | 1690 | 1726 | 1927 |
| Route Kilometres | 35371 | 37335 | 42299 |
| Kilometres operated (in lakh) – Own buses only | | | |
| a) Gross | 2484 | 2883 | 3269.77 |
| b) Effective | 2400 | 2755 | 3119.87 |
| c) Dead | 84 | 128 | 149.90 |
| Percentage of dead kms. to gross kilometres | 3.38 | 4.40 | 4.60 |
| Average Kilometres covered per bus per day | 230 | 229 | 231.70 |
| Average operating revenue per kilometre (in paise) | 1924.31 | 2223.60 | 2661.84 |
| Increase in operating revenue per kilometre over previous year's income | 54.64 | 299.29 | 438.24 |
| (*per cent*) | (2.92) | (15.55) | (19.71) |
| Average expenditure per kilometre (paise) | 1655.22 | 1860.43 | 1989.11 |
| Increase in operating expenditure per kilometre over previous year's expenditure | 93.72 | 205.21 | 128.68 |
| (*per cent*) | (6.00) | (12.40) | (6.92) |
| Profit/Loss per kilometre (paise) | 269.09 | 363.17 | 672.73 |
| Number of operating depots | 24 | 25 | 28 |
| Average number of breakdowns per lakh kilometres | 1.20 | 1.20 | 0.90 |
| Average number of accidents per lakh kilometres | 0.18 | 0.16 | 0.14 |
| Passenger kilometres operated (in crore) | 1275 | 1338 | 1401.53 |
| Occupancy ratio | 67.00 | 64.00 | 63.00 |
| Kilometres obtained per litre of: | | | |
| Diesel oil | 4.74 | 4.66 | 4.55 |
| Engine oil | 1258.70 | 1239.30 | 1218.50 |

### 3. North Western Karnataka Road Transport Corporation, Hubli

| Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|
| Average number of vehicles held | 3290 | 3551 | 4074 |
| Average number of vehicles on road | 3151 | 3387 | 3811 |
| Percentage of utilisation of vehicles | 95.30 | 95.40 | 93.50 |
| Number of employees | 20507 | 20527 | 22539 |
| Employees vehicle ratio | 5.55 | 5.78 | 5.53 |
| Number of routes operated at the end of the year | 5594 | 5797 | 5920 |
| Route kilometres | 440922 | 497395 | 560025 |
| Kilometres operated (in lakh) - Own buses only | | | |
| a) Gross | 3869.70 | 4031.55 | 4652.83 |
| b) Effective | 3794.62 | 3951.91 | 4556.99 |
| c) Dead | 75.08 | 79.64 | 95.84 |
| Percentage of dead kms. to gross kilometres | 1.94 | 1.98 | 2.05 |
| Average kilometres covered per bus per day | 330.00 | 320.00 | 331.0 |
| Average operating revenue per kilometre (in paise) | 1326.07 | 1362.30 | 1406.47 |
| Increase in operating revenue per kilometre over previous year's income | 56.87 | 36.23 | 44.17 |
| *(per cent)* | (4.48) | (2.73) | (3.24) |
| Average expenditure per kilometre (paise) | 1463.54 | 1626.80 | 1620.92 |
| Increase in operating expenditure per kilometre over previous year's expenditure | 173.34 | 163.26 | -5.88 |
| *(per cent)* | (13.44) | (11.15) | (-0.36) |
| Profit/Loss per kilometre (paise) | (-) 137.47 | (-) 264.50 | (-) 214.45 |
| Number of operating depots | 48 | 49 | 51 |
| Average number of breakdowns per lakh kilometres | 1.20 | 1.40 | 1.40 |
| Average number of accidents per lakh kilometres | 0.15 | 0.15 | 0.15 |
| Passenger kilometres operated (in crore) | 1687.93 | 1828.34 | 1840.56 |
| Occupancy ratio | 74.40 | 90.70 | 77.70 |
| Kilometres obtained per litre of: | | | |
| Diesel oil | 5.36 | 5.25 | 5.23 |
| Engine oil | 1036.00 | 1228.00 | 1228.10 |

## 4. North Eastern Karnataka Road Transport Corporation, Gulbarga

| Particulars | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|
| Average number of vehicles held | 2386 | 2435 | 2559 |
| Average number of vehicles on road | 2291 | 2327 | 2442 |
| Percentage of utilisation of vehicles | 96.00 | 95.50 | 95.4 |
| Number of employees | 10410 | 10880 | 11461 |
| Employees vehicle ratio | 4.36 | 4.47 | 4.48 |
| Number of routes operated at the end of the year | 2888 | 3033 | 3104 |
| Route Kilometres | 235544 | 245485 | 256896 |
| Kilometres operated (in lakh) – Own buses only | | | |
| a) Gross | 1759 | 1912 | 2338 |
| b) Effective | 1718 | 1863 | 2284 |
| c) Dead | 41 | 49 | 54 |
| Percentage of dead kms. to gross kilometres | 2.40 | 2.60 | 2.31 |
| Average kilometres covered per bus per day | 316 | 317 | 325 |
| Average operating revenue per kilometre (paise) | 1230.10 | 1362.90 | 1432.10 |
| Increase in operating revenue per kilometre over previous year's income | 68.20 | 132.80 | 69.20 |
| (*per cent*) | (5.87) | (10.80) | (5.08) |
| Average expenditure per kilometre (paise) | 1384.70 | 1567.60 | 1648.70 |
| Increase in operating expenditure per kilometre over previous year's expenditure | 110.10 | 182.90 | 81.10 |
| (*per cent*) | (8.64) | (13.21) | (5.17) |
| Profit/Loss per kilometre (paise) | (-) 154.60 | (-) 204.70 | (-) 216.60 |
| Number of operating depots | 29 | 29 | 31 |
| Average number of breakdowns per lakh kilometres | 2.20 | 2.20 | 1.50 |
| Average number of accidents per lakh kilometres | 0.14 | 0.14 | 0.15 |
| Passenger kilometres operated (in crore) | 1000.46 | 891.39 | 1030.84 |
| Occupancy ratio | 72.80 | 61.20 | 58.30 |
| Kilometres obtained per litre of: | | | |
| Diesel oil | 5.44 | 5.44 | 5.45 |
| Engine oil | 1109 | 1194 | 1146 |

## 5. Karnataka State Financial Corporation, Bangalore

(Rupees in crore)

| Particulars | 2004-05 | | 2005-06 | | 2006-07 (provisional) | |
|---|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | Number | Amount |
| Applications pending at the beginning of the year | 62 | 37.68 | 62 | 24.77 | 28 | 38.99 |
| Applications received | 1319 | 391.01 | 1188 | 479.35 | 1410 | 530.14 |
| **Total** | **1381** | **428.30** | **1250** | **504.12** | **1438** | **569.13** |
| Applications sanctioned | 1242.00 | 241.75 | 1161 | 316.20 | 1326 | 424.53 |
| Applications cancelled/ withdrawn/rejected/reduced | 77 | 162.19 | 61 | 34.12 | 64 | 58.71 |
| Applications pending at the close of the year | 62 | 24.75 | 28 | 39.01 | 48 | 27.95 |
| Loans disbursed | 992 | 239.83 | - | 199.86 | - | 310.39 |
| Loan outstanding at the close of the year | - | 1455.74 | - | NA | - | NA |
| Amount overdue for recovery at the close of the year : | | | | | | |
| a) Principal | - | 630.16 | | NA | NA | **NA** |
| b) Interest | - | 2300.52 | | NA | | |
| **Total** | - | **2930.68** | - | **2573.03** | | |
| Amount involved in recovery certificate cases | - | 1025.19 | - | 1256.49 | | NA |
| Percentage of overdue to the total loans outstanding | - | 43.29 | - | NA | | NA |

NA – not available

## 6. Karnataka State Warehousing Corporation, Bangalore

| Particulars | 2004-05 | 2005-06 | 2006-07 (Provisiona |
|---|---|---|---|
| Number of stations covered | 116 | 116 | 11 |
| Storage capacity created up to the end of the year (tonne in lakh) | | | |
| a) Owned | 4.76 | 4.98 | 5.0 |
| b) Hired | 2.35 | 4.07 | 3.8 |
| **Total** | **7.11** | **9.05** | **8.8** |
| Average capacity utilised during the year (tonne in lakh) | 4.54 | 6.40 | 6.9 |
| Percentage of utilisation | 63.85 | 70.72 | 78.4 |
| Average revenue per tonne per year (Rupees) | 494.71 | 435.16 | 354.8 |
| Average expenses per tonne per year (Rupees) | 404.63 | 359.06 | 299.0 |

# ANNEXURE 7

**(Referred to in Paragraph 1.28)**

## Statement showing paid-up capital, investment and summarised working results of 619-B companies as per their latest finalised accounts

**(Rupees in crore)**

| Sl. No | Name of the Company | Status (working/ non-working) | Year of accounts | Paid-up capital | Equity by | | | Loans by | | | Grants by | | | Total investment by way of equity, loans and grants | | | Profit (+)/ loss (-) | Accumulated profit (+)/accumulated loss (-) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | State Govt. | State Govt. companies | Central Govt. and their companies | State Govt. | State Govt. companies | Central Govt. and their companies | State Govt. | State Govt. companies | Central Govt. and their companies | State Govt. | State Govt. companies | Central Govt. and their companies | | |
| 1 | Karnataka State Seeds Corporation Limited | Working | 2005-06 | 3.28 | 1.35 (41.16 *per cent*) | -- | 0.62 (18.90 *per cent*) | 0.68 | -- | -- | 1.34 | -- | 6.85 | 3.37 | - | 7.47 | 1.50 | 5.40 |
| 2 | Karnataka Asset Management Company Private Limited | Working | 2006-07 | 0.50 | -- | 0.50 (100 *per cent*) | - | - | - | - | - | - | - | -- | 0.50 | - | 0.04 | 0.29 |
| 3 | Karnataka Trustee Company Private Limited | Working | 2006-07 | 0.01 | -- | 0.01 (100 *per cent*) | - | - | - | - | - | - | - | - | 0.01 | - | (a) | (b) |
| 4 | Food Karnataka Limited | Working | 2005-06 | 0.10 | 0.05 (50 per cent) | -- | - | - | - | - | - | - | - | 0.05 (equity) 9.50 (grants) | -- | - | 0.18 | 0.21 |

(a) **Profit for the year Rs.3,810**

(b) **Accumulated profit – Rs.27,771**

## ANNEXURE 8
## (Referred to in Paragraph 2.1.7)
## Analysis of infrastructure for setting up of 500 MW unit at Raichur Thermal Power Station, KPCL

<table>
<tr><th>Justification for 210 MW-Unit 7</th><th>Reasons for discarding 500 MW Unit</th><th>Audit Observation</th><th>Reply of Government and ARCPSE meeting deliberations</th></tr>
<tr><td><table><tr><th colspan="2">LAND</th></tr><tr><td colspan="2">(in hectares)</td></tr><tr><td>Acquired by KPCL</td><td>1274</td></tr><tr><td>Plant Area</td><td>602</td></tr><tr><td>Ash Bund Area I</td><td>190</td></tr><tr><td>Ash Bund Area II</td><td>215</td></tr><tr><td>Meant for Colony and Rehabilitation</td><td>267</td></tr><tr><td colspan="2">Land is adequate for setting up of one 210 MW plant only.</td></tr></table></td><td>No area found available for 500 MW Unit.</td><td>In the letter of Chief Engineer (O&M) to Technical Director of the Company, dated 23.5.2000, the following details regarding the usage of land of 1274 hectares was given:<br>(in hectares)<table><tr><th>Description</th><th>Built in Area upto 6<sup>th</sup> Unit</th><th>Vacant Area</th></tr><tr><td>Plant Area</td><td>216</td><td>320</td></tr><tr><td>Ash Pond Area</td><td>405</td><td>67</td></tr><tr><td>Township Area</td><td>130</td><td>87</td></tr><tr><td>Rehabilitation Centre</td><td>29</td><td>20</td></tr></table>From the above, it is clear that nearly 320 hectares was available which could have accommodated a Unit of 500 MW. In this connection Land for Plant including marshalling yard for a 500 MW Plant was stated as 145 hectares in the DPR of Bellary Thermal Power Station Stage-I. (another project under implementation by the Company)<br>It is stated in the DPR of Unit-8 of 250 MW that the available land appears to be adequate for setting up 8<sup>th</sup> Unit at RTPS.</td><td>No specific reply was furnished.</td></tr>
<tr><td>RAW WATER PUMP HOUSE (RWPH)</td><td></td><td></td><td></td></tr>
<tr><td>Total water requirement is 10,173 cum/hour at the rate of 1453 m3/hr.of water per day is 2,44,152 cum for 7 units<br><br>Hence, No additional Pump is contemplated for Unit 7.</td><td>The water requirement for a 500 MW unit is around 2538 m3/hr. This means installation of one more pump.<br><br>Also one more pipe line</td><td>The RTPS is allotted 135.96 Million cum (Mcum) per annum of water from River Krishna use for all the Units. The total requirement of seven Units was 89.06 Mcum ft and no fresh approval was required.<br><br>Further, in the DPR of Unit 8 of 250 MW, it is stated that the water requirement per hour was 6492</td><td>No specific reply was furnished.</td></tr>
</table>

| Justification for 210 MW-Unit 7 | Reasons for discarding 500 MW Unit | Audit Observation | Reply of Government and ARCPSE meeting deliberations |
|---|---|---|---|
| | has to be drawn for water requirements apart from the present two lines.<br><br>Hence RWPH cannot accommodate an additional 500 MW unit. | m3 of eight Units and no additional pump or pipe line for eight Units was required.<br>Hence, it is clear that water was available for a 500 MW unit. | |
| **DE-MINERALISED (DM) WATER REQUIREMENT** | | | |
| As per the designs, the 2 DM plants put together can produce 9,936 cum per day.<br>DM water requirement of each Unit of 210 MW per day: 1152 cum<br>Total DM water required for 7 Units: 8124 cum/day<br>At 80 per cent *i.e.,* 8000 m3/day just meets the requirement for 7 units. | DM Water Requirement for 500 MW: 2070 + 60 cum/day<br>The additional requirement of 978 cum/day cannot be met from the present 2 DM Plant. | As per the designs, the 2 DM plants put together can produce 9,936 cum per day.<br>The total DM water requirement had Unit-7 been a 500 MW would be 9042 cum/day.<br>The Total requirement of DM water for eight Units (Unit-8 of 250 MW) would be 9276 cum/day and no additional DM plant is envisaged for Unit-8 of 250 MW. | No specific reply was furnished. |
| **CIRCULATING WATER PUMP HOUSE (CWPH)** | | | |
| CWPH Stage I & II is provided with 8 pumps in each pump house of 15,600 $M^3$/hr capacity each. This caters to the capacity of cooling water for six units only.<br>It was therefore, envisaged to construct a separate fore bay and pump house for Unit-7. This is accommodated in the steel yard. | A separate pump house with higher capacity is required for 500 MW plant. | The Company had constructed a separate forebay and separate CWPH for Unit-7 of 210 MW for circulation of water of 31,200 $M^3$ per hour.<br>For BTPS 500MW Unit-I, the total requirement is 1176 cum per day.<br>It is stated that Unit-8 of 250 MW would also have its own forebay and CWPH separate from other Units. | The Government replied (May 2007) that a separate clarifier was required in the event of 500MW unit.<br>The reply is not tenable as the Company has now proposed to construct a separate clarifier for unit 8 of 250MW. |
| **STATION BUILDING** | | | |
| Total length required is 67.5 metres (mts) and width is 29.0 mts. Hence, there is enough space to extend for Unit-7 adjacent to Unit-5 & 6.<br><br>The present EOT crane of 125 MTs which is installed for Unit-1 to 6 can also be used for Unit-7. | The total length required is 120.0 mts and width 34.0 mts.<br><br>A separate EOT crane is to be procured with higher capacity to handle the major equipments.<br>This has to be further | The total length of Station Building (consisting of TG bay, electrical bay, bunker bay, boiler, ESP and chimney) for 500 MW Unit as per DPR of BTPS Stage-1 is 10.5 m x 9 bays i.e. 94.50 mts and span (width) of 34 m.<br><br>The length of the Unit-7 of 210 MW at RTPS was 67.5 mts and width 29 mts.<br>The length of the proposed new Unit-8 of 250 MW | The Government replied (May 2007) that it was not possible to extend the station building due to space constraints.<br><br>The reply is not acceptable as it was deliberated in the 97th Technical Committee Meeting that the width of the Station Building for a 500 MW |

| Justification for 210 MW-Unit 7 | Reasons for discarding 500 MW Unit | Audit Observation | Reply of Government and ARCPSE meeting deliberations |
|---|---|---|---|
| | studied and worked out | at RTPS is 7.5 mts x 9 bays, i.e., 67.5 mts and width of 29 mts.<br>Though not envisaged a new EOT crane of 25 Tonnes capacity and 4 HOT cranes (3 MT each) were procured and installed for 210MW. | unit can be increased but for restriction on the movement of EOT crane. Further, the Company is now proposing to build a new station building for Unit 8. |
| **COOLING TOWER** | | | |
| A Cooling Tower (CT) of height of 135 mts was required. Place for construction planned | In the event of 500 MW, the height of the cooling tower increases to 145 mts and also the dia at the top and bottom also increases proportionately.<br>Alternatively, 2 cooling towers of 135 m high to be constructed for which there is no place in the present area identified for cooling towers. | The actual height of the Single CT of Unit-7 (210 MW) is 146.2 m.<br><br>Another CT of same height or more is proposed to be constructed for Unit-8. | The Government replied (May 2007) that for a 500MW unit a cooling tower of 145 metres height and separate forebay were required.<br>The reply is not acceptable as the height of the cooling tower of 210MW Unit-7 was 146.2 mts with a separate forebay. Further, for the next unit (Unit-8) of 250MW, it is envisaged to construct separate cooling tower and forebay. |
| **POWER EVACUATION** | | | |
| ➢ There were 5 nos. of 220 KV outgoing lines;<br>➢ 1 no. of 220 KV line is being commissioned to Sedam;<br>➢ 1 no. of 400 KV line existed from Nagarajuna Sagar to Guddathahalli via RTPS;<br>➢ KEB was constructing 1 no. of 400 KV line from RTPS to Bangalore via Davanagere for Unit-5 & 6;<br>➢ KEB was to conduct Load Flow Studies if all the Units were commissioned with the above existing lines.<br>Hence, these lines are sufficient for power evacuation for Unit-7. | It was appraised that in the event of a 500 MW Unit, 1 more line of 400 KV may have to be erected.<br><br>However, the Committee was informed that these details had to be worked out with KPTCL. | In the DPR of BTPS Stage-I, it is stated that the power generated at BTPS unit be evacuated into KPTCL network, through four lines between Davanagere and Raichur will be connected to the 400 KV outgoing line circuits by loop-in/loop-out arrangement.<br><br>The KPTCL had constructed three 400 KV feeder lines; one connected to Gutter, other two lines – Nagarjunasagar- Munirabad lines are connected as Line-in-Line-out (LILO) at RTPS.<br>Further no new line is considered as the existing evacuation facility is sufficient to transfer Unit 8 power to the grid. | The Government replied that in the event of going in for 500MW unit a one more 400 KV line had to be erected (By KPTCL).<br><br>The reply is not tenable as it is now proposed to evacuate BTPS (500MW) power through the RTPS-Davangere-Bangalore 400 KV line and as such evacuation of power of RTPS Unit-7 500 MW through this line was possible without constructing a new line. |

| Justification for 210 MW-Unit 7 | Reasons for discarding 500 MW Unit | Audit Observation | Reply of Government and ARCPSE meeting deliberations |
|---|---|---|---|
| **COAL HANDLING PLANT (CHP)** | | | |
| RTPS is Equipped with 2 CHPs.<br><br>*Designed Capacity:*<br>CHP1: 900 Tonnes Per Hour (TPH)<br>CHP2: 1260 TPH.<br><br>*Present capacity*:<br>CHP1: 2.5 units & CHP2: 3.5 units,<br>CHP1: 600 TPH & CHP2: 900 TPH | The Committee was informed that there is no provision to store additional coal for 500 MW Unit. | The Company uprated and modernized the CHP-1.<br><br>The Company stated that the existing coal handling facility will be utilised for the proposed Unit-8 of 250 MW with some modifications in the existing CHP-1 (Unit-8 250 MW DPR).<br><br>The requirement of Unit-8 was estimated as 1.1 million tonnes per annum (MTPA) considering the GCV of 4200 Kcal/Kg and ash content of 32%. This was in addition to the current coal requirement of 7.7 MTPA for the seven Units. | The Government replied that existing Coal handling system cannot be expanded to suit quantities of 500MW unit.<br>The reply is not acceptable as it is now proposed to modify the existing Coal Handling system (CHS) to suit the flow of additional 1.1 MTPA of coal for Unit-8 of 250 MW.<br>As the same CHS is used to feed the Unit-7 and Unit-8 totalling to 460 MW, it was possible to feed 500 MW unit. Further, if the 500MW unit was established the quantity of coal fed would be comparatively lesser due to reduced heat rate, decreased specific coal consumption and increased usage of washed coal. |
| Fuel Handling System | - | 2 HFO storage tanks of capacity 3000 tonnes each and one LDO tank of 900 Kilo Litre(KL) Fuel Oil Pump House – I dedicated to Units 1 to 3 and Pump House II for 4 to 7. For Unit 7, fuel oil requirement was estimated at 3000 KL for start up operations. | The Government replied that the existing fuel handling system was adequate only for the seven units of 210 MW each.<br>The reply is not tenable in view of the fact that the specific fuel oil consumption of RTPS had been maintained at less than 1 Ml/Kwh over several years and no new storage tank is envisaged for Unit-8 of 250 MW. Further, the specific fuel oil consumption of 500 MW Unit is lesser than that of two units of 460 MW. |

| Justification for 210 MW-Unit 7 | Reasons for discarding 500 MW Unit | Audit Observation | Reply of Government and ARCPSE meeting deliberations |
|---|---|---|---|
| Clarifier System | - | - | The Government replied that a separate clarifier needed to be constructed for a 500 MW unit.<br>The reply is not acceptable as it is now proposed to construct a separate clarifier for Unit-8 and use clarified water for all the 8 units as make-up water for condenser cooling. |
| Interchanegability of Spares | - | - | The Government replied that due to interchange ability of spares among seven units, it was decided to set up Unit-7 of 210 MW instead of 500 MW.<br>The reply is not tenable as the major spares for RTPS 500 MW could have been supplied from BTPS, where the Company is implementing 2 units of 500 MW at Bellary, located 150 kms away from Raichur (RTPS -Unit 7). |
| Chimney | - | - | The Government replied that Chimney of 500MW would have obstructed the existing main road.<br>The reply is not acceptable as no detailed studies on the sizing of chimney for 500 MW were made though Technical Committee had recommended for such a study in the 97th Meeting (August 1998). |

# ANNEXURE 9
## (Referred to in Paragraph 2.1.12)

### Statement showing average calorific value of coal, stipulated heat rate, standard consumption of coal, actual and excess consumption of coal at Raichur Thermal Power Station, KPCL

| Sl. No. | Particulars | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---|---|---|---|---|
| 1 | Average calorific value of coal (Kcal/Kg) | 4,042 | 3,890 | 3,894 | 3,909 |
| 2 | Stipulated turbine heat rate as per standard (Kcal/Kwh) | 1,966 | 1,966 | 1,966 | 1,966 |
| 3 | Stipulated heat rate at 86.17 per cent boiler efficiency (Kcal/Kwh) | 2,281.536 | 2,281.536 | 2,281.536 | 2,281.536 |
| 4 | Standard Consumption of coal for generation per Kwh (3/1) (Kgs) | 0.564 | 0.587 | 0.586 | 0.584 |
| 5 | Actual generation (MUs) | 1,644.352 | 1,495.826 | 1,033.251 | 1,663.830 |
| 6 | Standard Consumption of coal for actual generation (5x4x1000) (MTs) | 9,27,415 | 8,78,050 | 6,05,485 | 9,71,677 |
| 7 | Actual consumption of coal (MTs) | 10,18,157 | 9,66,372 | 6,85,110 | 11,01,891 |
| 8 | Excess consumption of coal (MTs) (7-6) | 90,742 | 88,322 | 79,625 | 1,30,214 |
| 9 | Annual weighted average cost of coal per MT | 1,794.77 | 1,967.38 | 2,186.59 | 2,228.16 |
| 10 | Cost of excess coal consumed (Rupees in crore) | 16.29 | 17.38 | 17.41 | 29.01 |
| 11 | Percentage of excess consumption of coal to standard norms (8/6x100) | 9.78 | 10.06 | 13.15 | 13.40 |

# ANNEXURE 10
## (Referred to in Paragraph 2.2.7)

### Status of APDP Schemes as on 31 January 2007.

| Executing agency | Category of scheme | Sanctioned cost | Grant & loan received from MOP | Expenditure as on 31.01.2007 | Number of schemes | | | |
|---|---|---|---|---|---|---|---|---|
| | | (Rs. in crore) | | | Sanc-tioned | Com-pleted | Under progress | Drop-ped |
| KPTCL | Transmission works | 72.10 | - | - | 34 | 32 | 1 | 1 |
| | Metering | 22.43 | - | - | 3 | 3 | - | - |
| | Distribution transformers | 19.97 | - | - | 2 | 2 | - | - |
| | **Sub-total** | **114.50** | **57.25** | **109.43** | **39** | **37** | **1** | **1** |
| KPCL | Renovation & Modernization works at generating stations | 44.84 | 22.42 | 41.23* | 2 | 1 | 1 | - |
| VVNL | Renovation & Upgradation at generating stations | 3.64 | 1.82 | 3.53 | 1 | 1 | - | - |
| | **Grand total** | **162.98** | **81.49** | **154.19** | **42** | **39** | **2** | **1** |

*** Expenditure as on 31.03.2005.**

Out of 42 schemes forming part of 11 projects, 39 were completed, 2 were under progress and 1 had been dropped.

# ANNEXURE 11
## (Referred to in Paragraph 2.2.18)

**Physical progress, as on 31 January 2007 of projects sanctioned during 2002-03.**

| Particulars | BESCOM | CESC | MESCOM | HESCOM | GESCOM | TOTAL |
|---|---|---|---|---|---|---|
| **1. 11 KV lines (kms)** | | | | | | |
| Target | 636.77 | 2211.03 | 172.83 | 7642.55 | 475.50 | 11138.68 |
| Physical progress | 601.92 | 1587.13 | 134.34 | 6629.22 | 239.52 | 9192.13 |
| Physical progress (*per cent*) | 94.53 | 71.78 | 77.73 | 86.74 | 50.37 | 82.52 |
| **2. 11 KV re-conductoring (kilometers)** | | | | | | |
| Target | 951.87 | 1988.23 | 49.10 | 2554.95 | 223.00 | 5767.15 |
| Physical progress | 930.00 | 1651.22 | 49.10 | 3561.04 | 162.93 | 6354.29 |
| Physical progress (*per cent*) | 97.70 | 82.80 | 100.00 | 139.38 | 73.06 | 110.18 |
| **3. Additional Distribution Transformer Centres (DTCs) (nos)** | | | | | | |
| Target | 1492 | 3588 | 170 | 8686 | 1087 | 15023 |
| Physical progress | 2866 | 3215 | 170 | 10841 | 2430 | 19522 |
| Physical progress (*per cent*) | 192.09 | 89.60 | 100.00 | 124.81 | 223.55 | 129.95 |
| **4. Low Tension (LT) lines to DTCs (kms)** | | | | | | |
| Target | 404.78 | 672.57 | 32.70 | 2011.75 | 143.00 | 3264.80 |
| Physical progress | 352.27 | 224.15 | 9.48 | 653.38 | 80.65 | 1319.93 |
| Physical progress (*per cent*) | 87.03 | 33.33 | 28.99 | 32.48 | 56.40 | 40.43 |
| **5. LT fixed capacitors to DTCs (nos)** | | | | | | |
| Target | 0 | 12470 | 0 | 42062 | 0 | 54532 |
| Physical progress | 11966 | 11620 | 0 | 29512 | 0 | 53098 |
| Physical progress (*per cent*) | - | 93.18 | - | 70.16 | 0 | 97.37 |
| **6. Fixing of ETV meters to DTCs (nos)** | | | | | | |
| Target | 14678 | 9039 | 1332 | 28619 | 1606 | 55274 |
| Physical progress | 14678 | 10815 | 454 | 25237 | 799 | 51983 |
| Physical progress (*per cent*) | 100.00 | 119.65 | 34.08 | 88.18 | 49.75 | 94.05 |
| **7. 11 KV Under ground Cable (kms)** | | | | | | |
| Target | 712.07 | 7.00 | 10.00 | 212.45 | 75.00 | 1016.52 |
| Physical progress | 622.61 | 13.81 | 8.36 | 178.50 | 66.97 | 890.25 |
| Physical progress (*per cent*) | 87.44 | 197.29 | 83.6 | 84.02 | 89.29 | 87.58 |
| **8. RMUs (nos)** | | | | | | |
| Target | 68 | 9 | 0 | 55 | 6 | 138 |
| Physical progress | 244 | 9 | 0 | 58 | 6 | 317 |

| Particulars | BESCOM | CESC | MESCOM | HESCOM | GESCOM | TOTAL |
|---|---|---|---|---|---|---|
| Physical progress (*per cent*) | 358.82 | 100.00 | 0 | 105.45 | 100.00 | 229.71 |
| **9. Consumer metering (nos)** | | | | | | |
| Target | 1234212 | 259819 | 47695 | 497517 | 118002 | 2157245 |
| Physical progress | 1115088 | 0 | 13483 | 496817 | 70017 | 1695405 |
| Physical progress (*per cent*) | 90.35 | 0 | 28.27 | 99.86 | 59.34 | 78.59 |
| **10. Station & Line Works (nos.) (66 KV & above by KPTCL)** | | | | | | |
| Target | 2 | - | - | 11 | 1 | 14 |
| Stations Commissioned | - | - | - | 8 | - | 8 |
| Works under progress | - | - | - | 1 | 1 | 2 |
| Works Tendered | 1 | - | - | 1 | - | 2 |
| Works not taken up / dropped | 1 | - | - | 1 | - | 2 |
| **11. Station & Line Works (nos.) (Below 66 KV by ESCOMS)** | | | | | | |
| Target | - | - | - | 10 | 1 | 11 |
| Stations Commissioned | - | - | - | 5 | - | 5 |
| Works under progress | - | - | - | 2 | 1 | 3 |
| Works to be tendered | - | - | - | 1 | - | 1 |
| Works dropped | - | - | - | 2 | - | 2 |

# ANNEXURE 12

## (Referred to in Paragraph 2.2.20)

## Details of distribution works awarded at huge tender premium in APDRP works

**(Rs. in crore)**

| ESCOM | Project / Work area | DPR cost for distribution | Tender cost | Award cost | Tender premium *(per cent)* | Name of the agency |
|---|---|---|---|---|---|---|
| BESCOM | Bangalore South | 85.70 | 46.37 | 60.56 | 30.60 | SPML |
| | | | 23.81 | 30.73 | 29.06 | Deepak Cables |
| | | | 34.61 | 45.39 | 31.15 | ABB |
| | Bangalore North | 96.98 | 36.63 | 48.73 | 33.03 | ABB |
| | | | 11.63 | 13.30 | 14.36 | L&T |
| | | | 20.08 | 25.36 | 26.29 | L&T |
| | | | 30.09 | 39.26 | 30.48 | Deepak Cables |
| | Robertsonpet, Tumkur and Davangere | 20.38 | 21.05 | 29.41 | 39.71 | Alsthom |
| | **TOTAL** | **203.06** | **224.27** | **292.74** | **30.53** | |
| MESCOM | Mangalore, Udupi and Hassan | 24.60 | 22.35 | 33.03 | 47.79 | Deepak Cables |
| | **Total** | **24.60** | **22.35** | **33.03** | **47.79** | |
| CESC | Mysore Circle – 10 Towns | 33.33 | 32.00 | 36.86 | 15.19 | NCCL |
| | **Total** | **33.33** | **32.00** | **36.86** | **15.19** | |
| HESCOM | Belgaum O&M Division (Dn.) | 109.14 | 14.75 | 21.00 | 42.37 | L&T |
| | Ghataprbha O&M Dn. | | 38.99 | 55.37 | 42.01 | BSES |
| | Bailhongal O&M Dn. | | 15.84 | 22.20 | 40.15 | L&T |
| | Chikkodi O&M Dn. | | 34.56 | 49.41 | 42.97 | Deepak Cables |
| | Belgaum Circle – 9 Towns | 16.46 | 14.41 | 21.05 | 46.08 | ABB |
| | Bijapur O&M Dn. | 74.72 | 28.62 | 40.50 | 41.51 | ABB |
| | Jamkandi O&M Dn. | | 13.01 | 18.47 | 41.97 | BSES |
| | Bagalkot O&M Dn. | | 11.13 | 15.75 | 41.51 | Pavani Controls |
| | Bijapur Circle – 15 Towns | 30.40 | 22.08 | 32.32 | 46.38 | L&T |
| | Hubli and Dharwad O&M Dn. | 72.08 | 6.08 | 8.70 | 43.09 | ABB |
| | Gadag O&M Dn. | | 14.66 | 18.85 | 28.58 | ABB |
| | Karwar O&M Dn. | | 24.44 | 38.05 | 55.69 | ABB |
| | Sirsi O&M Dn. | | 16.86 | 22.99 | 36.36 | L&T |
| | Hubli City UG Cable package | 73.29 | 25.32 | 37.25 | 47.12 | ABB |
| | Town package of Hubli, Dharwad and Gadag | | 17.39 | 25.43 | 46.23 | ABB |
| | Town package of Karwar, Sirsi and Haveri | | 16.09 | 23.91 | 48.60 | KECI |
| | **Total** | **376.09** | **314.23** | **451.25** | **43.61** | |
| GESCOM | Gulburga, Bidar and Raichur | 45.53 | 41.70 | 56.72 | 36.02 | L&T |
| | **Total** | **45.53** | **41.70** | **56.72** | **36.02** | |
| | **Grand Total** | **682.61** | **634.55** | **870.60** | **37.20** | |

# ANNEXURE 13

## (Referred to in Paragraph 2.3.7)

**Statement showing the financial position of irrigation Companies for the last four years up to 2005-06**

## 1. Krishna Bhagya Jala Nigam Limited.

**(Rupees in crore)**

| Particulars | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Share Capital | 2921.56 | 4171.70 | 6706.79 | 6706.79 |
| Advance against equity | 2157.89 | 2198.74 | 1783.02 | 3764.03 |
| Borrowings | 4885.82 | 4569.87 | 3460.07 | 2433.17 |
| Current Liabilities and Provisions | 580.10 | 310.91 | 289.43 | 857.63 |
| **Total** | **10545.37** | **11251.22** | **12239.31** | **13761.62** |
| **Assets** | | | | |
| Gross Block | 248.29 | 248.67 | 369.00 | 731.06 |
| Less: Depreciation | 32.43 | 36.59 | 41.75 | 45.56 |
| Net Block | 215.86 | 212.08 | 327.25 | 685.50 |
| Capital Work-in-Progress$^{\Psi}$ | 3792.81 | 4123.26 | 4412.06 | 4739.53 |
| Investments | 16.19 | 10.64 | 0.00 | 0.00 |
| Current Assets, Loans and Advances | 3677.21 | 3465.02 | 3517.23 | 3348.75 |
| Miscellaneous Expenditure$^{\Psi}$ | 2843.30 | 3440.22 | 3982.77 | 4987.84 |
| **Total** | **10545.37** | **11251.22** | **12239.31** | **13761.62** |
| **Capital Employed**$^{\clubsuit}$ | **7105.78** | **7489.45** | **7967.11** | **7916.15** |
| **Net Worth**$^{\spadesuit}$ | **5079.45** | **6370.44** | **8489.81** | **10470.82** |

## 2. Karnataka Neeravari Nigam Limited

**(Rupees in crore)**

| Liabilities | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---|---|---|---|---|
| Share Capital | 1285.73 | 1369.52 | 1984.38 | 2841.88 |
| Advance against equity | 172.24 | 266.27 | 135.20 | 0.00 |
| Borrowings | 1072.09 | 1299.60 | 1189.74 | 1198.98 |
| Current Liabilities and Provisions | 106.30 | 145.40 | 161.88 | 176.20 |
| **Total** | **2636.36** | **3080.79** | **3471.20** | **4217.06** |
| **Assets** | | | | |
| Gross Block | 96.28 | 136.55 | 149.99 | 156.16 |
| Less: Depreciation | 5.80 | 8.12 | 10.14 | 12.35 |
| Net Block | 90.48 | 128.43 | 139.85 | 143.81 |
| Capital Work-in-Progress$^{\Psi}$ | 1551.47 | 1799.92 | 2084.23 | 2543.78 |
| Investments | 148.46 | 16.20 | 0.20 | 0.20 |
| Current Assets, Loans and Advances | 439.92 | 499.50 | 399.10 | 474.99 |
| Miscellaneous Expenditure$^{\Psi}$ | 406.03 | 636.74 | 847.82 | 1054.28 |
| **Total** | **2636.36** | **3080.79** | **3471.20** | **4217.06** |
| **Capital Employed**$^{\clubsuit}$ | **1975.57** | **2282.46** | **2461.30** | **2986.38** |
| **Net Worth**$^{\spadesuit}$ | **1457.97** | **1635.79** | **2119.58** | **2841.88** |

## 3. Cauvery Neeravari Nigam Limited

(Rupees in crore)

| Liabilities | 2003-04 | 2004-05 | 2005-06 |
|---|---|---|---|
| Share Capital | 800.05 | 800.05 | 800.05 |
| Share application money | 0 | 74.97 | 390.00 |
| Borrowings | 6354.64 | 6599.80 | 6796.57 |
| Current Liabilities and Provisions | 147.60 | 196.71 | 130.63 |
| **Total** | **7302.29** | **7671.53** | **8117.25** |
| **Assets** | | | |
| Gross Block | 2271.65 | 2284.29 | 2336.27 |
| Less: Depreciation | 4.30 | 5.58 | 15.82 |
| Net Block | 2267.35 | 2278.71 | 2320.45 |
| Capital Work-in-Progress$^{\Psi}$ | 4884.11 | 5088.12 | 5324.77 |
| Investments | | | |
| Current Assets, Loans and Advances | 78.29 | 132.04 | 150.36 |
| Miscellaneous Expenditure$^{\Psi}$ | 72.54 | 172.66 | 321.67 |
| **Total** | **7302.29** | **7671.53** | **8117.25** |
| **Capital Employed♣** | **7082.15** | **7302.16** | **7664.95** |
| **Net Worth ♠** | **800.05** | **875.02** | **1190.05** |

**Ψ -Pending completion of the projects in its entirety, the expenditure incurred in construction is shown under capital work in progress and the revenue expenditure incurred on such assets, after deducting the income earned during the period is grouped under miscellaneous expenditure-expenditure during construction period pending capitalisation. No profit and Loss account is prepared by these Companies.**

**♣ -Capital employed represents net fixed assets *plus* capital work-in-progress *plus* working capital.**

**♠ Net worth represents paid up capital plus reserves and surplus less intangible assets**

# ANNEXURE 14

## (Referred to in Paragraph 2.3.19)

## Statement showing details of projects inordinately remaining incomplete in Lift Irrigation Schemes.

| Sl. No. | Name of LIS (Company ) | Year of entrustment<br>Tender cost (Rs. in lakh) | Due date of completion<br>Progress achieved (Rs. in lakh) | Nature of lapses of project authorities | Remarks |
|---|---|---|---|---|---|
| 1 | Karimasuti LIS Head under Hipparagi Barrage Project<br><br>(KNNL) | 04.03.04<br>1557.68 | 03.09.05<br>418.25 | (i) Delay in land acquisition proceedings<br>(ii) Preliminary notification under section 4(i) on 28 October 2004<br>(iii) Final notification under section 6(i) on 03 August 2005<br>(iv) Award for compensation passed on 04 May 2006 by land acquisition authorities. | The contractor has put claims for revised rates with 40 *per cent* increase which worked out to Rs. 455.77 lakh. |
| 2 | Kendhinne LIS Head works<br><br>(CNNL) | 23.11.92<br>224.03 | 22.02.94<br>- Nil - | (i) High Court stay on award of work was there up to August 1994<br>(ii) Vigilance took away all the records in August 1995 in connection with allegations of irregularities and returned in February 2002<br>(iii) Chief Minister instructed in January 1995 to stop all the LISs not in advanced stage. Therefore the project authorities should have withdrawn the work in January 1995 itself which was not been done so far. | Since the contractor could not start the work, he had preferred claim for Rs.446.32 lakh towards compensation and the claim is under arbitration. |
| 3 | Mariganahalli LIS head works<br>(CNNL) | 23.11.92<br>95.44 | 22.02.94<br>- Nil - | - do - | Compensation claim for Rs.202.06 lakh. The matter is now under arbitration. |
| 4 | Kattepura LIS head works<br>(CNNL) | 23.11.92<br>194.15 | 22.02.94<br>143.10 | (i) Improper monitoring of the work during the contract period<br>(ii) The agency had delayed taking up the work on the plea that the water level in the dam was | Compensation of Rs.534.84 lakh towards overhead, loss of profit, idle machinery and men and revision of rates *etc.* The matter is now pending |

| Sl. No. | Name of LIS (Company) | Year of entrustment<br>Tender cost (Rs. in lakh) | Due date of completion<br>Progress achieved (Rs. in lakh) | Nature of lapses of project authorities | Remarks |
|---|---|---|---|---|---|
| | | | | not permitting intake channel works. The Company could have issued instructions to take up other component of LIS works such as Jackwell, pumphouse, raising main *etc.,* This was not done and therefore the contractor had started the work belatedly and put forth claims. | arbitration. |
| 5 | Providing crest gates to Hippagari Barrage of HP LIS Package – (II)<br>(KNNL) | 06.02.02<br>720.00 | 15.02.03<br>458.84 | Award of work without ascertaining the financial position of the agency | The balance work costing Rs.236.20 lakh has been withdrawn (without the risk and cost of agency) and got executed through the agency of Package - I at Rs.403.35 lakh involving extra expenditure of Rs.167.15 lakh |
| 6 | Barrage works of BLIS<br><br>(KNNL) | 21.02.03<br>2593.00 | 20.02.05<br>920 | (i) Late acceptance of tender ( one year)<br>(ii) Non-fixation of quarry for metal and sand<br>(iii) Delay in payments<br>(iv) Defective estimate with insufficient provision for river diversion<br>(v) Non-supply of embedded parts for piers out sill beam | The cost of balance work at tender rates was Rs. 16.73 crore. Due to revision of rates the cost of work on completion was Rs.35.90 crore with extra expenditure of Rs.18.96 crore |

# ANNEXURE 15

## (Referred to in Paragraph 2.4.1)

**Statement showing the financial position and working results of Karnataka Forest Development Corporation Limited for five years upto 2006-07.**

### Financial position

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|---|
| | (Rs. in lakh) | | | | |
| **Liabilities** | | | | | |
| Paid up Capital (including share deposit/share application money pending). | 931.40 | 931.40 | 931.40 | 931.40 | 931.40 |
| Reserves and Surplus | 3722.35 | 3900.46 | 3358.32 | 3815.09 | 4883.77 |
| Borrowings | 1133.19 | 1045.10 | 668.01 | 0.00 | 0.00 |
| Current Liabilities and Provisions | 2315.23 | 2871.36 | 3675.87 | 3829.73 | 4423.02 |
| **Total** | **8102.17** | **8748.32** | **8633.60** | **8576.22** | **10238.19** |
| **Assets** | | | | | |
| Gross Block | 3009.95 | 3090.80 | 3306.58 | 3743.05 | 3872.84 |
| (Less) Depreciation | 1555.43 | 1593.89 | 1619.93 | 1657.45 | 1713.00 |
| Net Block | 1454.52 | 1496.91 | 1686.65 | 2085.60 | 2159.84 |
| Capital work in progress | 3214.59 | 2469.08 | 1680.94 | 1970.13 | 2260.55 |
| Investments | 63.75 | 125.00 | 0.00 | 0.00 | 0.00 |
| Current Assets, Loans and Advances | 3369.31 | 4657.33 | 5266.01 | 4520.49 | 5817.80 |
| **Total** | **8102.17** | **8748.32** | **8633.60** | **8576.22** | **10238.19** |

### Working Results

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 (provisional) |
|---|---|---|---|---|---|
| | (Rs. in lakh) | | | | |
| **Income** | | | | | |
| Sales | 2306.54 | 1972.18 | 3027.33 | 3123.90 | 3069.97 |
| Other Income | 48.90 | 52.55 | 733.05 | 492.06 | 437.25 |
| **Expenditure** | | | | | |
| Variation in Stock | (-)41.87 | (-)710.93 | 585.61 | 341.76 | (-)549.92 |
| Cost of Sales | 711.26 | 634.76 | 755.19 | 445.57 | 668.05 |
| Cultivation, Administration and other expenses | 1580.56 | 1842.53 | 2353.07 | 2268.52 | 2262.79 |
| Depreciation and Reserves | 95.84 | 94.44 | 102.27 | 133.59 | 127.58 |
| Interest | 169.63 | 125.99 | 93.84 | 44.38 | 0.00 |
| *Less:* allocated to nurseries and plantation | 218.15 | 123.64 | 70.87 | 66.33 | 69.73 |
| Diminish in value of investment – KPL and advance written off | | | 607.35 | | 0.00 |
| Profit (+)/Loss (-) before Tax | 58.17 | 161.58 | (-)666.08 | 448.47 | 1068.45 |
| Tax provision | 7.50 | 5.84 | 14.27 | 20.03 | 26.98 |
| **Net Profit (+)/Loss (-) after tax** | **50.67** | **155.74** | **(-)680.35** | **428.44** | **1041.47** |

# ANNEXURE 16

## (Referred to in Paragraph 4.25.9)

## Statement showing idling of transformers resulting in loss in electricity companies

| Division | Instances |
|---|---|
| **RT Circle, Hassan** | i) One 100 MVA BHEL make transformer failed in September 2003 at receiving station, Hassan has been kept in repair bay. Decision was yet to be taken even after 40 months (December 2006).<br><br>ii) One 8 MVA IMP make and one 10 MVA Apex make transformer failed in August 2003 at Rameshwara Nagar and Arasikere station were yet to be sent for repair (January 2007).<br><br>iii) One 8 MVA ETE make transformer failed in May 2005, but proposal for repair has not been sent so far (January 2007).<br><br>Tenders were invited for repair of 75 MVA transformers at SRS Hotagalli in January 2005, which was not finalised so far (March 2007). |
| **RT Circle, Hubli** | i) 10 MVA NGEF make transformer failed in July 1999 at Hidkal was sent for repair in August 2002 and received after repair in November 2005, after a lapse of 75 months.<br><br>ii) 5 MVA KEC make transformer failed in September 1999 at Nargund was sent for repair in November 2000. Even though the transformer had been repaired, the required oil has not been issued (January 2007) and the transformer was lying idle for more than 74 months.<br><br>One 20 MVA NGEF make Transformer failed in November 2000 at Sadalaga was sent to NGEF for repair in November 2001. The same was, however, not repaired (January 2007) due to lock-out of NGEF and the Company has not taken back the transformer to get it repaired elsewhere, even after a lapse of 62 months. |
| **RT Circle, Gulbarga** | i) One 8 MVA CGL make transformer failed at Thoranagallu in January 2000 was sent for repair in October 2003 after 45 months and received back in March 2004 within six months thereafter, with an overall time taken for repair was about 50 months.<br><br>ii) One 10 MVA NGEF make transformer failed at Kurkunta in October 2000 was sent for repair in January 2006 and received back in June 2006. The overall time taken for getting repaired was about 75 months. |
| **RT Circle, Bangalore** | i) One Apex make 12.5 MVA transformer failed at Harapanahalli in February 2003 was sent for repair only in August 2005 after a lapse of three years and finally commissioned in February 2007 after lapse of four years. Further, a 12.5 MVA transformer of Bharat Bijlee make that failed at the same station in January 2003 was sent for repair in December 2005 and was yet to be commissioned even though the repair work was completed (March 2006).<br>ii) One 10 MVA Apex make transformer failed in October 2005 at KB cross was sent for repair in January 2007 after a lapse of 15 months and was yet to be received (April 2007).<br>iii) One Voltas make 6.3 MVA transformer failed at Tekal sub-station in May 2003 was sent for repair in June 2003 which was repaired and commissioned in April 2006 after a lapse of 39 months.<br>iii) EMCO make 20 MVA transformer failed in September 2003 at A-station Bangalore, was sent for repair only in August 2005 after a lapse of 30 months and finally repaired and commissioned in February 2006.<br>iv) One 100 MVA NGEF make transformer failed in Subramanyapura Station in April 2002 was sent for repair in October 2005 after a lapse of 43 months and the work is still in progress (April 07) even after lapse of 60 months.<br>v) Repair work of 100 MVA CGL make transformer failed in Yerandanahally station in June 2004 was yet to be tendered and awarded even after lapse of 34 months.<br>Repair work of 100 MVA Apex make transformer failed at Malur station in Jan 2005 was yet to be taken-up (April 2007) by the repair firm for want of repair bay. |

# ANNEXURE 17

## (Referred to in Paragraph 4.29.1)

## Statement showing the details of paid-up capital and accumulated losses in respect of loss making companies

(Rs. in crore)

| Sl. No. | Name of the Company | Accounts finalised upto | Paid-up capital (Rs.) | Accumulated loss (Rs.) | Percentage of (c) to (b) | Total income during the year (Rs.) | Total expenditure during the year (Rs.) | Operating loss for year (Rs.) | Percentage of operating income/ expenditure | Salaries wages and allowances (Rs.) | Percentage of (i) of (f) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| **Sugar Sector** | | | | | | | | | | | |
| 1 | The Mysore Sugar Company Limited | 2005-06 | 8.73 | 151.77 | 1738.49 | 57.21 | 69.28 | 12.07 | 82.58 | 10.59 | 15.29 |
| **Engineering Sector** | | | | | | | | | | | |
| 2 | Karnataka Vidyuth Karkhane Limited | 2005-06 | 5.62 | 20.72 | 368.68 | 6.51 | 7.82 | 1.31 | 83.24 | 2.76 | 35.29 |
| **Handloom & Handicrafts Sector** | | | | | | | | | | | |
| 3 | Karnataka State Handloom Development Corporation Limited | 2004-05 | 44.38 | 52.79 | 118.95 | 73.53 | 79.11 | 5.58 | 92.95 | 13.88 | 17.55 |
| **Development of economically weaker section sector** | | | | | | | | | | | |
| 4 | Karnataka Minorities Development Corporation Limited | 2005-06 | 47.06 | 16.05 | 34.10 | 1.82 | 3.70 | 1.88 | 49.19 | 0.53 | 14.32 |
| **Financing Sector** | | | | | | | | | | | |
| 5 | Karnataka State Industrial Investment and Development Corporation Limited | 2005-06 | 480.62 | 574.64 | 119.56 | 91.24 | 132.88 | 41.64 | 68.66 | 3.02 | 2.27 |
| | | | | **815.97** | | | | | | | |

# ANNEXURE 18

**(Referred to in paragraph 4.31)**

**Statement showing the department-wise outstanding Inspection Reports (IRs).**

| Sl. No | Name of the Department | No. of PSUs | No. of outstanding I.Rs. | No. of outstanding paragraphs | Year from which outstanding |
|---|---|---|---|---|---|
| 1 | Agriculture and Horticulture | 7 | 11 | 50 | 1999-2000 |
| 2 | Animal Husbandry, Fisheries and Forest | 4 | 14 | 93 | 1995-1996 |
| 3 | Commerce and Industries | 33 | 70 | 389 | 1996-1997 |
| 4 | Co-operation | 1 | 3 | 20 | 1998-1999 |
| 5 | Energy | 4 | 247 | 992 | 1993-1994 |
| 6 | Finance | 4 | 9 | 99 | 1998-1999 |
| 7 | Food and Civil Supplies | 1 | 3 | 26 | 2000-2001 |
| 8 | Home and Transport | 5 | 71 | 226 | 1999-2000 |
| 9 | Housing | 1 | 2 | 13 | 2002-2003 |
| 10 | Urban Development | 2 | 5 | 24 | 1998-1999 |
| 11 | Information, Tourism and Youth Services | 4 | 11 | 28 | 1996-1997 |
| 12 | Water Resources | 3 | 528 | 1433 | 1980-1981 |
| 13 | Public Works | 2 | 5 | 27 | 1999-2000 |
| 14 | Rural Development and Panchayat Raj | 1 | 5 | 57 | 1999-2000 |
| 15 | Social Welfare | 4 | 12 | 44 | 1997-1998 |
| 16 | Information Technology | 1 | 2 | 16 | 2002-2003 |
| | **TOTAL** | **77** | **998** | **3537** | |

# ANNEXURE 19
## (Referred to in paragraph 4.31)

**Statement showing the department-wise draft paragraphs/reviews replies to which are awaited.**

| Sl. No | Name of the Department | No. of Draft Paragraphs | No of reviews | Period of issue |
|---|---|---|---|---|
| 1 | Energy | 6 | 1 | March 2007 to August 2007 |
| 2 | Water Resources | 2 | - | March 2007 to August 2007 |
| 3 | Commerce and Industries | 8 | - | March 2007 to August 2007 |
| 4 | Home | 1 | - | April 2007 |
| 5 | Transport | 2 | 1 | May 2007 to August 2007 |
| 6 | Finance | 1 | - | April 2007 to August 2007 |
| 7 | Forest | - | 1 | May 2007 |
| | **TOTAL** | **20** | **3** | |