Report of the Comptroller and Auditor General of India on Economic Sector

for the year ended March 2014

Government of Karnataka
Report No. 8 of the year 2014

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PREFACE

1. This Report for the year ended March 2014 has been prepared for submission to the Governor of Karnataka under Article 151 of the Constitution of India.

2. The Report contains findings of Performance Audit on "Implementation of Command Area Development activities in Karnataka" and significant results of the Compliance Audit of the Departments of the Government of Karnataka under the Economic Services, including Departments of Commerce & Industries, Forest, Ecology & Environment, Infrastructure Development, Public Works, Ports & Inland Water Transport and Water Resources. However, Department of Agriculture and allied activities, Food Security – Public Distribution System/Civil Supplies, Rural Development & Panchayat Raj are excluded and covered in the Report on the General and Social Services.

3. The instances mentioned in this Report are among those, which came to notice in the course of test audit for the year 2013-14 as well as those which came to notice in earlier years, but could not be reported in previous Audit Reports; instances relating to the period subsequent to 2013-14 have also been included, wherever necessary.

4. The Audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Chapter 1

Introduction

Chapter 1

Introduction

1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from the Performance Audit of selected programmes and activities and Compliance Audit of Government departments and autonomous bodies under Economic Sector.

Compliance Audit refers to examination of the transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with.

The primary purpose of the Report is to bring to the notice of the State Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the Compliance Audit and follow-up on previous Audit Reports. Chapter-2 of this Report contains findings arising out of Performance Audit of selected programmes/activities/departments. Chapter-3 contains observations on Compliance Audit in Government departments and autonomous bodies.

1.2 Auditee Profile

There are 17 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them, and 23 autonomous bodies which are audited by the Principal Accountant General (Economic & Revenue Sector Audit), Karnataka, Bengaluru.

The summary of fiscal transactions during the year 2012-13 and 2013-14 is given in Table 1 below:

Table 1: Summary of fiscal transactions

(₹ in crore)

Receipts			Disbursements				
	2012-13	2013-14		2012-13	2013-14		
Section A: Revenue				Total	Non-Plan	Plan	Total
Revenue receipts	**78,176.22**	**89,542.53**	**Revenue expenditure**	**76,293.26**	**62,219.74**	**26,969.83**	**89,189.57**
Tax revenue	53,753.56	62,603.53	General services	20,180.85	24,794.03	160.38	24,954.41
Non-tax revenue	3,966.10	4,031.90	Social services	30,419.80	17,813.32	14,808.57	32,621.89
Share of union taxes/duties	12,647.14	13,808.28	Economic services	21,674.19	16,742.34	9,850.49	26,592.83
Grants-in-aid & contributions from GOI	7,809.42	9,098.82	Grants-in-aid & contributions	4,018.42	2,870.05	2,150.39	5,020.44
Section B: Capital and others							
Miscellaneous Capital receipts	**33.04**	**87.94**	**Capital outlay**	**15,478.47**	**326.75**	**16,620.11**	**16,946.86**
			General services	589.47	27.79	472.95	500.74
			Social services	2,915.99	(-) 0.14	3,052.82	3,052.68
			Economic services	11,973.01	299.10	13,094.34	13,393.44
Recoveries of loans & advances	**157.61**	**109.28**	**Loans & advances disbursed**	**1,102.37**	**25.82**	**669.61**	**695.43**
Public debt receipts	**13,464.66**	**17,286.81**	**Repayment of public debt**	**3,727.06**	**3,816.84**	**-**	**3,816.84**
Contingency Fund	**0.51**	**-**	**Contingency Fund**	**-**	**-**	**-**	**-**
Public Account receipts	**1,07,548.81**	**1,20,712.85**	**Public Account disbursements**	**1,01,877.94**	**-**	**-**	**1,12,971.74**
Opening cash balance	**9,609.49**	**10,511.24**	**Closing cash balance**	**10,511.24**	**-**	**-**	**14,630.21**
TOTAL	**2,08,990.34**	**2,38,250.65**	**TOTAL**	**2,08,990.34**			**2,38,250.65**

(Source: Finance Accounts)

1.3 Authority for Audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. C&AG conducts audit of expenditure of the Departments of Government of Karnataka under Section 13[1] of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 23 autonomous bodies which are audited under sections 19(2)[2], 19(3)[3] and 20(1)[4] of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 310 other autonomous bodies, under Section 14[5] of C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

[1] Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts

[2] Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations

[3] Audit of accounts of Corporations established by law made by the State Legislature on the request of the Governor

[4] Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government

[5] Audit of all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and with the previous approval of the Governor of the State and audit of all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated fund of the State in a financial year is not less than ₹ one crore.

1.4 Organisational structure of the Office of the Principal Accountant General (Economic & Revenue Sector Audit), Karnataka

Under the directions of the C&AG, the Office of the Principal Accountant General (E&RSA), Karnataka, conducts audit of Government Departments/ Offices/Autonomous Bodies/Institutions under them which are spread all over the State. The Principal Accountant General (E&RSA) is assisted by three Group Officers.

1.5 Planning and conduct of Audit

Audit process starts with the assessment of risks faced by various departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of units, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India.

During 2013-14, in the Economic Sector Audit Wing, 1,490 party-days were utilised to carry out audit of 206 units and one Performance Audit.

1.6 Significant audit observations

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in selected departments which impact the success of programmes and functioning of the departments. Similarly, the deficiencies noticed during compliance audit of the Government departments/organisations were also reported upon.

The present report contains one Performance Audit and 14 paragraphs. The significant audit observations are discussed below:

1.6.1 Performance Audit on Command Area Development activities in Karnataka

Command Area Development Programme was introduced by the Government of India in 1974 with the objective of bridging the gap between irrigation potential created and irrigation potential utilised through micro-level infrastructure by utilisation of water for irrigation. The Command Area Development activities in Karnataka involve execution of On Farm Development works such as construction of field irrigation channels, field drains, land levelling, reclamation of water logged areas, correction of system deficiencies of outlets up to distributaries, *etc.* It also involves extension services such as undertaking field trials, crop demonstrations and training of staff and farmers, *etc.*

The expenditure on Command Area Development activities is shared by the Centre and the State in the ratio of 50:50 for On Farm Development works and 75:25 for extension services. During 2009-14, the State Government allocated ₹ 2,037.99 crore in the budget for implementation of the programme in six Command Area Development Authorities and three *Neeravari Nigams*.

A Performance Audit on the implementation of Command Area Development activities in Karnataka covering the period 2009-14 showed the following:

- A gap of 4.10 lakh hectares existed between the irrigation potential created and utilised, as of March 2014, due to non-construction of field irrigation channels. Field irrigation channels were constructed only in an area of 2.25 lakh hectares (30 *per cent* of target) against cumulative target of 7.48 lakh hectares for 2009-14.
- Financial management was deficient as the State Government allocated grants in excess of that sought by the implementing agencies. As a result, ₹ 1,206.52 crore, constituting 59 *per cent* of allocation, was surrendered/ lapsed during 2009-14.
- In 16 Projects, 2.71 lakh hectares were not irrigated though field irrigation channels were constructed, resulting in crop loss amounting to ₹ 915 crore.
- Government of India did not reimburse ₹ 130 crore incurred by the State Government during 2009-14 in respect of centrally assisted projects due to shortfall in achieving targets as per memorandum of understanding. Also, Central assistance of ₹ 733 crore was not utilised due to shortfall in achieving the targets in all 15 projects.
- The objective of Participatory Irrigation Management, to ensure farmers participation in water management and maintenance of command area, remained unfulfilled, as the water management was not being managed by the water users' co-operative societies.

(Paragraph 2.1)

1.6.2 Compliance Audit

Audit has also reported on several significant deficiencies in critical areas which impact the effective functioning of the Government departments. These are as under:

The leasing of Co-operative Sugar Factories (CSFs) was aimed at helping the cane growers and employees of the CSFs by augmenting resources and minimising liabilities thereby achieving sustainable economic activity and regional development. Our scrutiny of records of the Commissionerate of Sugar showed injudicious decisions of the Commissioner in leasing of CSFs which not only defeated the objective of their rehabilitation, but also resulted in non-recovery of rentals and continued non-functioning of CSFs. The bid document or the agreement did not stipulate any penal provisions for safeguarding the interest of the Government in the event of breach of lease conditions and pre-closure of the lease agreements by the lessee. Also there was inordinate delay in completion of liquidation process resulting in increasing liabilities to Government and CSFs.

(Paragraph 3.1)

Allotment of land in Bidadi Industrial Area to a Company at reduced rate resulted in a loss of ₹ 5.40 crore to Karnataka Industrial Areas Development Board.

(Paragraph 3.2)

Flouting of specific Government instructions and non-exercising of due diligence compounded by abnormal delay in collecting fixed deposit certificates by Karnataka State Pollution Control Board resulted in non-realisation of investment of ₹ 10 crore and interest of ₹ 93 lakh.

(Paragraph 3.5)

Abnormal delay in obtaining funds led to additional burden of ₹ 10.56 crore in acquisition of lands for construction of a road. Incorrect computation of interest had also resulted in excess payment of ₹ 3.96 crore towards interest.

(Paragraph 3.7)

Non revision of lease rent as stipulated in the lease agreement of a brick factory resulted in loss of revenue of ₹ 2.29 crore.

(Paragraph 3.9)

Price adjustment for variation item amounting to ₹ 1.02 crore was paid to a contractor in contravention of contractual provisions.

(Paragraph 3.10)

Failure to revise a design occasioned by use of a higher grade steel than originally envisaged in the work of construction of protection wall, resulted in extra expenditure of ₹ 1.80 crore.

(Paragraph 3.13)

1.7 Lack of responsiveness of Government to Audit

1.7.1 Inspection Reports outstanding

The Hand Book of Instructions for Speedy Settlement of Audit Observations issued by the Finance Department in 2001 provides for prompt response by the

Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectificatory action in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, *etc.*, noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to the AG, who forwards a half yearly report of pending IRs to the Secretary of the Department to facilitate monitoring of the audit observations.

As of March 2014, 196 IRs (800 Paragraphs) were outstanding against Co-operation and Water Resources (Minor Irrigation) Departments. Year-wise details of IRs and Paragraphs are detailed in **Appendix 1.1**.

A review of the IRs, pending due to non-receipt of replies from the Departments, showed that the Heads of Offices had not sent even the initial replies in respect of 18 IRs containing 201 Paragraphs issued between 2001-02 and 2013-14.

1.7.2 Response of departments to the Draft Paragraphs

The draft audit observations and Performance Audit Report were forwarded demi-officially to the Additional Chief Secretaries/Principal Secretaries/ Secretaries of the departments concerned between June and September 2014 with the request to send their responses within six weeks. The Government replies for four out of 14 observations featured in this Report have been received. The replies have been suitably incorporated in the Report.

1.7.3 Follow-up on Audit Reports

The Rules of Procedure (Internal Working), 1999 of the Public Account Committee provides that all the departments of Government should furnish detailed explanations in the form of Departmental Notes to the observations in Audit Reports, within four months of their being laid on the Table of Legislature to the Karnataka Legislature Secretariat with copies thereof to Audit Office.

The Administrative Departments did not comply with these instructions and eight Departments as detailed in **Appendix 1.2** had not submitted Departmental Notes for 27 paragraphs for the period from 2003-04 to 2012-13.

1.7.4 Paragraphs to be discussed by the Public Accounts Committee

Details of paragraphs (excluding General and Statistical) pending discussion by the Public Accounts Committee as of 31 July 2014 are given in **Appendix 1.3**.

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Chapter 2

Performance Audit

2.1 Implementation of Command Area Development activities in Karnataka

CHAPTER 2

PERFORMANCE AUDIT

WATER RESOURCES DEPARTMENT

2.1 Implementation of Command Area Development activities in Karnataka

Executive Summary

Command Area Development Programme was introduced by the Government of India in 1974 with the objective of bridging the gap between irrigation potential created and irrigation potential utilised through micro-level infrastructure by utilisation of water for irrigation. The Command Area Development activities in Karnataka involve execution of On Farm Development works such as construction of field irrigation channels, field drains, land levelling, reclamation of water logged areas, correction of system deficiencies of outlets up to distributaries, *etc.* It also involves Extension Services such as undertaking field trials, crop demonstrations and training of staff and farmers, *etc.*

The expenditure on Command Area Development activities is shared by the Centre and the State in the ratio of 50:50 for On Farm Development works and 75:25 for extension services. During 2009-14, the State Government allocated ₹ 2,037.99 crore in the budget for implementation of the programme in six Command Area Development Authorities and three *Neeravari Nigams*.

A Performance Audit on the implementation of Command Area Development activities in Karnataka was conducted during February to July 2014, covering the period 2009-14. The major audit findings were as follow:

- A gap of 4.10 lakh hectares existed between the irrigation potential created and utilised, as of March 2014, due to non-construction of field irrigation channels. Field irrigation channels were constructed only in an area of 2.25 lakh hectares (30 *per cent* of target) against cumulative target of 7.48 lakh hectares for 2009-14.
- Financial management was deficient as the State Government allocated grants in excess of that sought by the implementing agencies. As a result, ₹ 1,206.52 crore, constituting 59 *per cent* of allocation, was surrendered/ lapsed during 2009-14.
- In 16 Projects, 2.71 lakh hectares were not irrigated though field irrigation channels were constructed, resulting in crop loss amounting to ₹ 915 crore.
- Government of India did not reimburse ₹ 130 crore incurred by the State Government during 2009-14 in respect of centrally assisted projects due to shortfall in achieving targets as per memorandum of understanding. Also, Central assistance of ₹ 733 crore was not utilised due to shortfall in achieving the targets in all 15 projects.
- The objective of Participatory Irrigation Management, to ensure farmers participation in water management and maintenance of command area, remained unfulfilled, as the water management was not being managed by the water users' co-operative societies.

2.1.1 Introduction

The Command Area Development Programme was launched in Karnataka in 1974 for integrated and comprehensive development of the Command Areas of Major and Medium Irrigation Projects. For this purpose, the Karnataka Command Area Development Act was enacted in 1980 and Command Area Development Authorities (CADAs) for Tungabhadra project (Munirabad), Malaprabha and Ghataprabha Projects (Belagavi), Cauvery Basin Projects (Mysuru), Upper Krishna Project (Bheemarayanagudi), Bhadra Project (Shivamogga) and Irrigation Project Zone (Kalburgi) were constituted between 1974 and 2000. As of March 2014, there were 101 major and medium irrigation projects with a gross command area of 35 lakh hectares (ha) in Karnataka. Out of this, 76 projects were under CADAs and the remaining 25 projects were under *Neeravari Nigams*.

The functions of CADAs include land levelling, construction of field irrigation channels (FIC) and field drains (FD), reclamation of water logged areas, and adoption of *Warabandi*[6] *etc.*

The Command Area Development and Water Management (CADWM) programme is being implemented as State sector schemes with effect from 2008-09. The programme was modified during July 2010 and December 2013. As per the modified guidelines, a memorandum of understanding (MoU) for each project has to be concluded by Government of Karnataka (GoK) with Government of India (GoI) for strict implementation as per the targets mentioned therein. The GoK had also obtained assistance from NABARD[7] from the year 2011-12 to meet its share of expenditure for two[8] of the components of Command Area Development (CAD) activities out of 16 components included under CADA. During the period 2009-14, an expenditure of ₹ 831.47 crore was incurred on CAD activities in Karnataka.

Actual irrigation takes place on completion of development of the command area of a project, this helps in increased crop production as well as food security for people. It also plays a vital role in improving the socio-economic condition of farmers.

2.1.2 Organisational structure

At the Government level, the Additional Chief Secretary, Water Resources Department (WRD), is responsible for overall implementation of CAD activities. He is assisted by Secretary, WRD. The overall administration of CADA vests with the Administrator of each CADA. In December 2012, a Directorate of Command Area Development Authorities, headed by a Director

[6] System of rotational water supply
[7] National Bank for Agriculture and Rural Development
[8] Reclamation and *Ayacut* roads

and assisted by two Joint Directors, was formed at the State level and nine divisions headed by Executive Engineers were formed at the field level for implementation of CAD activities.

2.1.3 Audit Objectives

The objectives of the performance audit were to assess:

- whether the planning and budgetary controls were efficient and effective;
- the results of the actual implementation of the schemes so formulated;
- the results of Participatory Irrigation Management (PIM) for proper water management and maintenance of structures after taking over of the system by the Water Users Cooperative Societies (WUCS).

2.1.4 Scope and Methodology of Audit

Out of six CADAs, records relating to four[9] CADAs were checked in detail in addition to review of records of Directorate of CADAs and Secretary, WRD, covering the period from 2009-10 to 2013-14. The selection of sample was based on judgmental sampling method by considering the geographical location, expenditure incurred and central assistance from GoI for CAD activities. Information was also obtained regarding CAD activities from all the six CADAs through issue of Proformae. The activities relating to construction of go-downs, housing, special development programme and joint inspection of irrigation potential created were not covered in the Performance Audit.

An entry conference was held on 4 June 2014 with the Principal Secretary to Government, WRD, Karnataka, wherein audit objectives, scope, criteria of Performance Audit were discussed. The audit findings were discussed in the exit conference held on 9 October 2014. Audit acknowledges the co-operation extended by the Water Resources Department in the conduct of the Performance Audit.

2.1.5 Audit Criteria

Audit findings were benchmarked against the following criteria:

- Command Area Development Act 1980;
- Guidelines and manuals issued by the Government of Karnataka and Government of India;
- Karnataka Irrigation Act, 1965;
- National / Karnataka Water Policy.

[9] Belagavi, Munirabad, Mysuru and Shivamogga

Audit Findings

2.1.6.1 Status of command area development activities

The initiative of the Government of India (GoI) for planned development of CAD activities as centre-state partnership envisages completion of canal works and On Farm Development (OFD) works in such a manner that both are completed concurrently to derive optimum benefits of irrigation without delay. However, the results were not encouraging as the gap persisted despite implementation of the Command Area Development programme from 1974 onwards.

At the end of March 2009, the gap between irrigation potential created (27.67 lakh ha) and irrigation potential utilised (22.02 lakh ha) was 5.65 lakh ha. For unutilised area of 5.65 lakh ha, the OFD works were to be planned and constructed in subsequent years, the results of which are discussed in the subsequent paragraphs.

2.1.6.2 Planning

The conveyance of irrigation water up to the farms and its distribution to different farm owners is the key to the overall efficiency in usage of the created water resources for actual use. A planned approach requires Government interventions in identifying areas and creation of a database for prioritisation of tackling problem areas in a phased manner.

Under Section 12 of Command Area Development Act, 1980, every CADA shall prepare a scheme for the comprehensive development of the Command Area or any phase of it in such manner as prescribed. Any scheme so prepared shall set out the phases in which the area is proposed to be covered, phasing of the scheme, sketch plan of the area proposed, survey numbers to be covered, works to be executed, *etc.*

We observed that none of the test checked CADAs had prepared a comprehensive scheme/long term perspective plan as prescribed in the Act, although annual plans had been drawn.

CADA, Munirabad replied (June 2014) that consolidated proposals for survey and planning had been taken up and were in its final stage. CADA, Mysuru replied (July 2014) that preparation of comprehensive master plan for the earlier stages of the project does not serve the purpose. CADA, Shivamogga and Belagavi replied (July and October 2014) that the comprehensive surveys were not conducted.

In the absence of a comprehensive plan and a survey, fixing of annual targets for various CAD activities was therefore not realistic, thereby negatively impacting its implementation.

2.1.6.3 Allocation of funds

Funds are provided through the State budget for Central and State schemes *i.e.,* CADWM, Special Development Plan, Special Component Plan, Tribal sub plan, NABARD assisted RIDF[10] XVI works for carrying out CADAs activities. These funds released are placed in bank accounts of CADAs for meeting expenditure. The details of funds sought by CADAs, budget allocation made by Government, releases and utilisation of funds, remittance of funds and funds lapsed/surrendered by CADAs during 2009-14 are shown in **Table 2.1**:

Table 2.1: Details of budget allocation, amounts released and expenditure

(₹ in crore)

Name of the CADA	Grants sought	Budget allocation	Amount released	Amount utilised	Unutilised Grant (surrender /lapse)	Remitted	Percentage of utilisation (5) to release (4)	Percentage of funds utilised to grants sought
1	2	3	4	5	6	7	8	9
Mysuru	159.65	230.44	184.98	153.61	76.83	32.03	83	96
Bheemarayana gudi	355.95	392.54	108.28	90.09	302.45	19.16	83	25
Munirabad	509.07	349.56	222.28	206.97	142.59	14.71	93	41
Shivamogga	263.35	260.55	173.66	161.07	99.48	10.35	93	61
Belagavi	179.89	563.90	179.89	134.61	429.29	44.33	75	75
Kalburgi	171.45	241.00	119.28	85.12	155.88	34.76	71	50
TOTAL	**1,639.29**	**2,037.99**	**988.37**	**831.47**	**1,206.52**	**155.34**	**84**	**51**

(Source: Information furnished by Department)

From the above table, the following fund management deficiencies were observed;

- In respect of four[11] CADAs, the Government had allotted more funds amounting to ₹ 560.94 crore over and above the funds which were sought by these CADAs.
- The amount utilised by all CADAs was less than what was sought, which indicated poor budgetary planning.
- CADAs utilised funds only to the extent of 41 *per cent* of the budget allocation thereby affecting the implementation of the programme as per targets.
- The allocation of excess funds by the Government every year indicated adhocism since no exercise was conducted for analysing the reasons for under-utilisation of funds by the CADAs.
- Out of ₹ 988.37 crore released by the Government, only ₹ 831.47 crore was utilised by CADAs, ₹ 155.34 crore was remitted back to the Government account and the balance amount of ₹ 1.56 crore was retained by the CADAs.

[10] Rural Infrastructure Development Fund
[11] Mysuru, Bheemarayanagudi, Belagavi, Kalburgi

- Budget allocation of ₹ 262.64 crore under NABARD assistance during 2011-13[12] to meet the State's share of expenditure remained unutilised.

Failure to identify and address the reasons for non utilisation before allocating more funds indicated laxity in the budgetary process. During the exit conference, the Secretary, WRD, stated (October 2014) that in earlier years, budget allocation to CADAs was usually less. However, due to the abnormal increase in budget allocation in recent years, the CADAs could not utilise the allocated funds fully with the available infrastructure.

2.1.7 Programme management

2.1.7.1 Command Area Development and Water Management Programme

Central assistance for the Command Area Development Programme was initiated in 1974 as a centrally sponsored scheme. Its scope was enhanced by GoI (in July 2010 and December 2013) by including new components based on evaluation and impact assessments, although the basic objective remained the same *i.e.,* speedy utilisation of created irrigation potential and optimum production from irrigable land.

The GoI decided to implement the programme as a state sector scheme with effect from 2008-09. The State Government seeking central assistance is required to enter into a MoU for each approved project, which contains the implementation schedule. Strict execution as per implementation schedule is prescribed, with tolerance limit of 10 *per cent* shortfall. In case of shortfall beyond the tolerance limit not only would entail loss of central assistance but a revised MoU should be entered into for modified implementation of the schedule on a case by case basis. The cost is equally shared by the Centre and State Government for OFD works and central assistance of 75 *per cent* is admissible for components under extension services[13], subject to unit cost fixed for each component.

2.1.7.2 Loss of central assistance

The GoI had approved Central Assistance (CA) for 15 major and medium irrigation projects under the XII five year plan (2009-14). The details of projects, the scheduled period of completion and their status of execution are given in **Table 2.2:**

[12] No assistance provided during 2013-14
[13] Adoptive trails and demonstration, training, *etc*

Table 2.2: Details of projects with central assistance

(₹ in crore)

Name of the projects/Name of the CADA	Period of MOU	Total CA as per MoU	CA up to 2013-14 as per MoU	CA claimed as per actual expenditure	Short availment of CA up to 2013-14	Status of the project
Gandorinala/Kalburgi	2010-11	7.06	7.06	1.68	5.38	Not completed as per MoU
Bennethora/Kalburgi	2010-12	10.09	10.09	7.37	2.72	CA discontinued
Lower Mullamari/Kalburgi	2010-12	9.95	9.95	Nil	9.95	CA discontinued
Upper Mullamari/Kalburgi	2010-12	4.77	4.77	0.57	4.20	CA discontinued
Chulkinala/Kalburgi	2010-12	5.52	5.52	0.03	5.49	CA discontinued
Amarja/Kalburgi	2010-13	10.82	10.82	3.60	7.22	CA discontinued
Karanja/Kalburgi	2010-15	27.63	19.99	5.50	14.49	On going
Bhima Lift/Kalburgi	2012-15	32.14	18.31	0.14	18.17	On going
Tungabhadra/Munirabad	2010-15	323.26	217.74	49.45	168.29	On going
Malaprabha/Belagavi	2010-15	153.96	338.17	42.45	295.72	On going
Ghataprabha/Belagavi	2010-15	206.07				On going
Hipparagi/Belagavi	2012-15	109.84				On going
Dhudganga/Belagavi	2013-16	5.94				On going
UKP/Bheemarayanagudi	2010-15	245.88	201.92	37.40	164.52	On going
Bhadra/Shivamogga	2010-15	107.28	83.31	46.46	36.85	On going
	TOTAL	**1,260.21**	**927.65**	**194.65**	**733.00**	

(Source: MOUs and progress reports)

Due to shortfall in achieving targets in all the projects as per MoU, central assistance amounting to ₹ 733 crore, could not be availed. The GoI insisted (August 2014) that the State Government submits fresh proposals for extending its assistance.

Further, GoI did not reimburse the expenditure incurred on 12 projects assisted under CADWM as the shortfall in achievement was more than the prescribed limit as envisaged in the MoUs. The details of proposals sent and the actual release of central assistance are given in **Table 2.3**:

Table 2.3: Details of central assistance received under CADWM programme

(₹ in crore)

Sl No.	Year	Proposal sent *	Eligible central assistance as per proposal *	Amount released by GoI	Amount released in advance (+)/ not released (-)
1	2010-11	69.65	34.71	53.42	(+) 18.71
2	2011-12	368.17	76.28	53.08	(-) 23.20
3	2012-13	277.18	87.57	39.53	(-) 48.04
4	2013-14	289.42	77.46	-	(-) 77.46
		TOTAL	**276.02**	**146.03**	**(-) 129.99**

(Source: Details furnished by Secretary, WRD)

* This includes spill over amount of previous years

It may be seen from the above that against reimbursable expenditure of ₹ 276.02 crore, the GoI released only ₹ 146.03 crore and expenditure of ₹ 130 crore incurred was not reimbursed due to persistent slippages, thereby resulting in additional burden to the State exchequer. In addition, GoI was yet to reimburse the State share of expenditure of ₹ 37.19 crore incurred during 2004-10. Thus, due to failure in adhering to the schedule as required under the MoUs, the State Government lost ₹ 130 crore of central assistance, besides the ₹ 37.19 crore which was yet to be reimbursed.

2.1.7.3 Absence of systematic annual plan

Preparation of annual action plan by the Department in line with the long term perspective plan would ensure time-bound completion of its projects. It was, however, observed that the annual action plan/integrated plans were prepared in a routine manner, without considering the extent of survey completed, which resulted in fixing unrealistic targets for OFD works. The targets and achievements for various components of the CAD activities carried out by all the CADAs under both Central and State schemes during 2009-14 are shown in **Table 2.4:**

Table 2.4: Target and achievement under central and state scheme

(Area in ha)

Year		Survey	FIC (OFD)	FD	COSD[14]	PIM[15]	LR[16]	*Warabandi*	AR[17]	AT&D[18]	Training
2009-10	T	12,242	66,304	34,760	3,336	31,106	3,569	20,583	310	1,531	22,377
	A	10,174	14,294	33,348	1,251	32,039	3,821	2,183	275	1,128	22,428
2010-11	T	10,426	98,038	33,028	5,700	30,383	15,155	33,333	664	1,366	29,105
	A	9,816	61,298	34,697	3,944	29,661	11,549	22,936	694	1,417	22,376
2011-12	T	1,65,352	2,22,083	2,81,105	78,022	1,90,053	89,786	12,510	454	3,310	38,351
	A	42,981	50,725	1,46,832	3,326	73,511	21,168	843	364	3,304	59,432
2012-13	T	1,23,482	1,87,701	2,39,539	28,570	1,04,639	80,325	2,000	560	5,370	29,724
	A	9,004	49,185	1,93,252	255	57,436	27,064	1,586	517	5,466	58,115
2013-14	T	6,845	1,73,844	1,52,432	17,900	59,704	78,052	nil	254	1,212	17,373
	A	2,748	49,755	1,28,661	1,156	35,729	4,013	nil	282	1,450	22,579
TOTAL	**T**	**3,18,347**	**7,47,970**	**7,40,864**	**1,33,528**	**4,15,885**	**2,66,887**	**68,426**	**2,242**	**12,789**	**1,36,930**
	A	**74,723**	**2,25,257**	**5,36,790**	**9,932**	**2,28,376**	**67,615**	**27,548**	**2,132**	**12,765**	**1,84,930**

(T: Target, A: Achievement) (Source: Progress Report furnished by Secretary, WRD)

It may be seen from the above, that there were significant shortfalls in achieving physical targets in respect of all activities except training. The highest shortfalls were under COSD[19] (93 *per cent*), survey (77 *per cent*), LR (75 *per cent*) and OFD (70 *per cent*). The Additional Chief Secretary, WRD informed during exit conference that there were huge vacancies in the CADAs, due to which, they were facing difficulties to implement the CAD activities. It was further stated that efforts were being made to address the problem.

[14] Correction of System Deficiencies
[15] Participatory Irrigation Management
[16] Land Reclamation
[17] *Ayacut* Road
[18] Adaptive trials and demonstration
[19] Activities like cleaning of channels by de-silting and weeding, raising earthwork in embankments/dressing the bed and side slopes, removing undercuts, strengthening of banks, replacing and painting metal parts in gates/hoists, *etc.*

2.1.7.4 Shortfall in survey of Command Area

Guidelines of CADWM programme/Water Management Manual (WMM) prescribe undertaking topographic survey of the command area for planning and designing of OFD works. Soil survey is undertaken for land capability classification, to understand their capability for crop planning and undertaking proper treatment measures to derive their full potential.

We observed that out of six CADAs, while targets were not fixed for conducting survey in respect of two CADAs (Munirabad and Bheemarayanagudi); in CADAs Shivamogga, Belagavi and Kalburgi, the shortfall was 100 *per cent*, *86 per cent* and 4 *per cent* respectively. Only Mysuru CADA recorded a progress of 100 *per cent.*

Reasons for shortfall in conducting surveys were not on record. Deficiencies in survey resulted in grossly inaccurate budget allocations, thereby impacting the progress of CAD activities.

2.1.7.5 Field irrigation channels

Field irrigation channels are a core component of the command area development programme, as they facilitate carrying of water from outlets of minors/distributaries, *etc.*, up to tail end in a very short time, thereby preventing seepage loss. The FIC is the crucial link between irrigation potential created and irrigation utilised and helps in increasing crop production. The target, achievement and shortfall by various CADAs during 2009-14 are shown in **Table 2.5:**

Table 2.5: Achievement in field irrigation channels

(Area in ha)

Name of the CADA	Target	Achievement	Shortfall	Shortfall (*per cent*)
Mysuru	1,27,687	62,997	64,690	51
Munirabad	22,219	164	22,055	99
Shivamogga	1,61,881	72,310	89,571	55
Belagavi	1,48,079	25,166	1,22,913	83
Bheemarayanagudi	2,04,877	56,406	1,48,471	72
Kalburgi	83,227	8,214	75,013	90
TOTAL	7,47,970[20]	2,25,257	5,22,713	70

(Source: Progress report furnished by Secretary, WRD)

As seen from the table above, against a total target of 7.48 lakh ha, FICs were constructed in 2.25 lakh ha resulting in a shortfall of 5.23 lakh ha (70 *per cent*). None of the CADAs could achieve even 50 *per cent* of the target in FIC construction, which indicated tardy implementation in this activity. CADAs attributed the reasons for shortfall to the fact that works were taken up only during non crop period (March - May) and that the shortfall was due to fixing overambitious targets with depleted staff strength

[20] This is inclusive of spillover of previous years plus fresh additions if any

besides lack of co-ordination among departments like Water Resources, Agriculture, *etc.* The reply was not acceptable in Audit since the period for working was well known to the implementing authority and should have been planned accordingly. Besides, the Department should have addressed the problems by bringing out a co-ordinated action plan to meet the actual requirements for CAD activities.

2.1.7.6 Construction of field drains

Field drains help in draining out surplus water from the agricultural land to the main and trunk drains. This prevents water-logging in the agricultural land, which helps in increased crop productivity. Under field drains, the drains from individual fields to Government drains or natural drains outside the outlets are constructed. The expenditure on field drains is inclusive of cost of earthwork, road cuttings, drop structures, *etc.*

The targets and achievement of construction of field drains during 2009-14 are shown in **Table 2.6:**

Table 2.6: Physical targets achieved by various CADAs

(Area in hectares)

Name of the CADA	Target[21]	Achievement	Achievement (*per cent*)
Mysuru	2,302	2,102	91
Munirabad	2,85,609	2,79,982	98
Shivamogga	98,027	64,362	66
Belagavi	2,01,530	1,10,178	55
Bheemarayanagudi	63,750	32,030	50
Kalburgi	89,646	48,136	54
TOTAL	**7,40,864**	**5,36,790**	

(Source: Progress Report furnished by Secretary, WRD)

While CADAs of Munirabad and Mysuru achieved more than 90 *per cent* of the targets, in CADAs Shivamogga, Belagavi, Bheemarayanagudi and Kalburgi, the shortfall ranged between 34 *per cent* and 50 *per cent*.

As per Indian Space Research Organisation's (ISRO) Study Report of 2009 (conducted in 2003), the extent of water-logged areas and salt affected areas was 11,974 ha and 5,781 ha respectively under command area of 85 major and medium irrigation projects in Karnataka. Out of this, in respect of 12 major and medium irrigation projects, the extent of affected area as assessed (2010) by GoK was 2.41 lakh ha as per MoU with GoI. Thus, in a short span of few years, the affected areas had significantly increased and this could be attributed to absence of field drains and improper drainage system. Data regarding the affected areas in respect of other projects were not available.

[21] This is inclusive of spillover of previous years plus fresh additions if any

2.1.7.7 Deviation from norms

As per guidelines issued by GoI (April 2008), the existing field drains have to be maintained by the land owners or WUCS concerned after their formation by the CADA and no expenditure can be incurred by CADAs either for their maintenance or for improvement. An expenditure of ₹ 17.13 crore was incurred between 2011-12 and 2012-13 on 239 works in CADA, Belagavi towards deepening/widening of existing field drains in violation of the stipulated norms by certifying that these field drains had not been constructed earlier. The drawings enclosed with the estimates clearly depicted the original discharge section and also the higher discharge section proposed to be constructed. Thus, the expenditure of ₹ 17.13 crore incurred towards widening/deepening of the existing field drains after certifying that these had not been constructed previously amounted to misrepresentation of facts and was thus, irregular.

As per design guidelines of Water Management Manual, a channel with carrying capacity of 5.38 cumecs[22] of water is sufficient for an area of 2,000 ha of land for draining out water. Test check of 249 estimates in CADA, Belagavi, showed that the area proposed for drainage through field drains ranged from 38 to 318 ha, for which discharge capacity of 0.86 cumecs with cross section area of 2.50 sqm (top width of four metres, bottom width four metres, height one metre with side slopes of 1:1.5) would be sufficient to drain surplus water.

We observed that as against the requirement of 2.50 sqm of the sectional area, the division had formed field drains of varying canal capacities with sectional areas ranging from 3 to 10.87 sqm with the discharge ranging up to 28 cumecs of water. Construction of field drains with higher capacity than required was unwarranted and had resulted in excess removal of earth of 20.23 lakh cum, involving an expenditure of ₹ 10.74 crore, which was avoidable.

2.1.7.8 Reclamation of water-logged areas

Excessive irrigation in areas with poor drainage causes water-logging and salinisation of soil. The water-logging would increase when water does not penetrate deep into the soils. The unlined canal, also contributes to increase in water table. The roots of the plants suffocate on account of excess water which affects crop productivity. In view of this problem, the reclamation of water-logged areas in the irrigated command area of the projects was covered under CADWM programme.

Central assistance up to 50 *per cent* of actual expenditure or ₹ 10,000 per ha for surface drainage and ₹ 25,000 per ha for sub-surface area is provided for reclamation of water-logged area. This activity can be taken up by the State

[22] Cubic metre per second

Government with prior approval of GoI, which approves the proposals after scrutiny and recommendation by the regional office of the Central Water Commission.

The following items of works are undertaken under the component:

- Assessment of problem areas in the command areas of the irrigation projects;
- Planning and designing for preventive and reclamation measures;
- Taking up preventive and remedial activities;
- Monitoring and evaluation.

As per the MoU between GoI and GoK (November 2010), water-logged area of 1.56 lakh ha under five CADAs (excluding CADA, Mysuru) was to be reclaimed during 2010-14. Against this, the Government had programmed for 2.63 lakh ha and had reclaimed only 63,794 ha during 2010-14. The details of reclamation of water-logged area under each CADA during 2010-14 are given in **Table 2.7:**

Table 2.7: Details of Reclamation of water-logged area

Name of the CADA	Physical – Area in ha		
	Programme	Achievement	Percentage
Mysuru	13,557	13,536	100
Munirabad	33,182	7,298	22
Shivamogga	31,431	9,879	31
Belagavi	1,24,085	25,501	21
Bheemarayanagudi	43,175	3,872	09
Kalburgi	17,888	3,708	21
TOTAL	**2,63,318**	**63,794**	**24**

(Source: Progress report furnished by Secretary, WRD)

It was observed that shortfall was recorded in five CADAs, with over all achievement of only 24 *per cent.* The CADAs attributed the reason for poor progress to non-receipt of approval from GoI for the proposals submitted. The reply was not acceptable as GoK had forwarded incomplete/incorrect proposals which resulted in delayed approval/non-approval by GoI.

2.1.7.9 Land levelling, grading and shaping

Land levelling is a preparatory work undertaken in the farmers' land to ensure even spread of water throughout the command area and is taken up before formation of FIC. The Government is required to assess the extent of land to be levelled and also to provide technical assistance. This work has to be carried out by the farmers themselves at their own cost or by financial assistance arranged by Government through banks.

Against the assessment of 18.68 lakh ha requiring land levelling in eight projects, we observed that land levelling to the extent of 9.90 lakh ha was completed till March 2009. Against the balance of 8.78 lakh ha, only 24,408 ha was executed during 2009-14, leaving a large area unlevelled, indicating that adequate importance was not accorded to this activity. CADA, Mysuru, replied (July 2014) that land levelling in Hemavathy project would be completed after completion of FICs and farmers would be guided to take up land levelling works.

2.1.7.10 Correction of system deficiencies

Correction of system deficiencies involves operation and maintenance activities such as restoring bed gradients, providing measuring devices, earthwork in embankment, desilting, dressing the bed, slopes, *etc.* Many irrigation projects in the country were operating below their potential due to system deficiencies above the "outlet level". In order to improve irrigation efficiency, the CADWM programme was expanded to include system deficiencies in distributaries of 4.25 cumecs capacity which would eventually improve the outlet potential. The GoI reimburses 50 *per cent* of actual expenditure or 50 *per cent* of unit cost of ₹ 6,000 per ha, whichever is less. Prior approval of GoI is required to be obtained by the State Government before undertaking the rehabilitation work.

Correction of system deficiencies in 2.36 lakh ha under eight projects were approved (November 2010) for assistance by the GoI under CADWM. Against this, the Government set a target of 1.30 lakh ha covering eight projects during 2010-14, but only 8,681 ha was rehabilitated in five projects. The achievement was only four *per cent* of the area approved by GoI. Prior approval for reduction in the targeted area of 1.30 lakh ha had not been obtained by the State Government although it was required as per the guidelines. The status of physical targets achieved by three CADAs is shown in **Table 2.8**:

Table 2.8: Physical targets achieved

Name of the CADA	No. of projects	Approved by GoI	Target	Achievement
		Area in hectares		
Shivamogga	1	48,000	30,700	Nil
Belagavi	2	1,32,300	46,300	Nil
Kalburgi	5	55,706	53,192	8,681
TOTAL	**8**	**2,36,006**	**1,30,192**	**8,681**

(Source: Progress report furnished by Secretary, WRD)

Only CADA, Kalburgi executed this component while CADA, Shivamogga and Belagavi did not take up the work.

Thus, an area of 2.27 lakh ha under eight projects which required rehabilitation was neglected. Unless the identified deficiencies are rectified wherever the OFD works are taken and completed, their full potential cannot be achieved. CADA, Belagavi replied (October 2014) that the leakage of canal results in suffering of tail end command area. The reply was not acceptable as the CADA should have taken measures to correct the system deficiencies.

2.1.7.11 Extension Services

To impart knowledge of best practices amongst farmers for scientific utilisation of water, on account of advancement in technology, it is essential to provide extension services by undertaking field trials, crop demonstrations, training *etc.,* which would result in optimum utilisation of available water.

Adaptive trials and demonstrations

Adaptive field trials include preparation of land for receiving water, improving methods of irrigation through border strips, check basins for determining the optimal length of fields, suitable stream size, *etc.* Crop demonstrations are carried out at a farmer's field to show practically how to adopt suitable cropping patterns and use of balanced dose of inputs with proper management of available water for effective utilisation of potential created.

Keeping in view the importance of these activities, the GoI reimburses 75 *per cent* of expenditure incurred under this component under CADWM programme. As per MoU with GoI, the financial target to be achieved during 2010-14 was ₹ 15.20 crore. Against this, the State Government provided only ₹ 6.61 crore, out of which ₹ 5.09 crore was spent by CADAs. Reduction of budget allocation by GoK and under utilisation of the allotted amount impacted holistic development of the command area, besides resulting in not availing GoI share amounting to ₹ 6.44 crore (75 *per cent* of the difference between ₹ 15.20 crore and ₹ 6.61 crore).

2.1.8 Training

Imparting training to the staff of Irrigation Department at management level, at field staff level and associations of the CADA is important for improving deliveries from the main system, on-farm water management, enforcement of rotational water supply, planning and designing of OFD works, Participatory Irrigation Management, *etc.* During the period 2009-14, in three out of six CADAs, *i.e,* Mysuru, Munirabad and Belagavi, no training programme had been arranged for the field staff.

However, during this period, as against a target for training 1,36,930 farmers for all six CADAs, 1,84,930 were imparted training.

2.1.9 Equitable distribution of water

Equitable distribution of water refers to ensuring supply of water for the designated crops of the command area of the project, which could be accomplished through enforcement of *Warabandi,* ensuring approved cropping patterns, checking illegal drawal of water and ensuring farmers' participation in water management by establishing WUCS.

2.1.9.1 Participatory Irrigation Management

Participation of farmers in management of irrigation systems is the prime objective of the National Water Policy. The objectives of Participatory Irrigation Management (PIM) include creating a sense of ownership of water sources and irrigation systems among the users for promoting economy in water use and preservation of the system, achieving optimum utilisation of available resources and equity in distribution, *etc.* As per section 62 of the Karnataka Irrigation Act 1965, formation of the following four-tier structure in irrigation projects was made mandatory with effect from June 2000:

- Water Users Co-operative Societies (WUCS) - at sluice point;
- Water User Distributary Level Federation (WUDL) - at distributary level;
- Water Users Project Level Federation (WUPL) - at project level;
- Water Users Apex Level Federation - at state level.

These associations were required to prepare an operational plan for their respective areas. The State Government, after signing MoUs, was to transfer the responsibility of the irrigation systems to these associations and form appropriate committees at the State level to monitor the progress under PIM and evaluate their functioning.

2.1.9.2 Status of WUCS

Out of 76 projects under the CADAs, PIM is being implemented in 33 major and medium irrigation projects. Reasons for not implementing the same in the other 43 projects were not furnished. The details of WUCS targeted for formation, actually formed, MoUs executed and water management handed over to WUCS in respect of these 33 projects and its command area, as of March 2014, are shown in **Table 2.9:**

Table 2.9: Status of WUCS

(Area in ha; WUCS in numbers)

Name of CADA & number of projects	No. of projects being implemented/ its total command area	Targeted area for PIM implementation	No. of Water Users' Co-operative Societies					Shortfall in			Non-functional WUCS (5-8)
			Total to be formed	Actually formed/ its command area	MOUs signed/ its command area	Water management handed over/its command area	Functional	Formation of WUCS (4-5)	Signing of MOU (5-6)	Handing over to WUCS (6-7)	
1	2	3	4	5	6	7	8	9	10	11	12
Belagavi (4)	3/5,43,521	3,48,239	607	598 /2,94,677	507 /2,53,248	507 /2,53,248	507	9	91	0	91
Bheemarayanagudi (1)	1/6,22,000	2,74,400	560	548 /2,68,520	464 /2,27,360	464 /2,27,360	233	12	84	0	315
Munirabad (3)	1/3,62,765	3,63,000	835	581	414 /99,775	414 /99,776	414	254	167	0	167
Shivamogga (30)	10/1,58,301	1,57,323	360	324 /1,30,364	189 /80,461	113 /45,352	189	36	135	76	135
Kalburgi (19)	14/77,415	77,415	172	150 /68,064	122 /53,604	122 /53,604	150	22	28	0	0
Mysuru (19)	4/4,86,807	4,30,660	628	630 /4,31,410	357 /1,83,746	357 /1,83,746	357	0	273	0	273
TOTAL	**33/22,50,809**	**16,51,037**	**3,162**	**2,831 /14,38,893**	**2,053 /8,98,195**	**1,977 /6,81,078**	**1,850**	331	778	76	981

(Source: Details furnished by Secretary, WRD)

As could be seen from the above table, against a total command area of 22.50 lakh ha under 33 projects, the target had been fixed to irrigate an area of 16.51 lakh ha only, of which only 6.81 lakh ha was handed over to 1,977 WUCS. Further analysis showed that;

- Out of 2,831 WUCS formed, 981 (34 *per cent)* were non-functional.
- MOUs were yet to be concluded with 778 WUCS which were formed;
- Water management was not handed over to 76 WUCS in CADA, Shivamogga, though MoUs were concluded;
- The Administrators of CADAs, Mysuru, Kalburgi and Munirabad, replied (July 2014) that water management had not been handed over to WUCS, although Secretary, WRD stated (September 2014) that 3.37 lakh ha under these CADAs had been handed over to WUCS. No records relating to actual handing over of water management to WUCS, was made available to Audit.

CADA, Munirabad, replied that MoU is to be signed after fully rectifying the errors in the irrigation system and thereafter the water management would be handed over to the WUCS. However, this had not taken place.

The slow progress in formation of WUCS and non-handing over of water management to these societies were commented in Paragraph 2.4.7.4 of the Report of the Comptroller & Auditor General of India for the year ended 31 March 2011. The Public Accounts Committee (14th Assembly) in their third report had recommended (July 2014) that formation of WUCS be made mandatory for better water management. The recommendation is, however, yet to be implemented.

During the exit conference, the Secretary, WRD informed (October 2014) that CADAs were making all efforts to encourage farmers to form WUCSs by giving incentives and other facilities to the societies. It was also informed that study teams were constituted by the Government in August 2014 to study the performance of CADAs in neighboring states and that the recommendations received from the study team were under the active consideration of the Government.

2.1.9.3 Status of formation of WUDLs and WUPLs

Out of a total 651 distributaries under CADA Munirabad (209) and Bheemarayanagudi (442), only seven[23] WUDLs were formed. In respect of other CADAs, no WUDL was formed.

Out of 76 major/medium irrigation projects, WUPLs had been formed only in six projects under two[24] CADAs. Reasons for non formation of the associations were not furnished by the CADAs.

The non-formation of these associations even after 14 years of amendment to the Karnataka Irrigation Act, not only affected the equitable distribution of water but also defeated the concept of ensuring implementation of PIM envisaged under the *Warabandi* scheme. This indicated that due importance to the formation of these associations had not been accorded by the State Government.

2.1.9.4 One time functional grants to WUCS

Farmers are required to maintain field channels and drains constructed by CADAs in subsequent years. To facilitate the working of WUCS, a one-time functional grant of ₹ 900[25] *per* ha is provided. The amount is to be kept in fixed deposit and interest earned on the deposit is to be utilised for these activities. An amount of ₹ 40.57 crore was released (till March 2014) to WUCS in respect of 33 projects.

As per the information furnished by GoK, the water management in respect of 6.81 lakh ha area falling under six CADAs has been handed over to the WUCS. However, in the case of CADAs Mysuru, Kalburgi and Munirabad, even though the respective Administrators did not hand over the water management to the WUCS, functional grant amounting to ₹ 19.65 crore had been released. Thus, the release of the functional grant to WUCS was contrary to the scheme guidelines and did not serve the intended purpose. This also indicated defective monitoring by the authorities.

[23] Four in Munirabad and three in Bheemarayanagudi
[24] Two under CADA Mysuru and four under CADA Kalburgi
[25] equally shared by Central and State Governments

2.1.10 *Warabandi*

Warabandi means a system of equitable water distribution, by turns, according to a pre-determined schedule specifying day, time and duration of water supply to each farmer in proportion to his holding size in an outlet command. After executing OFD works, the system was to be handed over to WUCS for implementation.

As per the Karnataka Irrigation Act, each WUCS should procure water in bulk on volumetric basis from the Irrigation Department or *Neeravari Nigams* and distribute it to the land holders in accordance with the principles laid down by the General Body for equitable distribution of water. The Act also envisages fixing of one measuring device below an outlet which would help in ensuring equitable distribution of water and in building confidence amongst the farmers.

As of March 2014, though an area of 6.81 lakh ha was handed over to 1,977 WUCS, measuring devices were not installed in three[26] CADAs for an area of 1.98 lakh ha involving 649 WUCS. Other three CADAs did not furnish the requisite information.

Thus, water management was handed over to WUCS without installation of measuring devices. This would render WUCS helpless in ensuring equitable distribution of water within its command area and *Nigams*/Irrigation Department would also not be able to raise demand on volumetric basis. The failure in installing the measuring devices defeated the objective of the PIM for ensuring efficient and equitable distribution of water.

During the exit conference, the Administrator, CADA, Munirabad stated (October 2014) that measuring devices need to be fixed at points where water is supplied on volumetric basis.

2.1.11 Violation of cropping pattern

Controlling cropping pattern violation by farmers in a command area is of critical importance as a project is designed with water availability in mind and the cropping pattern decided so as to serve its command area. Further, it is vital to control illegal drawing of water from canal through pumps. Unless controlled, equitable distribution of water to a command area cannot be ensured. This would deprive the farmers of tail end reaches the benefit of water supply. The violation invites levy of penal water rates under the Karnataka Irrigation Act.

[26] Kalburgi, Munirabad and Shivamogga

Out of the four CADAs selected, no information was furnished by CADA, Belagavi. The details of cropping pattern violation in respect of the other three CADAs during 2011-13[27] are given in **Table 2.10:**

Table 2.10: Cropping pattern violation

(Area in ha)

Name of the CADA	Wet crops allowed to be grown	Wet crops actually grown		Percentage violation	
		2011-12	2012-13	2011-12	2012-13
Shivamogga	52,874	94,578	87,172	79	65
Munirabad	43,698	1,66,187	1,67,392	280	283
Mysuru	2,45,795	2,89,083	2,96,668	18	21
TOTAL	**3,42,367**	**5,49,848**	**5,51,232**	**61**	**61**

(Source: Details furnished by CADAs)

As seen from the above, there was large scale violation in the cropping pattern which was 61 *per cent* both in 2011-12 and 2012-13. The penal rates levied and collected were not made available by CADAs and hence it was not possible to ascertain whether penal provisions, which act as a deterrent and minimise violations, were being enforced. This had adversely affected the lands at the tail end due to excessive use of water continuously at the upper reaches.

2.1.12 Human resources

The CADAs were established in 1974 and legal status conferred in 1980. The CADA works were earlier executed by construction divisions of the Irrigation Department and thereafter were executed by three *Neeravari Nigams*, which were formed between August 1994 and June 2003. The *Neeravari Nigams* are now in charge of all major and medium irrigation projects in the State. The GoI provides assistance towards establishment cost up to 50 *per cent* of the actual establishment expenditure incurred, subject to the establishment expenditure being up to 20[28] *per cent* of the total central assistance for the items of survey, OFD, reclamation and COSD under CADWM programme.

2.1.12.1 Non-filling up of vacancies

The MoU signed with the GoI under the CADWM programme required adherence to a strict implementation schedule to avail central assistance in the form of reimbursement of expenditure. However, the staff requirement of CADAs had not been revised in line with increased activities. Also, the Government had not filled up the vacancies which were in existence. We observed significant number of posts were vacant in all disciplines, especially in the agriculture wing of three[29] CADAs, as shown in **Table 2.11:**

[27] Information for 2009-11 was not furnished by CADAs

[28] Revised to 10 *per cent* from December 2013

[29] Munirabad, Mysuru and Belagavi

Table 2.11: Vacancy position

Sl No.	Wing	Sanctioned strength	Working strength	Vacancies	Percentage of vacancies
1	Administration	383	231	152	40
2	Engineering	33	18	15	45
3	Agriculture	389	74	315	81
4	Co-operation	47	25	22	47
	TOTAL	852	348	504	

(Source: Details furnished by CADAs)

The staff shortage would be one of the factors contributing to the shortfall in achieving targets during the period 2009-14. During the exit conference, it was admitted that all the CADAs were suffering from shortage of technical staff and that efforts were being made to address the problem.

2.1.13 Persistent gap between irrigation potential created and utilised

The core objective of the CAD programme is to bridge the gap between irrigation potential created and utilised. At the beginning of April 2009, the gap between the two components was 5.65 lakh ha which came down to 4.10 lakh ha at the end of March 2014, with net achievement of 1.55 lakh ha during 2009-14. However, the un-bridged gap had remained as high as 4.10 lakh ha which is to be viewed in the back drop of surrender/lapse of funds which was 59 *per cent* of the budget allocation. During the exit conference (October 2014), Secretary, WRD, stated that due to non issue of notification of irrigated areas, the gap between potential created and utilised seemed to be more. However, the details of non notified area were not furnished.

2.1.14 Crop loss due to gap between irrigation potential utilised and actual area irrigated

The CAD programme was devoted to bridge the gap between irrigation potential created up to outlet level (dry potential) and connecting it through field irrigation channels (wet potential) for conveyance of water to farmers land. The optimum benefit is realised after execution of other OFD works like land levelling and proper drainage. The completion of OFD works is taken as the performance indicator since it bridges the gap between irrigation potential created and irrigation potential utilised.

It was noticed that the gap was still existing between irrigation potential utilised area and actual area irrigated even after completion of OFD works. During 2013-14, in 16 projects, an area of 11.12 lakh ha was actually irrigated out of 13.83 lakh ha for which FICs were created thus leaving an area of 2.71 lakh ha which was not irrigated. The details of the projects are shown in **Appendix 2.1.**

The crop loss for non-irrigated area of 2.71 lakh ha in spite of construction of FICs, worked out to ₹ 915.45 crore[30] per annum.

2.1.15 Monitoring

As per CADWM guidelines, projects were to be concurrently evaluated by independent agencies. It also envisaged constitution of a multi-disciplinary committee headed by the Secretary to perform the following duties;

- to decide about the future programmes of CADAs and ensure their implementation in an integrated and holistic manner and advise suitably;
- to review the progress of CADWM programme and make suggestions for improving its performance at all levels;
- to decide upon the evaluation studies to be taken up at the GoK level and
- to review and recommend project proposals to be sent to the Ministry of Water Resources for inclusion of projects under the scheme.

It was observed that the Government did not conduct concurrent evaluation of any of the projects. The multi-disciplinary committee which held annual meetings for reviewing the progress achieved in implementation of the activities did not suggest any remedial measures for tackling the shortfall in progress. The committee did not fulfill its responsibility in deciding which evaluation studies were to be taken up so that the findings could be studied and remedial measures taken.

2.1.16 Conclusion

The poor implementation of the activities for the development of the command area was due to deficient management of the programmes, finances and human resources, and also as a result of inadequate monitoring with lack of participatory irrigation management. The State Government also failed to achieve the targeted objectives, thereby depriving the farmers of the expected irrigation benefits. Further, the State Government failed to utilise central assistance of ₹ 733 crore. An amount of ₹ 130 crore was also not reimbursed due to shortfall in achievements as required under the MoUs. Deficiencies in formation of WUCS, enrolling beneficiary farmers as its members and inadequate entrustment of water management to WUCS led to poor implementation of the PIM which is the fulcrum of CAD activities. This defeated the very purpose of implementation of the scheme. The objective of equitable distribution of water was also, therefore, not achieved.

Poor implementation of CAD activities led to the gap of 4.10 lakh ha between the irrigation potential created and utilised. Due to non-irrigation of 2.71 lakh ha, despite construction of FICs, resultant crop loss was estimated at ₹ 915.45 crore per annum.

[30] Calculated on the basis of rate adopted in the detailed project report of Hipparagi Barrage, Belagavi

2.1.17 Recommendations

We recommend the following:

- CADA may give priority for preparation of perspective plan to facilitate preparation of annual plans for completion of CAD activities in a time bound manner;
- Government may ensure effective budget allocation to ensure that there is no gross mismatch between the funds required and allocated;
- Government may submit revised memorandum of understanding to GoI for enabling utilisation of central assistance and for release of the withheld amount of reimbursement;
- CADA may identify the specific causes resulting in the gaps between wet potential created and actual area irrigated, for taking remedial measures;
- Government may strengthen the monitoring mechanism to ensure achievement of programme objectives; and
- Government may expedite formation of WUCS, WUDLs and WUPLs to enable more efficient use of water resources.

The matter was referred to Government in September 2014; their reply was awaited (October 2014).

Chapter 3

Compliance Audit

CHAPTER 3

COMPLIANCE AUDIT

Compliance Audit of the Economic Sector departments, their field formations as well as that of the autonomous bodies brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs:

COMMERCE & INDUSTRIES DEPARTMENT

3.1 Leasing and liquidation of Co-operative Sugar factories

3.1.1 Introduction

India is the second largest producer of sugar in the world. At the national level, Karnataka ranks fourth in sugarcane production and third in sugar production. In Karnataka, there are twenty four sugar factories in co-operative sector as of April 2014. The total sugarcane crushed in the State during 2009-14[31] was 1,627.73 lakh metric tonne (MT) of which sugarcane crushed in Co-operative Sugar Factories (CSF) was 427.38 lakh MT. The production of sugar from these factories contributed to 26 *per cent* of the total sugar produced in Karnataka. Considering the difficulties faced by the sugar factories in co-operative sector, Government of Karnataka (GoK) appointed (January 2003) a cabinet sub-committee (sub-committee) to rehabilitate the ailing industries in the co-operative sector. Taking note of the techno-economic and financial status and based on negative net worth, huge cash loss, and erosion of capital, the sub-committee classified (December 2003) seven[32] CSFs as poor out of the then existing eighteen CSFs. Of the seven CSFs, Pandavapura CSF and Dakshina Kannada CSF were reported to be not working from 2003-04; Vanivilas CSF (August 2004) and Raibagh CSF (January 2004) were already under liquidation. Based on the recommendations of the sub-committee, Cabinet accorded approval (July and September 2005) to lease out four CSFs[33], to continue liquidation proceedings of Vanivilas and Raibagh CSFs and to hand over Bhagyalakshmi CSF to Deputy Commissioner, Belagavi for Operation & Management (O&M).

The Commissionerate of Sugar established in 1973 was responsible for monitoring sugarcane cultivation and also functions as the Registrar of CSFs.

[31] Crushing year from October to September & crushing year 2013-14 was restricted till April 2014

[32] Pandavapura, Raibagh, Karnataka SSK, Aland, Dakshina Kannada, Bhagyalakshmi, Vanivilas

[33] Pandavapura, Karnataka, Aland and Dakshina Kannada

At the Government level, Secretary, Commerce and Industries (C&I) Department is responsible for monitoring the working of the CSFs. In place of the sub-committee, Government created (May 2008) two State Level Advisory Committees (SLAC), one headed by the Commissioner and the other by the Secretary, C&I Department for administration of tendering process and finalisation of tenders respectively.

Audit findings are discussed in the succeeding paragraphs:

3.1.2 Leasing of CSFs

Between 2005 and 2009, eleven CSFs were leased out based on the recommendations of the Commissioner and approval of the Government as detailed in Table 3.1:

Table 3.1: Details of CSFs leased between 2005 and 2009

SL No.	Name of the CSF	Date of Govt approval	Name of the lessee	Period of lease	Date of Agreement	Current status
1	Aland	November 2005 October 2009	Renuka Sugars NSL Sugars	07 years 30 years	January 2006 March 2010	Under lease
2	Bhadra	September 2006	Gyanba Sugars	30 years	June 2010	Terminated on 03.09.2011 (Not working)
3	Bhagyalakshmi	September 2007	Laila Sugars	30 years	June 2010	Under lease
4	Dhanalakshmi	November 2006	Parrys' Sugars	25 years	October 2007	Under lease
5	Dakshina Kannada	November 2006	Ramee Sugars	30 years	April 2008	Pending in court (Not working)
6	Hemavathi	September 2007	Chamundeshwari Sugars	30 years	March 2011 (effective 26.10.2007)	Under lease
7	Karnataka	June 2007	GM Sugars	30 years	February 2008	Under lease
8	Pandavapura	November 2005	Kothari Sugars	07 years	January 2006	Terminated on 17.3.2010
9	Mrudagiri	March 2007	Vijayanagara Sugars	30 years	March 2007	Under lease
10	Raibagh	January 2007	Renuka Sugars	30 years	October 2008	Under lease
11	Srirama	July 2006	Ambika Sugars	22 years	August 2006	Terminated on 31.07.2012 (Not working)

As seen from the table, two CSFs were not working till date (October 2014) as the lease agreements were terminated and one CSF was not working as the dispute between CSF and lessee was pending before the Court.

3.1.2.1 Reallocation of sugar area

Raibagh CSF was leased to M/s Renuka Sugars for a period of 30 years from October 2008. However, prior to leasing of the CSF, Government accorded (August 2007) permission for setting up a new sugar factory at Raibagh taluk, Belagavi district[34] and reallocated the sugarcane growing areas in 14 villages from the reserve area of the CSF to the new sugar factory.

[34] Distance between Raibagh CSF and new sugar factory is less than 15 kms

It was observed that Government's permission to set up the new sugar factory was violative of the provisions of Sugar Control Order, 1966, which prohibits setting up of new sugar factories within a radius of 15 kilometres from an existing sugar factory. As a result, the lessee failed to comply with the conditions of lease agreement regarding increasing the crushing capacity, establishing co-generation plant and distillery.

3.1.2.2 *Undue favour to the lessee*

Hemavathi CSF was leased with effect from 26 October 2007 for a period of 30 years. Besides payment of lease rentals, the lessee was also required to pay the balance amount of security deposit of ₹ 2.50 crore (₹ 2.50 crore out of total ₹ five crore had already been paid before execution of the lease) within 26 October 2009. Scrutiny of records revealed the following violations to the tender / lease terms leading to undue favour to the lessee:

- According to tender terms and conditions, the lease agreement was to be signed and registered within fifteen days. However, the lease agreement which was effective from 26 October 2007, was registered (March 2011) after a lapse of 41 months.

- In deviation from the conditions set out in lease agreements for other CSFs which provided for payment of the total amount of security deposit before starting the crushing operations, the lease agreement permitted the lessee to pay the balance of the security deposit amount of ₹ 2.50 crore within two years from execution of the agreement. The lessee, however, paid the balance security deposit amount after a delay of 1,039 days from the due date stipulated in the lease agreement.

- The SLAC headed by the Commissioner accorded (August 2008 and September 2010) approval to the lessee to take over four staff quarters and to mortgage the land and building, plant and machinery and other assets of the CSF for obtaining Sugar Development Fund loan from Government of India. This tantamounts to changing the conditions of the bid-document after its being awarded to the lessee, since these concessions were not available at the time of bidding but was included only afterwards in the lease agreement, as requested by the lessee.

- Eight cheques issued (December 2013) by the lessee for ₹ 80 lakh towards lease rentals were not honoured by the bank. No action was taken by the CSF against the lessee to recover the amount. Further, no action was initiated by the Commissioner, who was also apprised of the matter.

- Despite delay in payment of lease rentals ranging from 193 to 896 days and rental arrear (including the dishonoured cheque amount) of ₹ 2.25 crore as of March 2014 (due date for payment of annual lease rent being one month prior to commencement of crushing), no action could be initiated against the lessee as the lease agreement did not provide for any penal provisions except for termination of the agreement.

- The lessee did not increase the crushing capacity before October 2012 as required under the terms of the lease agreement.

3.1.2.3 *Encroachment of land of CSF*

As against the land measuring 133 *acres* and 20 *guntas* belonging to Aland CSF, the area handed over in March 2010 to the lessee was short by 7 *acres* 30 *guntas*. As a result, the lessee expressed inability to setup distillery unit as per terms of lease agreement.

It was observed that, though there was encroachment in the area (7 *acres*, 30 *guntas*), the Commissioner did not take effective action to clear the encroachment and hand over the area to the lessee, even after a lapse of four years.

On this being pointed out, Commissioner replied (August 2014) that the matter had been referred to the Deputy Commissioner, Kalburgi to clear the encroachment in 7 *acres* 10 *guntas* of factory area. However, the correspondence made in this regard was not made available to Audit. Details about the remaining 20 *guntas* of land were also not forthcoming.

3.1.2.4 *Non-working of CSFs*

Based on the recommendations (between April 2006 and November 2006) of the Commissioner, Government approved leasing (between July 2006 and November 2006) of three[35] non-working CSFs. However, two of these CSFs continued to be non-working as the lease agreement was terminated. The third CSF continued to be non-working due to dispute between the CSF and lessee which is pending before the Court.

Dakshina Kannada CSF

Finance Department (October 2006) suggested disposal of the Dakshina Kannada CSF due to non-availability of sugarcane in the reserve area. Disregarding the suggestion, the CSF was leased (April 2008) for 30 years to Ramee Sugars and Infrastructure Private Limited, for a lease rental of ₹ 31.68 crore to be recovered in annual instalments at specified rates. The Earnest Money Deposit (EMD) of ₹ 1.50 crore paid by the lessee was appropriated towards security deposit. The lessee could not commence production due to non-availability of sugarcane and sought termination of lease. The CSF had filed (November 2012) a case in City Civil Court against the order of the Arbitration Tribunal which had directed (September 2012) the CSF to pay interest on security deposit amounting to ₹ 60.75 lakh and

[35] Dakshina Kannada, Bhadra, Srirama

₹ 24.20 lakh towards cost incurred for project development. Meanwhile, interest liability of the CSF increased from ₹ 14.60 crore (March 2007) to ₹ 33.16 crore (March 2014).

Srirama CSF

Srirama CSF was leased out (August 2006) for 22 years to M/s Ambika Sugars from the crushing season 2006-07. The lessee continued the operation up to 2011-12 but failed to carry out expansion of the plant and setting up of co-generation unit as specified in the agreement. Finally, as requested by the lessee, the lease was terminated (July 2012) on grounds of reduction in sugarcane supply. Commissioner replied (August 2014) that attempts to lease out the CSF had not been successful and its liquidation would be considered.

Bhadra CSF

In violation of the tender terms, which stipulated leasing of CSF to person/firm having three years experience in sugar/allied industries, Bhadra CSF was leased out (June 2010) to M/s Gyanba Developers who did not meet the eligibility criteria as they were having experience only in the construction industry and not in sugar/allied industries. The lessee stopped crushing after 2010-11 season without making payment as per lease agreement. As per Clause 21 and 22 of the lease agreement, besides payment of annual lease rental (varying from ₹ 15.33 lakh to ₹ 26.39 lakh over the period of lease) one month in advance of the date of crushing, the lessee was required to pay upfront rental amount of ₹ 26 crore before commencing crushing operations. However, Commissioner allowed the lessee to commence crushing from 22 October 2010 without collecting the upfront lease amount and advance rent aggregating to ₹ 26.15 crore. The lessee operated the factory for one season (2010-11) but did not pay the amount due to CSF. The Commissioner terminated the lease agreement in September 2011. The accumulated dues recoverable from the lessee amounted to ₹ 26.30 crore. As attempts to lease out the CSF failed, it was resolved (November 2011) in a meeting chaired by the Minister for Horticulture and Sugar, to take steps to liquidate the CSF and to sell the sugar factory on "as is where is" basis. However, Commissioner had not yet submitted necessary proposals to Government. It was replied (August 2014) that for issuing orders under Section 72 of the Karnataka Co-operative Societies Act (Act), a resolution has to be passed by the board of CSF. The reply was not acceptable as the Commissioner is vested with powers under Section 72(2) of the Act which states that 'the Registrar (Commissioner) may on his own motion make an order directing the winding up of a co-operative society where the co-operative society has not commenced working or has ceased to work'.

3.1.2.5 Handing over of Pandavapura CSF to a Government Company

Pandavapura CSF was on seven years lease, from January 2006, to M/s Kothari Sugars for a total lease rental of ₹ 80.10 crore. It was observed that the lease agreement was continued even though the lessee was crushing sugarcane far less than the daily crushing capacity of 3,500 tonnes. Further, though the lessee sought extension of lease for another 18 years with a total rental amount of ₹ 127.47 crore (including ₹ 80.10 crore) the request was turned down by the GoK based on the evaluation report submitted (July 2007) by the Indian Institute of Management, Bengaluru. Later, based on the request (February 2010) of the lessee, the lease agreement was terminated (March 2010) by Government. Though the retender for leasing of the CSF for 30 years was notified (March 2010) as per the decision taken in a meeting held (May 2010) under the chairmanship of the then Chief Minister, it was decided to withdraw this notification and hand over the O&M of the CSF to M/s Mysore Sugar Company Limited, (Mysugar), Mandya. Accordingly O&M of the CSF was handed over (June 2010) to Mysugar for three years. The CSF is operating on its own since June 2013.

In order to improve the financial status of the CSF, Government provided (between 2010 and 2013) working capital loan of ₹ 35 crore[36] and ₹ 10 crore (July 2011) towards payments for sugarcane purchased. Government also made One Time Settlement (OTS) for outstanding loans of ₹ 14.35 crore to District Central Co-operative Banks (March 2012) and ₹ 6.34 crore to Apex Bank (March 2011).

The total outstanding dues to Government from CSF amounted to ₹ 183.78 crore (Government of Karnataka - ₹ 162.90 crore; Government of India - ₹ 20.88 crore) as of March 2014. The transfer of the CSF to Government Company on O&M basis only increased the liability of the Government.

3.1.3 Liquidation of co-operative sugar factories

Section 72 of the Act authorises the Commissioner to make an order directing the winding up of the CSFs when it ceases to work. As per the existing instructions (March 1992) of the Registrar of Co-operative Sugar Factories, the process of liquidation should invariably be completed within two years of the order. Audit observed that process of liquidation ordered under Section 72 against seven[37] CSFs between 1986 and 2007 had not been completed (May 2014). Lack of monitoring by the Commissioner had resulted in undue delay in completing the liquidation as the Commissioner had not even

[36] June to October 2010 - ₹ 15 crore, July 2011- ₹ 10 crore and September 2013 - ₹ 10 crore

[37] Arkavathi (May 1988), Malenadu (October 2005), Gauribidanur (March 1986), Kampli (July 1995), Basaweshwara (August 2007), Naragund (January 2004) and Mahadeshwara (March 1986)

obtained quarterly progress reports as per provisions of Rule 33(j) of Karnataka Co-operative Societies Rules 1960, except in the case of Mahadeshwara CSF. Audited statements of the books of accounts of the liquidators as per Rule 33 of Karnataka Co-operative Societies Rules had also not been obtained in any of the cases. Cost of liquidation in respect of four[38] CSFs amounted to ₹ 25.86 crore as of March 2014 which had to be borne by the CSFs. Delay in completing liquidation added to the financial burden of the CSFs. Besides, Government share capital of ₹ 2.31 crore and outstanding loans amounting to ₹ 6.31 crore in respect of the four CSFs also could not be adjusted.

3.1.3.1 Injudicious decision of revoking liquidation order

Vanivilas CSF which stopped crushing operations (2002-03) due to non availability of sugarcane was under liquidation from August 2004. In a review meeting held (January 2005) by the then Minister for Co-operation, it was decided to complete the liquidation by August 2005. The timeline was however not adhered to. Instead, the Commissioner under orders from Government revoked (September 2007) the liquidation order on grounds of abundant availability of sugarcane and steps were taken to revive the CSF by leasing.

In the meantime, as the financial institutions invoked the Government guarantee against the loans availed by the CSF, the Government had to pay (November 2012) ₹ 20.61 crore[39] towards OTS of the loans.

Despite taking three attempts during 2007 to 2010, the Government failed to lease out the CSF mainly due to scarcity of sugar cane in the reserve area. As a result, liquidation order was again passed in September 2013. The liquidation process was yet to be completed (October 2014). The amounts due to Government by the CSF had also increased from ₹ 8.32 crore (September 2004) to ₹ 29.38 crore (March 2014).

The Commissioner replied (August 2014) that liquidation order was withdrawn in the interest of sugarcane growers. The reply is not acceptable as the initial proposal for liquidation was on grounds of shortage of sugarcane.

3.1.3.2 Non-commencement of operation by CSFs

Section 72 of the Act, authorises the Commissioner to order winding up of a CSF which has not commenced working. Delay in issuing appropriate orders under Section 72 in respect of two CSFs resulted in idle investment of Government funds amounting to ₹ 23.20 crore as discussed below:

[38] Gauribidanur, Arkavathi, Mahadeshwara, Kampli
[39] ₹ 14.40 crore to DCC banks and ₹ 6.21crore to Apex bank

- Sangam CSF with an approved project cost of ₹ 50.88 crore was registered in June 1999 and Government share capital of ₹ 15 crore was released in November 2000. As the CSF failed to mobilise funds, it remained operational only on paper (March 2014). Commissioner replied (August 2014) that a revised DPR for ₹ 102 crore was approved by Government (January 2013) and commencing of trial crushing is being planned by February 2015. Government investment of ₹ 15 crore has, however, remained unfruitful for over 14 years.

- Bheemashankar CSF was registered in April 1993. Against the approved project cost of ₹ 46.90 crore, Government share capital of ₹ 8.20 crore was released to the CSF in April 1999. However, it could not start production due to failure to raise loans as envisaged in the project report. Based on the CSF Board resolution, Government accorded (September 2006) permission for converting the CSF into a public limited company. Accordingly, a public limited company M/s Royal Pearl Sugars was formed (February 2007) for the purpose. However, the liquidation order was issued (February 2007) by the Commissioner with a faulty condition to transfer the assets and liabilities to M/s Royal Pearl Sugars after refunding share capital of ₹ 8.20 crore to Government. This condition was later struck down (December 2007) by the Government as it violated Sections 73 and 74 of the Act[40]. The Government Order was challenged in the court by M/s Royal Pearl Sugars. The matter is pending (October 2014) in the Hon'ble Supreme Court of India.

Inordinate delay in taking action under Section 72 coupled with issue of faulty liquidation order rendered the Government investment of ₹ 8.20 crore unfruitful since 15 years.

3.1.4 Depleting financial position of CSFs – a financial burden on Government

The scheme of rehabilitation was a constructive approach to revive the CSFs which were facing serious crisis. However, lack of timely action and injudicious decision of the authorities added to the liabilities of CSFs and shifted the burden to Government exchequer as discussed below:

3.1.4.1 Liability of ₹68.37 crore towards OTS of loans raised by CSFs

The Government, on the issue of guarantee of loans raised by CSF, instructed (December 2001) the Commissioner to enforce opening of an escrow account by the CSFs in a nationalised bank to which all the receipts, collection, income, *etc.*, were to be deposited. The said account was to be pledged in

[40] After liquidator is appointed under section 73 of the Act, the liquidator in exercise of powers under section 74 of the Act has to investigate and pay all claims against the CSF according to priorities

favour of the financial institution from which borrowings were made under Government guarantees. The proceeds of the escrow account were to be utilised first for servicing borrowings guaranteed by Government. This was however not complied with by the CSFs. The Commissioner also failed to review the position periodically. As a result, Government had to pay outstanding loan amount of ₹ 68.37 crore[41] (including ₹ 41.30 crore mentioned in Paragraph 3.1.2.5 and Paragraph 3.1.3.1) as detailed in the **Appendix 3.1**.

Commissioner replied (August 2014) that though escrow account was not opened, payments were made into the loan accounts and that amount paid for repayment of loans would be recovered from the CSFs. Reply was not acceptable since the CSFs defaulted in repayment of loans not only to the banks but also to Government.

3.1.5 Conclusion

The leasing of CSFs was aimed at helping the cane growers and employees of the CSFs by augmenting resources and minimising liabilities thereby achieving sustainable economic activity and regional development. Our scrutiny of records of the Commissioner showed injudicious decisions of the Commissioner in leasing of CSFs which not only defeated the objective of their rehabilitation, but also resulted in non-recovery of rentals and continued non-functioning of CSFs. The bid documents and the agreements did not stipulate any penal provisions for safeguarding the interest of the Government in the event of breach of lease conditions and pre-closure of the lease agreements by the lessee. Also, there was inordinate delay in completion of liquidation process resulting in increasing liabilities to Government and CSFs.

3.1.6 Recommendations

- Compliance to lease agreement by lessee need to be closely monitored by Commissioner.
- Penal provisions need to be included in the lease agreement by the Commissioner to protect the interest of CSF/Government.
- The CSFs which are economically unsound need to be liquidated by the Commissioner.
- Government may complete liquidation process as per guidelines.

The matter was referred to Government in September 2014; their reply was awaited (October 2014).

[41] Pandavapura, Vanivilas, Karnataka, Bhagyalakshmi

3.2 Loss due to injudicious decision

Allotment of land in Bidadi Industrial Area to a Company at reduced rate caused a loss of ₹ 5.40 crore to Karnataka Industrial Areas Development Board.

The Karnataka Industrial Areas Development Board (KIADB) allots industrial land as per Government Order to industries/entrepreneurs for establishing projects, which were approved by the State High Level Clearance Committee (SHLCC), State Level Single Window Clearance Committee and District Level Single Window Clearance Committees based on the size of the investment. KIADB fixes the price of land considering the cost of acquisition, cost of development, service charges and interest on acquisition, development cost and operates on no profit – no loss basis.

SHLCC cleared (June 2009) the project proposals of M/s Bosch Limited (Bosch) to establish an industrial unit at an investment of ₹ 550 crore for the manufacture of fuel injection pumps, elements, delivery valves, *etc* at Bidadi Industrial Area (BIA) and approved allotment of 100 *acres* of land for the purpose. The Government approved (October 2009) the allotment and ordered that after this allotment, 30 *acres* of land approved for allotment earlier (May 2008) to M/s Bosch Rexroth (Rexroth) at Phase II, Sector I of BIA was to be surrendered. KIADB allotted (13 November 2009) 100 *acres* of land to Bosch in Phase II, Sector II of BIA, at a tentative rate of ₹ 78 lakh per *acre*.

In the meantime, Bosch requested KIADB (09 November 2009) and State Government (23 November 2009) for allotment of 30 *acres* of land at ₹ 60 lakh per *acre,* the rate at which the land was allotted to Rexroth, and at ₹ 78 lakh per *acre* for the balance 70 *acres* of land. KIADB approved (19 December 2009) the reduction in land rate and issued (02 February 2010) revised allotment letter to Bosch fixing the land rate at ₹ 60 lakh per *acre* for 30 *acres* and ₹ 78 lakh per *acre* for remaining 70 *acres* of land. Bosch paid ₹ 71.57 crore[42] towards cost of land including initial deposit of ₹ 3.60 crore paid (June 2008) by Rexroth.

Review of records revealed (February 2013) that the acceptance of request for reduction in rate for portion of land at KIADB's cost was unwarranted for the reasons stated below:

- KIADB decision to allot 30 *acres* of land to Bosch at reduced rate did not have Government approval as SHLCC clearance also had not been obtained and the Government Order had not directed allotment of land or portion of land at reduced rates.
- The 30 *acres* of land allotted to Rexroth was in a different sector (Sector I) and allotment rate of ₹ 60 lakh per *acre* was fixed with reference to the

[42] For 98.56 *acres* handed over including ₹ 9.97 lakh towards slum cess

development cost incurred in that Sector. Hence, applying the allotment rate of Sector I for the land allotted at newly formed Sector II was irregular and lacked justification.

On this being pointed out (March 2014), Government replied (August 2014) that rates *i.e.*, ₹ 60 lakh per *acre,* prevailing on the date of approval of the project, was charged for 30 *acres* of land.

The reply was not acceptable, as the rate for land allotment in Sector II was to be uniform at the allotment rate of ₹ 78 lakh per *acre*. This rate could be reduced only on specific orders of the Government, which had not been obtained.

Thus, injudicious allotment of 30 *acres* of land to Bosch at reduced rates resulted in a loss of ₹ 5.40 crore[43] to KIADB.

3.3 Loss due to delay in recovering differential cost

Delay in issue of demands for differential cost from allottees, even after fixation of final cost, caused a loss of ₹ 4.27 crore to Karnataka Industrial Areas Development Board.

Karnataka Industrial Areas Development Board (KIADB) acquires land and allots them to entrepreneurs for industrial purposes. The allottee is to pay the tentative cost of the land upon which lease agreement is executed for a period of six/ten years which stipulates certain conditions like payment of lease rent, commencing industrial production, *etc.* On fulfilment of lease conditions and payment of final cost, sale deed would be executed. The allotment letters issued to the allottees state that the price of the land would be determined and intimated in due course.

The final rates of industrial plots at Malur III phase, Bidadi and Bommasandra-Jigani Link road (BJLR) industrial areas were determined by KIADB in March 2008 and May 2008. Test check of records by Audit revealed that in respect of 37 cases the demand for making payment towards the differential cost (final rates *less* tentative cost already paid) amounting to ₹ 12.90 crore were issued between March 2011 and March 2013 with a delay ranging from 32 to 56 months.

KIADB invests surplus/unutilised funds in fixed deposits and by delaying the collection of differential cost, the Board lost the opportunity of investing ₹ 12.90 crore that was realisable. Considering the interest rates[44] offered by State Bank of India for deposits, the loss of interest due to delay in raising

[43] For 30 *acres* of land at ₹ 18 lakh per *acre* (₹ 78 lakh *minus* ₹ 60 lakh)

[44] Interest rate of 7% for deposits of less than one year up to 30.03.2009, 8.1% for period from one year to less than two years from 01.04.2009 to 31.03.2011 and 8.25% for deposits one year to 554 days from 01.04.2011 till the date of demand

demand worked out to ₹ 4.27 crore (**Appendix 3.2**). The beneficiaries of the belated demand by KIADB included high net worth companies and organisations[45].

Government in their reply stated (October 2014) that immediate action would be taken to issue circulars to the branch offices to issue demand notices to all the allottees so that allottees could make payment towards the final prices.

FOREST, ECOLOGY AND ENVIRONMENT DEPARTMENT

3.4 Loss of revenue

Failure to auction extraction rights of a minor forest produce between 2003 and 2010 resulted in loss of revenue of ₹ 12.75 crore to the Government.

All activities undertaken by a forest division should conform to the approved Working Plan. The Working Plan of Mangaluru Forest Division (Division) for 2002-2012 prescribed extraction of *halmaddi,* a resin used in *agarbathis,* from the trunks of *Ailanthus malabarica* trees, which are native to the Western Ghats. *Halmaddi* is a Minor Forest Produce (MFP) and detailed guidelines for extraction and auctioning of this MFP are laid down in Appendix XXIV of the Karnataka Forest Code (Code). Rights for extraction and auction are given for a two year period.

On account of over-exploitation, the Government had banned (April 1991) the extraction of *halmaddi* to enable its regeneration. Based on the recommendation of Principal Chief Conservator of Forest (PCCF), the Government lifted (March 2002) the ban on extraction/tapping of *halmaddi.* However, the Division took action for auctioning of right for extraction of *halmaddi* only during January 2011 for a two year period of 2011-13, after a lapse of nearly ten years after removal of ban. The Government approved the invitation of tender for auctioning the areas excluding the areas covered by Large-scale Multipurpose Societies (LAMPS). The auction process fetched revenue of ₹ five crore for 2011-13.

Our scrutiny of records of the Division showed no recorded reasons for not auctioning the rights for tapping of *halmaddi* for the period of 2003-11 despite lifting of ban by the Government. Non-auctioning of rights for tapping of *halmaddi* for 2003-11 resulted in loss of revenue of ₹ 12.75 crore to the Government as shown in **Table 3.2:**

[45] Major beneficiaries: M/s Ingersol Rand International (India) Limited, M/s Sobha Interiors Private Limited, M/s Futuristic Diagnostic Imaging Centre Private Limited, M/s Shobha Developers Limited, M/s Paragon Arts and Exports, M/s Onco Therapies Limited, M/s Agila Specialities Private Limited

Table 3.2: Loss of revenue due to non-auctioning rights of tapping of *halmaddi*

(Amount in ₹)

Period	Value [46]	Forest Development Tax at eight *per cent*	Total
2003-05	2,04,83,365	16,38,669	2,21,22,034
2005-07	2,56,04,206	20,48,336	2,76,52,542
2007-09	3,20,05,258	25,60,421	3,45,65,679
2009-11	4,00,06,573	32,00,526	4,32,07,099
TOTAL	**11,80,99,402**	**94,47,952**	**12,75,47,354**

On this being pointed out, the Deputy Conservator of Forests, Mangaluru stated that;

- Non-auctioning of the rights of tapping was due to the delay in correspondence with higher authorities and enumeration of suitable trees for tapping.
- Early extraction of *halmaddi* would cause more damage to trees and delayed collection would result in more yield from the trees; and
- Rights should be given to LAMPS as per Government Order.

The reply was not acceptable due to the following reasons:

- The ban was lifted by the Government as early as in March 2002, after recommendation of the PCCF, and therefore the reply attributing an inordinate delay of almost nine years for correspondence and enumeration was not tenable.
- These plantations were raised between 1952 and 1990 and were mature for tapping as per approved Working Plan. To guard against damage, size of incision was specified in tender conditions to prevent overexploitation and consequential damages to trees.
- Government order had specified that the tenders were to be invited for areas other than LAMPS areas and as such there was no confusion regarding areas.

Thus, due to non-auctioning of the *halmaddi* extraction rights from 2003-11, even if a very conservative calculation is made and only the average of a two year period from the Table 3.2 is taken, then the loss for just a two year period works out to ₹ 3.20 crore.

The matter was referred to Government in July 2014; their reply was awaited (October 2014).

[46] Value for 2009-11 calculated at 80 *per cent* of revenue of ₹ 5,00,08,216 for block period 2011-13 and similarly for other block periods with 20 *per cent* reduction

3.5 Mismanagement of investment

Flouting of specific Government instructions and non-exercising of due diligence compounded by abnormal delay in collecting fixed deposit certificates resulted in non-realisation of investment of ₹ 10 crore and interest of ₹ 93 lakh.

The Government had issued detailed instructions in November 2009 for investment of surplus funds by public sector enterprises which *inter-alia* stipulated constitution of Finance/Investment Committee to determine how these funds are to be invested. Every investment decision taken by such committee has to be ratified by the Board of Directors (BoD) in their next meeting.

The Karnataka State Pollution Control Board (KSPCB), based on a request (06 May 2013) from the Assistant General Manager, State Bank of Mysore, Bengaluru Main Branch (SBM) for deposit of amount, issued (16 May 2013) two cheques of ₹ five crore each drawn on Corporation Bank. The forwarding letters dated 16 May 2013 specified issue of 10 fixed deposit certificates (FDRs) of ₹ one crore each. Although the cheques were realised by SBM on 17 May 2013, the FDRs were not issued immediately. Later, on 26 July 2013, the KSPCB approached the SBM for issue of FDRs. On 3 August 2013, the KSPCB received two FDRs of ₹ five crore each for one year period carrying nine *per cent* interest *per annum,* which were due for maturity on 17 May 2014.

The KSPCB vide letter dated 17 May 2014 enclosing the FDRs, requested SBM to credit the proceeds to its Corporation Bank Account. However, the SBM intimated (20 May 2014) that the proceeds of the FDRs would be credited after deducting the loan along with interest aggregating to ₹ 9.64 crore[47] availed by the KSPCB. KSPCB rejected (letters dated 22 and 26 May 2014) the SBM claim that it had availed of any loan and sought proof of documents for loan availed by the KSPCB. The SBM furnished (29 May 2014) copies of the documents, which the KSPCB claimed were fake documents and fabricated by the bank authorities. The SBM also, in their letter (26 May 2014) to the KSPCB, stated that the KSPCB had enclosed colour photocopies of FDRs and not the original FDRs, which the SBM claimed, were available with the Bank.

The KSPCB filed a First Information Report (FIR) against SBM on 29 May 2014 with the Station House Officer, Upparpet Police Station, Bengaluru detailing the events and non-credit of fixed deposit proceeds on maturity by the SBM.

[47] Principal loan ₹ 9 crore and interest ₹ 64 lakh

As of September 2014, the investment proceeds and interest thereon had not been realised. In this connection following irregularities were noticed:

- The investment of ₹ 10 crore made with SBM on 16 May 2013 was not approved by the BoD of KSPCB, as required under the instructions issued (27 November 2009) by the Government.
- The KSPCB had stipulated issue of 10 FDRs of ₹ one crore each against which KSPCB collected two FDRs of ₹ five crore each. Thus, acceptance of FDRs against instructions issued was not in order and reduced the flexibility of withdrawal.
- On maturity, the KSPCB requested (letter dated 17 May 2014) SBM to credit the proceeds by duly enclosing the FDRs that it had obtained. However, SBM intimated that the FDRs enclosed were colour photocopies of the FDRs and not the originals. The KSPCB did not dispute this claim.

We observed from the above that,

- KSPCB did not exhibit the required due diligence and promptitude as there was laxity in collecting FDRs, which were in fact just colour photocopies, and that too with a delay of more than two months.
- The BoD of KSPCB did not initiate any internal or departmental enquiry to ascertain the reasons for:

  (a) not obtaining ratification of the investment made by the investment committee;

  (b) the deviation in investment mode, as the SBM had issued two FDRs of ₹ five crore each, against the instructions to issue 10 FDRs of ₹ one crore each.

  (c) delay in collecting the FDRs by the KSPCB.

On the matter being referred to the Government, the Government communicated (August 2014) their remarks on the replies furnished by the KSPCB that fraud was committed by SBM by creating false and forged documents. The Government further stated that there was unreasonable delay in obtaining FDRs, investment was made without Boards' approval and there was laxity on the part of the officials of the KSPCB in collection of original FDRs, hence, KSPCB's reply to absolve themselves of their responsibility was not accepted by the Government.

Thus, flouting of specific detailed Government instructions and non-exercising of due diligence by the KSPCB resulted in non-realisation of investment of ₹ 10 crore and also interest of ₹ 93 lakh thereon (up to the date of maturity of FDRs).

INFRASTRUCTURE DEVELOPMENT DEPARTMENT

3.6 Unfruitful expenditure

Improper planning and undue haste in release of funds before completion of formalities required for commencing civilian air services resulted in unfruitful expenditure of ₹ 3.02 crore and blocking up of ₹ 2.60 crore.

Government of Karnataka (GoK) sanctioned ₹ three crore (June 2008) for construction of Terminal Building near defence air port[48] at Bidar with a view to develop the existing airstrip and to start civilian air services on the occasion of *Gur-ta-Gaddi*[49]. The defence airport is situated within 150 kms from Hyderabad International Airport (HIA) which is being operated (since March 2008) by GMR Hyderabad International Airport Limited (GHIAL), a private entity, on Public Private Partnership mode. The amount was released to Deputy Commissioner, Bidar (DC) who obtained approval (June 2008) from Airport Authority of India (AAI) for concept plan, elevation and estimate for various works of Temporary Terminal Building (TTB). The Project Director, District Urban Development Cell, Bidar awarded (July 2008) the work on tender basis to an agency for ₹ 3.05 crore to be completed by October 2008. The work executed through Public Works, Ports and Inland Water Transport Department was completed in June 2009 at a total cost of ₹ 3.02 crore and the final bill was paid in January 2012. The land for construction of TTB was, however, yet to be acquired (March 2014) by DC.

Further, GoK had also identified 125 *acres* of land in Bidar to be acquired for development of civil enclave[50] and had released ₹ 2.60 crore (July 2007 and April 2008) to Karnataka Industrial Areas Development Board. However, this land was yet to be acquired (March 2014).

The TTB was completed in June 2009 after completion of the event *i.e., Gur-ta-Gaddi* but the infrastructure created could not be put to use subsequently due to objection from GHIAL.

The following lapses resulted in non utilisation of the asset even after five years of construction of TTB:

- No memorandum of understanding/agreement was signed with AAI for providing air traffic/air transport in the proposed civil enclave by GoK before release of funds for TTB.

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[48] In-principal approval of Ministry of Defence was obtained in November 2006

[49] The 300th Gurudomship Ceremony of Shri Guru Granth Sahibji and 300th Death Anniversary of Shri Guru Gobind Singhji – October/November 2008

[50] The area allotted to an airport belonging to any armed force of the Union, for use by persons availing of any air transport services from such airport or for the handling of baggage or cargo by such service and includes land comprising of any building and structure on such area

- Since the defence airport at Bidar is situated within 150 kms of Hyderabad International Airport, commencement of civilian operations required a 'no objection' from concessionaire of HIA (GHIAL) as per clause 5.2.2 embodied in the concession agreement. Such stipulations are common to such concessionaire agreements and should be well within the knowledge of GoK, as similar clause existed in the concession agreement in respect of Bengaluru International Airport executed in July 2004. The GoK did not obtain the requisite 'no objection' from GHIAL before releasing funds for TTB.

Thus, deficient planning, undue haste in release of funds and construction of TTB before completion of formalities required for commencing civilian air services resulted in unfruitful expenditure of ₹ 3.02 crore besides blocking up of ₹ 2.60 crore.

The matter was referred to Government in July 2014; their reply was awaited (October 2014).

PUBLIC WORKS, PORTS AND INLAND WATER TRANSPORT DEPARTMENT

3.7 Extra payment due to incorrect computation

Delay in obtaining funds led to additional burden of ₹ 10.56 crore in acquisition of lands for construction of a road. Incorrect computation of interest had also resulted in excess payment of ₹ 3.96 crore towards interest.

Article 153 of Karnataka Financial Code stipulates that in cases of acquisition of land for public purposes, the departmental officers should see that payments or compensation is not delayed. For speedy disposal of land acquisition payments on account of Court decrees, the Government while reiterating (15 January 2005) circular instructions (March 1982 and August 1982) also instructed that Land Acquisition Officers (LAO)/Heads of Administrative Departments should seek release of funds immediately from Finance Department (FD) to avoid attachment orders or contempt of court by furnishing details of the case. In cases where complete details are not available, the case would be referred to an Empowered Committee headed by Chief Secretary for releasing the funds.

The Executive Engineer, Public Works, Ports and Inland Water Transport Division, Chikkodi (EE) had taken possession (March 1963) of 40 *acres* and 23.5 *guntas* of land under different revenue survey numbers in three villages of Athani taluk for construction of road from Ugar to Kusnal village pending acquisition of land as per Land Acquisition Act (LA Act). The LAO issued the award under Section 11 of LA Act on 31 July 1987 fixing the land value at ₹ 6,000 per *acre* with other benefits admissible as per LA Act.

Aggrieved by the inadequacy of the amount of compensation awarded by LAO, the land owners approached (March 1989) the City Civil Court, Athani, which enhanced (January/February 1999) the compensation amount to ₹ 65,000 per *acre* and also awarded 30 *per cent* solatium on enhanced compensation, and 12 *per cent* additional market value from date of taking possession of land to date of award. The Court also awarded payment of interest from date of taking possession till date of realisation at 9 *per cent* for first year and 15 *per cent* for subsequent period as per provisions of LA Act.

The Law Department had communicated its decision "not to prefer appeal" on the Court decree during March/May 1999. The amount required as per Court decrees worked out to ₹ 6.33 crore[51] as of June 1999. The EE did not seek release of funds from FD to settle the claims of all the land owners. Instead, EE made the payments to LAO on piece meal basis as and when LAO preferred the claims, which was based on execution petitions obtained by land owners. As a result of making partial payments, the dues of land owners were not settled in full even after 15 years of Court orders. The total compensation worked out by LAO as of September 2014 was ₹ 16.89 crore, out of which ₹ 10.84 crore as demanded by LAO was paid by EE between December 2000 and April 2014. Failure to obtain required funds soon after receipt of Law Department's opinion had resulted in an additional burden of ₹ 10.56 crore.

Further scrutiny revealed (January 2014) that while making payments from second instalment onwards, the EE had treated balance interest component also as principal and paid 15 *per cent* interest on it. This tantamounts to payment of interest on interest. This was violative of the provisions of LA Act which does not provide for payment of interest on the outstanding interest amount. In 92 cases, the excess payment due to such incorrect computation works out to ₹ 3.96 crore as shown in **Appendix 3.3.**

The Government replied (September 2014) that amounts were deposited as per calculation sheets furnished by the LAO which had been verified by EE before making payments. Further, Government stated that the interest had been worked out on pending total amount including interest at the time of calculation treating pending interest as principal amount which was as per the Court Order. Hence, payment made was in order.

The reply was not acceptable as Court in its decree had awarded interest from the date of dispossession till the date of payment as per Section 34 of LA Act and provisions of LA Act do not provide payment of interest on outstanding interest. Treating of interest as principal is an incorrect method of computation as land owners who were paid intermediate payments had received more than the land owners who had not been paid for the same extent of land.

[51] Principal amount including land compensation, solatium and additional market value - ₹ 97.92 lakh and interest up to June 1999- ₹ 5.35 crore

3.8 Unwarranted expenditure

Injudicious decision in taking up improvement of road after its up gradation as National Highway instead of transferring the same to National Highways authorities resulted in burdening State exchequer to the extent of ₹ 5.40 crore.

Funds for construction and maintenance of National Highways (NH) are provided by Government of India and the works are implemented by NH divisions of Public Works, Ports and Inland Water Transport Department.

In view of *Tulu* conference scheduled to be held during December 2009, Government administratively approved (November 2009) improvement of Kadur – Kanjangad (KK) Road, forming part of State Highway 64, from km 100 to 175 at a cost of ₹ six crore.

Executive Engineer, Public Works, Ports and Inland Water Transport Department Division, Mangaluru (EE) awarded (between December 2009 and February 2010) the contract to three different contractors. Two works were completed during February 2010 while one work was abandoned by the contractor during January 2010. The details of the three works and their progress were as shown in Table 3.3:

Table 3.3: Progress of work

Chainage km	Date of work order	Estimated cost	Tender amount	Total expenditure	Date of completion
		(₹ in crore)			
100 to 124	31.12.2009	2.00	2.22	2.22	10.02.2010
124 to 145	06.01.2010	2.80	3.04	1.83	Work abandoned (15.01.2010)
145 to 175	22.02.2010	1.20	1.35	1.35	25.02.2010
TOTAL		6.00	6.61	5.40	

Audit scrutiny (October 2012) revealed that the total expenditure of ₹ 5.40 crore incurred on improvements to roads out of State exchequer was unwarranted as the KK Road had already been notified (February 2009) as NH 234 (Mangaluru to Tiruvannamalai – Villupuram in Tamilnadu) by Government of India as per the National Highway Act, 1956. Despite this, the road was not handed over to the NH authorities. The road was handed over (May 2010) to NH Division, Mangaluru only after a period of 14 months.

On this being pointed out, EE stated (October 2012) that the works were executed out of *Tulu* conference grants (State grants) as central grants could not be obtained. The reply was not acceptable as the road should have been handed over to NH authorities for up-gradation, as this State Highway was notified as a NH by Government of India as early as in February 2009.

Thus, the expenditure incurred on improvement of the road, despite the fact that it should have been handed over to the NH authority for improvement, resulted in unwarranted expenditure of ₹ 5.40 crore out of State exchequer.

The matter was referred to Government in July 2014; their reply was awaited (October 2014).

3.9 Loss of revenue in leasing of brick factory

Non-revision of lease rent as stipulated in the lease agreement resulted in loss of revenue of ₹ 2.29 crore.

In terms of Paragraph 206 of the Karnataka Public Works Departmental Code (Code), land and buildings belonging to Government shall be leased to private parties in open auction or through tendering. In cases, where no auctions are held, the rates should be fixed in consultation with the Deputy Commissioners of the districts with reference to those obtainable in the localities for similar or other lands. The provisions also prohibit granting lease for periods exceeding five years at a time.

Government Brick Factory at Medahalli village, near Hoskote, Bengaluru spread over 14 *acres* 39 *guntas* was established in 1971 for manufacture of bricks to cater to the needs of the Public Works Department. It stopped manufacturing of bricks in April 1998 as it was sustaining losses. In order to utilise the infrastructure created with nine *acres* and five *guntas* of land, the Chief Engineer, Communications & Buildings, Bengaluru, (CE) proposed (February 2004) for revival of the brick factory by way of lease to Shri Dhanaraj for a period of 30 years at an annual lease rent of ₹ 1.05 lakh for the initial five years with a 15 *per cent* increase for every five years thereafter. The Government while accepting (September 2005) the proposal reduced the lease period to 25 years and fixed annual lease rent of ₹ 2.10 lakh with a 10 *per cent* increase every three years, among other conditions. The Government reserved the right to revise the lease rate fixed every five years at its discretion and prohibited undertaking of other activities without obtaining prior permission. Accordingly, a lease agreement was executed on 5 October 2005 between Shri Dhanaraj and the Executive Engineer, PWD, Bengaluru (EE) fixing the annual rent at ₹ 2.10 lakh for the years 2005-07 and ₹ 2.31 lakh for the remaining period of 22 years from 2008 to 2030. The Government permitted (June 2010) the lessee to undertake manufacture of roof tiles, hollow bricks, RCC name boards, floor tiles, *etc*. The lessee had paid ₹ 19.15 lakh towards lease rent as of March 2014.

Scrutiny (September 2013) of records revealed the following:

- System of tendering or open auction as stipulated in codal provisions was not followed while leasing out the land and the brick factory that stood on it. Also no consultations were held with the Deputy Commissioner concerned before fixation of the lease rent.

- Lease was given for a period of 25 years violating the codal provisions which prohibited leasing out land for periods exceeding five years at a time.
- EE concluded the lease agreement with 10 *per cent* increase after three years for one time only against the condition to increase the rent by 10 *per cent* every three years as per the Government approval, which was unauthorised.
- The lease agreement provided discretionary powers for revision of rent after five years and became due for revision in October 2010 in normal course. The Department did not revise the lease rent even though lessee was allowed (June 2010) business expansion by permitting him to undertake manufacture of different other products.
- The annual lease rent payable after five year term *i.e.,* October 2010, works out to ₹ 67.87 lakh[52] per annum calculated at seven *per cent* of the guidance value of the land leased. The total loss of revenue due to non-revision of lease rent works out to ₹ 2.29 crore[53] for the period from October 2010 to March 2014.

EE in his reply stated (May 2014) that a proposal to revise the lease rent has been submitted to higher authorities.

The matter was referred to Government in April 2014; their reply was awaited (October 2014).

3.10 Inadmissible payment

Price adjustment for variation item amounting to ₹ 1.02 crore was paid to a contractor in contravention of contractual provisions.

The Executive Engineer, National Highways, Bengaluru (EE) awarded (July 2010) the work of "Construction of major bridge across Kabini river at km 240.450 of National Highway-212" to a contractor on tender basis at ₹ 34.90 crore for completion within 30 months. The agreement included price adjustment clause towards increase or decrease in cost of materials, labour, fuel and lubricants *etc.,* as per specified formula and adjustment was to be made monthly on the total value of work done during the month. In terms of Clause 47 of the agreement, the total value of work done during the month excludes value for works executed under variations where the price adjustment was to be worked out separately on the terms mutually agreed.

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[52] For one *acre* 7% of ₹ 85,00,000 + 25% for industrial purposes (₹ 85 lakh per *acre* as per guidance value issued by Inspector General of Registration & Commissioner of Stamps, Government of Karnataka in April 2007)
i.e. ₹ 5,95,000 + ₹ 1,48,750 = ₹ 7,43,750. For 9 *acres*: (9 × ₹ 7,43,750) = ₹ 66,93,750 & for 5 *guntas:* (₹ 7,43,750 ÷ 40) × 5 = ₹ 92,969.
For the entire area: (₹ 66,93,750 + ₹ 92,969) = ₹ 67,86,719

[53] (₹ 67,86,719 – ₹ 2,31,000) ÷ 12 × 42 months = ₹ 2,29,45,017

The work *inter-alia* included construction of Reinforced Earth Walls (RE Wall). MORTH[54] while according (July 2008) technical approval for the work stipulated that steel reinforcement shall be used for RE Wall. The estimate prepared by a consultant adopted market rate (₹ 4,000 per sqm) for the RE Wall, as Schedule of Rate of National Highway Circle, Bengaluru for 2007-08 did not have rate for RE Wall. The contractor had quoted ₹ 4,300 per sqm for the RE Wall. The conditions to be followed for execution of RE Wall by using galvanised steel for earth reinforcement were issued to contractor in February 2011. The contractor represented (April 2011) that material for earth reinforcement was not specified in tender and suggested using polymer strips instead of galvanised steel strips. The Department after obtaining rates from empanelled agencies approved (January 2012) revised rate of ₹ 4,276.33 per sqm for RE Wall using polymer strips. A supplementary agreement was concluded (February 2012) with the contractor for this variation item. The contractor had been paid ₹ 36.92 crore towards running account bills and ₹ 7.53 crore towards price adjustment as of June 2013.

Scrutiny of records of Executive Engineer, National Highway Division, Bengaluru (EE) showed (October 2013) that while making payment for price adjustments, the Division paid ₹ 1.02 crore towards price adjustment against the works executed under the supplementary agreement. This was inadmissible and beyond the scope of contractual provisions as the supplementary agreement did not provide for such price adjustment.

On this being pointed out (October 2013), EE replied (May 2014) that:

- The contractor was asked to provide a detailed rate analysis for the tendered item by considering polymer strips and the approval for the same had been given by competent authority for this pre-tendered rate.
- Conditions contained in the original agreement were applicable for supplementary agreement and price adjustment had been paid as per Clause 47.1 of conditions of contract irrespective of whether the item was original or variation item.

The reply was not accepted for the following reasons:

- The contractor had furnished (December 2011) detailed rate analysis for RE wall using polymer strips as well as steel strips with ₹ 2,908 and ₹ 4,963 per sqm respectively when rates were sought by the Department. The rate of ₹ 4,276.33 per sqm of RE Wall using polymer strips was approved (January 2012) by the Department after obtaining quotation from empanelled firms and was much higher than the rate of ₹ 2,908 per sqm quoted by the contractor. As the prevailing market rate was paid, the Department's contention that pre-revised rate was paid was incorrect/ misleading.

[54] Ministry of Roads, Transport & Highways, Government of India

- As the original agreement provided that the total value of work done for the purpose of price adjustment shall exclude the value of work executed under variations and the supplementary agreement also did not contain provision for payment of price adjustment, the reply that price adjustment is applicable on the works executed under supplementary agreement is not acceptable.

The matter was referred to Government in July 2014; their reply was awaited (October 2014).

WATER RESOURCES DEPARTMENT – MINOR IRRIGATION

3.11 Idle investment

Defective planning, improper monitoring and failure to dovetail the components of a lift irrigation scheme resulted in idle investment of ₹ 2.30 crore. The objective of irrigating 660 *acres* of land even after seven years was also not achieved.

Detailed survey and investigation, proper planning and monitoring, dovetailing of different components are critical for completion of a work in a time bound manner to derive intended benefits.

The existing Lift Irrigation Scheme (LIS) at Hirepadasalagi in Jamakhandi taluk of Bagalkot district, constructed in 1979, was proposed to be rejuvenated under NABARD[55] assistance work at an estimated cost of ₹ 2.63 crore. The rejuvenation of LIS was conceived to provide irrigation to 660 *acres, i.e.* fresh area of 600 *acres* and 60 *acres* of the existing command area of LIS. The project proposed to utilise existing intake well, intake pipe and jack well besides providing new rising main[56], pumps and canals. The estimate also provided for acquisition of 16 *acres* and 32 *guntas* of land for rising main and canals. The work for rejuvenation of LIS at Hirepadasalagi was entrusted (February 2007) to a contractor on tender basis for ₹ 2.19 crore by the Chief Engineer, Minor Irrigation (North), Vijapur (CE) for completion within 12 months.

During execution of the work, the farmers of fresh Command Area intimated (April 2009) that irrigation facilities need not be given to them as they had made arrangements by erecting their own pump sets. Hence, another command area to an extent of 560 *acres* was identified in Savalagi village for providing irrigation facilities which necessitated increase in the length of

[55] National Bank for Agriculture and Rural Development
[56] Rising main is the pipeline, which conveys the pumped water to the delivery cistern

rising main involving an additional cost of ₹ 34.54 lakh. This necessitated granting extension of time to the contractor till March 2011. Despite grant of extension of time, the contractor could not complete the work and finally the contract was terminated (May 2012) by the CE at the risk and cost of the contractor. The balance work yet to be taken up included laying of 1,155 meters of rising main, construction of delivery chamber, *etc.,* which is estimated at ₹ 40.45 lakh. The contractor had been paid ₹ 1.79 crore which included ₹ 24.65 lakh towards pumping machinery. The total expenditure incurred was ₹ 2.30 crore including land acquisition payment (March 2014).

Scrutiny of records revealed that:

- Pre-project survey was deficient as it failed to consider already developed command area into account before sanctioning the project for which there was no apparent need. Further, no details were forthcoming from records regarding details of survey numbers of new command area.
- The land was acquired after the entrustment of work which had contributed for delay in completion of work. The balance land to the extent of 3 *acres* and 13 *guntas* was yet to be acquired.
- The pumping machinery was supplied (February 2010) by contractor ahead of its requirement which had remained (October 2014) untested.
- The CE had approved termination of contract at risk and cost of contractor during May 2012, but EE had actually terminated the contract during July 2013. The reasons for delay in terminating of the contract were not on record. The security deposit of ₹ 9.01 lakh also had not been forfeited.

Thus, the project which commenced seven years ago with availability of committed funds and was originally projected for completion by March 2008, was still incomplete (October 2014) on account of inadequate planning and delay in acquisition of land leading to idle investment of ₹ 2.30 crore. Further, no time frame had been fixed for completion of the project.

The matter was referred to Government in July 2014; their reply was awaited (October 2014).

3.12 Unfruitful expenditure

Tendering of work for construction of minor irrigation tank along with canals that was not in conformity to the specifications of sanctioned estimate led to termination of contract before completion and unfruitful expenditure of ₹ 1.97 crore.

The construction of "Minor Irrigation tank (MI Tank) near Attawad village, Belagavi taluk and district" estimated to cost ₹ 1.71 crore was taken up by Executive Engineer, Minor Irrigation Division, Belagavi (EE) under RIDF[57] – XIV (NABARD[58]) during 2009-10 for providing irrigation to 110 hectares (ha) with benefit cost ratio[59] of 2.12. The sanctioned estimate included construction of earthen bund, waste weir, irrigation canal, land acquisition of 11.303 ha, contingency, survey, *etc.* The work portion (excluding land acquisition, contingency and survey) estimated to cost ₹ 1.36 crore was tendered and entrusted (February 2010) to a contractor at ₹ 1.53 crore for completion in nine months.

The contractor completed the work excluding canals in June 2012. The construction of canals comprising right bank and left bank canals for a length of 1.5 km each could not be taken up as farmers demanded lined canals[60], which was not provided in the tender. As the canal work could not be taken up by the contractor, the termination of the contract without risk and cost was approved (July 2013) by Chief Engineer, Minor Irrigation (North), Vijapur (CE). The final bill for ₹ 1.34 crore was paid (October 2013) and provisional completion certificate was issued in November 2013. As of March 2014, total expenditure of ₹ 1.97 crore had been incurred on the work including amount deposited towards land acquisition (₹ 57.08 lakh) and contingency charges (₹ 6.20 lakh).

Review of records of EE (November 2013) revealed that the Technical Appraisal Committee (TAC) while approving the project had recommended (27 August 2007) to provide half round pipe to canals to achieve economy and ease of construction. The technical sanction accorded by CE at an estimate of ₹ 1.71 crore included suitable lining to canals with a provision of ₹ three lakh as recommended by TAC. However, the component of lining to canal was not included in the tender. The EE in his compliance to the TAC observations stated (August 2007) that canal lining was not considered to minimise project cost and to bring within benefit cost ratio. It was, however, observed that since the benefit cost ratio was as high as 2.12, providing lining to canals

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[57] Rural Infrastructure Development Fund

[58] National Bank for Agriculture and Rural Development

[59] Benefit cost ratio is the ratio of net incremental benefit accrued in a project between pre and post irrigated conditions to the annual costs for such irrigation

[60] The earthen surface of a canal is lined with stable surface by means of concrete, pre-cast slabs, asphalt, *etc.*, to reduce seepage loss; ensure smooth flow of water; reduce maintenance cost and prevent water-logging

would not have adversely affected the project economics and thus omission of lining of canal component at tender stage was injudicious.

Thus, non-completion of canals due to tendering the work not in conformity with the approved specifications led to farmers being deprived of direct irrigation and unfruitful expenditure of ₹ 1.97 crore.

The matter was referred to Government in April 2014; their reply was awaited (October 2014).

3.13 Unnecessary consumption of steel

Failure to revise a design occasioned by use of a higher grade steel than originally envisaged in the work of construction of protection wall, resulted in extra expenditure of ₹ 1.80 crore.

In case of steel used for reinforcement in cement concrete structures, TMT[61] Fe[62] 500 grade steel has more tensile strength than TMT Fe 415 grade steel. On account of higher tensile strength of TMT Fe 500 grade steel, its requirement would be lower as compared to Fe 415 grade steel. The requirement of TMT Fe 500 would be 0.83 metric tonne (MT) to achieve the same results as one MT of Fe 415 grade steel. For reinforcement concrete works, the IS Code 1786 specifies use of steel produced by primary steel manufacturers only. The schedule of rates of Minor Irrigation Circle, Mysuru for 2009-10 contained steel rates for TMT Fe 500 grade steel.

The contract for "Construction of protection wall for the right bank of Hemavathi river in Holenarasipur town" was awarded (March 2012) to a contractor at a cost of ₹ 35.91 crore to be completed within 14 months. The work was under progress and the contractor had been paid ₹ 33.07 crore till the end of March 2014.

Scope of the work *inter-alia* included "providing, fabricating and placing in position reinforced steel for structure" with total requirement of 1,768.95 MT of TMT Fe 415 grade steel as per the estimate prepared by a consultant. The contractor had quoted ₹ 61,473.93/MT for the reinforcement item. Scrutiny of records (July 2013) revealed that the contractor had used TMT Fe 500 grade steel for reinforcement against Fe 415 grade steel as per the designs. Even though the contractor had used TMT Fe 500 grade steel, the Department did not revise the design duly factoring the usage of higher grade steel which would have effectively brought down the cost due to lower steel requirement. The contractor had already been paid for 1,720.48 MT till March 2014.

[61] Thermo-Mechanically Treated

[62] As per IS 1786, the figures following the symbol Fe indicate the specified minimum 0.2 *per cent* proof stress or yield stress in N/mm^2

Failure to revise the design resulted in unnecessary consumption of 292.48 MT[63] of steel with resultant extra expenditure of ₹ 1.80 crore[64] at tendered rate.

On this being pointed out (July 2013), the Executive Engineer, Minor Irrigation, Hassan (EE) stated (February and May 2014) that:

- Tensile strength, spacing of bars and cross sectional area of steel bars for unit area of concrete were considered. If lesser quantity of Fe 500 steel was used, the tensile strength could be achieved but other two parameters would not be satisfied. EE also stated that usage of Fe 500 would result in lesser consumption of steel.
- The difference between two grades of steel was less and change of design would have resulted in additional expenditure towards drawings, payment at higher rate for Fe 500 and abnormal compensation for delay in issuing revised designs.
- The contractor had used Fe 500 grade steel as per availability in the market though designs were prepared based on Fe 415 grade steel.

The reply was not acceptable for the following reasons:

- The design could have been suitably modified by usage of different diameter of the Fe 500 steel and adjusting the spacing of bars suitably without affecting the requirement of cross sectional area.
- The consultant was paid ₹ four lakh for preparation of design and drawings. The additional expenditure incurred would be less than what was originally paid and negligible considering substantial savings realisable in using Fe 500. Also, the tender rate is revised when quantity of item is increased or decreased by 25 *per cent* of the tender quantity as per provision of the contract. Since the reduction in quantity works out to 17 *per cent,* revising the tender was not required as the variation in quantity was below the prescribed limit.

Thus, failure to revise the design with reference to the higher grade of steel used in the work resulted in extra cost of ₹ 1.80 crore which was avoidable.

The matter was referred to Government in March 2014; their reply was awaited (October 2014).

[63] (Total steel consumed × 17 *percent* saving) = (1,720.48 × 0.17) = 292.48 MT
[64] 292.48 MT × ₹ 61,473.93/MT = ₹ 1,79,79,895 as per tendered rate

WATER RESOURCES DEPARTMENT – TUNGABHADRA PROJECT

3.14 Undue benefit to a contractor

In one work, 25 *per cent* weightage amounting to ₹ 29.17 crore was paid in the second running account bill contrary to tender conditions to pay it in final bill, resulting in undue benefit to contractor and a loss of ₹ 1.84 crore to the exchequer.

The Schedule of Rates (SR) of Water Resources Department for 2011-12 and 2012-13 allowed 25 *per cent* weightage for all the items under "Modernisation of canal network including structures" for completion of work during the canal closure period. The 25 *per cent* weightage was payable in last/final bill only if the contractor completed 90 *per cent* of the value of the "Modernisation works" within the single closure period of three to four months. As per SR, a suitable clause should be incorporated in the tender documents for admissibility and regulation of 25 *per cent* weightage.

The estimate of work of "Modernisation of Tungabhadra Left Bank Canals from 167 km to 220 km and its distributaries (in selected reaches)" for ₹ 136.46 crore based on SR 2011-12 was technically sanctioned by Chief Engineer, Irrigation Central Zone, Munirabad (CE) during July 2012. The contract was awarded (April 2013) on tender basis to a contractor for ₹ 151.30 crore (inclusive of 25 *per cent* weightage) with stipulation to complete the work before 23 July 2013. The contractor did not complete the work in all respects in the stipulated period and value of work done as per second running account bill for the work done up to 19 July 2013 aggregating to ₹ 148.18 crore was paid during October 2013.

Scrutiny of records (February 2014) of Executive Engineer, Canal Division No.5, Yermarus (EE) showed that despite non-completion of work relating to four distributaries, 14 pipe outlets and 20 guide-walls within stipulated period, no action was taken by Department to levy penalty[65] as per Clause 2 (d) of the agreement. However, 25 *per cent* weightage amounting to ₹ 29.17 crore was paid to the contractor in the second running account bill instead of the final bill as specified in the SR and also in the Schedule 'B' of the tender documents. The premature release of 25 *per cent* weightage of ₹ 29.17 crore much before requirement, constituted extending unauthorised benefit to the contractor and entailed financial loss of ₹ 1.84 crore[66] to the State exchequer towards interest, as capital works are financed through borrowings.

[65] The penalty of one *per cent* of the estimated cost of the balance work per day and shall not exceed 7.5 *per cent* of the estimated cost of the work

[66] ₹ 29.17 crore × 9.45% for eight months from November 2013 to June 2014 based on the average interest paid by Government of Karnataka during 2013-14

The EE in reply stated (July 2014) that action would be taken to levy penalty as per conditions of contract and that 25 *per cent* weightage in second Running Account bill was paid by the Chief Accounts Officer, Karnataka Neeravari Nigam Limited. It was however seen that bill was admitted by the EE for making payment by the Chief Accounts Officer and he was therefore also responsible for allowing the payment.

Thus, the premature release of ₹ 29.17 crore to the contractor resulted in extending undue financial benefit to the contractor and entailed financial loss of ₹ 1.84 crore to the Government.

The matter was referred to Government in May 2014; their reply was awaited (October 2014).

Angam Chand

Bengaluru **(L. Angam Chand Singh)**
The 28 NOV 2014 **Principal Accountant General**
(Economic and Revenue Sector Audit)
Karnataka

Countersigned

New Delhi **(Shashi Kant Sharma)**
The - 2 DEC 2014 **Comptroller and Auditor General of India**

Appendices

Appendix 1.1
(Reference: Paragraph 1.7.1, Page 6)

Year-wise breakup of outstanding Inspection Reports and Paragraphs in respect of Co-Operation and Water Resources (Minor Irrigation) Departments as of March 2014

Year of issue	Period of IR	Co-operation Department		Water Resources Department (Minor Irrigation)	
		No. of IRs	No. of Paragraphs	No. of IRs	No. of Paragraphs
Up to 2001-02	Up to 2000-01	37	110	08	13
2002-03	2000-02	03	11	-	-
	2001-02	01	01	03	03
2003-04	2002-03	-	-	07	16
2004-05	2001-04	01	03	-	-
	2002-04	01	05	-	-
	2003-04	01	01	07	17
2005-06	2001-05	02	06	-	-
	1980-2005	01	01	-	-
	1995-2005	01	01	-	-
2006-07	2003-06	01	01	02	04
	1995-2006	01	02	-	-
	2004-06	-	-	04	06
	2005-06	01	01	11	31
2007-08	2001-07	01	01	-	-
	2006-07	02	02	01	02
2008-09	2002-08	01	01	-	-
	2006-08	-	-	08	30
	2007-08	-	-	06	16
2009-10	2005-09	01	03	-	-
	2008-09	01	02	07	17
2010-11	2006-10	01	03	-	-
	2007-10	01	08	-	-
	2008-10	02	07	03	06
	2009-10	01	01	08	19
2011-12	2000-11	01	08	-	-
	2004-11	01	14	-	-
	2005-11	01	03	-	-
	2007-11	01	08	-	-
	2008-11	-	-	01	10
	2010-11	02	07	12	36
	2009-11	-	-	01	01
2012-13	2010-12	-	-	01	04
	2011-12	01	05	17	108
2013-14	2008-13	-	-	01	06
	2012-13	02	09	17	230
	TOTAL	71	225	125	575

(Source: Inspection Reports issued for the period up to 2013-14)

Appendix 1.2
(Reference: Paragraph 1.7.3, Page 6)

Details of Departmental Notes pending as of 31 July 2014

Sl. No.	Department	2003-04	2004-05	2005-06	2008-09	2009-10	2010-11	2012-13@
1	Commerce & Industries	-	-	-	01	-	-	04
2	Co-operation	-	-	01	-	-	-	-
3	Forest, Ecology & Environment	01	-	-	-	-	-	01
4	Horticulture (Sericulture)	-	-	-	-	-	-	01
5	Information Technology, Bio-technology and Science & Technology	-	-	-	-	-	-	01
6	Water Resources (Minor Irrigation)	-	02	-	03	01	-	01
7	Public Works, Ports & Inland Water Transport	01	-	-	-	-	01	07
8	Tourism	-	-	-	-	-	01	-
	TOTAL	**02**	**02**	**01**	**04**	**01**	**02**	**15**

@ Report on Economic Sector

Appendix 1.3
(Reference: Paragraph 1.7.4, Page 6)

Number of paragraphs/reviews yet to be discussed by PAC as of 31 July 2014

Sl. No.	Department	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12@	12-13@	Total
1	Forest, Ecology & Environment	01	-	01	02	-	-	-	-	02	03	01	-	-	-	01	02	-	02	01	01	17
2	WRD	14	07	07	06	08	07	02	02	02	06	-	-	-	-	-	-	-	-	-	-	61
3	WRD (MI)	01	05	03	05	04	02	-	-	-	-	01	02	01	-	-	03	02	01	-	01	31
4	PWD	-	02	02	04	01	-	-	-	-	-	01	-	-	-	-	-	-	-	-	07	17
5	RDPR(PHE)	-	01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	01
6	Co-operation	01	-	-	-	-	-	-	-	-	-	-	-	01	-	-	-	-	-	-	-	02
7	Commerce & Industries	-	-	-	-	-	02	01	01	-	-	-	-	-	01	-	01	-	01	-	04	11
8	Horticulture (Sericulture)	-	-	-	-	-	01	01	-	-	-	-	-	-	-	-	-	-	-	-	01	03
9	IT&BT	-	-	-	-	-	-	-	-	-	-	02	-	-	-	-	-	-	-	-	01	03
10	Tourism	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	01	-	-	01
	TOTAL	17	15	13	17	13	12	04	03	04	09	05	02	02	01	01	06	02	05	01	15	147

@ Report on Economic Sector

APPENDIX 2.1
(Reference: Paragraph 2.1.14, Page 28)

Statement showing un-irrigated area under projects in spite of completion of field irrigation channels

(Area in ha)

Sl No.	Project	Area for FIC created as of March 2013	Actual area irrigated as of March 2014	Area not irrigated
1	Kabini	44,524	42,520	2,004
2	Harangi	53,687	42,080	11,607
3	Hemavathi	1,26,420	1,04,000	22,420
4	Bennethora	20,234	18,993	1,241
5	Amarja	6,067	2,873	3,194
6	Bhima lift	4,888	181	4,707
7	Karanja	22,793	21,342	1,451
8	Kagina	7,689	*	7,689
9	Upper Krishna	5,98,690	5,13,299	85,391
10	Bhima flow	12,170	*	12,170
11	Manjra lift	2,752	*	2,752
12	Areshankar	1,255	*	1,255
13	Nagathana	650	*	650
14	Ramanahalli	1,943	*	1,943
15	Malaprabha	2,03,127	1,35,102	68,025
16	Ghataprabha	2,76,971	2,32,176	44,795
	TOTAL	**13,83,860**	**11,12,566**	**2,71,294**

* Not irrigated

APPENDIX 3.1

(Reference: para 3.1.4.1, Page 41)

Payment made by Government to Banks towards OTS

Name of the CSF	Name of the bank	Amount (₹ in crore)		Total (₹ in crore)
		Principal	Interest	
Vanivilas	APEX bank	4.47	1.74	6.21
	DCC bank, Tumakuru	1.30	0.84	2.14
	DCC bank, Davanagere	3.41	2.24	5.65
	DCC bank, Chitradurga	4.46	2.14	6.60
	Sub-total	*13.64*	*6.96*	*20.60*
Karnataka	APEX bank	9.04	3.24	12.28
	DCC bank, Tumakuru	3.00	1.81	4.81
	DCC bank, Dharwad	0.45	0.29	0.74
	Sub-total	*12.49*	*5.34*	*17.83*
Pandavapura	APEX bank	5.24	1.10	6.34
	DCC bank, Mysuru	3.98	2.07	6.05
	DCC bank, Shivamogga	3.22	0.50	3.72
	DCC bank, DK	3.38	1.20	4.58
	Sub-total	*15.82*	*4.87*	*20.69*
Bhagyalakshmi	APEX bank	4.33	4.92	9.25
	TOTAL	46.28	22.09	68.37

APPENDIX 3.2
(Reference: Paragraph 3.3, Page 44)

Statement showing loss of interest due to delay in collection of differential cost

Sl No	Name of the allottee	Date of raising demand	Completed months between approval and demand	Differential cost collected (in ₹)	Loss of interest (in ₹)			
					Interest from 30 days after approval to 31.3.09 @ 7%	Interest from 1.4.09 to 31.3.11 @8.1%	Interest from 1.4.11 till date of demand @ 8.25%	Total
I	**Malur III phase Industrial Area (final rate approved on 31.03.2008)**							
1	Dhanvantari Botanicals	23.06.2012	49	30,81,521	1,97,731	4,99,206	2,96,596	10,07,657
2	PEP Charles Limpens Pvt Ltd	10.05.2012	48	10,29,335	66,049	1,66,752	91,997	3,29,516
3	Precise Hydraulics	27.08.2012	51	9,76,444	62,655	1,58,184	1,07,409	3,32,724
4	Amara Print Pack Industries	22.10.2011	41	2,46,412	15,811	39,919	10,164	67,024
5	Ponni Industries	07.09.2012	52	2,42,900	15,586	39,350	28,389	84,438
6	Tracktech Intl Pvt Ltd	27.04.2012	47	9,78,381	62,779	1,58,498	80,716	3,06,478
7	Shri Durga Biotech	28.09.2012	52	3,92,200	25,166	63,536	45,838	1,36,338
8	Pure Chemicals Laboratories Pvt Ltd	28.09.2012	52	4,11,175	26,384	66,610	48,056	1,42,934
9	Gayatri Chemicals	28.09.2012	52	5,06,784	32,519	82,099	59,230	1,76,170
10	Kamat Chlortech	28.09.2012	52	3,92,442	25,182	63,576	45,867	1,36,423
11	AMP Auto Components	17.08.2012	51	4,44,631	28,530	72,030	48,909	1,51,507
12	Goodwin Engineers & Machinists	11.10.2012	53	4,90,256	31,458	79,421	60,669	1,73,795
13	Lakshmi Infrastructure and Profiles	20.07.2012	50	5,14,769	33,031	83,393	53,086	1,71,869
14	Auto Ind Forging (India) P Ltd	23.01.2013	56	2,51,358	16,129	40,720	36,290	94,291
15	Mahinoor Golden Rocks	06.12.2012	55	1,76,741	11,341	28,632	24,302	65,085
16	AMP Auto Products	27.06.2012	49	5,14,769	33,031	83,393	49,547	1,68,330
17	Flowline Fules	15.12.2012	55	7,17,662	46,050	1,16,261	98,679	2,64,279
II	**Bidadi Industrial Area (final rate approved on 31.03.2008)**							
18	Ingersol Rand International (India) Ltd	22.03.2012	46	1,06,64,414	6,84,300	17,27,635	8,06,496	32,67,309
19	Prem Packaging Industries	10.12.2012	55	18,29,616	1,17,400	2,96,398	2,51,572	6,73,756

III	**Bommasandra Jigani Link Road Industrial Area (final rate approved on 28.05.2008)**							
20	Sobha Interiors Private Ltd	16.07.2012	48	2,51,37,105	13,19,698	40,72,211	25,92,264	80,78,437
21	Futuristic Diagnostic Imaging Centre P Ltd	27.03.2013	56	2,30,52,627	12,10,263	37,34,526	34,86,710	85,17,946
22	Cobra Carbide Private Ltd	27.08.2012	49	30,01,030	1,57,554	4,86,167	3,30,113	9,85,088
23	Shobha Developers Limited	26.07.2012	48	1,19,95,967	6,29,788	19,43,347	12,37,084	38,55,204
24	Ekomate Systems India (P) Ltd	14.05.2012	46	14,85,964	78,013	2,40,726	1,32,808	4,57,119
25	R K Exports	15.01.2013	54	53,54,111	2,81,091	8,67,366	7,73,000	19,41,535
26	Garnier Seatings	15.01.2013	54	7,41,314	38,919	1,20,093	1,07,027	2,68,819
27	Punit Reach Logistics	08.03.2011	32	75,14,810	3,94,528	11,66,674	0	15,89,382
28	Lakshmi Machine Tools and Castings	23.01.2012	42	7,41,314	38,919	1,20,093	45,869	2,07,661
29	Modern Industries	15.05.2012	46	13,80,785	72,491	2,23,687	1,23,408	4,24,764
30	Paragon Arts and Exports	07.02.2013	55	28,87,415	1,51,589	4,67,761	4,36,722	10,66,900
31	Quality Auto Products P Ltd	04.12.2012	53	7,41,314	38,919	1,20,093	1,01,931	2,63,723
32	Uma Engineering Works	16.10.2012	51	12,52,900	65,777	2,02,970	1,55,046	4,28,492
33	Dolphin Die Cast (Pvt) Ltd	06.11.2012	52	14,90,040	78,227	2,41,386	1,94,636	5,19,837
34	Centre for Symbiosis of Tech, Env and Mgmt (STEM)	28.09.2012	50	28,45,532	1,49,390	4,60,976	3,32,572	9,53,609
35	Manjunatha Industries	06.12.2012	53	4,24,097	22,265	68,704	58,313	1,50,872
36	Onco Therapies Ltd	21.01.2013	54	57,63,714	3,02,595	9,33,722	8,32,136	20,90,067
37	Agila Specialities Pvt Ltd	16.01.2013	54	92,85,180	4,87,472	15,04,199	13,40,548	33,67,038
			TOTAL	**12,89,57,029**				**4,27,29,916**

APPENDIX 3.3
(Ref: Paragraph 3.7, Page 50)
Statement showing the excess payments made

(Amount in ₹)

Sl No	LAC No.	Survey number	Area (A-G-An) *	Name	Total payment to be made	Total payment made	Excess payment made
1	24/1988	38/33	0-3-0	Jinnappa Tupale	1,64,602	2,08,123	43,521
2	26/1988	43/1	0-6-0	Dhanapal Dada Mughdam and others	3,42,817	4,71,242	1,28,425
3	28/1988	46/2,46/3	0-3-0	Rama A Gurav	1,90,486	3,23,357	1,32,871
4	30/1988	48	0-13-0	Ganganna K Athani	7,50,639	13,04,068	5,53,429
5	31/1988	16	0-16-0	Lagamanna A Gayakwad	9,46,973	20,07,038	10,60,065
6	32/1988	50/2	0-7-0	Bhemappa B Gayakawad	3,97,836	5,63,735	1,65,899
7	34/1988	56/2	0-12-0	Ishwar A Desai	6,70,429	9,79,458	3,09,029
8	35/1988	-	0-12-0	Anna K Suroshi	6,45,522	13,26,627	6,81,105
9	37/1988	80	0-15-0	Malagouda A Patil	8,62,353	12,10,712	3,48,359
10	38/1988	84/4	0-4-0	Kallu P Tupale by LR	2,28,605	4,70,188	2,41,583
11	39/1988	39/88	0-8-0	Bharma Bhima Balol	4,83,555	7,22,004	2,38,449
12	40/1988	85/1	0-6-0	Kallappa Sidram Halbatti	3,43,065	4,84,241	1,41,176
13	41/1988	86,87/1,87/2	0-14-0	Malagonda A Patil	7,98,710	12,55,379	4,56,669
14	42/1988	85/2	0-3-0	Dhareppa Parisa	1,71,391	2,71,091	99,700
15	43/1988	87/3, 87/4	0-8-0	Babasaheb Ramu Dubale	4,51,398	7,22,399	2,71,001
16	44/1988	88/1	0-7-0	Tatya N Biradara	3,75,992	4,59,570	83,578
17	45/1988	88/3	0-4-0	Appa P Biradar	2,15,359	2,60,247	44,888
18	47/1988	89/5	0-4-0	Bhima Annu Gurav	2,28,538	3,53,647	1,25,109
19	48/1988	76/1, 92/2	0-9-0	Appanna Babu Koganoli	3,51,344	9,63,875	6,12,531
20	49/1988	92/4	0-8-0	Appanna Babu Koganoli	4,46,883	7,22,004	2,75,121
21	52/1988	100/2	0-4-8	Annappa @Jinnappa	2,56,767	3,66,151	1,09,384
22	53/1988	100/6	0-5-8	Bhimappa G A	3,13,834	3,31,410	17,576
23	106/1989	95/1	0-8-0	Appasab D Patil	4,63,814	11,17,397	6,53,583
24	109/1989	39	1-15-0	Thammaji K Kulakrni	31,67,005	60,38,404	28,71,399
25	114/1989	51	0-10-0	Ratnabai Malagowda Patil	5,82,124	10,40,451	4,58,327
26	115/1989	52/1+2	0-5-0	Bapugouda R Patil	2,88,236	5,13,923	2,25,687
27	117/1989	54	0-3-0	Balu Laxman Kurabar	1,71,515	2,71,191	99,676
28	119/1989	62	0-25-0	Hirachand Premachand Shaha	14,42,999	30,19,383	15,76,384
29	120/1989	63	0-28-0	Narshinha J Mohite	16,42,117	33,81,608	17,39,491
30	121/1989	148	0-25-0	Jinnappa B Kamate	13,45,482	29,54,527	16,09,045
31	122/1989	-	0-21-0	Narshinha B Kulakarni	12,06,713	21,81,916	9,75,203
32	123/1989	350	0-26-0	Narasappa A Khurpe	15,04,534	30,38,890	15,34,356
33	124/1989	352/1	0-11-0	Herachand P Shaha	6,45,110	12,36,962	5,91,852
34	125/1989	1	0-7-0	Namadev Nemanna Mehar	3,99,947	5,66,483	1,66,536
35	126/1989	2	0-25-0	Anna N Magan	14,28,061	20,12,814	5,84,753
36	127/1989	41, 37	0-25-0	Appasab Anna Manjari	14,66,388	26,89,733	12,23,345
37	128/1989	38/1, 43/3, 53/2, 100/4	0-23-0	Duryodan Bhima Magadum	13,10,256	16,90,063	3,79,807
38	133/1989	47/1	0-6-0	Vikas B Khot	3,16,723	4,30,844	1,14,121
39	134/1989	46/5, 57/2, 57/4	0-20-0	Dhanapal A Nidagundi	11,57,336	20,25,161	8,67,825
40	135/1989	51/1, 51/2	0-6-0	Mallu Bhima Kanawade	3,32,243	4,65,120	1,32,877
41	136/1989	59	0-5-0	Kallappa Ningappa Kamble	2,82,399	3,21,629	39,230
42	138/1989	74	0-38-0	Tippanna Laganna Manjari	21,50,899	33,65,215	12,14,316
43	141/1989	76/2	0-3-0	Sawant Dhareppa Chougale	1,67,822	2,59,718	91,896
44	142/1989	77	0-3-0	Dadu Dhareppa Chougale	1,67,648	2,23,865	56,217
45	143/1989	78	0-6-0	Sundarabai Ramu Dubale	3,51,365	4,85,559	1,34,194
46	144/1989	83	0-15-0	Appa Annu Gurav	8,47,539	13,58,255	5,10,716
47	146/1989	85/3	0-3-0	Dhareppa Bhopal Koganoli	1,70,594	2,74,579	1,03,985
48	147/1989	89/1	0-5-0	Honnappa S Gurav	2,93,686	5,64,428	2,70,742
49	149/1989	90	0-17-0	Mallappa Bhimappa Gurav	9,60,542	15,50,639	5,90,097
50	153/1989	94/5, 95/3, 95/4	0-11-0	Bharma B Kalapatil	8,08,033	9,96,941	1,88,908

51	154/1989	152	0-15-0	Dattu Rama Gurav	8,63,308	14,86,960	6,23,652
52	155/1989	1/1, 1/18	0-9-0	Shankar M Kamble	4,98,453	7,19,988	2,21,535
53	158/1989	1/-4	0-6-0	Nagappa yellappa Kamble	3,45,904	5,98,838	2,52,934
54	159/1989	-	0-13-0	Ramu K Aitwate	7,50,639	13,87,247	6,36,608
55	160/1989	1/-7	0-3-0	Ammanna Aba Kamble	1,71,357	2,43,430	72,073
56	161/1989	1/9A	0-3-0	Laxman Bhima kamble	1,71,357	2,60,378	89,021
57	163/1989	1/-10	0-5-8	Basappa L Kamble	3,17,485	5,84,042	2,66,557
58	168/1989	96	0-9-0	Vimal Khot	5,20,664	10,62,595	5,41,931
59	172/1989	100/1	0-9-0	Parisa R Balol	5,13,569	7,28,324	2,14,755
60	173/1989	101/1, 105A	0-6-0	Shanakka Manjari	3,40,289	5,52,797	2,12,508
61	174/1989	101/1, 5B	0-6-0	Krishna T Manjari	3,46,451	6,31,168	2,84,717
62	175/1989	101/6	0-5-0	Mahaveer Bhimashetty	2,85,318	5,27,518	2,42,200
63	176/1989	102/C	0-5-0	Balagouda Patil	2,88,181	5,13,841	2,25,660
64	177/1989	-	0-14-0	Shidagouda Biradar	8,11,762	16,42,147	8,30,385
65	179/1989	103/2B	0-4-0	Bhimu Y Nandali	2,28,637	3,46,920	1,18,283
66	182/1989	105/2B, 105/3	0-2.5-0	Balagouda R Biradar	1,44,099	2,49,989	1,05,890
67	184/1989	106/1+2C	0-9-0	Annasab U Patil	4,82,546	5,94,070	1,11,524
68	186/1989	106/3+4, 117/1A, 117/1B	0-27.5-0	Malagouda S Bharmade	15,68,498	25,16,025	9,47,527
69	188/1989	106/8, 106/9	0-4-0	Malagouda R Peerannavar	2,31,848	4,22,501	1,90,653
70	189/1989	106/14	0-2-0	Rama S Peerannavar	1,15,452	2,05,069	89,617
71	190/1989	106/15	0-3-0	Ramu B Peerannavar	1,71,722	2,62,325	90,603
72	191/1989	107/2, 108/2, 121/1, 121/2	1-7-0	Basagouda Nandani	26,85,283	42,18,857	15,33,574
73	196/1989	106/8, 106/9	0-3-0	Mukund K Nandani	1,61,573	2,03,528	41,955
74	197/1989	112/2B	0-3-0	Shivagouda K Nandani	1,61,590	3,26,742	1,65,152
75	201/1989	114/1	0-19-0	Shashikant B Kulakarni	11,01,043	20,52,912	9,51,869
76	202/1989	115/1, 121/6, 121/7	0-13-0	Basagouda S Patil	7,00,254	8,58,033	1,57,779
77	203/1989	115/2, 115/4	0-5-0	Appasab B Tommane	2,85,899	4,48,389	1,62,490
78	205/1989	115/5, 123/11	0-15-0	Narasappa B Borgave	8,49,240	14,14,001	5,64,761
79	206/1989	89/4, 121/3, 121/7	0-11-8	Shankar A Gurav	6,63,059	11,14,208	4,51,149
80	208/1989	116/3	0-5-0	Mallappa R Shivanur	2,85,401	4,38,527	1,53,126
81	209/1989	116/4A, 116/4B	0-12-0	Savant D Ganeshwadi	6,76,769	10,90,141	4,13,372
82	210/1989	-	0-11-0	Lagamawwa L Navi	6,40,484	8,26,552	1,86,068
83	212/1989	118/3,118/5	0-4-0	Kallu K Sunadale	1,95,442	3,83,727	1,88,285
84	213/1989	-	0-3-8	Mallu T Manjari	2,03,037	3,39,069	1,36,032
85	214/1989	102/1b, 122/1	0-18-0	Jawahar B Patil	10,73,814	20,54,147	9,80,333
86	215/1989	122/2	0-12-0	Parvati S Kanwade	6,84,604	10,93,640	4,09,036
87	218/1989	122/5	0-2-0	Balagouda N Patil	1,14,346	1,73,249	58,903
88	219/1989	122/7	0-3-0	Sattewwa I Taral	1,71,183	2,42,639	71,456
89	220/1989	123/2	0-3-0	S J Chambar	1,73,216	2,42,775	69,559
90	221/1989	123/1, 123/4, 123/5, 123/6A	0-13-8	Babu Bhima Awaradi	7,78,076	17,59,912	9,81,836
91	222/1989	123/3, 123/6B	0-4-8	Appasab M Ningannawar	2,59,406	5,32,149	2,72,743
92	223/1989	101/3, 102/1A	0-5-0	Ramagonda K Patil	2,85,608	4,11,897	1,26,289
				TOTAL	**5,60,25,094**	**9,56,13,530**	**3,95,88,436**

* (A-*Acre*; G-*Gunta*; An-*Anna*) (16 *Annas*-1 *Gunta*; 40 *Guntas*-1 *Acre*)