Report of the Comptroller and Auditor General of India on Public Sector Undertakings

for the year ended March 2018

Government of Karnataka

Report No. 5 of the year 2019

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Preface

This report deals with the results of audit of Government Companies, Statutory Corporations and Departmental Commercial Undertakings for the year ended March 2018.

The accounts of the Government Companies (including companies deemed to be Government companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act, 1956, and Sections 139 and 143 of the Companies Act, 2013. The accounts, certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act, are subject to supplementary audit by the officers of the CAG and the CAG gives his comments or supplements the reports of the Statutory Auditors. In addition, these companies are also subject to test audit by the CAG.

The Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by the CAG for laying before the State Legislature of Karnataka under the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The CAG also conducts the audit of accounts of the State Road Transport Corporations, State Warehousing Corporation and State Finance Corporation as per their respective Legislations.

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2017-18 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports. The matters relating to the period subsequent to 2017-18 are also included wherever necessary.

The audit was conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

Overview

Overview of Government Companies and Statutory Corporations

Audit of Government Companies is governed by Sections 139 and 143 of the Companies Act, 2013 (Act). The accounts of Government Companies are audited by Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2018, the State of Karnataka had 94 working Public Sector Undertakings-PSUs (88 Companies and 6 Statutory Corporations) and 13 non-working PSUs (all Companies), which employed 1.95 lakh employees. The State PSUs registered a turnover of ₹ 63,834.61 crore during the year 2017-18 as per their latest finalised accounts. This turnover was equal to 4.87 *per cent* of the State Gross Domestic Product indicating the important role played by the PSUs in the economy. The PSUs had accumulated loss of ₹ 1,879.13 crore as per their latest finalised accounts.

1. Functioning of Power Sector Undertakings

Formation of Power Sector PSUs

The functions of generation, transmission and distribution of electricity in the State, which were under the control of the erstwhile Government of Mysore, Electrical Department, were transferred to Karnataka Electricity Board (KEB) after its formation with effect from 1 October 1957. Karnataka Power Corporation Limited (KPCL), which came into existence in July 1970 as fully owned State Public Sector Undertaking, has been the mainstay of power generation in the State through its hydro, thermal and renewable energy stations. Government of Karnataka (GoK) also took the initiative (1995) to form an exclusive entity called Karnataka Renewable Energy Development Limited (KREDL) for promoting renewable energy and energy conservation in the State.

Later in January 1997, GoK pronounced its general policy on power reforms which envisaged setting up of an Independent Regulatory Commission, reorganisation of KEB by separating generation, transmission and distribution functions, followed by reorganisation of the distribution function into several economically viable units. In pursuant to the said policy, Karnataka Electricity Reforms Act 1999 was brought into effect in June 1999 enabling establishment of Karnataka Electricity Regulatory Commission (KERC) and formation (July 1999/August 1999) of two new companies under the Companies Act, 1956 by carving out the functions of KEB *viz*. Karnataka Power Transmission Corporation Limited (KPTCL) for carrying out transmission and distribution functions and Visvesvaraya Vidyuth Nigama Limited (VVNL) for generation functions.

The GoK, in order to undertake further reforms and restructuring measures in the power sector, came out (January 2001) with a Power Policy Statement wherein it was decided *inter-alia* to restructure KPTCL into several utilities and their privatisation thereafter to promote the development of an efficient, commercially viable and competitive power supply industry, which can provide reliable quality supply at competitive prices to various classes of consumers in the State. In this direction, four independent distribution companies covering different regions in the State were formed under the Companies Act, 1956, which became functional with effect from 1 June 2002 *viz*. Bengaluru Electricity Supply Company Limited (BESCOM), Mangalore Electricity Supply Company Limited (MESCOM), Hubli Electricity Supply Company Limited (HESCOM) and Gulbarga Electricity Supply Company Limited (GESCOM). The fifth Distribution Company - Chamundeshwari Electricity Supply Corporation Limited (CESC) was carved out of MESCOM with effect from 1 January 2005. Further, VVNL, which was formed to carry out the generation functions of erstwhile KEB, was amalgamated (April 2006) with KPCL.

The GoK also set up (August 2007) a Special Purpose Vehicle *viz.* Power Company of Karnataka Limited (PCKL) to supplement the efforts of KPCL in generation capacity addition in the State by way of setting up of new power projects through bidding process and long term procurement of power.

Investments in Power Sector PSUs

As on 31 March 2018, the total investment (Equity and long-term loans) in 11 PSUs was ₹ 46,651.32 crore. The investment consisted of 31.33 *per cent* towards equity and 68.67 *per cent* in long-term loans.

The total investment in the Power Sector PSUs as on 31 March 2018 included investment of ₹ 12,471.92 crore by the State Government consisting of ₹ 11,986.46 crore as equity and ₹ 485.46 crore as long term loans. The investment grew by 41.86 *per cent* from ₹ 8,791.63 crore in 2013-14 to ₹ 12,471.92 crore in 2017-18.

Performance of Power Sector PSUs

Out of 11 Power Sector PSUs, six earned profit of ₹ 413.51 crore and five incurred loss of ₹ 2,019.09 crore. The major contributors to profit were Karnataka Power Transmission Corporation Limited (₹ 212.14 crore) and Bangalore Electricity Supply Company Limited (₹ 84.77 crore). Huge losses were incurred by Raichur Power Corporation Limited (₹ 1,562.76 crore), Gulbarga Electricity Supply Company Limited (₹ 312.84 crore) and Hubli Electricity Supply Company Limited (₹ 140.28 crore).

The Power Sector PSUs showed net aggregate profits of ₹ 372.60 crore, ₹ 422.87 crore and ₹ 19.25 crore during 2014-15, 2015-16 and 2016-17 respectively and incurred net aggregate loss of ₹ 533.59 crore and ₹ 1,605.58 crore during 2013-14 and 2017-18 respectively.

Return on State Government Funds

Out of 11 Power Sector PSUs of the State, the State Government infused funds in the shape of equity, interest free loans and grants/ subsidies in eight Power Sector PSUs only. The State Government did not infuse any direct funds in other three PSUs till 2017-18 and the equity of these PSUs was contributed by the holding companies concerned.

The funds infused by the State Government in these eight PSUs at the end of the year increased to ₹ 11,987.40 crore in 2017-18 from ₹ 4,536.03 crore as at 31 March 2010, as the State Government infused further funds in shape of equity (₹ 7,450.43 crore) and interest free loans (₹ 0.94 crore) during the period 2010-11 to 2017-18. The Present Value (PV) of funds infused by the State Government upto 31 March 2018 worked out to ₹ 18,085.30 crore.

The returns earned on State Government funds based on PV were less than the returns based on historical cost during 2014-15 to 2016-17. The return based on historical cost varied from 0.19 *per cent* to 4.10 *per cent* during 2014-15 to 2016-17, while the return based on PV varied from 0.13 *per cent* to 2.97 *per cent* during the same period. During 2013-14 and 2017-18, the Power Sector PSUs incurred overall losses of ₹ 534.58 crore and ₹ 39.61 crore respectively.

Quality of accounts

The quality of accounts of Power Sector PSUs needs improvement. During the year 2017-18, out of 17 accounts finalised, the Statutory Auditors gave unqualified reports on two accounts and qualified reports on 15 accounts. The compliance with the Accounting Standards by Power Sector PSUs remained poor as there were 64 instances of non-compliance in 13 accounts during the year.

Coverage of Report related to Power Sector PSUs

The Chapters related to Power Sector PSUs (Chapter II and Chapter III), includes observations emanating from the Performance Audit on **'Execution of Yeramarus Thermal Power Station of Raichur Power Corporation Limited'** and two compliance audit observations. The Executive summaries of the audit findings are given below:

2. Performance Audit on Power Sector PSUs

- **Performance Audit on 'Execution of Yeramarus Thermal Power Station of Raichur Power Corporation Limited'**

Introduction

To deal with the power shortage in the State, Karnataka Power Corporation Limited (KPCL), a State Public Sector Undertaking (PSU) involved in the generation of hydel/thermal power, explored the possibility of establishing one more thermal power station in the State. KPCL proposed (July 2007) to establish a 2 x 500 Mega Watt (MW) coal-based thermal power station at Yeramarus in Raichur District. Bharat Heavy Electricals Limited (BHEL), a Central Public Sector Undertaking, which was working on supercritical technology (800 MW Plants), evinced (May 2008) interest in having a Joint Venture (JV) with KPCL on mutually agreeable terms and conditions to execute the project. The Board of Directors of KPCL approved (June 2008) implementation of the Yeramarus Thermal Power Station (YTPS) at an enhanced capacity with two Units of 800 MW capacity each, *i.e.* 1,600 MW, in a Joint Venture with BHEL. It was stated that while KPCL was in a position to do the Project on its own in the XII five-year Plan (2012-17), joining with BHEL would ensure acceleration of the project and advance the project to the XI Plan/early XII Plan.

Constitution of Joint Venture Company for implementing the project

On approval (January 2009) of the Government for the Project, the KPCL entered (January 2009) into a Memorandum of Understanding with BHEL and executed (January 2009) a Joint Venture Agreement with it. Raichur Power Corporation Limited (RPCL, the Company) was incorporated on 15 April 2009. The JV envisaged bringing in Financial Institutions as a shareholder, and IFCI Limited was included as another JV partner in November 2011 for infusing ₹ 432.72 crore. The Share holding pattern as at the end of March 2018 was: KPCL-53.80 *per cent*, BHEL-27.97 *per cent* and IFCI Limited-18.23 *per cent*.

The Joint Venture Agreement envisaged that the JV Company shall formally issue a contract on BHEL for installing the Boiler, Turbine Generator (BTG) and their associated equipment on mutually agreed terms and conditions, which included Engineering, Procurement, Inspection and Construction supervision, as well as commissioning services of Boiler, Turbine Generator (BTG) and their associated equipment.

Audit Objective

The objective of the Performance Audit was to assess whether the objectives of YTPS to bridge the gap between demand and supply of power and provide electricity in a sustainable manner at a reasonable cost were achieved.

Audit Findings

- Though KPCL was facing difficulties with other Projects entrusted to BHEL, it formed a JV with BHEL without exploring the option of going in for a Public-Private Partnership for execution of the Project despite availability of various incentives under the scheme promoted by the GoK. *(Paragraph 2.1.8.2)*

- Failure to get the benefits (duty concessions) under Mega Power Status despite entering into a Power Purchase Agreement in December 2010 resulted in foregoing the benefit of ₹ 335.01 crore. *(Paragraph 2.1.8.3)*

- Due to changes in the layout and re-testing of soil by the Company, the completion of geo-technical work was delayed by 17 months from its milestone date. *(Paragraph 2.1.11)*

- Due to non-identification of the total land requirement in time and frequent revisions of the location, the land acquisition was delayed affecting the implementation of the Railway Siding and Marshalling Yard works, General Mechanical Works and Coal Handling Plant. *(Paragraphs 2.1.13, 2.1.14, 2.1.16.4)*

- Failure to finalise the type of Cooling Tower and delay in handing over the site and approval of designs resulted in delay from milestone date besides incurring additional cost (₹ 29.75 crore) towards piping work and additional annual auxiliary power consumption of ₹ 19.70 crore. (*Paragraph 2.1.12.2*)

- Failure to decide on the type of water treatment in the Cooling Water System resulted in delay in completion of work besides the use of untreated water affecting the health of the pipelines. (*Paragraph 2.1.12.3*)

- Due to non-completion of the Railway Siding and Marshalling Yard work, delay in receipt of approved DPR and bridge drawing, *etc*., there was no rail arrangement to bring coal to the YTPS Project, though the Project was declared ready for commercial operation (March/ April 2017) more than 18 months ago. (*Paragraphs 2.1.13, 2.1.13.2*)

- General Mechanical Works were delayed due to delay in finalisation of technical specifications, delay in cancellation of bids due to unresponsiveness and ambiguity in tender conditions resulting in delay of 27 months in awarding the work. The delay in completion of General Mechanical Works delayed the process of bringing raw water to the YTPS Project. (*Paragraph 2.1.14*)

- Due to not monitoring the work of BHEL in construction of Turbo Generator Deck with designs, the changes in the position of the columns were noticed belatedly, resulting in stoppage of work. The Company took the opinion of experts, which delayed the resumption of work by eight months. (*Paragraph 2.1.16.2*)

- Due to delay on the part of the Company in handing over the required land to BHEL for Coal Handling Plant and further delay by BHEL in completion of work, the YTPS plant, was unable to run optimally as the Coal Handling Plant was not ready as of September 2018. (*Paragraph 2.1.16.4*)

- Though the Plant was declared for commercial operation in March/April2017, there was no regular coal linkage for operation of the Plant (as of September 2018). Against the annual requirement of 58.3 lakh tonnes for operation of the Plant, the Company tied up only 30 lakh tonnes under Bridge-linkage. Moreover, Railway Siding and

Marshalling Yard and Coal Handling Plant works were pending completion (September 2018). In absence of railway siding, the coal received through bridge linkage was unloaded in a nearby Siding and transported by road to the Plant entailing an additional expenditure of ₹ 25.40 crore in 2017-18, which turned out to be 83 per cent of the cost of the railway siding itself. *(Paragraph 2.1.17.2)*

- BHEL proposed Ash Handling Plant with a capacity of 171 Tonnes Per Hour (TPH) as against the requirement of 179 TPH as per the norms of Central Electricity Authority. (*Paragraph 2.1.18.1*)

- Though generation commenced from 2017-18, YTPS was yet to comply (September 2018) with the conditions given in the Environmental Clearance for the Project. (*Paragraph 2.1.19*)

- The delay in completion of the project increased the project cost from the estimated cost (April 2009) of ₹ 8,806.23 crore to ₹ 12,915.90 crore provisionally as of March 2018. The cost of generation per unit also increased from ₹ 3.24 to ₹ 5.36 provisionally. (*Paragraph 2.1.20*)

- Failure of the Joint Committee to finalise the Report on the reasons for delay in completion of works delayed the levy of liquidated damages, which would have had an effect on the total project cost, as the capital cost would be adjusted to that extent by the Regulatory Commission while determining tariff. (*Paragraph 2.1.21*)

- A total of 23,188.86 Million Units of power, in the form of short and medium-term power valued at ₹ 11,079.22 crore, were purchased during 2014-15 to 2017-18. Out of this, additional cost on the purchase of 22,283.03 Million Units of power (short/medium-term) from private producers amounting to ₹ 2,517.92 crore was avoidable had the Company completed the implementation of the Project within the stipulated time. (*Paragraph 2.1.20*)

Recommendations

The Company needs to:

1. Take immediate, time-bound action to complete the Balance of Plants works (such as General Mechanical Works, Coal and Ash Handling Plants, and Railway Siding and Marshalling Yard) at the earliest;

2. Take action to implement the Environment Management Plan.

(Chapter 2.1)

3. Compliance Audit Observations on Power Sector PSUs

The observations included in this Report highlight deficiencies in planning, investment and other activities in the management of PSUs, which resulted in financial irregularities. The observations are broadly of the following nature:

Unproductive investment amounting to ₹2.60 crore.

(Paragraph 3.1)

Undue favour to contractor amounting to ₹1.61 crore.

(Paragraph 3.2)

Gist of some of the important audit observations are given below:

- Karnataka Power Transmission Corporation Limited did not make alternative power supply arrangement before awarding the work in spite of prior knowledge that this was critical for the execution of the work. This resulted in creation of idle infrastructure of ₹ 2.60 crore.

(Paragraph 3.1)

- Bangalore Electricity Supply Company Limited awarded the contract for supply of cables to M/s. SBEE Cables India Limited by modifying tender conditions resulting in extra payment of ₹ 1.61 crore to the contractor.

(Paragraph 3.2)

4. Functioning of State Public Sector Undertakings (other than Power Sector)

There were 96 State Public Sector Undertakings (PSUs) as on 31 March 2018 which were related to sectors other than Power Sector. These State PSUs included 90 Government Companies (77 working and 13 non-working) and six Statutory Corporations. The Government Companies included 10 subsidiary companies and five associate companies.

The State Government provides financial support to the State PSUs in the shape of equity, loans and grants/subsidy from time to time. Of the 96 State PSUs (other than Power Sector), the State Government invested funds in 89 State PSUs and did not infuse any funds in seven subsidiary/associate companies.

Investment in State PSUs (other than Power Sector)

As on 31 March 2018, the total investment (Equity and long-term loans) in these 96 PSUs (other than Power Sector) was ₹ 67,610.93 crore. The investment consisted of 76.86 *per cent* towards equity and 23.14 *per cent* in long-term loans.

The total investment in these PSUs (other than Power Sector) as on 31 March 2018 included investment of ₹ 52,556.40 crore by the State Government consisting of ₹ 50,811.97 crore as equity and ₹ 1,744.43 as long term loans. The investment grew by 41.37 *per cent* from ₹ 37,175.81 crore in 2013-14 to ₹ 52,556.40 crore in 2017-18.

Performance of PSUs (other than Power Sector) as per their latest finalised accounts

Out of the 96 PSUs (other than Power Sector), 83 PSUs were working and 13 PSUs were non-working. Out of 83 working PSUs (other than Power Sector), 45 PSUs earned profit of ₹ 976.44 crore and 25 PSUs incurred loss of ₹ 1,470.55 crore. The major contributors to profit were Karnataka State Minerals Corporation Limited (₹ 316.13 crore) and Karnataka Rural Infrastructure Development Limited (₹ 123.97 crore). Huge losses were incurred by Karnataka Neeravari Nigam Limited (₹ 575.92 crore) and Bangalore Metropolitan Transport Corporation (₹ 260.91 crore).

The working PSUs showed net aggregate profits of ₹ 545.86 crore, ₹ 166.34 crore and ₹ 135.87 crore during 2013-14, 2014-15 and 2016-17 respectively and incurred net aggregate loss of ₹ 567.58 crore and ₹ 494.11 crore during the year 2015-16 and 2017-18 respectively.

Return on State Government funds infused in State PSUs (other than Power Sector)

The funds infused by the State Government in PSUs (other than Power Sector) increased to ₹ 50,859.34 crore in 2017-18 from ₹ 23,524.01 crore as at 31 March 2010, as the State Government infused further funds in shape of equity (₹ 28,668.46 crore) and interest free loans (₹ 29.40 crore) during the period 2010-11 to 2017-18. The PV of funds infused by the State Government upto 31 March 2018 worked out to ₹ 76,932.23 crore.

The return earned on State Government funds (at PV) was 0.79 *per cent* against the return of 1.02 *per cent* earned on historical cost basis during 2013-14 and turned into *negative* as the PSUs (other than Power Sector) incurred losses during the period from 2014-15 to 2017-18.

Quality of accounts

The quality of accounts of working Government companies needs improvement. During the year, out of 60 accounts finalised, the Statutory Auditors gave unqualified reports on 20 accounts, qualified reports on 35 accounts and adverse reports (which means that the accounts did not reflect a true and fair view) for five accounts. The compliance with the Accounting Standards by companies remained poor as there were 90 instances of non-compliance in 29 accounts during the year.

Submission of accounts and winding up

Sixty working PSUs had arrears of 79 accounts at the end of September 2018. The arrears pertained to the years 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18. There were 13 non-working PSUs including five under liquidation. The Government may take a decision on closure of these non-working Companies.

Coverage of Report related to PSUs (other than Power Sector)

The Report related to PSUs (other than Power Sector) includes (Chapter V and Chapter VI) observations emanating from the Performance Audit on **'Benefits derived by the State Government under Accelerated Irrigation Benefit Programme'** and 11 compliance audit observations. The Executive summaries of the audit findings are given below:

5. Performance Audit on PSUs (other than Power Sector)

- **Performance Audit on 'Benefits derived by the State Government under Accelerated Irrigation Benefit Programme'**

Introduction

A large number of Major and Medium Irrigation projects were languishing due to various reasons, the most important being the inadequate provision of funds by the State Governments due to limited resources at their disposal. Keeping this in view, the Government of India launched (1996-97) the Accelerated Irrigation Benefits Programme (AIBP). The Scheme provided Central Loan Assistance (CLA) to expedite the implementation of the ongoing Major/Medium projects and ensure simultaneous implementation of Field Irrigation Channels (FICs) for utilisation of the created Irrigation Potential, so that end users (farmers) are provided with water. The Scheme was implemented in Karnataka by two Companies (implementing agencies) *viz.* Krishna Bhagya Jala Nigam Limited (KBJNL) and Karnataka Neeravari Nigam Limited (KNNL).

Audit Objective

The Audit objective was to assess whether the State Government and the implementing agencies (KNNL/KBJNL) were able to leverage the benefits of the AIBP Scheme to expedite the completion of the projects (including FICs), and realise the ultimate Irrigation Potential so as to cater to the water needs of the farmers in the State including the drought prone areas.

Audit Findings

Audit observed that the State Government/implementing agencies was not able to leverage the entire benefits of the scheme in terms of either the funding or in creating Irrigation Potential by expediting the completion of projects. The summary of the findings is given below.

- Of the total of 79,838 ha. due for creation of Irrigation Potential (dry) as per the committed timeframe, the companies could create only 55,516 ha. during the last five years (2013-18) and the Irrigation Potential pending creation as at end of March 2018 was 24,322 ha. *(Paragraphs 5.1.9.1, 5.1.9.2 and 5.1.18)*

- The envisaged Field Irrigation Channels (FICs) were also not fully completed in any of the six test-checked projects even after a lapse of two to eighteen years, after their original scheduled dates of completion as there were lapses in planning and execution of the works in synchronisation with the Irrigation Potential already created. Out of the total 1,71,166 ha of FICs due for creation, a total of 1,18,412 ha. of FICs were created during 2013-18. The balance FICs pending creation was 52,754 ha. which included 28,432 ha. for which Irrigation Potential had already been created. As a result, while some parts of the drought prone districts of central and north Karnataka have been provided with irrigation facilities, other parts are yet to receive water. *(Paragraphs 5.1.15 and 5 1.18)*

- Due to non-adherence to prescribed guidelines of AIBP with respect to furnishing Annual Audited Certificates and achieving committed physical targets, the State was deprived of Central Assistance of ₹ 821.86 crore. The State Govnerment had to bear this deficit by raising funds from external sources. *(Paragraphs 5.1.16.1 and 5.1.16.2)*

- The State Government/ implementing agencies were also not able to fast-track the completion of the projects and realise the Irrigation Potential. This was due to lack of preparedness by the implementing agencies as they did not include the works in their Annual Works Programme in line with the commitments made to the Central Government. There were delays in tendering and award of work, and absence of an efficient works management system to ensure that decisions on scope and design change were handled in an efficient manner by the implementing agencies. These led to delays in completion of work. *(Paragraphs 5.1.11 to 5.1.14)*

- In the absence of formation of the State Level Monitoring Committee, no concurrent evaluation of the Projects was done. While there was monitoring by the Central Water Commission, the mechanism of providing compliance to their observations was not optimal. *(Paragraph 5.1.17)*

Recommendations

1. Projects with specific commitments need to be given preference in the Annual Works Programme.

2. The Companies need to eliminate Technical / Administrative delays in finalising tenders so as to award the works included in the AWP in time.

3. The Company needs to take timely requisite action for land acquisition.

4. The Companies/CADA need to include the full extent of dry Irrigation Potential already created in the previous year, while planning for creation of FICs and also take action to expedite their creation, so that FICs are created *pari passu* with the Irrigation Potential already created, and water can be supplied to the end users (farmers).

5. The Company/GoK should follow up for release of Central Assistance where they have adhered to the guidelines.

(Chapter 5.1)

6. Compliance Audit Observations on PSUs (other than Power Sector)

The observations included in this Report highlight deficiencies in planning, investment and other activities in the management of PSUs, which resulted in financial irregularities. The observations are broadly of the following nature:

Unproductive investment amounting to ₹19.88 crore.

(Paragraphs 6.1.1, 6.1.3 and 6.1.4)

Avoidable/ unfruitful expenditure amounting to ₹2.14 crore.

(Paragraphs 6.2.3 and 6.3)

Avoidable loss amounting to ₹25.68 crore.

(Paragraphs 6.1.2, 6.4.1 and 6.4.2)

Irregular diversion/non-utilisation of grants amounting to ₹13.50 crore.

(Paragraphs 6.2.1 and 6.2.2)

Utilisation of bus depot in violation of environmental laws.

(Paragraph 6.1.5)

Gist of some of the important audit observations is given below:

- Karnataka State Minerals Corporation Limited acquired land for construction of its Corporate Office without verifying its suitability for construction before purchase. This resulted in blocking up of funds of ₹ 16.32 crore without deriving the intended benefit.

(Paragraph 6.1.1)

- Mysore Sales International Limited cancelled the agreement to lease out the property, based on the decision of the Board of Directors of the Company without establishing that the Company's interest was seriously affected resulting in loss of revenue of ₹ 5.73 crore.

(Paragraph 6.1.2)

- Bangalore Metropolitan Transport Corporation constructed a bus depot at a cost of ₹ 6.92 crore and operated it in an ecologically sensitive area in violation of environmental laws.

(Paragraph 6.1.5)

- Jungle Lodges and Resorts Limited failed to utilise the grants of ₹ 11.90 crore resulting in non-achievement of the envisaged objectives.

(Paragraph 6.2.1)

- Mysore Sales International Limited estimated its income for payment of advance income tax unrealistically resulting in avoidable payment of penal interest amounting to ₹ 1.19 crore.

(Paragraph 6.3)

- Karnataka State Minerals Corporation Limited failed to inform about the discovery of atomic minerals during the course of mining operations to the Atomic Minerals Directorate for Exploration and Research, even though it was a mandatory procedure under the statutes, and excavated minerals without obtaining the prior approval of the Government of India resulting in forfeiture of minerals valued ₹ 15.21 crore.

(Paragraph 6.4.1)

- Mysore Paper Mills Limited failed to take timely action to dispose of the excess raw material (Pulpwood) resulting in loss of ₹ 4.74 crore.

(Paragraph 6.4.2)

Introduction

Introduction

1. Functioning of State Public Sector Undertakings

General

1. The State Public Sector Undertakings (PSUs) in Karnataka consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also occupy an important place in the State's economy. As on 31 March 2018, there were 107 PSUs in Karnataka including six Statutory Corporations and 13 non-working Government companies under the audit jurisdiction of the Comptroller and Auditor General of India. Of these, one PSU[1] was listed on the stock exchange. During the year 2017-18, five PSUs[2] were incorporated.

2. The financial performance of the PSUs on the basis of their latest finalised accounts as on 30 September 2018 is covered in this report. The details of the nature of PSUs and the position of finalisation of accounts are given below:

Table No.1: Nature of PSUs covered in the Report

Sl. No.	Type of PSUs	Total Number	Number of PSUs of which accounts received during the reporting period[3]				Number of PSUs of which accounts are in arrear (total accounts in arrear) as on 30 September 2018
			2017-18	2016-17	2014-15	Total	
1	Working Government Companies	88	32	32	01	65	56 (75)
2	Statutory Corporations	6	-	06	-	06	06 (06)
	Total working PSUs	**94**	**32**	**38**	**01**	**71**	**62 (81)**
3	Non-working Government Companies	13	04	03	-	07	09 (78[4])
	Total	**107**	**36**	**41**	**01**	**78**	**71 (159)**

The working PSUs registered a turnover of ₹ 63,834.61 crore as per their latest finalised accounts as of September 2018. This turnover was equal to 4.87 *per cent* of the State Gross Domestic Product (GDP) for 2017-18. The working PSUs incurred net aggregate loss of ₹ 2,099.69 crore as per their latest finalised

[1] The Mysore Paper Mills Limited.

[2] Bengaluru PRR Development Corporation Limited, Nijasharana Ambigara Chowdaiah Development Corporation Limited, Mangaluru Smart City Limited, Karnataka State Safai Karmachari Development Corporation Limited - formed in June 2016 but not considered in Audit Report 2016-17 and Karnataka Bhovi Development Corporation Limited - formed in May 2016 but not considered in Audit Report for 2016-17. Hence, new PSUs formed during the year are taken as five.

[3] From October 2017 to September 2018.

[4] Includes 71 accounts from five PSUs which are under liquidation (KSVL, NGEF, MCL, KTL and MACCL).

accounts as of September 2018. At the end of March 2018, the PSUs had 1.95 lakh employees.

As on 31 March 2018, 13 PSUs having an investment of ₹ 544.70 crore were non-working for the last 15 years. This was a critical area as the investments in non-working PSUs do not contribute to the economic growth of the State.

Accountability framework

3. The process of audit of Government Companies is governed by respective provisions of Section 619 of the Companies Act, 1956, and Sections 139 and 143 of the Companies Act, 2013 (Act). According to Section 2(45) of the Act, a Government Company means any Company in which not less than fifty-one *per cent* of the paid up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a Company, which is a subsidiary Company of such Government Company.

The Comptroller & Auditor General of India (CAG) appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. Section 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of one hundred and eighty days from the commencement of the financial year. Section 139 (7) of the Companies Act, 2013 provides that in case of a Government Company or Government Controlled Other Company, the first auditor is to be appointed by the CAG within sixty days from the date of registration of the Company and in case CAG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-section 7 of Section 143 of the Act, the CAG may, in case of any Company covered under sub-section (5) or sub-section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company. The provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit. Thus, a Government Company or any other Company, owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. Audit of the Financial Statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

4. The financial statements of the Government Companies are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Sections 139(5) or 139(7) of the Act. Thereafter, a copy of the Audit Report is submitted to the CAG under Section 143(5) of the Act, which, among other things, includes the Financial Statements of the Company. These financial statements are subject to supplementary audit to be conducted by the CAG within sixty days from the date of receipt of the Audit Report under the provisions of Section 143(6) of the Act.

Audit of Statutory Corporations is governed by their respective legislations. Out of the six Statutory Corporations in Karnataka, the CAG is the sole auditor for four State Road Transport Corporations[5]. In respect of State Warehousing Corporation and State Financial Corporation, the audit is conducted by Chartered Accountants while the Supplementary Audit is conducted by the CAG.

Submission of accounts by PSUs

Need for timely finalisation and submission

5. According to Section 394 and 395 of the Companies Act 2013, an Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the Houses or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for noncompliance with the provisions of Section 129 of the Companies Act, 2013.

Role of Government and Legislature

6. The State Government exercises control over the affairs of these PSUs through their administrative departments. The Chief Executives and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investments in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Report and Comments of the CAG, in respect of State Government Companies and Separate Audit Reports in case of Statutory Corporations are placed before the Legislature under Section 394(2) and/or 395 of the Act or as stipulated in the respective Acts. The Audit Reports of the CAG

[5] Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Eastern Karnataka Road Transport Corporation and North Western Karnataka Road Transport Corporation.

are submitted to the Government under Section 19A of the CAG's (Duties, Power and Conditions of Service) Act, 1971.

Investment in State PSUs

7. The Government of Karnataka (GoK) has a financial stake in these PSUs. This stake is of mainly three types:

- **Share capital and loans** – GoK provides Share Capital Contribution and financial assistance by way of loans to the PSUs from time to time;
- **Special financial support** – GoK provides budgetary support by way of grants and subsidies to the PSUs as and when required; and
- **Guarantees** – GoK also guarantees the repayment (with interest) of loans availed by the PSUs from financial institutions.

8. As on 31 March 2018, the investment (capital and long-term loans) in 107 PSUs was ₹ 1,14,262.25 crore[6] as per details given below:

Table No.2: **Total Investment in PSUs**

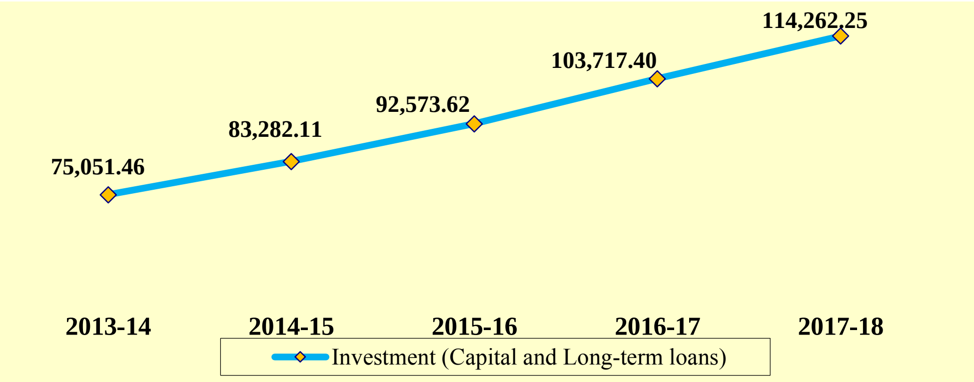
(₹ in crore)

Sl. No.	Type of PSUs	Government Companies			Statutory Corporations			Grand total
		Capital	Long term loans	Total	Capital	Long term loans	Total	
1	Working PSUs	64,724.38	45,003.00	1,09,727.38	1,746.53	2,243.64	3,990.17	1,13,717.55
2	Non-working PSUs	111.84	432.86	544.70	-	-	-	544.70
	Total	**64,836.22**	**45,435.86**	**1,10,272.08**	**1,746.53**	**2,243.64**	**3,990.17**	**1,14,262.25**

As on 31 March 2018, of the total investment in State PSUs, 99.52 *per cent* was in working PSUs and the remaining 0.48 *per cent* in non-working PSUs. This total investment consisted of 58.27 *per cent* towards capital and 41.73 *per cent* in long-term loans. The investment grew by 52.25 *per cent* from ₹ 75,051.46 crore in 2013-14 to ₹ 1,14,262.25 crore in 2017-18 as shown in the Chart below.

Chart No.1: **Total investment in PSUs**

(₹ in crore)



[6] Twenty-Six PSUs (including non-working PSUs) did not furnish information on investments as at the end of March 2018. The information as furnished during previous years has been considered.

9. The sector-wise summary of investments in the State PSUs as on 31 March 2018 is given below:

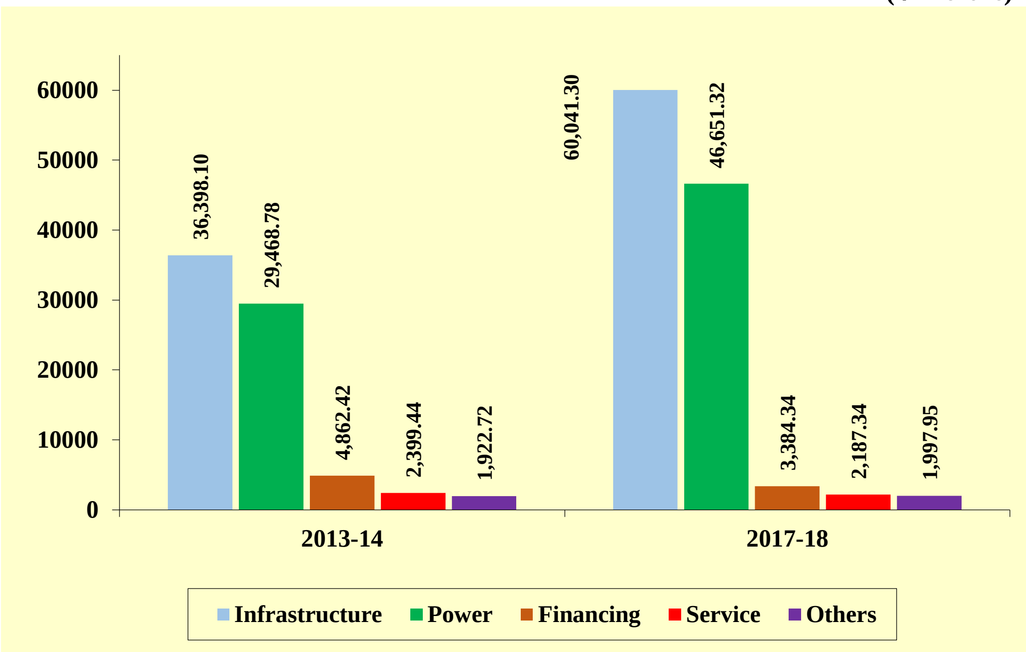
Table No.3: Sector-wise investment in PSUs

Sl. No.	Name of the Sector	Government companies		Statutory Corpora-tions	Total	Investment (₹ in crore)
		Working	Non-working			
1	Agriculture and allied	12	5	1	18	919.85
2	Financing	17	-	1	18	3,384.34
3	Infrastructure	22	1	-	23	60,041.30
4	Manufacturing	19	7	-	26	1,077.99
5	Power	11	-	-	11	46,651.32
6	Service	4	-	4	8	2,187.34
7	Miscellaneous	3	-	-	3	0.11
	Total	**88**	**13**	**6**	**107**	**1,14,262.25**

The investment in four significant sectors at the end of 31 March 2014 and 31 March 2018 are indicated in the Chart below:

Chart No.2: Sector-wise investment in PSUs

(₹ in crore)



The thrust of investments in PSUs was in Infrastructure and Power sectors, accounting for 52.55 *per cent* and 40.83 *per cent* respectively in 2017-18. Between 2013-14 and 2017-18, the investment in Infrastructure and Power sectors increased by ₹ 23,643.20 crore and ₹ 17,182.54 crore respectively.

Coverage of this Report

10. This Report contains observations on Power Sector PSUs and PSUs (other than Power Sector). The observations on the Power Sector PSUs, which were included under Chapters I, II and III, contain one Performance Audit on 'Execution of Yeramarus Thermal Power Station of Raichur Power Corporation Limited' (Chapter – II) and two Compliance Audit paragraphs (Chapter – III). The observations on PSUs (other than Power Sector), which were included under Chapters IV, V and VI, contain one Performance Audit on 'Benefits derived by the State Government under Accelerated Irrigation Benefit Programme' (Chapter – V) and eleven Compliance Audit paragraphs (Chapter – VI).

The financial effect of the observations related to Power Sector PSUs and PSUs (other than Power Sector) worked out to ₹ 2,908.65 crore and ₹ 875.17 crore respectively.

Chapter - I

Functioning of Power Sector PSUs

Chapter - I

1. Functioning of Power Sector PSUs

Introduction

1.1. The Power Sector PSUs play an important role in the economy of the State. Apart from providing a critical infrastructure required for development of the State's economy, the sector also adds significantly to the Gross Domestic Product (GDP) of the State. A ratio of turnover of Power Sector PSUs to GDP of the State shows the extent of activities of PSUs in the State economy. The table below provides the details of turnover of the Power Sector PSUs and GDP of the State for a period of five years ending March 2018:

Table No. 1.1: Details of turnover of Power Sector PSUs *vis-a-vis* GDP of the State

(₹ in crore)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Turnover of PSUs	31,244.30	34,887.37	38,372.81	41,284.65	46,311.34
2	GDP of State	8,16,666.00	9,12,647.00	10,12,804.00	11,32,393.00	13,10,879.00
3	Percentage of Turnover to GDP of State	3.83	3.82	3.79	3.65	3.53

The turnover of Power Sector PSUs recorded continuous increase over the previous years ranging from 7.59 *per cent* to 12.18 *per cent* during 2013-14 to 2017-18, while GDP of the State increased from 11.75 *per cent* to 15.76 *per cent* during the same period. The compounded annual growth of turnover of Power Sector PSUs recorded 10.34 *per cent*[7] as against that of GDP of 12.56 *per cent*[8] during last five years. This resulted in decrease in share of turnover of the Power Sector PSUs to the GDP from 3.83 *per cent* in 2013-14 to 3.53 *per cent* in 2017-18.

Formation of Power Sector PSUs

1.2. The functions of generation, transmission and distribution of electricity in the State, which were under the control of the erstwhile Government of Mysore, Electrical Department, were transferred to Karnataka Electricity Board (KEB) after its formation with effect from 1 October 1957. Karnataka Power Corporation Limited (KPCL), which came into existence in July 1970 as a fully owned State Public Sector Undertaking, has been the mainstay of power generation in the State through its hydro, thermal and renewable energy stations. Government of Karnataka (GoK) also took the initiative (1995) to form an exclusive entity called Karnataka Renewable Energy Development Limited (KREDL) for promoting renewable energy and energy conservation in the State.

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[7] Calculated as $[1(46{,}311.34/31{,}244.30)^{1/1\times4} - 1] \times 100$ ($r=n[(A/P)^{1/nt}-1]$ where r=rate of interest, n= compounding term, A=principal *plus* Interest, P= principal and t=compounding period).

[8] Calculated as $[1(13{,}10{,}879.00/8{,}16{,}666.00)^{1/1\times4} - 1] \times 100$.

Later in January 1997, GoK pronounced its general policy on power reforms which envisaged setting up of an Independent Regulatory Commission, reorganisation of KEB by separating generation, transmission and distribution functions, followed by reorganisation of the distribution function into several economically viable units. In pursuance to the said policy, Karnataka Electricity Reforms Act 1999 was brought into effect in June 1999 enabling establishment of Karnataka Electricity Regulatory Commission (KERC) and formation (July 1999/August 1999) of two new companies under the Companies Act, 1956 by carving out the functions of KEB *viz*. Karnataka Power Transmission Corporation Limited (KPTCL) for carrying out transmission and distribution functions and Visvesvaraya Vidyuth Nigama Limited (VVNL) for generation functions.

The GoK, in order to undertake further reforms and restructuring measures in the power sector, came out (January 2001) with a Power Policy Statement wherein it was decided *inter-alia* to restructure KPTCL into several utilities and privatise them thereafter to promote the development of an efficient, commercially viable and competitive power supply industry, which can provide reliable quality supply at competitive prices to various classes of consumers in the State. In this direction, four independent distribution companies covering different regions in the State were formed under the Companies Act, 1956, which became functional with effect from 1 June 2002 *viz*. Bengaluru Electricity Supply Company Limited (BESCOM), Mangalore Electricity Supply Company Limited (MESCOM), Hubli Electricity Supply Company Limited (HESCOM) and Gulbarga Electricity Supply Company Limited (GESCOM). The Fifth Distribution Company - Chamundeshwari Electricity Supply Corporation Limited (CESC) was carved out of MESCOM with effect from 1 January 2005. Further, VVNL, which was formed to carry out the generation functions of erstwhile KEB, was amalgamated (April 2006) with KPCL.

The GoK had also set up (August 2007) a Special Purpose Vehicle *viz*. Power Company of Karnataka Limited (PCKL) to supplement the efforts of KPCL in generation capacity addition in the State by way of setting up of new power projects through bidding process, and long term procurement of power.

The State Government provides financial support in the form of equity, loan, grant and subsidy to these Power Sector PSUs from time to time. The status of investment in the power sector by the State Government and its Present Value and performance of Power Sector PSUs are discussed in the subsequent paragraphs.

Investment in Power Sector PSUs

1.3. As on 31 March 2018, there were 11 Power Sector PSUs (including one subsidiary - KPC Gas Power Corporation Private Limited, one Joint Venture - Raichur Power Corporation Limited and one Associate Company -PCKL). Details of investment made in these 11 Power Sector PSUs in the shape of equity and long term loans upto 31 March 2018 are detailed in **Appendix-1(a).** As on 31 March 2018, the activity-wise investment (equity and long term loans) in 11 Power Sector PSUs was ₹ 46,651.32 crore as detailed in the following table.

Table No.1.2: **Activity-wise investment in Power Sector PSUs**

(₹ in crore)

Sl. No.	Activity	Number of PSUs	Investment[9]		
			Equity	Long term loans	Total
1	Power Generation[10]	3	7,378.31	15,460.98	22,839.29
2	Power Transmission[11]	1	2,182.32	5,206.93	7,389.25
3	Power Distribution[12]	5	5,034.19	9,068.04	14,102.23
4	Others[13]	2	20.55	2,300.00	2,320.55
	Total	**11**	**14,615.37**	**32,035.95**	**46,651.32**

As seen from the above, the total investment consisted of 31.33 *per cent* of equity and 68.67 *per cent* of long-term loans. The total Long term loans (₹ 32,035.95 crore) advanced constituted 1.51 *per cent* (₹ 485.46 crore) by the State Government, 6.57 *per cent* (₹ 2,103.59 crore) by the Central Government and 91.92 *per cent* (₹ 29,446.90 crore) by other financial institutions.

Budgetary support to Power Sector PSUs

1.4. The State Government provided financial support to Power Sector PSUs in various forms through the annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of Power Sector PSUs for the three years ended 2017-18 are given in the following table:

Table No.1.3: **Details regarding budgetary support to Power Sector PSUs by State Government**

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital	7	931.96	5	871.80	5	805.77
2	Loans given	1	44.40	1	84.01	1	7.10
3	Grants/Subsidy provided	4	4,258.14	4	6,567.47	4	3,628.12
4	**Total outgo**		**5,234.50**		**7,523.28**		**4,440.99**
5	Waiver of loans and interest	-	-	-	-	-	-
6	Guarantees issued	-	-	1	4.03	3	2,331.73
7	Guarantee Commitment	5	509.50	5	490.17	5	491.17

The details regarding budgetary outgo towards equity, loans, grants and subsidies for five years ending 2017-18 are given in the following Chart:

[9] Investment includes investment by State Government, Central Government and Holding Companies.

[10] Karnataka Power Corporation Limited, KPC Gas Power Corporation Private Limited (KPCGPCL-a fully owned subsidiary of KPCL), Raichur Power Corporation Limited (a joint venture between KPCL, Bharat Heavy Electricals Limited and IFCI Ltd.).

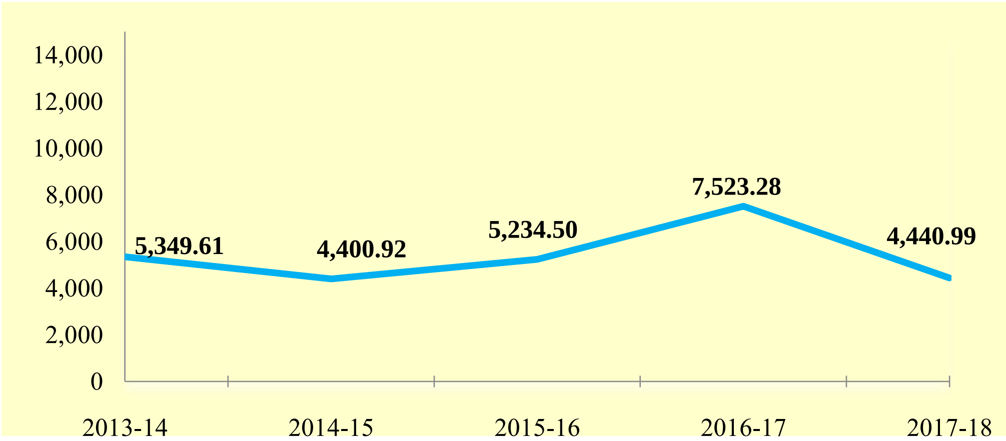
[11] Karnataka Power Transmission Corporation Limited.

[12] BESCOM, CESC, GESCOM, HESCOM, MESCOM.

[13] Karnataka Renewable Energy Development Limited, Power Company of Karnataka Limited (an associate of Distribution Companies).

Chart No.1.1: Budgetary outgo towards equity, loans, grants and subsidies

(₹ in crore)



There was reduction in budgetary support provided in the form of equity, loans, grants and subsidies by the State Government over a period of five years ending 2017-18 except during 2016-17. The budgetary support of ₹ 5,349.61 crore provided in 2013-14 was reduced by 17.73 *per cent* to ₹ 4,400.92 crore in 2014-15. Further, the budgetary support in subsequent two years, although improved to ₹ 7,523.28 crore in 2016-17, was again reduced to ₹ 4,440.99 crore in 2017-18 due to reduction in grants/subsidies. The budgetary assistance of ₹ 4,440.99 crore received during 2017-18 included equity of ₹ 805.77 crore, loans of ₹ 7.10 crore and grants and subsidy of ₹ 3,628.12 crore.

Guarantees for loan and guarantee commission outstanding

1.5. In order to enable Power Sector PSUs to obtain financial assistance from Banks and Financial Institutions, the State Government gives guarantee under Karnataka Ceiling on Government Guarantees Act, 1999 (as amended by Act 15 of 2002). The Government charges a minimum of one *per cent* as guarantee commission, which cannot be waived under any circumstances. The guarantee commitment of the State Government had decreased over a period of three years from ₹ 509.50 crore in 2015-16 to ₹ 491.17 crore in 2017-18. The Guarantee fee of ₹ 2.57 crore was paid by four[14] Power Sector PSUs during 2017-18. The outstanding accumulated guarantee fees or commission as on 31 March 2018 was ₹ 1.98 crore from Bangalore Electricity Supply Company Limited.

Reconciliation with Finance Accounts

1.6. The figures in respect of equity, loans and guarantees outstanding as per the records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2018 is given in the following table:

[14] Guarantee Commission payable by PCKL was borne by the Distribution Companies (ESCOMs).

Table No.1.4: Equity, loans and guarantees outstanding as per Finance Accounts *vis-a-vis* records of Power Sector PSUs

(₹ in crore)

Sl. No.	Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
	(1)	(2)	(3)	(4 = 2-3)
1	Equity	10,314.77	11,986.46	(-) 1,671.69
2	Loans	2,395.14	485.46	1,909.68
3	Guarantees	577.02	491.17	85.85

There were differences in respect of nine Power Sector PSUs as detailed in **Appendix – 2(a)**. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner and take appropriate action for rectifying/adjusting the differences.

Submission of accounts by Power Sector PSUs

1.7. The financial statements of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year, *i.e.* by end of September, in accordance with the provisions of Section 96(1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act.

The following table provides the details of progress made by Power Sector PSUs in finalisation of accounts by 30 September 2018:

Table No.1.5: Position relating to finalisation of accounts of Power Sector PSUs

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Number of PSUs	11	11	11	11	11
2	Total number of accounts finalised during the year	7	14	9	6	17
	Number of accounts finalised relating to current year	7	10	8	3	9
	Number of accounts finalised relating to previous years	-	4	1	3	8
3	Number of accounts in arrears	4	1	3	8	2
4	Number of PSUs with arrears in accounts	4	1	3	8	2
5	Extent of arrears (number in years)	1 year	1 year	1 year	1 year	1 year

The Power Sector PSUs were not prompt in submission of their annual accounts. During 2017-18, 11 companies finalised 17 accounts and two accounts from two PSUs[15] were in arrears.

1.8. The State Government invested ₹ 1,931.33 crore in one out of two power Sector PSUs during the year, for which accounts were not finalised as detailed in **Appendix-3** (Sl. No. 50). In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred were properly accounted for and the purpose for which the

[15] KREDL and GESCOM (Sl. No. 49 and 50 of **Appendix-3**).

amount was invested was achieved or not. Thus, the Government's investment in such PSUs remained outside the control of the State Legislature.

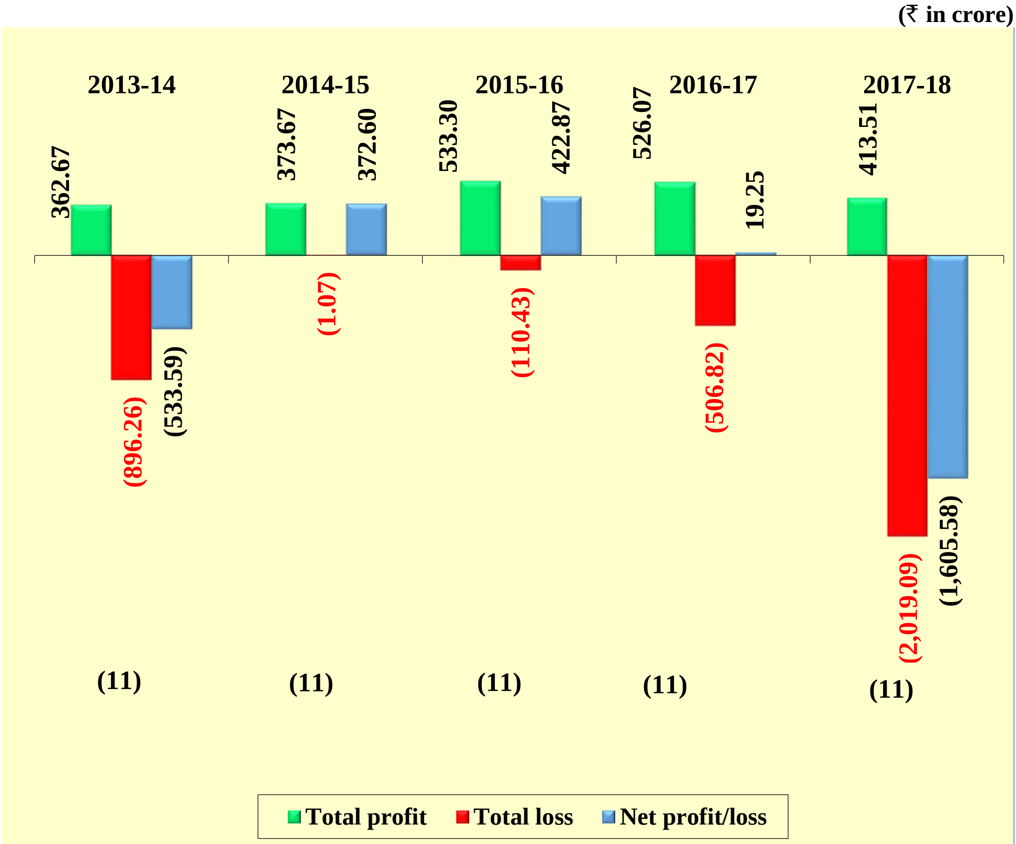
Performance of Power Sector PSUs as per their latest finalised accounts

1.9. The financial position and working results of Power Sector PSUs are detailed in **Appendix-4(a)** as per their latest finalised accounts as of 30 September 2018.

Overall profit (losses) earned (incurred) by the Power Sector PSUs of the State during 2013-14 to 2017-18 are given in the following bar Chart:

Chart No.1.2: **Profit/Loss of Power Sector PSUs**

(₹ in crore)



(Figures in brackets show the number of working PSUs in respective years)

As per their latest finalised accounts, out of the 11 Power Sector PSUs, six[16] earned profit of ₹ 413.51 crore and five incurred loss of ₹ 2,019.09 crore.

The major contributors to profit were Karnataka Power Transmission Corporation Limited (₹ 212.14 crore) and Bangalore Electricity Supply Company Limited (₹ 84.77 crore). Huge losses were incurred by Raichur Power Corporation Limited (₹ 1,562.76 crore), Gulbarga Electricity Supply Company Limited (₹ 312.84 crore) and Hubli Electricity Supply Company Limited (₹ 140.28 crore).

[16] One accounts related to 2016-17 and five accounts related to 2017-18.

The Power Sector PSUs showed net aggregate profits of ₹ 372.60 crore, ₹ 422.87 crore and ₹ 19.25 crore during 2014-15, 2015-16 and 2016-17 respectively and incurred net aggregate loss of ₹ 533.59 crore and ₹ 1,605.58 crore during 2013-14 and 2017-18 respectively. The main reasons for loss during 2017-18 as compared to the profit during previous years, were huge losses posted by Raichur Power Corporation Limited (₹ 1,562.76 crore).

The position of Power Sector PSUs which earned profit/incurred loss during 2013-14 to 2017-18 is given in the following table:

Table No. 1.6: **Power Sector PSUs which earned profit/incurred loss**

Sl. No.	Financial year	Total PSUs in Power Sector[17]	Number of PSUs which earned profits during the year	Number of PSUs which incurred loss during the year
1	2013-14	10	6	4
2	2014-15	10	9	1
3	2015-16	10	8	2
4	2016-17	10	7	3
5	2017-18	11	6	5

Return on State Government funds infused in Power Sector PSUs

1.10. The profitability of a Company is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to total investment. Return on capital employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used and is calculated by dividing the company's earnings before interest and taxes by capital employed. Return on Equity is a measure of performance calculated by dividing net profit by shareholders' funds. These parameters are discussed in the subsequent paragraphs.

Return on Investment

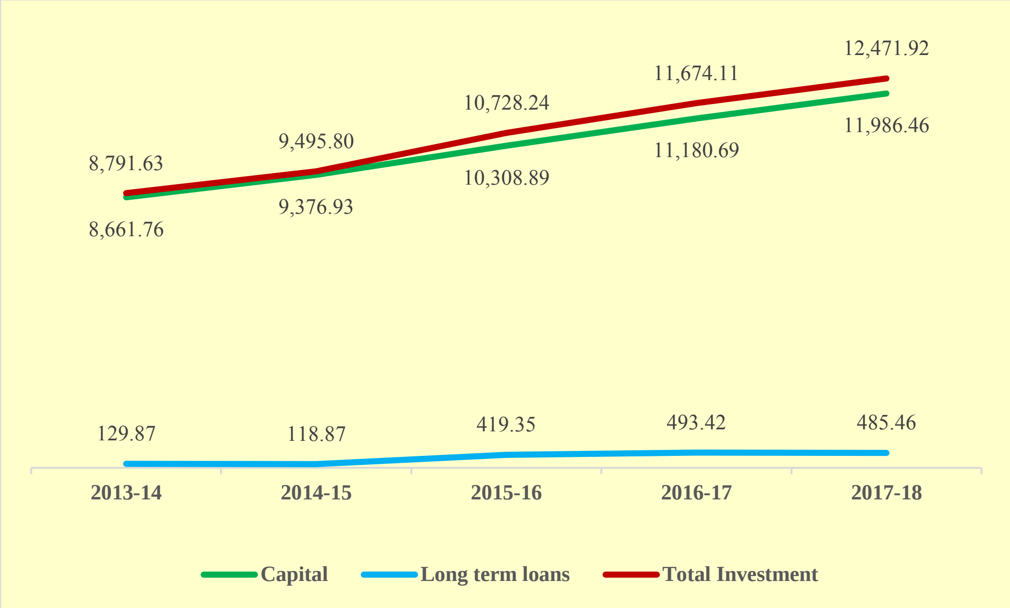
1.10.1. The PSUs are expected to yield reasonable return on investment made by Government in the PSUs. The amount of investment in the eight Power Sector PSUs as on 31 March 2018 was ₹ 12,471.92 crore consisting of ₹ 11,986.46 crore as equity and ₹ 485.46 crore as long term loans by the State Government.

The investment grew by 41.86 *per cent* from ₹ 8,791.63 crore in 2013-14 to ₹ 12,471.92 crore in 2017-18 as shown in the following Chart:

[17] During 2013-14 to 2016-17, RPCL has not prepared Profit and Loss account, as it was under project construction period. Hence, it was not considered for total PSUs.

Chart No.1.3: Investment in Power Sector PSUs by State Government

(₹ in crore)



Return on the basis of historical cost of investment

1.10.2. Out of 11 Power Sector PSUs of the State, the State Government infused funds in the form of equity, interest free loans and grants/ subsidies in eight Power Sector PSUs only. The State Government did not infuse any direct funds in the other three[18] PSUs till 2017-18 and the equity of these PSUs was contributed by the concerned holding companies.

The investment of the State Government in these eight Power Sector PSUs was arrived at by considering the equity (initial equity net of accumulated losses, if any *plus* the equity infused during the latter years), adding interest free loans and deducting interest free loans which were later converted into equity, if any, for each year.

Out of the total long term loans, only interest free loans have been considered as investment of the Government in these PSUs as the interest free loans given to the PSUs are akin to equity since they have not been repaid and parts of the loans have been converted into equity subsequent to sanctions of the loans. Further, the funds made available in the form of the grants/subsidies have not been considered as investment since they do not qualify to be considered as investment.

As on 31 March 2018, the investment of the State Government in eight Power Sector PSUs was ₹ 12,471.92 crore consisting of equity of ₹ 11,986.46 crore and long term loans of ₹ 485.46 crore. Out of the released long term loans, ₹ 0.94 crore was interest free loan. Thus, considering the equity of ₹ 11,986.46 crore and interest free loan of ₹ 0.94 crore as investment of the State

[18] KPCGPCL (subsidiary of KPCL), RPCL (Joint Venture between KPCL, BHEL and IFCI Ltd. and PCKL (equity is held by all the ESCOMs).

Government in these eight Power Sector PSUs, the investment on the basis of historical cost at the end of 2017-18 stood at ₹ 11,987.40 crore.

The return on investment of the State Government on historical cost basis for the period 2013-14 to 2017-18 is given in the following table:

Table No. 1.7: **Return on State Government Investment on historical cost basis**

Sl. No.	Financial year	Equity[19] and Interest Free Loans as at the end of the year (₹ in crore)	Net Profit/ Loss (-)[20] (₹ in crore)	Return on Investment (*per cent*)
1	2013-14	8,662.70	-534.58	-6.17
2	2014-15	9,377.87	372.62	3.97
3	2015-16	10,309.83	422.64	4.10
4	2016-17	11,181.63	21.29	0.19
5	2017-18	11,987.40	-39.61	-0.33

The return on investment was negative during 2013-14 and 2017-18 and declined from 3.97 *per cent* in 2014-15 to 0.19 *per cent* in 2016-17. The main reasons for negative return during 2013-14 and 2017-18 were due to losses incurred by Bangalore Electricity Supply Company Limited in 2013-14, increase in loss of Gulbarga Electricity Supply Company Limited and decrease in profit by Karnataka Power Corporation Limited in 2017-18.

Return on the basis of Present Value of Investment

1.10.3. In view of the significant investment by the Government in the eight Power Sector PSUs, return on such investment is essential from the perspective of the State Government. Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value of money. The Present Value (PV) of the Government investments has been computed to assess the rate of return on the present value of investments of the State Government in the Power Sector PSUs as compared to the historical value of investments. In order to bring the historical cost of investments to its present value at the end of each year upto 31 March 2018, the past investments/ year-wise funds infused by the State Government in the Power Sector PSUs have been compounded at the year-wise average rate of interest on Government borrowings which is considered as the minimum cost of funds to the Government for the respective years.

Therefore, PV was computed where funds had been infused by the State Government in the shape of equity and interest free loan upto 2009-10 and from 2010-11 to 2017-18. The PV of the State Government funds infused in these PSUs was computed on the basis of the following assumptions:

- Interest free loans have been considered as investment infusion by the State Government as no amount of interest free loans have been repaid

[19] Equity includes share application money.
[20] As per latest finalised accounts.

by the Power Sector PSUs. Further, in those cases where interest free loans given to the PSUs were later converted into equity, if any, the amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year. The funds made available in the form of grants/subsidies have not been reckoned as investment as they do not qualify to be considered as investment.

- The average rate of interest on Government borrowings for the financial year concerned was adopted as the compounded rate for arriving at the PV since it represents the cost incurred by the Government towards investment of funds for the year and was therefore considered as the minimum expected rate of return on investments made by the Government.

1.10.4. The Company wise position of State Government investment in the eight Power Sector PSUs in the form of equity and interest free loans upto 2009-10 and from 2010-11 to 2017-18 is indicated in **Appendix – 5(a).** The consolidated position of the PV of the State Government funds relating to the eight Power Sector PSUs is indicated in the following table:

Table No. 1.8: Year wise details of funds infused by the State Government and PV of Government funds from 2010-11 to 2017-18

(₹ in crore)

Sl. No.	Financial Year	PV of total investment at the beginning of the year	Equity infused by the State Government during the year	Interest free loans given by the State Govern ment during the year	Total investment at the end of the year	Average rate of interest on Government borrowings[21] (in *per cent*)	PV of total investment at the end of year	Minimum expected return to recover cost of funds for the year	Total earnings for the year[22]
(a)	(b)	©	(d)	€	(f=(c+d+e))	(g)	(h=f×(1+g)/100)	(i= f×(g/100))	(j)
1	Upto 2009-10	-	4,536.03	-	4,536.03	6.7	4,839.94	303.91	
2	2010-11	4,839.94	1,174.20	0.94	6,015.08	6.4	6,400.05	384.97	593.17
3	2011-12	6,400.05	1,026.29	-	7,426.34	6.6	7,916.48	490.14	261.86
4	2012-13	7,916.48	1,099.93	-	9,016.41	6.6	9,611.49	595.08	255.66
5	2013-14	9,611.49	825.31	-	10,436.80	6.2	11,083.88	647.08	-534.58
6	2014-15	11,083.88	715.17	-	11,799.05	6.5	12,565.99	766.94	372.62
7	2015-16	12,565.99	931.96	-	13,497.95	6.5	14,375.32	877.37	422.64
8	2016-17	14,375.32	871.80	-	15,247.12	6.3	16,207.69	960.57	21.29
9	2017-18	16,207.69	805.77	-	17,013.46	6.3	18,085.30	1,071.85	-39.61
10	**Total**		**11,986.46**	**0.94**					

The balance of investment by the State Government in these eight PSUs at the end of the year increased to ₹ 11,987.40 crore in 2017-18 from ₹ 4,536.03 crore

[21] The average rate of interest on borrowing by the State Government is adopted as per the approved Audit Reports of the C&AG of India on State Finances, GoK. For 2017-18, average rate of interest related to 2016-17 has been adopted as the Audit Report for 2017-18 was not finalised.

[22] Total Earning for the year depicts total of net earnings (profit/loss) for the respective years relating to those eight Power Sector PSUs where funds were infused by State Government.

as at 31 March 2010, as the State Government infused further funds in the form of equity (₹ 7,450.43 crore) and interest free loans (₹ 0.94 crore) during the period 2010-11 to 2017-18. The PV of funds infused by the State Government upto 31 March 2018 worked out to ₹ 18,085.30 crore.

It could also be seen that total earnings for the year relating to these PSUs was negative during 2013-14 and 2017-18 which indicates that these PSUs did not recover the cost of funds to the Government. Further, the positive total earning in the remaining years except 2010-11 remained substantially below the minimum expected return towards the investment made in these Power Sector PSUs.

1.10.5. The return on State Government funds (at PV) infused in the Power Sector PSUs indicates the profitability and the efficiency of the PSUs. The return on State Government funds is worked out by dividing the total earnings[23] of the eight Power Sector PSUs with the PV of the State Government investments. During 2013-14 to 2017-18, these eight PSUs had a positive return on investment only during the years 2014-15, 2015-16 and 2016-17. Hence, the return on investment has been calculated and depicted on the basis of PV for these three years.

A comparison of returns on investment as per historical cost and PV of such investment during 2014-15 to 2016-17 when there were positive earnings in these eight Power Sector PSUs is given in the following table:

Table No. 1.9: Return on State Government Funds

(₹ in crore)

Sl. No.	Year	Total earnings	Investment in the form of Equity and Interest Free Loans on historical cost	Return on investment on the basis of historical cost (*per cent*)	PV of the State Government funds at the end of the year	Return on investments on the basis of PV (*per cent*)
1	2014-15	372.62	9,377.87	3.97	12,565.99	2.97
2	2015-16	422.64	10,309.83	4.10	14,375.32	2.94
3	2016-17	21.29	11,181.63	0.19	16,207.69	0.13

The returns based on PV were less than the returns based on historical cost during 2014-15 to 2016-17. The returns based on historical cost varied from 0.19 *per cent* to 4.10 *per cent* during 2014-15 to 2016-17, while the returns based on PV varied from 0.13 *per cent* to 2.97 *per cent* during the same period. Further, the Power Sector PSUs incurred overall losses of ₹ 534.58 crore during 2013-14 and ₹ 39.61 crore during 2017-18.

Erosion of Net worth

1.10.6. Net worth is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners has been

[23] This includes net profit/losses relating to the eight Power Sector PSUs where the funds have been infused by the State Government as per their latest finalised accounts.

wiped out by accumulated losses. The net worth[24] of all the eight Power Sector PSUs, where the GoK had infused funds during 2013-14 to 2017-18 as per their latest finalised accounts is indicated in the table below:

Table No. 1.10: Net worth of Power Sector PSUs during 2013-14 to 2017-18

(₹in crore)

Sl. No.	Year	Paid up Capital	Accumulated Profit (+)/ Loss (-) at end of the year	Net worth
1	2013-14	7,083.95	1,908.69	8,992.54
2	2014-15	8,317.67	5,256.71	13,574.38
3	2015-16	8,756.79	2,068.61	10,825.40
4	2016-17	9,075.46	1,622.15	10,697.61
5	2017-18	10,565.94	2,903.76	13,469.70

As seen from the table above, the overall net worth of eight Power Sector PSUs was *positive* during the last five years ended 2017-18. However, the net worth of two[25] out of eight PSUs was eroded as at 31 March 2018.

Dividend Payout

1.10.7. The State Government formulated (May 2003) guidelines according to which Government nominees on the Boards of Public Enterprises or Joint Ventures, where the State Government had equity holding, should insist on the declaration of minimum dividend of 20 *per cent* on shareholding. In case payment of dividend to this extent was not possible, dividend payout must constitute at least 20 *per cent* of profit after tax. Dividend Payout relating to eight Power Sector PSUs during the period 2013-14 to 2017-18 is shown in the table below:

Table No. 1.11: Dividend Payout during 2013-14 to 2017-18

(₹ in crore)

Sl. No.	Year	Total PSUs where equity infused by GoK		PSUs which earned profit during the year		PSUs which declared dividend during the year		Dividend payment as a percentage of Paid up capital
		Number of PSUs	Paid up capital	Number of PSUs	Paid up capital	Number of PSUs	Dividend declared by PSUs	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8=7/5*100)
1	2013-14	8	7,083.95	5	5,906.38	2	40.36	0.68
2	2014-15	8	8,317.67	8	8,317.67	1	41.41	0.50
3	2015-16	8	8,756.79	7	8,451.65	1	43.46	0.51
4	2016-17	8	9,075.46	6	7,835.83	1	47.69	0.61
5	2017-18	8	10,565.94	6	8,578.10	Nil	-	-

During the period 2013-14 to 2017-18, the number of PSUs which earned profits ranged between five and eight, of which only two PSUs (Karnataka Renewable Energy Development Limited and Karnataka Power Corporation Limited) in 2013-14 and one PSU (Karnataka Power Corporation Limited) during 2014-15

[24] Paid up capital *plus* Free reserves *less* Accumulated losses.

[25] HESCOM (- ₹ 1,434.69 crore) and GESCOM (- ₹ 88.17 crore).

to 2016-17 declared dividend to GoK. During 2017-18, though six PSUs earned profit, no PSU declared dividend. Further, the Dividend Payout Ratio during 2013-14 to 2016-17 was very nominal which ranged between 0.50 *per cent* and 0.68 *per cent* of paid up capital.

Return on Equity

1.10.8. Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using companies' assets to generate earnings growth and is calculated by dividing net profit by shareholders' fund[26].

Return on Equity has been computed in respect of eight Power Sector PSUs where funds had been infused directly by the State Government. The details of Shareholders fund and ROE relating to these eight PSUs during the period from 2013-14 to 2017-18 are given in the following table:

Table No. 1.12: Return on Equity relating to Power Sector PSUs

Sl. No.	Year	Net profit (₹ in crore)	Shareholders' Fund (₹ in crore)	Return on Equity (*per cent*)
1	2013-14	-534.58	8,992.64	-
2	2014-15	372.62	13,574.38	2.75
3	2015-16	422.64	10,825.40	3.90
4	2016-17	21.29	10,697.61	0.20
5	2017-18	-39.61	13,469.70	-

As seen from the above table, the Power Sector PSUs earned profit only during 2014-15 to 2016-17. The RoE remained very nominal ranging from 0.20 *per cent* to 3.90 *per cent* during 2014-15 to 2016-17. Further, RoE was *nil* in 2013-14 and 2017-18 due to losses.

Return on Capital Employed

1.10.9. Return on Capital Employed (ROCE) is a ratio that measures a Company's profitability and the efficiency with which its capital is employed. ROCE is calculated by dividing a Company's earnings before interest and taxes (EBIT) with the capital employed[27]. The details of ROCE of eight Power Sector PSUs where State Government had infused funds during the period from 2013-14 to 2017-18 are given in following table:

Table No. 1.13: Return on Capital Employed

Sl. No.	Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (*Per cent*)
1	2013-14	1,993.38	22,208.72	8.98
2	2014-15	3,223.86	27,962.84	11.53
3	2015-16	3,501.48	27,331.82	12.81
4	2016-17	3,622.95	29,062.90	12.47
5	2017-18	4,534.91	33,845.15	13.40

[26] Shareholder's fund = Paid up capital *plus* Free reserves *less* Accumulated losses.

[27] Capital Employed = Paid up capital *plus* Free reserves and surplus *plus* long term loans *less* accumulated loss.

The ROCE of Power Sector PSUs increased from 8.98 *per cent* to 13.40 *per cent* during the period 2013-14 to 2017-18.

Analysis of Long term loans of Power Sector PSUs

1.11 The analysis of the long term loans of the companies which had leverage during 2013-14 to 2017-18 was carried out to assess the ability of the companies to service the debt owed by the companies to Government, banks and other financial institutions. This is assessed through the Interest coverage ratio and Debt Turnover Ratio.

Interest Coverage Ratio

1.11.1. Interest coverage ratio is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's earnings before interest and taxes with interest expenses of the same period. The lower the ratio, the lessor the ability of the company to pay interest on debt. An interest coverage ratio of below one indicates that the company is not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in those Power Sector PSUs which had interest burden during the period from 2013-14 to 2017-18 are given in the table below:

Table No. 1.14: Interest coverage ratio

Sl. No.	Year	Interest (₹ in crore)	EBIT (₹ in crore)	Number of PSUs having interest burden	Number of PSUs having interest coverage ratio more than one	Number of PSUs having interest coverage ratio less than one
1	2013-14	2,550.02	1,993.98	8	5	3
2	2014-15	2,750.02	3,223.86	8	8	0
3	2015-16	2,885.20	3,501.48	8	7	1
4	2016-17	3,320.65	3,622.95	8	6	2
5	2017-18	3,767.37	4,534.91	7	5	2

It was observed that the number of Power Sector PSUs with interest coverage ratio of more than one varied from five to eight during 2013-14 to 2017-18. As at 31 March 2018, two Power Sector PSUs (HESCOM and GESCOM) had interest coverage ratio of less than one.

Debt-Turnover Ratio

1.11.2. The debt-turnover ratio is calculated by dividing loans outstanding with turnover at the end of the year. The debt-turnover ratio of eight Power Sector PSUs has not improved as the compounded annual growth[28] rate of turnover (9.91 *per cent*) was less than that of Debt (14.74 *per cent*) during 2013-14 to 2017-18. The debt turnover ratio of these PSUs during the last five years is shown in the following table:

[28] Calculated as $[1(20,375.45/11,753.81)^{1/1\times4} - 1] \times 100 = 14.74$ *per cent* for debt and $[1(45,591.36/31,244.20)^{1/1\times4} - 1] \times 100 = 9.91$ *per cent* for turnover.

Table No. 1.15: Debt Turnover ratio relating to the Power Sector PSUs

(₹ in crore)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Debt	11,753.81	15,486.71	16,506.42	18,365.29	20,375.45
2	Turnover	31,244.20	34,887.24	38,372.52	41,284.37	45,591.36
3	Debt-Turnover ratio	0.38:1	0.44:1	0.43:1	0.44:1	0.45:1

Assistance under Ujwal DISCOM Assurance Yojana (UDAY)

1.12. The Ministry of Power (MoP), Government of India launched (20 November 2015) Ujwal DISCOM Assurance Yojana (UDAY) for Operational and Financial turnaround of State owned Power Distribution Companies (DISCOMs). As per the Memorandum of Understanding (MoU) concluded (June 2016) between Ministry of Power (MoP), Government of India, Government of Karnataka and five DISCOMs, the State was required to implement the following measures for improving operational efficiency of DISCOMs:

Scheme for improving operational efficiency

1.12.1. The State had undertaken various targeted activities like compulsory feeder and Distribution Transformer (DT) metering, consumer indexing and GIS mapping of losses, upgrading or changing transformers and meters, smart metering of all consumers consuming above 500 units per month, Demand Side Management (DSM) through energy efficient equipments, periodical tariff hike, comprehensive IEC campaign to check theft of power, assured increased power supply in areas where the Aggregate Technical and Commercial (AT&C) losses have been reduced for improving the operational efficiencies.

The timeline prescribed for these targeted activities in the MoU was also required to be followed so as to ensure achievement of the targeted benefits *viz.* ability to track losses at feeder and DT level, identify loss making areas, reduce technical losses and minimize outages, reduce power theft and enhance public participation for reducing the theft, reduce peak load and energy consumption *etc.*

The outcomes of operational improvements were to be measured through indicators *viz.* reduce AT&C loss to 14.20 *per cent* in 2018-19 as per loss reduction trajectory as indicated in MoU, eliminate the gap between average cost of supply and average revenue by 2018-19.

Implementation of UDAY

1.12.2. The participating States were required to take over 75 *per cent* of DISCOMs debt by 30 September 2018 *i.e.* 50 *per cent* in 2015-16 and 25 *per cent* in 2016-17.

The Government of Karnataka has not taken over any debt of DISCOMs but has undertaken to implement the operational parameters. The achievements *vis-a-vis* targets under UDAY[29] for different operational parameters relating to the five State DISCOMs were as under:

Table No. 1.16: **Parameter wise achievements *vis-a-vis* targets of operational performance upto 31 December 2018**

Parameter of UDAY	Target under UDAY	Progress under UDAY	Achievement (*per cent*)
Feeder metering (Nos.)	74	369	498.65
Metering at Distribution Transformers (Nos.)			
Urban	9,495	10,860	114.69
Rural	33,437	46,379	138.71
Feeder Segregation (Nos.)	767	1,018	132.72
Rural Feeder Audit (Nos.)	54	1,474	2,729.63
Electricity to unconnected household (lakh Nos.)	5.15	4.35	84.47
Smart metering (in Nos.)	0	2,486	-
Distribution of LED UJALA (lakh Nos.)	123.58	161.51	130.69
AT&C Losses (*per cent*)	14.4	14.06	-
ACS-ARR Gap (₹ per unit)	0.29	0.07	-
Net Income or Profit/Loss including subsidy (₹ in crore)	30.98	210.86	-

As seen from the above, the achievement of the State was far more than the targets set under the UDAY in all the parameters except electrification to unconnected households which fell short of the target by 15.53 *per cent.*

Comments on Accounts of Power Sector PSUs

1.13. Eleven Power Sector PSUs forwarded their 17 audited accounts to the Accountant General between 1 October 2017 and 30 September 2018. All these, 17 accounts (of 11 companies) were selected for Supplementary Audit. The Audit Reports of the Statutory Auditors (appointed by the CAG) and the Supplementary Audits of the CAG indicate that the quality of maintenance of accounts requires improvement. The details of aggregate money value of comments of Statutory Auditors and the CAG are given in the following table:

Table No. 1.17: **Impact of audit comments on working companies**

(₹ in crore)

Sl. No	Particulars	2015-16		2016-17		2017-18	
		No.	Amount	No.	Amount	No.	Amount
1	Decrease in profit (accounts)	3	1,560.73	1	889.96	5	830.85
2	Increase in profit (accounts)	-	-	1	5.58	1	6.01
3	Decrease in loss (accounts)	-	-	-	-	-	-
4	Increase in loss (accounts)	-	-	1	577.39	4	3,654.76
5	Non-disclosure of material facts (instances)	1	-	4	-	5	-
6	Errors of classification (instances)	3	-	1	-	-	-

[29] As per State Health Card under UDAY published in the website of the MoP, GoI.

During the year 2017-18, the Statutory Auditors issued unqualified reports on two accounts and qualified reports on 15 accounts. The compliance of Power Sector PSUs with the Accounting Standards remained poor as there were 64 instances of non-compliance in 13 accounts during the year.

Response of the Government to Audit

Performance Audits and Compliance Audit Paragraphs

1.14. One Performance Audit and two Compliance Audit paragraphs related to Power Sector PSUs were issued to the Additional Chief Secretary of the Energy Department with a request to furnish replies. Replies have been received for two Compliance Audit paragraphs and views of the Government were incorporated suitably. Replies in respect of one Performance Audit is awaited from the State Government (June 2019).

Follow up action on Audit Reports

Replies outstanding

1.15. The Reports of the CAG represent the culmination in the process of audit scrutiny. It is therefore necessary that they elicit appropriate and timely response from the Executive. The Finance Department, Government of Karnataka, issued (January 1974) instructions to all Administrative Departments to submit replies to paragraphs and Performance Audits (PAs) included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The status of receipt of replies to the report of Comptroller and Auditor General of India from the GoK is given in the following table:

Table No.1.18: Replies not received as on 30 September 2018

Sl. No.	Year of the Audit Report (PSUs)	Date of placing the Audit Report in the State Legislature	Total PAs and Paragraphs in the Audit Report pertaining to Power Sector		Number of PAs/ Paragraphs for which replies were not received	
			PAs	Paragraphs	PAs	Paragraphs
1	2014-15	05.03.2016	1	8	0	1
2	2015-16	23.03.2017	1	4	1	0
3	2016-17	22.02.2018	1	2	1	0
	Total		**3**	**14**	**2**	**1**

It could be seen that replies for two Performance Audits and one paragraph in respect of Power Sector PSUs, were not furnished by GoK (June 2019).

Discussion of Audit Reports by COPU

1.16. The status of Performance Audits (PAs) and paragraphs relating to Power Sector PSUs that appeared in Audit Reports on PSUs and discussed by COPU as on 30 September 2018 was as follows:

Table No.1.19: Status of discussion of PAs and Paragraphs

Sl. No.	Period of Audit Report	Number of PAs/paragraphs			
		Appeared in Audit Report		Para discussed	
		PAs	Paragraphs	PAs	Paragraphs
1	2009-10	1	5	1	5
2	2013-14	1	7	1	1
3	2014-15	1	8	1	8
4	2015-16	1	4	0	0
5	2016-17	1	2	0	0
	Total	**5**	**26**	**3**	**14**

Compliance to Reports of Committee on Public Undertakings (COPU)

1.17. Action Taken Notes (ATN) from the Government of Karnataka pertaining to one paragraph of one Report of COPU presented to the State Legislature during June 2017, were not received (September 2018).

The report of COPU contained seven recommendations in respect of one paragraph pertaining to Energy Department which appeared in the Report of the CAG of India for the period 2014-15.

It is recommended that the Government may ensure: (a) sending replies to Draft Paragraphs/Performance Audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) revamping of the system of response by the GoK to audit observations.

Response to Inspection Reports

1.18. Audit observations noticed during audit and not settled on the spot were communicated to the heads of PSUs and the Energy Department of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the Energy Department within a period of one month. There were 1,622 paragraphs from 242 Inspection Reports (**Appendix 6** – Sl. No. 1) pertaining to 11 Power Sector PSUs outstanding as on 31 March 2018. These paragraphs pertain to the period from 2010-11 to 2017-18.

It is recommended that the Government may ensure that a procedure exists for taking action (a) against officials who fail to respond to Inspection Reports based on the reports of Audit Monitoring Cell constituted by the Government and (b) to recover loss/outstanding advances/overpayment within the prescribed time.

Chapter - II

Performance Audit on Power Sector PSUs

Chapter - II

2. Performance Audit on Power Sector PSUs

2.1 Performance Audit on 'Execution of Yeramarus Thermal Power Station of Raichur Power Corporation Limited'

Executive Summary

Introduction

To deal with the power shortage in the State, Karnataka Power Corporation Limited (KPCL), a State Public Sector Undertaking (PSU) involved in the generation of hydel/thermal power, explored the possibility of establishing one more thermal power station in the State. KPCL proposed (July 2007) to establish a 2 x 500 Mega Watt (MW) coal-based thermal power station at Yeramarus in Raichur District. Bharat Heavy Electricals Limited (BHEL), a Central Public Sector Undertaking, which was working on supercritical technology (800 MW Plants), evinced (May 2008) interest in having a Joint Venture (JV) with KPCL on mutually agreeable terms and conditions to execute the project. The Board of Directors of KPCL approved (June 2008) implementation of the Yeramarus Thermal Power Station (YTPS) at an enhanced capacity with two Units of 800 MW capacity each, *i.e.* 1,600 MW, in a Joint Venture with BHEL. It was stated that while KPCL was in a position to do the Project on its own in the XII five-year Plan (2012-17), joining with BHEL would ensure acceleration of the project and advance the project to the XI Plan/early XII Plan.

Constitution of Joint Venture Company for implementing the project

On approval (January 2009) of the Government for the Project, the KPCL entered (January 2009) into a Memorandum of Understanding with BHEL and executed (January 2009) a Joint Venture Agreement with it. Raichur Power Corporation Limited (RPCL, the Company) was incorporated on 15 April 2009. The JV envisaged bringing in Financial Institutions as a shareholder, and IFCI Limited was included as another JV partner in November 2011 for infusing ₹ 432.72 crore. The Share holding pattern as at the end of March 2018 was: KPCL-53.80 *per cent*, BHEL-27.97 *per cent* and IFCI Limited-18.23 *per cent.*

The Joint Venture Agreement envisaged that the JV Company shall formally issue a contract on BHEL for installing the Boiler, Turbine Generator (BTG) and their associated equipment on mutually agreed terms and conditions, which included Engineering, Procurement, Inspection and Construction supervision, as well as commissioning services of Boiler, Turbine Generator (BTG) and their associated equipment.

Audit Objective

The objective of the Performance Audit was to assess whether the objectives of YTPS to bridge the gap between demand and supply of power and provide electricity in a sustainable manner at a reasonable cost were achieved.

Audit Findings

- Though KPCL was facing difficulties with other Projects entrusted to BHEL, it formed a JV with BHEL without exploring the option of going in for a Public-Private Partnership for execution of the Project despite availability of various incentives under the scheme promoted by the GoK. (*Paragraph 2.1.8.2*)

- Failure to get the benefits (duty concessions) under Mega Power Status despite entering into a Power Purchase Agreement in December 2010 resulted in foregoing the benefit of ₹ 335.01 crore. (*Paragraph 2.1.8.3*)

- Due to changes in the layout and re-testing of soil by the Company, the completion of geo-technical work was delayed by 17 months from its milestone date. (*Paragraph 2.1.11*)

- Due to non-identification of the total land requirement in time and frequent revisions of the location, the land acquisition was delayed affecting the implementation of the Railway Siding and Marshalling Yard works, General Mechanical Works and Coal Handling Plant. (*Paragraphs 2.1.13, 2.1.14, 2.1.16.4*)

- Failure to finalise the type of Cooling Tower and delay in handing over the site and approval of designs resulted in delay from milestone date besides incurring additional cost (₹ 29.75 crore) towards piping work and additional annual auxiliary power consumption of ₹ 19.70 crore. (*Paragraph 2.1.12.2*)

- Failure to decide on the type of water treatment in the Cooling Water System resulted in delay in completion of work besides the use of untreated water affecting the health of the pipelines. (*Paragraph 2.1.12.3*)

- Due to non-completion of the Railway Siding and Marshalling Yard work, delay in receipt of approved DPR and bridge drawing, *etc*., there was no rail arrangement to bring coal to the YTPS Project, though the Project was declared ready for commercial operation (March/ April 2017) more than 18 months ago. (*Paragraphs 2.1.13, 2.1.13.2*)

- General Mechanical Works were delayed due to delay in finalisation of technical specifications, delay in cancellation of bids due to unresponsiveness and ambiguity in tender conditions resulting in delay of 27 months in awarding the work. The delay in completion of General Mechanical Works delayed the process of bringing raw water to the YTPS Project. (*Paragraph 2.1.14*)

- Due to not monitoring the work of BHEL in construction of Turbo Generator Deck with designs, the changes in the position of the columns were noticed belatedly, resulting in stoppage of work. The Company took the opinion of experts, which delayed the resumption of work by eight months. (*Paragraph 2.1.16.2*)

- Due to delay on the part of the Company in handing over the required land to BHEL for Coal Handling Plant and further delay by BHEL in completion of work, the YTPS plant, was unable to run optimally as the Coal Handling Plant was not ready as of September 2018. (*Paragraph 2.1.16.4*)

- Though the Plant was declared for commercial operation in March/April2017, there was no regular coal linkage for operation of the Plant (as of September 2018). Against the annual requirement of 58.3 lakh tonnes for operation of the Plant, the Company tied up only 30 lakh tonnes under Bridge-linkage. Moreover, Railway Siding and Marshalling Yard and Coal Handling Plant works were pending completion (September 2018). In absence of railway siding, the coal received through bridge linkage was unloaded in a nearby Siding and transported by road to the Plant entailing an additional expenditure of ₹ 25.40 crore in 2017-18, which turned out to be 83 *per cent* of the cost of the railway siding itself. *(Paragraph 2.1.17.2)*

- BHEL proposed Ash Handling Plant with a capacity of 171 Tonnes Per Hour (TPH) as against the requirement of 179 TPH as per the norms of Central Electricity Authority. (*Paragraph 2.1.18.1*)

- Though generation commenced from 2017-18, YTPS was yet to comply (September 2018) with the conditions given in the Environmental Clearance for the Project. (*Paragraph 2.1.19*)

- The delay in completion of the project increased the project cost from the estimated cost (April 2009) of ₹ 8,806.23 crore to ₹ 12,915.90 crore provisionally as of March 2018. The cost of generation per unit also increased from ₹ 3.24 to ₹ 5.36 provisionally. (*Paragraph 2.1.20*)

- Failure of the Joint Committee to finalise the Report on the reasons for delay in completion of works delayed the levy of liquidated damages, which would have had an effect on the total project cost, as the capital cost would be adjusted to that extent by the Regulatory Commission while determining tariff. (*Paragraph 2.1.21*)

- A total of 23,188.86 Million Units of power, in the form of short and medium-term power valued at ₹ 11,079.22 crore, were purchased during 2014-15 to 2017-18. Out of this, additional cost on the purchase of 22,283.03 Million Units of power (short/medium-term) from private producers amounting to ₹ 2,517.92 crore was avoidable had the Company completed the implementation of the Project within the stipulated time. (*Paragraph 2.1.20*)

Introduction

2.1.1. Power is an essential requirement on which the socio-economic development of the country depends to a large extent. The availability of reliable and quality power at competitive rates is crucial to sustain the growth of all sectors of the economy.

Karnataka being a power deficit State was not able to meet the peak demand ranging from 5-15 *per cent* during the period 2005-10[30].

Karnataka Power Corporation Limited (KPCL), a State Public Sector Undertaking (PSU) involved in the generation of hydel/thermal power, explored the possibility of establishing one more thermal power station in the State. KPCL proposed (July 2007) to establish a 2 x 500 Mega Watt (MW) coal-based thermal power station at Yeramarus in Raichur district. Bharat Heavy Electricals Limited (BHEL), a Central Public Sector Undertaking which was working on supercritical[31] technology (800 MW Plants), evinced (May 2008) interest in having a Joint Venture (JV) with KPCL on mutually agreeable terms and conditions to execute the project. The Board of Directors of KPCL approved (June 2008) implementation of the Yeramarus Thermal Power Station (YTPS) at an enhanced capacity with two Units of 800 MW capacity each, *i.e.* 1,600 MW, in a Joint Venture with BHEL. It was stated that while KPCL was in a position to do the Project on its own in the XII five-year Plan (2012-17), joining with BHEL would ensure acceleration of the project and advance the project to the XI Plan/early XII Plan.

KPCL prepared (April 2009) the Detailed Project Report (DPR) for 1,600 MW Project at an estimated cost of ₹ 8,806.23 crore. The levellised tariff (future tariffs discounted to present rates) was projected at ₹ 3.24 *per* unit. The justification for taking up the Project was that over 40 *per cent* of the households in the region did not have power and even those who had electricity faced frequent power failures. The challenge was therefore to provide electricity in a sustainable manner at reasonable cost. It was further mentioned that if Karnataka was to be free of power shortages, substantial amount of installed capacity was required over and above the XI Plan targets. Due to the uncertainty in implementation of the other power projects owing to location, capacity and fuel allocations, this project would help bridge the gap between demand and supply of power in Karnataka. The DPR *inter alia* also mentioned that the project could be fast-tracked, as:

- The basic requirement of land, water, availability of coal and its transport, as well as power evacuation, were well met by the site selected for the Project (YTPS). The distinct advantage of the site was the fact that the land was already allotted (June 2008) to KPCL, thereby gaining valuable savings in time and money in land acquisition proceedings; and

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[30] The period between 2005 to 2010 was when this Project was conceived and awarded.

[31] Supercritical technology implies use of steam pressure beyond the critical point of water/ steam, which is about 225 kg./cm.^{2}, with various combinations of temperature and pressure. Further, unlike sub-critical pressures, there is no co-existence of the two phases, water and stream in the Boiler.

- Some common facilities like township for personnel could be shared with the Raichur Thermal Power Station (RTPS) of KPCL. Also, there was a proposal of using the ash bund of RTPS for ash disposal.

Constitution of Joint Venture Company for implementing the project

2.1.1.2. Based on the approval (January 2009) of the Government for the Project, the Company entered (January 2009) into a Memorandum of Understanding with BHEL and also executed (January 2009) the Joint Venture Agreement with BHEL. As per the terms of the MoU and JV Agreement, a Joint Venture Company, *i.e.* Raichur Power Corporation Limited (RPCL, the Company) was incorporated on 15 April 2009. The JV envisaged bringing in Financial Institutions as a shareholder[32]. IFCI Limited[33] was included as another JV partner in November 2011 for infusing ₹ 432.72 crore. The Share holding pattern as at the end of March 2018: KPCL-53.80 *per cent*, BHEL-27.97 *per cent* and IFCI Limited-18.23 *per cent.* KPCL and BHEL did not transfer / encumber their share in the JV for an initial period of five years from the date of incorporation of the JV Company or until the commencement of commercial operation of the Project. As per the Share Holders Agreement, KPCL had the buy-out option for the shares of IFCI for an aggregate consideration equal to Internal Rate of Return (IRR) of at least 15.5 *per cent* on the subscription amount invested by IFCI Limited.

The Joint Venture Agreement envisaged that the JV Company shall formally issue contract on BHEL for installing the Boiler, Turbine Generator (BTG) and their associated equipments on mutually agreed terms and conditions. The services to be provided by BHEL shall include Engineering, Procurement, Inspection and Construction supervision, as well as commissioning services of BTG and their associated equipments.

Organisational Structure

2.1.1.3. The affairs of the Company (RPCL) are managed by the Board of Directors (BoD) comprising a Chairman from BHEL, three Directors from KPCL, three Directors from BHEL and one Director from IFCI Limited. The management of the day-to-day affairs of the Company rests with the Managing Director (MD) nominated by KPCL. The Managing Director, KPCL is currently the Managing Director of the Company (RPCL). The MD is assisted by the Chief Engineer (Mechanical) and Chief Engineer (Electrical) on deputation from KPCL and Chief Engineer (Civil) and Chief Engineer (Technical Designs) who hold additional charge in the Company (RPCL) along with their charge at KPCL.

[32] The share holding pattern as per the MoU / JV agreement was KPCL (26 *per cent*), BHEL (26 *per cent*) and Financial Institutions (48 *per cent*).

[33] Erstwhile Industrial Finance Corporation of India Limited.

Audit Objective

2.1.2. The objective of this Performance Audit was to assess whether the objectives of YTPS to bridge the gap between demand and supply of power and provide electricity in a sustainable manner at a reasonable cost were achieved.

Scope and Methodology of Audit

2.1.3. The Performance Audit covers the implementation of the Project from its date of inception (July 2007) upto the end of March 2018.

The audit involved scrutiny of records at the Corporate Office at Bengaluru and the Project Office at Yeramarus Thermal Power Station, Raichur. The Company awarded 209 Work Orders/ Letters of Award aggregating ₹ 8,479.33 crore for the implementation of YTPS. Of this, Audit reviewed 68 Work Orders[34]/ Letters of Award on works awarded for the supply of various machinery, components and works totaling to ₹ 8,357.25 crore.

The methodology adopted for audit involved explaining the Audit Objective and Criteria to the top Management of the Government and the Company through an Entry Conference, which was held on 15 March 2018. The Methodology also involved interaction with the personnel of the audited entity and KPCL, analysis of data, collection of information through audit requisitions, issue of audit queries and issue of Draft Performance Audit Report to the Management and the Government. The Management furnished replies to the Draft Performance Audit Report in September 2018 and November 2018. The Audit Report was discussed with the Government in the Exit Conference held on 5 October 2018 and the views of the Management are included in the Report at the appropriate places.

Audit Criteria

2.1.4. The following sources of criteria were adopted for assessing the achievement of the audit objectives:

- Guidelines/Norms/Orders of Central Electricity Regulatory Commission (CERC), Central Electricity Authority (CEA), Karnataka Electricity Regulatory Commission (KERC);
- Instructions of the Ministry of Power, Government of India (GoI) and Government of Karnataka (GoK);
- The Karnataka Transparency in Public Procurements Act, 1999 and its Rules, 2000; and
- Detailed Project Report, design specifications, PERT Charts and Circulars/Manuals of the Company.

[34] The Work Orders excluded from the selection were other works such as construction of compound wall, roads, maintenance works, *etc*.

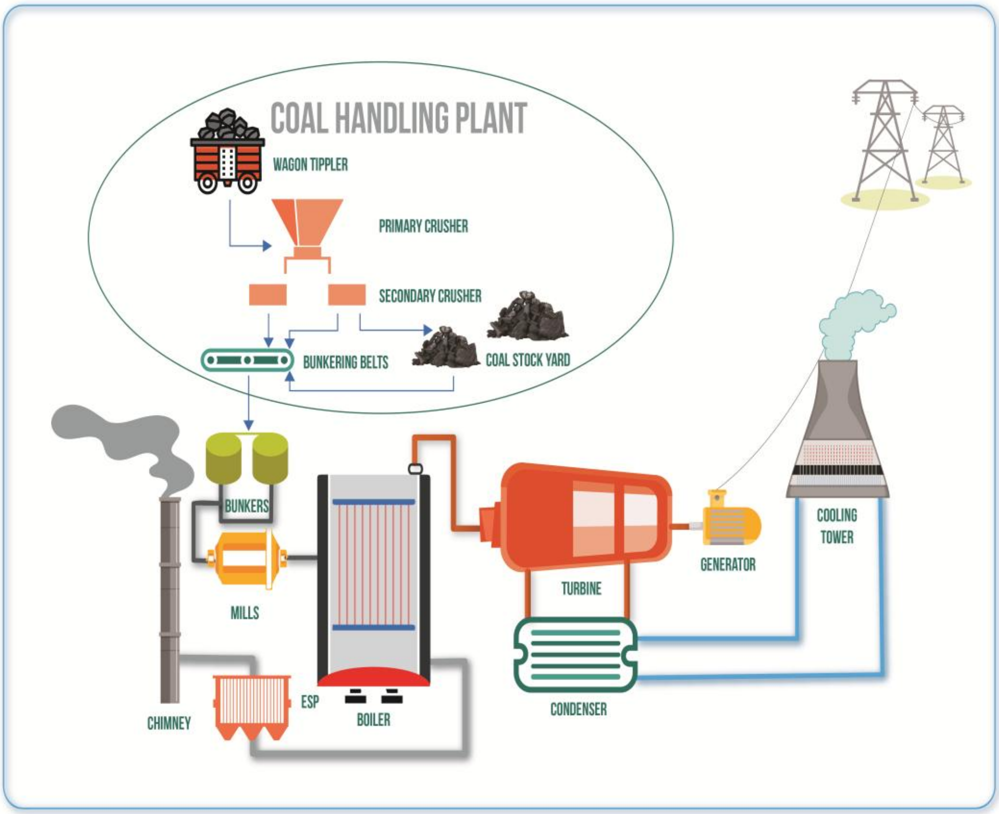
Acknowledgment

2.1.5. Audit acknowledges the co-operation extended by the Energy Department of GoK and the Management of the Company in facilitating the conduct of the Performance Audit.

Generation process of Thermal Power Stations

2.1.6. The schematic diagram of the generation process in a Thermal Power Station is given below:

Chart No. 2.1.1: Schematic diagram of the major components of a Thermal Power Station



In Thermal Power Plants, steam is produced under high pressure in the steam boiler by burning of coal in Boiler furnaces. This steam enters into the Turbine and rotates the Turbine blades mechanically, coupled with Alternator, which rotates the Rotor with the rotation of Turbine blades. After imparting energy to the turbine rotor, the steam passes on to the condenser. Cold water is circulated to condense the low-pressure wet steam. This condensed water is further supplied to the water heater where the low-pressure steam increases its temperature and it is again heated under high pressure. In the process, electricity is generated and is transmitted for further distribution.

The main components of a Thermal Power Plant are:

- Boiler and Turbine Generator (BTG), and
- Other Ancillary input or Balance of Plants (BoPs) works, which include Cooling Tower, Coal Handling Plant, Ash Handling Plant, Plant Water System, Chimney, Railway Siding and Marshalling Yard, *etc*.

The functions of the different components of the Thermal Power Plant are given in **Appendix-7**.

Status of the Project

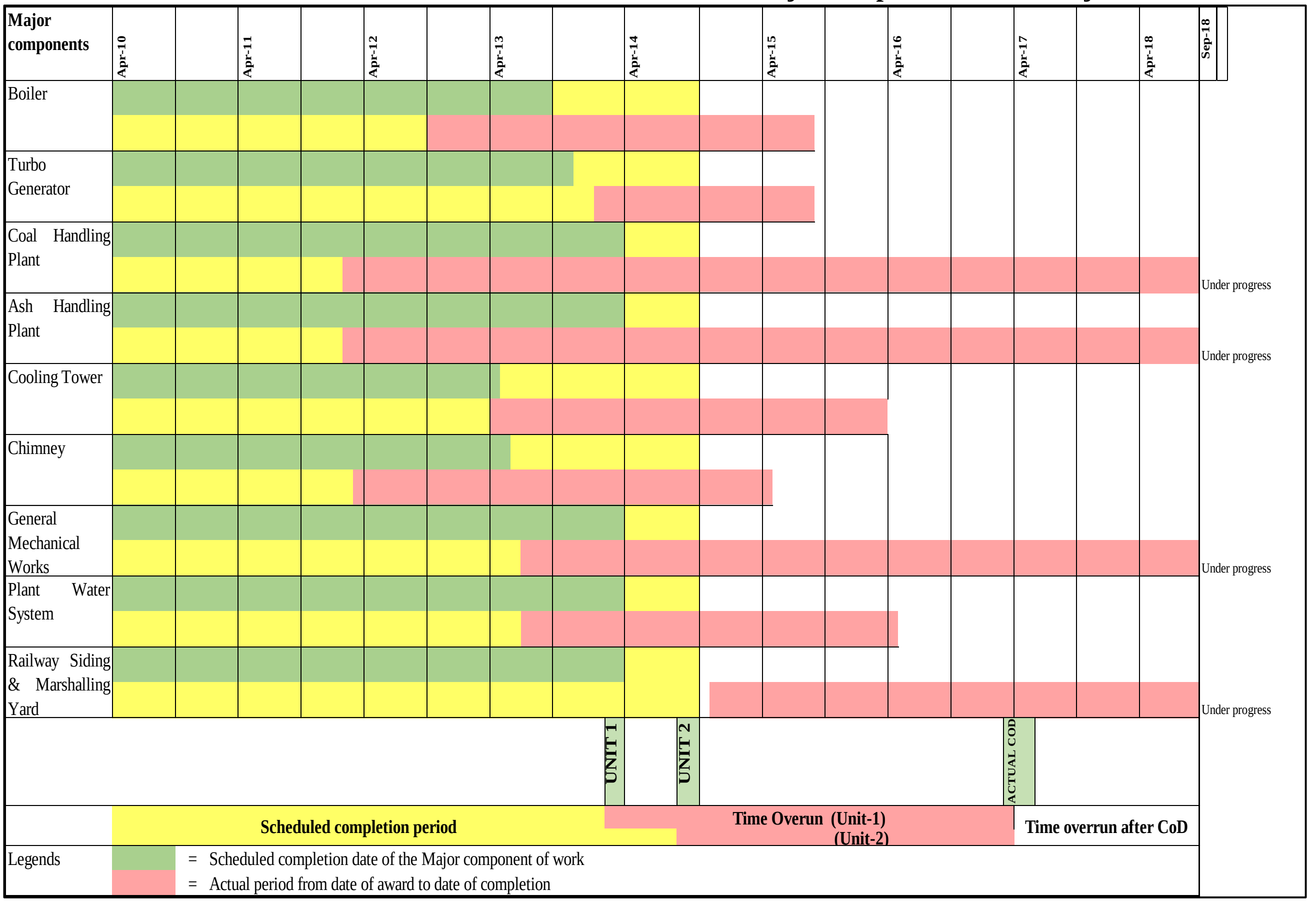
2.1.7. After the formation of the JV Company in April 2009, the Company requested (July 2009) BHEL to offer the rate for the Boiler, Turbine Generator (BTG) package for the two Units.

After negotiations, the Company issued (9 April 2010) Letters of Award (LoA) on BHEL for supply and erection services for the BTG package (including agreed Balance of Plants[35] and civil works) at a cost of ₹ 6,300 crore (excluding taxes and duties).

Further, orders for other works under the Balance of Plant works, such as General Mechanical Works, Railway Siding and Marshalling Yard, *etc*. were placed on various firms after inviting tenders.

2.1.7.1. The Chart below summarizes the status of different components of the Project with respect to their scheduled date of completion and the time taken to execute the work.

Chart No. 2.1.2: Status of the major components of the Project



Source: Compiled by Audit based on Contract documents and Progress Reports

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[35] Station - Control and Instrumentation; Switchyard, including civil work; Power Transformers; Power Cycle Piping and valves; Cooling Water System, excluding Cooling Tower, *etc*.

The scheduled completion of Unit 1 and Unit 2 were April 2014 and October 2014 respectively. However, the Units were declared as ready for commercial operation only in March and April 2017 after a delay of three years from the scheduled completion date. It can also be seen from the Chart No. 2.1.2 that important ancillary works of Coal Handling Plant, Ash Handling Plant, General Mechanical Works and Railway Siding and Marshalling Yard works were not completed even as on date (September 2018), *i.e.* more than 18 months after the Plant was declared ready for commercial operation. As a result, the Plant was not operating at the envisaged capacity to bridge the gap between demand and supply (September 2018).

The Management confirmed that there were delays of 35 months and 30 months in the commissioning of the two units. The Management also replied (September 2018) that as the project was implemented with borrowings from Financial Institutions and commercial banks, the commissioning of the Plant was essential even as the balance works were in progress.

Audit Findings

2.1.8. During the course of this Performance Audit, Audit reviewed the execution of the Project and analysed the reasons for the delay in completion of the Project.

The results are summarized in the succeeding paragraphs broadly under the following heads:

- Strategic Planning for execution;
- Obligations of the JV partners in the implementation of the BTG Package; and
- Deficiencies in implementation of Ancillary works/Balance of Plants works and its non-synchronisation with the completion of BTG Package.

Strategic Planning for execution

2.1.8.1. Strategic Planning is the process of identifying the long-term goals of the entity and the broad steps necessary to achieve the goals incorporating the concerns and expectations of the stakeholders.

The Board of Directors of KPCL [36] discussed (March 2008) that for establishment of the YTPS Project, (i) it would be prudent to go in for International Competitive Bidding (ICB) as it would facilitate the participation of other world-class players, and (ii) in the context of the financial crunch and need for raising equity, the possibility of having Joint Venture (JV) with NTPC to execute the YTPS Project was also to be explored.

In the BoD meeting of KPCL held in June 2008, it was apprised that KPCL addressed a letter to NTPC and BHEL to explore their interest in having a JV for execution of the Project. BHEL agreed in principle for JV, if the Project

[36] Karnataka Power Corporation Limited was handling the YTPS Project before the Joint Venture Company (Raichur Power Corporation Limited) was formed in April 2009.

was executed with supercritical technology, as they had the requisite corpus for equity participation for such projects. The BoD of KPCL approved (June 2008) the YTPS Project of 2 X 800 MW with supercritical technology in Joint Venture with BHEL. Later, in April 2009, the JV was formed and the JV Company awarded (April 2010) the work of BTG to BHEL.

Though the BoD were informed (June 2008) that the matter for JV was taken up with NTPC, there were no records to substantiate the fact that NTPC had either made an offer for, or declined to participate in, the JV.

In this connection, Audit observed the following:

Joint Venture arrangement

2.1.8.2. In the same BoD meeting (June 2008) where the YTPS project was decided to be executed through a Joint Venture with BHEL, the BoD discussed about two other projects. In respect of the status of implementation of Bellary Thermal Power Station – Unit 2, the BoD was apprised about the delay in starting the works due to heavy overbooked order position of BHEL while in respect of establishing Bellary Thermal Power Station – Unit 3 of 500 MW, the Principal Secretary, Energy Department, GoK suggested that KPCL go for 'Divisible Package' approach (where Major packages are separately tendered) to ensure fast-track completion.

Thus, as could be seen from the discussions of the BoD at that point in time (June 2008), it was evident that KPCL was facing difficulties with the other Projects entrusted to BHEL. Yet, when the BoD discussed the YTPS Project, it was decided (June 2008) to go in for the JV route with BHEL to implement the Project. Therefore, the decision to go in for the JV route with BHEL again, which was already overbooked and whose constraints with respect to timely implementation were already well known, for implementation of the project under Engineering, Procurement, Inspection and Construction supervision contract, was *ab initio* weak.

The Company also did not explore the option of going in for a Public-Private Partnership for execution of the Project despite availability of various incentives under the scheme promoted by the GoK.

The Management replied (September 2018) that it was felt that the benefit of going with a Government body would far outweigh the incentive available under a Private Public Partnership. On the other hand, GoK expected that a Maharatna Company like BHEL would rise to the occasion and justify the trust reposed on it. Moreover, the JV was required to obtain equity support for the project as KPCL/ GoK does not have infinite resources to fund all the projects. In the Exit Conference, the Energy Department informed (October 2018) that the decision to go for JV was taken considering the circumstances of the day. The reply is not to the point as the objection is not on the decision to go in for JV per se, but on the decision to select BHEL as the JV partner. Moreover, going in for a JV with BHEL was not a prudent decision as the Company was already aware that BHEL was not able to keep up its commitments, from its experience of implementing other projects.

2.1.8.3. The Government of India introduced (November 1995) the Mega Power Project (MPP) Policy wherein Power Plants having a capacity of 1,000 MW or more were eligible for exemptions from customs duty, excise and sales tax. The condition to get Mega Power Status *inter alia* included that the machinery had to be procured through International Competitive Bidding (ICB).

After the formation of the JV Company, the BoD of the JV Company while deliberating (April 2010), on the cost of the project, (with Mega Power Status), discussed that if the equipments were procured through International Competitive Bidding (ICB), the time required for the tendering process itself would be six months. In the process, the project cost would increase due to increasing prices and there would be a loss of a generation equivalent to 6,200 MUs during these six months. Moreover, the benefit of duty concessions cumulatively valued at ₹ 350 crore (estimated) under Mega Power Status (MPS) would get traded off with this six months' generation. As the State faced acute power shortage it was decided to proceed with BHEL on entrustment basis.

Audit observed that the condition that mandated the procurement of machinery through ICB to get the benefit of Mega Power Status, was removed in December 2009 by GoI, if the requisite quantum of power has been tied up. However, the Board did not deliberate on the relevant issue of tying up of power with Electricity Supply Companies to avail the MPS as contemplated in the DPR. The Power Purchase Agreement (PPA) was entered into with Electricity Supply Companies in December 2010. Even after entering into PPAs, the Company did not pursue to get the benefits (excise/sales tax concessions) under Mega Power Status. The actual benefit foregone under MPS was ₹ 335.01 crore.

Deficiencies in implementation

2.1.9. Proper planning for implementation of the Project was important for timely completion of the Project and achievement of the milestones. Any deficiency thereon would have consequential effect on the completion of the Project.

The zero date of the YTPS Project was April 2010. A kick-off meeting was held between the Company and BHEL in September 2010, wherein the milestones for the Project were agreed to by both the parties.

As per the scope of Letter of Award to BHEL and agreed milestones, the Company and BHEL (Contractor) were to adhere to their obligations, so as to complete the project as envisaged. It was, however, observed that the parties did not adhere to their commitments, which was the main cause for delay in completion of the Project by three years.

The details are discussed in the succeeding paragraphs:

Providing land for the Project

2.1.10. As per the DPR, the total land required for the project was roughly 1,000 acres. The project was proposed to be set up on the Karnataka Industrial Area Development Board (KIADB) land. KIADB handed over (June 2008) 826 acres of land (after survey), to KPCL and negotiations were on for additional allotment of about 245 acres' land. The GoK approved transfer of land in favour of the JV Company in December 2011. In July 2012, the JV Company entered into a lease-cum-sale agreement with KIADB towards this 826 acres of land (termed Part-I of acquisition).

Audit observed that the acquisition of the remaining land required for the Project was mired in difficulties owing to periodic revisions of the location and extent of land required.

- KPCL identified (November 2008) additional land of 234 acres (Part-II) adjacent to the land already acquired, which was later pursued for acquisition by the JV Company. It was seen that out of 234 acres, land of 58 acres, 34 guntas, which was on the other side of the road was deleted from the proposal and additional land of 19 acres 12 guntas for the raw water line and ash slurry line pipeline was included. In January 2010, the Company proposed deletion of 30 acres of land from the above after finalisation of layout. In February 2010, the Company proposed deletion of 25 acres 20 guntas citing site condition[37] and alignment of Marshaling Yard but withdrew this in October 2010. Similarly, 68 acres proposed for acquisition in February 2010 was deleted subsequently in March 2012. Finally, the KIADB (Government agency for acquiring land) handed over possession of 166 acres 18 guntas[38] of the land in July/ September 2014 under Part-II of acquisition;

- In December 2011, the Company proposed additional acquisition (Part-III) of land of 152 acres 21 guntas[39] for providing Railway Siding and Marshalling Yard and laying raw water/ash slurry pipeline (General Mechanical Works). Of this, KIADB handed over (June/October 2015) possession of 134 acres and 39 guntas; and

- In November 2015, the Company again sent request for acquisition of another 8 acres, 4 guntas[40] of land for Railway Siding and Marshaling Yard, which is yet to be acquired (November 2018).

As of September 2018, possession was obtained for 301 acres 17 guntas of land.

Thus, frequent revisions of the desired location of the land coupled with failure in assessing the correct requirement of land delayed the land acquisition. This affected the implementation of the Railway Siding and Marshalling Yard (RSMY) works (Paragraph 2.1.13) as well as the General Mechanical Works (Paragraph 2.1.14).

The Management replied (September 2018) that since the Project was in a Planning stage and there were many impediments in acquisition of land, it could not freeze the plot plan/layout plan of the Project in time. It was stated that

[37] No specific mention is made on what constituted site conditions.
[38] Includes 1 acre 22 guntas (34 guntas *plus* 28 guntas) acquired along with the proposal.
[39] In Devasugur, Heggasanhalli, Chicksugur, Kuknoor and Yegnur villages.
[40] In Kuknoor village.

though Part-II was planned to accommodate components such as CHP, Plant Water System, Railway tract, *etc*. based on the technical feasibility and land availability, the above components were relocated by revising the plot plan of the Project. The Management further stated (November 2018) if the entire land acquisition was initiated in one stage, the whole process would have delayed the execution of different project components.

The reply does not address the fundamental observation on why the requirement of land could not be assessed realistically/correctly and why there were multiple occasions of deletions and additions of the same stretch of lands by the Company.

2.1.10.1. Further, it was observed that for the additional land requirement of 134 acres 39 guntas and 8 acres 4 guntas, the compensation had to be paid at higher rates as against the rates paid for earlier proposals for acquisition of 166 acres and 18 guntas (Part-II). The increase in cost of land for these 143 acres 3 guntas as compared to earlier acquisition rates was ₹ 13.28 crore[41]. The Management replied (September 2018) that due to delay in processing of the land acquisition coupled with increased demand for land by the private parties, the cost of land got raised automatically. Therefore, the land owners demanded for increased cost.

Soil investigation for starting civil works

2.1.11. One of the first works to be started for the Project was to conduct the geo-technical investigations. Geo-technical investigations are evidence of proof of site realities, confirmation that foundation strata would bear the structural loads, *etc*. Conducting geo-technical investigation was in the scope of BHEL. As per the project milestone, the completion period of topography and soil investigation was six months (*i.e.* by October 2010) from zero date of the Project (April 2010).

After a joint meeting (September 2010) held by the Company with BHEL to discuss the Plant layout, the Company shifted (October 2010) the site location by 500 metres due to proximity to the State Highway. In the joint meeting held in June 2011, the geo-technical Investigation Report (GTR), which reported the completion of the soil investigation work, was discussed. The Company, considering the properties of soil[42] at the site location, insisted (June 2011) on conducting the soil test again before filling/backfilling the excavated locations. The soil tests were redone and the final GTR was approved in March 2012.

Thus, despite availability of land, due to changes in the layout and re-testing of soil by the Company, the completion of geo-technical work was delayed by 17 months from its milestone date. As such, the civil work for Unit-1 and Unit-2 started in March 2012 and April 2012, respectively as against its scheduled date of January 2011, *i.e.* 14 months and 15 months from its scheduled commencement date.

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[41] Being the rate difference of land (₹ 16 lakh per acre in the Part-II acquisition) and ₹ 24 lakh per acre in the Part-III acquisition and ₹ 40 lakh per acre after Part-III acquisition.

[42] Top soil being highly compressible and expansive silty clay/sandy clay.

The Management replied (September 2018) that the change in location was due to changes made by Railways owing to meeting the requirement of both the Company and a nearby Thermal Station belonging to M/s. Surana Industries. After the Exit Conference, the Management replied (November 2018) that as per Environment Clearance, the Plant Layout was to be at a distance of 500 metres from the State Highway.

Ancillary works/Balance of Plants (BoP) works

2.1.12. In addition to keeping its commitments to enable BHEL to execute its portion of BTG work, the Company was to simultaneously take action to execute the ancillary works/ Balance of Plants (BoP) works, *viz*. Chimney, Cooling Tower, Ozonisation System, Railway Siding and Marshalling Yard, Plant Water System, *etc*. so that when BHEL completed the BTG package, the YTPS Plant could be operated without any further delay.

Audit observed the following delays and deficiencies in designs attributable to the Company:

Chimney

2.1.12.1. The construction of the Chimney (catering to both Units) was to be completed by June 2013.

There were delays in submission of design drawings by the contractor (Gannon Dunkerley & Co. Ltd., Hyderabad) and approval due to revisions by the Company. The Work Order was finally issued in April 2012 with a scheduled completion period of 28 months, *i.e.* by August 2014. The scheduled completion date for the Chimney was, thus, beyond the scheduled completion date for Unit-1 (April 2014). The Company suggested other changes in design including change in the thickness of the Flue-can of the Chimney (from 10mm to 12mm), and as a result, the work was further delayed. It was finally completed by the contractor in May 2015.

The Management attributed (September 2018) the delay in award of the Chimney work to the delay in commencement of Civil works. The Management, however, informed that the Chimney was ready (May 2015) well before the Boiler light-up activity (August 2015/February 2016) for the two units. In a further reply (November 2018), the Management replied that there were no delays in finalisation of design drawings.

The reply is not acceptable as the Company while considering the time extension to be given to the contractor had stated (December 2013) that there was considerable delay in submission of design drawings and the fact remains that there was delay in providing this input (Chimney) by 23 months from its milestone date.

Cooling Tower

Picture No. 2.1.1: **IDCT of the Plant (April 2018)**
Source: Monthly Meeting Reports of the Management.

2.1.12.2. As per the DPR, the Cooling Tower was of Natural Draft Cooling Tower (NDCT)[43] type. NDCT uses natural air, which is drawn into the tower naturally for cooling the hot water. NDCT does not consume electricity for its operations. As per the milestone, the Cooling Tower was to be ready by May 2013. The technical specifications for NDCT were submitted by the Consultant (M/s. Evnoik Energy Services India Private Ltd.) in June 2010 and specifications were finalized in July 2011. There had been no time limit fixed for the approval process for the drawings.

Audit observed that:

- The Cooling Tower was to be available by May 2013 (37th month from Project start date of April 2010) as per milestone date. As the work of NDCT takes 36 months for completion, it was imperative that the drawings were approved and tenders awarded within the first two months from the Project start date (April 2010). However, the drawings were submitted in June 2010 and approved only in July 2011, after a delay of one year;

- Tenders for NDCT type cooling towers invited in July 2011 were cancelled (September 2011) due to receipt of only a single bid. Tenders were invited a second time in October 2011. As the time required for construction of NDCT was 36 months, which went beyond the scheduled completion date of the Project (April/October 2014), it was then decided (March 2012) to cancel the tender and go in for Induced Draft Cooling Tower (IDCT)[44], which takes only 24 months for completion. Tenders were again invited in July 2012 for IDCT type cooling tower and work was awarded in May 2013 to L&T Limited for ₹ 148.45 crore, with the scheduled completion date as May 2015; and

- The other reason for cancellation of NDCT tender of March 2012 was (i) cost reduction of 20-30 *per cent,* and (ii) allowance of additional 0.50 *per cent* auxiliary consumption in tariff computation for IDCT. The offer received for NDCT in March 2012 was ₹ 194 crore, whereas the offer received for IDCT was ₹ 148.45 crore, indicating a benefit of ₹ 45.55 crore. Audit, however, observed that the contention of the Company

[43] NDCT is used in other thermal power stations of KPCL.
[44] Uses fans for drawing air into the tower for cooling the hot water. Electricity is used to operate the fans.

was not correct as the benefit of ₹ 45.55 crore was off-set by additional piping work (₹ 29.75 crore) and additional annual power consumption of 59.57 Million Units valued at ₹ 19.70 crore, being 0.5 *per cent* auxiliary consumption, which will remain a recurring expenditure.

Thus, had the Company placed the order for NDCT in March 2012, the scheduled completion period would have been March 2015, that is much ahead of the IDCT's deadline for completion. The work of IDCT was finally completed only in March 2016 as there were delays in handing over the site and approval for drawings. It therefore took almost three years for its completion from the date of Award, instead of the stipulated 24 months. Thus, from financial as well as from project completion perspective, the decision to go for IDCT was not prudent.

The Management replied (September 2018) that there were problems in PVC Fills in the NDCT in the existing units of RTPS and BTPS (other Thermal stations) and in order to avoid such problems, other options were explored. It underwent a lot of discussion before the specifications were finalised. It was also stated that the additional cost towards piping work was in the context of change in layout to facilitate partial generation, if required. In a further reply (November 2018) the Management replied that in an Energy Audit Report (August 2014) by Central Power Research Institute of another thermal station (BTPS Unit-1) the performance of cooling towers was considered poor and it had a cascading effect on the performance of condenser and turbine. Hence, the choice of IDCT was required to align with the changed operating conditions.

The above replies are not convincing as (a) problems in PVC Fills were not a point of discussion when the BoD approved the change from NDCT to IDCT in March 2012. Moreover, the fact that additional piping work would facilitate partial generation of the Plant was also not a point of consideration during discussions while approving the additional piping work in June 2012, and (b) the Energy Audit Report came much after the award for IDCT was placed in May 2013.

Ozonisation system

2.1.12.3. As per the DPR (April 2009), it was envisaged to use gas chlorination to treat Cooling Water in YTPS. It was also specified in the DPR to explore the possibility of using Ozonisation[45] in place of Chlorination to make the system eco-friendly. BHEL specified chlorination and biocides for Cooling Water (CW) Treatment in their offer for YTPS Project, which was part of the LoA (April 2010 for BTG package). In the joint meeting held in May 2010, the Company requested BHEL to avoid chlorination treatment due to environmental reasons and BHEL agreed to consider this.

BHEL did not revert and the Company again requested (April 2011) it to provide environment friendly ozone treatment (Ozonisation system) in lieu of

[45] Ozonisation is a water treatment process that destroys microorganisms and degrades organic pollutants through the infusion of ozone, a gas produced by subjecting oxygen molecules to high electrical voltage.

Gas Chlorination. In response, BHEL provided (January 2012) its Technical Offer for the Ozonisation system. The Company, however, asked (February 2012) BHEL to go ahead with the Chlorine treatment system as envisaged in the LoA without citing any reasons.

The Company again suggested (September 2012) that BHEL may go in for a less hazardous mechanism for cooling water treatment as the statutory bodies, like Department of Factory and Boilers and Karnataka State Pollution Control Board, were insisting on phasing out the use of Chlorine Gas on environmental considerations. The advantages of using Ozonisation were discussed by the Company in January 2013, and it was decided to go for Ozonisation system. BHEL submitted their second Technical Offer (March/October 2013) and after negotiations (November 2013) for rates, a Work Order was issued in January 2014 for ₹ 22.50 crore[46]. The stipulated time for completion was 20 months (September 2015) with a condition that BHEL should endeavor to commission the Ozonisation system to match with the commissioning of the BTG package.

The work, however is yet to be completed (September 2018) even after 36 months from its scheduled completion date (September 2015) and 18 months of declaration of the commercial operation of the Plant (March/April 2017). The Company did not ascertain the reasons for not completing the work.

Audit observed that in spite of being aware in May 2010 itself that Ozonisation method was environmentally better as compared to Chlorination method for treating water, the Company failed to decide on the method until January 2013.

As a result of the delay, untreated water is being provided till now (September 2018) through the pipelines in the Cooling Water System, thereby affecting the health of the pipelines.

The Management attributed (September 2018) the delay to BHEL, stating that the proposed alternative system was in the scope of BHEL and they took time to formalize their offer and come for execution. The Management in another reply (November 2018) informed that because of prolonged correspondence and time lag by BHEL, they intimated BHEL to carry out the work as per LoA.

Railway Siding and Marshalling Yard

2.1.13. The DPR envisaged coal transportation through rail. The coal was to be transported from mines in wagons and would be unloaded through the Wagon Tippler system. This system was to be ready by April 2014, the envisaged completion date of the Project.

M/s. Unirail, the Railway Siding and Marshalling Yard (RSMY) Consultant, submitted (June 2010) the Pre-Feasibility Report for the alignment of RSMY with take-off point from Yeramarus Railway Station, with entry through the Company's land. As the proposed layout of RSMY involved major embankment works involving huge costs, it was decided (September 2010) to

[46] After offsetting the cost of ₹ 3.50 crore for gas chlorination included in the cost of the BTG package awarded to BHEL.

explore an alternative layout by shifting the entry point towards the northern end of the Project site.

The Company requested (September 2010) the Consultant to submit revised proposals for the alternative alignment. The Consultant informed (February 2011) that the proposed revision of plan would not fit within the land boundaries of the Company, as it would go through the land of Surana Industries, who had a Thermal Station in the vicinity.

However, the Consultant provided the revised DPR for the RSMY in July/August 2011 with alignment for the railway line passing through private lands (including 24 acres belonging to Surana Industries), which was required to be acquired through KIADB. The Company approached (February - April 2012) Karnataka Industrial Area Development Board (KIADB) for acquiring the land. KIADB informed (September 2013) that the requested land could not be made available in favour of the Company as it was already allotted to Surana Power Limited, Raichur in March 2010 for establishing a Power Plant.

The Company's efforts to get the land through intervention of the Deputy Commissioner, Raichur also did not yield any result.

Audit observed that though the Company was aware of the involvement of Surana Industries' land in February 2011, it did not go in for an alternative alignment/plot immediately. It was only in June 2014 that the Company took up the issue with Railways for an alternative alignment. Thus, the Company lost a precious 40 months (January 2011 to June 2014) to go for another alternative.

2.1.13.1. As efforts to procure land from Surana Industries failed, the Company approached (June 2014) Railways for a stretch of land belonging to Railways for railway linkage to its YTPS Project. The Railways approved the proposal for Railway Siding in September 2015. Finally, in March 2016, the Railways agreed to lease the land at a cost for ₹ 4.72 lakh per annum (excluding service tax) and a licensing agreement was entered into in April 2016. Thus, it took another 20 months (June 2014 to April 2016) for the Company to obtain lease of the Railways land.

The Management in its reply (September 2018) blamed the Consultant for failing to resolve the issue of finalisation of new alignment. The Management also replied (November 2018) that it made best efforts but Surana Industries did not agree to spare the land.

The reply is not acceptable as it was the responsibility of the Company, and not the Consultant's to acquire the land. Besides, the consultant had already brought this issue to the notice of the Company way back in February 2011, but no timely remedial actions were taken.

2.1.13.2. Meanwhile, the Company had invited tenders (June 2014) for works of Railway Siding and Marshalling Yard[47]. Part-A consisted of works outside the compound wall of YTPS Project upto Yeramarus Railway Station and was awarded (November 2014) to M/s. PJB Engineers at a cost of ₹ 30.55 crore to be completed in 10 months (September 2015). Part-B - consisting of similar works inside the Plant boundary including road-under-bridge was awarded to M/s. Gannon Dunkerley & Company Ltd (GDCL) at a cost of ₹ 102.97 crore, to be completed in 12 months (November 2015).

Though Railways granted permission to work in April 2016, both PJB Engineers and GDCL did not complete the work (September 2018). For Part-A work, on the request of the agency, extensions (upto July 2016, May 2017 and March 2018) were allowed without levy of penalty. The delay was due to delay in transferring of land for execution, delay in receipt of approved DPR for RSMY and bridge drawing *etc*. In case of Part-B work, even after extensions (upto September 2016 and later, September 2017), the embankment work was not completed (September 2018) due to delay by the contractor.

Picture No. 2.1.2:**Track laying in RSMY works**
Source: Monthly Meeting Reports of the Management of April 2018

Thus, with the non-completion of the RSMY work, there was no rail arrangement to bring coal to the YTPS Project, though the Project was declared as ready for commercial operation (March/April 2017) more than 18 months ago. The Company was unable to ensure continuous supply of coal for the continuous operation of the Plant for generation of power. The Company brought coal through road transport from nearby RTPS Plant for operating the Plant by incurring extra expenditure (Refer Paragraph 2.1.17.2).

The Management replied (November 2018) that there were delays by Railways to give approval for the drawings and hence the works were delayed. The reply is not acceptable as the Company had not finalised the alignment for the RSMY and hence the question of delay by Railways does not arise.

General Mechanical Works (GMW)

2.1.14. The General Mechanical Works (GMW) were needed for pumping of raw water from Krishna River to the YTPS through pipe-lines of 14 km (approximate). It included construction of jack-well pump house, supply and

[47] Consisting of (a) earthwork, (b) construction of bridges, and (c) construction of permanent way-works for the RSMY.

erection of pumps and laying of pipelines for Raw Water (RW) System, as well as for Ash Water Recovery (AWR) System along with Ash slurry pipe lines and Bottom ash overflow discharge pipe lines from YTPS terminal point up to Ash Pond. The package also included supply & installation of workshop equipment, supply of fire tenders, water tankers with integral high-pressure pumps, *etc*.

Audit observed the following:

- The Company prepared (June 2011) an estimate of ₹ 288 crore for GMW. The BoD of the Company was apprised (June 2011) of the need for tendering the Balance of Plants works, including GMW, and review of their technical specifications. The technical specifications of GMW were, however, finalised by the Company only in August 2011, *i.e.* after a lapse of 16 months from the date of issue of LoA (April 2010) for BTG package to BHEL;
- The Company floated (September 2011) a tender for the GMW. After opening the price bids (April 2012), the tender was cancelled (June 2012) by stating that it was a single responsive bid. This resulted in a delay of three months (April 2012 to June 2012) needlessly as the tender could have been cancelled in April 2012 itself and re-tendered;
- Tenders invited for the second time in September 2012 were again cancelled in February 2013 as there was ambiguity in the tender conditions and evaluation of efficiency parameters of Raw and Ash Water Pumps. Thus, the Company lost another eight months on account of not framing the tender conditions properly; and
- In order to complete the work in line with BTG, the Operations Committee of the Company decided (February 2013) to split the work into three different packages, viz. *Package-I*: Raw and Ash Recovery Water System, *Package-II*: Pumps, and *Package-III*: Workshop and miscellaneous equipments. The Workshop and miscellaneous equipments package was further split into *Packages (III a)*-Workshop equipment *(III b)*-Fire tender and water tankers, and *(III c)*-Miscellaneous equipments.
    - The scope of Package-I, which was tendered in February 2013 and awarded in August 2013 *inter alia* involved a work of providing 11 kV electrical lines for a distance of 14 kms. from the YTPS project area to the pump house. From the design studies submitted (July 2014) by Megha Engineering & Infrastructure Ltd (contractor), the Company observed a drop in voltage at the tail end (14th km). At the request (August 2014) of the Company, the contractor agreed (December 2014) to install a transformer and other accessories for a 33 kV line, which was approved by the Company in February 2015. Audit observed that the change in voltage class from 11 kV to 33 kV was due to drop in voltage due to distance factor, and this should have been known to the Executives of the Company who were executing various power projects of KPCL. Thus, due to initial lapses, the various components now had to be modified, which resulted in a delay of seven months (July 2014 to February 2015) in

approving the work. The work of electrical line was completed in November 2015.

- Further, apart from the above change, there were also delays due to non-availability of land, obtaining of clearance from Forest Department, increase in height of bund in river side and consequent changes of design of ash water recovery pump house, *etc*. in completing other works of Package-I. Though time extensions (February 2016, December 2016 and October 2017) were given to the contractor, Package-I was not completed (September 2018).

- Package-II for Supply of Pumps was tendered in May 2013 and awarded in February 2014. Similarly, the other packages (Package-III a, b, c) were tendered (March/May 2014) and awarded in October 2014/January 2015. All these works were not completed till date (September 2018) due to delays by the contractor.

Thus, the General Mechanical Works are yet to be completed. The delay in completion of these General Mechanical Works, delayed the process of bringing raw water[48] to the YTPS plant. As a result, when the Hydro Test of the main BTG package had to be done (scheduled date of January 2013/July 2013 and actual ready date of September 2014), the Company supplied de-mineralized[49] water by bringing it from RTPS and conducted the Hydro Test in August 2015/February 2016.

The Management attributed (September 2018) the delay of electrical work to time required for system study, detailed engineering and also the fact that the work was interlinked to many other works. The Management also stated that Package-I of the work was delayed as the workshop area could be handed over to the contractor only after 20 months, due to change in location to accommodate Chemical Laboratory and clearing the materials stored by another agency.

Plant Water System (PWS)

2.1.15. The Plant Water System consists of (a) Raw Water Treatment/Filtration System (Micro-filtration), (b) Service Water System, (c) Effluent Treatment Plant, (d) Waste Water Treatment Plant, (e) Sewage Treatment Plant, (f) Potable Water System, (g) Recovered Ash Water Treatment System, and (h) Sludge Handling and Disposal System.

The main input for the PWS was the Raw Water and Ash Water System, awarded under the General Mechanical Works (Paragraph 2.1.14).

The work of PWS was awarded (August 2013) to M/s. L&T Limited at a lump sum price of ₹ 123.48 crore. The work was to be completed by December 2014. The different components of work were actually completed between January 2015 and June 2016. This was due to delay in approval of drawings, delay in handing over of land, delay in clearing materials stored by other agency in

[48] The Plant required 7,210 cum. of water per hour.
[49] Raw water is drawn from the Krishna river and treated to get de-mineralised water.

M/s. L&T area, labourer's strike, non-availability of work-front (area for working) for Chemical Laboratory and Effluent Collection Pit, *etc*.

The Management did not give specific reply for the delays but stated (September 2018) that performance tests of the different components of Plant Water System were conducted by feeding prepared quantity and quality of inputs.

Management of work by BHEL

2.1.16. Audit also examined whether BHEL had shouldered its responsibilities as a Contractor for the main BTG Package and also as a partner on the Board of the JV Company. The findings on these aspects are given in paragraphs below.

2.1.16.1 As per the scope of work awarded (April 2010) to BHEL and milestones agreed (September 2010), the main responsibilities of the BHEL are as under:

- Complete manufacture and supply of Steam Generator, Steam Turbine Generator and Auxiliaries, including agreed Balance of Plants works along with services for providing detailed engineering, erection, testing and commissioning of the Plant; and
- Providing detailed design of the equipment and associated civil works.

Construction of Turbo Generator Deck

2.1.16.2. During execution of civil work in Turbo Generator (TG) area, as against the design, the columns (16 numbers) of the TG Deck (building) were shifted from their designed position by distances ranging from 50 mm to 80 mm. The Company noticed this deviation in January 2013. The Company requested BHEL to examine the repercussions of the constructional deviation on the dynamic behavior of the structure by re-modelling and assess the safety of the Turbo Generator foundation before proceeding with further construction. The Engineers of BHEL and the Company, after re-examination (February 2013), confirmed that there was a shift in the TG deck. Though BHEL furnished analysis to confirm that the shift will not be a problem for the structural integrity and other erection work, the Company, being the owner, preferred to ascertain the status independently. After a study by an Internal Committee of the Company and based on the opinion of the Indian Institute of Science (IISc), Bengaluru in May/July 2013 that there was no significant impact on the TG foundation, the Company directed (September 2013) BHEL to proceed with the stalled work.

Audit observed that the Company did not properly monitor the work of construction of the TG Deck with the designs and as such, the changes of the position of the columns of the TG Deck were noticed belatedly. Due to this, the Company had to stop the work and take opinions of experts thereafter, which delayed the work by eight months.

The Management attributed (September 2018) the shifting of TG columns to BHEL for not adhering to standard construction practice, resulting in reworking, retrofitting and consequent delays.

Delay in the submission of drawings

2.1.16.3. BHEL was to submit the drawings to the Company for approval before taking up the work. On receipt of drawings, the Company, in consultation with the consultant, *i.e.* M/s. Evnoik Energy Services (India) Private Ltd. (later M/s. Steag), would approve the same and communicate it to BHEL. It was observed that as on the scheduled date of completion (April 2014), out of the 2,863 drawings, BHEL had delayed submission of 507 drawings, which were pending approval by the Company/Consultant. Another 724 drawings were pending with BHEL for resubmission due to non-provision of supporting documents/ clarifications/datasheets. These drawings were for erection of the different components of the Boiler and Turbine Generator, which formed the fulcrum of the Project.

Audit also noticed from correspondence (September 2011) with BHEL, that even at that early stage, BHEL was taking additional time beyond scheduled time of about 20 days, for furnishing the required documents for approval. The delays ranged from 0-30 days for 30 drawings, 31-60 days for 24 drawings, 60-180 days for 90 drawings and more than 181 days for 21 drawings.

Thus, BHEL had failed to adhere to its responsibility of providing designs in time, so as to complete the project within the scheduled date.

In the Exit Conference (October 2018) the Management stated that there were delays by BHEL in submission of drawings and giving supporting documents, and this was being examined by a Joint Committee formed to review the reasons for delay in completion of work (refer to Paragraph 2.1.21 *infra*).

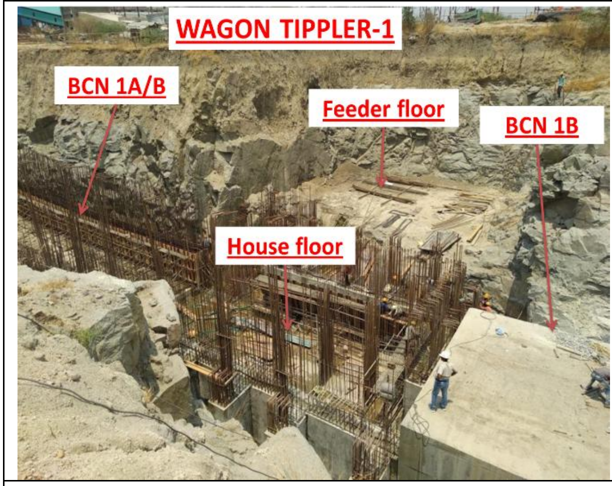
Coal Handling Plant on entrustment basis

2.1.16.4. The functions of Coal Handling Plant (CHP) in a thermal power station include unloading of coal, its crushing, storage and filling of boiler bunkers. BHEL intimated (January 2011) the Company that in order to overcome the delay of work by other agencies, its Industrial Systems Group (ISG) Division at Bangalore had been made a Nodal Agency for execution of Coal and Ash Handling Plants and requested the Company to place orders on them.

The BoD of the Company recommended (March 2011) for obtaining an offer from BHEL for the work of CHP with Mill Reject Handling System (MRHS) and Ash Handling System (AHS). After negotiations/ modifications (September 2011/January 2012), the Company placed an order (March 2012) for ₹ 966 crore, excluding mandatory spares, taxes and duties. The entrustment of the work was to synchronize with the completion of the BTG package (April/October 2014). The work is yet to be completed (September 2018).

Audit observed that there was delay on the part of the Company in handing over (February 2014) the required land to BHEL for the CHP work, *i.e*. two years after the entrustment of work. Considering the delay in handing over of the land, BHEL should have completed the work in the next two years' time (by February 2016). Yet, BHEL, who took up the work on the premise of synchronizing the work of CHP with that of the BTG package did not complete the work (September 2018).

Thus, the YTPS plant, even after being declared as ready for commercial operation (March/April 2017) cannot run optimally as the Coal Handling Plant is not ready (September 2018).



Picture No. 2.1.3: **Status of Wagon Tippler in CHP**
Source: Monthly Meeting Reports of the Management of April 2018

The Management replied (September 2018) that BHEL had a strong vendor list and had executed many similar projects earlier. The Company relied on BHELs assurance to mitigate the risk of delay in execution of such works by being a single point responsibility center. Management further informed that it was pursuing with BHEL for completion of balance works early.

Supply of Coal

Allocation of coal block

2.1.17.1. Coal is the primary fuel for running the Plant. As per DPR, a total of 58.3 lakh tonnes[50] of coal per annum was proposed from Western Coalfields, Talcher Coalfields and South Eastern Coalfields for operation of the Plant.

Under a new Scheme of the GoI in 2012 for allotment of coal blocks, the Company had applied for, and was allotted[51] (September 2013) coal mine at Deocha Pachami, West Bengal. The Company, however, requested (June 2014/July 2016/October 2016) the Ministry of Coal to reallocate a coal block nearer to Karnataka to reduce the burden on transportation. The Company also made an application (October 2016) for allocation for a new coal block at Ghogarpalli Mine Block in Odisha. Following this, the Ministry of Coal, GoI cancelled (December 2017) the joint allotment of the coal mine at Deocha Pachami. The new coal block has not yet been allotted (September 2018).

Due to above developments, the Company, in the meanwhile, proposed to obtain coal through Bridge-linkage.

[50] Considering Gross Calorific Value (GCV) of coal at 4,699 Kcal./kg[50], Station Heat Rate of 2,300 Kcal/kWh and Plant Load Factor (PLF) of 85 *per cent*,
[51] Joint allotment to Karnataka and five other States.

Bridge-linkage agreement for coal

2.1.17.2. The Ministry of Coal, GoI introduced (February 2016) policy guidelines of Bridge-linkage, which acts as short-term linkage to bridge the gap in the requirement of coal. The Singareni Collieries Company Limited (SCCL) agreed for the supply of 30 lakh tonnes per annum to the Company and signed a Memorandum of Understanding to that effect in June 2016. This bridge-linkage allotted to YTPS Project was extended upto March 2019.

Audit observed that against the annual requirement of 58.3 lakh tonnes, only 30 lakh tonnes were tied up under Bridge-linkage. Even out of this the Company received only 3.73 lakh tonnes (12.43 *per cent*) of coal during 2016-17 and 7.51 lakh tonnes (25.03 *per cent*) during 2017-18 against linkage of 30 lakh tonnes each per annum. Besides, the supplies under bridge-linkage were costlier by 20 *per cent* as compared to the notified price and the Company incurred an additional expenditure of ₹ 15.43 crore due to the enhanced price.

Audit further observed that the coal required for YTPS (received through bridge-linkage) was unloaded at the nearby RTPS Siding of Karnataka Power Corporation Limited and was then being transported by road to YTPS Yard (about 14 kms) incurring an additional expenditure of ₹ 25.40 crore during 2017-18 as the work of Railway Siding and Marshalling Yard was not completed. Further, the coal was fed manually through Emergency Reclaim Hoppers directly to boilers, as Coal Handling Plant was not ready (September 2018) (Paragraph 2.1.13.2 and 2.1.16.4). With these constraints, the Company generated only 8.43 *per cent* of the capacity during 2017-18.

Thus, it can be seen that though the Plant was declared ready for commercial operation in March/April 2017 (Paragraph 2.1.7.1), the Company could not tie-up the adequate quantity of coal required to operate the Plant. Moreover, Railway Siding and Marshalling Yard and Coal Handling Plant works were pending completion (September 2018) and in the event of linkage being made available, YTPS would still be unable to operate the Plant to its full capacity.

The Management replied (September 2018) that the railway transportation system (RSMY) faced many challenges from design to execution stages. But in the light of changed ground conditions (due to non-completion of RSMY and CHP works), alternative contingency arrangements were made to transport/feed the coal to commence generation.

The fact remained that until September 2018, despite the persistent efforts of the State/Company, regular and requisite supply of coal was not available and the Plant was unable to function to its full capacity.

Challenges of having a Joint Venture in the execution of work

2.1.18. The Company was a Joint Venture between KPCL and BHEL. BHEL was a partner in the Joint Venture Company and also the contractor for the main BTG Package and agreed works of Balance of Plants[52]. Audit observed that this dual role of BHEL, being both in the decision-making body of the Management,

[52] Station Control, Switchyard, Cooling Water System, Coal Handling Plant, Ash Handling Plant *etc*.

as well as being the contractor for the main BTG package, had certain limitations, the most important of which was noticed in designing the Plant. The details are given below:

Design limitations

2.1.18.1. The procedure for approval of designs for BTG, CHP and AHP packages was that BHEL would forward the drawings to the Company for approval. The Company, would then forward the same to the Consultant and the remarks of the Company, along with that of the Consultant, would then be passed on to BHEL for implementation.

Audit observed that the design specifications, given by BHEL were compromised in many cases as below:

- As per the Central Electricity Authority (CEA) guidelines (September 2010), for plants of 500 MW or above, the Ash Handling Plant was to be designed considering the worst coal that could be made available for use. BHEL proposed Ash Handling Plant with a capacity of 171 Tonnes Per Hour (TPH) considering 38 *per cent* ash for the coal, which was furnished by the Company. This was against the requirement of 179 TPH as per norms. The CEA guidelines further specified capacities of individual components within the Ash Handling System. Audit observed that the specifications of individual components (considering 179 TPH) also changed accordingly when compared to the norms of CEA, as given below:
    - The bottom ash evacuation was designed for 43 TPH against requirement of 45 TPH;
    - The fly ash evacuation was designed at 154 TPH against requirement of 161 TPH. This reduction was because the capacity of Hoppers was compromised (as given below); and
    - The economizer ash was designed for 8.6 TPH against requirement of 9 TPH.

  This restriction would restrict the coal flow to the boiler and restrict the generation of power.

The Management replied (September 2018) that with the worst coal, the required coal flow would be 448 TPH and total ash generation would be 171 TPH. However, the fact remained that the Company had not designed the Ash Handling System as per CEA norms.

- Further, the coal stock yard was designed to hold 26 days' requirement (5 lakh tonnes) against 30 days' requirement (6 lakh tonnes) as per the norm.
- The Company initially proposed to have a tippler (travelling type) to have a provision for dropping coal into the bunker, from both sides of the conveyor which had a width of 15,400 mm. BHEL, however, designed the tippler (regular type) with provision for dropping coal, from only one side of the conveyor which had a width of 12,500 mm.

This reduced the coal filled in the bunker. The Management replied (November 2018) that as per design, the bunker height and width were fixed and hence dropping of coal from both sides was not possible, because BHEL had already finalised the drawings and was not prepared to revise them at a later stage. The reply is not acceptable as the Company and BHEL being partners in JV should have crystallised the drawings of the tippler (travelling type) and bunker jointly to avoid such a situation.

- Electrostatic Precipitator (ESP) is used to remove fly ash dust from gas streams. The fly ash is collected in Dust Hoppers. These Dust Hoppers should have a storage capacity of a minimum of eight (8) hours corresponding to the maximum ash collection rate. BHEL submitted (February 2011) a detailed drawing with a height of the Hopper at 7,000 mm and after the Company/ consultant's comments (September 2011) a revised drawing was submitted by increasing the height to 7,300 mm. This was approved by the Company in September 2011.

  The Company noticed (November 2013) that the Hoppers were being manufactured with 7,000 mm height only. BHEL demonstrated that the Hoppers met the desired requirement of collection by providing calculations in which the density of fly ash was considered at 750 kg./cum. Considering BHEL's workings and the fact that the Hoppers were already manufactured, the Company accepted the same. Audit observed that as per CEA norms, the density of fly ash was to be reckoned at 650 kg./cum. and considering this norm the height of the Hoppers was to be 7,300 mm. Deviation from this norm limited the capacity of the Hoppers to maximise the ash collection.

The Management replied (November 2018) that storage requirement meets the requirement as per the contract. However, the fact remains that the hopper height is not as per the design approved by the Company.

BHEL being the contractor as well as the JV partner, should have taken the lead in ensuring that the design of various components of the YTPS Project complied with the CEA norms. But, there were compromises by BHEL in designing the various components of the YTPS Project which, thereafter, were belatedly approved by the JV Company, which was anyway headed by a BHEL functionary/ nominee/representative. Even in cases where BHEL went back on accepted specification or designs and worked as per their own convenience, they were never penalized for their actions, though the Company hereafter would have to bear the consequences of those actions throughout the life of the Project.

Environmental Management Plan

2.1.19. As per the DPR, an Environmental Management Plan (EMP) was to be established for the YTPS Plant detailing the environmental quality measures to be undertaken during the construction and operational phases. The EMP was also to discuss the post-project monitoring measures to be adopted by the Plant authorities in order to maintain the effluent qualities within the acceptable· limits specified by the State Pollution Control Board and the Ministry of Environmental & Forests and Climate Change (MoEF&CC).

Also, as per the DPR, an Environmental Monitoring Programme was to be provided with trained and qualified staff who would monitor the ambient air as well as stack flue gas quality to ensure that the quality of effluents was maintained within the permissible limits of the Pollution Control Board Regulations.

Further, the Environmental Clearance given by the MoEF&CC in November 2009 and January 2015 had prescribed compliance to certain conditions.

Audit observed that though the Compliance Report for the conditions stipulated was submitted to MoEF&CC in July 2014 some of the conditions were not fulfilled/met till date (September 2018). The conditions not met included failure to formulate Corporate Environment Policy, create Environmental Cell, develop Environmental Monitoring Programme, allocate separate funds, harness solar power within the premises of the plant, and obtain approval for transportation of coal by road.

Thus, though generation commenced from the YTPS Plant during 2017-18, the YTPS is yet to comply (September 2018) with the conditions given in the Environmental Clearance for the Project.

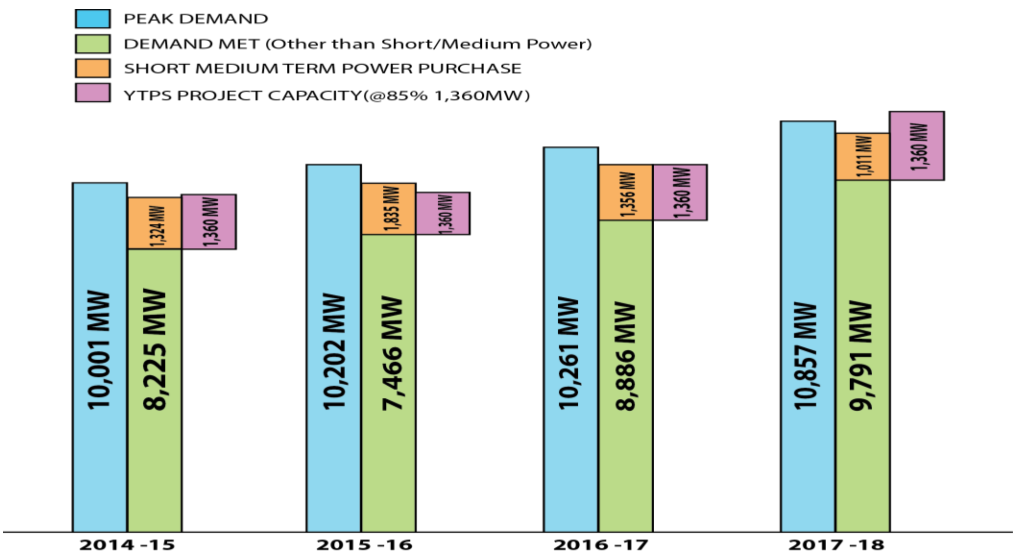
The Management replied (September 2018) that compliance to formation of Environment Cell and Corporate Environment Policy is under progress, while the proposal for harnessing solar power is under examination.

Impact due to delay in completion of the Project

2.1.20. One of the justifications for taking up the Project was to bridge the gap between demand and supply of power in Karnataka. The Project, which was to be completed by April /October 2014, was declared for commercial operation in March/April 2017 after a delay of three years. Even as on date the Plant is unable to run at its full capacity due to non-completion of ancillary works.

The situation of power (demand-supply gap) in the State during the interim period (2014-18) is given in the following Chart:

Chart No.2.1.3: Demand-Supply Gap for the four years 2014-18



Source: Based on Southern Regional Power Committee Reports, CEA's Load Generation Balance Reports and Power Purchase information.

It can be seen from the Chart above that the Electricity Supply Companies had resorted to medium and short-term purchases during the last four years (2014 to 2018) to meet the demand of the consumers. Even after declaration of the commercial operation (April 2017), the Company generated only 996.316 MUs of Power during 2017-18, generating a revenue of ₹ 719.97 crore (provisional[53]), whereas the interest expenses on loans alone for the Company during 2017-18 were ₹ 1,167.50 crore.

A total of 23,188.86 Million Units of power, in the form of short and medium-term power valued ₹ 11,079.22 crore, was purchased during this period. Out of this, additional cost on the purchase of 22,283.03 Million Units of power (short/ medium-term) from private producers amounting to ₹ 2,517.92 crore could have been avoided during the last four years (excluding part demand in 2015-16), had the Company completed the implementation of the Project within the stipulated time.

Further, the delay in completion of the project increased the project cost from the estimated cost (April 2009) of ₹ 8,806.23 crore to ₹ 12,915.90 crore (provisional) as of March 2018. The provisional tariff also increased from ₹ 3.24 to ₹ 5.36 (provisional). There would have been surplus power for sale in the Southern Region after the State's demand had been fully met (during 2017-18), in line with such sale envisaged in the DPR. The Company lost out on this revenue too. The State/Company, did not evolve any action plan to sell surplus power in the future.

The Management accepted (September 2018) that due to delay in completion, there had been an increase in the project cost. The Management replied (September 2018) that the scope for sale of power may arise if the demand for power in the State does not grow as anticipated or if the renewables power capacity sees a further increase. The issue of sale of surplus power can then be taken up.

Levy of penalty

2.1.21. BHEL requested (April 2014) the Company for extension of time up to July 2015 and January 2016 in respect of Unit -1 and 2 respectively, without levy of penalty (Liquidated Damages). The Company approved (October 2014) the extension of time up to December 2014 for Unit-1 and March 2015 for Unit-2. This was further extended later up to June 2017. It was stated in the extension orders that recovery of liquidated damages would be deferred during the extended period.

The Company (RPCL) constituted (June 2015) a Joint Committee to review the reasons for the delay in completion of works and the levy of liquidated damages on BHEL. The Joint Committee is yet to submit its Final Report (September 2018).

[53] Pending approval of tariff by Karnataka Electricity Regulatory Commission.

The levy of liquidated damages for delay in completion was 10 *per cent* of the contract value given to BHEL, working out to about ₹ 811.59 crore[54]. Failure of the Joint Committee to finalise the Report delayed the levy of liquidated damages, which would have an effect on total project cost and determination of tariff, as the capital cost would have been adjusted to that extent by the Regulatory Commission while determining tariff.

The Management replied (September 2018) that after the Joint Committee Report is available, further steps would be taken.

Conclusion

The Yeramarus Thermal Power Station Project was taken up for bridging the gap between demand and supply in the State and was to be fast-tracked considering the ready availability of land, water, coal transport and power evacuation, thereby gaining invaluable savings in time and money.

The units of the Project, which were scheduled to be completed by April 2014 and October 2014, were declared ready for commercial operation only in March and April 2017 respectively, after a delay of three years.

The main reasons for the delay were changes in designs and delay in finalisation of designs of the major items of work[55], apart from deficiencies in tendering and award of these works. There were also deficiencies in adhering to the design norms for the Plant. There were further challenges in the execution as Bharat Heavy Electricals Limited was on the Board as a Joint Venture partner even while it was also the primary contractor for the Project.

Further, though the Project had been declared as ready for commercial operation in March / April 2017, it did not run continuously at full load as other ancillary inputs, such as Coal Handling Plant, General Mechanical Works, and Railway Siding and Marshalling Yard Works, were yet to be completed (September 2018). This major failure was due to non-synchronisation of Boiler and Turbine Generator package with other ancillary inputs.

Despite investment of ₹ 12,915.90 crore into the Project, due to cost and time overruns in the YTPS project, the Electricity Companies of Karnataka had to procure 22,283.03 MUs of short/medium-term power to meet the deficit during 2014-15 to 2017-18, which otherwise would have been met by the YTPS project. The additional cost incurred on the purchase of 22,283.03 MUs of power as compared to the cost per unit of the tariff as per DPR of the YTPS project was ₹ 2,517.92 crore.

[54] 10 *per cent* of actual payment made for BTG package and for other BoP works (March 2018-provisional).

[55] Cooling Tower, Chimney, Ozonisation, Railway Siding and Marshalling Yard, *etc.*

Recommendations

The Company needs to:

1. **Take immediate, time-bound action to complete the Balance of Plants works (such as General Mechanical Works, Coal and Ash Handling Plants, and Railway Siding and Marshalling Yard) at the earliest; and**

2. **Take action to implement the Environment Management Plan.**

Chapter - III

Compliance Audit Observations on Power Sector PSUs

Chapter - III

3. Compliance Audit Observations on Power Sector PSUs

Important findings emerging from audit that highlight deficiencies in planning, investment and activities of the Management in the Power Sector Public Sector Undertakings (PSUs) are included in this Chapter. These include observations on avoidable/unfruitful expenditure and cases where the intended objectives of the projects were not achieved.

Karnataka Power Transmission Corporation Limited

3.1. Unfruitful expenditure

In spite of prior knowledge that an alternative arrangement for power supply was critical for the execution, work was awarded without a proper plan for alternative arrangement resulting in creation of idle infrastructure of ₹ 2.60 crore.

The compliance audit of Major Works Division, Shivamogga of Karnataka Power Transmission Corporation Limited (the Company) conducted with focus on execution of lines and sub-stations. Audit test-checked ten contracts. Of these, Audit noticed a major lapse in the Contract for ‘Construction of 66 kV Double Circuit (DC) line from Chickmagaluru sub-station to Balehonnur sub-station’ wherein the Company awarded the work without proper plan in place for execution rendering investment of ₹ 2.60 crore idle, which is discussed below.

The Company approved (April 2004) construction of 66 kV Double Circuit (DC) line in the existing corridor of 66 kV Single Circuit (SC) line from Chickmagaluru sub-station (Mattawar village limits) to Balehonnur sub-station for a distance of 35.74 kms. The line was envisaged to improve the voltage profile, reduce line losses, save 19.13 Million Units (MU) of energy per annum and also provide quality power supply to Kalasa, Sringeri, Balehonnur and its surrounding pilgrimage areas.

The work of construction of the line was awarded (July 2006) to Bhoruka Power Corporation Limited (Contractor) on turnkey basis for ₹ 9.46 crore and was to be completed in 12 months, *i.e.* by July 2007.

The Contractor started the survey work only in November 2007, that is, five months after the scheduled date of completion, and stub concreting[56] work in April 2008. On 26 August 2008, the Company issued Show-Cause notice to the Contractor for not completing the work within the rescheduled date[57]. The Contractor, while replying (September 2008) to the notice, stated that the completion time depended on line clearance and schedule of outages for which

[56] Foundation for erecting poles.
[57] The PERT chart communicating the rescheduled date of completion was not on record.

mutual discussions were required. The Company assured (November 2008) that observing the progress of work, line clearance would be arranged. The Contractor informed (September 2009) that he expected long outages, and if long outages could not be arranged by the Company, he would like to be relieved from the contract. The Company informed (June 2011) the Contractor that line clearance would be provided for three days in a week for carrying out the work.

As at end of June 2011, the Contractor completed the work of stub concreting in 148 out of 160 locations and supplied (upto September 2009) the tower and line materials but did not erect the towers and string the conductors. As the work was getting delayed, the Company terminated (September 2011) the contract.

Based on the bills submitted by the Contractor (₹ 4.09 crore), the Company released ₹ 2.60 crore[58], after retaining ₹ 1.08 crore as retention amount and ₹ 0.41 crore towards liquidated damages (as per the terms of the Contract) and encashed (February 2012) the Bank Guarantee amounting to ₹ 0.95 crore.

Aggrieved by the termination, the Contractor approached (September 2011) the Hon'ble High Court of Karnataka, who appointed (January 2013) an Arbitrator[59]. The Arbitrator finalised (April 2016) the award, rejecting the claim of the Contractor for compensation and allowed the counter-claim of the Company of ₹ 2.75 crore, being the amount paid to the contractor for purchase of tower and line materials. The Contractor approached the Civil Court, Bengaluru against the Arbitration Award. The amount is yet to be received by the Company (August 2018).

Audit observed that the Company was aware that the execution of work without alternative arrangement of line clearance was not possible. In fact, even before the award of work, in June 2006 itself, the Superintending Engineer (Electrical) of the Company informed Mangalore Electricity Supply Company (MESCOM), a State Electricity Distribution Company, that the work of construction of line in the existing corridor could be taken up only after MESCOM took up and completed the construction of alternative line from Muthinakoppa sub-station to Koppa sub-station to ensure an alternative source of power supply to the sub-stations during the construction of the line. Despite that the work was awarded.

The Government forwarded the reply (December 2018) of the Company that continuous line clearance was not possible but with power shut down from morning to evening on alternate days and also by arranging manpower, the work could be completed. Hence, the Company planned to give continuous line clearance upto three days after completion of the Muthinakoppa-Koppa line work by MESCOM. However, due to delay in completion of work by MESCOM and delay caused by the contractor, the entire work could not be

[58] ₹ 2.14 crore towards supply of towers and line material, ₹ 0.04 crore towards erection of stubs and ₹ 0.42 crore towards civil works.

[59] Conditions of Contract provided for appointment of Arbitrator.

completed. It was also stated that the balance work has been awarded to another firm in August 2018.

The fact remains that the infrastructure created at a cost of ₹ 2.60 crore is idle from June 2011 as the Company did not have a proper execution plan for alternative arrangement for power supply in spite of the knowledge that such a requirement was critical to the execution of the work.

Thus, awarding the work without a proper plan for alternative arrangement for power supply resulted in creation of idle infrastructure of ₹ 2.60 crore. The delay in completion of the work also resulted in foregoing the energy savings of 19.13 MU's per annum and deprived Kalasa, Sringeri, Balehonnur and surrounding areas of quality power supply for more than ten years.

Bangalore Electricity Supply Company Limited

3.2. Extra payment to the Contractor

Award of contract by modifying tender conditions resulted in extra payment of ₹ 1.61 crore to the Contractor.

The compliance audit of 40 purchase orders placed (2016-17) by Bangalore Electricity Supply Company (the Company) for procuring various materials, *viz*. Transformers, Concrete Poles, Ring main units, SMC meter boxes and Aerial Bunched Cables was conducted to verify the compliance to the provisions of the Karnataka Transparency in Public Procurement (KTPP) Act, 1999 and KTPP Rules, 2000 for procurement of goods and services and compliance to other relevant conditions of purchase agreements concluded with the suppliers. Audit observed certain non-compliances to KTPP Act/ Rules and contract terms and conditions in procurement of these materials such as, allowing less number of days than that prescribed for submission of bids, award of contract for single bidder without retendering, acceptance of security deposits from the bidders beyond the stipulated period in the contract and amendment to price variation clauses after award of contract. The significant audit finding amongst them with financial implication of extra expenditure of ₹ 1.61 crore as a result of amendment to price variation clause after awarding the contract in respect of purchase of Aerial Bunched Cables, is discussed below.

The Company invited (February 2015) a tender for supply of 700 kms of Low Tension Aerial Bunched Cable (AB Cable) at an estimated cost of ₹ 24.21 crore. The AB Cables were for replacement of the existing overhead lines for the purposes of safety of the public and to avoid theft of power.

On scrutiny, Audit observed that:

- The Company allowed only 21 days[60] for submission of tenders (short-term tenders) as against a minimum period of sixty days' time provided

[60] Tender invitation date (27.02.2015) to tender closing date (19.03.2015).

by KTPP Rules[61], for submission of tenders in excess of rupees two crores. The KTPP Rules permit relaxation of this condition by an Authority higher than the Tender Inviting Authority by recording the reasons for such reduction. In this case, though approval of the higher authority (Managing Director) is available, the reasons for reduction in time to 21 days were not recorded.

- Two bidders participated in the tender of which one bidder did not meet the qualification requirement. The other and sole qualified bidder, M/s. SBEE Cables India Limited (Contractor), quoted (March 2015) ₹ 4.33 lakh per km., which was 25.24 *per cent* above the amount put to tender.

- The tender conditions *inter alia* stipulated that prices were to remain *firm* throughout the period of the contract. The Company negotiated (June/ July 2015) and the contractor agreed for reduction of price from ₹ 4.33 lakh to ₹ 4.10 lakh per km (18.53 *per cent* above the estimate cost). The contractor informed (July 2015) that his revised offer was considering the base rate of Aluminium in June 2015. Further, in the negotiations it was also agreed for (i) extension of delivery schedule upto 12 months as against six months stipulated in the tender document, and (ii) allow price variation in respect of Aluminium component of the cable as per IEEMA[62] / CACMAI[63] formula in view of the extended delivery schedule. The Board approved (September 2015) the procurement of Cables at the negotiated price, with amended terms regarding price variation. The BoD also directed (September 2015) to ensure that the delivery schedule is only upto 12 months for 350 kms and 24 months for 700 kms.

The Company placed (November 2015) a Purchase Order for the supply of AB cables with 350 kms of supply in the first year (month-wise supply was stipulated) and 350 kms in the second year. Also, the Purchase Order (November 2015) mentioned that the price variation clause was applicable as per IEEMA/ CACMAI formula, but did not mention the base date of its applicability. As per IEEMA formula, the base date for calculation of price would be the price one month prior to the date of tender, *i.e.* February 2015.

Meanwhile, on 16 November 2015, the Contractor requested to consider base date for price variation as October 2015. The Managing Director approved (21 November 2015) the base date of October 2015. The Company issued (24 November 2015) amendment to the Purchase Order with the base date for price variation as October 2015.

It was seen from the available records that the price of Aluminium showed a downward trend between February 2015 (₹ 1.55 lakh per MT) to June 2015 (₹ 1.39 lakh per MT) to October 2015 (₹ 1.16 lakh per MT). The MD had

[61] Every Government Company had to comply with the Karnataka Transparency in Public Procurement Act, 1999 and KTPP Rules, 2000, for procurement of goods and services.
[62] Indian Electrical & Electronics Manufacturers' Association.
[63] Cable and Conductor Manufacturers Association of India.

neither been apprised of this decrease in rates, nor the fact that as per IEEMA formula the base date was one month prior to opening of tender (February 2015). He was also not made aware that the contractor made his offer considering price of Aluminium as of June 2015 while seeking approval for the amendment to the base date as October 2015.

The Company amended (February/May 2017) the Purchase Order indicating month-wise supplies for the second year. The Contractor completed supplies of the AB Cables between January 2016 and July 2017 as per the delivery schedule in the Purchase order and its amendments. The Company paid (between March 2016 and November 2017) ₹ 30.11 crore (including price variation of ₹ 1.09 crore) for the supplies.

Audit observed that not fixing of base rate as per IEEMA formula (February 2015) or the quote of the Contractor (June 2015) had a significant impact on the price of AB Cables. Had the Company accepted the rates (₹ 4.10 lakh per km.) offered in July 2015 after negotiation, and allowed price variation with base date as February 2015 as per IEEMA formula, the total payment to the Contractor would have been only ₹ 27.00 crore. Alternatively, if the price as offered by the Contractor in July 2015 (₹ 4.10 lakh per km. with base rate of Aluminium in June 2015) was allowed, the total payments would have been ₹ 28.50 crore, due to negative price variation as a result of fall in prices of Aluminium.

Thus, the exercise of allowing price variation with base date as October 2015, instead of February 2015/June 2015, as stated above, tantamounted to unduly favouring the Contractor to at least ₹ 1.61 crore (₹ 30.11 crore *minus* ₹ 28.50 crore).

The Government replied (December 2018) that:

- The short term tender was invited as there was urgent requirement of materials. The bidders had not requested for extension of time for submission of bids in the pre-bid meeting and hence it was construed that the time given was sufficient.

- Base price was not decided at the time of initial negotiations held in July 2015. During second negotiations held in October 2015, the base price was fixed as October 2015, *i.e.* one month prior to the date of purchase order. The excess payment assessed by audit was due to market price fluctuations which was beyond the control of the Company.

The reply is not acceptable as:

- The urgency of material requirement as stated in the reply was not kept on record while approving the short-term tender. Allowance of sixty days for submission of bids was not dependent on request from the bidders, but was mandatory for the Company as per KTPP rules to ensure fair participation in the tender. Hence, the action of the Company to reduce the number of days to 21 for submission of bids was in violation of KTPP Rules.

- The excess payment to the contractor was because of the Company considering ‘October 2015’ for the purpose of base rate, instead of ‘June 2015’ as per negotiations held in July 2015 or ‘February 2015’ as per IEEMA formula. The decision to consider October 2015 for the purpose of base rate was not in the financial interest of the Company, which ultimately benefitted the contractor by ₹ 1.61 crore.

Chapter - IV

Functioning of State PSUs (other than Power Sector)

Chapter - IV

4. Functioning of State Public Sector Undertakings (other than Power Sector)

Introduction

4.1. There were 96 State Public Sector Undertakings (PSUs) as on 31 March 2018 which were related to sectors other than Power Sector. These PSUs which were incorporated during the period between 1932-33 and 2017-18, included 90 Government Companies (77 working and 13 non-working) and six Statutory Corporations[64]. The PSUs included 10 subsidiary companies[65] and five associate companies[66].

The State Government provides financial support to the PSUs in the shape of equity, loans and grants/subsidy from time to time. Of the 96 PSUs (other than Power Sector), the State Government invested funds in 89 PSUs only as the State Government did not infuse any funds in seven subsidiary/associate companies[67].

Contribution to economy of the State

4.2. A ratio of turnover of PSUs (other than Power Sector) to the Gross Domestic Product (GDP) of the State shows the extent of activities of PSUs in the State economy. The table below provides the details of turnover of the PSUs (other than Power Sector) and GDP of the State for a period of five years ending March 2018:

Table No. 4.1: Details of turnover of PSUs (other than Power Sector) *vis-a-vis* GDP of the State

(₹ in crore)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Turnover	13,664.02	13,877.81	15,415.08	15,193.35	17,523.27
2	GDP of State	8,16,666.00	9,12,647.00	10,12,804.00	11,32,393.00	13,10,879.00
3	Percentage of Turnover to GDP of State	1.67	1.52	1.52	1.34	1.34

The turnover of these PSUs recorded continuous increase over previous years during 2013-14 to 2017-18 except 2016-17, where it had declined by 1.44 *per cent.* The increase in turnover was 1.56 *per cent* in 2014-15, 11.08 *per cent* in 2015-16 and 15.34 *per cent* in 2017-18, while increase in GDP of the State, which was 11.75 *per cent* in 2014-15, increased to 15.76 *per cent* in 2017-18.

[64] KSWC, KSFC, KSRTC, BMTC, NEKRTC and NWKRTC.
[65] NGEFH, MCA, KCDCL, TPL, MTC, KPL, KSVL, MMCL, MCT and KTL.
[66] MSIL, JLR, FKL, KAMCPL and KTCPL.
[67] NGEFH, KCDCL, FKL, KAMCPL, KTCPL, TPL and KSVL.

The compounded annual growth of turnover of PSUs recorded 6.42 *per cent*[68] as against that of GDP of 12.56 *per cent*[69] during last five years. This resulted in decrease in share of turnover of the PSUs (other than Power Sector) to the GDP from 1.67 *per cent* in 2013-14 to 1.34 *per cent* in 2017-18.

Investment in PSUs (other than Power Sector)

4.3. There are some PSUs which were instrumental to the State Government in providing certain services which the private sector may not be willing to extend due to various reasons. Besides, the Government has also invested in certain business segments through PSUs which function in a competitive environment with private sector undertakings. The position of these PSUs have therefore been analysed under two major classifications *viz.* those in the social sector and those functioning in a competitive environment. Besides, 48 PSUs which do not fall under any of these two categories have been classified under 'Others'. Details of investment made in these 96 PSUs in the shape of equity and long term loans upto 31 March 2018 are detailed in **Appendix-1(b)**.

4.4. The sector-wise summary of investment[70] (Equity and long-term loans) in these PSUs (other than Power Sector) as on 31 March 2018 is given below:

Table No. 4.2: Sector-wise investment in PSUs (other than Power Sector)

Sl. No.	Sector	Number of PSUs	Investment (₹ in crore)		
			Equity	Long term loans	Total
1	Social Sector	10	1,246.49	282.92	1,529.41
2	PSUs in competitive environment	37	2,388.85	2,774.03	5,162.88
3	Others	49	48,332.04	12,586.60	60,918.64
	Total	**96**	**51,967.38**	**15,643.55**	**67,610.93**

As on 31 March 2018, the total investment (equity and long-term loans) in these 96 PSUs was ₹ 67,610.93 crore. The investment consisted of 76.86 *per cent* towards equity and 23.14 *per cent* in long-term loans. The Long term loans advanced constituted 11.15 *per cent* (₹ 1,744.43 crore) by the State Government and 88.85 *per cent* (₹ 13,899.12 crore) from other financial institutions.

Disinvestment, Restructuring and Privatisation of PSUs (Other than Power Sector)

4.5. The State Government approved and adopted (February 2001) a comprehensive policy on public sector reforms and privatisation of Public

[68] Calculated as $[1(17{,}523.27/13{,}664.02)^{1/1\times4} - 1]\times100$ ($r=n[(A/P)^{1/nt}-1]$ where r=rate of interest, n= compounding term, A=principal *plus* Interest, P= principal and t=compounding period).

[69] Calculated as $[1(13{,}10{,}879.00/8{,}16{,}666.00)^{1/1\times4} - 1]\times100$.

[70] This includes investment by the State Government, Central Government and Others including holding companies.

Sector Undertakings in the State. Accordingly, seven companies[71] were dissolved/amalgamated at the end of September 2018. Further, the Government issued closure orders for 13 non-working Companies[72].

Budgetary support to PSUs (other than Power Sector)

4.6. The State Government provided financial support to PSUs in various forms through the annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off, interest waived, guarantees issued and guarantee commitment in respect of PSUs (other than Power Sector) for the three years ended 2017-18 are given below:

Table No. 4.3: **Details regarding budgetary support to PSUs (other than Power Sector)**

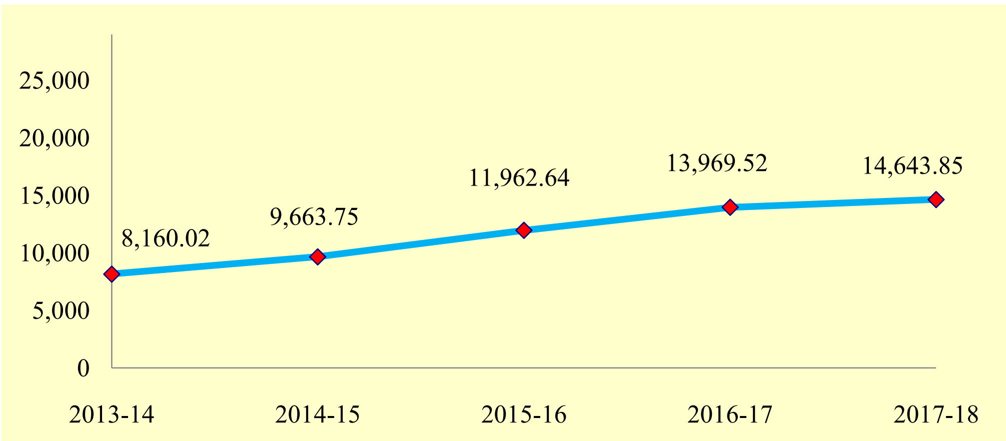
(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	17	3,267.56	11	4,220.80	13	4,100.37
2	Loans given from budget	6	197.07	2	44.70	3	356.33
3	Grants/Subsidy from budget	27	8,498.01	29	9,704.02	30	10,187.15
4	**Total outgo**	**-**	**11,962.64**	**-**	**13,969.52**	**-**	**14,643.85**
5	Waiver of loans and interest	-	-	-	-	-	-
6	Guarantees issued	7	2,434.04	11	2,116.32	8	3,464.19
7	Accumulated Guarantee Commitment	12	9,967.58	15	7,796.23	13	14,303.94

The details regarding budgetary outgo towards equity, loans, grants and subsidies for the past five years ended 2017-18 are given in the following Chart:

Chart No. 4.1: **Budgetary outgo towards equity, loans, grants and subsidies**

(₹ in crore)



[71] Karnataka Tungsten Moly Limited, Karnataka Agro Proteins Limited, Vishveswaraya Vidyuth Nigam Limited, Karnataka Film Industries Development Corporation Limited, Karnataka Small Industries Marketing Corporation Limited, Chamundi Machine Tools Limited and Karnataka State Textiles Limited.

[72] All the non-working companies as per **Appendix-1(b)**. In respect of NGEF, orders for withdrawal of closure were admitted by Hon'ble High Court of Karnataka in June 2017.

The budgetary support of the State Government in respect of equity, loans and grants and subsidies over a period of five years ending 2017-18 was on the increasing trend. It had increased from ₹ 8,160.02 crore in 2013-14 to ₹ 14,643.85 crore in 2017-18. The budgetary support of ₹ 14,643.85 crore during 2017-18 included equity of ₹ 4,100.37 crore, loans of ₹ 356.33 crore and grants and subsidy of ₹10,187.15 crore.

Guarantees for loan and guarantee commission outstanding

4.7. In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, the State Government gives guarantee under Karnataka Ceiling on Government Guarantees Act, 1999 (as amended by Act 15 of 2002). The Government charges a minimum of one *per cent* as guarantee commission, which cannot be waived under any circumstances. The guarantee commitment varied from ₹ 9,967.58 crore in 2015-16 to ₹ 7,796.23 crore in 2016-17 and to ₹ 14,303.94 crore during 2017-18. Guarantee fee of ₹ 130.18 crore was paid by nine PSUs during 2017-18. The outstanding accumulated guarantee fees or commission as on 31 March 2018 was ₹ 51.05 crore[73].

Reconciliation with Finance Accounts

4.8. The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs (other than Power Sector) should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2018 is given in the following table:

Table No. 4.4: Equity, loans and guarantees outstanding as per Finance Accounts *vis-a-vis* records of PSUs (other than Power Sector)

(₹ in crore)

Sl. No.	Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
	(1)	(2)	(3)	(4 = 2-3)
1	Equity	45,552.30	50,811.97	(-) 5,259.67
2	Loans	2,069.73	1,742.89	326.84
3	Guarantees	14,675.46	14,303.94	371.52

There were differences in respect of 81 PSUs as shown in the **Appendix – 2(b)**. The major differences in equity and loans were observed in respect of seven companies[74]. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner and take appropriate action for rectifying/adjusting the differences.

[73] The PSUs, which had major arrears were KSPHIDCL (₹ 14.97 crore), KFCSCL (₹ 14.35 crore), RGRHCL (₹ 12.78 crore). The outstanding dues of the remaining PSUs were ₹ 8.95 crore.

[74] KSIIDC, KBJNL, KNNL, CNNL, VJNL (Sl. No. A18, A29, A30, A31 and A32 of **Appendix– 2(b)**) in respect of equity and RGRHCL and KSWC (Sl. No. A27 and B1 of **Appendix – 2(b)**) in respect of loans.

Submission of accounts by PSUs (other than Power Sector)

4.9. The financial statements of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year, *i.e.* by end of September, in accordance with the provisions of Section 96(1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The following table provides the details of progress made by working PSUs in finalisation of accounts by 30 September 2018:

Table No. 4.5: **Position relating to finalisation of accounts of working PSUs (other than Power Sector)**

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Number of working PSUs	70	69	70	79	83
2	Total number of accounts finalised during the year	66	68	61	66	66
3	Number of accounts finalised relating to current year	33	33	26	27	23
4	Number of accounts finalised relating to previous years	33	35	35	39	43
5	Number of accounts in arrears	44	43	54	67	79[75]
6	Number of working PSUs with arrears in accounts	37	37	44	51	60
7	Extent of arrears (number in years)	1 to 3 years	1 to 2 years	1 to 3 years	1 to 4 years	1 to 5 years

During the year, 66 accounts were finalised, which included six accounts of six Statutory Corporations. The number of accounts in arrears increased from 44 (2013-14) to 79 (2017-18). Of the 79 arrears of accounts, 73 accounts pertained to the working Government Companies, which were in arrears ranging between one and five years. The arrears included six accounts pertaining to six Statutory Corporations.

The Administrative Departments have the responsibility to oversee the activities of these PSUs and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The PAG/AG had periodically taken up the matter with the State Government/Administrative Departments concerned for liquidating the arrears of accounts.

4.10. The State Government invested ₹ 9,857.73 crore in 25 out of 60 PSUs (other than Power Sector) during the years, for which accounts were not finalised as detailed in **Appendix-3**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and

[75] Includes arrears of two PSUs (KBDCL and KSSKDCL – both incorporated during 2016-17) and excludes the arrears of four PSUs (TMTP, HDSCL, SSCL and TSCL) for the year 2016-17 as they were incorporated during February/March 2017 and first accounts were not due. Also excludes the arrears of three accounts of one PSU (BSRCL) as it became non-working.

expenditure incurred were properly accounted for and the purpose for which the amount was invested was achieved or not. Thus, the Government's investment in such PSUs remained outside the control of the State Legislature.

4.11. There were arrears in finalisation of accounts by non-working PSUs. Out of 13 non-working PSUs, five[76] were in the process of liquidation whose accounts were in arrears for thirteen to fifteen years. Of the remaining eight non-working PSUs, four[77] PSUs had no arrears of accounts. Three[78] PSUs had arrears of accounts for one year, while one PSU (BSRCL) had arrears of four years. The position relating to arrears in finalization of accounts of non-working PSUs is given in the following table:

Table No.4.6: **Position relating to arrears in finalisation of accounts of non-working PSUs**

Sl. No.	No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
1	3	2017-18	01
2	1	2014-15 to 2017-18	04
3	1	2005-06 to 2017-18	13
4	2	2004-05 to 2017-18	14
5	2	2003-04 to 2017-18	15

Placing of Separate Audit Reports in the Legislature

4.12. The position depicted in the following table shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (upto 30 September 2018) on the accounts of Statutory Corporations in the Legislature:

Table No.4.7: **Status of placement of SARs in Legislature**

Sl. No.	Name of Statutory Corporation	Year upto which SARs placed in the Legislature	Year for which SARs not placed in the Legislature	
			Year of SAR	Date of issue to the Government/ Present Status (September 2018)
1	Karnataka State Road Transport Corporation	2016-17	2017-18	Preparation of SAR under progress
2	Bangalore Metropolitan Transport Corporation	2016-17	2017-18	
3	North Eastern Karnataka Road Transport Corporation	2016-17	2017-18	
4	North Western Karnataka Road Transport Corporation	2016-17	2017-18	
5	Karnataka State Financial Corporation	2016-17	2017-18	

Impact of non-finalisation of accounts of PSUs (other than Power Sector)

4.13. As pointed out in Paragraphs **4.9 and 4.10** the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the arrears of

[76] KSVL, NGEF, MCL, KTL and MACCL (In respect of NGEF, orders were issued (August 2017) for withdrawal of closure).

[77] MTC, MLW, VSL and MCT.

[78] KAIC, KPL and MMCL.

accounts, the actual contribution of PSUs to the State GDP for the year 2017-18 could not be ascertained and their contribution to the State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that:

- **The Government may set up a cell to oversee the clearance of arrears of accounts and set the targets for individual companies, which can then be monitored by the cell; and**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff was inadequate or lacked expertise.**

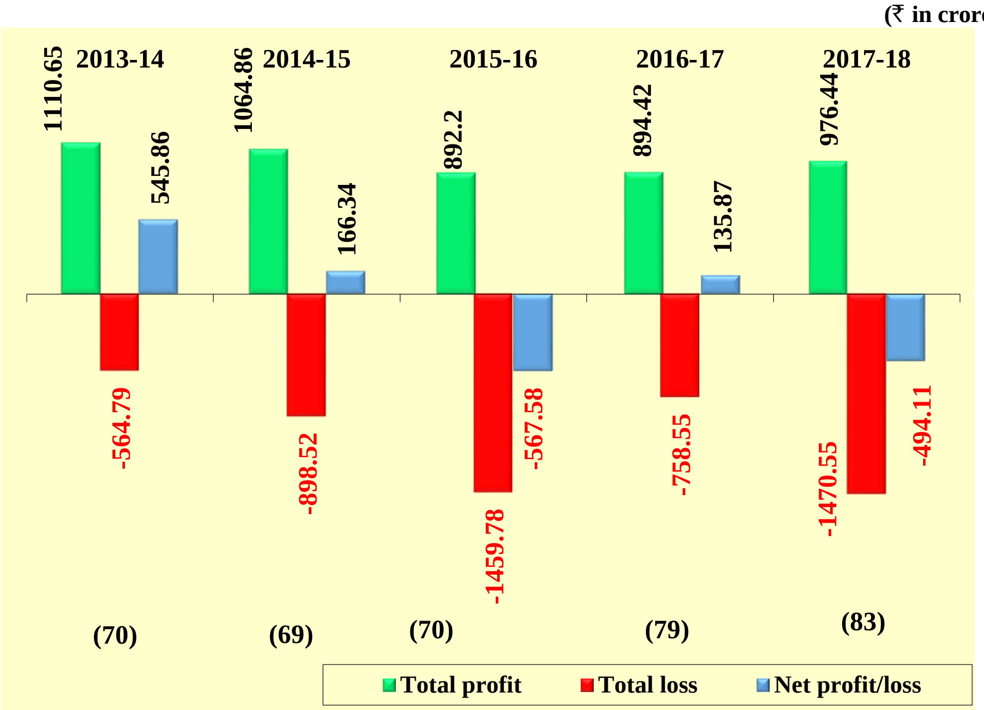
Performance of PSUs (other than Power Sector) as per their latest finalised accounts

4.14. The financial position and working results of working Government Companies and Statutory Corporations are detailed in **Appendix–4(b)** as per their latest finalised accounts as of 30 September 2018.

Overall profit (losses) earned (incurred) by the working PSUs (other than Power Sector) of the State during 2013-14 to 2017-18 are given in the following bar chart:

Chart No. 4.2: Profit/Loss of working PSUs

(₹ in crore)



(Figures in brackets show the number of working PSUs in respective years)

As per their latest finalised accounts, out of the 96 PSUs (other than Power Sector), 83 PSUs are working and 13 PSUs non-working. Out of 83 working PSUs, 45 PSUs earned profit of ₹ 976.44 crore and 25 PSUs incurred loss of ₹ 1,470.55 crore. Four PSUs (TMTP, HDSCL, SSCL and TSCL) did not finalise their first accounts. Five PSUs[79] prepared only a statement of income and expenditure. Further, four[80] PSUs, incorporated during the year, did not finalise their first accounts.

The major contributors to profit were Karnataka State Minerals Corporation Limited (₹ 316.13 crore) and Karnataka Rural Infrastructure Development Limited (₹ 123.97 crore). Huge losses were incurred by Karnataka Neeravari Nigam Limited (₹ 575.92 crore) and Bangalore Metropolitan Transport Corporation (₹ 260.91 crore).

The working PSUs showed net aggregate profits of ₹ 545.86 crore, ₹ 166.34 crore and ₹ 135.87 crore during 2013-14, 2014-15 and 2016-17 respectively and incurred net aggregate loss of ₹ 567.58 crore and ₹ 494.11 crore during the year 2015-16 and 2017-18 respectively. The main reasons for turning overall profit into loss during 2017-18 as compared to the previous year (2016-17), were increase in losses of Bangalore Metropolitan Transport Corporation (by ₹ 274.64 crore) and Karnataka State Road Transport Corporation (by ₹ 228.03 crore).

The position of working PSUs (other than Power Sector) which earned profit/incurred loss during 2013-14 to 2017-18 is given in the following table:

Table No. 4.8: **PSUs (other than Power Sector) which earned profit /incurred loss**

Sl. No.	Financial year	Total PSUs	Number of PSUs which earned profits during the year	Number of PSUs which incurred loss during the year	Number of PSUs not prepared profit and loss account[81]
1	2013-14	70	40	21	9
2	2014-15	69	41	20	8
3	2015-16	70	43	19	8
4	2016-17	79	45	19	15
5	2017-18	83	45	24	14

Return on Government funds infused in PSUs (other than Power Sector)

4.15. The profitability of a company is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to total investment. Return on capital employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used and is calculated by dividing company's earnings before interest and taxes by capital employed. Return on Equity is a measure of performance calculated by dividing net profit after tax by shareholders' fund. These parameters were discussed in subsequent paragraphs.

[79] RGRHCL, KFCSCL, KVTSDCL, IKF and BBC.
[80] KBDCL, NACDCL, KSSKDCL and MSCL.
[81] Includes PSUs which have prepared accounts on no profit no loss basis, PSUs which have not prepared profit and loss account pending project completion and PSUs not prepared accounts being the first year of their operation.

Out of 96 PSUs (other than Power Sector) of the State existing as at the end of March 2018, the State Government invested funds in 89 PSUs only as the State Government did not infuse any funds in seven subsidiary/ associate companies.

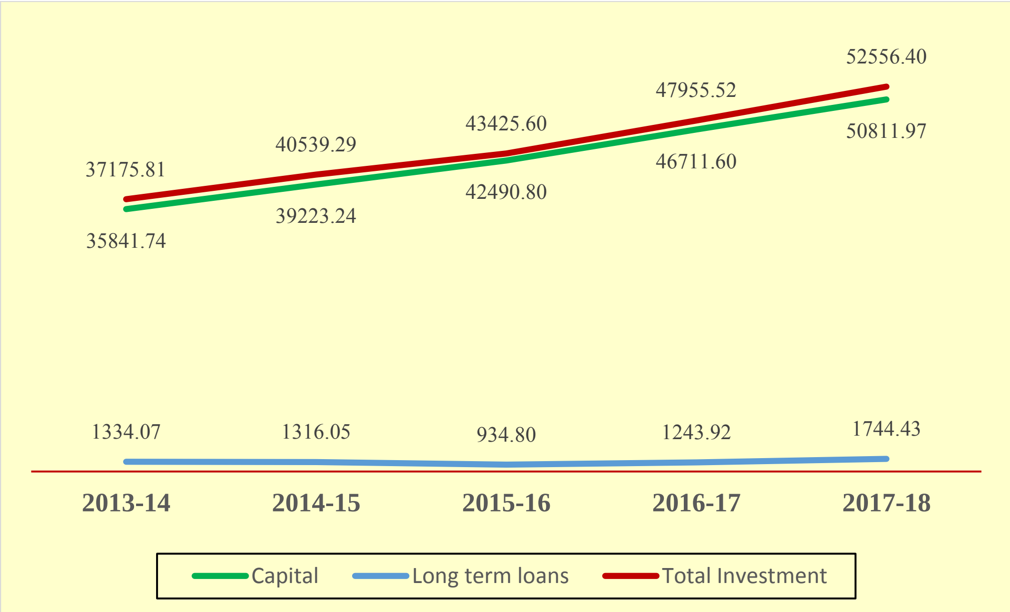
Return on Investment

4.15.1. The PSUs are expected to yield reasonable return on investment made by Government in the PSUs. The amount of investment in the PSUs (other than Power Sector) as on 31 March 2018 was ₹ 52,556.40 crore consisting of ₹ 50,811.97 crore as equity and ₹ 1,744.43 crore as long term loans by the State Government.

The investment grew by 41.37 *per cent* from ₹ 37,175.81 crore in 2013-14 to ₹ 52,556.40 crore in 2017-18 as shown in the following Chart:

Chart No. 4.3: Investment in PSUs (other than Power Sector) by State Government

(₹ in crore)



Return on the basis of historical cost of investment

4.15.2. Out of the total long term loans, only interest free loans have been considered as investment of the Government in these PSUs as the interest free loans given to the PSUs are akin to equity since they have not been repaid and parts of the loans have been converted into equity subsequent to sanctions of the loans. Further, the funds made available in the forms of the grants/subsidies have not been considered as investment since they do not qualify to be considered as investment.

The investment of the State Government in 89 out of 96 PSUs (other than Power Sector) was arrived at by considering the investment of State Government as equity, adding interest free loans and deducting interest free loans which were later converted into equity if any, for each year.

As on 31 March 2018, the investment of the State Government in these 89 PSUs (other than Power Sector) was ₹ 52,556.40 crore consisting of equity of ₹ 50,811.97 crore and long term loans of ₹ 1,744.43 crore. Out of the released long term loans, ₹ 47.37 crore was interest free loan. Thus, considering the equity of ₹ 50,811.97 crore and interest free loan of ₹ 47.37 crore as investment of the State Government in these 89 PSUs, the investment on the basis of historical cost at the end of 2017-18 stood at ₹ 50,859.34 crore.

The sector wise return on investment on historical cost basis for the period 2013-14 to 2017-18 is given in the following table:

Table No. 4.9: **Return on State Government Investment on historical cost basis**

Sl. No.	Year wise sector-wise break-up	Total earnings/ losses (-) (₹ in crore)	Equity and interest free loans as at the end of the year (₹ in crore)	Return on Investment (*per cent*)
	2013-14			
1	Social sector	121.21	612.07	19.80
2	PSUs in competitive environment	109.07	2,465.27	4.42
3	Others	134.68	32,808.12	0.41
4	**Total**	**364.96**	**35,885.46**	**1.02**
	2014-15			
1	Social Sector	61.25	756.34	8.10
2	PSUs in competitive environment	9.9	2,505.49	0.40
3	Others	-84.14	36,008.78	(0.23)
4	**Total**	**-12.99**	**39,270.61**	**(0.03)**
	2015-16			
1	Social Sector	119.27	850.24	14.03
2	PSUs in competitive environment	-42.45	2,554.28	(1.66)
3	Others	-826.64	39,133.65	(2.11)
4	**Total**	**-749.82**	**42,538.17**	**(1.76)**
	2016-17			
1	Social Sector	131.85	974.12	13.54
2	PSUs in competitive environment	146.15	2,316.06	6.31
3	Others	-327.73	43,468.79	(0.75)
4	**Total**	**-49.73**	**46,758.97**	**(0.11)**
	2017-18			
1	Social Sector	144.61	1,146.32	12.62
2	PSUs in competitive environment	-372.61	2,241.06	(16.63)
3	Others	-454.04	47,471.96	(0.96)
4	**Total**	**-682.04**	**50,859.34**	**(1.34)**

The return on State Government investment is worked out by dividing the total earnings of PSUs with investment of the State Government in the form of equity and interest free loan. The return on investment of the PSUs, which was 1.02 *per cent* in 2013-14, declined to negative return of 1.34 *per cent* during 2017-18 mainly due to losses incurred by PSUs under competitive environment and other sectors. The overall return on investment was negative during 2014-15 to 2017-18 on account of significant losses incurred by Karnataka Neeravari Nigam Limited[82] (Other sector) and losses incurred by three road transport corporations[83] (PSUs in competitive environment). Karnataka Neeravari Nigam Limited was incurring continuous losses as revenue earned was not sufficient to meet its operating expenditure though the capital and administrative expenditure was funded by the State Government through budgetary support.

Return on the basis of Present Value of Investment

4.15.3. An analysis of the earnings *vis-a-vis* investments in respect of those PSUs (other than Power Sector) where funds had been infused by the State Government was carried out to assess the profitability of these PSUs. Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value of money. The present value of the Government investments has been computed to assess the rate of return on the present value of investments of GoK in the PSUs (other than Power Sector) as compared to the historical value of investments.

In order to bring the historical cost of investments to its present value at the end of each year upto 31 March 2018, the past investments/ year-wise funds infused by the GoK in the PSUs (other than Power Sector) have been compounded at the year-wise average rate of interest on Government borrowings which is considered as the minimum cost of funds to the Government for the concerned year. Therefore, PV of the State Government investment was computed in respect of PSUs (other than Power Sector) during 2010-11 to 2017-18.

The PV of the State Government investment in PSUs (other than Power Sector) was computed on the following assumptions:

- Interest free loans have been considered as investment infusion by the State Government as no amount of interest free loans have been repaid by the PSUs. Further, in those cases where interest free loans given to the PSUs were later converted into equity, if any, the amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year. The funds made available in the form of grants/subsidies have not been reckoned as investment, as they do not qualify to be considered as investment; and

- The average rate of interest on Government borrowings for the financial year concerned was adopted as the compounded rate for arriving at the PV since it represents the cost incurred by the Government towards investment of funds for the year and therefore considered as the

[82] Loss of ₹ 295.59 crore in 2014-15, ₹ 970.77 crore in 2015-16, ₹ 476.88 crore in 2016-17 and ₹ 575.92 crore in 2017-18.

[83] BMTC (₹ 260.91 crore), KSRTC (₹ 177.08 crore) and NWKRTC (₹ 119.55 crore) incurred during 2017-18.

minimum expected rate of return on investments made by the Government.

4.15.4. The Company-wise position of State Government investment in the PSUs (other than Power Sector) in the form of equity and interest free loans upto 2009-10 and from 2010-11 to 2017-18 is indicated in **Appendix – 5(b).** The consolidated position of PV of the State Government funds relating to PSUs (other than Power Sector) is indicated in the following table:

Table No. 4.10: **Year-wise details of funds infused by the State Government and PV of Government funds for the period from 2010-11 to 2017-18**

(₹ in crore)

Sl. No.	Financial Year	PV of total investment at the beginning of the year	Equity infused by the State Government during the year	Interest free loans given by the State Government during the year	Total investment at the end of the year	Average rate of interest on Government borrowings[84] (in *Per cent*)	PV of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earnings for the year[85]
(a)	(b)	(c)	(d)	(e)	(f=(c+d+e))	(g)	(h=f×(1+g)/100)	(i= f×(g/100))	(j)
1	up to 2009-10		23,506.04	17.97	23,524.01	6.70	25,100.12	1,576.11	
2	2010-11	23,647.51[86]	3,430.55	15.00	27,093.06	6.40	28,827.01	1,733.96	395.26
3	2011-12	28,827.01	3,411.54	10.25	32,248.80	6.60	34,377.23	2,128.42	149.33
4	2012-13	34,377.23	3,604.19	0.50	37,981.92	6.60	40,488.72	2,506.81	159.98
5	2013-14	40,488.72	3,250.82	-	43,739.54	6.20	46,451.39	2,711.85	364.96
6	2014-15	46,449.84[87]	3,382.63	3.65	49,836.12	6.50	53,075.47	3,239.35	-12.99
7	2015-16	53,075.47	3,267.56	-	56,343.03	6.50	60,005.33	3,662.30	-749.82
8	2016-17	60,005.33	4,220.80	-	64,226.13	6.30	68,272.37	4,046.25	-49.73
9	2017-18	68,272.37	4,100.37	-	72,372.74	6.30	76,932.23	4,559.48	-682.04
10	**Total**		**50,811.97[88]**	**47.37**					

The funds infused by the State Government in PSUs (other than Power Sector) increased to ₹ 50,859.34 crore in 2017-18 from ₹ 23,524.01 crore as at 31 March 2010, as the State Government infused further funds in the shape of equity (₹ 28,668.46 crore), and interest free loans (₹ 29.40 crore) during the period 2010-11 to 2017-18. The PV of funds infused by the State Government upto 31 March 2018 worked out to ₹ 76,932.23 crore.

[84] The average rate of interest on borrowing by the State Government is adopted as per the approved Audit Reports of the C&AG of India on State Finances, GoK. For 2017-18, average rate of interest related to 2016-17 has been adopted as the Audit Report for 2017-18 was not finalised.

[85] Total Earning for the year depicts total of net earnings (profit/loss) for the respective years relating to those PSUs (other than Power Sector) where funds were infused by State Government.

[86] The PV of Bangalore Metro Rail Corporation Limited (BMRCL - ₹ 1,451.16 crore) was removed due to transfer of Audit Jurisdiction to another office and Karnataka Small Industries Marketing Corporation Limited (KSIMC - ₹ 1.45 crore) on merger with KSSIDC.

[87] The PV of Chamundi Machine Tools Limited (CMTL - ₹ 0.86 crore) and Karnataka State Textiles Limited (KSTL - ₹ 0.69 crore) was removed on liquidation.

[88] This excludes equity of BMRCL (₹ 1,360.04 crore), KSIMC (₹ 1.36 crore), CMTL (₹ 0.63 crore) and KSTL (₹ 0.50 crore) as these PSUs were transferred/merged/liquidated.

During 2010-11 to 2017-18, total earnings for the year remained below the minimum expected return to recover cost of funds infused in these PSUs. It was observed that Karnataka Neeravari Nigam Limited was the major contributor for losses during 2014-15 to 2017-18.

4.15.5. The return on State Government funds (at PV) infused in the PSUs (other than Power Sector) indicates the profitability and the efficiency of these PSUs. The return on State Government funds is worked out by dividing the total earnings[89] of these PSUs by the PV of the State Government investments. During 2013-14 to 2017-18, these PSUs had a positive return on investment only in 2013-14. The return on investment for 2013-14 had, therefore, been calculated and depicted on the basis of PV. A comparison of returns on investment as per historical cost and PV of such investment during 2013-14 when there were positive earnings in these PSUs is given in the following table:

Table No. 4.11: Return on State Government Funds

(₹ in crore)

Sl. No.	Sector-wise break-up	Total Earnings	Investment in the form of Equity and Interest Free Loans on historical cost	Return on investment on the basis of historical cost (*per cent*)	PV of the State Government funds at the end of the year	Return on investments on the basis of PV (*per cent*)
1	Social sector	121.21	612.07	19.80	787.07	15.40
2	PSUs in competitive environment	109.07	2,465.27	4.42	3,261.48	3.34
3	Others	134.68	32,808.12	0.41	42,402.84	0.32
4	**Total**	**364.96**	**35,885.46**	**1.02**	**46,451.39**	**0.79**

The return earned on State Government funds (at PV) was 0.79 *per cent* against the return of 1.02 *per cent* earned on historical cost basis during 2013-14. Further, the return on investment at historical cost and PV was higher in social sector PSUs as compared to that of PSUs in competitive environment and other sector PSUs.

Erosion of Net worth

4.15.6 Net worth is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners has been wiped out by accumulated losses. The net worth[90] of PSUs (other than Power Sector), where the GoK had infused funds during 2013-14 to 2017-18 is indicated in the following table:

[89] This includes net profit/losses for the concerned year relating to those PSUs where the funds have been infused by the State Government.

[90] Paid up capital *plus* Free reserves *less* Accumulated loss.

Table No. 4.12: Net worth of PSUs (other than Power Sector) during 2013-14 to 2017-18

(₹ in crore)

Sl. No.	Year	Paid up Capital at end of the year	Accumulated Profit (+)/ Loss (-) at end of the year	Net worth
1	2013-14	25,342.93	2.88	25,345.81
2	2014-15	25,618.71	-997.76	24,620.95
3	2015-16	29,960.26	-1,179.37	28,780.89
4	2016-17	31,768.92	-1,291.12	30,477.80
5	2017-18	39,191.50	-3,102.81	36,088.69

As seen from the table above, the overall net worth of PSUs (other than Power Sector) was *positive* during the last five years ended 2017-18. However, the net worth of 20[91] out of 89 PSUs was eroded as at 31 March 2018.

Dividend Payout

4.15.7. The State Government formulated (May 2003) guidelines according to which Government nominees on the Boards of Public Enterprises or Joint Ventures, where the State Government had equity holding, should insist on the declaration of minimum dividend of 20 *per cent* on shareholding. In case payment of dividend to this extent was not possible, dividend payout must constitute at least 20 *per cent* of profit after tax. Dividend Payout relating to PSUs (other than Power Sector) during the period 2013-14 to 2017-18 is shown in the table below:

Table No. 4.13: Dividend Payout during 2013-14 to 2017-18

(₹ in crore)

Sl. No.	Year	Total PSUs where equity infused by GoK		PSUs which earned profit during the year		PSUs which declared/paid dividend during the year		Dividend payment as a percentage of Paid up capital
		Number of PSUs	Paid up capital	Number of PSUs[92]	Paid up capital	Number of PSUs	Dividend declared/ paid by PSUs	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8=7/5*100)
1	2013-14	77	19,261.69	37	2,118.52	16	25.93	1.22
2	2014-15	74	34,801.79	47	9,375.59	16	23.52	0.25
3	2015-16	75	29,306.50	44	2,019.65	17	28.70	1.42
4	2016-17	84	31,362.49	45	2,560.47	13	12.18	0.48
5	2017-18	89	38,128.91	46	3,407.45	14	19.44	0.57

During the period 2013-14 to 2017-18, the number of PSUs which earned profits ranged between 37 and 47, out of which only 13 to 17 PSUs have declared dividend. Further, the Dividend payment as a percentage of paid up capital for PSUs during 2013-14 to 2017-18 was very nominal which ranged between 0.25

[91] KSACPL (₹ 25.71 crore), KTAML (₹ 11.64 crore), KSHDCL (₹ 76.68 crore), RGRHCL (₹ 19.31 crore), LIDKAR (₹ 18.25 crore), KSCDCL (₹ 3.42 crore), MPM (₹ 307.05 crore), KSMB (₹ 16.67 crore), MYSUGAR (₹ 407.94 crore), KSTDC (₹ 12.99 crore), KMERCL (₹ 0.22 crore), NWKRTC (₹ 578.19 crore), NEKRTC (₹ 409.96 crore), KAIC (₹ 271.41 crore), MTC (₹ 14.73 crore), KPL (₹ 19.63 crore), MLW (₹ 305.94 crore), MCL (₹ 2.96 crore), MCT (₹ 7.75 crore) and NGEF (₹ 362.34 crore).

[92] This excludes subsidiary/associates where State Government had not directly invested, and includes non-working companies.

per cent and 1.42 *per cent* against the minimum dividend of 20 *per cent* on shareholding.

Further, three PSUs (KSPHIDCL, KSMCL and HGML) in 2013-14, one PSU each in 2014-15 (KSPHIDCL), 2015-16 (KSMCL) and 2016-17 (KSPHIDCL) and two PSUs (KSPHIDCL and HGML) in 2017-18 declared/paid dividend more than the prescribed minimum of 20 *per cent*.

Return on Equity

4.15.8. Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using companies' assets to create profits and is calculated by dividing net profit after taxes by shareholders' fund[93].

Return on Equity has been computed in respect of PSUs (other than Power Sector) where funds had been infused by the State Government. The details of Shareholders fund and ROE relating to these PSUs during the period from 2013-14 to 2017-18 are given in the following table:

Table No. 4.14: Return on Equity relating to PSUs (other than Power Sector)

Sl. No.	Year	Net profit after taxes (₹ in crore)	Shareholders' Fund (₹ in crore)	Return on Equity (*per cent*)
1	2013-14	364.96	25,345.81	1.44
2	2014-15	(-) 12.99	24,620.95	-
3	2015-16	(-) 749.82	28,780.89	-
4	2016-17	(-) 49.73	30,477.80	-
5	2017-18	(-) 682.04	36,088.69	-

As seen from the above table, the PSUs (other than Power Sector) earned profit in 2013-14 and incurred loss during 2014-15 to 2017-18. The RoE was 1.44 *per cent* in 2013-14 and was *negative* in subsequent years due to losses during 2014-15 to 2017-18.

Return on Capital Employed

4.15.9. Return on Capital Employed (ROCE) is a ratio that measures a Company's profitability and the efficiency with which its capital is employed. ROCE is calculated by dividing a Company's earnings before interest and taxes (EBIT) by the capital employed[94]. The details of ROCE of PSUs (other than Power Sector) during the period from 2013-14 to 2017-18 are given in table below:

Table No. 4.15: Return on Capital Employed

Sl. No.	Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (*per cent*)
1	2013-14	1,407.10	27,511.92	5.11
2	2014-15	717.56	35,433.69	2.03
3	2015-16	202.37	47,061.69	0.43
4	2016-17	1,095.97	48,347.07	2.27
5	2017-18	983.00	57,151.05	1.72

[93] Shareholder's fund = Paid up capital *plus* Free reserves *less* Accumulated loss.

[94] Capital Employed = Paid up share capital *plus* Free reserves and surplus *plus* long term loans *less* accumulated loss.

The ROCE of PSUs (other than Power Sector) substantially declined from 5.11 *per cent* in 2013-14 to 1.72 *per cent* in 2017-18 indicating the profitability was not encouraging. The ROCE during 2015-16 was very low at 0.43 *per cent* due to decrease in profitability of PSUs.

Analysis of Long term loans of PSUs (other than Power Sector)

4.16. The analysis of the long term loans of the companies which had leverage during 2013-14 to 2017-18 was carried out to assess the ability of the companies to service the debt owed by the companies to Government, banks and other financial institutions. This is assessed through the Interest coverage ratio and Debt Turnover Ratio.

Interest Coverage Ratio

4.16.1. Interest coverage ratio is used to determine the ability of a Company to pay interest on outstanding debt and is calculated by dividing a Company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lessor the ability of the Company to pay interest on debt. An interest coverage ratio of below one indicates that the Company is not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in those PSUs (other than Power Sector) which had interest burden during the period from 2013-14 to 2017-18 are given in the following table:

Table No. 4.16: **Interest coverage ratio of PSUs (other than Power Sector)**

Sl. No.	Year	Interest (₹ in crore)	EBIT (₹ in crore)	Number of Companies having interest burden	Number of Companies having interest coverage ratio more than one	Number of Companies having interest coverage ratio less than one
1	2013-14	488.12	1,407.10	42	25	17
2	2014-15	643.38	717.56	43	25	18
3	2015-16	849.18	202.37	39	22	17
4	2016-17	798.02	1,095.97	30	18	12
5	2017-18	1,246.98	983.00	40	23	17

It was observed that the percentage of PSUs (other than Power Sector) with interest coverage ratio of more than one ranged between 56.41 *per cent* and 60.00 *per cent* during 2013-14 to 2017-18. As at 31 March 2018, 17 out of 40 PSUs had interest ratio of less than one, indicating that these PSUs could not generate sufficient revenues to meet their expenses on interest.

Debt-Turnover Ratio

4.16.2. The debt-turnover ratio is calculated by dividing loans outstanding with turnover at the end of the year. The debt turnover ratio of working PSUs[95] (other

[95] This excludes PSUs where the State Government had no direct investment and non-working PSUs.

than Power Sector) during the last five years is shown in the following table:

Table No. 4.17: Debt Turnover ratio of working PSUs (other than Power Sector)

(₹ in crore)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Debt	8,154.81	9,966.48	10,991.17	17,437.64	20,629.38
2	Turnover	13,651.54	13,854.17	15,399.44	15,173.41	17,489.40
3	Debt-Turnover ratio	0.60:1	0.72:1	0.71:1	1.15:1	1.18:1

The debt-turnover ratio of working PSUs (other than Power Sector) has not improved as the compounded annual growth rate of Turnover (6.39 *per cent*) was less than that of Debt (26.12 *per cent*) during 2013-14 to 2017-18.

Winding up of non-working PSUs (other than Power Sector)

4.17.1. There were 13 non-working PSUs[96] (all companies) as on 31 March 2018. Of these, five PSUs have commenced the liquidation process.

Further, 13 non-working companies also included one Company (Bangalore Suburban Rail Corporation Limited), for which the GoK issued Orders (June 2017) re-constituting the Board of Directors for taking necessary steps for the closure of the Company. The formal orders for closure were yet (September 2018) to be issued. In respect of NGEF, orders for liquidation were issued in August 2004. However, based on an application from GoK, the Hon'ble High Court of Karnataka admitted (June 2017) for withdrawal of closure orders passed earlier. The GoK decided to withdraw the closure orders of NGEF as there were no arrears of loan and proposed for utilisation of land and other valuable properties of the Company for public projects.

The number of non-working companies at the end of each year for the past five years is given below:

Table No. 4.18: **Non-working PSUs Particulars**

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	No. of non-working companies	14	12	12	12	13

Since the non-working PSUs did not contribute to the State economy and did not meet the intended objectives, these PSUs may be considered for closure. During 2017-18, seven out of thirteen non-working PSUs incurred ₹ 21.45 crore[97] towards administrative costs. This expenditure was financed through rental receipts, interest receipts and other receipts.

[96] As per Annexure 4(b) – 11 PSUs under Competitive Environment and two PSUs in Others.

[97] KAIC (₹ 19.44 crore), MTC (₹ 1.01 crore), KPL (₹ 0.11 crore), MMCL (₹ 0.05 crore), MLW (₹ 0.77 crore), VSL (₹ 0.04 crore) and MCT (₹ 0.03 crore).

4.17.2. The stages of closure in respect of non-working PSUs are given below:

Table No. 4.19: Stages of closure of non-working PSUs

Sl. No.	Particulars	Companies
1	Total number of non-working PSUs	13
2	Of (1) above, the number under	
(a)	Liquidation by Court (liquidator appointed)	5[98]
(b)	Closure, *i.e.* closing orders/ instructions issued but liquidation process not yet started	8

During the year 2017-18, no PSU was wound up. The companies, which have taken the route of winding up by Court order are under liquidation for a period ranging from thirteen years to fifteen years. The process of voluntary winding up under the Companies Act is much faster and requires to be explored.

Comments on Accounts of PSUs (other than Power Sector)

4.18.1. Fifty-four working PSUs (other than Power Sector) forwarded their 60 audited accounts to the Accountant General between 1 October 2017 and 30 September 2018. Of these, 38 accounts (of 35 companies) were selected for Supplementary Audit. The Audit Reports of the Statutory Auditors (appointed by the CAG) and the supplementary audits of the CAG indicate that the quality of maintenance of accounts requires improvement. The details of aggregate money value of comments of statutory auditors and the CAG are given in the following table:

Table No. 4.20: Impact of audit comments on working companies

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No.	Amount	No.	Amount	No.	Amount
1	Decrease in profit (accounts)	14	604.30	11	505.90	16	300.12
2	Increase in profit (accounts)	4	30.12	4	13.07	2	17.43
3	Decrease in loss (accounts)	-	-	1	0.57	2	7.29
4	Increase in loss (accounts)	6	13.83	6	36.39	5	37.58
5	Non-disclosure of material facts (instances)	2	-	1	-	2	-
6	Errors of classification (instances)	1	-	-	-	3	-

During the year 2017-18, the Statutory Auditors issued unqualified reports on 20 accounts, qualified reports on 35 accounts and adverse report (which means that accounts did not reflect a true and fair position) on five accounts. The compliance of companies with the Accounting Standards remained poor as there were 90 instances of non-compliance in 29 accounts during the year.

4.18.2. Similarly, six working Statutory Corporations forwarded their six accounts to the AG during the year 2017-18. Of these, four accounts of four Statutory Corporations pertained to sole audit by the CAG, while the other two

[98] Includes NGEF for which, orders for withdrawal of closure were admitted by Hon'ble High Court of Karnataka in June 2017.

were supplementary audit after audit by Statutory Auditors. The Audit Reports of Statutory Auditors and the sole/supplementary audit of the CAG indicate that the quality of maintenance of accounts requires improvement. The details of aggregate money value of comments of the Statutory Auditors and the CAG are given in the following table:

Table No. 4.21: **Impact of audit comments on Statutory Corporations**

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	1	15.96	3	17.95	2	3.77
2	Increase in profit	-	-	1	116.10	-	-
3	Decrease in loss	-	-	1	0.27	-	-
4	Increase in loss	3	9.50	1	2.67	4	148.06

During the year, all six accounts were issued qualified certificates. Two Statutory Corporations reported a total profit of ₹ 36.15 crore, while four reported losses amounting to ₹ 612 crore.

Response of the Government to Audit

Performance Audits and Compliance Audit Paragraphs

4.19. One Performance Audit and eleven Compliance Audit paragraphs related to PSUs (other than Power Sector) were issued to the Additional Chief Secretaries or Principal Secretaries of the respective Departments to furnish replies. Replies were received for the Performance Audit and all Compliance Audit paragraphs and the views of the Government have been suitably incorporated.

Follow up action on Audit Reports

Replies outstanding

4.20. The Reports of the CAG represent the culmination in the process of audit scrutiny. It is therefore necessary that they elicit appropriate and timely response from the Executive. The Finance Department, Government of Karnataka, issued (January 1974) instructions to all Administrative Departments to submit replies to paragraphs and Performance Audits (PAs) included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The status of receipt of replies to the report of Comptroller and Auditor General of India from the GoK is given in the following table:

Table No. 4.22: Replies not received as on 30 September 2018

Year of the Audit Report (PSUs)	Date of placing the Audit Report in the State Legislature	Total PAs and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which replies were not received	
		PAs	Paragraphs	PAs	Paragraphs
2014-15	05.03.2016	1	9	0	0
2015-16	23.03.2017	1	10	1	0
2016-17	22.02.2018	1	10	1	7
Total		**3**	**29**	**2**	**7**

It could be seen that replies for two Performance Audits and seven paragraphs in respect of five Departments[99] were not furnished by GoK (September 2018).

Discussion of Audit Reports by COPU

4.21. The status of Performance Audits (PAs) and paragraphs relating to PSUs (other than Power Sector) appeared in Audit Reports on PSUs and discussed by COPU as on 30 September 2018 was as detailed in the following table:

Table No. 4.23: Status of discussion of PAs and Paragraphs

Period of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Para discussed	
	PAs	Paragraphs	PAs	Paragraphs
2011-12	1	10	0	10
2013-14	1	10	1	10
2014-15	1	9	1	4
2015-16	1	10	0	4
2016-17	1	10	0	1
Total	**5**	**49**	**2**	**29**

Compliance to Reports of Committee on Public Undertakings (COPU)

4.22. Action Taken Notes (ATN) from the Government of Karnataka pertaining to three paragraphs of three Reports of COPU and five *suo-motu* Reports of COPU, presented to the State Legislature between December 2011 and February 2018, were not received (September 2018).

The reports of COPU contained 24 recommendations in respect of paragraphs pertaining to three Departments[100], which appeared in the Reports of the CAG of India between the period 2008-09 and 2014-15 and the five *suo-motu* reports containing 52 recommendations.

It is recommended that the Government may ensure (a) sending replies to inspection reports/draft paragraphs/Performance Audits and ATNs on the recommendations of COPU as per the prescribed time schedule; and (b) revamping of the system of response by the GoK to audit observations.

[99] Finance Department, Urban Development Department, Water Resources Department, Public Works Department and Commerce and Industries Department.

[100] Commerce and Industries Department, Urban Development Department and Social Welfare Department.

Response to Inspection Reports

4.23. Audit observations noticed during audit and not settled on the spot were communicated to the heads of the PSUs and the concerned Departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of Departments within a period of one month. The Department-wise break-up of Inspection Reports and audit observations outstanding as on 31 March 2018 is given in **Appendix-6**.

It is recommended that the Government may ensure that a procedure exists for taking action (a) against officials who fail to respond to Inspection Reports based on the reports of Audit Monitoring Cell constituted by the Government; and (b) to recover loss/outstanding advances/overpayment within the prescribed time.

Chapter - V

Performance Audit on PSUs (other than Power Sector)

Chapter - V

5. Performance Audit on PSUs (other than Power Sector)

5.1. Performance Audit on 'Benefits derived by the State Government under Accelerated Irrigation Benefit Programme'

Executive Summary

Introduction

A large number of Major and Medium Irrigation projects were languishing due to various reasons, the most important being the inadequate provision of funds by the State Governments due to limited resources at their disposal. Keeping this in view, the Government of India launched (1996-97) the Accelerated Irrigation Benefits Programme (AIBP). The Scheme provided Central Loan Assistance (CLA) to expedite the implementation of the ongoing Major/Medium projects and ensure simultaneous implementation of Field Irrigation Channels (FICs) for utilisation of the created Irrigation Potential, so that end users (farmers) are provided with water. The Scheme was implemented in Karnataka by two Companies (implementing agencies) *viz.* Krishna Bhagya Jala Nigam Limited (KBJNL) and Karnataka Neeravari Nigam Limited (KNNL).

Audit Objective

The Audit objective was to assess whether the State Government and the implementing agencies (KNNL/KBJNL) were able to leverage the benefits of the AIBP Scheme to expedite the completion of the projects (including FICs), and realise the ultimate Irrigation Potential so as to cater to the water needs of the farmers in the State including the drought prone areas.

Audit Findings

Audit observed that the State Government/implementing agencies was not able to leverage the entire benefits of the scheme in terms of either the funding or in creating Irrigation Potential by expediting the completion of projects. The summary of the findings is given below.

- Of the total of 79,838 ha. due for creation of Irrigation Potential (dry) as per the committed timeframe, the companies could create only 55,516 ha. during the last five years (2013-18) and the Irrigation Potential pending creation as at end of March 2018 was 24,322 ha. *(Paragraphs 5.1.9.1, 5.1.9.2 and 5.1.18)*

- The envisaged Field Irrigation Channels (FICs) were also not fully completed in any of the six test-checked projects even after a lapse of two to eighteen years, after their original scheduled dates of

completion as there were lapses in planning and execution of the works in synchronisation with the Irrigation Potential already created. Out of the total 1,71,166 ha of FICs due for creation, a total of 1,18,412 ha. of FICs were created during 2013-18. The balance FICs pending creation was 52,754 ha. which included 28,432 ha. for which Irrigation Potential had already been created. As a result, while some parts of the drought prone districts of central and north Karnataka have been provided with irrigation facilities, other parts are yet to receive water. *(Paragraphs 5.1.15 and 5 1.18)*

- Due to non-adherence to prescribed guidelines of AIBP with respect to furnishing Annual Audited Certificates and achieving committed physical targets, the State was deprived of Central Assistance of ₹ 821.86 crore. The State Govnerment had to bear this deficit by raising funds from external sources. *(Paragraphs5.1.16.1 and 5.1.16.2)*

- The State Government/ implementing agencies were also not able to fast-track the completion of the projects and realise the Irrigation Potential. This was due to lack of preparedness by the implementing agencies as they did not include the works in their Annual Works Programme in line with the commitments made to the Central Government. There were delays in tendering and award of work, and absence of an efficient works management system to ensure that decisions on scope and design change were handled in an efficient manner by the implementing agencies. These led to delays in completion of work. *(Paragraphs 5.1.11 to 5.1.14)*

- In the absence of formation of the State Level Monitoring Committee, no concurrent evaluation of the Projects was done. While there was monitoring by the Central Water Commission, the mechanism of providing compliance to their observations was not optimal. *(Paragraph 5.1.17)*

Introduction

5.1.1. A large number of Major[101] and Medium[102] Irrigation projects were languishing due to various reasons, the most important of them being the inadequate provision of funds by the State Governments due to limited resources at their disposal. The Government of Karnataka participated in a Scheme launched by the Government of India in 1996-97 *viz*. the Accelerated Irrigation Benefits Programme (AIBP) Scheme. The Scheme provided Central Loan Assistance (CLA) to expedite the implementation of the ongoing Major/Medium projects and ensure simultaneous implementation of Field Irrigation Channels (FICs) for utilisation of the created Irrigation Potential, so that end users (farmers) are provided with water.

The ratio of funding in the nature of Central Assistance (in the form of grant by Government of India) to the State Contribution during the period 2006-07 to 2012-13was 90:10 for drought-prone areas and 25:75 for non-drought prone areas. This was revised to 75:25 for drought-prone area and 25:75 for the non-drought areas from 2013-14 to 2014-15.

5.1.1.1. In 2016, the Ministry of Water Resources, River Development and Ganga Rejuvenation (MoWR), Government of India (GoI) introduced a scheme called Pradhan Mantri Krishi Sinchayee Yojana (PMKSY). PMKSY aimed to enhance the physical access of water on-farm and expand the cultivable area under assured irrigation, improve on-farm water use efficiency, introduce sustainable water conservation practices, *etc*. AIBP was included as part of PMKSY and it focussed on faster completion of ongoing Major and Medium projects. The funding ratio between Government of India and Government of Karnataka was 60:40 from 2015-16 to 2018-19.

Government of Karnataka implemented 12 projects under the AIBP Scheme, which included[103]five projects under PMKSY for completion in a time-bound manner.

Organisational Setup

5.1.2. The MoWR, GoI was responsible for policy, guidelines, and programmes for the development and regulation of the country's water resources. The State Governments were primarily responsible with project planning and implementation of the projects.

The agencies, which were involved in the approval and implementation of the projects under AIBP were the Technical Advisory Committee of the MoWR GoI, which was responsible for examination of project proposals and the CWC Project level units, which scrutinised the proposals received from the State Government. The Water Resources Department of the State Government was

[101] Projects with Irrigation Potential greater than 10,000 ha. of Culturable Command Area (CCA).

[102] Projects with Irrigation Potential greater than 2,000 ha. and less than 10,000 ha. of CCA.

[103] Priority-1 projects (two in Karnataka) were to be completed by March 2017, Priority-2 projects (no projects in Karnataka) were to be completed by March 2018 and Priority-3 projects (three projects in Karnataka) were to be completed by December 2019.

responsible for Planning, monitoring and evaluation of projects and the implementing agencies in the State executed the Projects.

5.1.2.1. In Karnataka, the projects under AIBP are implemented by two implementing agencies/Companies *viz*., Krishna Bhagya Jala Nigam Limited (KBJNL) and Karnataka Neeravari Nigam Limited (KNNL), which were formed during 1994-95 and 1998-99 respectively under the Companies Act, 1956. The objective of creation of these two companies were to overcome constraints in funding by enabling them to raise funds from external sources (*eg.*by floating irrigation bonds, avail loans from financial institutions, *etc*.) and execute the projects undertaken by the Company including AIBP projects. KBJNL and KNNL are administratively controlled by the Water Resources Department, GoK, headed by the Principal Secretary.

Each Company is headed by the Managing Director, who monitors the day-to-day activities. The projects/works taken up are monitored at the field level by the Chief Engineers at Zonal Offices, Superintending Engineers at Circle Offices and Executive Engineers at Divisions.

KNNL and KBJNL created both the dry Irrigation Potential (by construction of canals and distributaries) and also the wet Irrigation Potential (by construction of Field Irrigation Channels-FICs) during the review period 2013-14 to 2017-18. From 2015-16 onwards, the work of construction of FICs of the projects is also undertaken by Command Area Development Authority (CADA), which functioned under the control of the Water Resources Department.

Audit Objective

5.1.3. The audit objective was to assess whether the State Government and the implementing agencies (KNNL/KBJNL) were able to leverage the benefits of the AIBP Scheme to expedite completion of the projects (including FICs), and realise the ultimate Irrigation Potential so as to cater to the water needs of the farmers in the State including the drought prone areas.

Scope of Audit

5.1.4. Twelve Major/Medium irrigation projects were executed under AIBP during 2013-18. Audit selected seven[104] of the 12[105] projects(58 *per cent*) implemented giving due importance to project expenditure and Irrigation Potential. Of the Irrigation Potential of 3,13,810 ha. in these seven test checked projects, 1,28,972 ha. was created before 2012-13 (Table No.5.1.2). The creation of balance Irrigation Potential of 1,84,838 ha. and the pending FICs during the period 2013-18 was assessed in audit.

Further, out of the seven projects, six projects (Malaprabha, Hipparagi, Varahi, Upper Tunga, Bhima Lift Irrigation Scheme, and Karanja) were executed by KNNL and one project (Narayanapura Left Bank Canal - NLBC)

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[104] A brief of the Projects and the districts covered by the projects are given in **Appendix-8**.
[105] Status of the twelve projects are given in **Appendix-9**.

was executed by KBJNL. These projects were executed across 30 Divisions of these Companies, out of which Audit selected 17 Divisions. Audit examined records at the Division, Circle and Zonal Offices of these Companies, and also examined the records of the Water Resources Department and Offices of Command Area Development Authority (CADA).

Audit test-checked the works executed during 2013-14 to 2017-18 in each of these seven test-checked projects and the details of the audit coverage are given below:

Table No.5.1.1: Details of sampling

Sl. No.	Category	Total number of works	Value (₹ in crore)	Number of test-checked works	Value of test-checked works (₹ in crore)
1	Irrigation Potential	1,516	4,293.87	203	1,212.05
2	Field Irrigation Channels-FIC	399	196.10	76	48.50
	Total	**1,915**	**4,489.97**	**279**	**1,260.55**

The coverage represented 14.57*per cent* of the total number of works and 28.07*per cent* in terms of expenditure.

Audit Methodology

5.1.5. The methodology adopted for achieving the Audit Objectives involved explaining the audit objectives, criteria and scope of audit to the Government and Management during an Entry Conference, which was held on 12 March 2018.

During the course of the audit, audit observations were issued to the Managements seeking their views. The Performance Audit Report was issued to the Government and the Managements, and the Exit Conference was held on 29 October 2018 with the Government. The Government endorsed (October 2018) the replies furnished by the Managements. The views of the Government/Managements have been suitably incorporated in the Report.

Audit Criteria

5.1.6. The Audit Criteria considered for assessing the achievement of the Audit Objectives were derived from the following sources:

- AIBP Guidelines, Memorandum of Understandings (MoU) between GoI and GoK, Budget documents;
- Orders/instructions issued by the MoWR, GoI, Central Water Commission and Government of Karnataka;
- Land Acquisition Acts (1894 and 2013); Karnataka Transparency in Public Procurement (KTPP) Act, 1999; Karnataka Public Works Department Code (1965 and 2014);
- Detailed Project Reports, Estimates and Contract Documents of the projects/works.

Acknowledgement

5.1.7. We acknowledge the cooperation extended by the Water Resources Department of the GoK, the Managements of the Companies, Offices of the Special Land Acquisition Officers and the Command Area Development Authority in facilitating the conduct of the Performance Audit.

Audit Findings

5.1.8. The projects included under AIBP were to be completed within the time-frame committed in the Memorandum of Understanding (MoU) between the State and Centre.

In order to assess whether the State Government was able to leverage the benefits of the participation in the AIBP Scheme, audit analysed

(a) Achievement of project deliverables; and

(b) Factors affecting the project implementation.

Achievement of Project deliverables

Status of the Projects

5.1.9. The status of the seven selected projects executed under AIBP during 2013-14 to 2017-18 by Krishna Bhagya Jala Nigam Limited (KBJNL) and Karnataka Neeravari Nigam Limited (KNNL) is given in the following table:

Table No.5.1.2: Status of selected projects

(Amount: ₹ in crore)

Sl. No.	Project under AIBP	Original/ Revised date of completion	Latest expenditure (March2018)	Targeted Irrigation Potential (IP) under AIBP (ha.)	IP achieved under AIBP (ha.): As of March 2013	As of March 2018 (*per cent* of achievement to total IP)	Status (March 2018)
Name of Projects under KNNL							
1	Malaprabha	Dec.2000/Mar. 2013	1,173.38	44,214	44,214	44,214 (100.00)	Creation of Irrigation Potential completed in 2013. However, FIC and Re-modelling works are under progress
2	Karanja	Mar. 2000 Dec.2019	309.80	24,553	18,119	19,554 (79.64)	Ongoing
3	Varahi	Mar. 2011/ Mar. 2015	569.53	15,560	1,328	5,091 (32.72)	Ongoing
4	Hipparagi	Mar. 2011 Mar. 2014	1,499.67	74,742	59,307	74,742 (100.00)	Creation of Irrigation Potential completed. However, FIC works are under progress
5	Bhima LIS	Mar. 2012 Dec. 2019	487.20	24,292	6,004	23,633 (97.29)	Ongoing

Sl. No.	Project under AIBP	Original/ Revised date of completion	Latest expenditure (March2018)	Targeted Irrigation Potential (IP) under AIBP (ha.)	IP achieved under AIBP (ha.):		Status (March 2018)
					As of March 2013	As of March 2018 (per cent of achievement to total IP)	
Name of Projects under KNNL							
6	Upper Tunga	Mar. 2016/ Mar. 2017	829.35	25,449[106]	Nil	17,254 (67.79)	Ongoing
	Total			**2,08,810**	**1,28,972**	**1,84,488**	
Name of Projects under KBJNL							
7	Narayana-pura Left Bank Canal	Dec. 2016 Dec. 2019	1,826.56	1,05,000	Nil	1,01,343 (96.52)	Ongoing
	Total		**6,695.49**	**3,13,810**	**1,28,972**	**2,85,831**	

* The figures indicated are Irrigation Potential upto distributary/lateral level (Dry potential). Details of the extent of the creation of Field Irrigation Channels (Wet potential) have been dealt with separately in Paragraph 5.1.15 *infra* of this Report.

It can be seen from the table above that as at the end of March 2018, only two projects were considered to be physically completed (dry irrigation potential), while five projects were ongoing and Irrigation Potential was yet to be created.

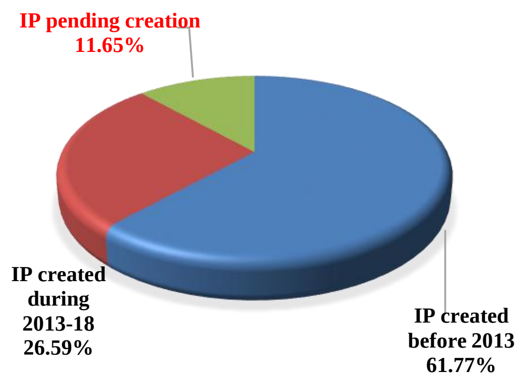
Further, though the two test-checked projects were stated to be physically completed, none of the seven test-checked projects had been completed in the true sense of the word as of March 2018 *i.e.* creation of dry Irrigation Potential as well as creation of wet Irrigation Potential with the creation of Field Irrigation Channels so as to provide water to the fields for utilisation of created Irrigation Potential.

Creation and Utilisation of Irrigation Potential

5.1.9.1. The total Irrigation Potential to be created under the seven test-checked projects was 3,13,810 ha. This included creation of 2,08,810 ha. of fresh Irrigation Potential (new canal network) in six projects and to provide water to 1,05,000 ha of *suffering achkat*[107] by undertaking modernisation work (Extension, Renovation and Modernisation-ERM) of existing canal network of one project *viz*., Narayanapura Left Bank Canal.

Out of a total of 2,08,810 ha. of Irrigation Potential to be created, 1,28,972 ha. had been created prior to 2013. Of the remaining Irrigation Potential of 79,838 ha., to be created (during 2013-18), the companies could create only 55,516 ha. (70 *per cent*) during 2013-18. As at end of March 2018, balance Irrigation Potential of 24,322 ha., was pending creation, even after lapse of two to eighteen years from their

Chart No. 5.1:Achievement of Irrigation potential(IP)



[106] In addition, 15,613 ha. of pending FIC of earlier portion of the project was also covered under AIBP.

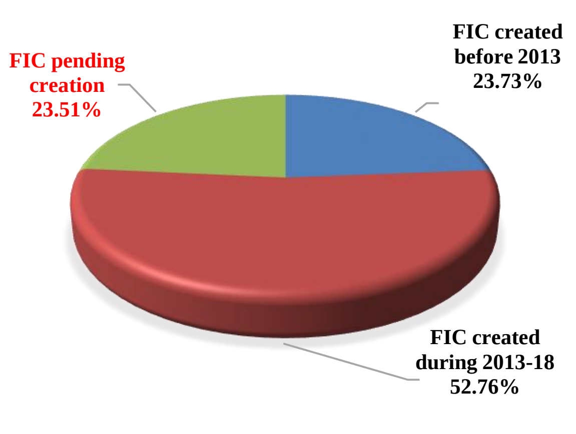
[107] *Suffering achkat* is area for which adequate quantity of water is not being received.

original scheduled dates of completion.

Further, in respect of the ERM-Narayanapura Left Bank Canal Project, canal network for providing water to 3,657 ha. (3 *per cent*) of *suffering achkat* had not been created (March 2018), even though its original scheduled date of completion (December 2016) was over.

5.1.9.2. One of the objectives of the Scheme is to ensure simultaneous implementation of Field Irrigation Channels (FICs) for utilisation of the created Irrigation Potential (dry), so that water was provided for irrigation.

Chart No. 5.2: Achievement of FICs



Out of a total of 2,24,423 ha of FICs to be created under six[108] of the seven test checked projects, FICs of 53,257 ha had been created before 2012-13. Out of the total 1,71,166 ha of FICs balance to be created during 2013-18, 1,18,412 ha. of FICs (70 *per cent*) were created during 2013-18.Audit observed that 52,754 ha. of FIC is pending creation (March 2018) in six projects (all by KNNL) over periods ranging from 2 to 18 years beyond the original due dates of completion committed in MoU/Form-C.

More importantly, FIC was not created for irrigating 28,432 ha.[109]of area in these projects even though Irrigation Potential had already been created[110]. The reasons for shortfall in creation of FICs are brought out in Paragraph 5.1.15 *infra*.

Audit analysed the factors which affected the Project implementation. The findings are given below.

Factors affecting the Project implementation

5.1.10. The State Government and implementing agencies (KNNL/KBJNL-companies) had made commitments to complete the projects within the time-frame in the Memorandum of Understanding and the Form-C *i.e.* a report containing the programme and progress of works, submitted every year to the Central Water Commission.

Audit analysed the preparedness of the companies in terms of including the works in the Annual Works Programme (AWP) in line with the commitments

[108] Excluding Narayanapura Left Bank Canal Project, an ERM work envisaged to provide water to *suffering achkat*, for which FICs were not envisaged.

[109] Malaprabha (2,810 ha.), Karanja (1,983 ha.), Varahi (2,019 ha.), Hipparagi (5,348 ha.), Bhima LIS (3,469 ha.) and Upper Tunga (12,803 ha.).

[110] 23,968 ha of Irrigation Potential network created prior to 2016-17 and 4,464 ha. Irrigation Potential created during 2017-18.

made to Central Water Commission and whether action was taken to prepare the estimates and award the tenders in a timely manner, after their inclusion in the Annual Works Programme. Further, audit analysed whether the companies had factored the inherent risks such as time taken for acquisition of land, obtaining forest clearance etc. for implementation of projects. Audit also analysed the works management system to ensure that decisions on scope and design changes encountered during implementation were handled timely and efficiently. Audit further analysed whether the works of Field Irrigation Channels were taken up simultaneously along with creation of Irrigation Potential.

The audit findings are given in the following paragraphs:

Preparedness of the companies to accomplish the commitment

5.1.11. As per AIBP Guidelines of 2006, the implementing agencies submit to the State Government every year, a Form-C containing the progress of work for the previous year and programme for the ensuing year, for onward transmission/approval of the CWC with a request to release the Central Assistance. The companies also prepare the Annual Works Programme (AWP)[111] for the works of the projects proposed to be implemented in the ensuing year.

Audit, however observed that the implementing agencies failed to include the works in the AWP in line with the commitments made for completion of the Project. This was noticed in Varahi Project. The details are given below:

5.1.11.1 The Varahi Project undertaken by KNNL was included under AIBP in 2007-08 with targeted Irrigation Potential of 15,560 ha.to be completed by March 2011, which was subsequently revised to March 2015. The GoI had already released almost its entire share of 25 *per cent* (₹ 99.63 crore) by 2013-14 as per the estimated cost (₹ 405.29 crore).

Despite availability of central assistance, the Company failed to include the works of construction of Varahi Right Bank Canal (VRBC-km.18.725 to km.42.73 km.) and Varahi Lift Irrigation Canal (VLIC-for 26.215 kms) in the Annual Works Programmes before March 2015.

Even as at March 2018, the works in VRBC and VLIC were not included in the Annual Works Programme.

In respect of another branch canal of the Project *viz*., VLBC (km.39 to km.43.69)[112], though the works were included prior to March 2015, the estimates were submitted only in February 2018 and are yet to be approved.

As a result of the above, the Irrigation Potential to the extent of 10,469 ha. is yet to be created.

[111] This varied from targets given in the Monthly Monitoring Reports.
[112] Works under this stretch were included in the AWP of 2013-14.

Audit analysis revealed that the delay in Irrigation Potential creation was mainly because KNNL failed to initiate the process of land acquisition required for these works (refer to Paragraph 5.1.13.2).

The Government informed (October 2018) that works of VLBC would be tendered shortly and were likely to be completed by 2019-20 and the works of the entire Varahi Project were likely to be completed by 2020-21.

The reply does not address the reasons for non-inclusion of the works of VRBC and VLIC in the Annual Works Programme till date (March 2018) when the completion date committed had been over long back (March 2015). Further, even as on date (March 2018), 10,469 ha. of the targetted Irrigation Potential of 15,560 ha., (representing 67 *per cent*), is pending completion, for which land acquisition proposals are yet to be sent, and hence, completion of the project by 2020-21 is highly doubtful.

Non-timely action to award the tenders

5.1.12. After inclusion of works in the AWP, it was important that the implementing agencies prepare the estimates, obtain technical approval for the work from the Technical Sub-committee (TSC) of the company, prepare Draft Tender Proposals and invite the tenders in a reasonable time so that the works are taken up for execution as planned.

Audit observed that even the works, which were included in the Annual Works Programme, were awarded in the succeeding years (up to two years), though there were no related land acquisition problems for these works. The delays were mainly due to delays in preparation and approval of estimates as there were no timelines fixed for different processes of approval and awarding the works. The audit findings in respect of the test-checked works/projects are given below.

Upper Tunga Project

5.1.12.1. The Upper Tunga Project (UTP), consists of km.0 to km.258 of the main canal and its distributaries. The Project was taken up under AIBP in 2014-15 with a project cost of ₹ 770.16 crore to create Irrigation Potential of 25,449 ha. and was to be completed by March 2016. It was, however, extended to March 2017 after the GoI had categorized (March 2016) the Project as ‘Priority Project-1’ under PMKSY and was to be completed by March 2017.

Though the works from km.231 to km.258 of the Project were included in the Annual Works Programme of 2014-15, the work of preparing the estimates and tendering for works from km.242 to km.258 was initiated only in 2017-18 for which no reasons were recorded. The works in the entire stretch (km.231 to km.258) are yet to be completed (March 2018). Delays in completion of the work resulted in non-creation of Irrigation Potential of 8,195 ha. Further, as at the end of March 2018, FIC works are pending completion for 20,998 ha.

The Government replied (October 2018) that works in all stretches were now awarded but was silent about the reasons for the delay and about taking corrective measures to avoid administrative delays.

The fact remained that the Company had tendered the works over many years even after including the work in the AWP of 2014-15 despite the fact that land was available.

Varahi Project

5.1.12.2. The work of construction of Varahi Left Bank Canal (earthwork excavation and Cement Concrete Lining) including structures from km.38 to km.43.69 was included in the Annual Works Programme of Varahi Project Division for the year 2013-14. However, no action was taken till September 2016 for this. In September 2016, the execution of the above works was shifted from Varahi Project Division-1 to Varahi Project Division-2.

Audit observed that the approval process for the cut-off statement and estimates was mired for almost a year in seeking and submitting clarifications between the Executive Engineer, Superintending Engineer, and the Chief Engineer and is yet to be approved (September 2018). The process of approval of the cut-off statement (which is a prelude to the preparation of estimate), which was initiated in July 2017 was finally approved in February 2018. The Executive Engineer thereafter prepared (February 2018) the estimates. But the estimates are yet to be approved (March 2018) as the CE informed (March 2018) that command area maps and additional information were not furnished, thereby delaying the technical sanction of the estimates. The CE asked (June 2018) M/s. Secon Private Limited, the agency, which performed the survey of the Varahi Project, for clarification for the difference between the originally contemplated potential (2,642 ha.) and the potential indicated in the estimates (900 ha.). The agency is yet to reply (June 2018).

Thus, tenders in respect of the works, which were included in the AWP of 2013-14 are yet to be finalised (June 2018) due to non-approval of estimates.

The Government replied (October 2018) that Varahi Project was planned to be executed in stages. The alignment from km.38 to km.43.69 was approved in 2003-04, but since then there were developments including need for additional structures. This resulted in change in extent of Irrigation Potential. The Government informed that the work would be taken up during 2018-19.

The fact remains that the Company's plan to tackle the project in stages was not in line with that of scheduled completion as per AIBP and this fact was not included in the Form-C. Further, the Company had ample time between the date of approval of alignment in 2003-04, inclusion of work in AWP in 2013-14 and preparation of cut-off statements in 2017, and during this entire period, the company had failed to reconcile the differences in *achkat* and consider the demand for additional structures. Failure to do so resulted in the delay in sanction of the estimate and consequent delay in creating Irrigation Potential of 2,642 ha. even as at end of September 2018.

Bhima LIS Project

5.1.12.3. The Bhima LIS Project, taken up in 2009-10, envisaged the creation of Irrigation Potential of 24,292 ha. under AIBP with an estimated cost of ₹ 379.70 crore. The Project, which was scheduled to be completed by March 2012, has been extended now to December 2019 after its inclusion under PMKSY. The Project involved the construction of a barrage with two lifts, *viz*. Balundagi and Allagi, with its canals.

On a test-check of 16 out of 61 works executed during 2013-18, it was noticed that in 11 works[113], the time taken from the tender notification to date of issue of Work Order ranged from seven to 33 months as against about five months' time[114] ideally. This delayed various works and affected providing irrigation facilities to 8,269.18 ha.

A case of deficiency in inviting tenders resulting in delay in creation of irrigation facility for 2,802 ha. (of the 8,269.18 ha.) in the project is given below:

The tender in respect of the work of the Distributary-15 of Balundagi Canal under Bhima LIS was invited (May 2011) before the estimate was prepared and Draft Tender Proposal (DTP) approved. The approval for the estimate of the work was given in August 2011 and for the Draft Tender Proposal in July 2012. In the meantime, extensions were given for the tender by issuing 14 corrigenda, the last one being issued in June 2012.

The tender was opened in August 2012. The Technical Sub-committee (TSC) approved the award of work in February 2013 with the condition to update the cost of the work. The cost was updated (April 2013) and thereafter submitted to the Board of Directors (BoD) who approved the award of work in August 2013. Finally, the Work Order was issued in February 2014, *i.e.* 18 months after the tenders were opened (August 2012). As per the Work Order, the work was to be completed by February 2015, but the same was completed in March 2016.

As a result of these delays, the works of FICs could not be taken up and completed. As at end of March 2018, the FIC works were under progress.

The Government while confirming (October 2018) the facts replied that corrigenda were necessitated as there were delays in submission of estimate by the consultants and calculation of kilometre rates for the distributary.

The fact was that the due process of tendering was not followed as the tenders was invited (May 2011) even before the estimate was finalised (July 2012), and thereafter there were delays in issue of work order after tenders were issued, all resulting in delay in completion of work and non-creation of irrigation facilities for 2,802 ha. as at end of March 2018.

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[113] Construction of distributaries in Balundagi, Allagi and Ghattarga Branch canals.

[114] Two months for opening of tenders after invitation of tender as per KTPP Act, and three months for evaluation, discussion and approval by Technical Sub-committee/ Board of Directors.

Narayanapura Left Bank Canal (NLBC) Project

5.1.12.4. NLBC, an Extension Renovation and Modernisation Project was included (2014-15) under AIBP to provide water to suffering achkat of 1,05,000 ha of land in drought prone districts in Northern Karnataka. The project was to be completed by December 2016. The Project was included under Priority Projects under PMKSY with revised date of completion as December 2019.

Audit test-checked eight works (out of total 16 works) of distributaries (including branch distributaries and laterals) in Jewargi Branch Canal and Mudbal Branch Canal of NLBC. It was observed that in respect of three of the eight works, even though short-term tenders were called (February 2015) citing urgency, it took 16 months to finalize the tenders for the work of distributaries for which reasons were not on record.

As a result, restoration of irrigation facilities in the *suffering achkat* of 8,239 ha. was delayed. Further, out of three works, two works were completed with a delay of 11 and 14 months and one work was under progress with a delay of 16 months even as late as March 2018.

The Government's reply (October 2018) confirmed the factual position that the tenders were invited in February 2015 and approved by BoD in May 2016, without providing any details for the delay.

Thus, the Companies did not gear up to complete the projects within the committed dates. As a result, these projects, which should have been completed within two to seven years, as per the deadlines committed under the Scheme, are still pending completion (March 2018).

Recommendation 1: Projects with specific commitments need to be given preference in the Annual Works Programme.

Recommendation 2: The Companies need to eliminate Technical / Administrative delays in finalising tenders so as to award the works included in the AWP in time.

Land Acquisition

5.1.13. The implementing agencies had to factor the inherent risks while executing the projects. The inherent risks such as delay in acquisition of land, forest clearance, farmers protest, *etc*. need to be factored in for deciding the completion schedule. Land acquisition is a time-consuming process. It is, therefore, imperative that the Companies, executing the work, submits the requirement of land well in time so as to ensure timely possession of land for execution of the projects. With effect from January 2014, land acquisition is governed by the Right to Fair Compensation & Transparency in Land Acquisition, Rehabilitation & Resettlement Act, 2013. It usually takes a minimum of three years to complete the land acquisition process.

5.1.13.1. The State Government/Implementing agencies committed to the scheduled completion date falling within three to five years [115] in the Memorandum of Understanding/Form-C.

Audit observed that in respect of four[116] of the seven test-checked projects, the original dates of completion of the projects ranged from March 2000 to March 2016. However, even as at end of March 2018, land acquisition was pending in Karanja (75 hectares), Varahi[117] (543 hectares), Bhima LIS (258 hectares) and Upper Tunga (218 hectares). Thus, the requisite land had not been acquired even after two to eighteen years after the scheduled completion dates of the project.

Illustrative cases where there were failures on the part of implementing agencies to submit proposals for land acquisition, failures to pay compensation and award of work before acquisition of land in violation of Extant Orders are given below.

Failure to submit proposals for land acquisition

5.1.13.2. In respect of one test-checked Project *viz*. Varahi, it was observed that the Project, committed to be completed by March 2011, was extended up to March 2015. However, even as at end of September2018, the Company (KNNL) had not taken action to submit proposals for land acquisition in respect of forest land (119 ha.), private land (174 ha.) and Government land (125 ha.) totaling 418 ha. for construction of canals[118].

The Government replied (October 2018) that proposals for release of forest land and private land (*Khata* land) were being prepared. The reply confirms the fact that the Company failed to factor the inherent risks of land acquisition even though it was known that the minimum time taken for land acquisition would be three years, and did not take timely action to acquire the land.

Non-payment of compensation

5.1.13.3. Audit observed non-payment of compensation for land acquisition in Malaprabha Project and non-payment of compensation for loss of trees and revenue loss in Varahi, which affected the progress of the works. The details are given below.

- **Malaprabha:** The work of construction of lateral of 13-R Sub-distributary of 57th Block under Malaprabha Right Bank Canal of the Project, was awarded in July 2007 at a cost of ₹ 0.97 crore, to be completed by September 2007.

[115] Malaprabha (five years), Karanja (two years), Varahi (four years), Hipparagi (three years), Bhima LIS (three years), Upper Tunga Project (two years) Narayanapura Left Bank Canal (three years).

[116] Irrigation potential in respect of two projects (Malaprabha and Hipparagi) were completed while land acquisition was not envisaged in Narayanapura Left Bank Canal, an ERM project.

[117] Position as at October 2018, based on information furnished by the Government.

[118] Varahi Right Bank Canal (km.18.419 to km.42.73), Varahi Left Bank Canal (km.30 to km.43.694) and Varahi Lift Irrigation Canal (km.0 to km.26.215).

The contractor did not take up the work as the farmers objected on account of non-receipt of compensation. The land compensation Award was issued in March 2010. The contractor stated (December 2014) that the farmers were not allowing him to execute the work as they had not yet received the compensation. The work was pending (March 2018). This resulted in not providing water to 1,177.36 ha. for more than 10 years.

The Government replied (October 2018) that work was delayed due to agitation by farmers and non-payment of land compensation. The reply does not specify the reasons for non-payment of compensation even after the compensation Award was issued.

- **Varahi:** The work of km.11 to km.12 of Distributory-16 of Varahi Left Bank Canal was awarded (October 2016) with scheduled date of completion as September 2017.

  The Karnataka Cashew Development Corporation (KCDC) claimed (April 2016) amount of ₹ 3 lakh as compensation for loss of trees and revenue loss in the work at km.11 to km.12. Though the Company acquired the land and paid compensation of ₹ 1.65 crore for land acquisition to Karnataka Cashew Development Corporation (KCDC), it had not paid compensation of ₹ 3 lakh for loss of trees and revenue loss claimed (April 2016) by KCDC. As a result, the trees could not be cut and the work was pending completion till date (June 2018) and the contractor had requested for extension of time up to May 2019.

  Hence, failure on the part of the Company in making payment towards compensation for loss of revenue to KCDC resulted in delay in completion of the work beyond 12 months (September 2017 to September 2018).

  The Government confirmed (October 2018) that the Chief Engineer had recommended (November 2017) for paying the compensation. The fact, however, remained that payment had not been made till date (March 2018).

Recommendation 3: The Company needs to take timely requisite action for land acquisition.

Works Management

5.1.14. The implementing agencies need to have an efficient works management system so that decisions on scope and design changes are handled timely and efficiently. Any delay would result in time overruns as well as cost overruns and more importantly, it would impact the realisation of the objectives for which the projects are included under AIBP. The deficiencies noticed in works management are given below.

Varahi

5.1.14.1. The work of creation of canal from km.29.901 to km.33 of Varahi Left Bank Canal was awarded (October 2016) to a contractor for ₹ 8.20 crore. The work was to be completed by October 2017.

A proposal for Extra Financial Implication (EFI) was submitted (October 2017) to TSC for additional quantities of Soft Rock and excavation in all kinds of soil. TSC remarked (November 2017) that directions had been issued in the past (in October 2006) to provide berm of three-metre width. Even though the estimates for the work were sanctioned in 2015-16, the width of the berm provided in the estimate was only one-metre. The TSC noted that bulk of the extra cost (excavation in soft rock/all kinds of soil due to this change in berm width) was due to the additional excavation, which would have been part of the estimate and not come as extra cost had the directions issued in October 2006 been considered while preparing the estimate.

The EE furnished (December 2017) compliance stating that due to oversight, a berm of one-metre width was provided in the estimate. The EFI for ₹ 3 crore was approved in March 2018.

Thus, preparation of incorrect estimates resulted in delay of five months for approval.

The Government replied (October 2018) that change in the berm width was not the reason for delay as this work was completed by the contractor. The reasons for delays were disputes regarding ownership of land for payment of compensation, deemed forest land and scarcity of sand for execution of the works.

The contention of the Government is not acceptable, as the contractor had attributed the EFI as a cause for the slow progress of work. The work, which was to be completed by October 2017, was not completed till June 2018 even after giving extension till May 2018.

Upper Tunga Project

5.1.14.2. The work of excavation and lining of main canal of the Upper Tunga Project from km.212 to km.217 was awarded (February 2013) to Amruta Constructions Private Limited for ₹ 14.63 crore with a stipulation to complete the work in 11 months (January 2014). The contractor executed work to an extent of ₹ 8.46 crore in all the reaches except km.212 to km.213.220.

The work from km.212 to km.213.220 was not tackled as the farmers demanded change in alignment in this reach and were requested to carry out the canal work as per the alignment originally surveyed. The alignment originally surveyed had been modified and approved at the time of sanction of the estimate to avoid the alignment running in deep cut areas and in the village limits of Somanakatte-Basavankatte.

In a meeting held in November 2015 with the landowners coming under both the old and new alignments, the landowners of the old alignment agreed to part with their lands. As this required fresh land acquisition, the contract was rescinded. The revised tender notification was issued (February 2017) for the balance work. The work was awarded in August 2017 to MVR Constructions for ₹ 10.23 crore. The work was completed in March 2018 creating an Irrigation Potential of 236 ha.

Thus, a work, which was to be completed by January 2014 was delayed for almost four years (2014 to 2018) due to a change in alignment from one that was surveyed initially.

The Government replied (October 2018) that the original approved alignment was modified at the time of estimate to avoid alignment running in deep cut village limits. The alignment could have proved expensive, and the safety of people and property was under threat. As the land owners of the revised alignment did not agree to part with their lands, the work was carried out as per the original alignment.

The fact remains that the Company took four years to decide about the change of alignment. The work was finally executed through the original alignment where farmers were willing to part with their land.

Bhima LIS

5.1.14.3. The work of construction of Allagi 'B' Main Canal from km.20 to km.35.70 with an Irrigation Potential of 1,973.31 ha. was awarded (April 2008) to a contractor for ₹ 8.09 crore to be completed by April 2009. The work was carried out between April 2009 and December 2013 in intermittent stretches due to objections from farmers who were insisting on construction of additional structures, such as cart-track crossing, cross-drainages, super-passages, *etc*. The total expenditure incurred (upto December 2013) on the work was ₹ 6.91 crore, and the balance work to be done was for ₹ 1.18 crore. The contractor expressed his helplessness in completion of the work due to financial burden and obstruction from farmers.

KNNL terminated (June 2017) the contract and invited fresh tenders for the balance work of ₹ 1.18 crore and awarded (August 2017) the same for ₹ 1.52 crore to another contractor. KNNL also invited (June 2017) fresh tenders for the work of additional structures and awarded (September 2017) at a cost of ₹ 2.95 crore to a third contractor. The works were completed in June 2018.

Thus, a work, which should have been completed by April 2009 was completed only in June 2018, as KNNL did not resolve the farmers' objections by providing additional structures. This resulted in Irrigation Potential not being available for an area of 1,973.31 ha[119] for eight years.

[119] As intermittent stretches were completed, the balance Irrigation Potential for the Project as a whole was stated as 659 ha.

The Government replied (October 2018) that the contractor was executing the work at old rates, and had the contractor been changed, the financial burden would have increased.

The fact remains that the contractor had been changed and the financial burden had also increased as the Company had delayed taking action to resolve the farmers demand by four years (2013 to 2017) resulting in consequential delay in creation of irrigation potential of 1,973.31 ha.

Malaprabha

5.1.14.4. The existing lining[120] between km.31 and km.32 of Malaprabha Left Bank Canal (MLBC) collapsed due to internal seepage of water. The Chief Engineer approved the estimate for the work of remodelling the same in March 2011 with M-20 grade concrete though the existing lining of the canal and bed was of M-15 grade. The tenders for the works were invited in January 2012.

After Technical and Financial evaluation (March 2012) by the Chief Engineer, it was put up to the Technical Sub-committee (TSC) for approval. The TSC, while evaluating (July 2012) the offers observed that the grade of concrete to be adopted for paver lining was M-15, whereas M-20 had been adopted in the work. The TSC, therefore, directed that the lining should be modified to M-15 grade for execution instead of M-20 grade. The cost of the lining (M-20) at ₹ 3.58 crore was the major portion of the component in the overall cost of work of ₹ 4.18 crore. Adopting M-15 grade of concrete instead of M-20 grade would result in reduction in cost.

The contractor did not agree (November 2012) to the modification and hence the tender was cancelled in January 2013. The works were re-tendered in January 2014 and awarded (May 2014) to a new contractor for ₹ 3.42 crore. The works were completed in June 2015.

Thus, wrong adoption of the grade of cement concrete while estimating the work resulted in cancellation of the tender and delay in award of work by almost two years (July 2012 to May 2014).

The Government replied (October 2018) that as the reaches were in deep-cut, it was not possible to use mechanical pavers. Hence, manual lining was adopted and revised estimate prepared by revising the grade of cement from M-20 to M-15.

The reply is silent on the failure to prepare the estimates considering the ground realities in the first place. The fact also remained that as the work was to be executed in an existing canal, which had been lined earlier with M-15 grade, M-15 grade had to be used and the reply of the Government that estimate was revised from M-20 to M-15 only confirms that the estimates were not prepared correctly in the initial stage by the Company.

[120] Canal lining is the process of reducing seepage loss of water by adding an impermeable layer, usually of cement.

Incidentally, it was noticed that the same mistake had happened in the preparation of estimates in two other packages covering the stretches km.22 to km.28.

5.1.14.5. The work of strengthening and improvement of Hunsikatti Aqueduct[121] at km.31.30 of Malaprabha Right Bank Canal (MRBC) was awarded (February 2011) to a contractor at ₹ 5.23 crore. The work was to be completed by May 2012. The work was to be done by dismantling the top slab by a conventional method using pneumatic breaker/jackhammers.

However, during execution, the consultant for the project opined (March 2012) that to avoid/minimise vibrations to the structure, it would be better to go in for a sophisticated technique using a diamond saw for removing the top slab 'part by part' by providing appropriate supports.

However, during a site visit in April 2013, the MD opined that cutting and removing the deck slab by sophisticated technique may involve risks and hence advised to dismantle the entire trough and submit a modified proposal. Under these circumstances, the contract was closed (October 2014) after incurring an expenditure of ₹ 2.72 crore, mainly for the work of construction of the causeway.

A proposal for construction of a new aqueduct running parallel to the existing one was prepared and submitted (November 2015) to the Chief Engineer.

Audit observed that no action was taken either on the proposal to construct a new aqueduct or modify the existing one based on the MD's direction for 15 months *i.e.* up to February 2017. It was only in February 2017, that the work of preparing the revised estimates (removing top slab of existing aqueduct) was awarded to an agency (EI Technologies Pvt. Ltd.) with a time limit of completion in four months. Though a follow-up letter was issued to the agency in October 2017 to submit the estimates at the earliest, the estimates are yet to be submitted (March 2018).

Thus, failure to finalise the method of strengthening of the aqueduct has delayed its completion. The completion of the aqueduct was important as 71,155 ha. of the land of the Project situated downstream of the aqueduct was not getting the adequate quantum of water for over six years (May 2012 to June 2018). The consequent effect of these failures was that as against the required discharge of 1,416 cusecs (capacity of the aqueduct to carry water), the water flowing in the aqueduct was about 700 cusecs.

The Government replied (October 2018) that financial provision for the work was made in the budget of 2016-17. The revised estimate was submitted in July 2018 and approval was expected shortly.

The reply is, however, silent as to why the work, which was closed in October 2014, is yet to be taken up even after a lapse of four years (October 2018),

[121] A bridge like structure to convey water across gaps such as valleys.

particularly where financial provision of the work had already been made in the budget of 2016-17.

Thus, poor works management system to handle the scope and design changes in a timely and efficient manner led to delay in completion of works.

Non-synchronisation of works of Field Irrigation Channels

5.1.15. The Field Irrigation Channels (FICs) provide the final link to supply water to the agriculture fields through canals and distributaries. Unless the FICs are completed, the ultimate Irrigation Potential cannot be utilised.

Simultaneous implementation of works of Field Irrigation Channels is essential for the utilization of Irrigation Potential. As per the MoU signed between the State and the Central Government, the works for creation of FIC should have been taken up simultaneously and completed in the year after the completion of the Irrigation Potential. The creation of FICs was the responsibility of the implementing agencies upto 2014-15. However, this was transferred/jointly done with the Command Area Development Authority (CADA)[122] from 2015-16 onwards.

Audit observed that KNNL had not planned for the creation of FICs to the full extent of Irrigation Potential that had been created up to the end of the preceding year (refer Column 6, 8 of **Appendix-11**). As a result, as at end of March 2018, FICs of 28,432 ha. had not been created for which dry Irrigation Potential had already been created. This included 23,968 ha. of FICs for the Irrigation Potential created prior to 2016-17 and 4,464 ha. created during 2017-18.

On further scrutiny to analyse the reasons for the non-achievement of FICs, Audit observed that there were deficiencies in the planning and execution of the works of creation of FICs in six test checked projects implemented by KNNL. Results of test-checked works revealed that there were failures by the Company to furnish estimates to CADA in Varahi Project, failure to invite tenders for FIC work in spite of completion of work of creation of Irrigation Potential and failure to study ground realities as farmers had already laid pipelines in lieu of FICs in Hipparagi Project, failure to identify land for FICs in Bhima LIS Project, failure to re-tender the works and handover the documents to newly formed divisions for taking up works in Malaprabha Project, failure to take action to expedite creation of FICs and address farmers concerns in Upper Tunga Project. These are detailed in **Appendix-12**.

Thus, due to non-synchronisation of creation of FICs with the work of creation of Irrigation Potential, the State lost out on the benefits of providing water to drought prone districts as the investments made on creation of dry irrigation potential could not be reaped pending completion of FICs.

As a result, as at end of March 2018, FICs of 28,432 ha. had not been created for which dry Irrigation Potential had already been created. This included

[122] CADA is an agency of the Government created to undertake works of development in the Command Area of the project including creation of FICs, reclamation, *etc*.

23,968 ha. of FICs for the Irrigation Potential created prior to 2016-17 and 4,464 ha. created during 2017-18.

The Government replied (October 2018) that in respect of Bhima Project, the works were delayed due to land compensation of distributary works, but the works have now been completed after convincing the farmers. In respect of the other Projects, the Government, without citing any specific reasons for the delay, replied (October 2018) that the works will be completed by March 2019.

Recommendation 4: The Companies/CADA need to include the full extent of dry Irrigation Potential already created in the previous year, while planning for creation of FICs and also take action to expedite their creation, so that FICs are created *pari passu* with the Irrigation Potential already created, and water can be supplied to the end users (farmers).

Central Funding

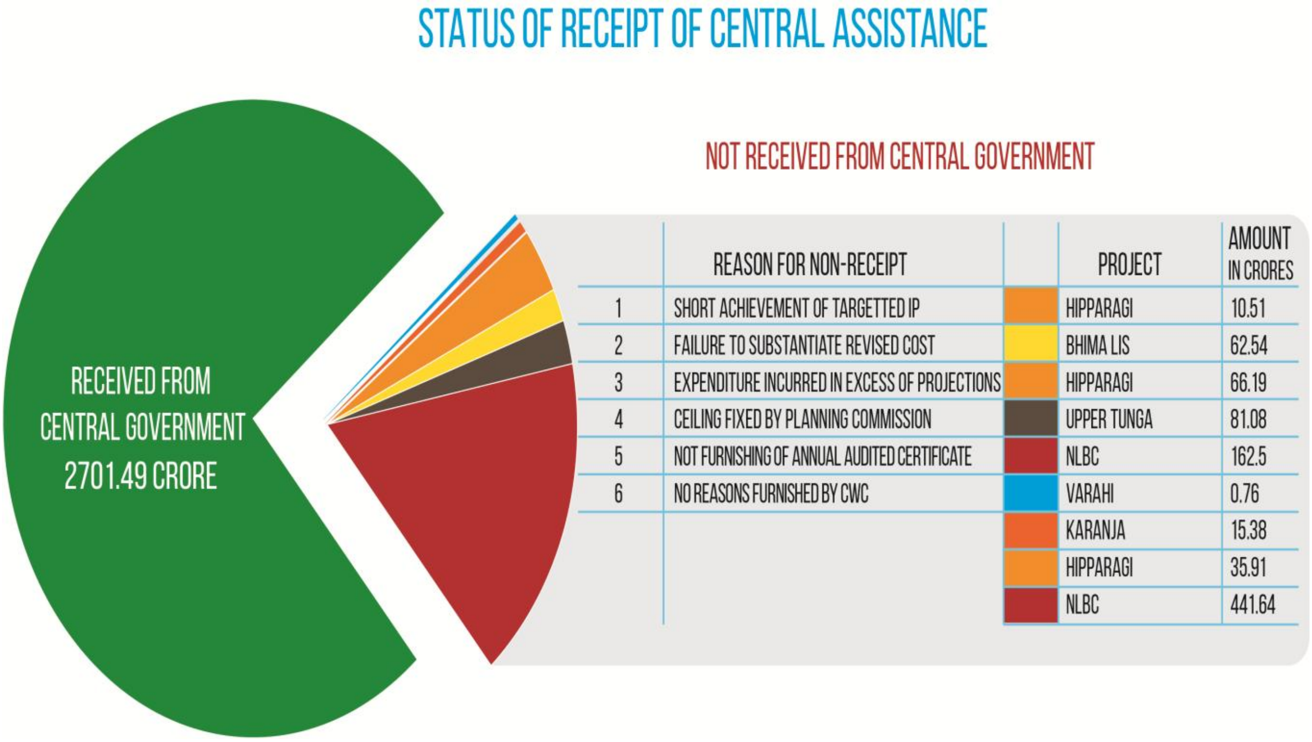
5.1.16. The percentage of Funding in the form of Central Assistance under AIBP ranged from 25-75 *per cent* of the works component of the project during the review period (2013-18) (Refer paragraph 5.1.1). As this quantum of Central Assistance, was in the form of grant (non-repayable) and formed a substantial component, it was imperative that the projects were completed as per MoU with GoI for availing maximum benefits under the scheme.

5.1.16.1. The implementing agencies were eligible for Central Assistance of ₹ 3,523.35 crore. However, Central Assistance of only ₹ 2,701.49 crore[123] was received (as of March 2018). This short receipt of ₹ 821.86 crore[124] was due to failure of the implementing agencies to achieve the annual targeted Irrigation Potential, adhere to the projected expenditure, furnish Annual Audited Certificates to the CWC /MoWR *etc*. Besides, this also includes ₹ 493.69 crore, which was not released by Central Government for which no reasons were cited. The short receipt represented 23.33 *per cent* of the eligible assistance as illustrated in the graph below.

[123] The project-wise details are given in **Appendix-10**.

[124] Net of ₹ 876.51 crore short received in six projects and ₹ 54.65 crore excess received in one project.

Chart No. 5.3: Status of receipt of Central Assistance



5.1.16.2 The project-wise reasons for the short receipt of Central Assistance are given below.

Table No.5.1.3: **Status of receipt of Central Assistance**

Project/Audit observation(s)	Reply of the Government and remarks
Narayanapura Left Bank Canal (KBJNL)	
KBJNL received ₹ 70 crore as against the eligible amount of ₹ 232.50 crore resulting in non-receipt of ₹ 162.50 crore due to non-submission of Annual Audit Certificate for the expenditure incurred for the period August 2014 to March 2015. The project was again included in 2015-16 under Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) and was eligible for CA at 60 *per cent* of the works' component of the project cost. During the period 2015-16 to 2017-18, KBJNL incurred an expenditure of ₹ 1,516.56 crore. The CWC did not release any CA during 2015-16 and 2016-17, but released ₹ 368.86 crore during 2017-18 against ₹ 810.50 crore resulting in short receipt of CA of ₹ 441.64 crore. CWC/MoWR had not cited any reasons for not releasing the CA totaling ₹ 604.14 crore[125].	The Government replied (October 2018) that after induction of the project under PMKSY Scheme, the CA admissible was revised. It was stated that so far, the State had received ₹ 438.86 crore (₹ 70 crore plus ₹ 368.86 crore) and a proposal was submitted for release of balance admissible CA of ₹ 571.66 crore, which was awaited. The reply is not acceptable as the Company had not furnished Annual Audited Certificate, as required under the guidelines. Moreover, as against the total eligible assistance of ₹ 604.14 crore receivable (after adjusting ₹ 438.86 crore), the Company had sought for release of only ₹ 571.66 crore, for which also there is no commitment from the Central Government.
Hipparagi (KNNL)	
During 2012-13, as against the projected expenditure of ₹ 123 crore the actual expenditure was ₹ 200.46 crore while the	The Government replied (October 2018) that shortfall of the previous year, spent in the next year, was not eligible for Central

[125] Refer to **Appendix-10** for details.

Project/Audit observation(s)	Reply of the Government and remarks
actual Irrigation Potential created was only 6,904 ha. as against the targeted Irrigation Potential of 12,000 ha. As reimbursement of CA under AIBP was based on projected expenditure and achievement of Irrigation Potential, the CA totaling ₹ 76.70 crore was not released.	Assistance. Only the expenditure incurred over and above the previous year's shortfall was eligible for receiving this CA in the next year. The reply is only a factual statement without justifying the reasons for short achievement of targeted Irrigation potential and projecting incorrect expenditure, as a result of which the State lost the Central Assistance.
Upper Tunga (UTP), Bhima LIS, and Karanja (KNNL) In respect of these projects, the CA actually received was ₹ 939.27 crore against eligible CA of ₹ 1,098.27 crore, resulting in short receipt of ₹ 159 crore. CWC/MoWR had not stated any reason for the short release of CA, except in respect of Bhima LIS Project where it was stated that the implementing agencies failed to substantiate the revised cost. The implementing agencies had not taken up the matter with MoWR for the release of CA for the projects.	In respect of UTP, the Government replied that the CA was not received due to the ceiling fixed by the Planning Commission. In respect of Bhima LIS project, the reply is silent on the reasons why the Company failed to substantiate the revised cost of the Project to the CWC and claim the Central Assistance.

Thus, the State Government, not only lost out on the funds in the nature of grants, but also took the burden of funding such expenditure, as the projects were executed either by way of grant from the State Government or by raising funds from external sources, which had an additional financial implication of ₹ 52.19 crore per year[126].

Recommendation 5: The Company/GoK should follow up for release of Central Assistance where they have adhered to the guidelines.

Monitoring

5.1.17. In the process of implementing the Projects, it is important to monitor and control the progress of project activities based on the objectives for which the project was established. AIBP guidelines provide a detailed framework for monitoring and evaluation of projects and schemes.

Audit scrutiny of the mechanism of monitoring of the scheme by the Top Management at various levels *i.e.*, by the Central Government, Company and State Government, revealed the following:

- *Central level*: The Central Water Commission (CWC), which was to visit the projects and submit Status Reports (once a year) made a total of 45 observations, during such visits in the selected seven projects. The implementing Agencies could comply with only 21 observations (as per independent audit verification) and the balance were not complied with. The CWC had, through their Monitoring Reports, pointed out the

[126] Considering the average rate of interest on Government borrowing for the years 2013-14 to 2017-18 at 6.35*per cent*.

important reasons affecting the completion of the projects *viz*. non-synchronisation of FIC works with main works (Malaprabha, Karanja, Varahi, UTP Projects), lack of coordination between KNNL and CADA (Karanja Project), non-acquisition of land (Varahi Project), poor achievement of the target (Varahi and Hipparagi Projects). In spite of these, the implementing agencies failed to take corrective action. KNNL did not furnish any compliance to the observations of CWC to Audit.

- *Company level*: Monitoring of works was done by the Chief Engineer (jurisdictional) concerned at the Zonal Level. The Management also submitted to the Government the Monthly Monitoring Reports containing the physical and financial achievements against the target set for the year, for various projects. The Management also submits Form-C containing the programme of works planned for the year and achieved for the previous year to the Government/CWC. Audit observed that there were variations in the targets of Irrigation Potential planned to be created during the year, among these reports (Form-C, Annual Works Programme and Monthly Monitoring Reports). This variation is indicated in **Appendix-13**. The top management, however, did not analyse them and give suitable directions for course correction.

- *State level*: A State Level Monitoring Committee was required to be formed for the concurrent evaluation of the project. However, the same has not been formed in Karnataka. The Government assured (October 2018) in the Exit Conference that it would form the State Level Monitoring Committee.

In the absence of formation of State Level Monitoring Committee, the inputs of the Committee on the concurrent evaluation of the Projects were absent. While there was monitoring at the Central level, the mechanism of providing compliance to their observations was not optimal.

Output and outcome of the AIBP

5.1.18. The outcome under the AIBP during the last five years (2013-18) was assessed during audit. During the period, the implementing agencies had to create fresh Irrigation Potential in six projects totalling to 79,838 ha. and FICs of 1,71,166 ha., and take up Extension, Renovation and Modernisation (ERM) work in one project to provide water to *suffering achkat* of 1,05,000 ha. An amount of ₹ 4,489.97 crore was spent on these seven test-checked projects during the five-year period (2013-18).

The implementing agencies (KNNL/KBJNL) created canals and distributaries capable of providing irrigation to 55,516 ha (70 *per cent*)., provided FICs for 1,18,412 ha. (70 *per cent*) and also completed ERM work to provide water to 1,01,343 ha (97 *per cent*) during the last five years[127]. These provided irrigation facilities in central and north Karnataka including parts of drought prone districts of Haveri, Davanagere, Gadag, Bidar, Belagavi, Bagalkot and Kalaburagi.

[127] Refer Table 5.1.2, **Appendices-9** and **11** for project wise/ year-wise details.

While the above facts were appreciable, it is equally important to mention that the State Government and the implementing agencies were not able to fully leverage the benefits of AIBP in terms of funding and were unable to fast-track the completion of the projects and realise the ultimate Irrigation Potential.

As at March 2018, 24,322 ha. of Irrigation Potential by construction of canal and distributaries, 52,754 ha. of FICs are pending creation. More importantly, FICs were not created for 28,432 ha. (52,754 ha. *minus* 24,322 ha.) even though the infrastructure of canal network had already been created in the earlier years. As a result of all these, parts of the drought-prone districts are yet to receive the irrigation facilities.

We conclude that the reasons for not fully leveraging the benefits in terms of funding were the failure by the implementing agencies to achieve the annual targeted Irrigation Potential, adhere to the projected expenditure and also furnish Annual Audited Certificates. As a result, the State Government, not only lost out on the central funds in the nature of grants, but also had to bear such deficit in funding by raising funds from external sources, for which the additional financial implication due to interest worked out to ₹ 52.19 crore per year.

We also conclude that the projects could not be fast-tracked owing to lack of preparedness by the implementing agencies to complete the works within the dates of completion committed to the Central Government. Primarily, the implementing agencies did not include the works in their Annual Works Programme in line with the commitments made to the Central Government. Thereafter at every stage there were omissions *viz*. delay in award of work, not having an efficient works management system for handling decisions on scope and design changes. The envisaged Field Irrigation Channels were not fully completed in any of the six test-checked projects even after a lapse of two to eighteen years, after their original scheduled dates of completion as there were lapses in planning and execution of the works in synchronisation with the Irrigation Potential already created.

There are 23 audit observations in this Performance Audit Report based on the test-checked projects/works, but similar errors/omissions may also exist in other projects/works being implemented by the Companies, but not covered in this audit. The implmenting agencies may, therefore, like to internally examine all such other projects/ works being executed by them with a view to ensuring that they are being carried out as per requirements and procedures.

Chapter - VI

Compliance Audit Observations on PSUs (other than Power Sector)

Chapter - VI

6. Compliance Audit Observations on PSUs (other than Power Sector)

Important findings emerging from audit that highlight deficiencies in planning, investment and activities of the Management in the State Government Companies and Statutory Corporations (other than Power Sector) are included in this Chapter. These include observations on unproductive investment, undue favours to contractors, avoidable/unfruitful expenditure, avoidable loss, irregular diversion of grants and cases where the intended objectives of the projects were not achieved.

Purchase and utilisation of land and buildings

6.1. Out of 16 PSUs and one Transport Corporation audited during 2017-18, four PSUs under the administrative control of the Department of Industries and Commerce and one Corporation under the Transport Department, Government of Karnataka have either purchased land for construction of buildings for administrative purposes or decided to lease out the existing premises to earn rental income. Audit scrutiny of these transactions related to the period 2011-12 to 2017-18 revealed certain systemic deficiencies and lapses in decision-making, *viz.* purchase of unsuitable land, construction of building without complying with the statutory laws, non-utilisation of building for the intended purpose, *etc* rendering the investment of ₹ 26.80 crore[128] unproductive/idle and loss of revenue to the tune of ₹ 5.73 crore[129] as discussed in *Paragraphs 6.1.1* to *6.1.5*.

Karnataka State Minerals Corporation Limited (Formerly known as Mysore Minerals Limited)

6.1.1. Blocking up of funds due to erroneous selection of land

The Company acquired land for construction of its Corporate office without verifying its suitability resulting in blocking up of funds of ₹ 16.32 crore.

The Karnataka State Minerals Corporation Limited (the Company) approached the Government of Karnataka (GoK) in October 2011 for sanction of land in Rajajinagar Industrial Suburb, Bengaluru belonging to the Public Works Department (PWD) for construction of its Corporate Office. GoK approved (November 2012), the sale of the land measuring 21,780 square feet. As per the Government Order (November 2012), the Company paid (January 2013) ₹ 15.86 crore, being the guidance value of the land, to the PWD.

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[128] Paragraph No. 6.1.1, 6.1.3, 6.1.4 and 6.1.5

[129] Paragraph No.6.1.2

While measuring the land in December 2013, the Company noticed the existence of a Storm Water Drain almost in the middle of the land, which would obstruct construction of the building. Hence, the Company requested (December 2013) PWD for diversion of the Storm Water Drain. Even before the PWD responded to the Company's request, the Company executed (June 2014) the sale deed with PWD registering the transfer of Title of the land to the Company. The expenditure incurred on registration and other charges amounted to ₹ 46 lakh[130].

With no action forthcoming from the PWD on the Company's request (December 2013) for diversion of the Storm Water Drain, the Company sought (October 2016) from the PWD, land equivalent to the area covered by the drain (including setback), behind the existing land, so that the building could be constructed as per rules. The PWD replied (November 2016) that there was no suitable land of equivalent area available with it in the area adjacent to the land allotted and being the owner of the site, the Company could approach the authorities concerned for remedy.

When the Company approached (April 2017) the Bruhat Bengaluru Mahanagara Palike (BBMP)[131], the BBMP directed (June 2017) the Company to approach the Government. The Company approached (July 2017) the Deputy Commissioner, Bengaluru North District, seeking approval for diversion of the Storm Water Drain, which is yet to be received (June 2018). The Company was also not able to get either an alternative land or refund from the PWD so far (June 2018).

Audit observed that the Company:

- Identified the land without examining its suitability for construction before submitting its request to the GoK for sanction / approval to purchase it; and

- Registered the land in June 2014 without resolving the issue of shifting the Storm Water Drain, despite knowing that it would obstruct the construction of the Corporate Office building.

As a result, in spite of paying ₹ 16.32 crore[132] towards purchase of land, the Company is unable to construct its own building on it till date (July 2018). In the interim period (June 2014 to July 2018), the Company paid ₹ 1.89 crore as rent for its Corporate Office.

The Government forwarded (November 2018) reply of the Company (August 2018) in which it was informed that the PWD had attempted (July 2015) to divert the Storm Water Drain, but the work was stopped after a complaint was filed with the Lokayuktha against the diversion.

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[130] Stamp duty for registration: ₹ 44.40 lakh and *Khatha* (title) charges: ₹ 0.89 lakh. In addition, the Company has paid property tax (for each year from 2014-15 to 2017-18) totalling ₹ 0.71 lakh during the course of time.

[131] The administrative body responsible for the civic and infrastructural assets of Bengaluru Metropolitan area.

[132] ₹ 15.86 crore for purchase of land *plus* ₹ 46 lakh for registration and other expenses.

The reply is silent on the reasons for failing to exercise rudimentary checks normally exercised by any buyer of land, before selecting and registering the land. Also, when the Company had sought (October/November 2016) administrative approval for construction of the building on the plot from its Administrative Department, *i.e.* the Commerce and Industries (C&I) Department, the C&I Department objected (August 2017) to the purchase of the site without verifying its physical condition, sought an explanation and instructed the Company to get alternative land or refund from the PWD. The Company did not get alternative land, nor received refund nor got approval for diversion of the Storm Water Drain (July 2018). The Company is also yet to submit the explanation/report sought by the Government (July 2018).

With no remedy in sight, the amount of ₹ 16.32 crore spent on the purchase of land remained unfruitful. The objective of having its own building for its Corporate Office remained unfulfilled and the Company continues to pay rent for the Corporate office (July 2018).

Mysore Sales International Limited

6.1.2. Loss of rental revenue

Cancellation of the lease agreement based on the decision of the Board of Directors of the Company without establishing that the Company's interest was seriously affected, resulted in loss of revenue of ₹ 5.73 crore.

The Board of Directors (BoD) of Mysore Sales International Limited (the Company) authorised (September 2012) the Managing Director to invite Expression of Interest (EoI) for leasing out the premises at Bangalore Air Cargo Complex (BACC), Bengaluru measuring about 89,888 square feet (sq. ft.).

The EoI was invited in October 2012 and in response, M/s. Pearl Port & Warehousing Private Limited (the Lessee) quoted rent of ₹ 7.75[133] lakh per month for the entire premises. After negotiations during December 2012, the rent agreed was ₹ 8.68 lakh per month with a 25 *per cent* increase every three years with the lease period being 15 years. These were approved by the Managing Director on the 27 December 2012. The GM (Paper & Legal), on behalf of the Company, entered into the lease agreement with the Lessee on 29 December 2012.

The subject matter was placed before the Board of Directors (BoD) of the Company (2 January 2013) mentioning the terms and conditions of the proposed lease. The Chairman of the Board of Directors (BoD), then desired to visit the BACC premises before taking a decision. After visiting the premises, the Chairman sent his report (31 January 2013) to the Managing Director. The Report *inter alia* stated that leasing out the premises for a long duration was not reasonable as the property was located in the heart of the city, and an agreement had already been entered with the Lessee on 29 December

[133] Different rates were quoted for old cargo building, import cargo building and other buildings.

2012 before it was brought to the notice of the Board on 2 January 2013. The Report of the Chairman was placed before the BoD in the next meeting (March 2013), where the subject of leasing out the premises was discussed and 'deferred'.

The BoD in the meeting held in October 2013 directed to cancel the agreement already signed with the Lessee, as the lease period of 15 years was considered to be very long. The Company terminated the agreement with the Lessee in October 2013. Aggrieved by this decision, the Lessee filed a Writ Petition before the Hon'ble High Court of Karnataka and obtained a stay order (November 2013), which restrained the Company from creating third party rights on the property. The BoD directed (June 2014) to lease out the premises to the Lessee at a revised rate of ₹ 13.07 lakh[134] per month. But the Company did not hold any negotiations.

The High Court disposed off (August 2016) the case directing the parties to settle the matter through arbitration. While the Arbitration proceedings were under way, the BoD resolved (February 2018) to enter into a mutual settlement with the Lessee citing financial burden due to non-utilisation of the premises. Accordingly, a Joint Memo was filed (March 2018) before the Arbitration Tribunal by both the parties (Company and Lessee) for settlement of the dispute wherein the Lessee agreed for rent of 10 *per cent* over and above the earlier agreed rates (*i.e.* ₹ 8.68 lakh) with other terms and conditions remaining unchanged.

The Company entered (March 2018) into a new lease agreement with the Lessee with similar terms and conditions of the earlier agreement (December 2012), entered more than five years ago.

Audit observed that:

- The Board had authorised the Managing Director to invite EoI in September 2012 at which point the lease period to be offered was not discussed. As per delegation of powers (1985), the MD had full powers for fixing rent though it is silent about the tenure. Therefore, the action of the BoD to cancel the agreement in October 2013, by reasoning that (i) it did not have the approval of the Board, (ii) lease period of 15 years was a long duration, was not in the best interest of the Company; and

- As per the initial agreement (December 2012), the Company would have been eligible for a 25 *per cent* increase in rent in three years' time (December 2015). Yet, after more than five years (March 2018), the BoD accepted a 10 *per cent* increase in rent over the rates agreed in 2012, with the lease period continuing to remain at 15 years. The decision to terminate the agreement of December 2012 was not in the interest of the Company, as the Company lost revenue for five years by that action. The

[134] Based on the valuation (May 2014) done by approved valuers.

loss of revenue for the period December 2012 to March 2018 was ₹ 5.73[135] crore.

The Government forwarded (January 2019) the reply of the Company and stated that the BoD did not approve the agreement entered by the Company and hence it was terminated. It was also stated that there was a stay by the High Court directing not to create any third party right and hence the premises could not be let out. The Company entered into agreement with M/s. Pearl Port & Warehousing Private Limited on 28 March 2018 after withdrawing the arbitration case through a joint memo filed before arbitrator. Further it was stated that increase in the rent at 10 *per cent* was fixed as per the terms and conditions laid down during arbitration.

The reply is silent as to (a) why an agreement was entered into before approval of Board, in case it was required, (b) the reasons for not negotiating with the Lessee as directed by BoD in June 2014, and (c) the need to re-enter into an agreement with the same lease period of 15 years, five years after its termination on grounds of the lease period being too long, without any material alteration of facts on the ground. (d) Fixation of rent with increase of 10 *per cent* was the outcome of unwarranted cancellation of initial agreement in October 2013, by which the Company lost the benefit of increase of rent by 25 *per cent* in three years' time.

Audit also observed a flaw in the lease rent fixed in the revised agreement entered in March 2018 by which the Company stood to lose revenue of ₹ 2.24 crore. After the Audit observation, the Company rectified the lease rent and entered in to an amended Lease Agreement in June 2018.

Karnataka Silk Industries Corporation Limited

6.1.3. Non-utilisation of building for the intended purpose

The Company failed to locate its modern showrooms, art gallery and showrooms of other leading State PSUs in the building constructed at a cost of ₹ 2.62 crore.

The Board of Directors of the Karnataka Silk Industries Corporation Limited (the Company) approved (June 2010) a proposal for construction of a Centenary Building (on its Silk Weaving Factory premises at Mysuru) as part of the celebration of the centenary year of its formation. As per the proposal, the Centenary Building was to house a large and modern showroom of the Company, an art gallery and cafeteria, apart from having provision for showrooms of other leading State Government Undertakings[136].

[135] Rent at ₹ 8.68 lakh per month for 36 months (excluding moratorium period of three months) from April 2013 to March 2016 *plus* Rent at ₹10.85 lakh per month for 24 months from April 2016 to March 2018.

[136] Karnataka Handicrafts Development Corporation Limited, Karnataka Soaps and Detergents Limited, Dr. Babu Jagjivan Ram Leather Industries Corporation Limited, *etc*.

The proposal was sent (June 2010) to the Government. The Government approved the construction of the Centenary Building in March 2011. Thereafter, the Company constructed (November 2013) the Centenary Building at a cost of ₹ 2.62 crore. The Government gave a grant of ₹ 2 crore while the remaining amount of ₹ 0.62 crore was borne by the Company. The Centenary Building was inaugurated in November 2013.

In the meeting held by the Board of Directors (BoD) in December 2013, it was noted that the proposal to shift the existing showroom to the Centenary Building was not advisable. The BoD also noted that the existing showroom, situated adjacent to the factory premises and located at the entrance of the main gate had established its own identity and reputation as a heritage building and tourist place. Any action to shift the showroom to the Centenary Building, located about 200 metres away from the factory, could result in drop in sales. The BoD, therefore, decided (December 2013) to rent out the Centenary Building without any effort to accommodate a modern showroom, an art gallery, *etc*. as envisaged in the proposal submitted to the Government.

The Company made an attempt (September 2014) to rent out its building to the Office of Commissioner of Central Excise, Customs and Service Tax (CCE), which did not materialise as the CCE backed out subsequently (February 2015). The Company did not make any efforts to let out the space in the Centenary Building thereafter.

The Government forwarded (February 2019) the reply of the Company stating that the building was presently utilised to stock raw material and finished goods and conduct trainings. It was also stated that the remaining vacant portion will be utilised for storage and other requirements after commencement of commercial production of second unit. Thus, there was no effort on the part of the Company to house a modern showroom, art gallery and showrooms of other leading PSUs in the Centenary Building, which was the express purpose for which it was constructed. The decision of the BoD (in December 2013) to rent out the Centenary Building has also not been implemented till date (October 2018).

Karnataka State Handicrafts Development Corporation Limited

6.1.4. Unproductive expenditure

Decision to take unsuitable land on lease resulted in the lease rent of ₹ 0.94 crore remaining unproductive, besides non-achievement of the objective of expanding the developmental activities of the Company.

The Karnataka State Handicrafts Development Corporation Limited (the Company) was established in 1964 with the main objective to preserve, develop and promote handicrafts.

The Company requested (July 2005) the Bangalore Development Authority[137] (BDA) for allotment of a suitable site to enable it to reach out to its customers in all parts of Bengaluru and also for establishing new showrooms in the BDA Layouts. The Company, identified a Civic Amenity[138] site (95 metres x 50.70 metres) at HSR Layout (BDA Layout) of Bengaluru. The site was suitable for establishing showroom, Office, Handicrafts Design Development Centre, Artisans Training Centre *etc*.

In response to its request, the BDA allotted (October 2006) the site at HSR Layout to the Company. But as the allotted site was subject to litigation (it was earmarked for a park), the Company requested (July 2008) the BDA to allot an alternative site in same layout.

The BDA allotted (November 2009) another site measuring 4,464 sq. mtrs at Banashankari, Bengaluru. The Board of Directors (BoD) of the Company in their meeting held in December 2009 noted that the site at Banashankari was in a low-lying area and its development would take some time, as it was a new Layout. Further, as it was located outside the city centre, it was not conducive for establishing a commercial complex for activities, like a showroom. The BoD, however, decided (December 2009) to take possession of the site allotted as it could be used for construction of a craft complex and training centre.

The Company entered (January 2011) into a lease agreement with the BDA, valid for a period of 30 years, with the upfront payment of the entire lease amount of ₹ 0.94 crore. The possession of the site was obtained in March 2011. The lease agreement stipulated that the Company was to start construction activities within six months and complete them within two years from the date of the lease agreement, failing which the lease would be cancelled.

Audit observed that after the possession of the site in March 2011, no action was initiated for construction of the craft complex and training centre from 2011 to 2015.

In February 2015, the then incumbent Managing Director (MD) informed the BDA that the site allotted at Banashankari was 20 kilometres away from the Corporate Office and would pose difficulties to artisans to commute and also sell their products. The MD, therefore, requested the BDA for allotment of an alternative site at other locations[139]. The BDA communicated (September 2015) that sites were not available in the areas sought for by the Company.

The BoD, though it discussed (March 2016) the subject, did not decide on the surrender of the site, but directed the Company to pursue with the BDA for alternative sites in other newly developed layouts. Meanwhile, the BDA issued a notice (June 2016) informing that there was a violation of the lease

[137] Civic Body entrusted with the task of development of Bengaluru City.

[138] Civic Amenity as per BDA Act, includes market, post office, hospital, recreation centres, police stations, centre for educational, religious or cultural activities *etc*., or such other amenity as Government may specify.

[139] Indiranagar, Chandra Layout, Jayanagar, Majestic and Other locations *en route* to the New International Airport.

agreement as construction was not undertaken on the allotted land. In response to the notice and based on the directions of the BoD, the Company approached (July 2016/March 2017) the BDA again for allotment of a new site. No allotment has been received till April 2018.

The Government furnished (September 2018) a reply reiterating the facts that the action initiated by the Company was in the best interest of the organisation if the new showroom at HSR Layout had materialised. But due to litigation and the subsequent allotment of alternative site in Banashankari by BDA, the Company was left with no other option but to request for allotment of another suitable commercially viable site.

The reply is not acceptable. The audit observation is on land at Banashankari, which was taken on lease in spite of its drawbacks. Since the land was not put to use, the payment of lease rent became unfruitful. It was not prudent to justify taking the land at Banashankari in December 2009 and deciding five years later (February 2015) that construction on the site would pose difficulties to artisans.

Thus, decision to take unsuitable land on lease resulted in the lease rent of ₹ 0.94 crore remaining unproductive, besides non-achievement of the objective of expanding the developmental activities of the Company such as construction of multi-craft complex and training centre for artisans.

Bangalore Metropolitan Transport Corporation

6.1.5. Utilisation of bus depot in violation of environmental norms

The Corporation constructed a bus depot at a cost of ₹ 6.92 crore and operated it in an ecologically sensitive area in violation of environmental laws.

The environmental laws on water and air stipulate that no person shall without the consent of the State Pollution Control Board:

- establish or take steps to establish any industry operation or process or any treatment and disposal system, which is likely to discharge sewage or trade effluent into a stream or well or on land - *Section 25 of the Water (Prevention and Control of Pollution) Act, 1974* (Water Act).

- establish and operate any industrial plant in an air pollution control area- *Section 21 of the Air (Prevention and Control of Pollution) Act, 1981* (Air Act).

The Bangalore Metropolitan Transport Corporation (the Corporation) purchased (January 2008) land measuring 13 acres and 4 guntas at Bangalore North Taluk, Dasanapura Hobli, from Government of Karnataka at a cost of ₹ 5.27 crore for the purposes of establishing bus depot/bus stand/workshop/ staff quarters. The Corporation constructed (March 2012) a bus depot (Depot

No. 40) on the land, at a cost of ₹ 6.64 crore[140] and began its operations from August 2012.

The Corporation applied (June 2013) for Consent For Operation under the Air Act for operation of Diesel Generator (DG) Set (62.5 kVA) in the depot, to the Karnataka State Pollution Control Board (KSPCB). The Officials of KSPCB carried out an inspection of the bus depot in July 2013.

After inspection, KSPCB issued (August 2013) a Show-Cause Notice for non-compliance of various provisions of the Air and Water Acts. The Show-Cause Notice stated that (a) the depot had applied for Consent For Operation only under the Air Act for the DG set directly, without obtaining prior Consent For Establishment, (b) the raw washing and oil bearing untreated effluents from the unit were discharged into the open drain thereby causing water pollution, (c) the DG set had not been provided with an acoustic enclosure and the Chimney did not have the required height, and (d) the general solid waste generated was thrown in the open area. It was stated that during the inspection, the depot authorities were directed to provide Sewage Treatment and Effluent Treatment Plants for treatment of sewage and bus washings respectively as early as possible. The Show-Cause Notice stipulated that the Corporation had to reply within seven days of issue, else, the unit would be recommended for Closure.

The Corporation did not reply to the Show-Cause Notice. KSPCB issued (September 2013) one more notice/opportunity, for which also, the Corporation did not furnish any reply. KSPCB, then called for a personal hearing of the Officials of the Corporation and during the hearing held on 27 December 2013, the Environmental Officer of KSPCB again brought to the notice of the Corporation that the unit did not take prior clearance or Consent For Operation, thereby violating the Air and Water Acts. The Environmental Officer also stated that the bus depot was located in Zone-4 of the Thippagondanahalli Reservoir Catchment Area (TGRCA) where only Green Category Industries were allowed. The activity of the Corporation was classified as Orange category and was prohibited under Zone-4 of TGRCA notification and that establishing and operating the unit in that Zone amounted to violation of the notification and the Air and Water Acts. KSPCB, therefore, directed (December 2013) the Corporation to shut down the washing facility immediately and refused (February 2014) to issue the Consent For Operation under Air Act sought for by the Corporation.

The Corporation meanwhile commissioned the Effluent Treatment Plant and developed (2014) greenery on the premises at a cost of ₹ 28.08 lakh.

The Corporation again filed (August 2015) an application for Consent For Operation under Water Act, 1974, but the KSPCB issued (March 2016) Refusal Order to the consent sought under Water Act also, as the bus depot fell under Zone-4 of the TGRCA notification.

[140] ₹ 3.75 crore towards construction of depot and ₹ 2.89 crore towards concreting the parking area.

The Corporation informed (May 2016) the KSPCB that it had taken action to develop greenery in the premises, set up Sewage Treatment and Effluent Treatment Plants, provided enclosures for DG set and increased the height of the Chimney. The KSPCB, however, reiterated (July 2016) that the request for consent was not considered based on the TGRCA notification.

Audit observed (June 2018) that Corporation had failed to:

- verify the fact that the site for depot fell under the TGRCA notified area;
- take prior permission of KSPCB before construction of depot (Consent For Establishment) and also Consent For Operation as required under Section 25 of the Water Act and Section 21 of the Air Act; and
- close down the operations of the depot till date (August 2018) in spite of KSPCB's Refusal Order.

The Government forwarded (December 2018) the reply of the Corporation, in which it was stated that the official memorandum dated 18 January 2018 of the Deputy Commissioner, Bangalore District stipulated that the land allotted has to be utilised for the purpose of providing transportation facilities within two years from the date of allotment. Accordingly, the Corporation established a Depot at the allotted land. It was also stated that the Corporation would approach the Government for granting special permission to retain the depot in the present place as it will cause public inconvenience and loss to the Corporation.

The reply is not acceptable as the conditions for allotment of land stipulated that no activity, which is dangerous and cause permanent harm to the land, shall be undertaken. The conditions for allotment of land also stipulated that the allotment will be revoked for violating any statutes or terms of allotment.

The Corporation, however, constructed depot without prior consent of KSPCB in the area notified by TGRCA where only green category of industries is allowed. This was in violation of Section 25 of the Water Act and Section 21 of the Air Act. As such, utilisation of land was in violation of conditions of allotment.

Thus, the act of the Corporation to construct the bus depot in an ecologically sensitive area (TGRCA) without obtaining prior approval of KSPCB, and continuing the operation despite directions of KSPCB for closure, proves that its actions are not in line with its Vision/ Mission Statement that it adopts environment-friendly sustainable policies and practices.

Receipt and utilisation of grants

6.2. PSUs received grants from the Government of India and the Government of Karnataka for specific purposes and these grants were to be utilised in accordance with the underlying conditions sanctioning the grants. Audit noticed certain violations of conditions in three out of seven PSUs audited, which had received grants during 2013-14 to 2017-18. One PSU did not utilise grants to the extent of ₹ 11.90 crore defeating the very purpose of sanction and two PSUs utilised grants of ₹ 2.55 crore in violation of conditions for sanction. Audit findings are detailed in *Paragraphs 6.2.1* to *6.2.3*.

Jungle Lodges and Resorts Limited

6.2.1. Non-utilisation of grants

Non-utilisation of grants of ₹ 11.90 crore resulted in non-achievement of the envisaged objectives.

The Jungle Lodges and Resorts Limited (the Company) receives grants from the Department of Tourism, Government of Karnataka (GoK) and Ministry of Tourism, Government of India (GoI) in pursuance of its main objective of promoting wildlife tourism. In addition, it generates revenue through its own Eco-tourism projects. The GoK vide Circular instructions (January 2009) stipulated that funds were to be drawn based on need and the Companies should abstain from keeping the amount in bank accounts.

The Company had an unspent grant of ₹ 31.30 crore (GoK - ₹ 17.15 crore and GoI - ₹ 14.15 crore) as on 1 April 2013 and received ₹ 32.32 crore[141] as grants during the period 2013-14 to 2017-18. Of these amounts, it utilised an amount of ₹ 28.55 crore during 2013-14 to 2017-18, leaving ₹ 35.07 crore[142] of unspent grants as on 31 March 2018.

Audit analysed the Projects where the unutilised grants was more than 80 *per cent* of the sanctioned amount. The details of these Projects and their status, as of September 2018, are given in the following table. It can be observed that funds amounting to ₹ 11.90 crore[143], in respect of four projects, funded by GoK, and two projects funded by GoI, remained unutilised.

Table No. 6.2.1.1: Statement showing the details of projects and their status

Sl. No.	Project and details in brief	Status of the Project (as of September 2018)	Amount unutilised (₹ in crore)
Grants received from Government of Karnataka (GoK)			
1	The GoK released (2009-11) ₹ 9.50 crore for Project on Night Safari at Bannerghatta. The project was shelved due to opposition from public, filing of Public Interest Litigation in the Hon'ble Supreme Court and not ensuring financial viability. At the request (April 2015) of		

[141] ₹ 30.22 crore from GoK and ₹ 2.10 crore from GoI.
[142] ₹ 31.80 crore from GoK and ₹ 3.27 crore from GoI.
[143] GoK grants of ₹ 9.95 crore *plus* GoI grants of ₹ 1.95 crore.

Sl. No.	Project and details in brief	Status of the Project (as of September 2018)	Amount unutilised (₹ in crore)
	the Company, the Government approved (September 2017) taking up the following projects using the unutilised grants of ₹ 8.70 crore for the other projects. • Jungle Camps and Trails	 • Out of ₹ 2.75 crore allocated (September 2017) towards Jungle Camps and Trails at four locations[144], only ₹ 61.50 lakh was spent towards the project so far (September 2018). The Company had no Plans for utilisation of balance amount.	 4.02[145]
	• Tourist amenities at Bandipur Safari Resort	• Out of ₹ 2.35 crore allocated (September 2017) for providing sewerage treatment plant, staff quarters, vehicle parking sheds and other tourist amenities at Bandipur Safari Resort, only ₹ 46.31 lakh had been utilised upto September 2018 and no reasons were recorded for not completing the work.	
2	*SCP/TSP grants:* GoK released (March 2013) an amount of ₹ 2.75 crore for facilitating employment opportunities to members of the Scheduled Caste/ Scheduled Tribe[146] through procurement of rafts/ vehicles, which would be used to impart training to beneficiaries in adventure tourism and water sports. As the sports locations were in forest areas, individuals were not permitted to operate adventure sports facilities.	• The grant was parked in Fixed Deposits. The Company decided (July 2017) to refund the grants (₹ 2.75 crore) along with interest earned, totalling to ₹ 3.40 crore, to the GoK. But, the same is yet to be refunded till date (September 2018).	3.40
3	*Moulangi Project:* GoK released (October 2017) amount of ₹ 1.50 crore to the Company for releasing to M/s. Roland S Fernandez, Contractor, based on progress	• The Principal Designer of the Project informed (April 2018) that there was no major progress in the civil works as compared to his last visit	1.50

[144] Sakrebailu, Bhagavathi, Sithanadi and Anezari areas.

[145] ₹ 2.13 crore + ₹ 1.89 crore.

[146] Reference is invited to Paragraph 2.1.11.3 of the Audit Report on Economic Sector, Government of Karnataka for the year ended March 2015, wherein the non-utilisation of funds of ₹ 2.75 crore was highlighted.

Sl. No.	Project and details in brief	Status of the Project (as of September 2018)	Amount unutilised (₹ in crore)
	of work of Moulangi Eco-tourism project.	during January 2018. The Company parked the funds (₹ 1.50 crore) in Fixed Deposits since May 2018. The Company replied (September 2018) that it was acting only as a co-coordinator for implementation of the Project with Forest Department and for releasing payments to the contractor as per the recommendations of the Principal Designer of the Project.	
4	*Turahalli Mini Forest for Eco-tourism development:* GoK released (January 2015) an amount of ₹ 1 crore for construction of compound wall of 3 kms and Company transferred (March 2015) the amount to Karnataka Eco-tourism Development Board (KEDB).	• The work was not taken up as boundary demarcation was held up due to litigation. Though the Karnataka Eco-tourism Development Board had refunded (March 2017) the amount to the Company with interest of ₹ 3.03 lakh, the amount was not refunded to GoK (June 2018).	1.03
Grants from Government of India (GoI)			
5	*Development of Eco-tourism Resort at Honnavar (Apsarakonda Project)* GoK released (February 2016) amount of ₹ 1.10 crore as against the release (February 2014) of Rupees one crore by GoI. The proposal involved work of constructing four log huts, dining hall, kitchen, overhead tank including electrification works.	• The work could not be taken up as the area fell under Coastal Regulatory Zone and was not found to be feasible (October 2016). • The Company requested (December 2016) GoK for approval to change the location to Hadeen Eco-Beach, Bhatkal. Due to non-receipt of GoK approval, a revised proposal was submitted (February 2018) for renovation and upgradation of Yathrinivas at Sadhashivgad Fort, Karwar. The approval of GoK is awaited (September 2018). The Company had parked the funds in Fixed Deposits up to May 2016 and thereafter it was credited to current account of the Company.	1.10

Sl. No.	Project and details in brief	Status of the Project (as of September 2018)	Amount unutilised (₹ in crore)
6	*Development of Eco-tourism in the Northern Circuit (Bhadra Phase-2)*: GoI released (February 2014) an amount of Rupees one crore to GoK who in turn released it (November 2015) to Company for the work of Sewerage Treatment Plant at River Tern Lodge and Solar plants at four locations[147].	• The Company incurred expenditure of only ₹ 15 lakh for implementing Solar plants at two locations and the balance amount remained unutilised (June 2018). The amount released was parked in Fixed Deposits.	0.85

The Government forwarded (December 2018) the reply of the Company (September 2018) in which it had furnished the latest position of the Projects, but did not provide any reason for non-utilisation of grants and for keeping the funds in Fixed Deposits.

Thus, neither the Company had taken any action to utilise the grants fully, nor was the Department of Tourism monitoring the utilisation of grants, resulting in non-utilisation of the grants amounting to ₹ 11.90 crore, defeating the purpose for which they were sanctioned.

Karnataka State Coir Development Corporation Limited

6.2.2. Irregular diversion of Government Grants

Diversion of grants for Market Development Assistance for purposes not envisaged under the Scheme and submission of irregular Utilisation Certificates.

The Karnataka State Coir Development Corporation Limited (the Company) is engaged in the production and sale of coir products. One of the Schemes under which the Company received funds was Market Development Assistance (MDA) Scheme, funded by State and Central Governments. The objective of the MDA Scheme was to promote sale of coir and coir products thereby encouraging sustained production and better employment opportunities and also undertake market development activities.

As per the MDA Scheme guidelines, the funds provided were to be utilised for the purposes of publicity, opening of new showrooms/sales outlets, market study, godowns, innovative marketing strategies including payment of discounts and also setting up of market intelligence network/upgradation of design facilities like installation of computer-aided design centre, engagement of qualified designers, introduction of e-commerce facilities, computerization of showrooms, *etc*.

[147] Pilikula, Bidar, Hampi and Devabagh units.

The details of funds received under MDA Scheme and Utilisation Certificates (UC) furnished during the period 2013-14 to 2017-18 are as under:

Table No. 6.2.2.1: Details of funds received and UCs furnished

(₹ in crore)

Sl. No.	Year	Government of Karnataka	Government of India	Total funds received	Amount for which Utilisation Certificate furnished
1	2013-14	0.30	0.29	0.59	0.59
2	2014-15	0.41	0.40	0.81	0.81
3	2015-16	0.96	0.80	1.76	1.76
4	2016-17	0.85	0.00	0.85	0.85
5	2017-18	0.49	0.00	0.49	0.33
	Total	**3.01**	**1.49**	**4.50**	**4.34**

Audit observed (March 2018) that:

- Out of ₹ 4.50 crore received during last five years, the Company diverted Scheme funds amounting to ₹ 1.60 crore for making payments to three vendors towards the purchase of raw materials for manufacturing coir products and towards transportation costs (*i.e.* to meet working capital requirements). The payments to the vendors were for the regular activities of the Company and not connected to the MDA Scheme. The details of payment are given in the following table:

Table No. 6.2.2.2: Details of payments made using MDA Scheme funds

Sl. No.	Vendor	Amount (₹ in crore)	Date of payment
1	Karnataka Coir Foam and Allied Industrial Corporation	1.00	May/June/August 2017
2	Durga Metal Industries	0.09	May 2017
3	Four S Coir Farm	0.51	May and August 2017
Total		**1.60**	

- As per the MDA Scheme guidelines, the Company had to submit Utilisation Certificates (UC) to the effect that the assistance received under the Scheme during the preceding year was utilised exclusively for the approved purposes. In spite of the diversion of funds of ₹ 1.60 crore for other purposes, the Company submitted UCs for ₹ 4.34 crore (refer to Table No. **6.2.2.1** above) by certifying that the assistance received was utilised for the purposes under the MDA Scheme.

In its reply (December 2018), the Government admitted to the diversion of funds for making payment to the suppliers and stated that the same was shown as utilised for the scheme in the utilisation certificate so as to receive pending share of State/Centre under MDA Scheme. It was also stated that the payment was made due to shortage of working capital and pressure from the suppliers for legal action against the Company. The Government further stated that the Scheme funds, which were temporarily utilised for suppliers' payment, will be recouped from the sales proceeds.

The reply is not acceptable as:

- The Company's financial position was affected mainly because of irregularity in procurement for which the Company alone was responsible. An amount of ₹ 2.99 crore, that was to be received by the Company, has been withheld by the Social Welfare Department on instructions (August 2015) of the Government due to irregularity in the procurement and supply of items by the Company to the Social Welfare Department. Moreover, the Company was also asked by the Government to withhold an amount of ₹ 2.17 crore due to the supplier (Karnataka Coir Foam and Allied Industrial Corporation) from whom the Company had sourced the material for execution of Social Welfare Department's order. Thus, the diversion of Government grants irregularly to remedy that, and to give Utilisation Certificate for the same, was improper.

- The diverted money has been used to pay off the debts of the suppliers, which were outstanding since March 2017 and in some cases even prior to that.

The fact remains that the Company diverted the grants totalling to ₹ 1.60 crore received under Market Development Assistance for purposes not envisaged under the Scheme.

Karnataka State Warehousing Corporation

6.2.3. Non-achievement of intended objective

Failure to implement the pilot project at Davanagere, even though funds of ₹ 94.50 lakh were released, resulted in non-achievement of intended objectives of online reservation of storage space at warehouses, issue of online electronic warehouse receipts and negotiable electronic warehouse receipts.

The Government of Karnataka notified (July 2010) the establishment of a 'Challenge Fund' of ₹ 10 crore for Organisations in the Government, which came out with innovative and cost effective projects, which could later be scaled up. An Empowered Committee would approve the expenditure required for the implementation of a pilot project[148] after scrutinising the proposals. The implementation of the pilot project was to be monitored by the Administrative Department concerned.

[148] Chaired by the Chief Secretary to the Government and included Additional Chief Secretary to Government, Department heads of Finance, Planning, e-Governance, DPAR-AR, ITBT and Development Commissioner to the Government.

The Karnataka State Warehousing Corporation (the Corporation) approached (December 2013) the Government of Karnataka for release of ₹ 5 crore from the Challenge Fund in order to undertake innovative methods of operation. The Corporation stated that it operated seven Regional Offices and warehouses at 130 locations and the funds were required in order to undertake online reservation of storage space, getting accreditation[149] for the warehouses, issue of online electronic warehouse receipt and negotiable electronic warehouse receipts, *etc*. apart from enabling the Management to review the reports at the Corporate Office on a daily basis.

In the meeting of the Empowered Committee (EC) held in December 2013, the Corporation submitted that in order to facilitate the farmers to avail loans for their produce, create awareness through the media and to avoid middlemen, action was to be taken to start the project initially at Davanagere (a Regional Office, with warehouses in 17 locations) for which the funds were requested under the Challenge Fund. The EC recommended (December 2013) to release funds of Rupees one crore for implementing the pilot project at Davanagere using software and hardware and to report the results within three months. The Government of Karnataka released (April 2014) an amount of ₹ 94.50 lakh under the Challenge Fund for the pilot project at Davanagere.

In June 2014, while discussing the need for computerisation of the activities of the Corporation, the Board of Directors (BoD) were informed that action was taken for calling tenders for providing hardware and software required for the Corporate Office, Regional Offices and the warehouses at an approximate cost of ₹ 3.50 crore (Hardware: ₹ 1.50 crore; Software: ₹ 2 crore). The funding was proposed to be met from funds received from the Challenge Fund (₹ 94.50 lakh) and the remaining from internal resources. The BoD authorised (June 2014) the Managing Director of the Corporation to computerise the activities of the Corporation by utilising the funds provided under the Challenge Fund. In the meeting, the BoD were not informed nor did they discuss about the need for setting up a pilot project at Davanagere with the funds received under the Challenge Fund.

The Corporation invited tenders for supply of Hardware in June 2014 and software in September 2014. The Corporation procured (October/ November 2014) a total of 77 desktop computers, 119 printers and 80 Uninterrupted Power Supply (UPS), which were then distributed to its Regional Offices and warehouses. Of these, 20 desktops, 18 printers and 19 UPSs were allocated to Davanagere Regional Office and warehouses under it.

The work of software development was entrusted to three agencies. It was seen that the software development did not progress, as M/s. IT Catalyst, to whom the work of studying the work flow of the Corporation and preparing the software was entrusted, did not submit modified software incorporating changes. Further, the work of Document and Work Flow Management System, which was awarded to M/s. Newgen Software was not finalised due to

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[149] A Certificate of Accreditation are issued to warehouses registered with Warehousing Development Regulatory Authority enabling them to issue Negotiable Warehouse Receipts (NWR). The NWRs can be utilised by the farmers for availing loans.

frequent change[150] of the Managing Director of the Corporation. The digitalising of records undertaken by M/s. BaeHAL was complete to an extent of 70 *per cent* (September 2018) but could not be integrated as the work of Document and Work Flow Management System was not finalised.

Audit observed that instead of implementing a Pilot Project at Davanagere and then scaling it up for the entire Corporation, the Corporation went ahead with total computerisation of the Corporation and ended up procuring only hardware, without the software required for meeting the warehousing activities. The computers procured out of the Fund are being utilised as stand-alone systems only to send manually generated reports from/to the Corporate Office over email. As evidenced from the file notings on computerisation of activities, there was no mention about the requirement of setting up a pilot project for implementation in Davanagere. Further, though the pilot project was not taken up, the Corporation informed (April 2015/February 2018) the GoK that the funds released (₹ 94.50 lakh) under Challenge Fund were utilised for the intended purpose by furnishing details of procurement of computers, printers and UPS.

The Government replied (November 2018) that the project was partially implemented across the State including warehouses in Davanagere also. The Corporation attributed the non-completion of the project to the failure of the agencies to provide the software for warehousing activities.

The reply is not acceptable as the essence of the release of funds under the Challenge Fund was to implement an innovative measure in one pilot location, in this case at Davanagere, before scaling it up. By procuring computer hardware for the entire Corporation without requisite software for warehousing activities, the objective of release of funds under the Challenge Fund was defeated. The failure also resulted in non-achievement of the intended objectives of online reservation of storage space at warehouses, issue of online electronic warehouse receipts and negotiable electronic warehouse receipts besides foregoing further financial assistance under the Challenge Fund.

Avoidable Payment of penal interest

6.3. The compliance audit of 16 PSUs has been carried out during 2017-18, out of which 10 PSUs were profit-making and liable for payment of advance tax under the provisions of Income Tax Act, 1961 in the manner prescribed therein. Audit scrutiny of payment of advance tax in these profit-making PSUs with reference to the applicable provisions of the Income Tax Act revealed that PSUs paid penal interest to the Income Tax Department on account of failure to assess the profit realistically and consequential short payment of advance tax. Audit observed that penal interest paid on short payment of advance tax in nine PSUs was not significant, while one PSU paid penal interest of ₹ 1.19 crore over a period of four years 2013-14 to 2016-17 due to unrealistic approach in estimation of income which is discussed below.

[150] As informed (September 2018) by the Corporation.

Mysore Sales International Limited

Unrealistic approach in estimation of income for payment of advance income tax led to avoidable payment of penal interest amounting to ₹ 1.19 crore.

Mysore Sales International Limited (the Company) is engaged in the business of Chit Funds, Paper, Liquor and Tours & Travels (each being a separate Division of the Company). The Company is a profit making Company and hence, liable for payment of income tax under the Income Tax Act, 1961 (IT Act).

Section 208 of the IT Act made it obligatory on the part of an assessee to pay advance tax in every quarter (on or before specified due dates[151]) at prescribed rates. Further, Sections 234B[152] and 234C[153] of the IT Act stipulate levy of penal interest for default/shortfall/failure to pay the advance tax. It was therefore, imperative that the Company had a mechanism for proper estimation of its profit and made payment of income tax thereon.

On a scrutiny of the records of the Company, Audit observed (January 2018) that during the period 2013-14 to 2016-17 the Company worked out quarterly tax on the basis of the profit estimated from the targeted turnover and other expenses projected in the beginning of the year from its various Divisions. Tax on estimated profit is to be considered for the purpose of payment of the quarterly instalments of Advance tax.

The estimated profit, tax payable on the estimated profit and the actual tax paid for the four quarters during the four years ended 31 March 2017 are given in the following table:

Table No. 6.3.1: Statement showing estimated profit, advance tax payable, actual tax paid and shortfall/ excess of tax

(₹ in crore)

Sl. No.	Financial year	Estimated Profit				Estimated Advance Tax payable Actual advance tax paid				Short fall/ Excess (-) (Tax payable – tax paid)
		June	September	December	March	June	September	December	March	
		I	II	III	IV	I	II	III	IV	
1	2013-14	45.81	45.81	40.96	46.83	2.40 2.21	7.22 6.64	12.03 9.81	16.05 15.46	0.59
2	2014-15	49.13	45.23	45.23	48.08	3.04 2.49	9.12 6.89	15.21 11.51	20.27 17.61	2.66
3	2015-16	54.64	54.64	54.64	49.39	2.56 2.56	7.68 8.35	12.80 13.92	17.06 18.44	-1.38
4	2016-17	51.15	51.15	51.15	51.15	2.67 2.65	8.00 7.96	13.35 13.27	17.79 17.16	0.63

[151] 15 *per cent*, 45 *per cent*, 75 *per cent* and 100 *per cent* of advance tax payable by 15th June, 15th September, 15th December and 15th March, respectively.

[152] If advance tax paid was less than 90 *per cent* of the assessed tax, interest was payable at the rate of 1 *per cent* per month or part thereof on amount falling short of assessed tax.

[153] Interest at the rate of 1 *per cent* per month or part thereof on the amount short deposited against cumulative instalments of advance tax for the period of three months.

As observed from the Table above, except for the year 2015-16, the Company short remitted the advance tax payable in all the four quarters. Audit observed that the Company did not estimate the actual profit realistically, though it had revised the profit in some of the quarters.

As against the above estimation, the details of actual profit and the quarter wise tax to be paid as per the same for the four years ended 31 March 2017 are given in the following table:

Table No. 6.3.2: **Statement showing the difference between estimated profit and actual profit, shortfall/excess payment of tax**

(₹ in crore)

Sl. No.	Financial year	Estimated profit	Actual profit before tax	Tax to be paid based on actual profit				Difference between the Actual profit and the Estimated profit in March	Shortfall / excess (tax paid - tax payable as per actual profit)
				June	September	December	March		
1	2013-14	46.83	47.36	2.28	6.86	11.44	15.26	0.53	-0.20[154]
2	2014-15	48.08	55.53	2.82	8.48	14.14	18.85	7.45	1.24
3	2015-16	49.39	53.42	2.72	8.17	13.61	18.15	4.02	-0.29[155]
4	2016-17	51.15	56.78	2.94	8.84	14.73	19.65	5.63	2.49

During the financial year 2013-14, difference between the estimated profit and the actual profit was marginal. However, in the subsequent years, the variation in estimated profit from the actual profit was 15.50 *per cent* in 2014-15, 8.16 *per cent* in 2015-16 and 11 *per cent* in 2016-17.

The short payment[156] of the requisite advance tax as detailed above resulted in payment of penal interest of ₹ 119.32 lakh[157] under Sections 234B and 234C of the IT Act for the four years as detailed below:

Table No. 6.3.3: **Payment of penal interest**

Sl. No.	Financial Year	Under Section 234B	Under Section 234C	Total (₹)
1	2013-14	38,30,663	6,16,998	44,47,661
2	2014-15	24,54,490	23,12,348	47,66,838
3	2015-16	Nil	97,473	97,473
4	2016-17	13,03,465	13,16,510	26,19,975
Total				**1,19,31,947**

[154] There was shortfall in first three quarters. The profit was estimated more only in the last quarter.

[155] There was shortfall in the first quarter.

[156] Short Payment is the difference between Advance Payable under Section 234B and the Advance Tax paid. The Advance Tax paid is cumulative total of the quarterly payments upto 15th March *plus* advance tax paid after 15th March on self-assessment of tax by the Company.

[157] The penal interest considered is compiled from the Assessment Order of IT Department for the F.Y. 2013-14 and on the Income Tax Returns filed by the Company for the remaining F.Ys.

Audit further observed from a test-check[158] of nine performance reports for the years 2013-14 to 2016-17 that the Board reviewed only the sales performance and not the working results of the Company. The Company never reviewed the quarterly profitability and the adequacy of advance tax payment despite paying huge amount of interest as penalty for short payment of advance tax.

The current approach of the Company in estimation of taxable income by ignoring the working results resulted in avoidable expenditure of ₹ 119.32 lakh towards penal interest for short payment of advance income tax. The Company was a profit-making Company during the period 2013-17 and its financial and cash positions were healthy enough to make payments towards income tax.

The Government forwarded (January 2019) the reply of the Company and stated that the Company's sales fluctuated from season to season and based on the anticipated sales, the advance tax was calculated and paid. The reply also stated that income varied on account of unanticipated orders from the Government/PSUs/other organisations, Government Policy and disallowances of expenses by the Income Tax Department. The Company, however, assured that proper mechanism for estimation would be implemented to avoid penal interest.

The Company should endeavour to reduce the gap between the estimated profit and actual profit with robust management information system so as to avoid payment of penal interest.

PSU specific observations

6.4. Two PSUs, *viz.* Karnataka State Minerals Corporation Limited and The Mysore Paper Mills Limited are unique in terms of their nature of activities, the former carries-out the mining of minerals (iron ore, *etc.*), while the latter produces Writing, Printing and News Print Paper. The compliance audit of these two PSUs conducted during 2017-18 revealed certain lapses in management of their operations, which are discussed in *Paragraphs 6.4.1.*and *6.4.2*.

[158] Audit test checked nine periods (April 2013 to Nov 2013, April 2013 to January 2014, April 2014 to May 2014, April 2014 to July 2014, April 2015 to September 2015, April 2015 to December 2015, April 2016 to June 2016, April 2016 to September 2016, and April 2016 to December 2016, for which the Board had carried out the performance reviews.

Karnataka State Minerals Corporation Limited
(Formerly, Mysore Minerals Limited)

6.4.1. Excavation of minerals in contravention to the Act

The Company excavated minerals without obtaining prior approval of Government of India resulting in forfeiture of minerals valued ₹ 15.21 crore.

The Karnataka State Minerals Corporation Limited (the Company) was incorporated in 1966 with the objective of exploiting the available mineral resources in various regions of Karnataka. As at the end of September 2018, the Company had 80 Mining/Quarry leases for mining Iron Ore, Chromite, Limestone, Dolomite, Magnesite, China clay, Aluminous clay, Granite, *etc*. covering an area of 6,885.35 hectares. During the compliance audit of the operations of the Company, Audit observed certain non-compliances to the statutes, terms of contract agreements and other systemic lacunae, *viz*. award of contract in violation of KTPP Act, 1999, Non-recovery of environment protection fee, avoidable payment of dead rent, non-levy of penalty for short-production, non-obtaining of prior approval in violation of Mines and Minerals Act, 1957, *etc*. Amongst these observations, Audit noticed a significant lapse wherein the Company had foregone revenue of ₹ 15.21 crore due to non-adherence to the provisions of Mines and Minerals Act, 1957 as discussed *infra*.

As per Section 4 of the Mines and Minerals (Development and Regulation) Act, 1957 (the MMDR Act), no person can carry out any mining operations except in accordance with the terms and conditions of a mining lease. Section 5 (1) of the MMDR Act specifies that no mining lease for the minerals listed in the First Schedule[159] of the MMDR Act can be granted except with the prior approval of the Central Government. As per Rule 63 of the Mineral Concession Rules, 1960 (MCR), the application for prior approval has to be made to the Central Government (GoI) through the State Government (GoK).

The Company was mining Chromite ore over an area of 1,200 acres in the villages of Tagaduru and Chikkanahalli in Hassan District since December 1976, after obtaining approval (December 1977) from GoI. During the mining operations, the Company discovered[160] some other minerals such as Titaniferous Magnetite, Dunite, Serpentinite, Talc and Quartz in the leased area. Titaniferous Magnetite was listed under Part-B of the First Schedule of the MMDR Act as an Atomic Mineral.

The Company applied (November 1995) to the Department of Mines and Geology (DMG), Government of Karnataka (GoK) to grant a fresh mining

[159] The First Schedule contained three Parts; Part-A specified Hydrocarbons/Energy Minerals, Part-B specified Atomic Minerals and Part-C specified Metallic and Non-Metallic Minerals.

[160] The date of discovery of the associated minerals is not available.

lease for Chromite, Dunite, Serpentinite, Titonomagnetite[161], Quartz and Talc for a period of 20 years. The GoK approved the Lease to the Company in January 2005 for extracting Chromite, Dunite, Serpentinite, Titonomagnetite, Quartz and Talc all for a period of 20 years. The production and sale of minerals from the mine after obtaining the lease (2005-06) up to April 2017[162] are as given in the following table:

Table No. 6.4.1.1.: Statement showing production and sale of minerals from the mine

(in MTs)

Sl. No.	Mineral[163]	Opening balance	Production (2005-17)	Sales (2005-17)	Closing balance
1	Chromite	3,306	24,919[164]	8,576	19,649
2	Titaniferous Magnetite	13,338	1,03,138[165]	63,138	53,337

During January-February 2016, the Company invited tenders for the sale of Chromite and Titaniferous Magnetite. Based on the offers received, Letters of Intent were issued (February/March 2016) for sale of 29,000 MTs of Titaniferous Magnetite to Noor Enterprises at ₹ 862 per MT and 5,000 MTs of Titaniferous Magnetite at ₹ 822.52 per MT and 21 MTs of Chromite at ₹ 5,509.54 per MT to Balaji Enterprises.

The Company requested (April/May 2016) the DMG, GoK to issue Mineral Dispatch Permits (MDP)[166] to the buyers, so as to enable them to lift the minerals from the mine. The DMG, however, refused (July 2016) permission to lift the minerals stating that prior approval from the Government of India (GoI) was not obtained before grant of mining lease as required under Section 5(1) of the MMDR Act.

The DMG further stated that the issue was referred (April 2016) to the Commerce and Industries Department (Administrative head of DMG) and clarifications were sought for granting permits for sale of minerals when approval under Section 5 (1) had not been obtained. The DMG recommended (January 2017) to the Commerce and Industries Department for cancellation of the mining lease.

The Commerce and Industries Department, GoK ordered (April 2017) cancellation of the mining lease given to the Company as it was not in

[161] Titonomagnetite mentioned in the application form is synonymous with Titaniferous Magnetite.

[162] Mining Lease was cancelled in April 2017, for reasons given *infra*.

[163] Minerals, other than those given in the Table No. 6.4.1.1, specified in the lease, were not extracted.

[164] Produced in all the years (2005-17), but there were sales only during 2005-10.

[165] Production and sales during 2005-09 and production thereafter in 2015-17 with the balance lying in stock undisposed from 2009.

[166] MDP is a permit issued for transport of any mineral outside the mining lease area, as defined under Rule 3 of the Karnataka (Prevention of Illegal Mining, Transportation and Storage of Minerals), Rules, 2011.

accordance with the law and directed the Company to deposit the amount received so far for the auctioned minerals to the Government. Also, by the Order dated April 2017, the mined minerals, which were in stock[167], stood forfeited to the Government of Karnataka.

Audit observed that the Company did not seek prior approval of the GoI through the State Government as mandated under Rule 63 of the MCR when it had submitted the application to the State Government in November 1995. The Company also did not report the information pertaining to the discovery of atomic minerals during the course of the mining operations to the Director, Atomic Minerals Directorate for Exploration and Research, Hyderabad (AMDER) as required under Rule 66 of the MCR.

The Government forwarded (November 2018) the reply (August 2018) of the Company. It was replied that the DMG issued Mineral Dispatch Permits for dispatch of ore till 2016 for Titaniferous Magnetite mined. But, in April/May 2016, the DMG refused permission to lift the minerals stating that prior approval of GoI was not obtained. The reply further stated that Titaniferous Magnetite was included in the Order granting mining lease and also in the lease agreement (January 2005) and contended that loss on account of forfeiture of ore was not due to violation of any mining lease conditions of the part of the Company.

It is apparent from the reply that the Company had failed to inform about the discovery of atomic minerals during the course of mining operations to the Atomic Minerals Directorate for Exploration and Research (AMDER), even though it was a mandatory procedure under the statutes. The justification that it was sold in earlier years (2005-06 to 2008-09) was also not in order as the discovery should have been informed to AMDER as soon as the discovery was made. The Company had also failed to seek prior approval of GoI as mandated under Rule 63 of the MCR for mining the ore.

Thus, failure to seek prior approval of the GoI as per the MCR and failure to inform the discovery of the atomic mineral to AMDER resulted in cancellation of the mining lease and forfeiture of minerals valued ₹ 15.21 crore[168].

The Mysore Paper Mills Limited

6.4.2. Avoidable loss

Failure to take timely action to dispose of the excess raw material (Pulpwood) resulted in moisture losses and diminution in stock and consequent loss of ₹ 4.74 crore.

The Mysore Paper Mills Limited (the Company), a lone State PSU involved in manufacture of paper, was running a wood and agro based Paper Mill

[167] 19,649 MTs of Chromite and 53,337 MTs of Titaniferous Magnetite.

[168] 19,649 MTs of Chromite valued ₹ 5,509.54 per MT *plus* 53,337 MTs of Titaniferous Magnetite valued ₹ 822.52 per MT.

producing Writing, Printing and News Print Paper with an installed capacity of 300 Tons Per Day (TPD). The raw material for the Paper Mill, *viz*. Pulpwood from Acacia, Eucalyptus and Pine Wood trees was obtained from the captive plantations of the Company. The Compliance audit of the transactions of the Company, conducted during 2016-17, revealed that the Company incurred losses on account of sale of raw materials such as bagasse, imported hard wood and soft wood pulp, disposal of pulp wood, coal, *etc.* Audit noticed that, on account of failure to dispose the excess stock of raw material, the Company incurred an avoidable loss of ₹ 4.74 crore as discussed below.

The Central Pollution Control Board (CPCB), which inspected the Paper Mill in November 2013 and June 2014 found that the Unit was violating the prescribed emission standards[169], posing a potential threat to ambient water and air quality. The CPCB directed[170] (1 December 2014) the Company to close down all the manufacturing operations until the air pollution control system was upgraded. The operations of the Paper Mill were closed on 11 December 2014.

The Company filed (16 December 2014) an Appeal before the National Green Tribunal (NGT) challenging the directions of the CPCB and sought permission to resume the operations. The NGT permitted (May 2015) the Company to operate the Paper Mill up to December 2015, with a restricted production of 220 Tonnes Per Day (TPD).

In order to operate the Paper Mill, the Company required Pulpwood. The Company estimated (September 2015) the requirement of Pulpwood as 74,775 Metric Tonnes (MTs) and invited (September 2015) tenders for extraction from the captive plantations. The Orders were placed (October 2015) on various contractors for extraction of 45,845 MTs of Pulpwood and the contractors commenced supplies.

Meanwhile, on 20th November 2015, the Company stopped the production activities of the Paper Mill in compliance with the orders of the NGT. The stock of Pulpwood as at end of November 2015 was 12,103 MTs. On 4th December 2015, the stock of Pulpwood was 14,378 MTs and the Company, considering the need to maintain buffer stock of 20,000 MTs, instructed (December 2015) to extract only 5,622 MTs.

Though the Company placed orders for 45,845 MTs of Pulpwood, the Company decided (December 2015) to limit the extraction to 38,450 MTs in areas where works were in progress as the stoppage of extraction in partially extracted plantations could lead to theft, fire, *etc*. posing serious problems. Thereafter, the supplies continued and during the period December 2015 and June 2016, a total of 29,027 MTs of Pulpwood was received to stock. At the

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[169] The coal fired boiler of the Company recorded particulate matter emission of 3,107 mg/Nm^3 as against the norm of 150 mg/Nm^3.

[170] The initial Order of CPCB was in September 2014, against which the Company made a request (October 2014), but was not considered by CPCB.

end of June 2016, the Company had Pulpwood stock of 41,114 MTs (after adjusting for small usages).

Audit observed that there was prolonged indecisiveness on the part of the Management in taking action to dispose of the Pulpwood lying in stock.

The Additional Principal Chief Conservator of Forests (APCCF), who was also the Director (Forests) of the Company, while informing the Government in October 2016 and November 2016 that there was about 40,000 MTs of extracted Pulpwood available in the factory, alerted the Managing Director about the importance of immediate sale of stock or else, it could later be sold only as firewood and there would be loss to the Company. It was also seen in Audit that in an earlier BoD meeting held in August 2015, the BoD, approved to sell the surplus/buffer stock of Pulpwood. But when there was actual surplus stock after December 2015, action was not taken to dispose off the stock immediately.

On 25 January 2017, the Company[171] noted that the moisture content in the Pulpwood decreased from 45 *per cent* to about 20 *per cent*. As a result, the quantum of Pulpwood reduced from 41,114[172] MTs to 28,300[173] MTs.

The Company invited tenders for sale of Pulpwood in February 2017, but due to receipt of a single bid with a low price as compared to estimated costs, it cancelled the tenders and re-tendered in April 2017. Considering the rates offered, a Disposal Order was issued to M/s. Shree Rajarajeshwari & Company (SRC-bidder) in July 2017 for 27,000 MTs (quantity offered to be lifted by the highest bidder). The bidder lifted 8,000 MTs of pulpwood as of July 2018.

Considering the sale price offered by SRC for the entire 28,300 MTs, the loss due to depletion in the quantity of Pulpwood worked out to ₹ 4.74 crore[174].

The Government forwarded (July 2018) the reply of the Company, stating that the Government had leased forest land for plantation of pulpwood and it took substantial time to obtain permission for sale from the Forest Department. The reply further stated that in the normal course, the reduction in weight due to reduction in moisture would have been absorbed by the Company in the consumption. In view of shift in transaction from consumption to sale, the moisture loss is expressed as loss. Considering the value of stock as per books, there was a profit of ₹ 1.507 crore on the sale as against a loss of ₹ 4.74 crore indicated by audit.

[171] Assistant General Manager, Chemical Utility Section.

[172] Acacia – 30,699 MTs, Eucalyptus – 7,536 MTs and Pine – 2,869 MTs. There was a difference of 9 MTs in Eucalyptus stock, between reported figures and stock registers.

[173] Acacia – 21,100 MTs, Eucalyptus – 5,200 MTs and Pine – 2,000 MTs.

[174] Though the Bidder offered to purchase 27,000 MTs, the loss of ₹ 4.74 crore was worked out considering the entire quantity of 28,300 MTs.

The contention of the Company that there was a profit is not correct. For arriving at the profit of ₹ 1.507 crore, the Company considered value as per books for the reduced quantity (instead of the total quantity) and compared it with the offer of the bidder.

Thus, indecisiveness on the part of the Management to decide on the sale of Pulpwood for more than a year (up to January 2017) resulted in loss of ₹ 4.74 crore.

Bengaluru
The 14 NOV 2019

(ANUP FRANCIS DUNGDUNG)
Accountant General
Economic and Revenue Sector Audit
Karnataka

Countersigned

New Delhi
The 19th November, 2019

(RAJIV MEHRISHI)
Comptroller and Auditor General of India

Appendices

Appendix-1(a)

Statement showing position of equity and outstanding loans relating to Power Sector PSUs as on 31 March 2018

(*Referred to in Paragraph 1.3*)

(₹ in crore)

Sl. No.	Sector & Name of the PSU	Month and year of incorporation	Equity* at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
			State Government	Central Government	Others	Total	State Government	Central Government	Others	Total
A	**Generation**									
1	Karnataka Power Corporation Limited (KPCL)	July 1970	4,769.45	-	-	4,769.45	-	-	4,289.79	4,289.79
2	KPC Gas Power Corporation Limited (Subsidiary of Company at Sl. No. 1) (KPCGPCL) (Formerly KPC Bidadi Power Corporation Private Limited)	April 1996	-	-	235.10	235.10	-	-	936.86	936.86
3	Raichur Power Corporation Limited (Joint Venture of Company at Sl. No. 1 and other Central PSUs) (RPCL)	April 2009	-	-	2,373.76	2,373.76	-	-	10,234.33	10,234.33
B	**Transmission**									
4	Karnataka Power Transmission Corporation Limited (KPTCL)	July 1999	2,182.32	-	-	2,182.32	2.97	-	5,203.96	5,206.93
C	**Distribution**									
5	Bangalore Electricity Supply Company Limited (BESCOM)	April 2002	1,203.34	-	-	1,203.34	429.72	205.38	3,543.62	4,178.72
6	Hubli Electricity Supply Company Limited (HESCOM)	April 2002	1,411.42	-	-	1,411.42	34.85	1,898.21	171.05	2,104.11
7	Mangalore Electricity Supply Company Limited (MESCOM)	April 2002	463.20	-	-	463.20	0.56	-	729.30	729.86
8	Chamundeshwari Electricity Supply Corporation Limited (CESC)	December 2001	794.01	-	-	794.01	1073.00	-	1,160.34	1,171.07
9	Gulbarga Electricity Supply Company Limited (GESCOM)	April 2002	1,162.22	-	-	1,162.22	6.63	-	877.65	884.28
D	**Others**									
10	Karnataka Renewable Energy Development Limited (KREDL)	March 1996	0.50	-	-	0.50	-	-	-	-
11	Power Company of Karnataka Limited (Associate of ESCOMs at Sl. No. 5 to 9) (PCKL)	August 2007	-	-	20.05	20.05	-	-	2,300.00	2,300.00
	Total		**11,986.46**	**-**	**2,628.91**	**14,615.37**	**485.46**	**2,103.59**	**29,446.90**	**32,035.95**

* Equity includes share application money.

Appendix-1(b)

Statement showing position of equity and outstanding loans relating to PSUs (other than Power Sector) as on 31 March 2018

(*Referred to in Paragraph 4.3*)

(₹ in crore)

Sl. No.	Sector & Name of the PSU	Month and year of incorporation	Equity* at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
			State Government	Central Government	Others	Total	State Government	Central Government	Others	Total
A. WORKING GOVERNMENT COMPANIES										
Social Sector										
1	D. Devaraj Urs Backward Classes Development Corporation Limited (DUBCDCL)	October 1977	466.71	-	-	466.71	8.76	-	114.78	123.54
2	Karnataka State Women's Development Corporation (KSWDC)	September 1987	16.49	2.98	-	19.47	-	-	-	-
3	Dr.B.R. Ambedkar Development Corporation Limited (BRADCL)	March 1975	353.42	80.00	-	433.42	-	-	144.38	144.38
4	Karnataka Maharshi Valmiki Scheduled Tribes Development Corporation Limited (KMVSTDC)	July 2006	17.78	17.19	-	34.97	-	-	-	-
5	The Karnataka Minorities Development Corporation Limited (KMDC)	February 1986	291.90	-	-	291.90	-	-	-	-
6	Karnataka Thanda Development Corporation Limited (KTDCL)	February 2009	0.01	-	-	0.01	-	-	-	-
7	Karnataka Vishwakarma Community Development Corporation Limited (KVCDCL)	February 2014	0.01	-	-	0.01	-	-	15.00	15.00
8	Karnataka Bhovi Development Corporation Limited (KBDCL)	May 2016	-	-	-	-	-	-	-	-
9	Nijasharana Ambigara Chowdaiah Development Corporation Limited (NACDCL)	November 2017	-	-	-	-	-	-	-	-
10	Karnataka State Safai Karmachari Development Corporation Limited (KSSKDCL)	June 2016	-	-	-	-	-	-	-	-
		Sector-wise Total	**1,146.32**	**100.17**	**-**	**1,246.49**	**8.76**	**-**	**274.16**	**282.92**

Appendix-1(b) (contd.)

Sl. No.	Sector & Name of the PSU	Month and year of incorporation	Equity* at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
			State Government	Central Government	Others	Total	State Government	Central Government	Others	Total
PSUs in Competitive Environment										
11	The Karnataka Handloom Development Corporation Limited (KHDCL)	October 1975	46.68	5.20	-	51.88	14.40	-	-	14.40
12	Karnataka State Handicrafts Development Corporation Limited (KSHDCL)	March 1964	7.80	1.22	-	9.02	0.68	-	0.15	0.83
13	Dr. Babu Jagjivan Ram Leather Industries Development Corporation Limited (LIDKAR)	October 1976	6.85	-	-	6.85	13.63	-	-	13.63
14	Karnataka Soaps and Detergents Limited (KSDL)	July 1980	31.82	-	-	31.82	3.50	-	-	3.50
15	Karnataka State Coir Development Corporation Limited (KSCDCL)	February 1985	3.01	-	-	3.01	2.41	-	-	2.41
16	The Mysore Paper Mills Limited (MPM)	May 1936	225.19	-	41.92	267.11	-	-	-	-
17	Karnataka Vidyuth Karkhane Limited (KAVIKA)	October 1976	5.62	-	-	5.62	7.84	-	-	7.84
18	The Mysore Electrical Industries Limited (MEI)	February 1945	7.67	-	2.32	9.99	17.50	-	-	17.50
19	NGEF (Hubli) Limited (Subsidiary of Company at C-9) (NGEFH)	December 1988	-	-	3.20	3.20	12.00	-	-	12.00
20	Karnataka Silk Industries Corporation Limited (KSIC)	April 1980	36.00	-	-	36.00	-	-	-	-
21	Karnataka Silk Marketing Board Limited (KSMB)	November 1979	31.45	-	-	31.45	22.00	-	-	22.00
22	Karnataka State Textile Infrastructure Development Corporation Limited (KSTIDCL)	February 1994	3.22	-	-	3.22	-	-	-	-
23	Karnataka State Minerals Corporation Limited (KSMCL) (Formerly Mysore Minerals Limited)	May 1966	5.95	-	0.05	6.00	-	-	-	-
24	The Hutti Gold Mines Company Limited (HGML)	July 1947	2.20	-	0.76	2.96	-	-	-	-

Appendix-1(b) (contd.)

Sl. No.	Sector & Name of the PSU	Month and year of incorporation	Equity* at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
			State Government	Central Government	Others	Total	State Government	Central Government	Others	Total
25	The Mysore Sugar Company Limited (MYSUGAR)	January 1933	16.83	-	-	16.83	-	-	-	-
26	The Mysore Paints and Varnish Limited (MPVL)	November 1947	0.95	-	0.09	1.04	-	-	-	-
27	Mysore Sales International Limited (also an Associate of Company at A-43) (MSIL)	March 1966	22.56	-	20.18	42.74	-	-	-	-
28	Marketing Communication and Advertising Limited (Subsidiary of Company at A-27) (MCA) (Formerly Marketing Consultants and Agencies Limited)	September 1972	3.46	-	3.57	7.03	-	-	-	-
29	The Karnataka State Tourism Development Corporation Limited (KSTDC)	February 1971	6.41	-	-	6.41	4.00	-	-	4.00
30	Jungle Lodges and Resorts Limited (also an Associate of Company at A-29) (JLR)	March 1980	0.42	-	0.79	1.21	-	-	-	-
	Sector-wise Total		**464.09**	**6.42**	**72.88**	**543.39**	**97.96**	**-**	**0.15**	**98.11**
Others										
31	Karnataka State Agro Corn Products Limited (KSACPL)	April 1973	2.73	-	-	2.73	24.32	-	-	24.32
32	Karnataka State Agricultural Produce Processing and Export Corporation Limited (KAPPEC)	April 1996	0.50	-	-	0.50	-	-	-	-
33	Karnataka Togari Abhivridhi Mandali Limited (KTAML)	May 2002	5.00	-	-	5.00	-	-	-	-
34	The Karnataka Fisheries Development Corporation Limited (KFDC)	October 1970	17.84	-	-	17.84	-	-	-	-
35	Karnataka Sheep and Wool Development Corporation Limited (KSAWDCL)	December 2001	6.05	-	-	6.05	-	-	-	-
36	Karnataka Compost Development Corporation Limited (Subsidiary of Company at C-1) (KCDCL)	August 1975	-	-	0.50	0.50	-	-	3.05	3.05
37	Karnataka Cashew Development Corporation Limited (KCDC)	February 1978	7.15	0.44	-	7.59	-	-	-	-

Appendix-1(b) (contd.)

Sl. No.	Sector & Name of the PSU	Month and year of incorporation	Equity* at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
			State Government	Central Government	Others	Total	State Government	Central Government	Others	Total
38	Karnataka Forest Development Corporation Limited (KFDCL)	January 1971	9.31	-	-	9.31	-	-	-	-
39	The Karnataka State Forest Industries Corporation Limited (KSFIC)	March 1973	2.67	-	-	2.67	-	-	-	-
40	Karnataka State Seeds Corporation Limited (KSSCL)	August 1973	1.58	0.62	1.56	3.76	0.01	-	-	0.01
41	Food Karnataka Limited (Associate of Company at A-27) (FKL)	April 2003	-	-	0.10	0.10	-	-	-	-
42	Karnataka State Mango Development and Marketing Corporation Limited (KSMDMCL)	January 2011	0.01	-	-	0.01	-	-	-	-
43	Karnataka State Industrial Infrastructure and Development Corporation Limited (KSIIDC)	July 1964	667.15	-	-	667.15	3.65	-	6.40	10.05
44	Karnataka Urban Infrastructure Development and Finance Corporation Limited (KUIDFC)	November 1993	8.06	-	-	8.06	-	-	-	-
45	Sree Kanteerava Studios Limited (KSL)	March 1966	5.82	-	0.06	5.88	0.21	-	-	0.21
46	Karnataka Asset Management Company Private Limited (Associate of Company at A-43) (KAMCPL)	April 1998	-	-	0.50	0.50	-	-	-	-
47	Karnataka Trustee Company Private Limited (Associate of Company at A-43) (KTCPL)	April 1998	-	-	0.01	0.01	-	-	-	-
48	Karnataka State Construction Corporation Limited (KSCCL)	September 1968	2.05	-	-	2.05	5.53	-	-	5.53
49	Karnataka Rural Infrastructure Development Limited (KRIDL)	August 1974	12.25	-	-	12.25	-	-	-	-
50	Karnataka State Police Housing and Infrastructure Development Corporation Limited (KSPHIDCL) (Formerly Karnataka State Police Housing Corporation Limited)	June 1985	0.12	-	-	0.12	-	-	8.47	8.47

Appendix-1(b) (contd.)

Sl. No.	Sector & Name of the PSU	Month and year of incorporation	Equity* at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
			State Government	Central Government	Others	Total	State Government	Central Government	Others	Total
51	Rajiv Gandhi Rural Housing Corporation Limited (RGRHCL)	April 2000	3.00	-	-	3.00	-	-	1,068.77	1,068.77
52	Karnataka Road Development Corporation Limited (KRDCL)	July 1999	1,147.90	-	50.00	1,197.90	123.16	-	-	123.16
53	Krishna Bhagya Jala NigamLimited (KBJNL)	August 1994	6,877.88	-	217.13	7,095.01	-	-	6,610.60	6,610.60
54	Karnataka Neeravari Nigam Limited (KNNL)	November 1998	26,231.05	-	249.03	26,480.08	-	-	2,635.58	2,635.58
55	Cauvery Neeravari Nigama Limited (CNNL)	June 2003	10,541.46	-	143.83	10,685.29	-	-	1,735.00	1,735.00
56	Vishveswaraya Jala Nigam Limited (VJNL)	January 2017	1,579.06	-	-	1,579.06	348.57	-	-	348.57
57	Bangalore Airport Rail Link Limited (BARL)	March 2008	5.70	-	0.05	5.75	-	-	-	-
58	Tadadi Port Limited (Subsidiary of Company at A-43) (TPL)	May 2012	-	-	0.05	0.05	-	-	-	-
59	Hubli Dharwad BRTS Company Limited (HDBRTS)	August 2012	14.00	-	6.00	20.00	-	-	-	-
60	Invest Karnataka Forum (IKF)	August 2016	-	-	-	-	-	-	-	-
61	Bangalore Bio-innovation Centre (BBC)	April 2015	0.01	-	-	0.01	-	-	-	-
62	Tumakuru Machine Tool Park (TMTP)	February 2017	0.05	-	-	0.05	-	-	-	-
63	Hubballi Dharwad Smart City Limited (HDSCL)	March 2017	-	-	-	-	-	-	-	-
64	Davanagere Smart City Limited (DSCL)	May 2016	100.00	100.00	-	200.00	-	-	-	-
65	Belagavi Smart City Limited (BSCL)	May 2016	100.00	100.00	-	200.00	-	-	-	-
66	Shivamogga Smart City Limited (SSCL)	February 2017	-	-	-	-	-	-	-	-
67	Tumakuru Smart City Limited (TSCL)	February 2017	-	-	-	-	-	-	-	-

Appendix-1(b) (contd.)

Sl. No.	Sector & Name of the PSU	Month and year of incorporation	Equity* at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
			State Government	Central Government	Others	Total	State Government	Central Government	Others	Total
68	Mangaluru Smart City Limited (MSCL)	April 2017	-	-	-	-	-	-	-	-
69	Bengaluru PRR Development Corporation Limited (BPRRDCL)	October 2017	25.00	-	-	25.00	-	-	-	-
70	Karnataka State Small Industries Development Corporation Limited (KSSIDC)	April 1960	25.92	-	0.10	26.02	12.70	-	-	12.70
71	Karnataka State Electronics Development Corporation Limited (KEONICS)	September 1976	27.97	-	-	27.97	-	-	-	-
72	Karnataka State Beverages Corporation Limited (KSBCL)	June 2003	12.00	-	-	12.00	-	-	-	-
73	Karnataka Food and Civil Supplies Corporation Limited (KFCSCL)	September 1973	3.25	-	-	3.25	-	-	-	-
74	Karnataka Tourism Infrastructure Limited (KTIL)	July 2015	6.50	-	-	6.50	-	-	-	-
75	Karnataka Vocational Training and Skill Development Corporation Limited (KVTSDCL)	September 2008	0.05	-	-	0.05	-	-	-	-
76	Karnataka Public Lands Corporation Limited (KPLCL)	December 2008	0.05	-	-	0.05	-	-	-	-
77	Karnataka Mining Environment Restoration Corporation Limited (KMERCL)	June 2014	0.01	-	-	0.01	-	-	-	-
	Sector-wise Total		**47,449.15**	**201.06**	**668.92**	**48,319.13**	**518.15**	**-**	**12,067.87**	**12,586.02**
	TOTAL A (All sector-wise Government Companies)		**49,059.56**	**307.65**	**741.80**	**50,109.01**	**624.87**	**-**	**12,342.18**	**12,967.05**
B. WORKING STATUTORY CORPORATIONS										
PSUs in Competitive Environment										
1	Karnataka State Warehousing Corporation (KSWC)	November 1957	16.75	3.90	-	20.65	691.36	-	25.25	716.61
2	Karnataka State Financial Corporation (KSFC)	March 1959	1,048.30	-	38.64	1,086.94	-	-	-	-
3	Karnataka State Road Transport Corporation (KSRTC)	August 1961	242.79	50.10	-	292.89	-	-	282.38	282.38

Appendix-1(b) (contd.)

Sl. No.	Sector & Name of the PSU	Month and year of incorporation	Equity* at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
			State Government	Central Government	Others	Total	State Government	Central Government	Others	Total
4	Bangalore Metropolitan Transport Corporation (BMTC)	August 1997	104.59	-	-	104.59	-	-	1,025.32	1,025.32
5	North Western Karnataka Road Transport Corporation (NWKRTC)	November 1997	142.31	-	-	142.31	-	-	148.31	148.31
6	North Eastern Karnataka Road Transport Corporation (NEKRTC)	August 2000	99.15	-	-	99.15	0.13	-	70.89	71.02
	Sector-wise Total		**1,653.89**	**54.00**	**38.64**	**1,746.53**	**691.49**	**-**	**1,552.15**	**2,243.64**
	TOTAL B (All sector-wise Statutory Corporations)		**1,653.89**	**54.00**	**38.64**	**1,746.53**	**691.49**	**-**	**1,552.15**	**2,243.64**
C. NON WORKING GOVERNMENT COMPANIES										
PSUs in Competitive Environment										
1	Karnataka Agro Industries Corporation Limited (KAIC)	September 1967	7.54	-	-	7.54	68.98	-	-	68.98
2	The Mysore Tobacco Company Limited (Subsidiary of Company at C-1) (MTC)	April 1937	0.61	-	0.15	0.76	1.54	-	-	1.54
3	Karnataka Pulpwood Limited (Subsidiary of Company at A-38) (KPL)	February 1985	13.91	-	1.25	15.16	2.89	-	-	2.89
4	The Karnataka State Veneers Limited (Subsidiary of Company at A-39) (KSVL)	August 1974	-	-	1.00	1.00	-	-	1.00	1.00
5	The Mysore Match Company Limited (Subsidiary of Company at A-39) (MMCL)	May 1940	0.05	-	-	0.05	0.23	-	-	0.23
6	The Mysore Lamp Works Limited (MLW)	August 1936	10.76	-	1.05	11.81	113.38	-	3.50	116.88
7	The Mysore Cosmetics Limited (MCL)	March 1966	0.01	-	0.15	0.16	-	-	-	-
8	The Mysore Chrome Tanning Company Limited (Subsidiary of Company at A-27) (MCT)	March 1940	-	-	0.76	0.76	0.12	-	0.29	0.41

Appendix-1(b) (contd.)

Sl. No.	Sector & Name of the PSU	Month and year of incorporation	Equity* at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
			State Government	Central Government	Others	Total	State Government	Central Government	Others	Total
9	NGEF Limited (NGEF)	April 1965	41.99	-	4.52	46.51	227.24	-	-	227.24
10	Karnataka Telecom Limited (Subsidiary of Company at C-9) (KTL)	July 1985	0.78	-	2.22	3.00	-	-	-	-
11	The Mysore Acetate and Chemicals Company Limited (MACCL)	December 1963	9.96	-	2.22	12.18	13.11	-	-	13.11
	Sector-wise Total		**85.61**	**-**	**13.32**	**98.93**	**427.49**	**-**	**4.79**	**432.28**
Others										
1	Bangalore Suburban Rail Company Limited (BSRCL)	March 2014	-	-	-	-	-	-	-	-
2	Vijayanagar Steel Limited (VSL)	December 1982	12.91	-	-	12.91	0.58	-	-	0.58
	Sector-wise Total		**12.91**	**0.00**	**0.00**	**12.91**	**0.58**	**0.00**	**0.00**	**0.58**
Sub-total (C)			**98.52**	**0.00**	**13.32**	**111.84**	**428.07**	**0.00**	**4.79**	**432.86**
Total (A+B+C)			**50,811.97**	**361.65**	**793.76**	**51,967.38**	**1,744.43**	**0.00**	**13,899.12**	**15,643.55**

***** Equity includes share application money.

Appendix-2(a)

Equity, Loans and Guarantees outstanding as per Finance Accounts *vis-a-vis* records of Power Sector PSUs

(*Referred to in Paragraph 1.6*)

(₹ in crore)

Sl. No.	Name of the PSU	Data as per Finance Accounts 2017-18			Data as per PSU Records 2017-18			Difference		
		Equity	Loans	Guarantees	Equity *plus* Share Deposit	Loans	Guarantees	Equity	Loans	Guarantees
1	Karnataka Power Corporation Limited (KPCL)	5,049.64	12.78	110.00	4,769.45	-	110.00	280.19	12.78	-
2	Karnataka Power Transmission Corporation Limited (KPTCL)	1,472.00	2,378.59	-	2,182.32	2.97	-	(710.32)	2,375.62	-
3	Bangalore Electricity Supply Company Limited (BESCOM)	886.99	3.77[175]	205.38	1,203.34	429.72	205.38	(316.35)	(425.95)	-
4	Hubli Electricity Supply Company Limited (HESCOM)	977.55	-	166.97	1,411.42	34.85	126.29	(433.87)	(34.85)	40.68
5	Mangalore Electricity Supply Company Limited (MESCOM)	292.41	-	21.63	463.20	0.56	21.63	(170.79)	(0.56)	-
6	Chamundeshwari Electricity Supply Corporation Limited (CESC)	639.89	-	43.58	794.01	10.73	-	(154.12)	(10.73)	43.58
7	Gulbarga Electricity Supply Company Limited (GESCOM)	769.67	-	29.46	1,162.22	6.63	27.87	(392.55)	(6.63)	1.59
8	Karnataka Renewable Energy Development Limited (KREDL)	24.50	-	-	0.50	-	-	24.00	-	-
9	Power Company of Karnataka Limited (PCKL)	202.12	-	-	-	-	-	202.12	-	
	Total	**10,314.77**	**2,395.17**	**577.02**	**11,986.46**	**485.46**	**491.17**	**-1,671.69**	**1,909.68**	**85.85**

[175] Loan included for both BESCOM and MESCOM.

Appendix – 2(b)

Equity, Loans and Guarantees outstanding as per Finance Accounts *vis-a-vis* records of PSUs (other than Power Sector)

(*Referred to in Paragraph 4.8*)

(₹ in crore)

Sl. No.	Name of the PSU	Data as per Finance Accounts 2017-18			Data as per PSU Records 2017-18			Difference		
		Equity	Loans	Guarantees	Equity *plus* Share Deposit	Loans	Guarantees	Equity	Loans	Guarantees
A. WORKING GOVERNMENT COMPANIES										
1	Karnataka State Agro Corn Products Limited (KSACPL)	2.23	-	-	2.73	24.32	-	(0.50)	(24.32)	-
2	Karnataka State Agricultural Produce Processing and Export Corporation Limited (KAPPEC)	9.09	-	-	0.50	-	-	8.59	-	-
3	Karnataka Togari Abhivridhi Mandali Limited (KTAML)	-	-	-	5.00	-	-	(5.00)	-	-
4	The Karnataka Fisheries Development Corporation Limited (KFDC)	14.37	0.75	-	17.84	-	-	(3.47)	0.75	-
5	Karnataka Sheep and Wool Development Corporation Limited (KSAWDCL)	6.00	-	-	6.05	-	-	(0.05)	-	-
6	Karnataka Cashew Development Corporation Limited (KCDC)	7.08	0.08	-	7.15	-	-	(0.07)	0.08	-
7	Karnataka Forest Development Corporation Limited (KFDCL)	25.70	-	-	9.31	-	-	16.39	-	-
8	The Karnataka State Forest Industries Corporation Limited (KSFIC)	2.29	0.16	-	2.67	-	-	(0.38)	0.16	-
9	Karnataka State Seeds Corporation Limited (KSSCL)	0.96	11.42	-	1.58	0.01	-	(0.62)	11.41	-
10	Karnataka State Mango Development and Marketing Corporation Limited (KSMDMCL)	-	-	-	0.01	-	-	(0.01)	-	-
11	The Karnataka Handloom Development Corporation Limited (KHDCL)	14.16	9.02	27.00	46.68	14.40	13.51	(32.52)	(5.38)	13.49
12	Karnataka State Handicrafts Development Corporation Limited (KSHDCL)	7.58	1.21	0.15	7.80	0.68	0.15	(0.22)	0.53	-
13	D. Devaraj Urs Backward Classes Development Corporation Limited (DUBCDCL)	466.00	5.10	114.77	466.71	8.76	114.78	(0.71)	(3.66)	(0.01)
14	Karnataka State Women's Development Corporation (KSWDC)	13.56	-7.42	2.72	16.49	-	-	(2.93)	(7.42)	2.72
15	Dr. B.R. Ambedkar Development Corporation Limited (BRADCL)	384.14	-	144.38	353.42	-	144.38	30.72	-	-
16	Karnataka Maharshi Valmiki Scheduled Tribes Development Corporation Limited (KMVSTDC)	28.98	-	52.42	17.78	-	-	11.20	-	52.42

Appendix – 2(b) (contd.)

Sl. No.	Name of the PSU	Data as per Finance Accounts 2017-18			Data as per PSU Records 2017-18			Difference		
		Equity	Loans	Guarantees	Equity *plus* Share Deposit	Loans	Guarantees	Equity	Loans	Guarantees
17	The Karnataka Minorities Development Corporation Limited (KMDC)	754.02	-	43.84	291.90	-	-	462.12	-	43.84
18	Karnataka State Industrial Infrastructure and Development Corporation Limited (KSIIDC)	2,145.11	17.76	-	667.15	3.65	-	1,477.96	14.11	-
19	Karnataka Urban Infrastructure Development and Finance Corporation Limited (KUIDFC)	20.86	35.43	-	8.06	-	-	12.80	35.43	-
20	Sree Kanteerava Studios Limited (KSL)	5.38	0.05	-	5.82	0.21	-	(0.44)	(0.16)	-
21	Karnataka Thanda Development Corporation Limited (KTDCL)	-	-	-	0.01	-	-	(0.01)	-	-
22	Karnataka Vishwakarma Community Development Corporation Limited (KVCDCL)	-	-	15.00	0.01	-	15.00	(0.01)	-	-
23	Karnataka Bhovi Development Corporation Limited (KBDCL)	10.00	-	-	-	-	-	10.00	-	-
24	Karnataka State Construction Corporation Limited (KSCCL)	2.05	5.78	-	2.05	5.53	-	-	0.25	-
25	Karnataka Rural Infrastructure Development Limited (KRIDL)	280.75	0.30	-	12.25	-	-	268.50	0.30	-
26	Karnataka State Police Housing and Infrastructure Development Corporation Limited (KSPHIDCL)	218.04	-	8.47	0.12	-	8.47	217.92	-	-
27	Rajiv Gandhi Rural Housing Corporation Limited (RGRHCL)	96.11	548.21	1,068.69	3.00	-	1,068.69	93.11	548.21	-
28	Karnataka Road Development Corporation Limited (KRDCL)	1,145.70	-	196.70	1,147.90	123.16	-	(2.20)	(123.16)	196.70
29	Krishna Bhagya Jala NigamLimited (KBJNL)	23,745.34	-128.70	6,610.06	6,877.88	-	6,610.60	16,867.46	(128.70)	(0.54)
30	Karnataka Neeravari Nigam Limited (KNNL)	13,034.03	-0.32	2,636.62	26,231.05	-	2,635.58	(13,197.02)	(0.32)	1.04
31	Cauvery Neeravari Nigama Limited (CNNL)	-	-	1,735.00	10,541.46	-	1,735.00	(10,541.46)	-	-
32	Vishveswaraya Jala Nigam Limited (VJNL)	-	-1.79	497.14	1,579.06	348.57	300.00	(1,579.06)	(350.36)	197.14
33	Bangalore Airport Rail Link Limited (BARL)	-	-	-	5.70	-	-	(5.70)	-	-

Appendix – 2(b) (contd.)

Sl. No.	Name of the PSU	Data as per Finance Accounts 2017-18			Data as per PSU Records 2017-18			Difference		
		Equity	Loans	Guarantees	Equity *plus* Share Deposit	Loans	Guarantees	Equity	Loans	Guarantees
34	Hubli Dharwad BRTS Company Limited (HDBRTS)	-	-	-	14.00	-	-	(14.00)	-	-
35	Bangalore Bio-innovation Centre (BBC)	-	-	-	0.01	-	-	(0.01)	-	-
36	Tumakuru Machine Tool Park (TMTP)	-	-	-	0.05	-	-	(0.05)	-	-
37	Davanagere Smart City Limited (DSCL)	-	-	-	100.00	-	-	(100.00)	-	-
38	Belagavi Smart City Limited (BSCL)	-	-	-	100.00	-	-	(100.00)	-	-
39	Bengaluru PRR Development Corporation Limited (BPRRDCL)	-	-	-	25.00	-	-	(25.00)	-	-
40	Dr. Babu Jagjivan Ram Leather Industries Development Corporation Limited (LIDKAR)	193.94	-	-	6.85	13.63	-	187.09	(13.63)	-
41	Karnataka Soaps and Detergents Limited (KSDL)	21.63	4.06	-	31.82	3.50	-	(10.19)	0.56	-
42	Karnataka State Coir Development Corporation Limited (KSCDCL)	1.88	-	-	3.01	2.41	-	(1.13)	(2.41)	-
43	Karnataka State Small Industries Development Corporation Limited (KSSIDC)	19.98	42.34	-	25.92	12.70	-	(5.94)	29.64	-
44	The Mysore Paper Mills Limited (MPM)	237.37	369.44	127.50	225.19	-	-	12.18	369.44	127.50
45	Karnataka Vidyuth Karkhane Limited (KAVIKA)	0.58	2.92	-	5.62	7.84	-	(5.04)	(4.92)	-
46	The Mysore Electrical Industries Limited (MEI)	30.58	1.58	-	7.67	17.50	-	22.91	(15.92)	-
47	NGEF (Hubli) Limited (NGEFH)	-	214.79	-	-	12.00	-	-	202.79	-
48	Karnataka State Electronics Development Corporation Limited (KEONICS)	35.97	1.79	-	27.97	-	-	8.00	1.79	-
49	Karnataka Silk Industries Corporation Limited (KSIC)	9.05	-	-	36.00	-	-	(26.95)	-	-
50	Karnataka Silk Marketing Board Limited (KSMB)	2.92	22.00	-	31.45	22.00	-	(28.53)	-	-
51	Karnataka State Minerals Corporation Limited (KSMCL)	0.97	1.09	-	5.95	-	-	(4.98)	1.09	-

Appendix – 2(b) (contd.)

Sl. No.	Name of the PSU	Data as per Finance Accounts 2017-18			Data as per PSU Records 2017-18			Difference		
		Equity	Loans	Guarantees	Equity *plus* Share Deposit	Loans	Guarantees	Equity	Loans	Guarantees
52	The Hutti Gold Mines Company Limited (HGML)	3.00	3.02	-	2.20	-	-	0.80	3.02	-
53	The Mysore Sugar Company Limited (MYSUGAR)	298.78	138.04	-	16.83		-	281.95	138.04	-
54	The Mysore Paints and Varnish Limited (MPVL)	5.94	-	-	0.95	-	-	4.99	-	-
55	Karnataka State Beverages Corporation Limited (KSBCL)	12.00	1.87	-	12.00	-	-	-	1.87	-
56	Mysore Sales International Limited (MSIL)	15.09	2.50	-	22.56	-	-	(7.47)	2.50	-
57	Marketing Communication and Advertising Limited (MCA)	-	-	-	3.46	-	-	(3.46)	-	-
58	Karnataka Food and Civil Supplies Corporation Limited (KFCSCL)	3.25	10.12	-	3.25	-	262.78	-	10.12	(262.78)
59	The Karnataka State Tourism Development Corporation Limited (KSTDC)	9.13	1.20	-	6.41	4.00	-	2.72	(2.80)	-
60	Jungle Lodges and Resorts Limited (JLR)	0.68	-	-	0.42	-	-	0.26	-	-
61	Karnataka Tourism Infrastructure Limited (KTIL)	-	-	-	6.50	-	-	(6.50)	-	-
62	Karnataka Vocational Training and Skill Development Corporation Limited (KVTSDCL)	-	-	-	0.05	-	-	(0.05)	-	-
63	Karnataka Public Lands Corporation Limited (KPLCL)	-	-	-	0.05	-	-	(0.05)	-	-
64	Karnataka Mining Environment Restoration Corporation Limited (KMERCL)	-	-	-	0.01	-	-	(0.01)	-	-
B. WORKING STATUTORY CORPORATIONS										
1	Karnataka State Warehousing Corporation (KSWC)	16.79	8.50	-	16.75	691.36	-	0.04	(682.86)	-
2	Karnataka State Financial Corporation (KSFC)	1,009.96	13.08	1,395.00	1,048.30	-	1,395.00	(38.34)	13.08	-
3	Karnataka State Road Transport Corporation (KSRTC)	615.92	-	-	242.79	-	-	373.13	-	-
4	Bangalore Metropolitan Transport Corporation (BMTC)	66.31	-	-	104.59	-	-	(38.28)	-	-
5	North Western Karnataka Road Transport Corporation (NWKRTC)	266.85	-	-	142.31	-	-	124.54	-	-

Appendix – 2(b) (contd.)

Sl. No.	Name of the PSU	Data as per Finance Accounts 2017-18			Data as per PSU Records 2017-18			Difference		
		Equity	Loans	Guarantees	Equity *plus* Share Deposit	Loans	Guarantees	Equity	Loans	Guarantees
6	North Eastern Karnataka Road Transport Corporation (NEKRTC)	183.43	-	-	99.15	0.13	-	84.28	(0.13)	-
C. NON WORKING GOVERNMENT COMPANIES										
1	Karnataka Agro Industries Corporation Limited (KAIC)	3.48	29.88	-	7.54	68.98	-	(4.06)	(39.10)	-
2	The Mysore Tobacco Company Limited (MTC)	0.61	13.54	-	0.61	-	-	-	13.54	-
3	Karnataka Pulpwood Limited (KPL)	-	-	-	13.91	2.89	-	(13.91)	(2.89)	-
4	The Mysore Match Company Limited (MMCL)	0.01	-	-	0.05	0.23	-	(0.05)	(0.23)	-
5	The Mysore Lamp Works Limited (MLW)	11.23	57.46	-	10.76	113.38	-	0.47	(55.92)	-
6	Vijayanagar Steel Limited (VSL)	12.91	398.99	-	12.91	0.58	-	-	398.41	-
7	The Mysore Cosmetics Limited (MCL)	-	-	-	0.01	-	-	(0.01)	-	-
8	The Mysore Chrome Tanning Company Limited (MCT)	0.32	0.06	-	-	0.12	-	0.32	(0.06)	-
9	NGEF Limited (NGEF)	15.48	214.79	-	41.99	227.24	-	(26.51)	(12.45)	-
10	Karnataka Telecom Limited (KTL)	-	4.11	-	0.78	-	-	(0.78)	4.11	-
11	The Mysore Acetate and Chemicals Company Limited (MACCL)	3.51	15.52	-	9.96	13.11	-	(6.45)	2.41	-
		45,552.30	**2,069.73**	**14,675.46**	**50,811.97**	**1,742.89**	**14,303.94**	**(5,259.67)**	**326.84**	**371.52**

Appendix-3

Statement showing investments made by the GoK in PSUs whose accounts are in arrears

(*Referred to in Paragraphs 1.7 and 4.10*)

(Figures in columns 4 & 6 to 8 are ₹ in crore)

Sl. No.	Name of the Public Sector Undertaking	Year up to which accounts finalised	Paid up capital as per the latest finalised accounts #	Period of accounts pending finalisation	Investment made by the State Government during the years for which accounts are in arrears		
					Equity and Share Deposit	Loans	Grants/Subsidy
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A. WORKING GOVERNMENT COMPANIES							
1	Karnataka State Agro Corn Products Limited (KSACPL)	2016-17	2.73	2017-18	-	-	-
2	Karnataka State Agricultural Produce Processing and Export Corporation Limited (KAPPEC)	2016-17	0.50	2017-18	-	-	17.59
3	Karnataka Togari Abhivridhi Mandali Limited (KTAML)	2016-17	5.00	2017-18	-	-	-
4	Karnataka Sheep And Wool Development Corporation Limited (KSAWDCL)	2014-15	6.05	2015-16, 2016-17, 2017-18	-	-	87.07
5	Karnataka Compost Development Corporation Limited (KCDCL)	2016-17	0.50	2017-18	-	-	-
6	Karnataka Forest Development Corporation Limited (KFDCL)	2016-17	9.31	2017-18	-	-	-
7	The Karnataka State Forest Industries Corporation Limited (KSFIC)	2016-17	2.67	2017-18	-	-	-
8	Karnataka State Seeds Corporation Limited (KSSCL)	2016-17	3.76	2017-18	-	-	-
9	Food Karnataka Limited (FKL)	2016-17	0.10	2017-18	-	-	-
10	Karnataka State Mango Development and Marketing Corporation Limited (KSMDMCL)	2016-17	0.01	2017-18	-	-	-
11	The Karnataka Handloom Development Corporation Limited (KHDCL)	2016-17	51.88	2017-18	-	-	15.28
12	Karnataka State Handicrafts Development Corporation Limited (KSHDCL)	2016-17	9.02	2017-18	-	-	-
13	D. Devaraj Urs Backward Classes Development Corporation Limited (DUBCDCL)	2016-17	199.21	2017-18	125.00	-	254.17

Appendix-3 (contd.)

Sl. No.	Name of the Public Sector Undertaking	Year up to which accounts finalised	Paid up capital as per the latest finalised accounts #	Period of accounts pending finalisation	Investment made by the State Government during the years for which accounts are in arrears		
					Equity and Share Deposit	Loans	Grants/Subsidy
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
14	Karnataka State Women's Development Corporation (KSWDC)	2016-17	15.26	2017-18	1.30	-	184.55
15	Dr.B.R. Ambedkar Development Corporation Limited (BRADCL)	2016-17	199.39	2017-18	45.90	-	11.89
16	Karnataka Maharshi Valmiki Scheduled Tribes Development Corporation Limited (KMVSTDC)	2016-17	20.00	2017-18	-	-	-
17	The Karnataka Minorities Development Corporation Limited (KMDC)	2014-15	99.78	2015-16, 2016-17, 2017-18	-	-	-
18	Karnataka State Industrial Infrastructure and Development Corporation Limited (KSIIDC)	2016-17	667.15	2017-18	-	-	-
19	Sree Kanteerava Studios Limited (KSL)	2016-17	0.88	2017-18	-	-	-
20	Karnataka Vishwakarma Community Development Corporation Limited (KVCDCL)	2016-17	0.01	2017-18	-	-	25.00
21	Karnataka Bhovi Development Corporation Limited (KBDCL)	First Accounts not finalised		2016-17, 2017-18	-	-	-
22	Nijasharana Ambigara Chowdaiah Development Corporation Limited (NACDCL)	First Accounts not finalised		2017-18	-	-	-
23	Karnataka State Safai Karmachari Development Corporation Limited (KSSKDCL)	First Accounts not finalised		2016-17, 2017-18	-	-	-
24	Karnataka State Construction Corporation Limited (KSCCL)	2013-14	2.05	2014-15, 2015-16, 2016-17, 2017-18	-	-	-
25	Karnataka Rural Infrastructure Development Limited (KRIDL)	2016-17	12.25	2017-18	-	-	-
26	Rajiv Gandhi Rural Housing Corporation Limited (RGRHCL)	2016-17	3.00	2017-18	-	-	3,299.72
27	Krishna Bhagya Jala Nigam Limited (KBJNL)	2016-17	7,095.01	2017-18	-	-	3,238.37

Appendix-3 (contd.)

Sl. No.	Name of the Public Sector Undertaking	Year up to which accounts finalised	Paid up capital as per the latest finalised accounts #	Period of accounts pending finalisation	Investment made by the State Government during the years for which accounts are in arrears		
					Equity and Share Deposit	Loans	Grants/Subsidy
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
28	Cauvery Neeravari Nigama Limited (CNNL)	2016-17	1,243.88	2017-18	326.57	-	61.96
29	Bangalore Airport Rail Link Limited (BARL)	2016-17	5.00	2017-18	-	-	-
30	Hubli Dharwad BRTS Company Limited (HDBRTS)	2016-17	20.00	2017-18	-	-	244.67
31	Tumakuru Machine Tool Park (TMTP)	First Accounts not finalised		2017-18	0.05	-	-
32	Hubballi Dharwad Smart City Limited (HDSCL)	First Accounts not finalised		2017-18	-	-	-
33	Davanagere Smart City Limited (DSCL)	2016-17	200.00	2017-18	100.00	-	-
34	Belagavi Smart City Limited (BSCL)	2016-17	200.00	2017-18	100.00	-	-
35	Shivamogga Smart City Limited (SSCL)	First Accounts not finalised		2017-18	-	-	-
36	Tumakuru Smart City Limited (TSCL)	First Accounts not finalised		2017-18	-	-	-
37	Mangaluru Smart City Limited (MSCL)	First Accounts not finalised		2017-18	-	-	-
38	Dr. Babu Jagjivan Ram Leather Industries Development Corporation Limited (LIDKAR)	2016-17	6.85	2017-18	-	-	50.00
39	Karnataka State Small Industries Development Corporation Limited (KSSIDC)	2016-17	26.02	2017-18	-	-	-
40	The Mysore Paper Mills Limited (MPM)	2013-14	118.89	2014-15, 2015-16, 2016-17, 2017-18	-	-	-
41	Karnataka Vidyuth Karkhane Limited (KAVIKA)	2016-17	5.62	2017-18	-	-	-
42	Karnataka State Electronics Development Corporation Limited (KEONICS)	2016-17	24.87	2017-18	2.60	-	24.60
43	Karnataka Silk Industries Corporation Limited (KSIC)	2016-17	36.00	2017-18	-	-	-
44	Karnataka State Textile Infrastructure Development Corporation Limited (KSTIDCL)	2016-17	3.22	2017-18	-	-	1.00
45	Karnataka State Minerals Corporation Limited (KSMCL)	2016-17	6.00	2017-18	-	-	-

Appendix-3 (contd.)

Sl. No.	Name of the Public Sector Undertaking	Year up to which accounts finalised	Paid up capital as per the latest finalised accounts #	Period of accounts pending finalisation	Investment made by the State Government during the years for which accounts are in arrears		
					Equity and Share Deposit	Loans	Grants/Subsidy
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
46	The Hutti Gold Mines Company Limited (HGML)	2016-17	2.96	2017-18	-	-	-
47	The Mysore Sugar Company Limited (MYSUGAR)	2012-13	8.73	2013-14, 2014-15, 2015-16, 2016-17, 2017-18	-	-	-
48	Mysore Sales International Limited (MSIL)	2016-17	20.18	2017-18	-	-	-
49	Karnataka Renewable Energy Development Limited (KREDL)	2016-17	0.50	2017-18	-	-	-
50	Gulbarga Electricity Supply Company Limited (GESCOM)	2016-17	776.77	2017-18	191.50	-	1,739.83
51	Karnataka Food and Civil Supplies Corporation Limited (KFCSCL)	2016-17	3.25	2017-18	-	-	-
52	The Karnataka State Tourism Development Corporation Limited (KSTDC)	2016-17	6.41	2017-18	-	-	17.24
53	Jungle Lodges and Resorts Limited (JLR)	2016-17	1.21	2017-18	-	-	8.70
54	Karnataka Tourism Infrastructure Limited (KTIL)	2016-17	6.50	2017-18	-	-	-
55	Karnataka Vocational Training and Skill Development Corporation Limited (KVTSDCL)	2013-14	0.01	2014-15, 2015-16, 2016-17, 2017-18	-	-	-
56	Karnataka Public Lands Corporation Limited (KPLCL)	2016-17	0.05	2017-18	-	-	2.93
	Total A (Working Government Companies)	**-**	**11,128.44**		**892.92**	**-**	**9,284.57**
B. WORKING STATUTORY CORPORATIONS							
1	Karnataka State Warehousing Corporation (KSWC)	2016-17	7.80	2017-18	-	354.18	-
2	Karnataka State Financial Corporation (KSFC)	2016-17	936.94	2017-18	-75.00	-	-

Appendix-3 (contd.)

Sl. No.	Name of the Public Sector Undertaking	Year up to which accounts finalised	Paid up capital as per the latest finalised accounts #	Period of accounts pending finalisation	Investment made by the State Government during the years for which accounts are in arrears		
					Equity and Share Deposit	Loans	Grants/Subsidy
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
3	Karnataka State Road Transport Corporation (KSRTC)	2016-17	290.89	2017-18	-	-	442.49
4	Bangalore Metropolitan Transport Corporation (BMTC)	2016-17	104.59	2017-18	-	-	345.16
5	North Western Karnataka Road Transport Corporation (NWKRTC)	2016-17	142.31	2017-18	-	-	317.99
6	North Eastern Karnataka Road Transport Corporation (NEKRTC)	2016-17	99.15	2017-18	-	-	226.75
	Total B (Working Statutory Corporations)	**-**	**1,581.68**	**-**	**-75.00**	**354.18**	**1,332.39**
	Grand Total (A + B)	**-**	**12,710.12**	**-**	**817.92**	**354.18**	**10,616.96**

Paid-up Capital does not include Share Deposits/Share Application Money pending allotment.

Appendix-4(a)

Summarised financial position and working results of Power Sector PSUs as per their latest finalised financial statements/accounts.

(*Referred to in Paragraph 1.9*)

(Figures in columns (5) to (11) and (13) are ₹ in crore)

Sl. No.	Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital ^^	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-) ¥	Turnover	Net profit (+) /loss (-) $$	Net impact of Audit comments #	Capital Employed @	Return on Equity (Ratio) ∞	Net worth	Manpower (No. of employees) (as on 31.3.2018)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
A	**Generation**												
1	Karnataka Power Corporation Limited (KPCL)	2017-18	2018-19	4,769.45	4,289.79	4,866.17	6,791.78	38.25	-38.13	13,925.41	0.00	9,635.62	4,807
2	KPC Gas Power Corporation Limited (KPCGPCL)	2017-18	2018-19	14.05	936.86	-14.25	-	-3.04	-	936.66	15.20	14.05	117
3	Raichur Power Corporation Limited ((RPCL)	2017-18	2018-19	2,373.76	11,065.90	-1,642.17	719.97	-1,562.76	-47.80	11,797.49	-2.14	2,373.76	370
	Sub Total (A)			**7,157.26**	**16,292.55**	**3,209.75**	**7,511.75**	**-1,527.55**	**-85.93**	**26,659.56**		**12,023.43**	**5,294**
B	**Transmission**												
4	Karnataka Power Transmission Corporation Limited (KPTCL)	2017-18	2018-19	2,182.32	5,365.26	2,086.25	2,859.53	212.14	-97.71	9,633.83	0.05	4,268.57	10,384
	Sub Total (B)			**2,182.32**	**5,365.26**	**2,086.25**	**2,859.53**	**212.14**	**-97.71**	**9,633.83**		**4,268.57**	**10,384**
C	**Distribution**												
5	Bangalore Electricity Supply Company Limited (BESCOM)	2017-18	2018-19	546.92	4,351.51	-234.12	18,042.05	84.77	-	4,664.31	0.09	312.80	15,595
6	Hubli Electricity Supply Company Limited (HESCOM)	2017-18	2018-19	1,211.07	3,161.78	-2,645.76	6,887.55	-140.28	-3,253.19	1,727.09	0.11	-1,434.69	7,114
7	Mangalore Electricity Supply Company Limited (MESCOM)	2017-18	2018-19	358.07	774.31	131.43	3,190.34	31.42	-36.60	1,263.81	0.05	489.50	5,447
8	Chamundeshwari Electricity Supply Corporation Limited (CESC)	2017-18	2018-19	720.84	1,550.19	-611.06	3,624.39	1.76	-652.23	1,659.97	0.01	109.78	5,492
9	Gulbarga Electricity Supply Company Limited (GESCOM)	2016-17	2017-18	776.77	882.61	-864.94	4,128.09	-312.84	-353.77	794.44	-2.96	-88.17	4,934
	Sub Total (C)			**3,613.67**	**10,720.40**	**-4,224.45**	**35,872.42**	**-335.17**	**-4,295.79**	**10,109.62**		**-610.78**	**38,582**

Appendix-4(a) (contd.)

Sl. No.	Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital ^^	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-) ¥	Turnover	Net profit (+) /loss (-) $$	Net impact of Audit comments #	Capital Employed @	Return on Equity (Ratio) ∞	Net worth	Manpower (No. of employees) (as on 31.3.2018)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
D	**Other**												
10	Karnataka Renewable Energy Development Limited (KREDL)	2016-17	2017-18	0.50	-	175.79	67.63	45.17	-0.17	176.29	0.26	176.29	61
11	Power Company of Karnataka (PCKL)	2017-18	2018-19	20.05	2,300.00	3.60	0.01	-0.17	-	2,323.65	-0.01	20.05	29
	Sub Total (D)			**20.55**	**2,300.00**	**179.39**	**67.64**	**45.00**	**-0.17**	**2,499.94**		**196.34**	**90**
	Grand Total (A+B+C+D)			**12,973.80**	**34,678.21**	**1,250.94**	**46,311.34**	**-1,605.58**	**-4,479.60**	**48,902.95**		**15,877.56**	**54,350**

¥ Accumulated Profit/Loss includes General Reserve (both together also called as Free Reserves).

$$ Net profit/loss includes Other Comprehensive Income (OCI).

^^ Paid-up Capital does not include Share Deposits / Share Application Money pending allotment.

Impact of accounts include the net impact of comments of Statutory Auditors and the CAG and is denoted by (+) increase in profit/decrease in losses and (-) decrease in profit/increase in losses.

@ Capital employed represents Shareholders fund (i.e. Paid up capital *plus* Free Reserves) and long term borrowings.

∞ Return on Equity has been worked out as Profit after tax / (Paid-up capital *plus* Free Reserves).

Appendix – 4(b)
Summarised financial position and working results of PSUs (other than Power Sector) as per their latest finalised financial statements/accounts.
(*Referred to in Paragraph 4.14*)

(Figures in columns (5) to (11) and (13) are ₹ in crore)

Sl. No.	Sector / Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital ^^	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-) ¥	Turnover	Net profit (+) /loss (-) $$	Net impact of Audit comments #	Capital Employed @	Return on Equity (Ratio) ∞	Net worth	Manpower (No. of employees) (as on 31.3.2018)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
A. WORKING GOVERNMENT COMPANIES													
Social Sector													
1	D. Devaraj Urs Backward Classes Development Corporation Limited (DUBCDCL)	2016-17	2017-18	199.21	96.26	160.66	13.23	33.56	-2.92	456.13	0.09	359.87	79
2	Karnataka State Women's Development Corporation (KSWDC)	2016-17	2017-18	15.26	-	31.59	5.10	2.93	-0.97	46.85	0.06	46.85	43
3	Dr.B.R. Ambedkar Development Corporation Limited (BRADCL)	2016-17	2017-18	199.39	208.93	174.71	8.66	57.79	-	583.03	0.15	374.10	197
4	Karnataka Maharshi Valmiki Scheduled Tribes Development Corporation Limited (KMVSTDC)	2016-17	2018-19	20.00	52.42	112.39	2.24	33.47	-0.08	184.81	0.25	132.39	21
5	The Karnataka Minorities Development Corporation Limited (KMDC)	2014-15	2017-18	99.78	58.15	12.47	1.04	12.47	-1.82	170.40	0.11	112.25	195
6	Karnataka Thanda Development Corporation Limited (KTDCL)	2017-18	2018-19	0.01	-	14.44	-	4.07	-	14.45	0.28	14.45	64
7	Karnataka Vishwakarma Community Development Corporation Limited (KVCDCL)	2016-17	2017-18	0.01	10.00	0.50	0.50	0.32	-	10.51	0.63	0.51	2
8	Karnataka Bhovi Development Corporation Limited (KBDCL)	First Accounts not finalised										-	Not furnished
9	Nijasharana Ambigara Chowdaiah Development Corporation Limited (NACDCL)	First Accounts not finalised										-	Not furnished

Appendix – 4(b) (contd.)

Sl. No.	Sector / Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital ^^	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-) ¥	Turnover	Net profit (+) /loss (-) $$	Net impact of Audit comments #	Capital Employed @	Return on Equity (Ratio) ∞	Net worth	Manpower (No. of employees) (as on 31.3.2018)
10	Karnataka State Safai Karmachari Development Corporation Limited (KSSKDCL)	First Accounts not finalised										-	Not furnished
	Sector-wise Total			**533.66**	**425.76**	**506.76**	**30.77**	**144.61**	**-5.79**	**1,466.18**	**1.57**	**1,040.42**	**601**
PSUs in Competitive Environment													
11	The Karnataka Handloom Development Corporation Limited (KHDCL)	2016-17	2017-18	51.88	14.40	-128.56	134.38	-13.24	-	-62.28	0.17	-76.68	473
12	Karnataka State Handicrafts Development Corporation Limited (KSHDCL)	2016-17	2017-18	9.02	0.90	37.14	51.59	4.90	-	47.06	0.11	46.16	109
13	Dr. Babu Jagjivan Ram Leather Industries Development Corporation Limited (LIDKAR)	2016-17	2017-18	6.85	13.63	-25.10	4.70	0.35	-	-4.62	-0.02	-18.25	57
14	Karnataka Soaps and Detergents Limited (KSDL)	2017-18	2018-19	31.82	-	1,376.87	488.61	66.58	17.38	1,408.69	0.05	1,408.69	534
15	Karnataka State Coir Development Corporation Limited (KSCDCL)	2017-18	2018-19	3.01	2.51	-6.43	3.13	-2.18	-0.47	-0.91	0.64	-3.42	36
16	The Mysore Paper Mills Limited (MPM)	2013-14	2014-15	118.89	166.25	-425.94	383.71	-78.16	-15.31	-140.80	0.25	-307.05	1,710
17	Karnataka Vidyuth Karkhane Limited (KAVIKA)	2016-17	2017-18	5.62	7.84	23.01	162.90	5.87	-	36.47	0.21	28.63	167
18	The Mysore Electrical Industries Limited (MEI)	2017-18	2018-19	9.99	17.50	16.58	74.48	12.15	-1.27	44.07	0.46	26.57	119
19	NGEF (Hubli) Limited (NGEFH)	2017-18	2018-19	3.20	13.14	-19.41	30.96	0.39	-	-3.07	-0.02	-	130
20	Karnataka Silk Industries Corporation Limited (KSIC)	2016-17	2017-18	36.00	-	84.10	138.46	30.50	-	120.10	0.25	120.10	519
21	Karnataka Silk Marketing Board Limited (KSMB)	2017-18	2018-19	31.45	22.75	-48.12	4.02	-0.55	0.34	6.08	0.03	-16.67	45

Appendix – 4(b) (contd.)

Sl. No.	Sector / Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital ^^	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-) ¥	Turnover	Net profit (+) /loss (-) $$	Net impact of Audit comments #	Capital Employed @	Return on Equity (Ratio) ∞	Net worth	Manpower (No. of employees) (as on 31.3.2018)
22	Karnataka State Textile Infrastructure Development Corporation Limited (KSTIDCL)	2016-17	2017-18	3.22	-	11.94	13.32	0.06	-	15.16	0.00	15.16	31
23	Karnataka State Minerals Corporation Limited (KSMCL)	2016-17	2017-18	6.00	-	1,939.22	17.52	316.13	-55.99	1,945.22	0.16	1,945.22	854
24	The Hutti Gold Mines Company Limited (HGML)	2016-17	2017-18	2.96	-	1,114.50	426.03	30.77	-0.83	1,117.46	0.03	1,117.46	4,169
25	The Mysore Sugar Company Limited (MYSUGAR)	2012-13	2015-16	8.73	184.63	-416.67	109.79	-50.27	-9.22	-223.31	0.12	-407.94	828
26	The Mysore Paints and Varnish Limited (MPVL)	2017-18	2018-19	1.04	-	45.20	23.29	3.97	-0.56	46.24	0.09	46.24	47
27	Mysore Sales International Limited (MSIL)	2016-17	2017-18	20.18	-	292.07	1,389.28	36.66	-0.21	312.25	0.12	312.25	205
28	Marketing Communication and Advertising Limited (MCA)	2017-18	2018-19	3.57	-	114.93	368.53	20.42	-	118.50	0.17	118.50	38
29	The Karnataka State Tourism Development Corporation Limited (KSTDC)	2016-17	2018-19	6.41	5.29	-19.40	50.80	2.40	-1.75	-7.70	-0.18	-12.99	594
30	Jungle Lodges and Resorts Limited (JLR)	2016-17	2017-18	1.21	0.41	71.53	50.14	6.41	0.05	73.15	0.09	72.74	576
	Sector-wise Total			**361.05**	**449.25**	**4,037.46**	**3,925.64**	**393.16**	**-67.84**	**4,847.76**	**2.73**	**4,414.72**	**11,241**
Others													
31	Karnataka State Agro Corn Products Limited (KSACPL)	2016-17	2017-18	2.73	24.32	-28.44	-	-0.12	-2.00	-1.39	0.00	-25.71	31
32	Karnataka State Agricultural Produce Processing and Export Corporation Limited (KAPPEC)	2016-17	2017-18	0.50	-	16.56	1.26	0.38	-	17.06	0.02	17.06	16
33	Karnataka Togari Abhivridhi Mandali Limited (KTAML)	2016-17	2017-18	5.00	-	-16.64	0.73	0.57	-	-11.64	-0.05	-11.64	10
34	The Karnataka Fisheries Development Corporation Limited (KFDC)	2017-18	2018-19	17.84	-	7.09	191.52	5.02	-	24.93	0.20	24.93	102

Appendix – 4(b) (contd.)

Sl. No.	Sector / Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital ^^	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-) ¥	Turnover	Net profit (+) /loss (-) $$	Net impact of Audit comments #	Capital Employed @	Return on Equity (Ratio) ∞	Net worth	Manpower (No. of employees) (as on 31.3.2018)
35	Karnataka Sheep and Wool Development Corporation Limited (KSAWDCL)	2014-15	2017-18	6.05	-	-5.00	18.23	-0.25	-	1.05	-0.24	1.05	70
36	Karnataka Compost Development Corporation Limited (KCDCL)	2016-17	2017-18	0.50	4.23	-4.65	0.57	-2.88	-3.35	0.08	0.69	-	19
37	Karnataka Cashew Development Corporation Limited (KCDC)	2017-18	2018-19	7.59	-	-1.00	7.73	0.66	-0.61	6.59	0.10	6.59	64
38	Karnataka Forest Development Corporation Limited (KFDCL)	2016-17	2017-18	9.31	-	217.23	62.66	-0.05	-0.17	226.54	-0.00	226.54	365
39	The Karnataka State Forest Industries Corporation Limited (KSFIC)	2016-17	2017-18	2.67	0.55	29.87	66.78	9.58	-0.21	33.09	0.29	32.54	68
40	Karnataka State Seeds Corporation Limited (KSSCL)	2016-17	2017-18	3.76	0.25	30.40	157.59	0.90	-	34.41	0.03	34.16	182
41	Food Karnataka Limited (FKL)	2016-17	2017-18	0.10	-	1.55	-	-0.19	-	1.65	-0.12	-	1
42	Karnataka State Mango Development and Marketing Corporation Limited (KSMDMCL)	2016-17	2017-18	0.01	-	1.72	-	0.01	-	1.73	0.01	1.73	11
43	Karnataka State Industrial Infrastructure and Development Corporation Limited (KSIIDC)	2016-17	2017-18	667.15	10.05	-204.81	17.89	30.29	-12.32	472.39	0.07	462.34	66
44	Karnataka Urban Infrastructure Development and Finance Corporation Limited (KUIDFC)	2017-18	2018-19	8.06	-	13.98	7.45	0.68	-	22.04	0.03	22.04	396
45	Sree Kanteerava Studios Limited (KSL)	2016-17	2017-18	0.88	-	1.71	2.01	0.08	-	2.59	0.03	2.59	8
46	Karnataka Asset Management Company Private Limited (KAMCPL)	2017-18	2018-19	0.50	-	3.70	2.27	1.00	-	4.20	0.24	-	5
47	Karnataka Trustee Company Private Limited (KTCPL)	2017-18	2018-19	0.01	-	0.43	0.07	0.06	-	0.44	0.14	-	0
48	Karnataka State Construction Corporation Limited (KSCCL)	2013-14	2017-18	2.05	5.53	15.66	4.27	-3.73	-	23.24	-0.21	17.71	109
49	Karnataka Rural Infrastructure Development Limited (KRIDL)	2016-17	2017-18	12.25	-	507.06	2,240.08	123.97	-63.72	519.31	0.24	519.31	825

Appendix – 4(b) (contd.)

Sl. No.	Sector / Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital^^	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-) ¥	Turnover	Net profit (+) /loss (-) $$	Net impact of Audit comments #	Capital Employed @	Return on Equity (Ratio) ∞	Net worth	Manpower (No. of employees) (as on 31.3.2018)
50	Karnataka State Police Housing and Infrastructure Development Corporation Limited (KSPHIDCL)	2017-18	2018-19	0.12	8.47	89.41	46.56	23.02	-	98.00	0.26	89.53	268
51	Rajiv Gandhi Rural Housing Corporation Limited (RGRHCL)	2016-17	2017-18	3.00	1,255.75	-22.31	4.28	*	-45.07	1,236.44	-	-19.31	35
52	Karnataka Road Development Corporation Limited (KRDCL)	2017-18	2018-19	310.00	200.85	-143.73	22.11	-13.33	-25.39	367.12	-0.08	166.27	76
53	Krishna Bhagya Jala NigamLimited (KBJNL)	2016-17	2017-18	7,095.01	5,112.38	-2,448.12	15.73	-90.42	6.95	9,759.27	-0.02	4,646.89	1,959
54	Karnataka Neeravari Nigam Limited (KNNL)	2017-18	2018-19	25,444.92	2,635.59	-3,492.46	28.43	-575.92	-6.37	24,588.05	-0.03	21,952.46	3,002
55	Cauvery Neeravari Nigama Limited (CNNL)	2016-17	2017-18	1,243.88	7,281.08	15.21	-	15.21	-	8,540.17	0.01	1,259.09	1,904
56	Vishveswaraya Jala Nigam Limited (VJNL)	2017-18	2018-19	1,255.87	348.57	-76.43	0.01	-25.96	-	1,528.01	-0.02	1,179.44	386
57	Bangalore Airport Rail Link Limited (BARL)	2016-17	2017-18	5.00	-	-2.97	-	0.22	-	2.03	0.11	2.03	10
58	Tadadi Port Limited (TPL)	2017-18	2018-19	0.05	-	-0.03	-	-	-	0.02	-	-	0
59	Hubli Dharwad BRTS Company Limited (HDBRTS)	2016-17	2017-18	20.00	-	-2.08	-	1.59	-	17.92	0.09	17.92	32
60	Invest Karnataka Forum (IKF)	2017-18	2018-19	-	-	-	-	*	-	-	-	-	0
61	Bangalore Bio-innovation Centre (BBC)	2017-18	2018-19	0.01	-	0.65	4.38	*	-	0.66	-	0.66	8
62	Tumakuru Machine Tool Park (TMTP)	First Accounts not finalised										-	Not furnished
63	Hubballi Dharwad Smart City Limited (HDSCL)	First Accounts not finalised										-	Not furnished
64	Davanagere Smart City Limited (DSCL)	2016-17	2018-19	200.00	-	-0.23	-	-0.23	-	199.77	-0.00	199.77	19

Appendix – 4(b) (contd.)

Sl. No.	Sector / Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital ^^	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-) ¥	Turnover	Net profit (+) /loss (-) $$	Net impact of Audit comments #	Capital Employed @	Return on Equity (Ratio) ∞	Net worth	Manpower (No. of employees) (as on 31.3.2018)
65	Belagavi Smart City Limited (BSCL)	2016-17	2017-18	200.00	-	-0.01	-	-0.01	-	199.99	-0.00	199.99	Not furnished
66	Shivamogga Smart City Limited (SSCL)	First Accounts not finalised										-	Not furnished
67	Tumakuru Smart City Limited (TSCL)	First Accounts not finalised										-	Not furnished
68	Mangaluru Smart City Limited (MSCL)	First Accounts not finalised										-	Not furnished
69	Bengaluru PRR Development Corporation Limited (BPRRDCL)	2017-18	2018-19	25.00	-	-0.93	-	-0.93	-	24.07	-0.04	24.07	1
70	Karnataka State Small Industries Development Corporation Limited (KSSIDC)	2016-17	2017-18	26.02	12.70	138.30	50.22	16.36	-0.14	177.02	0.10	164.32	196
71	Karnataka State Electronics Development Corporation Limited (KEONICS)	2016-17	2017-18	24.87	-	81.13	204.51	4.37	-0.26	106.00	0.04	106.00	98
72	Karnataka State Beverages Corporation Limited (KSBCL)	2017-18	2018-19	12.00	-	242.80	116.11	22.97	-	254.80	0.09	254.80	453
73	Karnataka Food and Civil Supplies Corporation Limited (KFCSCL)	2016-17	2017-18	3.25	-	2.31	2,131.50	*	-124.10	5.56	-	5.56	771
74	Karnataka Tourism Infrastructure Limited (KTIL)	2016-17	2017-18	6.50	-0.03	-	-	-0.03	-	6.47	-	6.50	0
75	Karnataka Vocational Training and Skill Development Corporation Limited (KVTSDCL)	2013-14	2015-16	0.01	-	4.20	1.70	*	-	4.21	-	4.21	24
76	Karnataka Public Lands Corporation Limited (KPLCL)	2016-17	2017-18	0.05	-	4.48	1.60	1.18	-	4.53	0.26	4.53	23

Appendix – 4(b) (contd.)

Sl. No.	Sector / Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital^^	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-) ¥	Turnover	Net profit (+) /loss (-) $$	Net impact of Audit comments#	Capital Employed @	Return on Equity (Ratio) ∞	Net worth	Manpower (No. of employees) (as on 31.3.2018)
77	Karnataka Mining Environment Restoration Corporation Limited (KMERCL)	2017-18	2018-19	0.01	-	-0.23	-	-0.10	-	-0.22	0.45	-0.22	3
	Sector-wise Total			**36,622.53**	**16,900.29**	**-5,024.62**	**5,408.25**	**-456.03**	**-276.76**	**48,498.20**	**2.69**	**31,595.75**	**11,616**
	TOTAL A (All sector-wise Government Companies)			**37,517.24**	**17,775.30**	**-480.40**	**9,364.66**	**81.74**	**-350.39**	**54,812.14**	**6.99**	**37,050.89**	**23,458**
B.WORKING STATUTORY CORPORATIONS													
PSUs in Competitive Environment													
1	Karnataka State Warehousing Corporation (KSWC)	2016-17	2018-19	7.80	433.51	132.69	61.38	6.22	-0.02	574.00	0.04	140.49	307
2	Karnataka State Financial Corporation (KSFC)	2016-17	2017-18	936.94	1,494.46	-412.70	260.31	29.93	-3.75	2,018.70	0.06	524.24	861
3	Karnataka State Road Transport Corporation (KSRTC)	2016-17	2017-18	290.89	157.69	-180.87	2,738.04	-177.08	-1.03	267.71	-1.61	110.02	38,449
4	Bangalore Metropolitan Transport Corporation (BMTC)	2016-17	2017-18	104.59	616.55	55.41	2,278.90	-260.91	-15.33	776.55	-1.63	160.00	34,114
5	North Western Karnataka Road Transport Corporation (NWKRTC)	2016-17	2017-18	142.31	124.54	-720.50	1,495.27	-119.55	-2.70	-453.65	0.21	-578.19	23,322
6	North Eastern Karnataka Road Transport Corporation (NEKRTC)	2016-17	2017-18	99.15	44.67	-509.11	1,324.71	-54.46	-129.00	-365.29	0.13	-409.96	20,218
	Sector-wise Total			**1,581.68**	**2,871.42**	**-1,635.08**	**8,158.61**	**-5,75.85**	**-151.83**	**2,818.02**	**-2.80**	**-53.40**	**1,17,271**
	TOTAL B (All sector-wise Statutory Corporations)			**1,581.68**	**2,871.42**	**-1,635.08**	**8,158.61**	**-5,75.85**	**-151.83**	**2,818.02**	**-2.80**	**-53.40**	**1,17,271**
C. NON-WORKING GOVERNMENT COMPANIES													
PSUs in Competitive Environment													
1	Karnataka Agro Industries Corporation Limited (KAIC)	2016-17	2017-18	7.54	68.99	-278.95	Not considered for non-working companies	-18.35	-	-202.42	0.07	-271.41	0
2	The Mysore Tobacco Company Limited (MTC)	2017-18	2018-19	0.77	1.54	-15.50		0.41	-	-13.19	-0.03	-14.73	1
3	Karnataka Pulpwood Limited (KPL)	2016-17	2017-18	1.25	2.89	-20.88		0.00	-	-16.74	-0.00	-19.63	0
4	The Karnataka State Veneers Limited (KSVL)	2004-05	2005-06	1.00	1.00	-8.85		-0.45	-	-6.85	0.06	-	0

Appendix – 4(b) (contd.)

Sl. No.	Sector / Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital^ ^	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-) ¥	Turnover	Net profit (+) /loss (-) $$	Net impact of Audit comments #	Capital Employed @	Return on Equity (Ratio) ∞	Net worth	Manpower (No. of employees) (as on 31.3.2018)
5	The Mysore Match Company Limited (MMCL)	2016-17	2017-18	0.05	-	0.01	Not considered for non-working companies	-0.09	-	0.06	-1.50	0.06	0
6	The Mysore Lamp Works Limited (MLW)	2017-18	2018-19	11.81	116.88	-317.75		-12.85	-20.55	-189.06	0.04	-305.94	0
7	The Mysore Cosmetics Limited (MCL)	2003-04	2004-05	0.16	-	-3.12		-0.79	-	-2.96	0.27	-2.96	0
8	The Mysore Chrome Tanning Company Limited (MCT)	2017-18	2018-19	0.76	1.75	-8.51		0.03	-0.05	-6.00	-0.00	-7.75	0
9	NGEF Limited (NGEF)	2002-03	2003-04	46.51	227.24	-408.85		-157.48	-	-135.10	0.43	-362.34	0
10	Karnataka Telecom Limited (KTL)	2003-04	2004-05	3.00	-	36.11		0.05	-	39.11	0.00	39.11	0
11	The Mysore Acetate and Chemicals Company Limited (MACCL)	2002-03	2003-04	12.18	13.11	12.18		-0.46	-	37.47	-0.02	24.36	0
	Sector-wise Total			**85.03**	**433.4**	**-1014.11**	**0**	**-189.98**	**-20.6**	**-495.68**	**-0.68**	**-921.23**	**1**
	Others												
1	Bangalore Suburban Rail Company Limited (BSRCL)	First Accounts not finalised (Four years accounts pending)										-	Not furnished
2	Vijayanagar Steel Limited (VSL)	2017-18	2018-19	12.91	0.58	-0.48		-0.02	-	13.01	-0.00	12.43	0
	Sector-wise Total			**12.91**	**0.58**	**-0.48**	**0.00**	**-0.02**	**0.00**	**13.01**	**0.00**	**12.43**	**0**
	TOTAL C (All sector-wise Non-working Government companies)			**97.94**	**433.98**	**-1,014.59**	**0.00**	**-190**	**-20.60**	**-482.67**	**-0.68**	**-908.8**	**1**
	Grand Total (A+B+C)			**39,196.86**	**21,080.70**	**-3,130.07**	**17,523.27**	**-684.11**	**-522.82**	**57,147.49**	**3.51**	**36,088.69**	**1,40,730**

¥ Accumulated Profit/Loss includes General Reserve (both together also called as Free Reserves).

$$ Net profit/loss includes Other Comprehensive Income (OCI).

^^ Paid-up Capital does not include Share Deposits / Share Application Money pending allotment.

Impact of accounts include the net impact of comments of Statutory Auditors and the CAG and is denoted by (+) increase in profit/decrease in losses and (-) decrease in profit/increase in losses.

@ Capital employed represents Shareholders fund (i.e. Paid up capital *plus* Free Reserves) and long term borrowings.

$ Return on capital employed has been worked out by adding net profit/loss after tax with interest expenses and tax expenses.

∞ Return on Equity has been worked out as Profit after tax / (Paid-up capital *plus* Free Reserves).

* Prepared Statement of Income and Expenditure account (Sl. No.51, 60, 61, 73, 75 under working Government companies).

Appendix – 5(a)

Statement showing State Government funds infused in Power Sector PSUs during the period from 2010-11 to 2017-18

(*Referred to in Paragraph 1.10.4*)

(₹ in crore)

Sl. No.	Year	KPCL		KREDL		KPTCL		BESCOM		HESCOM		MESCOM		CESC		GESCOM		Total	
		1		2		3		4		5		6		7		8		9	
		Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL
1	Upto 2009-10	1,743.26		0.5		1,218.27		415.97		563.25		132.34		157.30		305.14		4,536.03	
2	2010-11	538.71	0	0	0	357.05	0	88.45	0.94	70.43	0	25.00	0	25.00	0	69.56	0	1174.2	0.94
3	2011-12	625.00	0	0	0	100.00	0	42.50	0	73.85	0	14.73	0	80.71	0	89.50	0	1,026.29	0
4	2012-13	400.00	0	0	0	292.93	0	97.50	0	124.00	0	19.00	0	62.50	0	104.00	0	1,099.93	0
5	2013-14	563.70	0	0	0	107.07	0	35.58	0	31.24	0	39.00	0	23.20	0	25.52	0	825.31	0
6	2014-15	475.78	0	0	0	20.00	0	18.00	0	49.16	0	22.66	0	46.13	0	83.44	0	715.17	0
7	2015-16	423.00	0	0	0	87.00	0	97.02	0	69.97	0	27.63	0	127.73	0	99.61	0	931.96	0
8	2016-17	0	0	0	0	0	0	218.68	0	229.17	0	91.71	0	138.29	0	193.95	0	871.8	0
9	2017-18	0	0	0	0	0	0	189.64	0	200.35	0	91.13	0	133.15	0	191.50	0	805.77	0
	Total	**4,769.45**	**0**	**0.5**	**0**	**2,182.32**	**0**	**1,203.34**	**0**	**1,411.42**	**0**	**463.20**	**0**	**794.01**	**0**	**1,162.22**	**0**	**11,986.46**	**0.94**

Appendix – 5(b)

Statement showing State Government funds infused in PSUs (other than Power Sector) during the period from 2010-11 to 2017-18

(*Referred to in Paragraph 4.15.4*)

(₹ in crore)

Sl. No.	Name of the PSU	Upto 2009-10		2010-11		2011-12		2012-13		2013-14		2014-15		2015-16		2016-17		2017-18		Total	
		Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
Social Sector																					
1	DUBCDCL	118.71	-	24.00	-	24.00	-	20.00	-	25.00	-	45.00	-	35.00	-	50.00	-	125.00	-	466.71	-
2	KSWDC	9.86	-	-	-	0.56	-	0.16	-	0.33		0.65		0.65		2.98		1.30		16.49	-
3	BRADCL	101.37	-	7.60	-	8.34	-	8.35	-	15.81		36.90		58.25		70.90		45.90		353.42	-
4	KMVSTDC	3.82	-	-	-	5.65	-	4.93	-	-0.93-		4.31		-				-		17.78	-
5	KMDC	124.49	-	26.50	-	-	-	83.50	-			57.41		-				-		291.90	-
6	KTDCL	0.01	-	-	-	-	-	-	-			-		-				-		0.01	-
7	KVCDCL	-	-	-	-	-	-	-	-	0.01		-		-				-		0.01	-
8	KBDCL	-	-	-	-	-	-	-	-									-		-	-
9	NACDCL	-	-	-	-	-	-	-	-									-		-	-
10	KSSKDCL	-	-	-	-	-	-	-										-		-	-
	Sub-total	**358.26**	**-**	**58.10**	**-**	**38.55**	**-**	**116.94**	**-**	**40.22**	**-**	**144.27**	**-**	**93.90**	**-**	**123.88**	**-**	**172.20**	**-**	**1,146.32**	**-**
PSUs in Competitive Environment																					
11	KHDCL	39.18	-	7.50	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46.68	-
12	KSHDCL	2.84	-	-	-	-	-	-0.04	-	-	-	2.50	-	2.54	-	-0.04	-	-	-	7.80	-
13	LIDKAR	6.85	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6.85	-
14	KSDL	31.82	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31.82	-
15	KSCDCL	3.01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.01	-
16	MPM	76.97	-	-	-	106.03	-	-	-	78.84	-	-36.65	-	-	-	-	-	-	-	225.19	-
17	KAVIKA	5.62	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.62	-
18	MEI	7.67	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7.67	-

Appendix – 5(b)

Sl. No.	Name of the PSU	Upto 2009-10		2010-11		2011-12		2012-13		2013-14		2014-15		2015-16		2016-17		2017-18		Total	
		Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL
19	NGEFH	-	-	-	-	-	10.00	-	-	-	-	-	-	-	-	-	-	-	-	-	10.00
20	KSIC	58.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-22.00	-	-	-	36.00	-
21	KSMB	31.45	-	-	12.00	-	0.25	-	0.50	-	-	-	-	-	-	-	-	-	-	31.45	12.75
22	KSTIDCL	2.22	-	-	-	-	-	1.00	-	-	-	-	-	-	-	-	-	-	-	3.22	-
23	KSMCL	2.97	-	2.98	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.95	-
24	HGML	2.20	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.20	-
25	MYSUGAR	7.81	-	9.02	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16.83	-
26	MPVL	0.95	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.95	-
27	MSIL	7.46	-	-	-	-7.46	-	21.10	-	1.46	-	-	-	-	-	-	-	-	-	22.56	-
28	MCA	3.46	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.46	-
29	KSTDC	6.41	-	-	3.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6.41	3.00
30	JLR	0.50	-	-	-	-	-	-	-	-	-	-	-	-0.08	-	-	-	-	-	0.42	-
31	KSWC	6.75	-	-	-	10.00	-	-	-	-	-	-	-	-	-	-	-	-	-	16.75	-
32	KSFC	613.76	-	25.81	-	153.14	-	53.66	-	51.93	-	75.00	-	75.00	-	75.00	-	-75.00	-	1,048.30	-
33	KSRTC	242.79	-	-	-	-	-	1.00	-	-1.00	-	-	-	-	-	-	-	-	-	242.79	-
34	BMTC	157.71	-	0.26	-	-0.25	-	-	-	-0.01	-	-	-	-52.99	-	-0.13	-	-	-	104.59	-
35	NWKRTC	212.77	-	25.00	-	43.66	-	31.62	-	15.70	-	-	-	24.28	-	-210.72	-	-	-	142.31	-
36	NEKRTC	204.23	-	25.25	-	-98.36	-	-	-	-	-	-	-	-	-	-31.97	-	-	-	99.15	-
37	KAIC	55.90	11.72	-	-	-	-	-	-	-	-	-	-	-	-	-48.36	-	-	-	7.54	11.72
38	MTC	0.61	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.61	-
39	KPL	13.91	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13.91	-
40	KSVL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
41	MMCL	0.01	-	-	-	-	-	-	-	-	-	-	-	0.04	-	-	-	-	-	0.05	-
42	MLW	10.76	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10.76	-

Appendix – 5(b)

Sl. No.	Name of the PSU	Upto 2009-10		2010-11		2011-12		2012-13		2013-14		2014-15		2015-16		2016-17		2017-18		Total	
		Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL
43	MCL	0.01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.01	-
44	MCT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
45	NGEF	41.99	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	41.99	-
46	KTL	0.78	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.78	-
47	MACCL	9.96	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9.96	-
	Sub-total	**1,869.33**	**11.72**	**95.82**	**15.00**	**206.76**	**10.25**	**108.34**	**0.50**	**146.92**	**-**	**40.85**	**-**	**48.79**	**-**	**-238.22**	**-**	**-75.00**	**-**	**2,203.59**	**37.47**
Others																					
48	KSACPL	2.23	-	-	-	-	-	-	-	0.50	-	-	-	-	-	-	-	-	-	2.73	-
49	KAPPEC	0.50	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.50	-
50	KTAML	5.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.00	-
51	KFDC	16.16	-	-	-	-	-	-	-	-	-	-	-	-	-	1.68	-	-	-	17.84	-
52	KSAWDCL	6.05	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6.05	-
53	KCDC	4.15	-	-	-	3.00	-	-	-	-	-	-	-	-	-	-	-	-	-	7.15	-
54	KFDCL	9.31	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9.31	-
55	KSFIC	2.67	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.67	-
56	KSSCL	1.43	-	-	-	-	-	-	-	-	-	-	-	0.15	-	-	-	-	-	1.58	-
57	FKL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
58	KSMDMCL	-	-	-	-	0.01	-	-	-	-	-	-	-	-	-	-	-	-	-	0.01	-
59	KSIIDC	368.44	3.90	60.90		-62.34		60.10		3.00		122.96	3.65	140.11		-26.02		-		667.15	7.55
60	KUIDFC	6.06	-	-	-	-	-	-	-	-	-	-	-	2.00	-	-	-	-	-	8.06	-
61	KSL	0.82	-	-	-	-	-	4.00	-	-	-	0.55	-	0.45	-	-	-	-	-	5.82	-
62	KAMCPL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
63	KTCPL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
64	KSCCL	2.05	2.35	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.05	2.35
65	KRIDL	12.25	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12.25	-

Appendix – 5(b)

Sl. No.	Name of the PSU	Upto 2009-10		2010-11		2011-12		2012-13		2013-14		2014-15		2015-16		2016-17		2017-18		Total	
		Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL
66	KSPHIDCL	0.12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.12	-
67	RGRHCL	3.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.00	-
68	KRDCL	817.41	-	169.18	-	30.00	-	43.80	-	42.31	-	51.20	-	37.41	-	-43.61	-	0.20	-	1,147.90	-
69	KBJNL	6,877.88	-	123.27	-	-	-	101.49	-	-	-	-	-	-224.76	-	-	-	-	-	6,877.88	-
70	KNNL	7,641.13	-	1,978.02	-	2,431.98	-	2,182.19	-	2,215.57	-	2,276.87	-	2,721.68	-	2,586.93	-	2,196.68	-	26,231.05	-
71	CNNL	4,064.93	-	944.21	-	761.72	-	970.15	-	800.79	-	745.37	-	447.01	-	1,480.71	-	326.57	-	10,541.46	-
72	VJNL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	327.00	-	1,252.06	-	1,579.06	-
73	BARL	5.70	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.70	-
74	TPL	-	-	-	-	-	-	0.05	-	-0.05	-	-	-	-	-	-	-	-	-	-	-
75	HDBRTS	-	-	-	-	-	-	15.13	-	-	-	-	-	-1.13	-	-	-	-	-	14.00	-
76	IKF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
77	BBC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.01	-	0.01	-
78	TMTP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.05	-	0.05	-
79	HDSCL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80	DSCL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100.00	-	100.00	-
81	BSCL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100.00	-	100.00	-
82	SSCL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
83	TSCL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
84	MSCL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
85	BPRRDCL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25.00	-	25.00	-
86	KSSIDC	24.56	-	-	-	1.36	-	-	-	-	-	-	-	-	-	-	-	-	-	25.92	-
87	KEONICS	15.87	-	1.00	-	0.50	-	2.00	-	1.50	-	0.50	-	2.00	-	2.00	-	2.60	-	27.97	-
88	KSBCL	12.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12.00	-
89	KFCSCL	3.25	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.25	-
90	KTIL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6.50	-	-	-	6.50	-

Appendix – 5(b)

Sl. No.	Name of the PSU	Upto 2009-10		2010-11		2011-12		2012-13		2013-14		2014-15		2015-16		2016-17		2017-18		Total	
		Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL
91	KVTSDCL	0.04	-	-	-	-	-	-	-	0.01	-	-0.04	-	0.04	-	-	-	-	-	0.05	-
92	KPLCL	-	-	0.05	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.05	-
93	KMERCL	-	-	-	-	-	-	-	-	-	-	0.05	-	-0.05	-	0.01	-	-	-	0.01	-
94	BSRCL	-	-	-	-	-	-	-	-	0.05	-	-	-	-	-	-0.05	-	-	-	-	-
95	VSL	12.91	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12.91	-
96	KSCMCL	-	-	-	-	-	-	-	-	-	-	0.05	-	-0.05	-	-	-	-	-	-	-
97	KSPDCL	-	-	-	-	-	-	-	-	-	-	-	-	0.01	-	-0.01	-	-	-	-	-
Sub-total		**19,915.92**	**6.25**	**3,276.63**	**-**	**3,166.23**	**-**	**3,378.91**	**-**	**3,063.68**	**-**	**3,197.51**	**3.65**	**3,124.87**	**-**	**4,335.14**	**-**	**4,003.17**	**-**	**47,462.06**	**9.90**
Grand total		**22,143.51**	**17.97**	**3,430.55**	**15.00**	**3,411.54**	**10.25**	**3,604.19**	**0.50**	**3,250.82**	**-**	**3,382.63**	**3.65**	**3,267.56**	**-**	**4,220.80**	**-**	**4,100.37**	**-**	**50,811.97**	**47.37**

Appendix-6

Statement showing the department-wise outstanding Inspection Reports (I.Rs)

(*Referred to in Paragraphs 1.18 and 4.23*)

Sl. No.	Name of the Department	No. of PSUs	No. of outstanding I.Rs.	No. of outstanding Paragraphs	Year from which outstanding
1	Energy	11	242	1,622	2010-11
2	Agriculture and Horticulture	11	24	107	2005-06
3	Animal Husbandry, Fisheries/ Forest, ecology and environment	8	12	90	2007-08
4	Commerce and Industries	30	40	367	2010-11
5	Transport	5	64	342	2010-11
6	Co-operation	1	2	22	2011-12
7	Tourism	3	2	12	2014-15
8	Water Resources	4	184	878	2010-11
9	Public Works	2	3	21	2012-13
10	Social Welfare and Labour / Women and Child Welfare	10	24	246	2006-07
11	Food, Civil Supplies and Consumer Affairs	1	2	15	2012-13
12	Finance	2	16	76	2010-11
13	Housing	1	4	25	2009-10
14	Information Technology, Biotechnology and Science & Technology	2	1	7	2015-16
15	Urban Development	10	5	55	2011-12
16	Employment and Training	1	3	52	2013-14
17	Home	1	3	13	2010-11
18	Rural Development and Panchayat Raj	1	4	38	2006-07
19	Revenue	1	2	20	2012-13
20	Kannada, Culture and Information	1	2	47	2014-15
21	Women and Child Development	1	5	50	2010-11
	Total[176]	**107**	**644**	**4,105**	

[176] Excludes Inspection Reports in respect of Departmental Undertakings, Karnataka Government Insurance Department and Karnataka Electricity Regulatory Commission.

Appendix-7

Functions of the different components of the Thermal Power Plant

(Referred to in Paragraph 2.1.6)

- **Boiler**: The function of boiler is to generate steam at desired pressure and temperature by transferring heat produced by burning coal in a furnace to change water into steam

- **Turbine**: In a thermal power plant, three turbines (High pressure, Intermediate pressure and low pressure) are used to increase the efficiency.

- **Generator**: A generator is connected to the steam turbine. When the turbine turns, electricity is generated and given as output to be supplied to the consumers.

- **Cooling Tower**: A condenser needs huge quantity of water to condense the steam. A plant uses a cooling system where warm water coming from the condenser is cooled and reused.

- **Coal Handling Plant**: Coal is transported to the power station by rail, stored in coal storage yard and later pulverised (reduced to fine particles). The function of CHP is the automatic feeding of the coal to the boiler furnace.

- **Ash Handling Plant**: The ash from the boiler is collected in two forms (i) *Bottom Ash,* a waste which is dumped into ash pond in slurry form, and (ii) *Fly Ash,* which is separated from flue gases in Electro Static Precipitator (ESP) and is either sold to cement manufacturers, brick manufacturers, and /or dumped into ash pond in slurry form.

- **Water Handling System/Plant**: Raw water from a nearby water source is pumped and stored inside the plant for various uses, like Production of Steam (through de-mineralised water), cooling purpose (cooling various equipment), *etc*.

Appendix-8

Brief of the selected projects under Accelerated Irrigation Benefit Programme

(Referred to in Paragraph 5.1.4)

Project	Brief of the project
Malaprabha (Re-modelling works)	**Canal Network:** Malaprabha Left Bank Canal (0 to 150 km.) Malaprabha Right Bank Canal (0 to 142 km.) **Benefitted area:** 1.96 lakh ha. in Belagavi, Bagalkot, Dharwad and Gadag Districts. (44,214 ha. under AIBP)
Karanja	**Canal Network:** Right Bank Canal (49 to 131 km.), Karanja Lift Irrigation Canal (6 to 24 km.), Left Bank Canal (22 to 31 km.). **Benefitted area:** 29,227 ha. in Bidar District. (24,553 ha. under AIBP)
Varahi	**Canal Network:** Varahi Right Bank Common Canal (0 to 18.72 km.) Varahi Right Bank Canal (18.72 to 42.73 km.) Varahi Left Bank Canal (0 to 43.69 km.) Dy. no. 1 to 21 Varahi Lift Irrigation Canal (6.10 to 33.31 km) – lift point 6.10 km of VLBC **Benefitted area:** Total 15,702 ha. of Udupi District (15,560 under AIBP)
Hipparagi	**Canal Network:** Ainapur LIS (0.22 lakh ha.) Ainapur East Canal (0 to 27.52 km.) Ainapur West Canal (0 to 52 km.) Halyal LIS (0.20 lakh ha.) Halyal East Canal (0 to 40.50 km.) Halyal West Canal (0 to 21.48 km.) Karimasuti LIS (0.22 lakh ha.) Karimasuti East Canal (0 to 74.45 km.) Karimasuti West Canal (0 to 36.36 km.) Savalagi-Tungal LIS (0.09 lakh ha.) Savalagi-Tungal East Canal (0 to 23.50 km.) Savalagi-Tungal West Canal (0 to 7.415 km.) **Benefitted area:** 74,742 ha. in Belagavi and Bagalkot Districts.
Bhima LIS	**Canal Network:** Balundagi Lift Canal (0 to 63.70 km.) – 0.17 lakh ha. Alagi Lift Canal (0 to 35.787 km.) – 0.07 lakh ha. **Benefitted area:** 0.24 lakh ha. in Kalaburagi District.
Upper Tunga	**Canal Network:** Main canal of length of 258 km. **Benefitted area:** 80,494 ha. in Shivamogga, Davanagere and Haveri Districts (25,449 ha. under AIBP)
Narayanapura Left Bank Canal	**Benefitted area:** 4,50,000 ha. of command spread over in perennially drought-prone districts of Kalaburagi, Yadgir and Vijayapura in Northern Karnataka. A total of 1,05,000 ha. of *suffering achkat* was covered under AIBP. *Suffering achkat*: a. Narayanapura Left Bank Canal (78 kms) and Hunasagi Branch Canal (11 kms): 10,560 ha. b. Shahpur Branch Canal (76 kms): 33,018 ha. c. Mudbal Branch Canal (50.80 kms): 16,245 ha. d. Jewargi Branch Canal (86.36 kms): 23,057 ha. e. Indi Branch Canal (172 kms): 22,120 ha. **Total 1,05,000 ha.**

Appendix-9

Details and status of Projects executed under AIBP during 2013-18

(Referred to in Paragraphs 5.1.4 and 5.1.18)

(Amount: ₹ in crore)

Sl. No.	Name of the Project (type of project $) under AIBP	Year of inclusion under AIBP	Original date of completion	Revised date of completion	Approved estimated cost	Latest expenditure (March 2018)	Targeted irrigation potential (ha.) under AIBP/ Total IP of the Project	Irrigation Potential achieved* (ha.) under AIBP	Status (March 2018)
Projects under KNNL									
1	Malaprabha	1996-97	Dec. 2000	Mar. 2013	581.10	1,173.38	44,214 (1,96,132)	44,214	Physically completed. FIC and Remodelling works pending
2	Karanja (P3)	1997-98	Mar. 2000	Dec. 2019	339.15	309.80	24,553 (29,227)	19,554	Ongoing
3	Varahi	2007-08	Mar. 2011	Mar. 2015	405.29	569.53	15,560 (15,702)	5,091	Ongoing
4	Dhudganga	2008-09	Mar. 2012	-	192.50	120.68	11,367	1,000	Ongoing
5	Bhadra Modernisation	2008-09	Mar. 2013	-	932	1,072.04	1,77,337	1,77,337	Physically completed. FIC pending
6	Hipparagi	2008-09	Mar. 2011	Mar. 2014	1,015.68	1,499.67	74,742	74,742	Physically completed. FIC pending
7	Bheemasamudra Tank (ERM)	2009-10	Mar. 2011	Mar. 2012	9.38	4.60	800	800	Physically completed. FIC pending
8	Guddada-Mallapura LIS	2009-10	Mar. 2012	-	99.04	96.17	5,261	5,261	Physically completed. FIC pending
9	Bhima LIS (P3)	2009-10	Mar. 2012	Dec. 2019	379.70	487.20	24,292	23,633	Ongoing
10	Upper Tunga (P1)	2014-15	Mar. 2016	Mar. 2017	770.16	829.35	25,449 (80,494)	17,254	Ongoing
11	Sri Rameshwara LIS (P1)	2014-15	Mar. 2015	-	173.65	172.60	1,240	1,240	Physically completed. FIC pending
Project under KBJNL									
12	Narayanapura Left Bank Canal (P3),(ERM).	2014-15	Dec. 2016	Dec. 2019	1,660.84	1,826.56	1,05,000 (1,42,580)	1,01,343	Ongoing
					6,558.49	**8,161.58**	**5,09,815**	**4,71,469**	

* The figures indicated are Irrigation Potential up to Distributaries/Laterals (Dry potential).

$ *Type of Project:*(P1, P3)- Priority Project-1, Priority Project-3 (under PMKSY), ERM= Extension, Renovation and Modernisation project.

Appendix-10

Statement showing the details of Central Assistance under Accelerated Irrigation Benefit Programme

(Referred to in Paragraphs 5.1.16.1 and 5.1.16.2)

(Amount: ₹ in crore)

Project	Period	Cost of AIBP Component	Expenditure incurred under AIBP	Sharing Pattern (*per cent*)	Central Assistance to be received	Central Assistance received	Short receipt of Central Assistance
Malaprabha*	Up to 2012	581.10	434.37		350.85	373.55	-22.70
	2012-13		73.71	90	66.34	98.29	-31.95
	2013-14		73.02**	-	0	0	0
	Total		**581.10**		**417.19**	**471.84**	**-54.65**
Karanja	Up to 2012	339.15	259.00		189.95	189.03	0.92
	2012-13		7.59	90	6.83	0.00	6.83
	2013-14		0.00	75	0.00	0.00	0.00
	2014-15		7.54	75	5.66	0.00	5.66
	2015-16		1.46	75	1.10	0.00	1.10
	2016-17		14.99	60	8.99	4.15	4.84
	2017-18		19.22	60	11.53	15.50	-3.97
	Total		**309.80**		**224.06**	**208.68**	**15.38**
Varahi	Up to 2012	405.29	260.65	25	65.16	68.53	-3.37
	2012-13		66.59	25	16.65	11.59	5.06
	2013-14		74.31	25	18.58	19.51	-0.93
	Total		**401.55**		**100.39**	**99.63**	**0.76**
Hipparagi	Up to 2012	1015.68	791.43	85.45	676.28	640.37	35.91
	2012-13		200.46	85.45	171.29	94.59	76.70
	2013-14*		23.79**	71.20	16.93	16.93	0.00
	Total		**1015.68**		**864.50**	**751.89**	**112.61**
Bhima LIS	Up to 2012	379.70	125.46	90	112.91	156.60	-43.69
	2012-13		65.88	90	59.29	0.00	59.29
	2013-14		62.15	75	46.61	141.27	-94.66
	2014-15		52.34	75	39.26	0.00	39.26
	2015-16		106.40	75	79.80	0.00	79.80
	2016-17		52.67	60	31.60	22.44	9.16
	2017-18		22.30	60	13.38	0	13.38
	Total		**487.20**		**382.85**	**320.31**	**62.54**
Upper Tunga	2014-15	770.16	209.04	69	144.55	70.00	74.55
	2015-16		232.22	56	129.83	156.24	-26.41
	2016-17		253.73	56	141.86	108.88	32.98
	2017-18		134.36	56	75.12	75.16	-0.04
	Total		**829.35**		**491.36**	**410.28**	**81.08**
Narayanapura Left Bank Canal	2014-15	1660.84	310.00	75	232.50	70.00	162.50
	2015-16		1,350.84**	60	810.50	368.86	441.64
	2016-17						
	2017-18						
	Total		**1,660.84**		**1,043.00**	**438.86**	**604.14**
				Total	**3,523.35**	**2,701.49**	**821.86**

* CA was stopped from 2013-14 as project was treated as completed.

** Expenditure restricted to total cost of AIBP Components.

Appendix-11

Details of planned and actual creation of Field Irrigation Channels (FICs) under Accelerated Irrigation Benefit Programme

(Referred to in Paragraphs 5.1.15 and 5.1.18)

Sl. No.	Project	Original/ Revised date of completion	Targeted Irrigation potential (ha.)	Irrigation Potential and FICs achieved as of March 2013 (ha.)	Balance FIC works that can be targeted at the beginning of the year (ha.)	Year	Planned for the year (ha.)	Achieved as at end of the year (ha.)	Cumulative progress of FICs as the end of March 2018 (ha.)	FICs pending creation (March 2018) (ha.)
1	2	3	4	5	6	7	8	9	10	11
1	Malaprabha	Dec. 2000/ Mar. 2013	44,214	• IP: 44,214 • FICs: 35,030	9,184	2013-14	5,333	3,683	41,404	2,810
					5,501	2014-15	6,758	1,630		
					3,871	2015-16	3,141	1,061		
					2,810	2016-17	Nil	Nil		
					2,810	2017-18	510	Nil		
2	Karanja	Mar. 2000/ Dec. 2019	24,553	• IP: 18,119 • FICs: 16,780	1,339	2013-14	-	500	17,571	6,982
					839	2014-15	-	140		
					1,399	2015-16	798	-		
					1,934	2016-17	750	151		
					1,983	2017-18	1,418	-		
3	Varahi	Mar. 2011/ Mar. 2015	15,560	• IP: 1,328 • FICs: 1,095	233	2013-14	2,418	550	3,072	12,488
					-	2014-15	-	750		
					1,433	2015-16	-	677		
					756	2016-17	-	-		
					1,969	2017-18	-	-		
4	Hipparagi	Mar. 2011/ Mar. 2014	74,742	• IP: 59,307 • FICs: 352	58,955	2013-14	22,449	2,008	69,394	5,348
					69,777	2014-15	-	5,538		
					66,314	2015-16	18,309	14,045		
					52,799	2016-17	20,512	40,425		
					12,374	2017-18	23,460	7,026		
5	Bhima LIS	Mar. 2012/ Dec. 2019	24,292	• IP: 6,004 • FICs: nil	6,004	2013-14	24,182	4,432	20,164	4,128
					7,258	2014-15	-	1,750		
					14,818	2015-16	12,000	5,212		
					10,674	2016-17	6,125	3,397		
					8,027	2017-18	5,812	5,373		
6	Upper Tunga	Mar. 2016/ Mar. 2017	25,449	Project commenced in 2014-15	-	2013-14	-	-	20,064	20,998
					15,613[177]	2014-15	16,854	8,959		
					21,104	2015-16	6,258	3,990		
					17,614	2016-17	17,215	2,828		
					16,454	2017-18	12,230	4,287		
	Total		**2,08,810**		**2,24,423 (total FICs to be created)**				**1,71,669**	**52,754**
7	Narayanapura Left Bank Canal	Dec. 2016/ Dec. 2019	1,05,000	Total infrastructure provided : 1,01,343 ha. Pending : 3,657 ha. FIC is not applicable as it is an Extension, Renovation and Modernisation work				-	-	

IP= Irrigation Potential; FICs = Field Irrigation Channels.

177 Difference between Irrigation Potential Created and Irrigation Potential Utilised at the time of inclusion under AIBP (55,045 ha. *less* 39,432 ha. = 15,613 ha.).

Appendix-12

Deficiencies in test-checked works of creation of Field Irrigation Channels

(Referred to in Paragraph 5.1.15)

Area	Audit observation
Planning	1. Though GoK transferred (December 2014) the work of construction of FICs under Direct Outlet 1 to 11 from km.0 to km.18.725 of Varahi Right Bank Canal from KNNL to Command Area Development Authority (CADA) failure to furnish estimates for the work to CADA resulted in non-creation of FICs to irrigate area of 312.73 ha. (August 2018). 2. The dry Irrigation Potential of 74,742 ha. of Hipparagi Project was completed by 2015-16. Yet, tenders for FIC works to irrigate an area of 2,436 ha are yet to be called for (August 2018). 3. Though Bhima LIS Project was to be completed by March 2012, FICs in 4,128 ha. is yet to be created, including 1,302 ha. of land yet to be identified for execution (August 2018).
Execution	1. Of the eight works[178] out of total 84 FIC works of Malaprabha Project executed during 2013-18, five works were completed with a delay ranging from 10 to 37 months, while three works were rescinded in June 2016 due to obstruction by farmers. These three works are yet to be re-tendered (March 2018). Of the five works, which were delayed, four works were delayed due to obstruction by farmers while one work was delayed due to not handing over the documents to the Division (by the erstwhile Division). The Government replied (October 2018) that rescinded works will be re-tendered. 2. In one test-checked work[179] for creation of FICs for 205.80 ha. in Hipparagi Project, though it was decided in March 2016 to award the work, the contractor did not come forward to enter into the agreement (August 2018). The Government replied (October 2018) that since the farmers had already irrigated their land through private pipelines, the farmers now rejected the proposal of construction of FICs. Such fact-finding at an earlier stage would have spared the Company much time and resources, as it was known to the Company that farmers were already (2011-2014) irrigating their lands by drawing water through pipelines. 3. As per the Memorandum of Understanding (MoU) between GoK and GoI, the Company targeted to create and utilise 15,613 ha.[180], 15,000 ha. and 10,449 ha. of FICs in Upper Tunga Project during 2014-15, 2015-16 and 2016-17 respectively. However, only 8,959 ha. was achieved during 2014-15. Though 21,104 ha. (including previous year backlog) had to be planned for 2015-16, FICs of only 6,258 ha. was planned against which the achievement was only 3,990 ha. After the work was handed over to CADA in 2015-16, CADA achieved 2,828 ha. and 4,287 ha. as against 17,215 ha.[181] and 12,230 ha. planned for the years 2016-17 and 2017-18 respectively. Thus, non-execution of FIC works as per the target resulted in non-utilisation till date (March 2018) of 12,803 ha.[182] for which Irrigation Potential was already created. The Government replied (October 2018) that financial progress would be achieved by March 2019. The reply is however silent on the delay in creation of FICs. 4. No action was taken by the Division to address the farmers' concerns in nine FIC works in Upper Tunga Project awarded during 2010-12 with a scheduled period of completion of three months, which are yet to be completed even after eight years (July 2018) resulting in depriving irrigation facilities in 2,190 ha. The Government accepted (October 2018) that there were delays in the completion of some works under minors and sub-distributaries, but attributed it to land acquisition.

[178] Sub-distributaries and laterals and Direct Field Irrigation canals in 55th block, 57th block, and 59th blocks of Malaprabha Project.

[179] Km.1 to km.2 of Minor-1 and Minor-3 of Distributary 4 of Karimasuti West Canal under Hipparagi Project.

[180] This area is in addition to area where Irrigation Potential was to be created (25,449 ha.) under the Project.

[181] These include areas planned in earlier years but not completed.

[182] Area limited to where Irrigation Potential has already been created.

Appendix-13

Details of year-wise planned and achievement of Irrigation Potential creation under Accelerated Irrigation Benefit Programme

(Referred to in Paragraphs 5.1.17)

Sl. No.	Project	Original/ Revised date of completion	Targeted Irrigation potential (IP)/ achieved as of March 2013 (ha.)	Balance IP to be achieved as of March 2013 (ha.)	Years	Planned IP creation for the year as per MMR (ha.)	Planned for the year as per Form-C / MoU (ha.)	Planned for the year as per AWP (ha.)	Achieved during the year (ha.)	Total IP achievement up to March 2018 (ha.)
1	Malaprabha	Dec. 2000/ Mar. 2013	44,214/ 44,214	Nil (Remodelling works were pending)	2013-14	Remodelling works were awarded prior to 2012. No fresh works were planned subsequently.			Remodelling works under progress.	44,214
					2014-15					
					2015-16					
					2016-17					
					2017-18					
2	Karanja	Mar. 2000/ Dec. 2019	24,553/ 18,119	6,434	2013-14	-	1,818	Nil	-	19,554
					2014-15	3,000	6,434	6,434	700	
					2015-16	1,618	5,734	Nil	535	
					2016-17	1,500	5,199	6,437	200	
					2017-18	1,500	4,999	4,999	-	
3	Varahi (*)	Mar. 2011/ Mar. 2015	15,560/ 1,328	14,232	2013-14	2,000	2,000	10,361	-	5,091
					2014-15	3,000	12,232	10,357	2,500	
					2015-16	1,500	-	-	-	
					2016-17	2,000	-	-	1,213	
					2017-18	2,611	-	-	50	
4	Hipparagi ($)	Mar. 2011/ Mar. 2014	74,742/ 59,307	15,435	2013-14	9,650	15,435	15,964	12,830	74,742
					2014-15	2,605	-	-	2,075	
					2015-16	530	-	-	530	
					2016-17	-	-	-	-	
					2017-18	-	-	-	-	
5	Bhima LIS	Mar. 2012/ Dec. 2019	24,292/ 6,004	18,288	2013-14	10,000	18,288	18,288	5,686	23,633
					2014-15	13,179	12,602	12,602	9,310	
					2015-16	3,292	3,000	4,404	1,068	
					2016-17	2,224	2,224	2,224	750	
					2017-18	1,494	1,474	Nil	815	
6	Upper Tunga (@)	Mar. 2016/ Mar. 2017	25,449/ Nil	25,449	2013-14	-	-	-	-	17,254
					2014-15	20,000	15,000	15,000	14,450	
					2015-16	5,000	5,000	9,845	500	
					2016-17	9,436	10,499	10,499	1,668	
					2017-18	6,768	8,831	10,333	636	
7	Narayana-pura Left Bank Canal	Dec. 2016/ Dec. 2019	1,05,000/ Nil	1,05,000	2013-14	-	-	-	-	1,01,343
					2014-15	5,000	5,000	5,000	4,709	
					2015-16	62,002	62,002	62,002	82,298	
					2016-17	7,000	7,000	7,000	11,373	
					2017-18	4,000	4,000	4,000	2,963	
Total			**3,13,810 / 1,28,972**	**1,84,838**						**2,85,831**

(*) Extended completion period was up to 2014-15 and hence no Form-C filed after 2014-15.

($) Extended completion period was up to 2013-14 and hence no Form-C filed after 2013-14. (@) Included in AIBP in 2014-15.