Preface

This report deals with the results of audit of Government Companies and Statutory Corporations for the year ended March 2015.

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 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

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 2014-15 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 2014-15 have also been included wherever felt necessary.

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

Overview

1. 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 2015, the State of Karnataka had 81working Public Sector Undertakings-PSUs (75 Companies and 6 Statutory Corporations) and 12 non-working PSUs (all Companies), which employed 1.92 lakh employees. The State PSUs registered a turnover of ₹ 48,765.18 crore during the year 2014-15 as per their latest finalised accounts. This turnover was equal to 7.12 *per cent* of the State Gross Domestic Product indicating the important role played by the PSUs in the economy. The PSUs had accumulated profit of ₹ 731.66 crore as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2015, the investment (capital and long term loans) in 93 PSUs was ₹ 83,282.11 crore. Infrastructure Sector accounted for about 50.08 *per cent* of the total investment and Power Sector about 40.09 *per cent* in 2014-15. The Government contributed ₹ 13,957.53 crore towards equity, loans and grants/subsidies in 2014-15.

Performance of PSUs

The working State PSUs earned a profit of ₹ 1,438.53 crore in the aggregate and incurred loss of ₹ 899.59 crore as per their latest finalised accounts as at the end of September 2015. The major contributors to profit were Mysore Minerals Limited (₹ 313.53 crore), Hutti Gold Mines Company Limited (₹ 144.63 crore) and Bangalore Electricity Supply Company Limited (₹ 113.44 crore). Huge losses were incurred by Karnataka Neeravari Nigam Limited (₹ 295.59 crore) and Bangalore Metropolitan Transport Corporation (₹ 147.59 crore).

Audit noticed various deficiencies in the functioning of the PSUs. Cases discussed in the subsequent Chapters of this Report indicate that there was a financial effect of ₹ 758.70 crore. The losses could have been minimized or profits enhanced substantially with better management. There is a need for greater professionalism and accountability in the functioning of the PSUs.

Quality of accounts

The quality of accounts of working Government companies needs improvement. During the year, out of 75 accounts finalised, the Statutory Auditors had given unqualified reports on 25 accounts, qualified reports on 47 accounts, adverse reports (which means that the accounts did not reflect a true and fair view) for 3 accounts. The compliance with the Accounting Standards by companies was poor as there were 101 instances of non-compliance in 33 Companies during the year.

Arrears in accounts and winding up

Thirty eight working PSUs had arrears of 44 accounts as at the end of September 2015. The arrears pertained to the years 2013-14 and 2014-15. There were 12 non-working PSUs including five under liquidation. The Government may take a decision on the revival or closure of these non-working Companies.

2. Performance Audits relating to Government Companies

The Report includes observations emanating from the Performance Audits on the **'Implementation of Niranthara Jyothi Yojana by Electricity Supply Companies in Karnataka'** and **'Resettlement and Rehabilitation in Upper Krishna Project'.** The Executive summaries of the audit findings are given below:

- **Performance Audit on the 'Implementation of Niranthara Jyothi Yojana by Electricity Supply Companies in Karnataka'.**

Introduction

Karnataka is a power deficit state, with a deficit of about 15 *per cent*. In order to have an everlasting solution in bridging the gap between demand and supply, the Electricity Supply Companies (ESCOMs) implemented (2005-09) a scheme called Rural Load Management System (RLMS), which failed due to large scale tampering. Considering the benefits of a scheme implemented in Gujarat, by segregation of feeders, the GoK decided to implement the Scheme called Niranthara Jyothi Yojana (NJY) in Karnataka, after conducting pilot study at Malur.

Niranthara Jyothi Yojana

In NJY, the concept was to segregate the agricultural loads and non-agricultural loads by bifurcation of feeders (11 kV) at the substations by drawing a new independent line (11 kV) feeder, called 'NJY feeder' and shifting the non-agricultural load onto this feeder.

The objectives of NJY were mainly to provide 24 hours of uninterrupted and reliable power supply to non-agricultural consumers, to have better control on agricultural load and improve the Transmission and Distribution (T&D) losses, metered sales and reduction in peak load.

Audit objectives

The performance audit was conducted to assess whether the NJY

- was planned and implemented after assessing the technical advantages and funding arrangements and
- has achieved its intended objectives.

Audit findings

***The audit findings on the first audit objective on* assessing the planning, implementation and funding of NJY indicate that:**

- *Planning* was deficient as large scale implementation was taken up before analysing the Pilot studies in GESCOM and HESCOM. Further, in CESC, the estimates for the works were prepared in an unrealistic manner, necessitating periodic revisions, thereby delaying the implementation.

- *Implementation* of NJY was affected owing to the delays in finalisation of tenders (GESCOM), delays by contractors (HESCOM), delays in completion of load bifurcation works and instances of clubbing of NJY feeders with non-NJY feeders (all ESCOMs). The Special Design Transformer (SDT) intended to provide power to farmhouses on agricultural feeders had design deficiencies due to failure to include overload protection.

- *Funding* to BESCOM and CESC was inadequate, which would affect the implementation of NJY.

- The NJY, planned to be completed in three years (by 2012), is lingering for the last three years with 543 of the 1,748 feeders yet to be completed (as at March 2015) resulting in loss of energy savings of 1,128.70 MUs valued ₹ 569.63 crore.

***The audit findings on the second audit objective on* assessing whether the NJY has achieved its intended objectives indicated that:**

- ESCOMs were able to provide about 20 hours of three phase power supply to NJY feeders, but the quality of power supply had not improved with the interruptions continuing unabated.

- There was reduction in peak load. However, the practice of providing power to IP feeders during peak hours and also supply of power for more than scheduled hours to IP feeders, in a power deficit scenario was imbibed with poor load management.

- 40 *per cent* of test checked feeders showed an adverse trend in T&D losses.

- Though there was increase in the number of hours of supply of three phase from 10 hours (pre-NJY) to 20 hours (post NJY), the increased hours of supply was partly owing to increased purchase of power, which was necessitated as the envisaged reduction of distribution losses did not materialise.

- KERC's directive on assessing the IP consumption based on meter readings in DTCs/ IP feeders has not been complied with.

Conclusions

Audit concluded that:

- NJY is showing positive results with the ESCOMs being able to provide about 20 hours of three phase power supply to non-agricultural feeders, as against 10 hours earlier. The achievement is partly owing to increased purchase of power. However, it did not achieve the envisaged supply for 24 hours a day.

- The quality of power supply had not improved with the interruptions continuing unabated.

- The reduction of distribution losses to enable supply for enhanced hours (24 hours) is yet to materialise to the extent envisaged under NJY.

- There was delay in implementation of NJY, mainly on account of deficiencies in preparation of estimates, delay in tendering, delay in bifurcation of loads from existing feeders, apart from constraints in labour and obtaining statutory clearances.

- The risk areas hampering the realisation of the success of NJY include

  - failure to reduce the T&D losses in the NJY feeders as compared to rural and mixed feeders,

  - failure of Special Design Transformer for providing single phase supply in IP feeders, due to non-installation of the overload protection,

  - resorting to manual operation at substation (Group Operating Switch) to provide power under rostering method, taking the situation to pre-NJY period,

  - clubbing of NJY feeders with other feeders and non-completion of LT side works, and

  - supply of power to IP feeders during peak hours and more than scheduled hours, even when the State faced a deficit in power.

- The directive of KERC to assess the consumption of IP sets with metering under NJY has not been complied with. As a consequence, the subsidy for IP set consumers, claimed from GoK was not transparent and the distribution losses were not realistic.

Recommendations

Audit recommends that:

- The ESCOMs may analyse the results of pilot study before implementing projects on a large scale.
- ESCOMs need to prepare estimates after survey, investigation and duly taking cognizance of works being implemented under other schemes.
- ESCOMs need to adhere to the directions of GoK to have financial tie-ups with REC/Financial institutions well in advance so as to avoid extension of validity periods/re-tendering and consequent delays and cost overruns.
- ESCOMs need to award the works only after assessing the financial ability of the contractors to execute the works so that implementation of works are not delayed.
- ESCOMs need to ensure that the bifurcated NJY feeders are not clubbed with non-NJY feeders. Action needs to be taken to install breakers at the earliest on the bifurcated feeders, else the objective of bifurcating the feeders under NJY would be defeated.
- The ESCOMs need to undertake a study to analyse the pros and cons of installing overload protection with SDTs *vis-à-vis* the open delta model and explore the feasibility of using the idling SDTs to realise the benefits of NJY.

- ESCOMs and KPTCL should devise a mechanism to ensure that staff posted at substations do not resort to 'rostering' in IP feeders during non-scheduled hours of supply, by monitoring and analysing SCADA data.
- In order to improve quality of supply by having minimal interruptions, the ESCOMs need to identify and replace NJY feeders that have crossovers with other feeders.
- In order to have better load management, the ESCOMs may issue instructions to its staff at substations not to supply power to IP sets during peak hours and for more than scheduled hours of supply, in a power deficit scenario and also ensure its observance.
- The ESCOMs need to address the reasons for non-reduction of T&D losses in the bifurcated feeders so as to reduce the additional power purchases at higher costs and also make available 24 hours of power supply as envisaged under NJY.
- The GoK needs to re-assess the financial model of funding the NJY as the ESCOMs have not been able to fully meet the objective of NJY in terms of reduction of T&D losses, delays in implementation and additional purchase of power.
- ESCOMs need to comply with the directives of KERC on assessing the IP consumption based on meter readings in DTCs and IP feeders, so that the subsidy claim and distribution losses are realistic.

(Chapter 2.1)

- **Performance Audit on the 'Resettlement and Rehabilitation in Upper Krishna Project'.**

Introduction

The Upper Krishna Project (UKP) consists of construction of Narayanpur dam to the height of 492.25 metres and Almatti dam to 524.25 metres and network of canals to irrigate parts of drought-prone districts of Vijapura, Bagalkot, Kalaburgi and Raichur of northern Karnataka.

The Resettlement and Rehabilitation (R&R) of 173 out of 176 villages, affected by the backwaters of both Narayanpur and Almatti dams (up to Reservoir Level-RL 519.60 metres), was completed in 2001-02 and that of balance three villages was under progress (September 2015). The R&R of the people living in Bagalkot Town was completed up to RL 521 metres and for the subsequent levels, the work was under progress. Besides, R&R of 14 villages affected under the floods of Narayanpur dam was in progress.

The modalities of implementation of R&R were specified through Executive Orders issued by the GoK during 1989-95 and these Orders are continued to be in force even now (2015-16).

Implementing authorities

Krishna Bhagya Jala Nigam Limited (Company), a wholly owned Government Company, was responsible for overall implementation of irrigation projects including R&R under UKP. The funding was met from borrowings and the State Budget.

The Commissioner for Land Acquisition and R&R and Ex-officio Additional Secretary to Government was given powers for land acquisition under UKP. Bagalkot Town Development Authority (BTDA) was created solely for the purpose of implementation of R&R of Bagalkot town.

Audit objective

The Performance Audit was conducted to assess whether rehabilitation and resettlement packages for the project displaced people of UKP were planned and implemented in an expeditious manner so as to enable them to reap the intended benefits.

Audit findings

Absence of R&R Policy

The Karnataka Resettlement of Project Displaced Persons Act, 1987 was notified (August 1994) by the GoK envisaging various policies on R&R. But, the GoK did not implement the Act. The GoK had not adopted the National Rehabilitation and Resettlement Policy, 2007 either, which was notified in October 2007. But, continued to implement the orders issued during 1989-95 even for the R&R implemented after the policy was notified.

The Executive Orders issued (1989-95) by the GoK for implementation of R&R did not include an important provision of 'allotment of land in command area to Project Displaced Families (PDFs)' which was envisaged in the National Rehabilitation and Resettlement Policy 2007. The PDFs, who had lost their agricultural lands were not only deprived of allotment of land in the command area but also received insufficient compensation.

The GoK did not make provision for indexing the R&R benefits to the Consumer Price Index in violation of National R&R Policy. As a result, the various monetary benefits fixed during 1989-95 were continued to be paid even now (2015-16) without revision.

Socio-Economic Survey

The GoK had not mandated any specific criteria for conducting socio-economic survey. The Socio-Economic Survey reports did not contain income of the PDFs, details of rural artisans, families belonging to the scheduled caste or scheduled tribe categories; vulnerable persons such as destitute, orphans, widows.

In the absence of base line data with regard to living condition of the PDFs pre and post project implementation, the improvement or otherwise in the economic condition of PDFs was not assessable and also the priority or special attention for certain sections of the society was not ensured, which was not in line with the National R&R Policy.

Inordinate delay in completion of R&R

Though 14 villages, which came under the submergence of backwaters of Narayanpur reservoir, were within the purview of acquisition norms of CWC, the rehabilitation was taken up only when these villages were inundated by flood water discharge during August 2005 and after requests by the affected people. The GoK issued orders for R&R of these villages only in January 2007/ September 2009.

Insufficient land procurement and non-disbursement of benefits

There was abnormal delay in acquisition of structures (houses and buildings of PDFs) and land for establishing Rehabilitation Centres (RCs) in respect of 14 villages affected under the backwaters of Narayanpur reservoir. There were 4,274 PDFs in these villages awaiting rehabilitation (December 2015).

There were cases of insufficient procurement of land and delays in acquisition of land resulting in delay in formation of RCs. The process of acquisition of structures and land was completed only between December 2014 and December 2015. The land acquisition for two out of 14 villages was not completed (December 2015).

Other benefits such as land and house construction grants, income generating grant, *etc.,* had not been disbursed to any of the PDFs in these 14 villages (December 2015).

Poor implementation

Based on the protests and complaints from the affected people in Bagalkot town (living between RL 521 metres and RL 523 metres) of Almatti dam, the GoK ordered (November 2002) for rehabilitation as they were suffering from serious unhygienic conditions due to backwaters.

Despite receiving directions from the GoK in November 2002, BTDA brought the subject matter before the Board of Directors of the Company only in June 2010 and the rehabilitation of PDFs was yet to take place (December 2015). The works for underground drainage system, construction of roads and electrification were taken up only during 2013-14 and water supply works were initiated in 2014-15.

Allotment of land for non-R&R activities

BTDA acquired (1986-87) 4,544 acres of land for relocation of Bagalkot town. Out of this, 3,230 acres was utilised for rehabilitation of PDFs affected up to RL 523 metres and 1,168 acres was provided for the purposes other than that of R&R, despite the fact that there was a requirement 3,600 acres for further R&R, thereby necessitating acquisition of additional land and consequent delay in rehabilitation of PDFs.

Monitoring

The monitoring of R&R was not effective at Government, Company and Project levels resulting in abnormal delay in completion of works at various stages of implementation. There was shortage of staff at key posts in project offices. The grievance redressal mechanism was absent.

Conclusions

Audit concluded that:

- The Government did not frame a comprehensive R&R Policy specific for the State in line with the National Rehabilitation and Resettlement Policy, 2007.

- As the Government had not conducted Socio-Economic Survey as per the National Rehabilitation and Resettlement Policy, 2007, the restoration of the pre-project economic status of the PDFs could not be assessed. This defeated the very purpose of R&R.

- 6,329 PDFs in BTDA and 4,274 PDFs in the 14 villages were yet to be rehabilitated since 2002 and 2007 respectively, due to apathy of the Government in carrying out R&R.
- The Government's failure to rehabilitate the affected people within a reasonable time deprived many PDFs of their due benefits under R&R and had forced the PDFs to live in temporary sheds for the last ten years.
- The ineffective monitoring and inadequate manpower hindered the implementation.

Recommendations

Audit recommends that:

- The Government should formulate a comprehensive R&R Policy specific for the State in line with the National Rehabilitation and Resettlement Policy, 2007 and ensure that its provisions are adhered to so as to enable the project displaced families get their legitimate benefits.
- The applicable norms of CWC for acquisition of land and structures should be complied with and RCs should be formed with all basic amenities as per the norms in a time bound manner.
- The Government should issue suitable orders preventing the use of land procured for R&R activity for other purposes.
- Committees formed for the purpose of monitoring should hold regular meetings to discuss and resolve the bottlenecks in implementation of R&R. The Company should also discuss in the meetings of its Board of Directors the progress of R&R works and take action for speedy completion of works within a timeframe.
- Adequate manpower should be deployed at Project Offices to implement R&R package in a timely manner.

(Chapter 2.2)

3. Compliance Audit observations

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 ₹ 37.21 crore.

(Paragraphs 3.2, 3.3, 3.10, 3.16, 3.17)

Violation of contractual obligations/undue favours to contractors resulting in loss of ₹ 14.97 crore.

(Paragraphs 3.5, 3.7, 3.8, 3.9, 3.15.4)

Non-recovery of dues amounting to ₹ 30.60crore.

(Paragraphs 3.1, 3.11)

Avoidable expenses amounting to ₹ 65.34crore.

(Paragraphs 3.4, 3.6, 3.12, 3.15.4)

Miscellaneous and other cases amounting to ₹ 1.53crore.

(Paragraph 3.15.7)

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

- Karnataka Power Transmission Corporation Limited failed to follow the procedures prescribed in the KERC Regulations, 2004 and continued to sanction Open Access facilities without ensuring collection of outstanding dues resulting in loss of revenue of ₹ 29.21 crore.

(Paragraph 3.1)

- Establishment of substations at Jalamangala, Kutagallu and Chikkaganganawadi at a total cost of ₹ 15.97 crore, without studying the load pattern at Melehalli substation was not need based and this investment gave no value addition to Karnataka Power Transmission Corporation Limited.

(Paragraph 3.2)

- Implementation of co-generation project by The Mysore Sugar Company Limited without ensuring fuel and non-synchronisation with modernisation of mills resulted in investment of ₹ 124.08 crore becoming unfruitful, besides interest burden of ₹ 59.04 crore.

(Paragraph 3.4)

- Adoption of a different group of Wholesale Price Index by Karnataka Neeravari Nigam Limited for the left bank lift works of Singatalur Lift Irrigation Scheme, which had higher rates as compared to all the other similar works, was without any rationale and resulted in undue benefit of ₹ 5.18 crore to the contractor.

(Paragraph 3.8)

- Upward revision of quoted rate after entering into agreement with the supplier by Karnataka State Coir Development Corporation Limited and unwarranted addition of Value Added Tax to the quoted rate benefited the supplier to the extent of ₹ 3.17 crore.

(Paragraph 3.9)

- The Karnataka Renewable Energy Development Limited (KREDL), which was nominated as a nodal agency for development of Renewable Energy (RE) Sector did not play its assigned role properly due to which much of the targetted addition to Solar and Wind Power remained unharnessed. The Biomass sector has failed for want of raw material and remunerative tariff, while the Waste-to-Energy project has not seen the light of the day for the last 12 years.

(Paragraph 3.13)

- Failure of the Karnataka State Tourism Development Corporation Limited to ensure compliance with the operational standards and establish an effective call centre to facilitate taxi service to the commuters going to the Bangalore Airport, had put to risk not only the image of the Company and the city of Bangalore, but also the safety of commuters, which is of paramount importance.

(Paragraph 3.14)

- Karnataka State Warehousing Corporation had not achieved the augmentation of the planned storage capacity. There were delays in completion of construction of warehouses. The system of collection of storage charges was deficient. The Corporation did not meet the norms of Warehousing Development and Regulatory Authority manual for scientific storage and trained manpower.

(Paragraph 3.15)

- Bangalore Metropolitan Transport Corporation took up the construction work for establishing Bus Depots on the disputed land without conducting proper due diligence and getting the title in its favour. Continuing with the construction against the Court Order and without adhering to the conditions of allotment resulted in idling of assets created and blocking up of investment to an extent of ₹ 16.52 crore.

(Paragraph 3.16)