

Chapter VI

Compliance Audit Paragraphs

Chapter - VI

Compliance Audit Observations on State Public Sector Enterprises

This chapter deals with Compliance Audit Observations on State Public Sector Enterprises (SPSEs). Important findings emerging from audit that highlight deficiencies in planning, contract management and other activities in the operations of SPSEs are included in this Chapter.

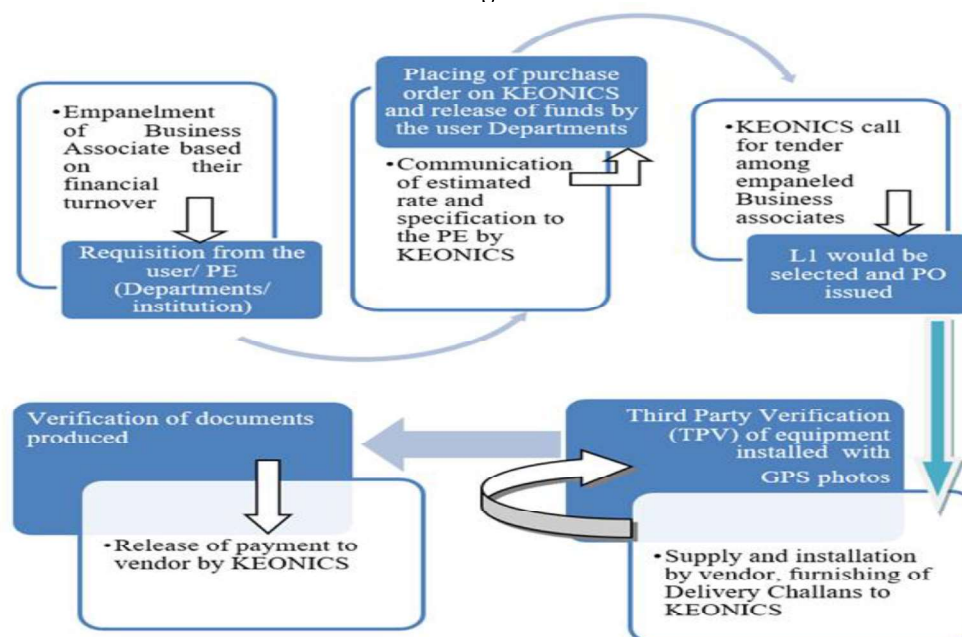
Karnataka State Electronics Development Corporation Limited

6.1 Procurement activities in Karnataka State Electronics Development Corporation Ltd (KEONICS)

6.1.1 Introduction

Karnataka State Electronics Development Corporation Limited (KEONICS) was established in 1976 with the sole objective of promoting electronics industries in Karnataka. The corporation is mandated to provide infrastructure for IT industries, IT education to the masses and state-of-the art products and service for e-Governance. KEONICS' IT solutions span the areas of ERP solutions, web portals, software development, IT consultancy, IT training and networking. KEONICS endeavours to provide state-of-the art technology solutions to customers to keep pace with the changing technology. The process of procurement of equipment by KEONICS through its empanelled Business Associates (BAs) to meet the requirements of Procuring Entities (PEs), ensuring supply/installation at the delivery points as required by PEs, and verification of bills and releasing of payments to BAs are shown in the following *Chart No.6.1.1*.

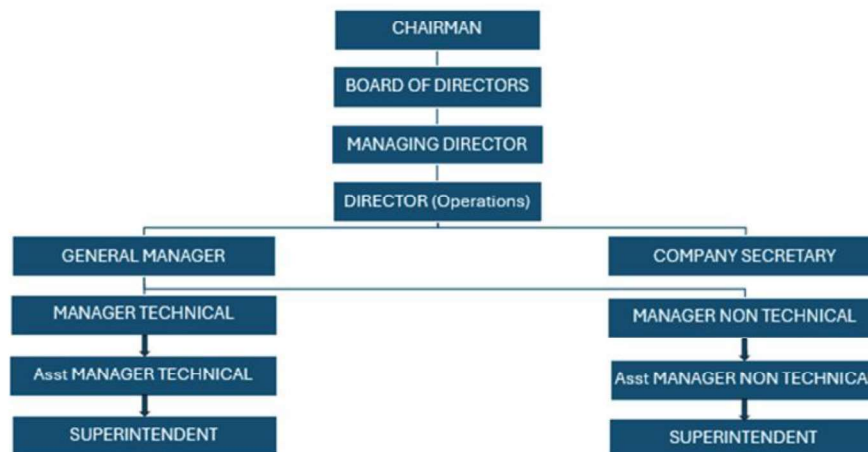
Chart No. 6.1.1: Flowchart showing Procurement Process in KEONICS



6.1.2 Organisational Set-up

The organisation structure of KEONICS is as below.

Chart No.6.1.2: Organisation structure of KEONICS



6.1.3 Audit Objective

The Audit was taken up to examine whether procurement of equipment through KEONICS by Government Departments and Agencies (Procurement Entities or PEs) was transparent and in accordance with the prescribed procedures.

6.1.4 Sources of Audit Criteria

The Criteria for this Audit include Karnataka Transparency in Public Procurements Act⁸⁷ (KTPP Act) and Rules, Karnataka Financial Code (KFC), GoK orders/ circulars and Guidelines issued from time to time.

6.1.5 Scope of Audit

The Audit was conducted between March and December 2023 and involved scrutiny of records for the period from 2018-19 to 2022-23. Audit scope was restricted to supply of equipment by KEONICS. The supply of manpower by KEONICS to Departments/ institutions was outside the scope of the Audit.

As per the information furnished to Audit, KEONICS facilitated supply of equipment valued at ₹ 1,544.50 crore to different Government Departments and other institutions during the period from 2018-19 to 2022-23. Of these, Audit

⁸⁷ Under Section 2(d) of the KTPP Act, 'Procurement Entity' means any Government Department, a State Government Undertaking, Local Authority or Board, Body or Corporation established by or under any law and owned or controlled by the Government, and any other body or authority owned or controlled by the Government and as may be specified by it.

selected transactions executed by KEONICS for the following six Departments/institutions on stratified⁸⁸ random sampling basis for detailed verification:

1. Bruhat Bengaluru Mahanagara Palike (BBMP);
2. Minority Welfare Department (MWD);
3. Tribal Welfare Department (TWD);
4. Karnataka Thanda Development Corporation Limited (KTDCL);
5. Department of Technical Education (DTE); and
6. Forest Department.

As KEONICS did not share the data relating to Purchase Orders (POs) for the year 2018-2019, Audit selected 347 Purchase Orders (POs) relating to 2019-2023 for 14 types of equipment⁸⁹ (amounting to ₹ 240.98 crore) relating to the above departments for examination. The details are given in *Appendix - 18*.

6.1.6 Audit Methodology

Audit examined the records provided by KEONICS relating to the supply of sampled equipment to selected PEs. Records relating to tender formulation, identification of suppliers (called Business Associates (BAs)/Vendors by KEONICS) for different equipment were also reviewed. The supply price of equipment to PEs was cross-checked with OEMs and other Government/private suppliers. The delivery and installation of equipment in sample cases was physically verified by Audit and information on post-sale services provided by the BAs and third-party was also examined. Further, records relating to payments received from the PEs and payments made to the BAs were scrutinized.

Based on the above examination, Audit observed the following issues/ gaps in functioning of KEONICS, specifically with respect to BA empanelment, supply and delivery of goods, third party verification, etc. which are discussed in the *paragraphs 6.1.7.1 to 6.1.7.6*.

An Entry Conference was held on 30 May 2023. The Draft Audit Report was issued to the Government on 14 February 2024. An exit conference was held on 18 April 2024 and replies to the draft report furnished by KEONICS were endorsed by the State Government on 07 May 2024. Government accepted all the observations and recommendations made by Audit. It was stated that Standard Operating Procedures would be framed to streamline the procurement process through KEONICS and for this purpose, a Technical Advisory

⁸⁸ The procuring Departments/institutions were classified into two categories *i.e.*, total procurement value above and below ₹ 20 crore. Out of 13 Departments/institutions which procured for ₹ 20 crore or above, four were selected. Of the remaining two PEs were selected.

⁸⁹ 1. Audit Systems, 2. CCTV, 3. Computer and Accessories, 4. Computer Lab Setup, 5. Drone Camera, 6. High mast light, 7. Laptops, 8. Learning TV, 9. Printer and Accessories, 10. RO Water purifiers, 11. Smart Class Project/Solution, 12. Street Lights, 13. Tabs and 14. Total Stations .

Committee would be formed. It was also stated that in order to objectively identify the root cause of the issues leading to Audit findings, an independent enquiry committee had been constituted in February 2024. Further, Government stated that KEONICS intended to design, develop, and deploy a “Karnataka Digital Marketplace” with web and mobile applications, which would cover the end-to-end needs of all stakeholders (from indent to procurement to contract and project closure. Specific replies to Audit findings have been suitably incorporated in the respective paragraphs.

6.1.7 Audit Findings

Mis-use of exemption granted under KTPP Act by KEONICS and PEs

6.1.7.1 Section 5 of the KTPP Act, 1999 stipulates that no PE shall procure goods or services except by inviting Tenders for supply. Section 4(g) of the KTPP Act empowers the Government to exempt specific procurement from such tendering processes. The GoK had been issuing Notification under Section 4(g) of the KTPP Act, every year, providing exemption for procurements of IT equipment, services and IT related human resources done through KEONICS. Such procurement was subject to the following terms and conditions:

- (i) The procurement will be made from KEONICS subject to the condition that procurement value in each case shall not exceed ₹ 1.00 crore.**
- (ii) In case, the services provided were not from own or internal resources of KEONICS but were obtained from external sources, then KEONICS should follow the following procedure:**
 - a. KEONICS shall follow Tendering process in accordance with the provisions of KTPP Act and Rules;**
 - b. Technical qualifications of the bidders to be evaluated, rates quoted by eligible bidders to be verified and rates to be negotiated as per the Rules by KEONICS. Based on this process, successful bidders for goods and services were to be empanelled and service-wise rate contracts were to be entered into. Accordingly, the procurement requirements of the PEs to be met subject to the maximum procurement value prescribed.**

Audit observed that the entire procurement of equipment made by KEONICS, i.e. for ₹ 1,544.50 crore during the five years period from 2018-19 to 2022-23 was entrusted by the PEs under 4(g) exemption granted by GoK.

6.1.7.2 KEONICS selected BAs by calling for Expression of Interest (EOI) through e-procurement portal of the GoK. However, no rate contract agreement was entered into with any of the BAs selected for any item of equipment/service by KEONICS during 2018-23. A review of records revealed that in all the procurement transactions, KEONICS sought direct

entrustment of procurement orders from the PEs on the basis of exemption granted by GoK under Section 4(g) of the KTPP Act. Important observations made on the issue of POs by PEs and the procurement and supply of equipment by KEONICS are brought out in the following paragraphs.

Splitting up of Purchase Orders by PE

6.1.7.3 Audit scrutiny of the selected sample of 347 POs amounting to ₹ 240.25 crore (of the six selected PEs) revealed that 18 orders of four PEs valuing ₹ 154.44 crore (64.28 per cent of sample selected for detailed scrutiny) were split into 195 purchase orders of less than ₹ 1 crore to avail 4(g) exemption and to entrust supply orders directly to KEONICS. The details are given in *Appendix - 19*.

Non-IT products/equipment procured by misusing 4(g) exemption

6.1.7.4 Audit noticed that amongst the selected sample of 20 equipment

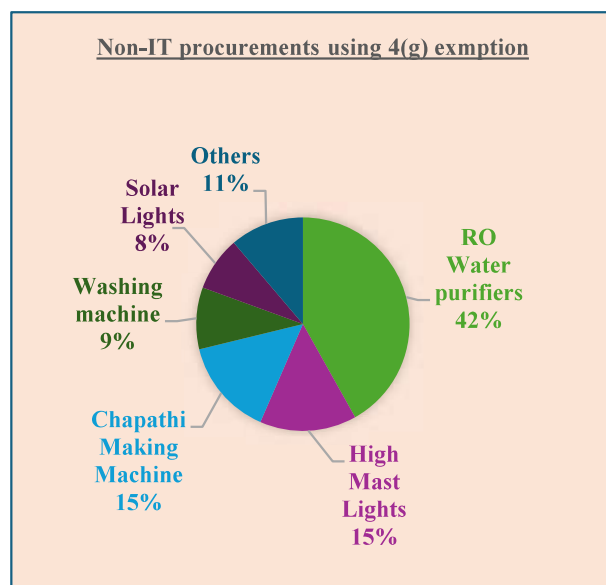


Chart No. 6.1.3: Non-IT procurement using 4(g) exemption

from six departments, KEONICS had procured non-IT equipment such as RO Purifiers, High Mast Lights, Chapati Maker, etc. for ₹ 255.17 crore (in 405 out of 3,117 POs) using 4(g) exemption. This was in violation of KTPP Act. Item wise share of non-IT products in the total procurement value of ₹ 255.17 crore is shown in the Chart-6.1.3 alongside and details are given in *Appendix - 20*.

Government replied (May 2024) that action has been taken by stopping the procurement of non-IT goods and services by KEONICS. However, specific reply with regard to splitting up of purchase order by PEs was not furnished.

To ascertain whether KEONICS ensured quality products, lesser price, timely delivery, prompt post sales services, etc. to PEs, records related to empanelment of BAs, POs of the selected equipment of selected PEs were examined and the observations are discussed in the following paragraphs.

Absence of transparent and documented policy with regard to enrolment of BAs

6.1.7.5 Audit (March 2023) sought the criteria for selection of BAs and/or any approved policy or procedure approved by the Management/Government from KEONICS. KEONICS, in their reply

(April 2024) stated that there were no approved norms/ guidelines/ manual/ procedures for empanelment/ renewal of term of empanelment of Business Associates. In this scenario, Audit evaluated the Notice Inviting Expression of Interest (EoI) by KEONICS and subsequent evaluation of EoIs received. Audit observed that the methodology suffered from the following deficiencies:

a) As per the EoI (Para 2.0 Eligibility Criteria) issued for empanelment of BAs, one pre-qualification criteria for selection was adequacy of financial capability⁹⁰. For this purpose, the applicants were required to submit turnover details and related supporting documents. However, start-ups were exempted from submitting these details. All start-ups were considered to be 'Category A' which would entitle them to execute orders with estimated value up to ₹ 30 lakhs per year for 2018-19, 2019-20, 2020-21 and 2021-22 and up to ₹ one crore during 2022-23.

On review of records related to 22 selected BAs, Audit observed that turnover details along with supporting documents viz. Balance Sheet and Profit & Loss Account relating to five BAs⁹¹ were not on record. Instead of classifying these applicants under Category A, they were classified as A / B Category or upgraded on renewal to B or C Category and orders in excess of the entitled amount were placed on such start-ups. Audit noticed that five start-up BAs were entrusted business of ₹ 70.73 crore, which was ₹61.63 crore over and above their entitlement (details given in *Appendix-21*).

b) One of the pre-qualification Criteria prescribed for EOI was that "*the bidder must be Original Equipment Manufacturers (OEM) or authorized distributor of OEM for the offered product*". However, Audit observed that the list of BAs did not include any OEMs. Verification of orders placed by the KEONICS in the selected cases showed that only four out of 22 BAs were authorized dealers of OEMs. In any case, supplies made by these BAs were not for the equipment, for which they were the authorised⁹² dealers. Audit also observed that KEONICS offered and executed orders for supplies of equipment that were not in the Line of Business (LOB)⁹³ of BAs who supplied them (Details are given in the *Appendix 22*). KEONICS also accepted (August 2023) that none of the empanelled BAs were OEMs. Thus, PEs were deprived of competitive rates and post-sale services, which could have been offered, if the equipment were sourced directly from OEMs/ authorised dealers.

⁹⁰ BAs were allowed to execute purchase order of value limited to their previous Annual turnover. A category BA was allowed to execute order value up to ₹ 30 lakh. Similarly, B category BA was allowed to execute orders up to 5 crore and C category BAs more than ₹ 5 crore.

⁹¹ 1) Alpstech Innovations Pvt. Ltd, 2) ANP Abhyas Pvt. Ltd, 3) Hema Applied Sciences & Technology, 4) Mythin Technology Pvt. Ltd and 5) Newgene Security Solutions LLP.

⁹² BA -Alpstech Innovations Pvt. Ltd who is the Authorised dealer for LED Lightning products and other electrical products of Spectrum Tech vision Pvt Ltd supplied Computer & accessories and CCTV Systems to KEONICS.

⁹³ Line of business (LOB) is a general term that describes the related product or services a business or manufacturer offers.

c) Clause 5 of the Terms and Conditions (sub-clause 4, 5 and 6) of the notice inviting EoI for ‘Empanelment of Business Associates’ issued by KEONICS provides that attempts would be made to allocate work to as many panellists as possible, by rotation. It also provides for pre-qualified BAs to directly approach the User Department, after seeking permission from KEONICS, for procuring orders. Further, if any order/ work/ job is procured by KEONICS on the strength of efforts of specific BA, such job will be allocated to the same BA, subject to verification of their credentials. Inclusion of these clauses provides undue advantage to BAs who secure orders, by limiting competition and thereby, vitiates the integrity of the procurement process.

Government replied (May 2024) that action has been taken to cancel the existing empanelled BAs and in the Exit Conference, Managing Director (MD), KEONICS stated that Standard Operating Procedures (SOPs) were being established to streamline the procurement processes. The SOPs would delineate the specifications on Information Technology (IT) items, methodology of procurement, third party verification (TPV) process, Training, Human Resource Services, assets and property management, etc. MD, KEONICS also stated that procurement of IT goods would be through the OEMs or their authorised channel partners in future. Further, MD also stated that fresh empanelment of BAs for procuring IT equipment and services would be done, after approval of the SOPs.

Undue benefit to BAs through inflated price estimates by KEONICS

6.1.7.6 Paragraph 15 (1) of KFC stipulates that “Every Government servant should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money”. Further, Paragraph 16 of KFC requires that every Government servant not merely to observe complete integrity in financial matters, but also to be constantly watchful to see that the best possible value is obtained for all public funds spent by him or under his control and to guard scrupulously against every kind of wasteful expenditure from public funds. Also, Provision 18 (2) of The Legal Metrology (Package Commodities) Rules, 2011 states that no retail dealer or other person including manufacturer, packer, importer and wholesale dealer shall make any sale of any commodity in packed form at a price exceeding the retail sale price thereof.

As shown in Chart No. 6.1.3, on requisitions received from the PEs, KEONICS would communicate the estimated rates for approval to PEs. After the estimated rates are approved by PEs, NITs would be issued to the empanelled BAs. However, KEONICS did not conduct any market survey to identify the prevailing market rates of items and was unable to explain the basis of rate estimation to Audit.

Audit observed that KEONICS adopted rates higher than the prevailing market rates in respect of nine equipment supplied for a total value of

₹ 75.81 crore to three PEs⁹⁴. Audit calculated the actual market value of the equipment supplied at ₹ 27.84 crore which had resulted in an extra financial burden of ₹ 47.97 crore to the public exchequer. The excess price paid was 172 *per cent* more than the market price. The prevailing market prices were ascertained considering the Maximum Retail Price (MRP) printed on the carton/package/box of the equipment delivered to PEs, cross-check of prices in marketplaces online, rates quoted by the KEONICS in other PO in the same year for the same equipment, etc.

The extent of inflated estimation for the nine equipment is shown in the following Chart:

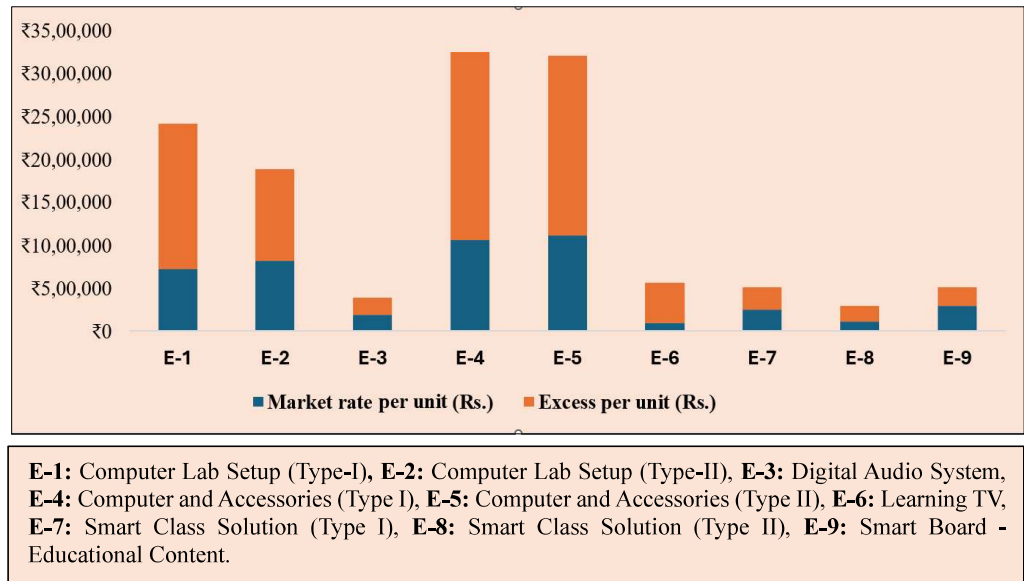


Chart No. 6.1.4: Inflated estimation over prevailing market rates

The PO wise and item wise details of excess price paid to the BAs are given in *Appendix-23*. A few illustrative cases are shown in the following Case Studies 1 and 2 below:

⁹⁴ Minority Welfare Department, Tribal Welfare Department and BBMP.

Case Study: 1

The TWD ordered (July/August 2021) for supply of 40 units of Computer Lab Setup. Each unit was to consist of 13 items. Of these:

1. Desktop system (Configuration: 18.5” Monitor, 4GB RAM, 1TB Hard Drive, Pentium Processor, Windows 10 Home Edition, Wi-Fi enabled) was estimated to cost ₹ 7.85 lakh per unit as against the MRP printed on the box of ₹ 2.90 lakh.
2. ‘Six CCTVs and Monitor’ included in this PO were estimated at ₹ 6.72 lakhs. Audit noticed that KEONICS had supplied the same component item at ₹ 53,434/- in August 2021 to TWD in another order. However, while estimating the rates for a PO of TWD in July 2021, ‘6 CCTVs and a Monitor’ was taken as one unit and the price was initially estimated at ₹ 1.12 lakh per unit. However, while communicating the estimated price to TWD and calling for tender, the unit rate was multiplied by 6 and the estimated price was shown as ₹ 6.72 lakh. This inflated price was adopted for subsequent POs.
3. In respect of Projector with Screen and Wi-Fi Router Multiple Antenna, MRP as printed on the box of the respective items delivered were compared with the rates finalised by KEONICS.
4. In respect of other component items, the market values were ascertained from online marketplaces.

This exercise revealed that for all the 13 components, estimated prices were more than the actual market value by ₹ 17.78 lakh per unit. Resultantly, for 40 units procured by TWD, the excess amount paid to BAs was ₹ 7.11 crore.

Case Study: 2

Kuvempu University (KU) placed supply order for 25 units of “All in one Smart Class Room” on KEONICS in March 2022. In this case, KEONICS identified 34 components per unit of ‘Smart Class Room’ and submitted an estimate of ₹ 19,99,923 per unit. The estimate was approved by KU and five POs (PO no. 149 to 153) of ₹ 99,99,615/- each were issued. All the five POs were issued to one BA (M/s. Hunnarvi Technologies Pvt Ltd) who was L1 and quoted five *per cent* less (₹ 18,99,927) than the KEONICS estimated price. An agreement was executed (April 2022) between KEONICS and the BA.

Later the technical advisory committee of KU removed six (Ceil mounting kit, service charge for one year, internet connectivity, analogy sound mixers, multipurpose sound mixer, 3D stickering) out of 34 components which were ordered in March 22 and requested KEONICS (21 April 2022) to furnish revised estimate. As per the original estimates, the six components excluded by KU were estimated to cost ₹ 1.71 lakh per unit. Therefore, the revised estimate was expected to be less to that extent.

However, the revised estimate submitted by KEONICS was for ₹ 19,98,819 per unit, which was just less by ₹ 1,108 per unit. KU also accepted (27 April 2022) the revised estimate.

From the above it is clear that both the estimates prepared by KEONICS were not based on assessment of actual market price of equipment but with the intention of matching the expenditure to funds allotted for that procurement.

In July 2022, the vendor claimed five bills for supply and installation of 25 units as per the original estimates for 34 components, as against 28 components supplied as per the revised POs. KEONICS also paid four bills as claimed by the vendor and one bill for ₹ 0.95 crore was pending as of December 2023. This establishes that KEONICS had not carefully verified the bills submitted by the vendors. The incorrect claim made by the vendor and paid by KEONICS on behalf of KU for the six components that were not supplied/installed amounted to ₹ 42.69 lakh.

Audit also noticed that the tenders called for against these POs among the BAs fetched L1 quotes that were very close to the estimated rates. On further analysis, Audit observed that in all the reviewed Purchase Order files (347 POs), the prices quoted by L1 bidders were just three/five *per cent* less than the rates estimated by KEONICS. KEONICS placed POs on successful bidders and raised invoice on the PEs concerned by adding an exact service charge of three/five *per cent*. Thus, in all these cases, the equipment were supplied to PEs at the inflated estimated rates of KEONICS. An illustrative case in this regard is given as Case Study 3 below:

Case Study 3

In July 2020, Director of Minorities Directorate (DMD) sought to install Digital Classroom facilities in Morarji Desai Residential Schools for 9th and 10th standards. Accordingly, 192 Digital Classrooms were to be installed in the State. KEONICS considered six items¹ for Digital Classroom and estimated cost per Digital Classroom at ₹ 4.25 lakh and communicated (July 2020) the same to the DMD. The rate was approved by DMD in September 2020 following which KEONICS invited 14 tenders on 13 October 2020. Only two (M/s SKR Infrastructures and M/s Newgene Security Solutions LLP) BAs participated in the tender, and both were found to be L1 for seven tenders each quoting ₹ 4.85 lakh per unit. Also, both the BAs quoted the same price in other seven tenders where they were declared as L2. Accordingly, KEONICS, finalised 14 POs for ₹ 4.85 lakh per unit.

Thus, inflated price estimates followed by submission of bids by only few BAs is suggestive of cartelization.

Audit verified the supply of equipment on the basis of specifications/ quantities mentioned in the POs along with review of delivery challans, invoices raised by BAs, photographic evidence of supply, GPS location where the equipment were installed, etc. Further, Audit also conducted Joint Physical Verification (JPV) along with the concerned authorities of the institutions, to check the delivery and installation of supplied equipment. Audit observations resulting from such verification and examination of records are given in the following paragraphs.

Payments made for equipment/components not supplied by BA

6.1.8 Audit observed during the JPV that in September 2023, the BAs had claimed ₹ 9.36 crore without actual delivery of the equipment/ relevant components in respect of the procurements by MWD and TWD. KEONICS also paid the amounts claimed by the BAs, without adequate scrutiny and verification of the documents, which resulted in misappropriation of Government money, as detailed in the Table 6.1.1.

Table No.6.1.1: Payments to BAs on fraudulent claims

Sl. No.	Description of the item	Quantity in numbers	Price as per estimates and invoices (₹ in lakh)	Observation made	Excess/ fraudulent payment to the BA (₹ in crore)
1.	Smart Class Solution (Interactive Display board 65 inch, Android Box, 1 KVA UPS, Lenovo 7 inch learning Tab and a Mouse)	192	5.10	Two BAs claimed the bill by submitting same delivery challans in two different PO files and KEONICS honoured the bills for both the POs. Audit noticed that 37 digital classrooms ⁹⁵ were not supplied and installed. Thus, BAs made fraudulent claim of ₹ 1.79 crore based on photocopies of the delivery challans. In December 2023, after being pointed out by Audit, MWD, confirmed that only 155 units were delivered as against 192 units that were to be supplied.	1.79
2.	Android Box (Out of the items mentioned in Sl. No. 1 above)	192	1.18	Principals/ Head Master/ Mistress of the Morarji Desai Schools/hostels confirmed during JPV that Android Boxes were not supplied along with the Smart Class. Thus, the BAs made fraudulent claim of ₹ 1.83 crore (worked out for 155 units excluding 37 units mentioned at Sl. No. 1 above)	1.83
	Total				3.62

Source: Data compiled by Audit

Similarly, in four procurements done by TWD⁹⁶, certain components were not supplied by the BA, as detailed in the Table 6.1.2. However, KENOICS paid ₹ 5.74 crore to the BAs in spite of such non-supply as detailed below.

Table No.6.1.2: Details of components not supplied by BAs but paid for by KEONICS

Sl. No.	Details of equipment procured and No. of units as per PO	Component items not supplied	Price charged by KEONICS (In ₹)	Short supply of units	Excess payment (₹ in crore)
1.	Computer Lab Set Up Type I 40 units	Antivirus (AVAST / Quick Heal McAfee / Norton / Good One)	76,700		
		Software's (MS Office 13)	2,74,940		
		Internet Connection - 1 Year	12,331		
		Total (1)	3,63,971	40	1.46
2.	Computer Lab Set Up Type II 56 units	Antivirus (AVAST / Quick Heal McAfee / Norton / Good One)	72,865		
		Software's (MS Office 13)	2,24,200		
		Internet Connection - 1 Year	12,331		
		Total (2)	3,09,396	56	1.73

⁹⁵ Vijayanagar (Kudluga) -2, Dharwad-2, Gadag-4, Haveri-2, Kalaburgi-8, Koppala-12, Raichur-4, Mysuru-1 and Ramanagara-2.

⁹⁶ Mentioned in E-1, E-2, E-4 and E-5 of the **Chart 6.1.3** above.

Sl. No.	Details of equipment procured and No. of units as per PO	Component items not supplied	Price charged by KEONICS (In ₹)	Short supply of units	Excess payment (₹ in crore)
3.	Computer and Accessories - Type I 29 units	Antivirus (AVAST / Quick Heal McAfee / Norton / Good One)	76,700		
		Textbook Conversion to PDF to Projection	2,89,100		
		Software (MS Office 13, English Grammar and basic Educational Software)	2,74,940		
		Internet Connection - 1 Year	12,331		
		Total (3)	6,53,071	29	1.89
4.	Computer and Accessories - Type II 10 units	Antivirus (AVAST/ Quick Heal McAfee/ Norton/ Good One)	76,700		
		Textbook Conversion to PDF to Projection	2,89,100		
		Software (MS Office 13, English Grammar and basic Educational Software)	2,74,940		
		Internet Connection - 1 Year	12,331		
		Total (4)	₹ 6,53,071	10	0.65
	Grand Total			135	5.74

Source: Data compiled by Audit

These instances show that internal control systems such as (i) fool-proof methodology for verification of bills submitted by BAs with respect to the POs issued (ii) efficient stock verification mechanism to ensure complete delivery and installation of equipment, etc. were absent in KEONICS. Though TPV was envisaged in the procurement process, as shown in the Process Flowchart No. 1, Audit found deficiencies in the appointment of consultants, cross-verification of TPV report with actual delivery challans, invoices and photographic evidence submitted by the BAs, etc. as discussed in the subsequent paragraphs.

Deficiencies in Third Party Verification system adopted by KEONICS

6.1.9 Third Party Verification (TPV) is intended to verify genuineness of claims and ensures that payment is made only after delivery of the specifically ordered equipment. The GO issued under KTPP Act with regard to TPV requires that Consultants (either Individual or Firm) known for integrity and professionalism should be appointed by following the procedures for procurement of Consultancy services. However, it was noticed that the TPV methodology adopted by KEONICS suffered from flaws as enumerated below:

- (1) *Appointment of TPV Consultant by the BAs:* Audit noticed that KEONICS entrusted appointment of TPV consultant to BAs who were issued the POs. Such appointment has inherent conflict of interest as the inspection reports issued by TPV Consultants, who are appointed by the BAs, could be biased in favour of the BAs.
- (2) *Absence of directions/guidelines from KEONICS to TPV Consultant:* KEONICS had not issued any guidelines or checklists to TPV Consultants to verify the specifications and configuration of each component/ equipment supplied against the PO and PE's

requirements. For example, it is essential to verify the specification of components such as hard disk, RAM, processor capacity, versions of the software installed, etc. in case of IT equipment. In the absence of guidelines, there was no mechanism to verify if the IT equipment delivered were in accordance with the specifications as mentioned in the POs.

- (3) *Payment made without conducting third party Inspection:* In 155 out of 347 test checked POs, payments of ₹ 85.98 crore were made without conducting the TPV.

Audit observed that these resulted in payments to BAs that were in excess of quantities supplied by them and based on fraudulent claims without actual delivery of equipment. Government replied (May 2024) that as a measure to ensure verification of quantity supplied and the technical specifications, KEONICS availed the services of Dept of Technical Education (DTE), Govt of Karnataka and the reports from the field verifications are being submitted by the DTE. Further, as per the above-mentioned KTPP requirement, KEONICS proposed to publish a Request for Proposal (RFP) to appoint Third Party Inspection (TPI) Agencies.

Payment to the BA on fake delivery challans and fake TPV report

6.1.10 The MWD issued two POs in March 2020 for supply of 70 units (PO no.179 for 34 units and PO No.180 for 36 units) of Chillers (Refrigerators) to the Morarji Residential School/ Minority Hostels. In response, KEONICS quoted ₹1,94,350 (₹1,48,453 + GST 18%) for Digital Micro based temperature controlled chiller (650 L). An amount of ₹ 1.39 crore⁹⁷ was received by KEONICS in advance. As per the conditions of the work order, KEONICS was to provide the details of model, make, brand and the rate before supplying the Chillers and TPV would be conducted by supplier appointed TPVs and a report would be prepared. The delivery challans certified by the Principal of each hostel along with the photographs of supplied equipment would be submitted to the KEONICS for payment.

In this specific case, the BA claimed the payment stating that all the chiller units had been delivered and installed at the locations as desired by the PE. In support of the claim, the BA submitted TPV reports. KEONICS sought approval to release payment from MWD in October 2020 and the MWD replied (November 2020) that 52 out of 70 chillers were not supplied by the BA. In spite of confirmation of non-supply, KEONICS paid ₹ 62.77 lakh for 34 chillers against PO No.179 in November/December 2020. This irregular payment was pointed out by Audit in January 2022.

Audit also noticed that an individual was appointed for TPV consultant by the BA. The TPV reports submitted mentioned dates of inspection as 31 August 2020 and 01 September 2020 at Bengaluru and Mysore divisions and at Kalaburagi and Belgaum divisions, simultaneously. The TPV reports in these cases had two different types of signatures of the same TPV

⁹⁷ ₹ 69.21 lakh on 23.03.2020 and ₹ 69.62 lakh on 22.10.2020.

Consultant. In reply to Audit, the TPV Consultant identified one signature as genuine and the other as fake, as shown in the following picture.



Picture No. 6.1.1: Genuine and Fake signature of the TPV Inspector

Verification of records at KEONICS revealed that 36 chillers that were ordered in March 2020 were supplied in February 2023, only after the short supply was pointed out by Audit. The remaining 16 chillers were also delivered as of March 2023.

Similar instances were noticed in 32 procurements of Computer Lab Set-up, Computers and accessories, Digital Audio System, etc. made for TWD between August 2021 and January 2022. The TPV reports showed same date of inspection at two to 18 different locations in the State. The total amount of procurement certified in these TPVs was ₹ 28.96 crore. The details are given in *Appendix 24*.

Payment made on the forged TPV reports

6.1.11 In view of the fake TPV reports found in the case of Chillers procured for MWD, Audit reviewed the TPV Reports of four other equipment procured from three BAs for ₹ 11.81 crore for MWD and TWD. The details are given in *Appendix-24A*. In the following cases where TPVs were shown to have been conducted by M/s RITES, Audit noticed that:

- (a) In respect of POs (No. 189 and 192) for Computer lab setup (10 units), the TPV of nine units was stated to be conducted between 15 February 2023 to 10 March 2023. Audit observed that GPS photos certified in the third-party inspection report were captured between 6 February 2023 and 12 February 2023, *i.e.*, before the actual dates of TPV.
- (b) In respect of Bandravi-Chitradurga, the photos of 'Computer Lab Setup' at Bhimanahalli (Kalburgi) were submitted and certified. The report revealed that the same photos were submitted by the BA along with the delivery challans.
- (c) In respect of Haliyal, the TPV was purportedly done by M/s RITES on 10 February 2023. However, in a third-party inspection recently carried out (20 October 2023) by KEONICS through Technical Education department team to check the delivery of Computer and Accessories, it was observed that the materials were not supplied to Haliyal Boys hostel.

On a clarification sought by Audit, M/s RITES confirmed that the TPV reports were not issued by their organisation.

TPV conducted before the actual delivery of goods

6.1.12 In respect of 17 POs of MWD and TWD, where the bills were accompanied by TPV reports and paid by KEONICS, Audit noticed that the TPV dates were prior to the actual dates of delivery of the equipment. The payments made in these cases amounted to ₹ 13.06 crore. The details are given in *Appendix – 25*. These instances point to collusion between BAs and TPV consultants and submission of fake TPV reports.

Government replied (May 2024) that KEONICS had proposed to publish a Request for Proposal (RFP) to appoint Third Party Inspection (TPI) Agencies.

Other irregularities noticed

Delivery of the materials before completion of tendering process

6.1.13 KTPP Act stipulates that no PE shall procure goods or services except by inviting Tenders for supply. Accordingly, the procurement process involves Notice Inviting Tender (NIT) issued by KEONICS, selection of qualified L1 BA, issuing a PO/entering into agreement with the selected BA and ensuring the delivery of the equipment within eight weeks of issuance PO.

Of the 347 POs test checked, in respect of two POs, Audit observed that the goods were delivered before NIT was issued by KEONICS and in two other cases, equipment was delivered even before issue of POs/ execution of agreement as detailed in the *Appendix - 26*. The value of the equipment delivered in these cases was ₹ 2.03 crore. This indicated that the BAs had been given the go-ahead to supply even before issue of NIT/issue of POs, thereby, rendering the entire tendering process in KEONICS a sham.

Advances paid to the contractors in violation of terms and conditions of NIT

6.1.14 In 18 POs, KEONICS paid advances of ₹ 48.65 crore to the BAs between March 2022 and August 2023 though there was no provision in NIT for such payments. The advance amount paid in these cases ranged from 20 to 85 *per cent* of the PO value. Case wise details are given in *Appendix-27*. Also, KEONICS did not obtain bank guarantees or any other form of security to safeguard Government money. In these cases, the BAs were required to supply the equipment within 180 days from the date of issue of PO. Of these, in six cases, payment was also made for equipment valued at ₹ 17.32 crore, which was yet to be supplied by BAs as of January 2024.

With respect to observations in paragraphs 6.1.8 and 6.1.10 to 6.1.14, Government replied (May 2024) that KEONICS had requested the constitution of an Independent Enquiry Committee to objectively identify

the root cause of the issues leading to Audit findings and to determine a suitable course of action. Further, Government stated that KEONICS had initiated disciplinary action against the erring officials by issuing them with show cause notices.

Conclusion

Procurement of equipment through KEONICS by Government Departments/institutions did not result in any tangible benefits such as cost effectiveness, supply of quality products, prompt post-delivery services, etc. On the other hand, the entire procurement process adopted by KEONICS was fraught with overestimation of prices, short/non-supply of equipment or components thereof, fraudulent claims by submitting false invoices/delivery challans and fake/ forged third-party verification reports. These irregularities resulted in misappropriation of Government money and losses to the procuring departments/institutions. PEs also split up procurements to evade tendering processes stipulated under KTPP Act, 1999 and entrusted supply orders to KEONICS with higher procurement rates, which was irregular. After these issues were brought to the notice of the Government, the exemption notification issued under Section 4(g) of the KTPP Act was withdrawn by the Government with effect from 22 November 2023.

Recommendations:

12. The Government needs to direct KEONICS to procure IT equipment either from OEMs or their authorised dealers/suppliers who are capable of providing prompt post-sales services. Also, KEONICS may ensure that only IT equipment/products related orders are accepted, as per its mandate.
13. The Government may direct KEONICS to appoint TPV inspectors on its own, to ensure actual delivery of equipment of the specification mentioned in the POs issued.
14. Government may fix responsibility on and take action against:
 - a. Officers/officials of PEs, KEONICS and vendors claiming fraudulent payment for equipment/component items that were not supplied by the vendors. Also, the excess amount paid to vendors be recovered.
 - b. Officers/officials of PEs for splitting up of the procurement sanctioned by Government into supply orders of less than ₹ 1 crore each for facilitating direct entrustment of supply orders to KEONICS.
 - c. Officers/officials of KEONICS for preparing inflated estimates and for accepting direct entrustment of supply orders, without entering into item rate contract agreements with BAs.

Krishna Bhagya Jala Nigam Limited

6.2 Commencement of works without possession of land

Commencement of works without possession of required land resulted in stoppage of works, rendering the expenditure of ₹ 30.00 crore blocked.

Paragraph 135(3) of the Karnataka Public Works Departmental Code (KPWD Code), stipulates that no work shall be taken up or tenders invited for a work without ensuring availability of land. In rare cases, when tenders for works are accepted but the lands required for the purpose are still to be acquired, then action should be taken on war footing to initiate land acquisition process. Paragraph 62 of KPWD Code prescribes that the land was to be acquired under the provisions of the relevant Land Acquisition Act⁹⁸ or Karnataka Highways Act 1964 through Assistant Commissioners of Sub-Divisions or appointment of Special Land Acquisition Officers/Highway Authority appointed for the process.

Audit scrutiny of the records of the Office of the Executive Engineer, Krishna Bhagya Jala Nigam Limited (KBJNL), Narayanpura Right Bank Canal Division-6, Chikkahonnakuni (Division), revealed that in contravention of the above codal provisions, the Division had invited tenders (November 2014 to December 2017) for four works (one canal extension work and three lateral works) costing ₹ 32.91 crore for providing irrigation benefits to the identified areas and awarded (April 2015 to March 2018) them without ensuring availability of land.

Audit observed that these four works were partially executed and subsequently stopped, since last three to eight years due to non-availability of required land as detailed in *Appendix - 28*. The process of land acquisition for incomplete stretches is still under progress (February 2024). The Division had incurred an up-to-date expenditure of ₹ 30.00 crore (91 *per cent* of the tendered cost) on these four works between October 2015 and June 2019.

The failure on the part of the Division in ensuring availability of land prior to invitation of tenders/commencement of works resulted in stoppage of the works rendering the expenditure of ₹ 30.00 crore incurred thereon blocked up for periods ranging from four to eight years. The non-completion of works not only defeated the envisaged objective of providing irrigation benefit to the needy areas, but also carries the risk of cost escalation due to time over-run.

KBJNL in its reply (February 2024) stated that the land acquisition in respect of the above four works was pending due to protests from farmers demanding change of alignment and enhanced compensation. It was further stated that as per the contract conditions the Contractors were also responsible for obtaining the possession of land with the consent of farmers and no extra cost was payable

⁹⁸ From 1 January 2014 under Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act 2013.

to them on account of delay in completion of works due to land acquisition issues. Government endorsed (April 2024) the reply of KBJNL.

The reply is not acceptable as the execution of works without taking possession of land is in violation of the provisions of KPWD Code. The fact that the required land is yet to be acquired even after eight years of commencement of works indicated lackadaisical effort by KBJNL. The contention that as per the contract conditions, Contractor was also responsible for obtaining possession of land is also not acceptable, as the Government/ Department has to acquire the required land for public works through Assistant Commissioners of Sub-Divisions or appointment of Special Land Acquisition Officers/Highway Authorities under the provisions of relevant Land Acquisition Act. Thus, the responsibility of making land available for the project lies with the Government and not the Contractor. Inaction on the part of KBJNL to acquire required land, not only resulted in blocking of funds, but also the envisaged goal of providing irrigation facility to the needy beneficiaries remained unachieved.

Recommendation:

15. Urgent action may be taken to remove the bottlenecks in land acquisition and complete the works to provide the envisaged irrigation benefit to the needy areas. KBJNL also needs to review the contract condition wherein the Contractor is made responsible for required land acquisition, as it is contrary to the provisions of KPWD Code.

6.3 Undue financial benefit to the Contractor

Failure to invoke contract condition relating to change in lumpsum price of the contract in accordance with change in scope of work resulted in undue financial benefit of ₹ 29.77 crore to the Contractor.

The contract agreement is a legal pact between the Contractor and the Employer which defines the scope of work, contract price, terms and conditions including those related to quality and cost control during execution of work. The cost control condition in the contract defines the changes to be made in contract price due to change in scope of work to be carried out. Any deviation from the agreed conditions could confer unwarranted financial benefit on the Contractor.

The Chief Engineer, Krishna Bhagya Jala Nigam Limited (KBJNL), Canal Zone No.1, Bheemarayangudi accorded technical sanction (January 2018) for the work of “Survey, Investigation, Design, Supply, Erection, Testing and Commissioning of Lift Irrigation System (LIS) for augmentation of filling up of 35 Minor Irrigation/Zilla Panchayat tanks in Yadgir District by constructing two stage lifts for lifting water from Bhima river on Turn-Key basis”. The Executive Engineer, KBJNL, Sonthi LIS Division, Khanapur, Yadgir District (Division) invited (December 2017) tenders for the above work at an estimated amount of ₹ 433.17 crore. After due tendering process, the work was awarded to M/s. Larsen and Toubro Limited, Bengaluru (Contractor) for the contract price of ₹ 351.90 crore. KBJNL entered into an agreement with the Contractor

on 15 March 2018 with the stipulated date of completion of 24 months *i.e.*, up to 14 March 2020. The work was completed and an amount of ₹ 333.50 crore⁹⁹ was paid (October 2022) to the Contractor.

Audit scrutiny (November 2023) of the records of the Division revealed that the contract conditions of the work included cost control provision (Clause 32.2) which stipulated that “changes in quantity of any item or addition or deletion of any item with respect to bill of quantities submitted by the Contractor do not affect the total lump sum price, provided there is no change in scope of work described in Tender Document or otherwise provided for in the Contract”. As per the agreement, the scope of work, *inter alia*, included the item “Supplying, Laying, Testing and Commissioning of Gravity Distribution Pipeline Network of length of 123.59 KM¹⁰⁰”. As per the approved price breakup, the Contractor was to be paid an amount of ₹ 121.08 crore for the above component of work.

As per the bid conditions, the Contractor had to get the detailed design and drawings approved by the Competent Authority before proceeding with execution of the work. Accordingly, the Chief Engineer (CE), KBJNL, Canal Zone-1 Bheemarayanagudi approved (August 2018) the final design and drawing of the above work, wherein the length of the Gravity Mains was reduced from the agreed scope of 123.59 KM to 90.40 KM. The work was executed as per the above approved design and drawing resulting in saving of 33.19 KM under Gravity Main works.

As the scope of the work was reduced, the Division was required to exercise the contract provision (*Clause 32.2*) to adjust the contract price proportionate to the reduction in scope of work and the resultant savings should have been passed on to KBJNL. As per the reduced scope of work, the Contractor was eligible for a proportionate payment of ₹ 88.56 crore¹⁰¹ for the component “Gravity Mains”. However, the Division failed to invoke the cost control provision of the contract and made payment (October 2022) of ₹ 118.33 crore under the component “Gravity Mains” as per the original scope of 123.59 KM provided in the agreement instead of actual execution of 90.40 KM. This resulted in undue financial benefit of ₹ 29.77 crore to the Contractor.

KBJNL replied (April 2024) that the scope of the work was “Filling of 35 tanks” which had not been reduced during execution. The design and drawings indicated in the tender document were tentative and the working drawings and detailed specifications were developed and submitted during the execution phase by the Contractor in which the length of Gravity Mains was reduced from 123.59 KM to 90.40 KM. Thus, there was no change in scope and *Clause 32.2* of the tender document could not be operated to reduce the contract price. Government also endorsed (April 2024) the reply of KBJNL.

The reply cannot be accepted as the scope of work included in the tender document clearly indicated that the length of Gravity Mains to be laid was

⁹⁹ Excluding price adjustment bills.

¹⁰⁰ 96.85 KM under Stage 1 and 26.74 KM under Stage 2.

¹⁰¹ 90.4 km (as per modified scope)/ 123.59 km (as per original scope) × ₹ 121.08 crore (quoted price) = ₹ 88.56 crore.

123.59 KM. However, the approval to final design and drawings accorded by CE reduced the scope of work by curtailing the length of Gravity Mains to 90.40 KM. This reduction of more than 26 *per cent* in scope of works warranted a proportionate reduction in payment to the Contractor as per *Clause 32.2*.

The failure of KBJNL to invoke the contract condition regarding cost control resulted in excess payment of ₹ 29.77 crore and undue financial benefit to the Contractor.

Recommendation:

16. KBJNL should take urgent action to recover the excess payment duly adhering to the agreed contractual terms and conditions.

6.4 Excess payment to Contractor

Adoption of incorrect price indices for regulating price adjustment payments resulted in excess payment of ₹ 5.78 crore.

To address the frequent fluctuations in rates of construction materials and labour, Government of Karnataka, issued (November 2004) order allowing price adjustment clause in all works whose estimated cost put to tender was ₹ 100 lakh or more and the period of completion was 12 months or more. The price adjustment was to be computed in accordance with the conditions and formulae agreed in conditions of contract and based on the appropriate wholesale price index issued from time to time by the Ministry of Commerce and Industry, Government of India.

Audit scrutiny (June 2023 and August 2023) of the records of two executing divisions¹⁰² of Krishna Bhagya Jala Nigam Ltd. (KBJNL) revealed excess payment to the Contractors due to adoption of inappropriate price indices for regulation of price adjustment as detailed below:

i) Incorrect adoption of price index related to Plant and Machinery Spares component.

Executive Engineer, Narayanpur Right Bank Canal (NRBC) Division No.5, KBJNL awarded (July 2021) the work of “Extension, Renovation and Modernisation of distributaries from 1 to 15 laterals including structures of Narayanapura Right Bank Canal System” to a Contractor¹⁰³ at the tendered cost of ₹ 828.40 crore. The work was under progress and the Contractor had achieved financial progress of ₹ 628.40 crore as of March 2023. Additionally, the NRBC Division paid (January 2023) ₹ 5.72 crore to the Contractor through price adjustment bills including ₹ 1.58 crore on account of “Plant and Machinery Spares” component.

¹⁰² Narayanpur Right Bank Canal Division No.5 and Indi Branch Canal Operation and Maintenance Division, Rampur.

¹⁰³ M/s. N. D. Waddar and Company, Lingasugur.

As per *Clause 44* of the General Conditions of Contract, the price adjustment for “Plants and Machinery Spares” component was to be regulated based on the all-India average wholesale price index for “Material Handling, Lifting and Hoisting Equipment”. However, the NRBC Division regulated the price adjustment claim for the component “Plants and Machinery Spares” considering the average wholesale price index of “Manufacture of Machinery and Equipment” instead of “Material Handling, Lifting and Hoisting Equipment” specified in the contract agreement resulting in excess payment of ₹ 1.15 crore. (*Appendix - 29*).

ii) Incorrect adoption of price index related to steel component

Executive Engineer, Indi Branch Canal (IBC) Operation and Maintenance Division, Rampur entrusted (January 2021) the work of “Restoration and providing mechanical gates to the Umarani Barrage constructed across Bhima River for augmentation of water to Chadchan Lift irrigation scheme” to a Contractor¹⁰⁴ at the contract price of ₹ 133.33 crore after due tender process. The work was under progress and the Contractor was paid ₹ 133.46 crore apart from ₹ 24.91 crore towards price adjustment of March 2023.

Clause 44 of the General conditions of Contract stipulated that in respect of Steel component, the All-India average wholesale price index for reinforcement and structural steel was to be adopted for regulating price adjustment. However, the IBC Division, Rampur adopted the sub-group “Mild Steel-Flat Products” under “Manufacture of Basic Metals” instead of the sub-group “Mild Steel Flats & Sheets” under “Structural Steel Component” for price adjustment of steel flat products. This resulted in excess payment to the tune of ₹ 5.87 crore as detailed in *Appendix - 30*.

KBJNL in its reply (January 2024) stated that an amount of ₹ 1.25 crore was recovered (November 2023) towards incorrect adoption of price index related to “Plant and Machinery Spares” component from the Contractor and further submitted that action for recovery of ₹ 5.87 crore towards price adjustment of steel component was initiated. Government endorsed (January 2024) the reply of KBJNL.

Thus, the adoption of inappropriate indices for price adjustment in respect of “Plant and Machinery” and “Steel Flats” components in two works resulted in excess payment to the Contractors to the tune of ₹ 7.02 crore out of which recovery of an amount of ₹ 5.78 crore was still pending (May 2024).

Recommendation:

17. KBJNL should take action to recover the excess amount paid to the Contractors and give direction to all Divisions to scrupulously adhere to the contract agreement conditions while regulating price adjustment payments.

¹⁰⁴ Shri.G.Shankar, Vijayapura.

6.5 Fraudulent payment for works not executed

False certification and fraudulent payment of ₹ 33.95 lakh was made for drain work which was not executed.

Paragraph 110.1(a) of the Karnataka Public Works Departmental Code (KPWD Code) stipulates that the field engineer in charge of a work should conduct measurements for all works executed in accordance with sanctioned plans, estimates and prescribed specifications. Further, Paragraph 110.8 of the KPWD Code mandates that measurements initially recorded by the field engineer shall be check measured by the Assistant Executive Engineer (AEE). One of the objectives of check measurement is to detect errors in measurement and to prevent fraudulent entries. After check measurement, the AEE shall record in his handwriting under his signature with date that the recorded measurements are correct and that the works are carried out as per sanctioned plans and approved specifications. A false certification, either by the field engineer or the AEE, can be construed as a fraudulent attempt to facilitate payment from the Government by unfair means and invites penal action.

The work of road formation from Jogundabhavi to Kamalapur in Shorapur taluk, Yadgir District was taken up by Executive Engineer (EE), Krishna Bhagya Jala Nigama Ltd (KBJNL) Dam Division, Narayanapura (Division) at the estimated cost of ₹ 1.60 crore. The work was awarded (March 2019) to a Contractor¹⁰⁵ after due tender process for the contract amount of ₹ 1.48 crore with the stipulated completion period of four months. The work was completed on 04 July 2019 at the cost of ₹ 1.63 crore.

Audit scrutiny of records of the Division (July 2023) revealed that the work included inter alia the following items as per the approved Bill of Quantities (BoQ) in the Table below:

Table No. 6.5.1: Details of work items as per BoQ

Sl. No.	Serial Number of BoQ	Description of the item	Quantity	Rate quoted (₹)
1	3	Excavation for road drains	22,000 cum	137.80/ cum
2	4	Compaction of original ground with maximum of six passes of 8 to 10 tonnes power roller.	4,500 sqm	6.36/ sqm

Source: Approved BoQ

Audit scrutiny of the estimates/BoQ of the work revealed that the quantities to be executed in respect of the above two items were interchanged. The detailed measurement sheets accompanying the estimates indicated quantities as 4,500 cum for excavation (item No.3) and 22,000 sqm for compaction (item No.4). The sectional drawings of the road appended to the estimates also indicated a quantity of only 4,000 cum in respect of the item 3. However, the above quantities were interchanged in the estimates and the Chief Engineer, KBJNL, Operations and Maintenance Zone,

¹⁰⁵ Sri Paramanna Police Patil, Hunasagi, Yadgir.

Narayanpur technically approved (December 2018) the estimates for the work submitted by the Division overlooking the above discrepancy.

The Division made cumulative payment of ₹ 30.32 lakh against the item No.3 i.e. 'Excavation of road drains' for executed quantity of 22,000 cum vide third and final Running Account bill (August 2019). Audit found that the measurement for the above item of work was recorded by the field engineer and certified by AEE for 22,000 cum quantity in the measurement book.

In view of the discrepancy in figures, Audit team conducted (December 2023) Joint Physical Verification (JPV) of the work site with the Department officials. The JPV revealed that the item No.3 i.e. excavation work for drains had not been carried out on either side of the road as recorded in the measurement book. The fact that excavation work for drains had not been carried out was also certified (December 2023) by the AEE and EE of the Division. Audit observed that both sides of the road were filled with boulders and rocks and there was no excavation for the drain works as recorded in the measurement books, as seen from the following photographs of the JPV:



Picture No. 6.5.1: Photographs showing the status of road work

Thus, even though the item of work “Excavation for drains” was not executed, it was recorded in the measurement book that 22,000 cum of earth work excavation had been carried out. AEE also certified that 100 per cent check measurements were carried out and accordingly payment

was made. This resulted in payment of ₹ 33.95¹⁰⁶ lakh for an item of work which had not been executed. The manipulation of the recordings in the measurement book and false certification by the officials resulted in fraudulent payment of ₹ 33.95 lakh to the Contractor.

KBJNL in its reply (April 2024) accepted that the item of work “Excavation for drains” was not executed and that the provision in the estimates for the above item was utilised for removing the surface boulders and hard rock to make the road surface even and uniform. It was also stated that no fictitious measurements have been recorded and it was only a procedural irregularity in operating the provision available for “Excavation for drains” for another essential item of work. It was also assured that a detailed enquiry would be conducted to ascertain and recover the excess payment, if any, and to fix responsibility on the Officers concerned. Government endorsed (April 2024) the reply of KBJNL.

The reply cannot be accepted as 22,000 cum of earthwork in respect of the item “Excavation for drains” had been falsely certified by departmental officer as executed in the measurement book and payment of ₹ 33.95 lakh was made on the above basis. The Division had neither proposed nor received approval from the competent authority for executing the extra item “Removing surface boulders and hard rock” and hence payment made on this account was fraudulent.

Recommendation:

18. KBJNL should recover the payment fraudulently made to the Contractor with penal interest and carry out a detailed enquiry to fix responsibility on officials who were responsible for fraudulent payment.

Karnataka Power Transmission Corporation Limited

6.6 Extra-expenditure

Failure of the Company to verify the suitability of the land allotted for construction of a 220kv substation, resulted in extra-expenditure of ₹ 5.35 crore on construction of retaining wall and other infrastructure to prevent the station from submergence in the backwaters of nearby tank.

Karnataka Power Transmission Corporation Limited (the Company) accorded (February 2018) the administrative sanction for the Detailed Project Report (DPR) for construction of 220/66kV substation at Begur, Gundlupet Taluk, Chamarajanagar district along with associated transmission lines (220 kV and 66 kV). The objective of construction of the substation was, *inter alia*, to improve reliability of power supply to the surrounding area and reduce the load on the existing 220/66kV substations at Kadakola and Chamarajanagar. During

¹⁰⁶ 30,31,600 + 3,63,972 (GST at 12 per cent) = 33,95,392.

August 2015, the District Commissioner of Chamarajanagar, based on the request (January 2014) of the Company, allotted the Gomala¹⁰⁷ land to the extent of 10 acres required for construction of substation at Begur Village (Survey No.137) for a consideration of ₹ 15 lakh.

The Company awarded (March 2019/June 2019¹⁰⁸) the contract for the work through invitation of tender (September 2018) to M/s KGN Electricals, Tumkur at a cost of ₹ 112.22 crore. The work was scheduled to be completed by September 2020. The substation was commissioned in July 2020.



Picture No.6.6.1: Google map showing substation constructed in tank area.

During the course of execution of work (after completing 95 *per cent* of the work), the Company noticed that water started to enter the station area when water was being filled to the Kammarahalli tank (located on the left side of the road adjoining the allotted land for the substation) under the Gandhigrama Drinking Water Scheme. The location of substation was at +751 meters above the mean sea level, while the full reservoir level of the water tank was at +753 meters above the mean sea level. Thus, the substation could get submerged completely if the water tank is filled upto its full capacity. Therefore, the Company, in consultation (March/May 2020) with the District Commissioner, constructed a retaining wall

The State Government, had approved (in January 2014 and prior to allotment of land to substation) a proposal for implementation of the Gandhigrama Drinking Water Supply Scheme (GDWSS). The scheme envisaged filling up of 12 tanks including Kammarahalli tank by pumping up water from Kabini river to meet the drinking water needs of villages under Nanjangud and Gundlupet Taluks. The works under the said scheme were awarded by Cauvery Neeravari Nigam Limited (CNNL) during November 2015 and were in progress at the time of award of contract (September 2018/March 2019) for construction of substation.

¹⁰⁷ Government land reserved for pasture of the animals.

¹⁰⁸ Date of Letter of Intent (LoI): March 2019 & Date of Detailed Work Award (DWA): June 2019.

on three sides, along with necessary infrastructure like drain water storage sump, pumping arrangements, box drains, culvert, and a bridge with approach road, by incurring an additional expenditure of ₹ 5.35 crore to prevent entry of backwater from Kammarahalli tank into the sub-station.



Picture No.6.6.2: Retaining wall view from tank side.

In this connection, the Company initially stated (September 2023) that the allotted land was Gomala land as per records of Revenue Department and that only block level survey was carried out to finalise the Finished Ground Level (FGL) of the proposed substation. Further, it was stated that there was no practice of GPS survey using satellite images for station yard. It was also stated that there

was no mention in the revenue records and no indication was given by CNNL/ Revenue Department about upcoming lift irrigation project, even after notification of the construction of station was published in the State Gazette (6 December 2018).

As per records obtained (August 2015) by the Company in connection with the allotment of land, there was a nallah crossing the site indicated in the village map. The tank was just across the road and could have been noticed easily. As the nallah

was leading to the tank, there was the possibility of back water rising and flooding the site. As the full reservoir level of the tank was higher than the ground level of the site, it would be submerged even if the tank was filled with rainwater. Thus, it was necessary to investigate the issue further (through survey, enquiry, etc.) and then decide the suitability of the land for construction of sub-station. The Company failed to take cognizance of the obvious site conditions, pre-existing tank and the ongoing works of GDWSS before acquiring the site and constructing the substation. The Company noticed that the site was in tank area only when backwaters of the tank started entering the station.

Central Electricity Authority (Technical Standards for Construction of Electrical Plants and Electric Lines) Regulations, 2010 stipulates the site selected for sub-station shall not be in a low-lying area to avoid flooding and that there shall not be any open drain/nallah or road crossing the site (Regulation 49(2)).

Government in its reply (March 2024) stated that the chosen land was mentioned as Gomala land and the details of upcoming lift irrigation project

were neither available in the revenue records nor informed by Cauvery Neeravari Nigam Limited (CNNL)/Revenue department. Further, it was also stated that no objections were received from the concerned departments against the proposed work when published in the State Gazette and it was proposed to pump water to the constructed periphery drain. The reply is not acceptable, as the site contained a nallah leading to the tank, an indication that the site could be flooded. Further, the works under the GDWSS scheme of filling the Kammarahalli tank were awarded (November 2015) by CNNL and were in progress at the time of award of contract (September 2018/March 2019) by the Company for construction of substation. The Revenue Department failed to mark the Kammarahalli tank in the land records and other departments also failed to take note of the proposed substation and raise objections as was appropriate.

Thus, lack of due diligence by the Company to check and verify the suitability of the allotted land before acquiring it and starting construction of the substation considering the facts available on hand, led to an additional expenditure of ₹ 5.35 crore towards protection works to prevent the site from submergence. As the site is low lying and walled up on three sides, there may be chances of flooding in the sub-station during the rainy season. Further, the Company has to, time and again, pump out seepage water and rain water from the sub-station to keep it safe.

Recommendation:

19. Audit recommends the management to fix responsibility on the delinquent officials for their failure to adhere to the CEA regulations while selecting site for substation.

6.7 Avoidable payment of interest

Delay in decision making at various stages resulted in avoidable payment of interest of ₹ 3.97 crore

Land measuring 12 acres 37 guntas at Bidadi Industrial Area was handed over during March 1998 by Karnataka Industrial Area Development Board (KIADB) to Karnataka Power Transmission Corporation Limited (the Company). The total cost of the land was fixed at ₹ 1.93 crore at the rate of ₹ 15 lakh per acre as decided (December 1997) in the meeting held under the chairmanship of the Principal Secretary to the Government of Karnataka, Commerce and Industries Department. The Company established the 220kV sub-station in October 1998 and paid the total cost of the land to the Board in October 2004.

As the Company delayed making payment towards the cost of the land, KIADB demanded (January 2005) interest of ₹ 2.09 crore for the period from 1 March 1998 to 30 November 2004. The Company's request (October 2005) for waiver of interest was rejected (April 2008) by the KIADB. The entire interest amount of ₹ 2.09 crore was paid by the Company in February 2019. Meanwhile, KIADB raised (January 2019) a revised demand of ₹ 5.67 crore towards interest for the period from 1 March 1998 to 31 January 2019, as the Company delayed the payment of interest. However, considering the request of the Company, KIADB

waived off 50 *per cent* of the further interest component for the period from 1 December 2004 to 31 January 2019. Accordingly, the remaining interest of ₹ 1.88 crore¹⁰⁹ was paid by the Company in February 2020. As a result, the Company had ended up paying interest of ₹ 3.97 crore, which was more than double the cost of the land (₹ 1.93 crore).

In the light of above facts, the Audit observed the following:

- The Company requested KIADB in March 2001 for exemption from payment of land cost citing higher interest on loan obtained for establishment of substation and low utilization of the substation capacity, which was rejected by KIADB in June 2001. The Company's requests to negotiate with KIADB for reduction of price by 50 *per cent*, in March 2002 and subsequently in June 2004 were also rejected. In the process, more than six years had elapsed by the time the Company made the payment of land cost to KIADB (March 1998 to October 2004). In view of approval of 50 *per cent* payment by the corporate office of the company in March 2002 and constant rejection by KIADB to reduce the price of the land, the delay in payment of the cost of land to KIADB was unwarranted.
- The approval for payment of interest amount was accorded by the Director (Administration & Human Resource) in May 2008 and the budget was allocated in October 2008. However, the payment was made only in February 2019, *i.e.* more than ten years after the approval for payment. Audit observed that the Chief Engineer, Electricity, Transmission Zone, Bangalore had urged (September 2009 and April 2010) the Financial Advisor (Accounts & Resources) for arranging payment of interest to KIADB. Despite these requests no action was taken to arrange the payment. This warrants fixing of responsibility on the concerned for the lapses, as this inaction led to payment of further interest of ₹ 1.88 crore for the period from 1 December 2004 to 31 January 2019. While the financial implication of interest payment was deliberated (March 2020) by the Company's Board of Directors, the issue of delays in releasing the payment leading to levy of additional interest was not included in the Agenda for the Board meeting and was, therefore, not discussed. The additional interest for the period from 1 December 2004 to 31 January 2019 could have been avoided by the Company, had it acted promptly in payment of dues after the rejection of interest waiver request by KIADB in April 2008.

Thus, due to delay in decision-making and payment settlement, the Company took an unjustifiably long period of 22 years for settling (2019-20) a transaction that was initiated during 1997-98. This resulted in additional outgo of ₹ 3.97 crore for the Company, which was avoidable. Further, these inefficiencies would ultimately result in burdening the consumers, as such costs are factored into the tariff.

¹⁰⁹ ₹ 185.80 lakh (50 *per cent* of balance interest of ₹ 371.60 lakh) *plus* EMD - ₹ 0.65 lakh *plus* Slum Clearance charges - ₹ 1.32 lakh.

The Company stated (July 2023) that the delay in submission of proposal for payment was attributable to the earnest efforts made by the Company for getting exemption from payment of land cost. The reply is not acceptable as after the initial rejection by KIADB for waiver of payment, the Company could have paid 50 *per cent* of the land cost to avoid accumulation of interest. Further, the Company in its reply has claimed that even though the budget was released for payment of interest of ₹ 2.09 crore during October 2008, the payment was made during February 2019 as the Company was constantly pursuing with KIADB to reconsider the rejection of the proposal for waiver of interest amount. The claim of the Company is not acceptable as the claim is not substantiated by any documentary proof. Also, the approval for payment of interest of ₹ 2.09 crore (May 2008) was given only after rejection by KIADB for waiver during April 2008.

Government stated (January 2024) that the Company had installed E-office software wherein every file movement could be tracked and delays in movement are monitored. The Government has also stated that as the subject matter is more than 15 years old and the incumbent officers have already retired from service/died, no action can be initiated for the lapses, if any, at this length of time.

The reply is not acceptable as the persons responsible for the lapses in making the payment in time were not identified and presented to the board while presenting the financial implication in March 2020 or at a later stage.

Recommendation:

20. Audit recommends that role-based timelines may be fixed for such transactions to avoid similar lapses in the future.

6.8 Idle expenditure and loss

The lapses at various stages resulted in a 15-year delay in project completion, a decade of idling costly equipment and loss of ₹ 3.16 crore.

In December 2006, the Karnataka Power Transmission Corporation Limited (the Company) sanctioned the Detailed Project Report (DPR) for the establishment of a 110/33/11kV substation at Jeppu in Mangalore Taluk. Additionally, it involved constructing a 110kV LILO¹¹⁰ line spanning 10 kilometers from the existing Kulashekara-Konaje Single Circuit line to the proposed substation at Jeppu. The project aimed to alleviate loads in existing 33kV substations, minimize energy losses on 11kV feeders and reduce power interruptions while regulating 11kV line tail-end voltage in the substation area. Following a tender process, the Company awarded the contract (January 2008) to M/s. Deepak Cables (India) Limited (contractor) at a total cost of ₹ 9.01 crore¹¹¹. The stipulated completion time for substation and line works was seven and six months, respectively, from the date of the Letter of Intent (29 January

¹¹⁰ LILO- Line in line out- an arrangement for tapping an existing transmission line to serve a new sub-station.

¹¹¹ Supply of material (₹ 663.46 lakh); Erection (₹ 20.06 lakh); Civil works (₹ 217.63 lakh).

2008). Non-compliance with the contract terms could result in performance guarantee forfeiture, penalty imposition, and contract termination, as per the General Conditions of Contract (*Clause 45.3*).

The contractor failed to meet the specified deadlines, leading to the termination of the contract in May 2016, following a final notice issued in March 2016. At the time of termination, the contractor had partially completed the work¹¹² for which the Company paid ₹ 5.97 crore to the contractor. The Company held ₹ 3.29 crore from the contractor's bill, comprising Retention Money (₹ 1.31 crore), Liquidated Damages (₹ 94.79 lakh), and encashment of Bank Guarantee (₹ 1.03 crore). Subsequently, the remaining work was re-tendered and awarded to another firm¹¹³ in September 2019, which was completed (January 2023) at a cost of ₹ 4.18 crore¹¹⁴.

In this regard, Audit observed the following:

- i) Despite the contractor's lack of progress since July 2013 and a complete halt from May 2015, the decision to terminate the contract was delayed until May 2016. The Company, during the intervening period, engaged with the contractor but failed to terminate the contract promptly as per terms of the contract.
- ii) The Company took over three years to re-award the contract (September 2019) after termination. Delay in estimate preparation and multiple tender invitations contributed to the prolonged timeline, rendering a significant expenditure of ₹ 7.02 crore¹¹⁵ unproductive.
- iii) Based on the request (May 2016) of the Company, the contractor appointed (July 2016) its representative for taking joint inventory and also returned the unutilized material relating to the line works. As per the terms of contract, the contractor was responsible for the safety of all the equipments/materials under custody. The contractor requested (February 2017) the Company to make necessary arrangements to safeguard the assets at the substation. However, the Company appointed the security agency only in November 2017, 18 months after termination and found that the materials¹¹⁶ worth ₹ 3.16 crore were missing/damaged. Further, as per the termination of contract notice dated May 2016, the work was deemed to have been taken over by the Company. The Company neglected its obligation to take over the assets immediately after contract termination, leading to a loss of ₹ 3.16 crore. The delay in appointing a security agency allowed for the disappearance/damage of materials including two transformers costing ₹ 2 crore, which were found unsuitable for repair. Though the Company

¹¹² sub-station works completed except testing of equipment, approach road to station, etc.; 37 out of 40 towers erected and straining of 5.9 km out of 9.7 km completed.

¹¹³ M/s Manipal Energy and Infratech, Udipi.

¹¹⁴ Represents expenditure incurred as on January 2023, against the award price of ₹ 5.18 crore.

¹¹⁵ This included ₹ 5.97 crore paid to the agency and ₹ 1.05 crore being interest during construction.

¹¹⁶ 10 MVA Power Transformers, 11kV Switch Gears, Control Panels, Cables, etc.

lodged (November 2017) a police complaint against the loss/theft of material, there was no progress in the case (February 2024).

- iv) The Board of Directors of the Company in its meeting held on 27 December 2022 decided to conduct a fresh enquiry against all the officers/employees who were responsible for the lapses and who failed to implement Standard Operating Procedures in monitoring the stores during the check period. The Departmental Enquiry was, however, withdrawn and the Officers were acquitted of the charges against them by KPTCL. Thus, the Company failed to fix responsibility for failure to safeguard its Assets.

Government replied (March 2024) that delay in works was due to many reasons such as objections from land owners in line corridors, court cases and also, delay by the agency. Further, as of November 2015, 70 *per cent* of the work was completed by the contractor and based on the request of the contractor to not short close the contract and long business association that the contractor maintained with the Company, termination of contract was delayed. The process of termination of contract was also delayed to avoid time and cost involved in re-tendering process. The reply is not acceptable as work was awarded during 2008, and the stipulated time period was six and seven months respectively. However, the Company allowed the contractor to continue much after the stipulated time period.

Further, with respect to the delay in re-award of the contract for the balance works, the Government replied that the delay was due to multiple revisions in the estimates prepared due to introduction of Goods and Service Tax and damage/loss of materials. The delay could have been avoided as the action involved was entirely within the purview of the Company. The process of preparation of estimates and its technical sanction consumed unreasonable time of more than two years from the date of termination (May 2016 to July 2018) which is not justified. Further, the reply is silent on exactly how the introduction of GST caused multiple revisions in the estimate.

Regarding the loss of materials worth ₹ 3.16 crore, the Government replied that the contractor was responsible for the safety of the materials until they are returned to store authorities as per the Joint Inventory statement. Also, a complaint had been lodged against the contractor under relevant sections of IPC and the investigation is under progress. The reply cannot be accepted as when the contract was terminated, the works were deemed to be taken over by the authorized representative of KPTCL as stated in the termination order. In addition, the Company should have been prompt in appointing a security agency to safeguard the assets when the contractor had communicated its inability to provide security at the premises.

The lapses at various stages resulted in a 15-year delay in project completion, a decade of idling costly equipment and a loss of ₹ 3.16 crore. The Company has

to take necessary action to address these issues and fix responsibility for such negligence.

Recommendation:

21. Audit recommends the management to fix responsibility on the officials for not taking over the assets on termination of the contract leading to loss of assets.

Visvesvaraya Jala Nigam Limited

6.9 Excess payment of electricity charges

Failure of VJNL to verify the correctness of the electricity bills resulted in excess payment of electricity charges amounting to ₹ 16.89 crore.

The Karnataka Electricity Regulatory Commission (KERC) issues tariff orders time to time that provide guidelines for the calculation of energy charges. As per the tariff orders, the Government owned Corporations operating Lift Irrigation Schemes (LIS) were obligated to pay the prescribed annual minimum charges, if the annual energy charges fell below the minimum prescribed threshold. The minimum electricity charges for LIS owned by Government-owned Corporations were to be determined on an annual basis, considering the installed capacity of the pump house.

The prescribed energy charges and minimum tariff charges for LIS implemented by Government owned corporations is as listed below:

Table No. 6.9.1: Electricity tariff for LIS schemes

Sl. No	Year	Energy charges and Minimum tariff as per KERC tariff order
1	2019-20	275 Paise per unit subject to annual minimum of ₹ 1480 Per HP/ annum
2	2020-21	300 Paise per unit subject to annual minimum of ₹ 1600 Per HP/ annum
3	2021-22	310 Paise per unit subject to annual minimum of ₹ 1720 Per HP/ annum
4	2022-23	315 Paise per unit subject to annual minimum of ₹ 1900 Per HP/ annum

Source: KERC Orders

Executive Engineer (EE), Upper Bhadra Project Division No 2, Visvesvaraya Jala Nigam Limited (VJNL) was operating two pump houses at Shanthipura and Bettatavarekere. These pump houses were utilised for lifting water from the Bhadra reservoir to the delivery chamber located near the proposed tunnel at Ajjampura as part of the Upper Bhadra Project. The pump houses at Shanthipura and Bettatavarekere were commissioned in February 2019 and August 2019 respectively.

Audit scrutiny (September 2021) of the electricity bills of the office of the Chief Engineer, Upper Bhadra Project Zone, VJNL revealed that the Mangalore

Electricity Supply Company (MESCOM) calculated the energy bills of the pump houses on monthly basis by dividing KERC prescribed annual minimum charges by twelve against which the actual energy charges for the month was compared with. The higher among the two charges was considered in the monthly bills of the pump houses. Audit compared the annual energy charges based on actual consumption, KERC prescribed minimum annual charges and the energy charges billed by MESCOM based on monthly computation and the details are indicated in Table below:

Table No. 6.9.2: Comparison of energy charges as per actual consumption, KERC prescribed minimum charges and actually billed by MESCOM

(₹ in crore)

Sl. No.	Year	Shantipura Pump House			Bettavarekere Pump House		
		Annual energy charges based on actual consumption	Annual minimum charges based on installed capacity	Actual energy charges billed by MESCOM based on monthly calculation	Annual energy charges based on actual consumption	Annual minimum charges based on installed capacity	Actual energy charges billed by MESCOM based on monthly calculation
1	2019-20	5.09	11.63	13.18	As the pump house was commissioned in August 2019, annual charges could not be compared		
2	2020-21	10.18	12.89	17.41	9.81	12.87	17.07
3	2021-22	10.91	12.98	17.15	10.46	12.93	16.83
4	2022-23	1.08	15.17	13.85	11.49	15.20	15.09

Source: Information compiled from electricity bills of pump houses

As observed above, for both the pump houses, the annual energy charges based on actual consumption was less than the annual minimum prescribed charges for all the financial years during the period 2019-23. During 2022-23, the actual energy charges levied by MESCOM was less than the annual minimum charges. As per the KERC tariff order, the annual minimum charges based on the installed capacity was to be levied as the electricity charges for the respective years. Since the electricity charges were calculated monthly without complying to the KERC order prescribing adoption of annual minimum charges, VJNL made excess payment of ₹ 16.89 crore on account of electricity charges during 2019-20 to 2022-23 (Details vide **Appendix - 31 and Appendix - 32**).

Thus, the incorrect compliance by MESCOM to the KERC tariff orders regarding LIS schemes and the failure of VJNL to verify the correctness of the MESCOM bills resulted in excess payment of electricity charges to the tune of ₹ 16.89 crore.

VJNL in its reply (November 2023) accepted the audit observation and stated that MESCOM has agreed (November 2023) to withdraw the excess billing and adjust the excess amount of ₹ 24.22 crore¹¹⁷ (along with interest of ₹ 2.57 crore) from the future bills of the pump houses at Shantipura and Bettavarekere. Government endorsed (December 2023) the reply of VJNL.

¹¹⁷ As calculated by MESCOM for the period up to October 2023.

Further details regarding adjustments/recoveries made are awaited (May 2024).

Recommendation:

22. VJNL should review the correctness of electricity bills in respect of other LIS schemes also. A system may be developed to verify the correctness of application of tariff rates and the calculation thereof.

Gulbarga Electricity Supply Company Limited

6.10 Undue favour to Contractors

The Central Purchase Committee of Gulbarga Electricity Supply Company Limited had approved refund of Liquidated Damages of ₹10.26 crore without any valid grounds and ignoring the delays attributable to the contractors, resulting in extension of undue benefit.

Gulbarga Electricity Supply Company Limited (the Company) awarded various system improvement works during 2011-12 and 2012-13 under the Central/State sponsored schemes¹¹⁸, and also through its Capex Budget. The scope of works mainly comprised Replacement of Overhead Lines by LT AB Cables, Reconductoring of 11kV lines, Installation of additional Distribution Transformer Centers, Replacement of existing meters with Electrostatic Meters, Construction of substations and lines, and Construction of agriculture feeders. The details of works are given in **Appendix - 33**.

The contracts for execution of the above works under the jurisdiction of three divisions of the Company (Gulbarga City, Gulbarga and Bidar) were awarded to M/s Larsen & Toubro (RAPDRP - March 2012), M/s Ramlingam Construction Company (NJY - July 2011/March 2012) and M/s Sharavathy Conductors Pvt Ltd, Bangalore (Capex - March 2016) at a total cost of ₹ 172.38 crore, with a stipulation to complete within 11 months, 6 months and 9 months respectively from the date of issue of Letters of Intent. The works were, however, completed during 2015-16 and 2018-19 with delay ranging from 17 months to 38 months beyond the stipulated dates in the contracts.

The Company deducted the Liquidated Damages (LD) of ₹ 10.26 crore from the bills of the agencies for the delay in completion of works as per the terms of contract. Subsequently, based on the request of the agencies, the entire amount of LD was refunded by condoning the delay with the approval (2020-21) of the Central Purchase Committee (CPC) of the Company.

The delay in completion of works under NJY and R-APDRP were commented in the Audit Report of CAG of India on PSUs, Government of Karnataka for the year ended 31 March 2015 and 31 March 2016 respectively. Audit had further scrutinized (2022-23) the proceedings of the CPC and the grounds on which the LD was refunded to the agencies.

¹¹⁸ Restructured Accelerated Power Development Reforms Programme (R-APDRP) and Niranthara Jyothi Yojana (NJY).

Audit noted that the grounds on which the decision was taken to condone the delay and refund the LD were not justified and contrary to the facts available on record. The detailed audit remarks against each of the reasons given by the CPC for condonation of delay are given in the **Appendix - 34**. The delays attributed to the agencies, though noted by the CPC, were ignored while approving the refund of LD, despite having clear evidence of default by the agencies. Further, the CPC while condoning the delays, relied upon factors that did not contribute to delay in completion of works.

- For instance, in respect of execution of RAPDRP Part B works¹¹⁹, ‘entrustment of additional works’ and ‘reduction in scope’ were considered to be reasons for delays, though in reality, they did not actually affect the original scope of work. Further, the delay in supply of meters, which was considered as prime factor for condonation had affected only one of the four components of the said contract, while the delay in completion of the remaining was not discussed by the CPC.
- Similarly in respect of NJY works¹²⁰, the CPC noted that completion of 16 out of 24 feeders in Bidar, Division-I and II divisions, which had no issues of railway crossings, had been delayed ranging from two months to three years from the target date. LD levied was refunded without any valid recorded reasons, even though delays attributable to the agencies were identified.
- In case of establishing GIS substations¹²¹, the CPC approved refund of LD by overlooking the facts available on record. Several lapses on the part of the agency reported by the Executive Engineer (Electrical) of C&M Division, Gulbarga, were ignored while condoning the delay. The lapses included insufficient manpower deployment, delayed submission of drawings, delay in joint inspection, non-payment of statutory fee, lack of work progress even in places having no right of way issues, *etc.* It is evident that the CPC did not take cognizance of these lapses.
- The LD included both on account of delay in supply of materials and erection. An amount of ₹ 2.90 crore¹²², which was deducted on account of delay in supply, was refunded to the agencies. There was neither any evidence on record, nor were the reasons assessed by the CPC for the delay in supply of materials.

¹¹⁹ Execution of RAPDRP Part B works in (i) Gulbarga City Division & Gulbarga-I (Aland Town) and (ii) Bidar Division (Bidar & Bhalki Towns). **Agency:** M/s Larsen & Toubro Limited, Bangalore. **Refund:** (i) ₹ 2.68 crore, (ii) ₹ 1.75 crore.

¹²⁰ NJY works in (i) Bhalki Taluk, O&M Division, GESCOM, Bidar, (ii) Gulbarga Taluk, O&M Division-I, GESCOM, (iii) Chitapur Taluk, O&M Division II, GESCOM. **Agency:** M/s Ramlingam Construction Company Pvt Ltd, Bangalore. **Refund:** (i) ₹ 0.45 crore, (ii) ₹ 1.23 crore, (iii) ₹ 1.28 crore.

¹²¹ **Lot-1:** Establishing 3 Nos. of 33/11kV GIS substations at i. Shantinagar, ii. Service station-44 and iii. KHB hospital (High Court); **Lot-2:** Establishing 2 Nos. of 33/11kV GIS substations at i. KCT Gate, ii. Government General Hospital. **Agency:** M/s Sharavathy Conductors Pvt Ltd, Bangalore. **Refund:** ₹ 2.88 crore.

¹²² Refer **Appendix-34**: Sl.No.2 (₹ 1.27 crore); Sl.No.3 (₹ 0.34 crore); Sl.No.6 (₹ 1.29 crore).

- The delay condonation and LD refund was decided (August 2020/November 2020) after lapse of more than four to five years of completion (February 2015/December 2015/March 2016) of works executed by M/s Larsen & Toubro Limited and M/s Ramlingam Construction Company Pvt Ltd. Audit observed that the rationale behind the CPC's decision to take up the subject after such time lapse lacked justification.

The Board of Directors of the Company, while noting the decisions of CPC, observed (November 2020) that there was inordinate delay in providing materials by the Company causing delay in execution of works. Directions were issued to the Managing Director to apply prudent checks before approving any condonation of delay and to issue appropriate Rules¹²³ and procedures to deal with the cases of extension of time and refund of LD. Audit observed that the Board of Directors noted primarily the delay in supply of materials by the Company, without going into the veracity of the decision of CPC. Despite emphasizing the need for prudent checks to condone the delay, the Board did not deliberate the delays attributed to agencies and whether such prudent checks were carried out while approving for refund of LD by the CPC.

Thus, refund of the entire amount initially recovered from the bills of the contractors towards liquidated damages, ignoring the delay attributable to the contractors was not prudent and was in violation of conditions of contract. The Company should have assessed the liquidated damages recoverable as per terms of the contract, in respect of the original work awarded, duly considering the delays attributable to the contractor.

Government's reply (March 2024) reiterated the issues deliberated in CPC proceedings, which were already considered by Audit. The reply did not address the specific issues pointed out by Audit.

Recommendation:

23. Audit recommends that management should consider conditions of contract while refunding Liquidated Damages.

KPC Gas Power Corporation Limited

6.11 Avoidable extra expenditure

Failure to re-assess the requirement of start-up power resulted in avoidable expenditure of ₹ 10.17 crore.

KPC Gas Power Corporation Limited (Company), a fully owned subsidiary of Karnataka Power Corporation Limited (KPCL), entrusted (November 2015) the work of establishing 1×370 MW Yelahanka Combined Cycle Power Plant (YCCPP) at Yelahanka to M/s. Bharat Heavy Electricals Limited (BHEL) at an estimated project cost of ₹ 1,571.18 crore. The contract involved Engineering,

¹²³ The circular to that effect was issued during April 2021.

Procurement and Construction (EPC) with a scheduled completion period of 30 months, *i.e.*, by May 2018.

The Company requested (March 2018) the Bengaluru Electricity Supply Company Limited (BESCOM), for start-up Power¹²⁴ of 20,000 KVA at voltage of 220 KV required for initial trial operation before synchronisation of YCCPP. The unit was scheduled to be commissioned during March/April 2018. BESCOM gave approval (August 2018) for start-up power supply on Extra High Tension (EHT) basis to be evacuated through 220 KV line from the adjacent Puttenahalli Sub-station to the plant premises. The Company paid (October 2018) initial security deposit amounting to ₹ 4.42 crore and entered (December 2018) into an agreement with BESCOM for a contract demand of 20,000 KVA. The Agreement was valid initially for a period of two years from the date of commencement of supply and would stand automatically renewed from year to year thereafter, until expressly terminated in writing by either of the parties. As per the prevailing tariff, demand charges are levied on actual maximum demand recorded in a month or 85 *per cent* of contract demand, whichever is higher along with the charges for actual consumption of energy at rates applicable (HT 2 (b) tariff) from time to time.

The project which was scheduled for completion by May 2018, was not put into operation even as of September 2023 due to various reasons like gas availability *etc.*. The undue delay in project completion was reported vide **Paragraph 2.2.7.1** of Compliance Audit Report for the year 2021.

During the period from December 2018 to March 2023, the YCCPP plant incurred an expenditure of ₹ 36.84 crore towards electricity charges under the start-up power supply to run the auxiliaries, without actually starting generation of electricity. The maximum demand recorded during the above period ranged between 720 to 8,880 KVA (3.6 *per cent* to 44.4 *per cent* of Contract Demand). However, as per the prevailing tariff, demand charges were payable at actual recorded demand or 85 *per cent* of contract demand, whichever is higher, at the rates specified in tariff and the billing was done at 85 *per cent* of contract demand *i.e.* 17,000 KVA.

Conditions of supply of Electricity of distribution licences (Sub clause 2 of Rule 34) provides for reduction/variation in Contract Demand during agreement period by executing a fresh agreement. The reduction would be effective from the meter reading date following the expiry of two months period from date of registration of application for reduction of contract demand/sanctioned load along with fresh agreement. Despite low utilisation of power, the Company did not use this provision to reduce its contract demand. Due to non-reduction of contract demand, Company incurred an avoidable expenditure of ₹ 10.17 crore¹²⁵ as detailed in **Appendix - 35**.

¹²⁴ Power required for running the Auxiliary equipment for commissioning activities of a new Generating Station.

¹²⁵ Calculated by taking 11,000 KVA (maximum consumption *plus* 20 *per cent* cushion, rounded off to 11,000 KVA) as required contract demand based on the highest demand recorded during startup operation in October 2020.

Government forwarded (January 2024) the reply of the Company (January 2024) which stated that due to various reasons attributable to M/s. BHEL, the commissioning activities in full scale had not been taken up. Due to this, the startup power could not be utilised in full capacity. Further, due to uncertainty about date of synchronisation of the plant to the State grid, the contract demand varied implying unpredictable startup activities. The reply is not acceptable, as the Company did not re-assess the requirement of startup power even though the date of synchronisation was uncertain due to non-availability of gas. In this scenario, Company could have opted for temporary reduction of contract demand, which could have avoided expenditure on demand charges.

Thus, non-reduction of contract demand resulted in avoidable expenditure of ₹ 10.17 crore, besides burdening the consumers, as the plant is yet to be capitalised and additional cost incurred during construction may be factored into tariff.

Recommendation:

24. Audit recommends the management to explore all avenues towards cost reduction while implementing projects.

Karnataka Neeravari Nigam Limited

6.12 Irregular advance payment on the basis of fake invoices

The invoices submitted by the Contractor in support of supply of pipes at work site did not match with the GST records of the supplier and purchaser. The vehicles claimed to have been used for transportation of pipes were found to be two wheelers/three wheelers and light motor vehicles. The above evidence indicated that the advance payment of ₹ 40.16 crore was made without verifying supply of materials by the officials of VJNL. The irregular advance payment resulted in loss of interest to the tune of ₹ 4.53 crore to KNNL.

The work of “Design, Supply, Installation, Testing and Commissioning of filling up of 48 MI/ZP tanks on Turn-Key basis” at Shiggaon in Haveri District and Kundagol in Dharwad District under Savanur Lift Irrigation Scheme (LIS) was administratively approved (February 2017) by Karnataka Neeravari Nigam Limited (KNNL). The technical sanction for the work was accorded (April 2017) by Chief Engineer, Malprabha Project Zone, KNNL, Dharwad for ₹ 97 crore. After due tendering process, the Executive Engineer, KNNL Shiggaon Lift Irrigation Division, Dharwad (Division) awarded (January 2018) the work to M/s. Ocean Constructions (India) Private Limited, Mangaluru (Contractor) for a contract price of ₹ 90.57 crore. An agreement was entered into with the Contractor on 11 January 2018 with the stipulated period of completion of 18 months i.e. up to 10 July 2019. The Managing Director, KNNL granted (January 2024) extension of time for completion of the project up to 31 March 2022. However, the work was under progress (September 2023) and no further extension was granted thereafter. An up-to-date payment of ₹ 83.20 crore was made to the Contractor as of March 2022.

Audit scrutiny (September 2023) of the tender document, Quality Assurance Plan (QAP), Running Account Bills (RA Bills) and payment schedule revealed that the scope of the work included *inter alia* the completed item of work namely “Supply, Laying, Joining and Testing of Pipes of Gravity main HDPE¹²⁶ Pipes for which an amount of ₹ 57.38 crore was payable as per the payment schedule. The length of HDPE pipe was estimated at 114.03 KM. The terms and stages of payment for the above item of work was defined in Section 5 (Contract Data) of the tender documents *vide* Clause 24.3 as indicated in the Table below:

Table No. 6.12.1: Conditions prescribed for payment of work item “Supply, laying and commissioning of HDPE pipes”

Sl. No.	Description	Rate of payment
1	Supplying MS pipes/HDPE pipes and specials including necessary shop tests and stacking at Contractor’s yard at site & transporting the pipes to work spot	70 per cent of the quoted rate for pipes
Note: The amount due under Sl.No.1 will be paid as follows: (a) For the first and second consignment of pipes when the pipes and specials are accepted in the pipe yard by the Engineer. (b) For the third and subsequent consignments when the pipes and specials are accepted in the pipe yard by the Engineer and at least 50 per cent of the pipes and specials supplied on previous consignments are laid, jointed and tested to the satisfaction of the Engineer		
2	Laying, joining and testing as directed and as per specifications	20 per cent of the quoted rate for pipes
3	On satisfactory commissioning	5 per cent of the quoted rate for pipes
4	Final Payments	5 per cent at the time of final bill.

Source: - Contract Agreement

The Contractor purchased the HDPE pipes from the Manufacturer¹²⁷ and pre-dispatch joint inspection¹²⁸ was carried out by the Division at the Manufacturer’s site (Rajkot) on 12 July 2018. Thereafter, on 16 July 2018, the contractor claimed that all the HDPE pipes have been supplied and stored in his stock yard at worksite. Accordingly, the Division made the payment of ₹ 40.16 crore for supply of pipes (*i.e.* 70 per cent of the completed item of work) *vide* First Running Account (RA) bill on 07 August 2018. The remaining items of work such as (i) laying, jointing, testing of pipes and (ii) Commissioning were done subsequently between September 2018 and August 2021.

The detailed scrutiny of the Measurement Book/First RA bill revealed that the payment made to the Contractor by the Division on account of supply of pipes at work site was irregular on the following grounds:

- (1) The Contractor submitted 69 tax invoices in support of pipe purchase issued by the Distributor/Supplier¹²⁹ giving the details

¹²⁶ High density Polyethylene.

¹²⁷ M/s. Kelvin Plastic Private Limited, Rajkot.

¹²⁸ Joint Inspection of KNNL officials along with contractor at manufacturer’s place.

¹²⁹ Kisan Sales Corporation, Hubli, Karnataka.

(such as seller's/buyer's details, date/value of transaction, description of goods/ quantity /rate, registration number of vehicle used for transportation). Audit cross-checked the tax invoices with GST data which revealed that the transaction details recorded on the tax invoices did not match either with the details of GSTR-I¹³⁰ of the supplier or GSTR-2A¹³¹ of purchaser. Out of 69 invoices, 52 invoices¹³² did not pertain to the Contractor. In addition, 13 invoices¹³³ attached with the first RA bill were not found in GSTR-1 of the supplier. In the remaining four invoices¹³⁴, though pertaining to the Contractor, there was a mismatch in transaction value and date of transaction (*Appendix - 36*).

- (2) The cross-check of details of vehicles (which were claimed to have been used for transportation of HDPE pipes of 12 meters length) mentioned in the tax invoices with the concerned RTO authorities revealed that out of 69 invoices, 32 vehicle numbers were pertaining to two-wheelers and 20 to three-wheeler, motor car and tractors *etc.* The details of the remaining 16¹³⁵ vehicles mentioned in those invoices are awaited from concerned authorities (*Appendix - 36*).
- (3) The GSTR-2A details of Contractor for the period from the date of work order (11 January 2018) to the date of first RA Bill (16 July 2018) revealed that the Contractor did not make any purchase of pipes from the said supplier except for some material costing ₹ 5.99 crore only.

This shows that the invoices submitted by the Contractor for claiming ₹ 40.16 crore vide First R.A. Bill on account of supply of pipes at site were not genuine.

However, the departmental officer certified the receipt of the pipes of 114.03 km length in the measurement book on 16 July 2018 itself which formed the basis for payment to the Contractor. Audit observed that the recordings made in the measurement book on 16 July 2018 (details such as diameter, length and quantity of pipes) did not match with the recordings carried out in the measurement book at the time of laying (September 2018 to August 2021) of those pipes during execution. (*Appendix - 37*)

The above evidence clearly indicated that the Contractor submitted fake invoices and the departmental officers extended help to the Contractor to get undue financial benefit of one-time advance payment of ₹ 40.16 crore

¹³⁰ It is a monthly/quarterly statement of outward supplies to be furnished by all normal and casual registered taxpayers making outward supplies of goods and services or both and contains details of outward supplies of goods and services.

¹³¹ It is a purchase related dynamic tax return that is automatically generated for each business by the GST portal. When a seller filed his GSTR-1, the information is captured in GSTR-2A. It takes the information of goods and/or services that have been purchased in each month from the seller's GSTR-1.

¹³² Sl. No. 1-52 of *Appendix – 36*.

¹³³ Sl. No. 53-65 of *Appendix – 36*.

¹³⁴ Sl. No. 66-69 of *Appendix – 36*.

¹³⁵ Details of one vehicle was not provided in the invoice.

which is a lumpsum 70 *per cent* of the value of the completed item. Though the contract conditions envisaged supply of pipes in multiple consignments in line with the utilisation of pipes during execution, the entire requirement of pipes for the project was shown delivered in a single consignment through fake invoices. The subsequent laying of the pipes was carried out over a period of three years from September 2018 up to August 2021.

In view of the above, in the absence of genuine/valid proof for purchase and supply of material at site, the Division should have released the payment to the Contractor as per actual utilization of pipes during the execution of work as defined in Section 5 (Contract Data) of the tender document vide *Clause 24.3*. Audit calculated the interest component in respect of the advance payment of ₹ 40.16 crore till the date of actual utilisation of those pipes in execution and found that upfront payment to the Contractor resulted in loss of interest of ₹ 4.53 crore¹³⁶ to KNNL (*Appendix - 38*).

KNNL replied (April 2024) that invoices submitted by the Contractor as proof of delivery did not form part of official documents and KNNL was not responsible for the discrepancies in them. It was further stated that the payments were made based on physical verification and certification of the receipt of the pipes at the stock yard and that the Contractor has raised tax invoice for the entire advance payment of ₹ 40.16 crore in the name of the project. Government endorsed (April 2024) the reply of KNNL.

The reply is not acceptable as it is clear that required due diligence was not exercised by KNNL as pipes of 12 meters length were claimed to have been delivered on motorcycles and three-wheelers and there was mismatch in the GST returns of the Contractor (purchaser) and the Distributor/Supplier (seller) which clearly proved that the invoices submitted by the Contractor were not genuine. The tax invoice raised by the Contractor in this case, did not constitute proof of purchase and supply of material to the worksite, but only a bill submitted by him for claiming the advance payment.

Recommendation:

25. Government needs to conduct a detailed enquiry through a suitable investigating agency and fix responsibility on officials who were responsible for false certification of receipt of material.
26. Recovery of amount of interest on advance payment may be ensured.

¹³⁶ Calculated at 13.5 *per cent* being the interest charged for advance payments as per the contract.

Karnataka State Handicrafts Development Corporation Limited**6.13 Non-achievement of objectives**

Inordinate delay in completion of construction of a multi-utility complex in Peenya Industrial Area and construction of a Community Centre and renovation of a temple in Shivarapatna, Kolar District in spite of incurring an expenditure of ₹ 1.28 crore resulted in non-achievement of the objectives.

I. Karnataka State Handicrafts Development Corporation Limited (Company) owned a building constructed (1990) in Peenya Industrial Area to house a Bronze Craft Complex for the benefit of Artisans. The building has not been utilized since 1995 as the production of Bronze Articles was stopped on account of the distance factor as the craft persons were scattered at various locations in Bangalore.

The Board of Directors (BoD) of the Company, in its 286th meeting, approved (July 2017) the demolition of existing structure and decided to construct a multi-utility complex including warehouse, exhibition centre, office space, etc. The project was to be funded by the Company's own resources. It was envisaged that ₹ 50.68 lakh, being the annual rent for the warehouse, could be saved annually. BoD authorised the Managing Director to entrust the construction work either through tender process or through Karnataka Rural Infrastructure Development Limited (KRIDL). KRIDL submitted (October 2017) seven estimates at a total cost of ₹ 8.84 crore splitting the construction of complex into seven works¹³⁷.

Memorandum of Understanding (MoU) was signed (March 2018) with KRIDL for the basement floor work (₹ 1.78 crore). As per the MoU, 50 *per cent* of the estimate was to be paid on entering the MoU, 25 *per cent* was to be paid after completion of 40 *per cent* of the work, 20 *per cent* was to be paid after completion of 60 *per cent* of the work and the balance 5 *per cent* was to be paid after completion of the work. The work was to be completed within six months from the date of handing over the land. As per the MoU, ₹ 88.88 lakh (50 *per cent* of the cost) was released in March 2018. Approval for the plan was obtained from Bruhat Benagaluru Mahanagara Palike in September 2018 and the site was handed over in September 2018 to KRIDL. The work was to be completed by March 2019. However, the work is yet to be completed (February 2024).

In this connection, Audit observed that:

- GoK had granted exemption under 4(g) of Karnataka Transparency in Public Procurement (KTPP) Act (July 2016 and April 2017) to KRIDL. According to this, Public Sector Undertakings, Companies, Departments etc. could directly entrust works up to ₹ 2 crore to KRIDL

¹³⁷ Basement Floor: ₹ 177.75 lakh; Ground Floor: ₹ 178.10 lakh; First Floor: ₹ 103.40 lakh; Second Floor: ₹ 108 lakh; Third Floor: ₹ 118.15 lakh; Fourth Floor: ₹ 121.35 lakh and External Electrification & DG Set Work: ₹ 77.35 lakh.

without calling tender. However, there was a stipulation that no work should be split. KRIDL submitted (October 2017) seven separate estimates -one for each floor of the building. The Company, however, entrusted the work to KRIDL based on estimates which were split.

- KRIDL requested (January 2019) the Company to release 25 *per cent* of the estimate (₹ 44.43 lakh) as work valuing ₹ 82 lakh (which was more than 40 *per cent* of the estimate) was completed. As the Company did not release the same, KRIDL again requested (March 2019) the Company to release funds. As the Company did not release the amount even in May 2019, the work was stopped. Work valuing ₹ 111.61 lakh was completed till then. EE, KRIDL once again requested (January 2020) the Company to release the balance amount and also urged the Company that the column steel reinforcement would get corroded if the concreting was not done. The Company requested (October 2020) KRIDL to submit a revised estimate to complete the basement floor work to the level that ground floor could be utilised. There was no further progress in the work till date.

Due to non-release of funds to KRIDL and consequent non-payment of bills, the work which was to be completed by March 2019 is yet to be completed. Even after completion of this work (basement), six more estimates are to be taken up which makes the timelines for the completion of the building uncertain.

The Government endorsed (March 2024) the reply of the Company which stated that it was decided to execute the project in a phased manner based on availability of funds and also due to lack of skilled personnel to monitor the project. Accordingly, the estimates were obtained from KRIDL. However, the project could not be carried out due to the financial losses faced during the past years. Further, the Company decided to (during 307th BM held on 28-12-2023) complete the project.

The reply is not acceptable as the splitting of work into seven estimates disregarding the stipulations of the exemption notification to entrust the work to KRIDL is not in order. The work relating to the remaining six more estimates have to be taken up one after the other, after completion of the basement. This would invariably delay the completion of the project/building.

Hence, even after more than four years of starting the work and incurring an expenditure of ₹ 88.88 lakh, the objective of having a building which would have saved warehouse rent of ₹ 50.68 lakh annually was not fulfilled. Further, the partially constructed building also will deteriorate with the efflux of time.

II. Government of Karnataka (GoK) decided (March 2007) to develop Shivarapatna village in Malur Taluq of Kolar District as “Sculpture Village” to preserve the sculptor community’s traditional stone carving skills and use this as the means to improve livelihood for the entire village. GoK sanctioned (March 2007) ₹ 1 crore to the Company for the same.

Kadambari, a Non-Government Organisation (NGO), evinced keen interest in this project and came forward to be the architect and manager of the project. In a meeting between Development Commission for Handicrafts, Government of India, Rural Development & Panchayat Raj Department, the Company and Kadambari, it was decided (March 2008) to take up restoration of Sri Varadarajaswamy Temple, Construction of Community Facility Centre among other works. Consequently, the works of construction of Samudaya Bhavan at an estimated cost of ₹ 59.50 lakh and restoration of Sri Varadarajaswamy Temple at an estimated cost of ₹ 13.68 lakh were awarded (February 2009) to Shri K Srinivas (contractor) by the Executive Engineer, Panchayat Raj Engineering Division, Kolar. Government of Karnataka granted (February 2009) 4 (g) exemption from KTPP Act to entrust the work of architecture and project management to Kadambari at a cost of ₹ 10 lakh. The site was handed over to the contractor in October 2009 and the work was to be completed within nine months from the date of handing over the site (by July 2010). Based on the requests, the Company released ₹ 35.35 lakh¹³⁸ to the Chief Executive Officer, Zilla Panchayat, Kolar.

The works were delayed mainly due to the contractor. Five notices were issued to the contractor between June 2010 and August 2011. The contractor had agreed (May 2011) to complete the work by September 2011. However, the contractor did not complete the work.

Kadambari stated (June 2013) that the contractor has to correct all the quality and basic construction problems and make himself and his team available for meetings called for review of work. The Executive Engineer, Panchayat Raj Engineering Division, Kolar stated (June 2016) that the work was incomplete and stopped. In view of the failure of the contractor to execute the work as per the designs and instructions, Kadambari withdrew (June 2016) from the project. There was no further progress in the work. The total expenditure of ₹ 39.04 lakh¹³⁹ incurred on the project became infructuous due to lack of co-ordination and monitoring.

The Government endorsed (March 2024) the reply of the Company which stated, that during February 2022/May 2023, it had addressed letters to the Chief Executive Officer, Zilla Panchayat, Kolar calling for details of expenditure, utilization certificates and reasons for non-completion of the work even after ten years for which reply is yet to be received. The Company also stated that it is in constant touch with the officials to decide on a further course of action. The reply reiterates the deficiency in monitoring as the Company has not taken any action from June 2016 to February 2022.

Hence, the very objective of the GoK to develop the Shivarapatna village as “Sculpture Village” for the welfare of sculptor community thereby to improve livelihood for the entire village has not been fulfilled even after the completion of 14 years. Further, the Company’s objective to own its multi-utility complex to reap benefits thereon also remains stranded even after completion of 4 years.

¹³⁸ ₹ 13.35 lakh on 29 April 2010; ₹ 11 lakh on 28 September 2010 and ₹ 11 lakh on 18 November 2010.

¹³⁹ Including ₹ 3.19 lakh towards printing and ₹ 0.50 lakh towards honorarium.

Thus, the Company could not achieve its objectives in the above cases in spite of incurring an expenditure of ₹ 1.28 crore. The reasons for non-completion of the works were splitting of works, non-payment of contractor's bills, lack of co-ordination and monitoring.

Recommendation:

27. Audit recommends that Management should comply with provisions of 4(g) exemptions under KTPP Act while taking up the works and should ensure timely completion of projects to achieve intended benefits besides to avoid additional financial burden.

Karnataka State Police Housing and Infrastructure Development Corporation Limited

6.14 Failure to enforce defect liability clause resulted in extra cost.

Non-compliance by Karnataka State Police Housing and Infrastructure Development Corporation Limited to KPWD Code regarding reckoning of the work completion date led to non-enforcement of defect liability clause against the Contractor resulting in extra expenditure of ₹ 1.23 crore for rectification of the structural defects.

Paragraph 188 of Karnataka Public Works Departmental Code (KPWD Code) prescribes that Contractor should submit a completion report when the Sub-Divisional Officer in charge of the work is satisfied that:

- all items mentioned in the estimate or other necessary contingent items in respect of water supply, UGD and electricity are completed and
- all unwanted materials *etc.*, have been removed and the surroundings as well as interior of the work were made clean.

The Executive Engineer may then take over the work from the Contractor after which the Contractors' final bill may be paid and accounts of the work closed by submitting the completion certificate.

Government of Karnataka approved (November 2013) the project of Karnataka State Police Housing and Infrastructure Development Corporation Limited (the Company) to take up the construction of 11,000 Police Quarters at various districts in Karnataka under Police Gruha 2020 Scheme. Accordingly, the Company took up the work of construction of 128 police constable quarters at Binny Mill, Tank Bund Road in Bengaluru Urban District. The Managing Director (MD) of the Company accorded (December 2015) technical sanction to the estimate of ₹ 30.91 crore and invited (December 2015) tenders for the work on lumpsum turn-key basis based on tenderer's own design/alternate technology/conventional method of construction. The Company entrusted (April 2016) the work to M/s. P.G. Setty Constructions Technology Pvt. Ltd, Mysore (Contractor) at the tendered cost of ₹ 23.98 crore. The scope of work

consisted of construction of 128 flats in two blocks A and B having 64 flats each. The work was stipulated to be completed by 28 November 2017.

Clause No.8 of the agreement executed (March 2016) between the Company and Contractor specified that:

- (i) Defect Liability Period (DLP) shall mean the period after the issue of certificate of completion of work by the Engineer-in-charge during which the structure has to function without any trouble or defects.
- (ii) DLP shall be 12 months from the date of completion as certified by the Engineer-in-charge except for the lift and STP for which DLP would be three years from the date of completion.
- (iii) During DLP, the Contractor is solely responsible for repairing / replacing any structural defects found in the work executed.

Clause 31.1 of the agreement also prescribed that the employer shall give notice to the Contractor for any defects noticed before the end of the DLP and DLP shall be extended as long as the defects were not rectified.

Audit scrutiny (November 2022) of records of the Company revealed that the Contractor could not complete the work within the stipulated period and hence, extension of time to complete the work was granted by the Company from time to time. Third and last extension of time was up to 31 August 2018. The measurements for the final bills were carried out on 25 March 2019 and the final bill for up-to-date work done amounting to ₹ 23.98 crore was paid to the Contractor on 23 May 2019. However, the date of completion of work was indicated as 31 August 2018 in the Work Completion certificate issued by the Executive Engineer, Bengaluru Urban-2 (Division). The Company also released (March 2020) the withheld amount of ₹ 0.36 crore on account of defect liability period and the security deposit of ₹ 1.20 crore in respect of the above work. The fact that the Contractor did not complete the work as of 31 August 2018 was substantiated by the following:

- The Contractor in letter addressed (September 2018) to the Executive Engineer had admitted that final asphaltting works of internal roads could not be completed as there was continuous rain.
- The Project Management Consultant (PMC)¹⁴⁰ in the letters addressed (October 2018 and February 2019) to the Contractor had stated that works pertaining to road asphaltting, external and internal electrical commissioning, plantation of trees and approval from statutory bodies such as Fire Department, BWSSB and BESCOM were pending.
- Assistant Executive Engineer, No.1 Sub-division, Bengaluru in letter addressed (February 2019) to Executive Engineer of the Division opined that the final bill of the Contractor could be admitted, only if, the

¹⁴⁰ ACS Design Consulting Pvt. Ltd., Bengaluru.

pending works¹⁴¹ were completed and time extension up to 17 December 2018 was granted.

- The PMC after scrutiny of final bill submitted (February 2019) by the Contractor informed (March 2019) that final payment could be considered after withholding relevant amount for balance works pending for completion. The final bill was admitted (April 2019) for payment only after the balance works were attended by the Contractor.

Thus, from the above communications between the Company, PMC and the Contractor, it was evident that the work was not completed till March 2019 when the final measurements were made. Hence, the issue of work completion certificate indicating the date of completion as 31 August 2018 was done without exercising due diligence and needs justification.

Meanwhile, the Company observed (June 2019) that there was separation of grouted joint between parapet of the corridor and lift well of Block B. During September 2019, Block B of the quarters showed foundation settlement which resulted in leaning of Block B towards east. The officials of the Company, PMC and the Contractor conducted (June 2020) site visit for inspection of the gap at joints on either side of Block B. The vertical alignment of the building at eight corners of Block B and the distances between the plumb lines were watched continuously for six months which confirmed that the gap had widened further.

The Company constituted (September 2021) a Technical Experts Advisory Committee (TEAC) to obtain suitable remedial measures for widening gap joints on either side of the lift well in Block-B of the PC Quarters. TEAC recommended (April 2022) to strengthen sub soil and existing raft of the tilting portion of Block B by driving micro piles with grouting and providing an additional thickness of reinforced concrete to the existing raft.

Though the MD issued (October 2021) a notice to the Contractor to rectify the defects within a period of 15 days, action taken against or by the Contractor in this regard was not made available to Audit. The records further revealed that the Board of Directors while according approval to restoration work (March 2022) directed to forfeit any retained amount of the original Contractor lying with the Company and to explore the possibility of recovery from other Government works being executed by the Contractor, as well as to initiate civil and criminal proceedings for imposing penalty and awarding damages for negligence, misrepresentation of facts and fraud. The Company entrusted (July 2022) the above work to M/s. G.P. Soil Techniques, Bengaluru for an agreed tendered amount of ₹ 1.23 crore. The work was under progress and payment of ₹ 1.10 crore was made (March 2023) to M/s. G.P. Soil Techniques.

Thus, non-compliance by the Company to the provisions of KPWD Code regarding determination of work completion date resulted in preponing the date to August 2018, even though substantial works were pending to be completed. Further, though the defects were initially noticed during June 2019 which was

¹⁴¹ Providing water supply connection, testing raw and treated water, providing service shafts and vent doors for corridors, painting of kerb stones, toilet ceiling and STP pump room, testing of water supply and sanitary pipelines *etc.*

well within the DLP, the Company failed to evoke Clause 31.1 of the contract agreement which stipulated extension of DLP till the defects were rectified. As a result, the Company failed to comply the directives of the Board of Directors for holding the Contractor responsible for the defects in construction and had to incur extra expenditure of ₹ 1.23 crore for rectification of the structural defects. The structural defects rendered the tilted portion of Block B consisting of 32 flats unusable till the rectification works were completed.

The Company replied (March 2024) that major structural defects were noticed after the DLP, the pending works carried out during DLP were minor in nature and that final bills were submitted after due completion of the above pending works. The Company also stated that though the defect was initially observed during June 2019, the Contractor conceived it as a separation of joint and covered up the structural defects to absolve his responsibility during DLP. Hence, the Company has filed a criminal case (March 2022) and a civil suit of ₹ 15.80 crore (October 2023) against the Contractor to compensate for the financial loss and collateral damages which included ₹ 1.25 crore incurred towards restoration work. Government endorsed (March 2024) the reply of the Company.

The reply is not acceptable due to the following reasons:

- The pending works as of August 2018 were not minor but a part of the original scope of work as evidenced by the letters submitted by AEE and PMC in charge of the work and were required to be completed before issuing the completion certificate as per Paragraph 188 of KPWD Code;
- The Company not only failed to extend the DLP as per *Clause 31.1* of the Contract agreement, but also released (March 2020) the available security deposit (₹ 1.20 crore) and money withheld (₹ 0.36 crore) from the Contractor despite having noticed major structural defects in the construction of police quarters in June 2019 itself.

Thus incorrect determination of work completion date and consequent failure to operate the defect liability clause and fix responsibility on the Contractor for the structural defects in the building has resulted in financial loss to the Company on account of extra expenditure of ₹ 1.23 crore for rectification works.

Recommendation:

28. Responsibility needs to be fixed on the officials who were responsible for flouting KPWD code provisions regarding determination of work completion date and contract clauses regarding operation of the defect liability period.

Mysore Sales International Limited

6.15 Avoidable Expenditure

Delay in execution of the project of construction of Godown building resulted in avoidable expenditure of ₹ 93.14 lakh.

The Mysore Sales International Limited (Company) approached (June 2002) Karnataka Industrial Area Development Board (KIADB) for allotment of one acre land for construction of Godown to construct a warehouse for paper and liquor Divisions at Kalaburgi (erstwhile Gulbarga). The KIADB allotted (July 2002) the land (plot numbers 30 and 31 measuring 3,873 sq. metres) at Kapnoor 2nd Stage Industrial Area, Kalaburgi at a tentative price of ₹ 4.00 lakh. The possession of the land was taken (August 2007) and lease cum sale agreement was entered into with KIADB (October 2007). As per the terms and conditions of lease cum sale agreement, the lease would be for a period of six years with a condition that the Company should complete construction work within 24 months from the date of taking possession of the scheduled premises.

The Company, during January 2011, decided to take up the construction of Godown at Kalaburgi and appointed (September 2012) an architect for preparation of estimates and structural designs. The architect prepared the estimate at ₹ 7.59 crore for construction of ground and first floor. Based on the estimate, the Company initiated the tender process in December 2012 but the tenders were cancelled after evaluation stating that the project would be implemented after completing the ongoing projects at Baikampady, Mangaluru and Karnataka Bhavan at Mumbai. The construction was deferred up to 2017 and during 2018, Company appointed a consultant civil engineer, who prepared an estimate of ₹ 3.00 crore for ground floor. The Company invited (December 2018) tenders for construction of the warehouse and Work Order was issued (July 2019) to lowest tenderer M/s. S & S Innovations (contractor) at negotiated price of ₹ 2.90 crore with a stipulation to complete the work in 14 months *i.e.* by September 2020. However, the work was not completed and a revised work order with additional cost of ₹ 1.88 crore was issued in November 2021. The work which was to be completed by May 2022 (as per revised work order) is yet to be completed (September 2023).

In this connection, Audit observed that:

- There was inordinate delay in commencing the project. As per clause 10(1)(iii) of the lease cum sale agreement, lessee shall complete construction work within 24 months from the date of taking possession of the land (July 2009). As the Company could not take up the construction of the Godown within the stipulated time, extension of time was requested and KIADB granted extension periodically by levying penalty and collecting current market cost of land. The Company paid difference in land cost amounting to ₹ 15.15 lakh in August 2013 and a penalty of ₹ 2 lakh in February 2016.

- The plan sanctioned (March 2013) by KIADB had provision for ground floor and first floor. The consultant Civil Engineer appointed by Company for the project prepared the estimate for ₹ 3 crore without proper drawings and limiting the project to ground floor only and limiting the quantities of some key items like excavation, columns and beams. The Company invited tenders based on the estimate prepared by the engineer and issued Work Order in July 2019. However, as the executed quantities did not match with the estimated quantities, the architects¹⁴² prepared (October 2020) a revised estimate for ₹ 4.88 crore and a revised work order with additional cost of ₹ 1.88 crore was issued in November 2021 after approval of the Board (September 2021). The extra items included, excavation in soft and hard rock, construction of embankment and providing water proof treatment to roof besides construction of head room. Further, the contractor/architect did not seek prior approval of the Company for carrying out the additional work which involved additional cost of ₹ 1.88 crore. Thus, preparation of defective estimate by the consultant engineer resulted in cost escalation and further delay in completion of the project.
- Considering three months (from January 2013) for feasibility and two years as the time required for finalization of tenders and for execution of the work, the Company could have completed the construction of the building by March 2016 and it could have occupied the premises, thereby avoiding payment of rent for its office and godown. The avoidable payment of rent for the period from April 2016 to September 2023 works out to ₹ 75.99 lakh as detailed in **Appendix - 39**.
- During construction, soft rock (1727.56 cum) and hard rock (854.70 cum) were excavated as extra items and an amount of ₹ 42.00 lakh was paid. However, the same were neither accounted for nor utilised.

The Government replied (January 2024) that the Company could not take up the project within extended time, as it was in the process of completing important projects (such as Karnataka Bhavan in Navi Mumbai, Warehouse at Mangalore) and due to administrative reasons. The reply is not acceptable as the Godown was constructed without completion of the Karnataka Bhavan at Navi Mumbai, which was also delayed¹⁴³ and the Mangaluru Godown was completed and leased only during June 2022. The exact administrative reasons have not been explained to Audit.

¹⁴² M/s. Shobha & Mahesh Associates.

¹⁴³ Commented in **Para 2.3 of Part-II, Report no. 3 of the year 2022**, Government of Karnataka.

Thus, the deferment of commencing the work of construction of building even though estimate was prepared, tenders were floated and building plan was approved by KIADB, as early as in 2013-14, resulted in incurring an avoidable expenditure of ₹ 93.14 lakh¹⁴⁴.

Recommendation:

29. Audit recommends that, management shall fix responsibility on the delinquent official for lapses in preparation of estimate and complete the projects in hand at the earliest to reduce expenditure.

Bengaluru



**(Vimalendra Anand Patwardhan)
The Principal Accountant General (Audit-II)
Karnataka**

Countersigned

New Delhi



**(K. Sanjay Murthy)
The Comptroller and Auditor General of India**

¹⁴⁴ ₹ 15.15 lakh towards current market price of land paid to KIADB, ₹ 2 lakh towards penalty and ₹ 75.99 lakh rent paid.

