

## CHAPTER I

### 1. Overview of State Public Sector Undertakings

#### Introduction

**1.1** The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Karnataka, the State PSUs occupy an important place in the state economy. The State PSUs registered a turnover of Rs. 32,627.68 crore for 2008-09 as *per* their latest finalised accounts as of September 2009. This turnover was equal to 12.17 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Karnataka State PSUs are concentrated in infrastructure sector. The working State PSUs incurred a loss of Rs. 587.97 crore in the aggregate for 2008-09 as *per* their latest finalised accounts. They had employed 1.74 lakh employees as of 31 March 2009. The State PSUs do not include eight Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in the Civil Audit Report for the State.

**1.2** As on 31 March 2009, there were 88 PSUs as *per* the details given below. Of these, one Company<sup>1</sup> was listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs <sup>2</sup>	Total
Government Companies <sup>3</sup>	66	16	82
Statutory Corporations	6	-	6
<b>Total</b>	<b>72</b>	<b>16</b>	<b>88</b>

**1.3** During the year 2008-09, two new PSUs<sup>4</sup> were established.

#### Audit Mandate

**1.4** Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as *per* Section 619-B of the Companies Act.

<sup>1</sup> The Mysore Paper Mills Limited.

<sup>2</sup> Non-working PSUs are those which have ceased to carry on their operations.

<sup>3</sup> includes 619-B companies.

<sup>4</sup> Bangalore Airport Rail Link Limited and Karnataka Vocational Training and Skill Development Corporation Limited.

**1.5** The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by the CAG as *per* the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

**1.6** Audit of statutory corporations is governed by their respective legislations. Out of six statutory corporations, the CAG is the sole auditor for Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Western Karnataka Road Transport Corporation and North Eastern Karnataka Road Transport Corporation. In respect of Karnataka State Warehousing Corporation and Karnataka State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by the CAG.

### Investment in State PSUs

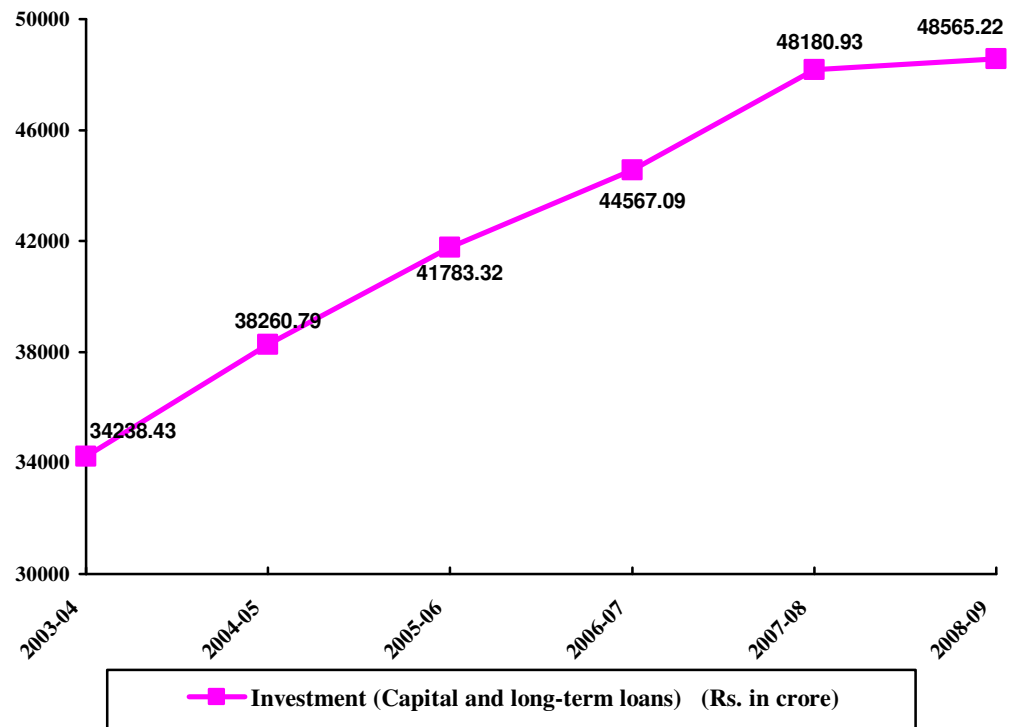
**1.7** As on 31 March 2009, the investment (capital and long-term loans) in 88 PSUs (including 619-B companies) was Rs. 48,565.22 crore as *per* details given below.

(Rs. in crore)

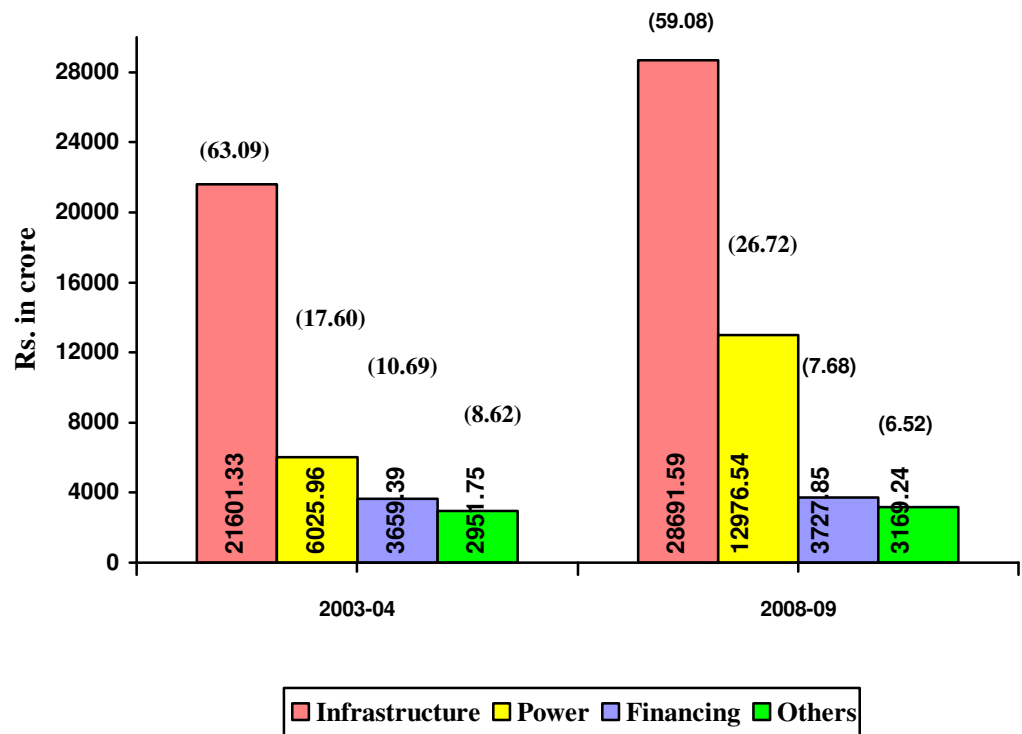
Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	22,936.97	21,200.73	44,137.70	1,376.62	2,476.46	3,853.08	47,990.78
Non-working PSUs	164.08	410.36	574.44	-	-	-	574.44
<b>Total</b>	<b>23,101.05</b>	<b>21,611.09</b>	<b>44,712.14</b>	<b>1,376.62</b>	<b>2,476.46</b>	<b>3,853.08</b>	<b>48,565.22</b>

A summarised position of government investment in State PSUs is detailed in **Annexure 1**.

**1.8** As on 31 March 2009, of the total investment in State PSUs, 98.82 *per cent* was in working PSUs and the remaining 1.18 *per cent* in non-working PSUs. This total investment consisted of 50.40 *per cent* towards capital and 49.60 *per cent* in long-term loans. The investment has grown by 41.84 *per cent* from Rs. 34,238.43 crore in 2003-04 to Rs. 48,565.22 crore in 2008-09 as shown in the graph below.



**1.9** The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart. The investment in power sector has seen its percentage share rising to 26.72 per cent in 2008-09 from 17.60 per cent in 2003-04.



(Figures in brackets show the percentage of total investment)

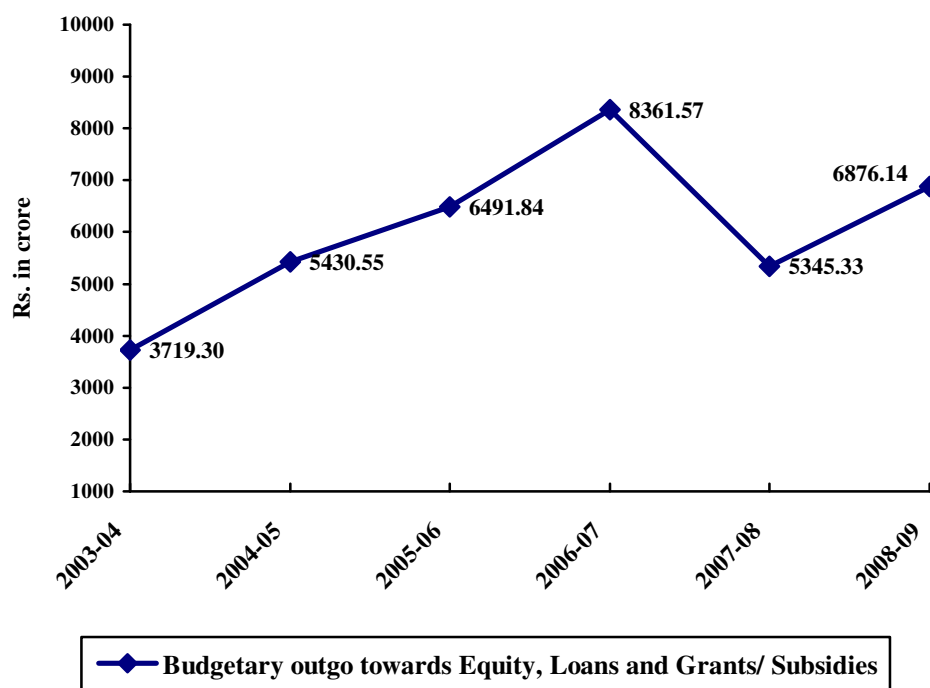
**Budgetary outgo, grants / subsidies, guarantees and loans**

**1.10** The details regarding budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Annexure 3**. The summarised details are given below for three years ended 2008-09.

(Amount : Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity Capital outgo from budget	11	2,173.68	16	2,610.65	20	3,400.36
2	Loans given from budget	5	124.07	11	481.89	6	500.55
3	Grants/Subsidy received	32	6,063.82	23	2,252.79	23	2,975.23
4	Total Outgo (1+2+3)	38	8,361.57	35	5,345.33	35	6,876.14
5	Loans converted into equity	2	51.95	-	-	1	1.00
6	Loans written off	-	-	-	-	-	-
7	Interest/Penal interest written off	-	-	2	22.49	1	0.15
8	Total Waiver (6+7)	-	-	2	22.49	1	0.15
9	Guarantees issued	6	315.76	6	158.02	10	393.11
10	Guarantee Commitment	25	7093.16	19	4,800.02	19	4,202.18

**1.11** The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past six years are given in a graph below.



The budgetary support in respect of equity, loans and grants / subsidies decreased in 2007-08 in comparison to 2006-07 but again increased during 2008-09.

**1.12** As per Section 5(1) of the Karnataka Ceiling on Government Guarantees Act, 1999, (as amended by Act 15 of 2002), the Government would charge a minimum of one *per cent* as guarantee commission which shall not be waived under any circumstances with effect from April 2001. Out of the guarantee commission of Rs. 367.59 crore payable as at end of March 2009, the PSUs had paid Rs. 11.10 crore leaving of balance of Rs. 356.49 crore to be received by the Government. The PSUs which had major arrears were Krishna Bhagya Jala Nigam Limited (Rs. 187.50 crore), Karnataka Neeravari Nigam Limited (Rs. 61.76 crore), Cauvery Neeravari Nigam Limited (Rs. 32.83 crore) and Karnataka Road Development Corporation Limited (Rs. 32.10 crore).

### Reconciliation with Finance Accounts

**1.13** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Rs. in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	24,538.82	23,605.28	933.54
Loans	3,328.73	8,364.86	5,036.13
Guarantees	5,217.69	4,202.18	1,015.51

**1.14** Audit observed that the differences occurred in respect of 79 PSUs. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

### Performance of PSUs

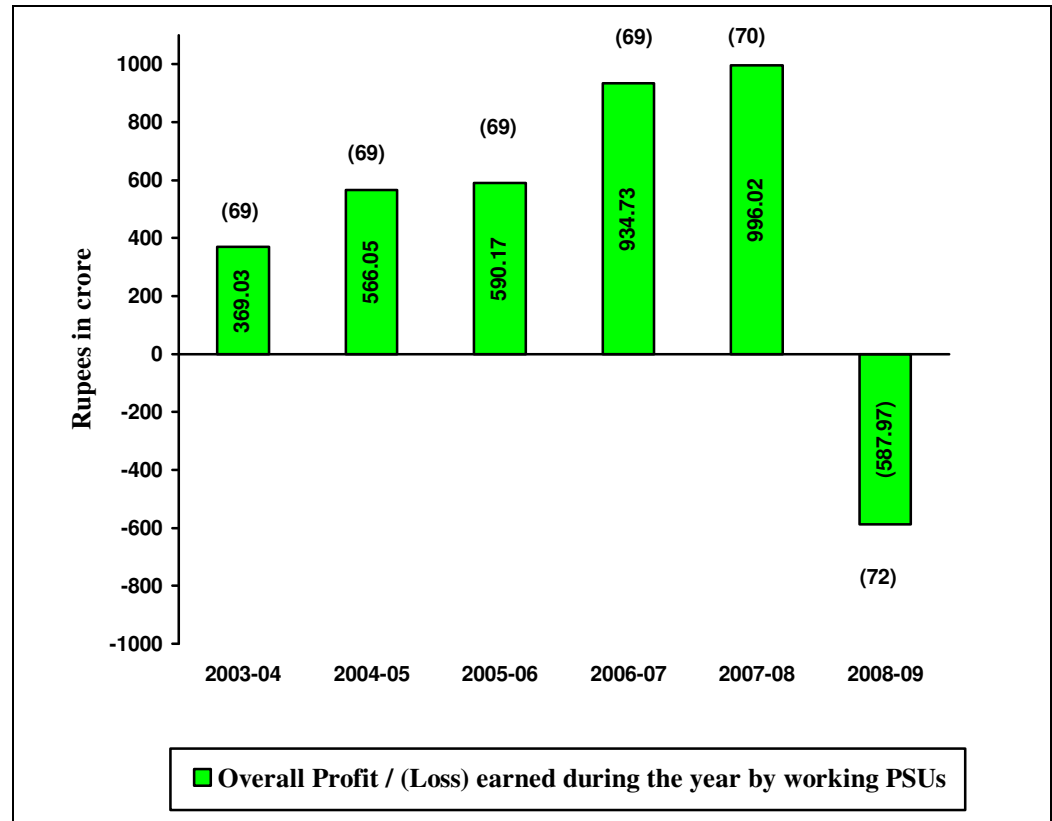
**1.15** The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Annexures 2, 5 and 6** respectively. A ratio of PSU turnover to State GDP shows the significant extent of PSU activities in the State economy. Table below provides the details of working PSUs turnover *vis-a-vis* State GDP for the period 2003-04 to 2008-09.

(Rs. in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover <sup>5</sup>	19,369.84	24,935.75	20,883.70	25,284.68	28,218.05	32,627.68
State GDP	1,29,181	1,56,254	1,86,209	2,00,922	2,33,802	2,68,138
Percentage of Turnover to State GDP	14.99	15.96	11.22	12.58	12.07	12.17

<sup>5</sup> turnover as per the latest finalised accounts as of 30 September 2009.

**1.16** Profit (losses) earned (incurred) by State working PSUs during 2003-04 to 2008-09 is given below in the bar chart.



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

As per their latest finalised accounts, out of 72 working PSUs, 44 PSUs earned profit of Rs. 1,103.63 crore and 21 PSUs incurred loss of Rs. 1,691.60 crore. One working PSU (Karnataka Vocational Training and Skill Development Corporation Limited) incorporated in September 2008 had not finalised its first accounts. Five companies<sup>6</sup> did not prepare profit and loss account and had only pre-operative expenditure. One company (Rajiv Gandhi Rural Housing Corporation Limited) prepared income and expenditure account and capitalized the excess of expenditure over income. The major contributors to profit were Karnataka Power Corporation Limited (Rs. 391.93 crore), Mysore Minerals Limited (Rs. 192.42 crore), and The Hutti Gold Mines Company Limited (Rs. 154.09 crore). The heavy losses were incurred by Bangalore Electricity Supply Company Limited (Rs. 587.36 crore), Hubli Electricity Supply Company Limited (Rs. 560.51 crore) and Chamundeshwari Electricity Supply Corporation Limited (Rs. 217.15 crore).

**1.17** The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest three years Audit Reports of the CAG shows that the State PSUs incurred losses to the tune of Rs. 549.70 crore and had

<sup>6</sup> Karnataka Neeravari Nigam Limited, Cauvery Neeravari Nigam Limited, Bangalore Metro Rail Corporation Limited, Bangalore Airport Rail Link Limited and KPC Bidadi Limited.

made infructuous investment of Rs. 392.60 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

**(Rs. in crore)**

Particulars	2006-07	2007-08	2008-09	Total
Net Profit / (Loss)	758.89	821.36	(759.50)	820.75
Controllable losses as per the CAG's Audit Report	216.59	257.58	75.53	549.70
Infructuous Investment	263.57	41.75	87.28	392.60

**1.18** The above losses pointed out by Audit Reports of the CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised (or eliminated or the profits can be enhanced substantially). The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

**1.19** Some other key parameters pertaining to State PSUs are given below.

**(Rs. in crore)**

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (Per cent)	4.27	3.13	3.26	4.60	4.58	1.88
Debt	21,493.24	22,499.07	22,736.05	23,234.20	24,078.32	24,087.55
Turnover <sup>7</sup>	19,369.84	24,935.75	20,883.70	25,284.68	28,218.05	32,627.68
Debt / Turnover Ratio	1.11:1	0.90:1	1.09:1	0.92:1	0.85:1	0.74:1
Interest Payments	1,588.45	1,400.97	1,625.19	1,593.24	1,607.58	1,556.95
Accumulated Profits (losses)	(843.75)	808.52	1,209.00	935.94	1,248.48	(39.93)

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

**1.20** There was a marginal increase in debts while there was a relatively higher increase in turnover resulting in lower pressure on profit margins. The decrease in return on capital employed was due to the heavy losses incurred by the electricity supply companies for the year.

**1.21** The State Government has not formulated a dividend policy. As per their latest finalised accounts, 47 PSUs earned an aggregate profit of Rs. 1,106.61 crore and ten PSUs declared total dividend of Rs. 26.97 crore.

### ***Performance of major PSUs***

**1.22** The investment in working PSUs and their turnover together aggregated to Rs. 80,618.46 crore during 2008-09. Out of 72 working PSUs, the following seven PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These seven PSUs together accounted for 66.90 *per cent* of aggregate investment *plus* turnover.

<sup>7</sup> turnover of working PSUs as *per* the latest finalised accounts as of 30 September.

(Rs. in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to aggregate investment <i>plus</i> Turnover
(1)	(2)	(3)	(4)	(5)
Cauvery Neeravari Nigam Limited	10,248.66	-	10,248.66	12.71
Karnataka State Beverages Corporation Limited	83.49	8,228.41	8,311.90	10.31
Karnataka Power Corporation Limited	4,155.62	4,147.90	8,303.52	10.30
Krishna Bhagya Jala Nigam Limited	7,451.91	8.99	7,460.90	9.25
Bangalore Electricity Supply Company Limited	741.36	6,190.32	6,931.68	8.60
Karnataka Neeravari Nigam Limited	6,876.74	-	6,876.74	8.53
Karnataka Power Transmission Corporation Limited	5,003.21	799.02	5,802.23	7.20
<b>Total</b>	<b>34,560.99</b>	<b>19,374.64</b>	<b>53,935.63</b>	<b>66.90</b>

Some of the major audit findings of past five years for above PSUs are stated in the succeeding paragraphs.

#### ***Cauvery Neeravari Nigam Limited***

**1.23** The Company was up-to-date in its finalisation of accounts as of September 2009. The Company does not prepare a profit and loss account and capitalizes its excess of expenditure over income.

#### **1.24 Deficiencies in implementation**

- Payment at rates higher than at the approved Schedule of Rates resulted in excess payment and extension of undue benefit of Rs. 4.68 crore. (paragraph 4.14 of Audit Report 2005-06).

#### **1.25 Non-achievement of objectives**

- Benefits achieved from Implementation of Lift Irrigation Schemes by Irrigation Companies were negligible. (paragraph 2.3 of Audit Report 2006-07).

#### ***Karnataka State Beverages Corporation Limited***

**1.26** The Company was up-to-date in its finalisation of accounts as of September 2009. The profit of the Company had risen continuously in past four years from Rs. 6.62 crore in 2005-06 to Rs. 17.57 crore in 2008-09. Similarly, the turnover too has risen from Rs. 2,976.38 crore to Rs. 8,228.41 crore during this period. The return on capital employed increased from 19.15 per cent to 29.13 per cent during this period.



### **1.27 Deficiencies in Financial Management**

- The Company fixed lower margin on the landed cost of liquor resulting in non-recovery of operating loss. (paragraph 4.10 of Audit Report 2007-08).
- The Company paid insurance charges of Rs. 2.10 crore on the stock in which it had no insurable interest. (paragraph 4.11 of Audit Report 2007-08).

### ***Karnataka Power Corporation Limited***

**1.28** The Company was up-to-date in its finalisation of accounts as of September 2009. The profit of the Company increased from Rs. 251.58 crore in 2005-06 to Rs. 391.93 crore in 2008-09. The turnover had risen from Rs. 2,520.67 crore to Rs. 4,147.90 crore during this period. The return on capital employed increased from 8.24 *per cent* to 8.79 *per cent* during this period.

### **1.29 Deficiencies in Planning**

- Failure to evaluate the compatibility of the software with interface equipment resulted in idle investment of Rs. 4.03 crore. (paragraph 4.15 of Audit Report 2005-06).

### **1.30 Deficiencies in Monitoring**

- The Company made excess payments towards supply of low grade coal. There were losses due to excessive combustibles in ash and utilisation of excess heat for generation. The Diesel Generating Plant of Visveswaraya Vidyuth Nigam Limited was operating below the anticipated Plant Load Factor of 68.5 *per cent*. There was excess consumption of lube oil and payment of additional sales tax. (paragraph 2.2 of Audit Report 2003-04).

### **1.31 Deficiencies in Financial Management**

- The Company paid ex-gratia in excess of the limits prescribed by the State Government. (paragraph 4.5 of Audit Report 2007-08).

### **1.32 Deficiencies in Implementation**

- Introduction of a new Voluntary Exit Scheme to medically unfit employees resulted in avoidable expenditure of Rs. 46.89 crore. (paragraph 4.6 of Audit Report 2006-07).
- There were deficiencies in the Implementation of Raichur Thermal Power Station Unit-7. (paragraph 2.1 of Audit Report 2006-07).

***Krishna Bhagya Jala Nigam Limited***

**1.33** The Company was up-to-date in its finalisation of accounts as of September 2009. The Company capitalized the excess of expenditure over income up to 2006-07 and prepared a profit and loss account for the years 2007-08 and 2008-09. The Company incurred a loss of Rs. 64.75 crore and Rs. 90.43 crore during the years 2007-08 and 2008-09 respectively.

**1.34 Deficiencies in planning**

- Purchase of pumpsets much ahead of commissioning of jackwells and erection of electricity transmission lines resulted in blocking up of funds of Rs. 7.23 crore. (paragraph 3.2 of Audit Report 2003-04).

**1.35 Deficiencies in Financial Management**

- Failure to exercise the call option in bonds (Series IV and V) deprived the Company of an opportunity to save Rs. 41.07 crore. (paragraph 3.1 of Audit Report 2003-04).
- Adoption of old rates for making payment for excavation in soft rock with or without blasting resulted in additional expenditure of Rs. 1.39 crore. (paragraph 3.3 of Audit Report 2003-04).

**1.36 Deficiencies in Implementation and non-achievement of objectives**

- Benefits achieved from Implementation of Lift Irrigation Schemes (by Irrigation companies) were negligible. (paragraph 2.3 of Audit Report 2006-07).

***Bangalore Electricity Supply Company Limited***

**1.37** The Company was up-to-date in its finalisation of accounts as of September 2009. The profit of the Company decreased from Rs. 68.40 crore in 2005-06 to Rs. 14.93 crore in 2007-08. The Company, however, incurred a loss of Rs. 587.36 crore in 2008-09. The turnover increased from Rs. 4,282.35 crore in 2005-06 to Rs. 6,190.32 crore during this period.

**1.38 Deficiencies in Planning**

- The Company procured Coyote Conductor without any specific requirement resulting in blocking-up of funds of Rs. 4.69 crore. (paragraph 4.12 of Audit Report 2006-07).
- The Company placed orders for 13,500 kilometres of Rabbit ACSR conductors after a delay of two months resulting in avoidable payment of Rs. 1.67 crore on account of price variation claims. (paragraph 4.13 of Audit Report 2006-07).

- Procurement of line materials in excess of requirement resulted in blocking up of funds of Rs. 4.90 crore. (paragraph 4.1 of Audit Report 2007-08).

### **1.39 Deficiencies in Implementation**

- The Company implemented Real time Remote Automatic Meter Reading System (RRAMR) in January 2004 for automating and remote reading of High Tension meters but could not cover all the installations even after three years due to technical problems, inconsistencies in reading, lack of connectivity, etc. (paragraph 2.3.7 of Audit Report 2007-08).

### ***Karnataka Neeravari Nigam Limited***

**1.40** The Company was up-to-date in its finalisation of accounts as of September 2009. The Company does not prepare a profit and loss account and capitalizes its excess of expenditure over income.

### **1.41 Deficiencies in Monitoring**

- Failure to utilize the hard rock available from excavation of canal for dam and allied works resulted in extra expenditure of Rs. 2.18 crore. (paragraph 3.1 of Audit Report 2004-05).

### **1.42 Deficiencies in Financial Management**

- The Company allowed contractor to make modifications in the quoted rates while he was accepting to take up the work and revision was made in the method of calculating item rates in violation of the guidelines approved by the Board of Directors which resulted in extra expenditure of Rs. 8.85 crore. (paragraph 4.15 of Audit Report 2006-07).

### **1.43 Deficiencies in Financial Management and non-achievement of objectives**

- Funds Management in Karnataka Neeravari Nigam Limited - The Company on its formation took over eight projects which were under execution. The objective of formation of the Company to complete the projects on fast track basis was not fully met as the eight projects taken over at the time of its formation were yet (August 2005) to be completed as against the envisaged date of March 2003. (paragraph 2.2 of Audit Report 2004-05).

### **1.44 Non-achievement of objectives**

- Benefits achieved from Implementation of Lift Irrigation Schemes by Irrigation Companies were negligible. (paragraph 2.3 of Audit Report 2006-07).
- Benefits of Implementation of Upper Tunga Project were not fully derived. (paragraph 2.2 of Audit Report 2007-08).

***Karnataka Power Transmission Corporation Limited***

**1.45** The Company was up-to-date in its finalisation of accounts as of September 2009. The profit of the Company decreased from Rs. 52.01 crore in 2005-06 to Rs. 22.76 crore in 2008-09. The turnover decreased from Rs. 1,582.11 crore in 2005-06 to Rs. 799.02 crore during this period. The return on capital employed decreased from 9.85 *per cent* to 6.77 *per cent* during this period.

**1.46 Deficiencies in Planning**

- Improper planning and execution of line / station works for feeding 220 KV Netlamudnur Station resulted in blocking up of funds of Rs. 33.83 crore. (paragraph 4.7 of Audit Report 2007-08).

**1.47 Deficiencies in Implementation**

- Deficiencies in Procurement, maintenance and repair of transformers. (paragraph 4.25 of Audit Report 2006-07).

**1.48 Deficiencies in Financial Management**

- Not adhering to the provisions of the power purchase agreement in 'annual true-up' calculations resulted in over payment of Rs. 89.98 crore to an independent power producer. (paragraph 4.9 of Audit Report 2006-07).

**1.49 Non-achievement of objectives**

- The Company failed to achieve the objective of state wide computerisation project due to implementation of only one module, which was also faulty, even after spending Rs. 14.44 crore. (paragraph 3.11 of Audit Report 2003-04).
- Two Accelerated Power Development Programme (APDP) projects sanctioned during 2000-01 and 31 out of 35 projects sanctioned during 2002 to 2006 were yet to be completed (March 2007). (paragraph 2.2 of Audit Report 2006-07).

***Conclusion***

**1.50** The above details indicate that there is scope for improvement in overall performance of the State PSUs. They need to imbibe greater degree of professionalism to ensure delivery of products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

**Arrears in finalisation of accounts**

**1.51** The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as *per* the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1	Number of working PSUs	69	69	69	70	72
2	Number of accounts finalised during the year	63	63	75	67	74
3	Number of accounts in arrears	23	29	18	19	18
4	Average arrears <i>per</i> PSU (3/1)	0.33	0.42	0.26	0.27	0.25
5	Number of working PSUs with arrears in accounts	20	25	15	17	16
6	Extent of arrears	1 to 3 years	1 to 3 years	1 to 3 years	1 to 2 years	1 to 2 years

**1.52** The performance of finalisation of accounts within the year by the working PSUs has improved over the last five years. Only two accounts of two companies<sup>8</sup> are pending finalization for more than one year and the remaining arrears are for current year (2008-09), pending finalization as at September 2009.

**1.53** In respect of arrears in finalisation of accounts by non-working PSUs, out of 16 non-working PSUs, liquidation process is underway in six PSUs. The arrears of accounts of these six PSUs<sup>9</sup>, under liquidation, ranged from one to six years. Of the remaining 10 non-working PSUs, six PSUs had finalised their accounts for 2008-09 by September 2009 and remaining four PSUs had arrears of accounts for one to two years.

**1.54** The State Government had invested Rs. 1,004.78 crore (equity: Rs. 152.79 crore, grants: Rs. 555.61 crore and others: Rs. 296.38 crore) in ten PSUs during the years for which accounts had not been finalised as on 30 September 2009 as detailed in **Annexure 4**.

**In view of above state of arrears, it is recommended that Government may take necessary steps to expedite the finalisation of accounts.**

<sup>8</sup> Karnataka Sheep and Wool Development Corporation Limited and Karnataka Leather Industries Development Corporation Limited.

<sup>9</sup> The Mysore Acetate and Chemicals Company Limited, NGEF Limited, Karnataka Telecom Limited, The Mysore Cosmetics Limited, The Karnatak State Veeners Limited and Chamundi Machine Tools Limited.

**Winding up of non-working PSUs**

**1.55** There were 16 non-working PSUs (all companies) as on 31 March 2009. Of these, 6 PSUs have commenced liquidation process. The numbers of non-working companies at the end of each year during past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working companies	17	17	17	16	16

The Government may consider the closure of non-working PSUs as their existence is not going to serve any purpose. During 2008-09, three non-working PSUs incurred an expenditure of Rs. 0.92 crore towards establishment costs. This expenditure was financed by other sources by these PSUs.

**1.56** The stages of closure in respect of non-working PSUs are given below.

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1	Total No. of non-working PSUs	16	-	16
2	Of (1) above, the No. under			
(a)	Liquidation by Court (liquidator appointed)	6	-	6
(b)	Voluntary winding up (liquidator appointed)	-	-	-
(c)	Closure, <i>i.e.</i> , closing orders / instructions issued but liquidation process not yet started.	10	-	10

**1.57** During the year 2008-09, no companies / corporations were wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from four to six years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted / pursued vigorously. The Government may make a decision regarding winding up of 10 non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down its non-working companies.

**Accounts Comments and Internal Audit**

**1.58** Sixty working companies forwarded their 69 audited accounts to the Principal Accountant General (PAG) during the year 2008-09 as at September 2009. Of these, 64 accounts of 57 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by the CAG and the supplementary audit of the CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money

value of comments of statutory auditors and the CAG are given below.

(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	15	179.05	10	70.71	11	152.24
2	Increase in profit	8	33.98	5	38.05	7	40.43
3	Decrease in loss	1	9.76	3	2.60	2	3.72
4	Increase in loss	7	109.73	5	5.47	9	46.88

**1.59** During the year 2008-09, the statutory auditors had given unqualified certificates for 13 accounts, qualified certificates for 47 accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for seven accounts and disclaimers (meaning the auditors are unable to form an opinion on accounts) for two accounts. The compliance of companies with the Accounting Standards remained poor as there were 115 instances of non-compliance in 41 accounts during the year.

**1.60** Some of the important comments in respect of accounts of companies are stated below.

**Karnataka State Construction Corporation (2007-08)**

- The accounts of the Company do not give information required by the Companies Act, 1956 in the manner so required and are not in conformity with the accounting principles generally accepted in India and *do not give a true and fair view*.

**The Mysore Sugar Company Limited (2008-09)**

- The Gratuity fund available with Life Insurance Corporation of India as on 31 March 2008 is Rs. 66.72 lakh as against required Rs. 823.25 lakh.

**The Karnataka Minorities Development Corporation Limited (2008-09)**

- The accounts *do not give a true and fair view* in conformity with the accounting principles generally accepted in India.

**Karnataka State Seeds Corporation Limited (2008-09)**

- No provision has been made for doubtful debts of Rs. 56.47 lakh due from Karnataka Agro Industries Corporation.

**Karnataka Power Transmission Corporation Limited (2008-09)**

- Interest liability on dues towards power purchase from Minor Power Producers has not been ascertained and provided for.

**Karnataka State Forest Industries Corporation Limited (2008-09)**

- The Company has not complied with the provisions of Section 212 of the Companies Act, 1956 as regards to the attaching of the accounts of the Subsidiaries to its Accounts.

**Karnataka Compost Development Corporation Limited (2008-09)**

- The Company has not provided the leave salary on actuarial valuation basis as required under AS 15, instead it is done on mathematical basis amounting to Rs. 14.44 lakh.

**Karnataka Forest Development Corporation (2008-09)**

- The Company has not provided for the differential amount of Rs. 24.05 crore payable to Government of Karnataka towards lease rent for areas taken on lease with reference to the actual rent paid as against rate which the Government has fixed.

**Karnataka State Coir Development Corporation Limited (2008-09)**

- The Balance Sheet and Profit and Loss Account *do not give a true and fair view.*

**The Mysore Electrical Industries Limited (2008-09)**

- Short-provision of accumulated interest on loan from Government of Karnataka of Rs. 3.77 crore for the year resulted in overstatement of profit and understatement of liabilities to that extent.

**1.61** Similarly, five working statutory corporations forwarded their five accounts to the PAG during the year 2008-09. Of these five accounts, four accounts pertained to Statutory corporations where CAG was the sole auditor were completed. The remaining one account was selected for supplementary audit. The audit reports of statutory auditors and the sole / supplementary audit of the CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and the CAG are given below.

(Amount : Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	6	233.29	4	264.24	2	153.11
2	Increase in profit	3	1.73	1	0.10	1	0.82
3	Decrease in loss	3	57.83	-	-	-	-
4	Increase in loss	3	9.97	2	69.40	3	102.54

**1.62** During the year, out of five accounts, only one accounts received unqualified certificate and the remaining four accounts received qualified certificates.

**1.63** Some of the important comments in respect of Statutory corporations are stated below.

**Karnataka State Road Transport Corporation (2008-09)**

- Treating the amount collected towards Accident Relief Fund as miscellaneous income instead of crediting to a specific reserve resulted in overstatement of profit by Rs. 12.59 crore.
- Treating the amount incurred on upgration and repair works as capital expenditure has resulted in overstatement of profit by Rs. 0.33 crore.



#### **North Eastern Karnataka Road Transport Corporation (2008-09)**

- Non-provision of share of the Corporation towards the cost of development/implementation of AWATAR (Any Where Any Time Advance Reservation) system resulted in understatement of current liabilities and loss by Rs. 1.41 crore.
- Non-provision of differential interest in respect of loan outstanding resulted in understatement of financial costs and loss by Rs. 0.64 crore.

#### **Bangalore Metropolitan Transport Corporation (2008-09)**

- Non provision for Motor Vehicle Tax for the period 1997-2007 has resulted in understatement of liabilities and overstatement of profit by Rs. 15.22 crore.
- Non provision for gratuity on additional dearness allowance has resulted in understatement of revenue liability and overstatement of profit by Rs. 2 crore.

#### **North Western Karnataka Road Transport Corporation (2008-09)**

- Treating Infrastructure Development Fee collected during the year as other revenue resulted in overstatement of revenue and understatement of loss by Rs. 34.23 crore.
- Non-provision of Motor Vehicle Tax on the subsidy received for the period from 1997-2007 resulted in understatement of liabilities and accumulated loss by Rs. 16.19 crore.

#### **Karnataka State Financial Corporation (2008-09)**

- Non provision of service charges demanded by Small Industries Development Bank of India on the principal amount outstanding towards soft seed capital, resulted in understatement of current liabilities and loss by Rs. 2.98 crore.

**1.64** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit / internal control system in respect of 16 companies for the year 2007-08 and 10 companies for the year 2008-09 is given in **Annexure 8**.

#### **Recoveries at the instance of audit**

**1.65** During the course of propriety audit in 2008-09, recoveries of Rs. 2.46 crore were pointed out to the Management of two PSUs, of which no amount has so far been recovered (September 2009). Recoveries of Rs. 3.95

crore pointed out in the earlier years were effected during the year 2008-09. In addition, in respect of Karnataka State Road Transport Corporation the Government stated that motor vehicle tax of Rs. 3.17 crore would be adjusted for the subsequent year. Also Karnataka Power Corporation Limited revised the draw down schedule of completion of Varahi Hydro Electric Project as a result of which, the project cost was reduced by Rs. 3.47 crore.

### **Status of placement of Separate Audit Reports**

**1.66** The Separate Audit Reports (SARs) in respect of all Statutory corporations issued by the CAG up to 2007-08 were placed in the Legislature by the Government.

### **Disinvestment, Privatisation and Restructuring of PSUs**

**1.67** The State Government has approved and adopted (February 2001) a comprehensive policy on Public Sector Reforms and privatisation of Public Sector Undertakings (PSUs) in the State. Accordingly, the Government identified 31 PSUs for closure, privatisation and restructuring. Three companies<sup>10</sup> were dissolved / amalgamated (up to September 2009). The position of action taken by the Government in respect of the remaining 28 companies identified for closure / privatisation / restructuring is as follows:

<b>Particulars</b>	<b>No. of companies</b>	<b>Government order issued</b>	<b>Government order not yet issued</b>
Non-working Government companies decided for closure	16	16 <sup>3</sup>	-
Working Government companies decided for closure	3	1 <sup>€</sup>	2 <sup>@</sup>
Working Government companies decided for privatisation	8	6 <sup>♥</sup>	2 <sup>*</sup>
Restructuring of Working Government companies	1	1 <sup>Ω</sup>	-

### **Reforms in Power Sector**

**1.68** The State has Karnataka Electricity Regulatory Commission (KERC) formed in (August 1999) under the Karnataka Electricity Reform Act, 1999 with the objective of rationalisation of electricity tariff, advising in matters

<sup>10</sup> Karnataka Tungsten Moly Limited, Karnataka Agro Proteins Limited and Vishveswaraya Vidyuth Nigam Limited.

<sup>3</sup> All the non-working companies as per Annexure 1.

<sup>€</sup> Karnatak State Construction Corporation Limited.

<sup>@</sup> The Karnataka Fisheries Development Corporation Limited, Karnataka State Electronics Development Corporation Limited.

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

<sup>\*</sup> The Mysore Sugar Company Limited, The Mysore Paper Mills Limited.

<sup>Ω</sup> The Karnataka State Forest Industries Corporation Limited to be merged with Karnataka Forest Development Corporation Limited.

relating to electricity generation, transmission and distribution in the State and issue of licences. During 2008-09, KERC approved 44,222 million units as energy requirement for financial year 2009 in its multi year tariff order. In addition it issued five<sup>11</sup> regulations / guidelines / orders and approved 86 Power Purchase Agreements (PPA) in respect of different non-conventional energy projects.

**1.69** Memorandum of Understanding (MoU) was signed in February 2000 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below.

Milestone	Achievement as at March 2009
100 <i>per cent</i> electrification of all villages by 2012	19 villages were yet to be electrified.
Reduction in transmission and distribution (T & D) losses by 10 to 15 <i>per cent</i> .	T & D Losses reduced from 35.50 <i>per cent</i> during 2000-01 to 24.01 <i>per cent</i> during 2008-09. Thus, the reduction in T & D Losses achieved over the last seven years is only 11.49 <i>per cent</i> .
100 <i>per cent</i> metering of all distribution feeders by September 2001	Completed by December 2002.
100 <i>per cent</i> metering of all consumers by 2004-05	6.86 lakh installations were yet to be metered.
Energy audit at 11 KV sub-station level by September 2001	Energy audit of 11 KV feeders, on monthly basis, has commenced from June 2003.
Securitisation of outstanding dues of Central PSUs.	The dues were securitised by issue of bonds in August 2003.

### Discussion of Audit Reports by COPU

**1.70** The status as on 30 September 2009 of reviews and paragraphs that appeared in Audit Reports (Commercial) and discussed by the Committee on Public Undertakings (COPU) is as under.

Period of Audit Report	Number of reviews / paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2003-04	4	20	3	20
2004-05	3	22	1	7
2005-06	5	26	1	8
2006-07	5	31	1	4
2007-08	4	23	-	2
<b>Total</b>	<b>21</b>	<b>122</b>	<b>6</b>	<b>41</b>

<sup>11</sup> KERC (Load Forecast) Regulations- 2009, Amendment to KERC (Fees) Regulations - 2009, Fourth amendment to KERC (Recovery of expenditure for supply of Electricity) Regulations-2004, Guidelines for determination of Reliability index of supply of power to consumers and Determination of tariff for grid interactive Solar power demonstration Projects.