

Chapter - I

Overview of PSUs

Chapter - I

1. Overview of State Public Sector Undertakings

Introduction

1.1 In Karnataka, the State Public Sector Undertakings (PSUs) occupy an important place in the State economy. Government of Karnataka (GoK) undertakes commercial activities through its business undertakings referred to as Public Sector Undertakings (PSUs) which are owned, managed and controlled by the State on behalf of public at large. They are basically categorised into Statutory corporations and Government companies. Statutory corporations are public enterprises that came into existence by a special Act of the Legislature. The Act defines the powers and functions, rules and regulations governing the employees and the relationship of the Corporation with the Government. Government companies refer to companies in which not less than 51 *per cent* of the paid up capital is held by Government(s). It includes a subsidiary of a Government company. Further, as per the provisions of Section 619-B of the Companies Act 1956, 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 is treated as if it is a Government company (deemed Government company).

1.2 The PSUs operate in three major sectors of the economy *viz.*, Infrastructure, Power and Finance. The State PSUs had provided employment to about 1.86 lakh persons as on 31 March 2012. A sector-wise summary of the investment in the PSUs is given below:

Name of sector	Government companies ¹		Statutory corporations	Total	Investment ² (₹ in crore)
	Working	Non-working ³			
Infrastructure	9	-		9	34,964.03
Power	11	-		11	23,716.91
Finance	13	-	1	14	4,449.22
Others	37	14	5	56	3,582.71
Total	70	14	6	90	66,712.87

As on 31 March 2012, there were 90 PSUs, of which 76 were working and 14 were non-working. Of these, two Companies⁴ were listed on the stock exchange(s). During the year 2011-12, one new PSU (Karnataka State Mango Development and Marketing Corporation Limited) was established.

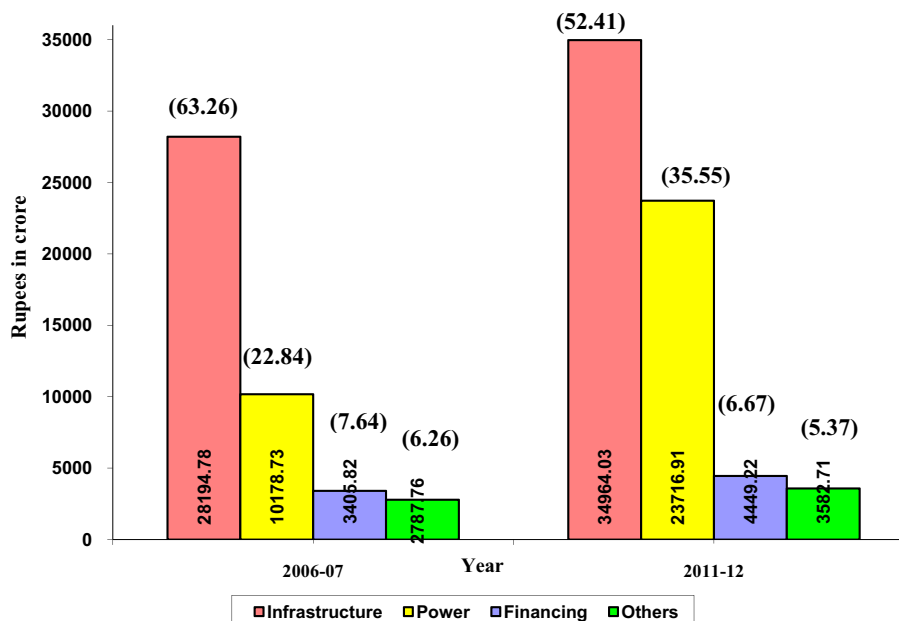
¹ includes 619-B companies.

² investment includes capital and long-term loans.

³ non-working PSUs are those which have ceased to carry on their operations.

⁴ The Mysore Paper Mills Limited and Mysore Paints and Varnish Limited.

1.3 The investment in various important sectors and percentage thereof at the end of 31 March 2007 and 31 March 2012 are indicated below in the bar chart. Out of total investments, the investment in power sector has seen its percentage share rising to 35.55 per cent in 2011-12 from 22.84 per cent in 2006-07.



(Figures in brackets show the percentage to total investment)

Accountability framework

1.4 The accounts of the Government companies/Statutory corporations for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.* by 30 September.

Statutory audit

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 Comptroller and Auditor General of India (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 The audit of Statutory corporations follows different pattern as provided by their respective legislations.

- Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Western Karnataka Road Transport Corporation and North Eastern Karnataka Road Transport Corporation, are Statutory Corporations in which the CAG is the sole auditor.

- As per the State Financial Corporations (Amendment) Act, 2000, the CAG has the right to conduct the audit of accounts of Karnataka State Financial Corporation in addition to the audit conducted by the Chartered Accountants, appointed by the Corporation out of the panels of Auditors approved by the Reserve Bank of India.
- In respect of Karnataka State Warehousing Corporation, the CAG has the right to conduct the audit of their accounts in addition to the audit conducted by the Chartered Accountants, appointed by the State Government in consultation with the CAG.

Role of Legislature and Government

1.7 The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government. The accounts of these PSUs are also subjected to scrutiny by the State Government.

1.8 The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Report together with the Statutory Auditors' Report and Comments of the CAG, in respect of State Government companies and Separate Audit Report in case of Statutory corporations are to be placed before the legislature as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19 A of the CAG's (Duties, Power and Conditions of Service) Act, 1971.

Stake of Government of Karnataka

1.9 The financial stake of GoK in the PSUs are of mainly three types:

- Share capital and loans – In addition to the share capital contribution, GoK also provides financial assistance by way of loans to the PSUs from time to time.
- Special financial support – GoK provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- Guarantees – GoK also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

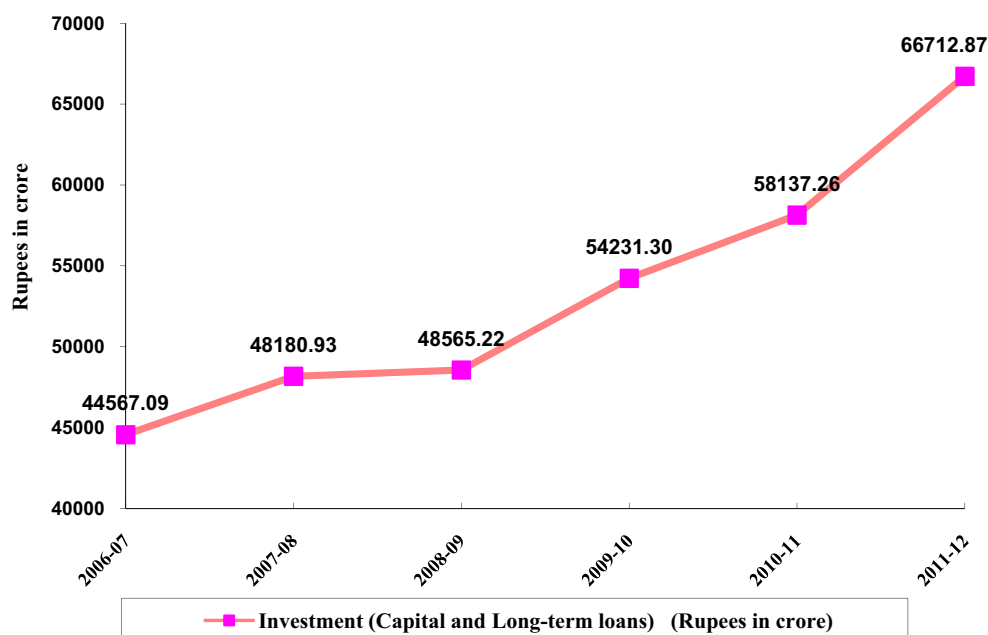
1.10 As on 31 March 2012, the investment (capital and long-term loans) in 90 PSUs (including 619-B companies) was ₹ 66,712.87 crore as per details given below:

₹ in crore

Type	Government Companies			Statutory Corporations			Grand total
	Capital	Long term loans	Total	Capital	Long term loans	Total	
Working PSUs	35,640.05	25,753.63	61,393.68	1,714.16	3,008.87	4,723.03	66,116.71
Non-working PSUs	161.35	434.81	596.16	-	-	-	596.16
Total	35,801.40	26,188.44	61,989.84	1,714.16	3,008.87	4,723.03	66,712.87

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

1.11 As on 31 March 2012, of the total investment in PSUs, 99.11 per cent was in working PSUs and the remaining 0.89 per cent in non-working PSUs. The total investment consisted of 56.23 per cent towards capital and 43.77 per cent in long-term loans. The investment has grown by 49.69 per cent from ₹ 44,567.09 crore in 2006-07 to ₹ 66,712.87 crore in 2011-12 as shown in the graph below:



1.12 The capital investment as well as long-term loans increased by ₹ 16,182.67 crore and ₹ 5,963.11 crore respectively during 2007-2012. There was overall net increase in investment by ₹ 22,145.78 crore during the period.

Capital investment

1.13 As per the latest finalised accounts of the State PSUs, the capital investment was of ₹ 37,152.35 crore and the accumulated profits there against were ₹ 1,368.93 crore.

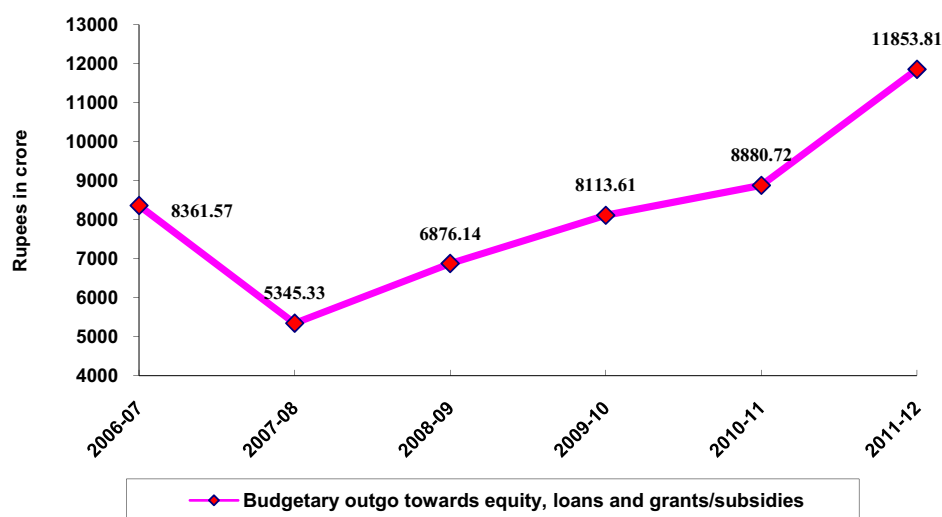
Budgetary support to PSUs

1.14 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 PSUs are given in **Annexure 3**. The summarised details are given below for three years ended 2011-12.

Amount: ₹ in crore

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	24	4,026.78	25	5,126.76	19	4,442.57
2	Loans given from budget	6	348.69	5	58.00	2	46.60
3	Grants/Subsidy received	27	3,738.14	32	3,695.96	34	7,364.64
4	Total outgo (Sl.No.1+Sl.No.2+Sl.No.3) ⁵	42	8,113.61	45	8,880.72	42	11,853.81
5	Loans converted into equity	5	499.91	2	9.07	7	148.27
6	Loans written off	-	-	-	-	-	-
7	Interest/penal interest written off	-	-	-	-	-	-
8	Total waiver (Sl.No.6+Sl.No.7)	-	-	-	-	-	-
9	Guarantees issued	4	262.00	12	517.30	7	920.72
10	Guarantee commitment	18	3,615.88	27	3,802.38	19	3,353.86

1.15 The details regarding budgetary outgo towards equity, loans and grants/subsidies for the past six years are given in the graph below:



The budgetary support in respect of equity, loans and grants/subsidies increased during last five years from ₹ 5,345.33 crore in 2007-08 to ₹ 11,853.81 crore during 2011-12.

⁵ indicates actual number of PSUs.

Guarantees for loan and outstanding guarantee commission

1.16 As per Section 5(1) of the Karnataka Ceiling on Government Guarantees Act, 1999, (as amended by Act 15 of 2002), with effect from April 2001 the Government would charge a minimum of one *per cent* as guarantee commission which shall not be waived under any circumstances. During the year 2011-12 the PSUs paid guarantee commission of ₹ 186.60 crore leaving a balance of ₹ 200.45 crore to be paid to the Government. The PSUs which had major arrears were Krishna Bhagya Jala Nigam Limited (₹ 104.02 crore), Karnataka Neeravari Nigam Limited (₹ 19.07 crore) and Rajiv Gandhi Rural Housing Corporation Limited (₹ 34.55 crore).

Absence of accurate figures of the investments in PSUs

1.17 The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2012 is stated below:

₹ in crore

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	39,529.79	35,723.25	3,806.54
Loans	3,532.91	8,007.99	4,475.08
Guarantees	3,625.52	3,353.86	271.66

1.18 Audit observed that the differences occurred in respect of 80 PSUs. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

1.19 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 the 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 2012.

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1	Number of working PSUs	70	72	75	75	76
2	Number of accounts finalised during the year	69	74	73	69	59
3	Number of accounts in arrears	20	18	20	25 ⁶	42
4	Average arrears <i>per</i> PSU (3/1)	0.29	0.25	0.27	0.33	0.55
5	Number of working PSUs with arrears in accounts	17	16	20	24	37
6	Extent of arrears	1 to 2 years	1 to 2 years	1 year	1 to 2 years	1 to 2 years

1.20 The number of working PSUs with arrears in accounts increased from 24 as at end of September 2011 to 37 as at end of September 2012 indicating poor performance in finalization of accounts. Between September and December 2012, 31 PSUs finalized their accounts. Eight accounts of six working PSUs were still pending finalization as at end of December 2012.

1.21 In respect of arrears in finalization of accounts by non-working PSUs out of 14 non-working PSUs, liquidation process was underway in seven PSUs⁷. The arrears of these accounts ranged from five to nine years. These Companies also require to finalise their accounts for the broken period under Section 446A of the Companies Act, 1956. The remaining six PSUs had finalised their accounts for 2011-12 by September 2012. One Company was also having arrears of accounts for 2011-12.

1.22 The State Government had invested ₹ 6,337.01 crore (equity: ₹ 2,821.07 crore, loans: ₹ 86.17 crore, grants: ₹ 1,132.93 crore and subsidy: ₹ 2,296.84 crore) in 37 PSUs during the years for which accounts had not been finalised as on 30 September 2012 as detailed in **Annexure 4**.

Finalisation of accounts by Statutory corporations

1.23 All the six working Statutory Corporations had forwarded their latest accounts of 2011-12 by 30 September 2012. The audit of the accounts of all these Statutory Corporations was in progress (September 2012).

1.24 Separate Audit Reports (SARs) are audit reports of CAG on the accounts of Statutory corporations. These reports are to be laid before the Legislature as per the provisions of the respective Acts. The SARs in respect of all Statutory Corporations for the period 2010-11 had been placed in State Legislature.

⁶ as the first accounts of Karnataka Thanda Development Corporation Limited is pending finalization only one accounts is shown as arrears.

⁷ The Mysore Acetate and Chemicals Company Limited, NGEF Limited, Karnataka Telecom Limited, The Mysore Cosmetics Limited, The Karnataka State Veeners Limited, Chamundi Machine Tools Limited and Karnataka State Textiles Limited.

Impact of non-finalisation of accounts

1.25 Non-finalisation of accounts by 30 September is a violation of the provisions of the Companies Act, 1956.

1.26 In the absence of accounts and their subsequent audit, there is no assurance that the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature.

1.27 Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956. In view of the above state of arrears, the actual contribution of PSUs to the State Gross Domestic Product (GDP) for the year 2011-12 could not be ascertained. However, as per the latest finalized accounts the contribution of PSUs to State GDP 7.94 per cent.

1.28 The Administrative departments have the responsibility to oversee the activities of these entities. Government must ensure finalisation and adoption of the accounts by these PSUs within the prescribed period.

1.29 The Principal Accountant General also addressed the Chief Secretary/Administrative Departments/ Managements of the PSUs whose accounts were in arrears. The progress in liquidation of arrears of accounts has been discussed in paragraph 1.19 and 1.20 *infra*.

Performance of PSUs

Problems in assessing performance

1.30 The actual performance of the PSUs, in view of the backlog in finalisation of accounts, could not be ascertained. Thus, the performance of PSUs was assessed on the basis of their latest finalised accounts.

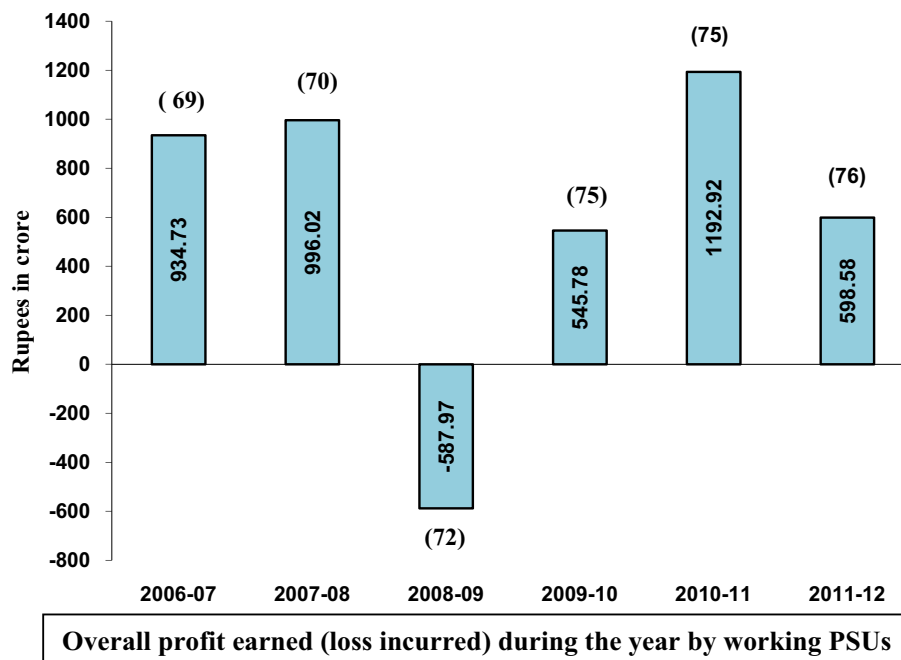
1.31 The financial results of PSUs, financial position and working results of working Statutory Corporations are detailed in **Annexures 2, 5 and 6** respectively. The ratios of PSU turnover to State GDP show the significant extent of PSU activities in the State economy. The table below provides the details of working PSUs' turnover *vis-a-vis* State GDP for the period 2007-08 to 2011-12.

Particulars	₹ in crore				
	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover ⁸	28,218.05	32,627.68	36,369.48	41,493.51	34,490.58
State GDP	2,70,628	3,10,312	3,45,235	3,98,893	4,34,270 ⁹
Percentage of turnover to State GDP	10.43	10.51	10.53	10.40	7.94

⁸ turnover as per the latest finalised accounts.

⁹ SGDP figures are as per Medium Term Fiscal Plan and figures of the State Government for 2011-12 are Advance Estimates.

1.32 Profit earned or loss incurred by State working PSUs during 2006-07 to 2011-12 is given below in the bar chart.



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

1.33 As per their latest finalised accounts, out of 76 working PSUs, 53 PSUs earned profit of ₹ 1,125.74 crore and 18 PSUs incurred loss of ₹ 527.16 crore. One working PSU (Karnataka State Mango Development & Marketing Corporation Limited) incorporated in March 2012 had not finalised their first accounts. Two companies¹⁰ 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. Another Company (Karnataka Vocational Training and Skill Development Corporation Limited) did not prepare Profit and Loss Account and expenses were set off against the grant received. The major contributors to profit were The Hutti Gold Mines Company Limited (₹ 294.95 crore), Karnataka Power Corporation Limited (₹162.27 crore) and Mysore Minerals Limited (₹ 122.84 crore). The heavy losses were incurred by Karnataka Neeravari Nigama Limited (₹ 264.40 crore), The Mysore Paper Mills Limited (₹ 84.78 crore) and The Mysore Sugar Company Limited (₹ 70.21 crore).

Reasons for the losses

1.34 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of the latest Audit Report of the CAG shows that there

¹⁰ Cauvery Neeravari Nigama Limited and Raichur Power Corporation Limited.

were controllable losses to the tune of ₹ 1,890.63 crore and had made infructuous investment of ₹ 112.95 crore, which were controllable with better management. Year-wise details from Audit Reports, for last three years are given below:

₹ in crore

Particulars	2009-10	2010-11	2011-12	Total
Net Profit / Loss(-)	366.58	987.03	407.87	1,761.48
Controllable losses as per the CAG's Audit Report	84.37	1,160.57	1,890.63	3,135.57
Infructuous investment	173.37	72.62	112.95	358.94

1.35 The above losses pointed out in 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.

1.36 Some other key parameters pertaining to the PSUs are given below:

₹ in crore

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Return on capital employed (<i>per cent</i>)	4.60	4.58	1.88	3.47	4.40	4.22
Debt	23,234.20	24,078.32	24,087.55	24,704.05	25,364.38	29,197.31
Turnover ¹¹	25,284.68	28,218.05	32,627.68	36,369.48	41,493.51	34,490.58
Debt-Turnover ratio	0.92:1	0.85:1	0.74:1	0.68:1	0.61:1	0.85:1
Interest payments	1,593.24	1,607.58	1,556.95	1,901.19	2,269.00	2,555.79
Accumulated profits/losses (-)	935.94	1,248.48	(-) 39.93	(-) 197.93	1,007.36	1,368.93

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

1.37 There was a decrease¹² in turnover while there was an increase in debts. The decrease in return on capital employed was due to the decrease in profits of Karnataka Power Corporation Limited and Mysore Minerals Limited.

1.38 The State Government had issued (May 2003) guidelines according to which Government nominees on the Boards of Public Enterprises or Joint Ventures, where the State Government had equity holding, should insist on the declaration of minimum dividend of 20 *per cent* on share holding. As per their

¹¹ turnover of working PSUs as per the latest finalised accounts as of 30 September 2012.

¹² due to change in exhibition of income by Karnataka State Beverages Corporation Limited.

latest finalised accounts, 56 PSUs¹³ earned an aggregate profit of ₹ 1,125.93 crore but only 13 PSUs declared dividend which amounted to ₹ 43.35 crore.

Non-working PSUs

1.39 There were 14 non-working PSUs (all Companies) as on 31 March 2012. Of these, seven PSUs have commenced liquidation process. The numbers of non-working companies at the end of each year of the past five years are given below:

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
No. of non-working companies	16	16	15	14	14

During 2011-12, three non-working PSUs¹⁴ incurred an expenditure of ₹ 1.08 crore towards establishment costs. This expenditure was met through rent, interest and other sources by these PSUs.

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

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1	Total number of non-working PSUs	14	-	14
2	Of (1) above, the number under			
(a)	Liquidation by Court (liquidator appointed)	7	-	7
(b)	Voluntary winding up (liquidator appointed)	-	-	-
(c)	Closure <i>i.e.</i> , closing orders/ instructions issued but liquidation process not yet started.	7	-	7

1.41 The companies which have taken the route of winding up by Court order are under liquidation process for the last four to nine years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted / pursued vigorously. The Government may take a decision regarding winding up of the seven non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working.

¹³ including non-working Government companies.

¹⁴ Karnataka Agro Industries Corporation Limited (₹ 0.41 crore), The Mysore Lamps Works Limited (₹ 0.44 crore), The Mysore Match Company Limited (₹ 0.23 crore).

Accounts comments and Internal Audit

1.42 Fifty four working companies forwarded their 58 audited accounts to the Principal Accountant General (PAG) during the year 2011-12 as at September 2012. Of these, 32 accounts of 29 companies were selected for supplementary audit. The audit reports of Statutory Auditors appointed by the CAG and the supplementary audits 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 : ₹ in crore

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	14	138.10	8	267.07	15	1045.66
2	Increase in profit	4	11.83	4	9.88	2	2.86
3	Decrease in loss	2	5.93	1	0.03	1	1.56
4	Increase in loss	10	121.81	8	46.76	4	45.57

1.43 During the year 2011-12, the Statutory Auditors had given unqualified reports on 10 accounts, qualified reports on 45 accounts, adverse reports (which means that accounts did not reflect a true and fair position) for two accounts and Disclaimer of Opinion on one accounts. The compliance of companies with the Accounting Standards remained poor as there were 107 instances of non-compliance in 31 Companies during the year.

1.44 Some of the important comments in respect of accounts of companies are stated below:

Dr. Babu Jagjivan Ram Leather Industries Development Corporation Limited (2010-11)

- The financial statements together with the notes thereon and attached thereto failed to give a true and fair view and were not in conformity with the accounting principles generally accepted in India.

Karnataka Neeravari Nigam Limited (2010-11)

- In view of non-compliance to various accounting standards, inadequacies in internal control system, absence of confirmation and reconciliation of balances in parties' accounts *etc.*, combined with non-availability of data to assess their impact on the financial statements and undetected misstatement, if any, contained therein, an opinion on the financial statements could not be expressed.

Karnataka Rural Infrastructure Development Limited (2010-11)

- Sundry Debtors pertaining to years 2003-04 to 2010-11 were not confirmed by the parties. Sundry Debtors pertained to accounting years 2003-04 to 2007-08 amounting to ₹ 23.18 crore were barred by limitation of time and the Company had made provision for doubtful debts to extent of ₹ 4.40 crore only.

Karnataka State Seeds Corporation Limited (2010-11)

- The Profit and Loss Account and Balance Sheet complied with the requirements of the accounting standards referred to in sub-section (3c) of Section 211 of the Companies Act, 1956 except for leave travel concession which was accounted on cash basis and Accounting Standard (AS)-1 - Disclosure of Accounting Policies, AS 2 – Valuation of Inventories, AS 15 – Employee Benefits, AS 19 – Lease, AS 28 – Impairment of Assets and AS 29 – Provisions, Contingent Liabilities and Contingent Assets prescribed under the Companies (Accounting Standards) Rules, 2006.

Karnataka State Coir Development Corporation Limited (2011-12)

- The net-worth of the Company had fully eroded at beginning of the financial year and the accumulated losses exceed the share capital of the company consequently affecting to the Going Concern assumption of the Company.

Hubli Electricity Supply Company Limited (2011-12)

- Trade receivable against supply of power includes ₹ 1,101 crore (Revenue ₹ 634 crore and Interest ₹ 467 crore) from consumers of Irrigation Pump sets (upto 10 Horse Power) relating to the period prior to the announcement of free power supply by State Government.
- Interest on belated payment to power suppliers was recognized on payment basis. The effect of this policy had resulted in the profit of the Company being overstated by ₹ 32.87 crore.

1.45 Similarly, all six working Statutory Corporations forwarded (upto September 2012) their seven accounts including one arrears accounts, to the Principal Accountant General during the year 2011-12. Audit of one arrears accounts of the Statutory Corporation was completed while the audit of the remaining six accounts were in progress (September 2012). The Audit Report of the CAG indicate that the quality of maintenance of accounts needs improvement. The details of aggregate money value of comments of the CAG are given below:

Amount : ₹ in crore

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	3	206.63	6	38.61	-	-
2	Increase in profit	-	-	-	-	-	-
3	Decrease in loss	-	-	-	-	-	-
4	Increase in loss	-	-	3	53.05	1	10.90

1.46 Some of the important comments in respect of the Statutory Corporations are stated below:

North Western Karnataka Road Transport Corporation (2010-11)

- In Profit and Loss Account, Income from Traffic revenue had been overstated by ₹ 16.20 crore due to incorrect accounting of the entire amount of ₹ 28.80 crore collected as Infrastructure Developmental Fee with passenger fares as traffic revenue. The Corporation also provided for ₹ 0.89 crore as Motor Vehicle (MV) Tax on the over credit to the account. This incorrect accounting has resulted in corresponding understatement of other revenues (miscellaneous receipts) and overstatement of loss for the year to the extent of MV Tax provided.
- The Government of Karnataka in its order (November 2009) merged Bijapur Division of Corporation with North Eastern Karnataka Road Transport Corporation (NEKRTC). Non provision for liability of ₹ 4.36 crore towards the share of NEKRTC against subsidy of concession of passes payable to them has resulted in understatement of current liabilities and understatement of loss.

1.47 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 6 Companies for the year 2010-11 and 13 Companies for the year 2011-12 are given in **Annexure 7**.

Recoveries at the instance of audit
--

1.48 During the course of propriety audit in 2011-12, recoveries of ₹ 22.51 crore were pointed out to the Management of PSUs, of which ₹ 17.03 crore was recovered by the PSUs. Recoveries of ₹ 1.03 crore pointed out in the earlier years were effected during the year 2011-12.

Disinvestment, privatisation and restructuring of PSUs

1.49 The State Government had approved and adopted (February 2001) a comprehensive policy on public sector reforms and privatisation of public sector undertakings in the State. Accordingly, the Government identified 31 PSUs for closure, privatisation and restructuring. Five companies¹⁵ were dissolved /amalgamated (September 2012). The position of action taken by the Government in respect of the remaining 26 companies identified for closure/privatisation/restructuring are as follows:

Particulars	No. of companies	Government order issued	Government order not yet issued
Non-working Government Companies decided for closure	14	14 ³	-
Working Government Companies decided for closure	3	1 ^ε	2 [@]
Working Government Companies decided for privatization	8	6 [♥]	2 ⁺
Restructuring of Working Government Companies	1	1 ^Ω	-

Reforms in power sector

1.50 The State has Electricity Regulatory Commission (KERC) formed (August 1999) under the Karnataka Electricity Reform Act, 1999 with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences.

¹⁵ Karnataka Tungsten Moly Limited, Karnataka Agro Proteins Limited, Vishveswaraya Vidyuth Nigam Limited, Karnataka Film Industries Development Corporation Limited and Karnataka Small Industries Marketing Corporation Limited.

³ all the non-working companies as per Annexure 1.

^ε Karnataka State Construction Corporation Limited.

[@] The Karnataka Fisheries Development Corporation Limited, Karnataka State Electronics Development Corporation Limited.

[♥] 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.

⁺ The Mysore Sugar Company Limited, The Mysore Paper Mills Limited.

^Ω The Karnataka State Forest Industries Corporation Limited to be merged with Karnataka Forest Development Corporation Limited.

1.51 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 in respect of five Electricity Supply Companies¹⁶ is stated below:

Milestone	Achievement as at March 2012				
	BESCOM	CESCO	HESCOM	GESCOM	MESCOM
100 per cent electrification of all villages by 2012.	100 per cent	99.99 per cent	99 per cent (27 villages are yet to be electrified)	100 per cent	99.90 per cent
Commitment in the MoU to reduce the overall Transmission and Distribution (T&D) losses by 10 to 15 per cent with target reduction of five per cent every year from 2000-01.	14.46 per cent	16.11 per cent	19.99 per cent	22.06 per cent (2010-11)	13.24 per cent (2010-11)
100 per cent metering of all distribution feeders by September 2001.	Completed by December 2002.				
100 per cent metering of all consumers by 2004-05.	82.04 per cent	93.03 per cent	83.81 per cent of Bhagya Jyothi (BJ)/Kutil Jyothi (KJ). 30.91 per cent of Irrigation Pup (IP) sets. Others categories: 100 per cent	100 per cent consumers metering except BJ/KJ and IP sets	98.13 per cent
Energy audit at 11 KV substation level by September 2001.	Not done	Commenced from June 2003	Commenced from June 2003	Done	Done
Securitisation of outstanding dues of Central PSUs to be reduced to ₹ 900 crore by 2004-05.	The dues were securitised by issue of bonds in August 2003.				

¹⁶ Bangalore Electricity Supply Company Limited (BESCOM), Chamundeshwari Electricity Supply Corporation (CESCO), Gulbarga Electricity Supply Company Limited (GESCOM), Hubli Electricity Supply Company Limited (HESCOM), Mangalore Electricity Supply Company Limited (MESCOM).