

Chapter - I

Overview

Chapter - I

1. Overview of State Public Sector Undertakings

Introduction

1.1 In Karnataka, the State Public Sector Undertakings (PSUs) have an important place in the economy. Government of Karnataka (GoK) undertakes commercial activities in these PSUs, which are owned, managed and controlled by the State. They are basically categorized into Statutory Corporations and Government companies. Statutory Corporations are public enterprises that have come into existence by Special Acts of the Legislature. The Acts define 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 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 is treated as if it is a Government company (deemed Government company).

1.2 The PSUs (Government Companies and Statutory Corporations) operate mainly in three major sectors of the economy *viz.*, Infrastructure, Power and Finance. The State PSUs had provided employment to about 1.87 lakh persons as on 31 March 2013. A sector-wise summary of the investment in the PSUs is given below:

Table 1.1 : Sector-wise summary of the investment in the PSUs

Name of sector	Government companies ¹		Statutory corporations	Total	Investment ² (₹ in crore)
	Working	Non-working ³			
Infrastructure	11	-		11	37,883.01
Power	11	-		11	23,161.84
Finance	13	-	1	14	4,890.00
Others	38	14	5	57	3,875.60
Total	73	14	6	93	69,810.45

As on 31 March 2013, there were 93 PSUs, of which 79 were working and 14 were non-working. Of these, two Companies⁴ were listed on the stock exchange(s). During the year 2012-13, three new PSUs (Tadadi Port Limited, Hubli-Dharwad BRTS Company Limited and Karnataka State Coal Mining Company Limited) were established.

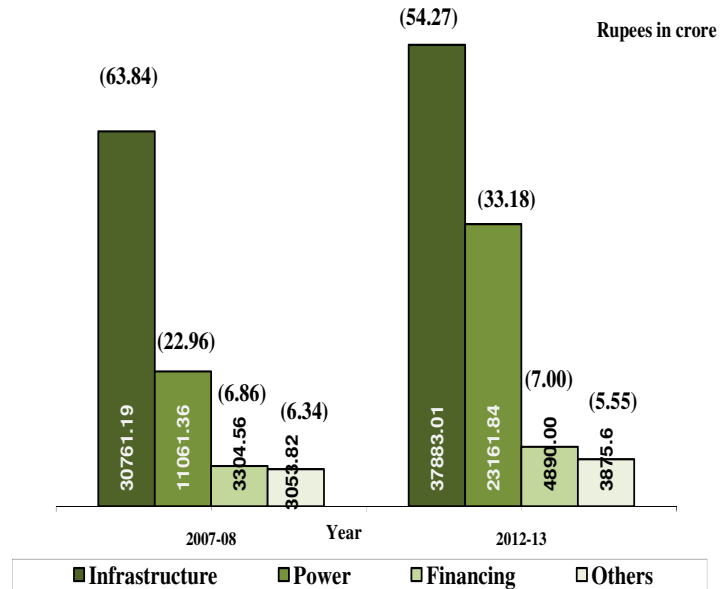
¹ Includes 619-B companies.

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 2008 and 31 March 2013 are indicated below in the bar chart. Out of total investments, the investment in power sector has seen its percentage share rising to 33.18 *per cent* in 2012-13 from 22.96 *per cent* in 2007-08.



(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 Boards 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 investments in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Report and Comments of the CAG in respect of State Government companies and Separate Audit 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 19A 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 is 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 2013, the investment (capital and long-term loans) in 93 PSUs (including 619-B companies) was ₹ 69,810.45 crore as per details given below:

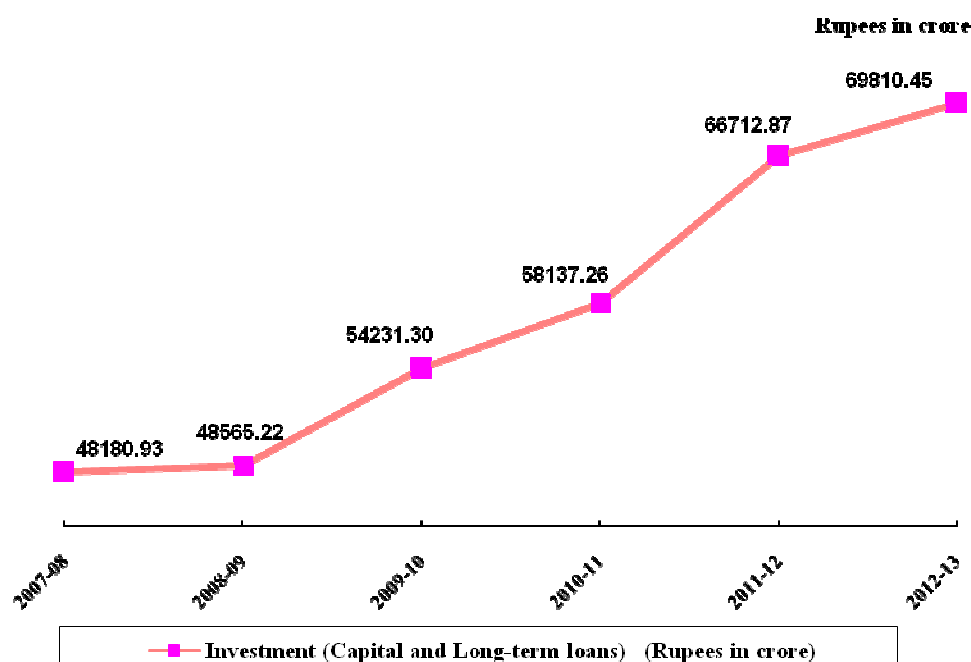
Table 1.2: Investment (capital and long-term loans) in PSUs

(₹ in crore)

Type	Government Companies			Statutory Corporations			Grand total
	Capital	Long term loans	Total	Capital	Long term loans	Total	
Working PSUs	40,415.37	23,517.73	63,933.10	1,799.44	3,480.92	5,280.36	69,213.46
Non-working PSUs	161.35	435.64	596.99	-	-	-	596.99
Total	40,576.72	23,953.37	64,530.09	1,799.44	3,480.92	5,280.36	69,810.45

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

1.11 As on 31 March 2013, of the total investment in PSUs, 99.14 per cent was in working PSUs and the remaining 0.86 per cent in non-working PSUs. The total investment consisted of 60.70 per cent towards capital and 39.30 per cent in long-term loans. The investment has grown by 44.89 per cent from ₹ 48,180.93 crore in 2007-08 to ₹ 69,810.45 crore in 2012-13 as shown in the graph below:



1.12 The capital investment as well as long-term loans increased by ₹ 18,273.55 crore and ₹ 3,355.97 crore respectively during 2008-2013. There was overall net increase in investment by ₹ 21,629.52 crore during the period.

1.13 As per the latest finalised accounts of the State PSUs, the capital investment was of ₹ 38,005.61 crore and the accumulated profits there against were ₹ 1,388.01 crore.

Budgetary support to PSUs

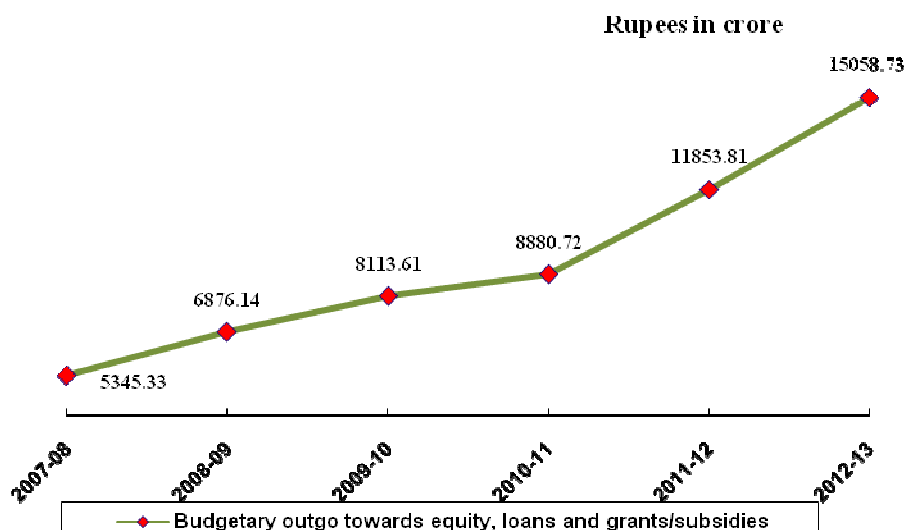
1.14 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of PSUs are given in **Annexure 3**. The summarised details are given below for three years ended 2012-13.

Table 1.3: Details regarding budgetary support to PSUs

(Amount: ₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	25	5,126.76	19	4,442.57	23	4,660.59
2	Loans given from budget	5	58.00	2	46.60	3	11.08
3	Grants/Subsidy received	32	3,695.96	34	7,364.64	36	10,387.06
4	Total outgo (Sl.No.1+Sl.No.2+Sl.No.3)⁵	45	8,880.72	42	11,853.81	51	15,058.73
5	Guarantee commission converted into equity	2	9.07	7	148.27	1	101.50
6	Loans written off	-	-	-	-	-	-
7	Guarantee commission written off	-	-	-	-	1	2.19
8	Guarantees issued	12	517.30	7	920.72	7	557.19
9	Guarantee commitment	27	3,802.38	19	3,353.86	20	3,500.88

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 ₹ 6,876.14 crore in 2008-09 to ₹ 15,058.73 crore in 2012-13.

Guarantees for loan and guarantee commission outstanding

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 2012-13 the PSUs paid guarantee commission of ₹ 142.61 crore. The Government converted guarantee commission due from Krishna Bhagya Jala

⁵ indicates actual number of PSUs.

Nigam Limited of ₹ 101.50 crore into equity and waived off ₹ 2.19 crore due from Mysore Paper Mills Limited. The guarantee commission outstanding to be paid to the Government by all PSUs was ₹ 76.68 crore. The PSUs which had major arrears were, Karnataka Neeravari Nigam Limited (₹ 19.64 crore) and Rajiv Gandhi Rural Housing Corporation Limited (₹ 37.60 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 2013 is stated below:

Table 1.4: Equity, loans and guarantees outstanding as per records of Finance Accounts and PSUs

(₹ in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1	2	3	4 = 2-3
Equity	43,571.38	40,427.37	3,144.01
Loans	2,392.00	7,722.01	(-) 5,330.01
Guarantees	3,522.30	3,500.90	21.40

1.18 We observed that the differences occurred in respect of 74 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, the 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 2013.

Table 1.5: Position relating to finalization of accounts of working PSUs

Sl.No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1	Number of working PSUs & Statutory Corporations	72	75	75	76	79
2	Number of accounts finalised during the year	74	73	69	59	81
3	Number of accounts in arrears	18	20	25	42	40
4	Average arrears per PSU (3/1)	0.25	0.27	0.33	0.55	0.51
5	Number of working PSUs with arrears in accounts	16	20	24	37	36
6	Extent of arrears	1 to 2 years	1 year	1 to 2 years	1 to 2 years	1 to 2 years

1.20 The number of working PSUs with arrears in accounts increased from 16 as at end of September 2009 to 36 as at end of September 2013 indicating poor performance in finalization⁶ of accounts.

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. These accounts are in arrears for periods ranging from six to ten years. These Companies are also required to finalise their accounts for the broken period under Section 446A of the Companies Act, 1956. The remaining seven PSUs had finalised their accounts for 2012-13 by September 2013.

1.22 The State Government had invested ₹ 12,280.63 crore (equity: ₹ 4,118.13 crore, grants: ₹ 1,321.70 crore and subsidy: ₹ 6,840.80 crore) in 36 PSUs during the years for which accounts had not been finalised as on 30 September 2013 as detailed in **Annexure 4**.

Impact of non-finalisation of accounts

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

1.24 In the absence of accounts and their 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.

1.25 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 2012-13 could not be ascertained. However, as per the latest finalized accounts the contribution of PSUs to State GDP was 7.21 per cent.

1.26 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.

Performance of PSUs

Problems in assessing performance

1.27 The actual performance of the PSUs, in view of the backlog in finalisation of accounts, could not be ascertained.

1.28 The financial results of PSUs, financial position and working results of working Statutory Corporations are detailed in **Annexure 2, 5 and 6**

⁶ Between October and December 2013, 22 PSUs finalized their 22 accounts. 18 accounts of 14 working PSUs were still pending finalization as at end of December 2013.

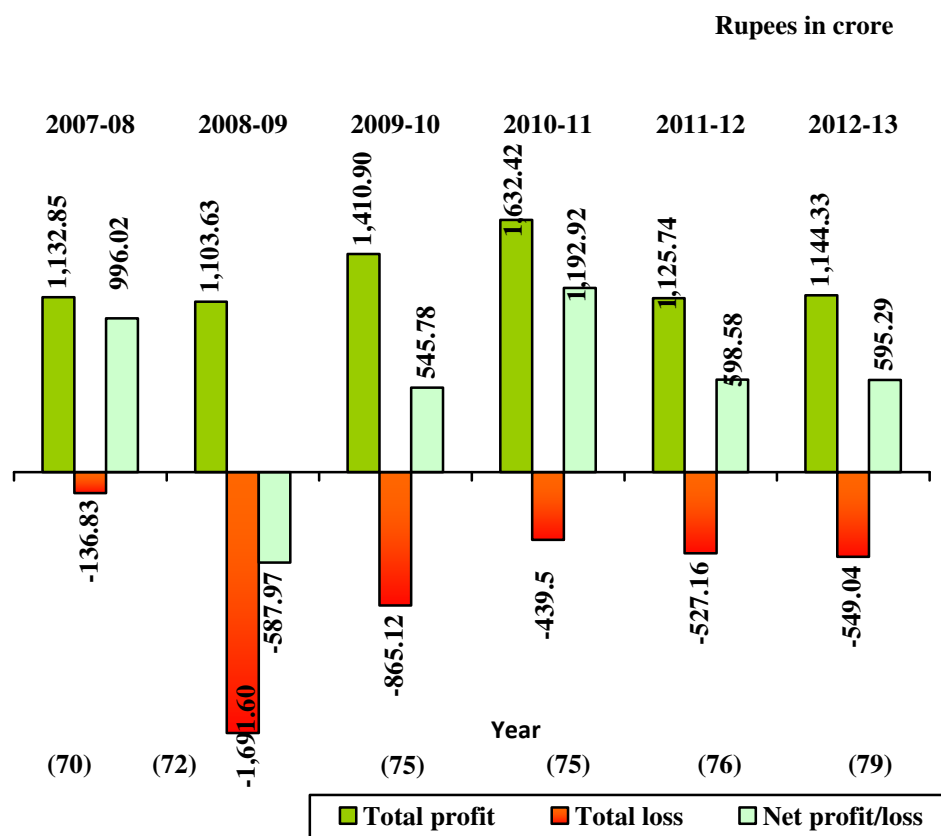
⁷ The Mysore Acetate and Chemicals Company Limited, NGEF Limited, Karnataka Telecom Limited, The Mysore Cosmetics Limited, The Karnatak State Veeners Limited, Chamundi Machine Tools Limited and Karnataka State Textiles Limited.

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 2008-09 to 2012-13.

Table 1.6: Details of working PSUs' turnover *vis-a-vis* State GDP

Particulars	₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Turnover ⁸	32,627.68	36,369.48	41,493.51	34,490.58	37,867.13
State GDP	3,10,312	3,37,516	3,98,893	4,58,903	5,25,444 ⁹
Percentage of turnover to State GDP	10.51	10.78	10.40	7.52	7.21

1.29 Profit earned or loss incurred by working PSUs during 2007-08 to 2012-13 is given below in the bar chart.



The total profits earned, losses incurred and the net profit/loss of the working PSUs for the period 2007-08 to 2012-13.

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

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 2012-13 are Advance Estimates.

1.30 As per their latest finalised accounts, out of 79 working PSUs, 49 PSUs earned profit of ₹ 1,144.33 crore and 23 PSUs incurred loss of ₹ 549.04 crore. One working PSU (Hubli-Dharwad BRTS Company Limited) incorporated in May 2012 had not finalised their first accounts. Three 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. One Company (Karnataka Urban Infrastructure Development and Finance Corporation Limited) recorded zero profit by claiming management fee equal to the net administrative expenses incurred.

The major contributors to profit were The Hutti Gold Mines Company Limited (₹ 257.13 crore) and Karnataka Power Corporation Limited (₹ 171.20 crore). The heavy losses were incurred by Karnataka Neeravari Nigama Limited (₹ 235.37 crore), The Mysore Paper Mills Limited (₹ 76.86 crore) and Chamundeshwari Electricity Supply Corporation Limited (₹ 116.27 crore).

Reasons for the losses

1.31 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, their operations and monitoring. Cases discussed in the subsequent Chapters of this Report show that there were controllable losses to the extent of ₹ 1,075.66 crore and infructuous investment of ₹ 524.48 crore. The losses could have been minimized or profits enhanced substantially with better management. Year-wise details from Audit Reports, for last three years are given below:

Table 1.7: Controllable losses and infructuous investment commented in Audit Reports

(₹ in crore)				
Particulars	2010-11	2011-12	2012-13	Total
Net Profit / Loss(-)	987.03	407.87	413.72	1,808.62
Controllable losses as per the CAG's Audit Report	1,160.57	1,890.63	1,075.66	4,126.86
Infructuous investment	72.62	112.95	524.48	710.05

1.32 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 situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

¹⁰ Cauvery Neeravari Nigama Limited, Raichur Power Corporation Limited and Karnataka State Mango Development and Marketing Corporation Limited.

Capital employed, Debt, turnover and dividend

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

Table 1.8: Key parameters pertaining to PSUs

(₹ in crore)						
Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Return on capital employed (<i>per cent</i>)	4.58	1.88	3.47	4.40	4.22	4.77
Debt	24,078.32	24,087.55	24,704.05	25,364.38	29,197.31	27,434.29
Turnover ¹¹	28,218.05	32,627.68	36,369.48	41,493.51	34,490.58	37,867.13
Debt-Turnover ratio	0.85:1	0.74:1	0.68:1	0.61:1	0.85:1	0.72:1
Interest payments	1,607.58	1,556.95	1,901.19	2,269.00	2,555.79	2,557.69
Accumulated profits/losses (-)	1,248.48	(-) 39.93	(-) 197.93	1,007.36	1,368.93	1,388.01

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

1.34 There was increase in turnover as compared to the previous year, contributed mainly by improvement in turnover of the Transport Corporations, Power Sector Companies, Karnataka Food and Civil Supplies Corporation Limited, Mysore Sales International Limited and Karnataka Rural Infrastructure Development Limited. The reduction in Debt is mainly due to reclassification of long term loans (previous year) to short term loans during the year 2012-13 by Karnataka Power Corporation Limited.

1.35 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 latest finalised accounts, 53 PSUs¹² earned an aggregate profit of ₹ 1,145.55 crore. But, only 17 PSUs declared dividend, which amounted to ₹ 50.09 crore.

Non-working PSUs

1.36 There were 14 non-working PSUs (all Companies) as on 31 March 2013. 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:

¹¹ Turnover of working PSUs as per the latest finalised accounts as of 30 September 2013.

¹² Including non-working Government companies.

Table 1.9: Number of non-working companies

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
No. of non-working companies	16	15	14	14	14

During 2012-13, seven non-working PSUs¹³ incurred an expenditure of ₹ 1.52 crore towards establishment costs. This expenditure was met through rent, interest and other sources by these PSUs.

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

Table 1.10: Stages of closure of non-working PSUs

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

1.38 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.

Comments on Accounts and Internal Audit

1.39 Sixty seven working companies forwarded their 81 audited accounts to the Principal Accountant General (PAG) during the year 2012-13 as of 30 September 2013. Of these, 45 accounts of 42 companies were selected for supplementary audit. Remaining 36 accounts were issued Non-review certificates. 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:

¹³ Karnataka Agro Industries Corporation Limited (₹ 0.18 crore), The Mysore Tobacco Company Limited (₹ 0.29 crore), Karnataka Pulpwood Limited (₹ 0.01 crore), The Mysore Match Company Limited (₹ 0.01 crore), The Mysore Lamps Works Limited (₹ 0.97 crore), Vijayanagar Steel Limited (₹ 0.04 crore), The Mysore Chrome Tanning Company Limited (₹ 0.02 crore)

Table 1.11: Details of aggregate money value of comments

(Amount : ₹ in crore)

Sl. No.	Impact of comments	2010-11		2011-12		2012-13	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	8	267.07	15	1045.66	5	78.31
2	Increase in profit	4	9.88	2	2.86	5	3.33
3	Decrease in loss	1	0.03	1	1.56	10	1.97
4	Increase in loss	8	46.76	4	45.57	9	228.28

1.40 During the year 2012-13, the Statutory Auditors had given unqualified reports on 26 accounts, qualified reports on 49 accounts, adverse reports (which means that accounts did not reflect a true and fair position) on four accounts and Disclaimer of Opinion on two accounts. The compliance of companies with the Accounting Standards remained poor as there were 98 instances of non-compliance in 34 companies during the year.

1.41 Some of the important comments of the Statutory Auditors on the accounts of companies are stated below:

Karnataka Minorities Development Corporation Limited (2011-12)

- The accounts do not give a true and fair view in conformity with the accounting principles generally accepted in India proper books of accounts as required by law have not been kept by the Company and the Balance Sheet and the Statement of Profit & Loss are not in agreement with the books of accounts and they do not comply with the Accounting Standards referred to in Subsection (3C) of Section 211 of the Companies Act, 1956.

Karnataka Scheduled Tribes Development Corporation Limited (2010-11 and 2011-12)

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

Karnataka Public Lands Corporation Limited (2011-12)

- The Balance Sheet and Profit and Loss Account do not comply with the Accounting Standards, do not give the information required by the Companies Act, 1956, and do not give a true and fair view in conformity with the accounting principles generally accepted in India.
- The Company is showing a share capital of ₹ 5 lakh which should be shown as share application money received as the procedures of issuing the share capital had not been done by the Company.

- The functioning of the Company as a separate legal entity is doubtful as it is working as a Division of the Government Department.

Karnataka Sheep and Wool Development Corporation Limited (2011-12)

- Specific grant funds (to an extent of ₹ 1.46 crore) have been diverted for other purposes without approvals.
- Advances given for construction in earlier years amounting to ₹ 1.39 crore has not been capitalized for want of bills.

D.Devraj Urs Backward Classes Development Corporation Limited (2012-13)

- The Company has accounted the loans in its books without obtaining loan documents from 1,105 beneficiaries out of 47,511. There is no proper documentation and acknowledgement of debt from majority of borrowers. As such the classification of loans amounting to ₹ 163.09 crore as good and provision for doubtful debts at 5 per cent are not proper.

Mysore Paper Mills Limited (2011-12)

- The Company has contravened the terms of issue of bonds of ₹ 50 crore raised during July 2010 and used it for purposes other than for which it was raised without informing the State Government, trustees of the bond holders and the bond holders.

Karnataka Thanda Development Corporation Limited (2011-12)

- We are unable to express our opinion on the genuineness of payments amounting to ₹ 64.39 lakh, as these payments have to be made to parties other than those who have raised invoices.
- We are unable to express our opinion on the genuineness of the payments amounting to ₹ 10 lakh as these funds were transferred to the personal Savings Bank account of the General Manager.
- Multiple cheques were issued to clear the payment of bills exceeding ₹ 5,000 and were withdrawn by parties other than to whom the payments were purportedly made.

Karnataka Rural Infrastructure Development Limited (2011-12)

- Receivables pertaining to Accounting Years 2003-04 to 2008-09 amounting to ₹ 20.87 crore are barred by the limitation of time and has not been provided in the financials resulting in overstatement of receivables and profits of the Company for the year.
- ₹ 3.20 crore receivable from various firms, ₹ 37.33 lakh from employees and ₹ 72.09 lakh from others (name of parties not available) are overdue for long time for want of information. The Company has

not provided for the same which has resulted in overstatement of advance (receivable) and profits of the Company for the year.

Karnataka Neeravari Nigam Limited. (2011-12)

- Treatment of sale of rubbles as direct income instead of eliminating the same from cost of the fixed assets is not in compliance with Accounting Standard 10 on Accounting for Fixed assets and has resulted in overstatement of assets and other income by ₹ 6.20 crore.

Karnataka Cashew Development Corporation Limited (2012-13)

- Interest amounting to ₹ 1.24 crore on the loan of ₹ 3 crore borrowed from the Government of Karnataka was reversed without obtaining the approval of the Government.
- The Corporation has not remitted the lease rent amounting to ₹ 1.93 crore payable to the Karnataka Forest Department since 1987 and no provision has been made in the accounts in respect of the interest that it may be called upon to pay on the above default.

1.42 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 of India 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 13 Companies are given in **Annexure 7**.

Finalisation of accounts by Statutory Corporations

1.43 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.

Audit of the accounts six Statutory Corporations for the year 2011-12 were completed during the year 2012-13. The SARs in respect of all Statutory Corporations for the period 2011-12 had been placed in State Legislature.

Five out of six Statutory Corporations forwarded (up to September 2013) their accounts for the year 2012-13 to the Principal Accountant General. The audit of the accounts of all these Statutory Corporations was in progress (September 2013). One Statutory Corporation (Karnataka State Warehousing Corporation) had not forwarded their accounts of 2012-13 till September 2013.

1.44 The SARs on the accounts finalised indicated that the quality of maintenance of accounts needed improvement. The details of aggregate money value of comments of the CAG are given below:

Table 1.12: Details of aggregate money value of comments on the accounts of Statutory Corporations

(Amount : ₹ in crore)

Sl. No.	Impact of comments	2010-11		2011-12		2012-13	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	6	38.61	-	-	4	35.39
2	Increase in profit	-	-	-	-	-	-
3	Decrease in loss	-	-	-	-	-	-
4	Increase in loss	3	53.05	1	10.90	2	21.37

1.45 Some of the important comments on the accounts of the Statutory Corporations are stated below:

Karnataka State Road Transport Corporation (2011-12)

- The Authorities of Central Excise & Customs had raised the demand of Service Tax to the extent of ₹ 6.38 crore considering the casual/chartered services operated by the Corporation under 'Rent a cab service' under relevant sections of the Finance Act, 1994 against which the Corporation had filed appeal with the Service Tax Department. The appeals filed are pending at various stages. This fact has not been disclosed suitably in the notes forming part of Financial Statements.
- The Income Tax authorities have cancelled the status of Charitable Institution of the Corporation and demanded ₹ 77.31 crore for the Assessment Years (AY) 2009-10. The Corporation has filed an appeal in the High Court of Karnataka and the Court directed them to pay ₹ 23.19 crore pending finalization of appeal. The Corporation had adjusted/paid ₹ 12.32 crore and treated it as deposit, leaving a balance ₹ 10.87 crore. The above facts have not been disclosed in the Notes to Accounts.

North Eastern Karnataka Road Transport Corporation (2011-12)

- Advance to suppliers includes ₹ 0.24 crore paid to Karnataka Land Army Corporation Limited towards purchase of capital assets, which is pending adjustment for more than ten years. Even though the recovery of the amount is doubtful provision for it is not made.
- The Corporation had done actuarial valuation for gratuity liability during 2008-09 for ₹ 125.79 crore, but provision is not made.

North Western Karnataka Road Transport Corporation (2011-12)

- Sundry Debtors include ₹ 7.08 crore receivable from Karnataka State Road Transport Corporation (KSRTC), whereas the reconciliation undertaken between Corporation and KSRTC fixed it at ₹ 5.10 crore. This has resulted in overstatement of Sundry Debtors by ₹ 1.98 crore.
- The Corporation has not assessed and provided for gratuity and leave encashment in the accounts as required in AS-15, which stipulates providing for the liability on actuarial basis.

Recoveries at the instance of Audit

1.46 During the course of compliance audit of PSUs in 2012-13, recoveries of ₹ 12.70 crore were pointed out to the Managements, of which ₹ 6.75 crore was recovered by them. Recoveries of ₹ 1.50 crore pointed out in the earlier years were also effected during the year 2012-13.

Further, based on the observations raised during the audit of 'Captive mining in Coal blocks' for which a Joint Venture (JV) Company viz., Karnataka EMTA Coal Mines Limited (KECML) was formed between Karnataka Power Corporation Limited (KPCL) and EMTA Limited, recoveries were effected in the following cases:

- KECML supplied (February/ March 2012) eight rakes of coal from alternate sources to KPCL and payment of ₹ 2.59 crore was made based on the coal analysis report of SGS Limited. On mutual agreement, KPCL arranged (March 2013) analysis of the samples of these eight rakes at Central Power Research Institute (CPRI), Bangalore. As per CPRI report, the value of coal worked out to ₹ 1.88 crore only. When pointed out in audit, the excess payment of ₹ 0.71 crore was recovered in August 2013.
- In accordance with Central Excise Valuation (determination of price of excisable goods), Rules, 2000, KPCL was not liable to reimburse the excise duty on surface transportation charges on the coal supplied. KPCL, however, had reimbursed excise duty of ₹ 18.84 lakh during March 2011 to March 2013. At the instance of audit (May 2013) an amount of ₹ 14.95 lakh was recovered (August 2013) from KECML.

Disinvestment, privatisation and restructuring of PSUs

1.47 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 companies¹⁴ were dissolved /amalgamated as on September 2013. The position of action taken by the Government in respect of the remaining 26 companies identified for

¹⁴ 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.

closure/ privatisation/restructuring are as follows:

Table 1.13: Status of disinvestment / restructuring of PSUs

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 ⁴	2 [@]
Working Government Companies decided for privatization	8	6 ⁵	2 [*]
Restructuring of Working Government Companies	1	1 ^Ω	-

During October 2005, the Government adopted a comprehensive Policy on Public Sector Enterprises Reforms, which enunciated an assessment on a case-to case basis including mechanism for its implementation by incorporating the earlier reform process. After the study, appropriate specific solution was to be considered. The present status of the recommendations of study on case-to-case basis of PSUs is awaited (December 2013).

Reforms in power sector

1.48 The State has Electricity Regulatory Commission (KERF) 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.

1.49 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

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

⁴ Karnataka State Construction Corporation Limited.

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

⁵ 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.

milestones in respect of five Electricity Supply Companies¹⁵ is stated below:

Table 1.14: Status of Power Sector Reforms

Milestone	Achievement as at March 2013				
	BESCOM	CESCO	HESCOM	GESCOM	MESCOM
100 <i>per cent</i> electrification of all villages by 2012.	100 <i>per cent</i>	100 <i>per cent</i>	99 <i>per cent</i>	100 <i>per cent</i>	99.90 <i>per cent</i>
Commitment in the MoU to reduce the overall Transmission and Distribution (T&D) losses by 10 to 15 <i>per cent</i> with target reduction of five <i>per cent</i> every year from 2000-01.	14.20 <i>per cent</i>	15.07 <i>per cent</i>	19.88 <i>per cent</i>	18.97 <i>per cent</i>	11.88 <i>per cent</i>
Hundred <i>per cent</i> metering of all consumers by 2004-05	Metering in respect of all other categories of consumers except that of Irrigation Pump (IP) sets was completed. Metering in case of IP sets, the achievement was 9.70 <i>per cent</i> ¹⁶ .	The overall percentage of achievement of metering in respect of all categories of consumers was 93.24 <i>per cent</i>	Metering of all categories of consumers, except Kutir Jyothi/ Bhgaya Jyothi consumers and IP sets, was completed. The achievements were 84.05 <i>per cent</i> ¹⁷ in respect of Kutir Jyothi/ Bhgaya Jyothi consumption and 33.92 <i>per cent</i> ¹⁸ in IP sets.	Metering of all other categories of consumers, except in respect of Kutir Jyothi/ Bhagya Jyothi was completed.	The overall percentage of achievement of metering in respect of all categories of consumers was 98.14 <i>per cent</i> .
Energy Audit at 11kV substation level by September 2001	Undertaken in Channagiri as a pilot project.	Is being conducted on R-APRDP town Distribution Transformer Centres	Done	Done	Done

(Source : Information furnished by ESCOMs; Annual Accounts of ESCOMs)

¹⁵ 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).

¹⁶ Of the total number of 6,52,209 IP sets, 63,265 were metered.

¹⁷ Of the total number of 7,66,250 KJ/BJ consumers, 6,44,030 were metered.

¹⁸ Of the total number of 5,50,538 IP sets, 1,86,724 were metered.