

Introduction

1. Functioning of State Public Sector Undertakings

General

1. The State Public Sector Undertakings (PSUs) in Karnataka consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also occupy an important place in the State's economy. As on 31 March 2019, there were 114 PSUs in Karnataka including six Statutory Corporations and 13 non-working Government companies under the audit jurisdiction of the Comptroller and Auditor General of India. Of these, one PSU¹ was listed on the stock exchange. Seven PSUs², which were incorporated/entrusted for audit, have been added during 2018-19.

2. The financial performance of the PSUs on the basis of their latest finalised accounts as on 30 September 2019 is covered in this report. The details of the nature of PSUs and the position of finalisation of accounts are given below:

Table No.1: Nature of PSUs covered in the Report

Sl. No.	Type of PSUs	Total Number	Number of PSUs for which accounts received during the reporting period ³			Number of PSUs for which accounts were in arrears (total accounts in arrears) as on 30 September 2019
			2018-19	2017-18	Total	
1	Working Government Companies	95	49	31	80	46 (73) ⁴
2	Statutory Corporations	6	0	5	5	06 (07)
	Total working PSUs	101	49	36	85	52 (80)
3	Non-working Government Companies	13	6	1	7	07 (82) ⁵
	Total	114	55	37	92	59 (162)

The working PSUs which had arrears of accounts include eight PSUs with arrears ranging from three to six years (DDUTT, KSSKDCL, KMDC, KSAWDCL, MPM, KSCCL, KVTSDCL and MYSUGAR). Further, four non-working PSUs (KSVL, MCL, KTL and MACCL) had arrears ranging from 14

¹ The Mysore Paper Mills Limited.

² Science Gallery Bengaluru, Karnataka Adi Jambava Development Corporation, Karnataka Antharaganga Micro Irrigation Corporation Limited, Karnataka Uppara Development Corporation Limited—formed in October 2017 but not considered in Audit Report 2017-18, Bengaluru Smart City Limited – formed in January 2018 but not considered in Audit Report 2017-18, Rail Infrastructure Development Company (Karnataka) Limited-audit entrusted in January 2019 and D. Devraj Urs Truck Terminals Limited-audit entrusted in December 2018.

³ From October 2018 to September 2019.

⁴ Includes 31 PSUs which did not finalise accounts for 2018-19 and 15 PSUs which have arrears of 42 accounts (related to periods prior to 2018-19).

⁵ Includes 60 accounts from four PSUs which are under liquidation (KSVL, MCL, KTL and MACCL).

to 16 years. The working PSUs registered a turnover of ₹ 70,599.16 crore as per their latest finalised accounts as of September 2019. This turnover was equal to 5.01 *per cent* of the State Gross Domestic Product (GDP) for 2018-19. The working PSUs incurred net aggregate loss of ₹ 2,340.99 crore as per their latest finalised accounts as of September 2019. At the end of March 2019, the PSUs had 2.02 lakh employees.

As on 31 March 2019, 13 PSUs having an investment of ₹ 544.72 crore were non-working for the last 16 years. This was a critical area as the investments in non-working PSUs do not contribute to the economic growth of the State.

Accountability framework

3. The process of audit of Government Companies is governed by respective provisions of Section 619 of the Companies Act, 1956, and Sections 139 and 143 of the Companies Act, 2013 (Act). According to Section 2(45) of the Act, a Government Company means any Company in which not less than fifty-one *per cent* of the paid up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a Company, which is a subsidiary Company of such Government Company.

The Comptroller & Auditor General of India (CAG) appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. Section 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of one hundred and eighty days from the commencement of the financial year. Section 139 (7) of the Companies Act, 2013 provides that in case of a Government Company or Government Controlled Other Company, the first auditor is to be appointed by the CAG within sixty days from the date of registration of the Company and in case CAG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-section 7 of Section 143 of the Act, the CAG may, in case of any Company covered under sub-section (5) or sub-section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company. The provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit. Thus, a Government Company or any other Company, owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. Audit of the Financial Statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

4. The financial statements of the Government Companies are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Sections 139(5) or 139(7) of the Act. Thereafter, a copy of the Audit Report is submitted to the CAG under Section 143(5) of the Act, which, among other things, includes the Financial Statements of the Company. These financial statements are subject to supplementary audit to be conducted by the CAG within sixty days from the date of receipt of the Audit Report under the provisions of Section 143(6) of the Act.

Audit of Statutory Corporations is governed by their respective legislations. Out of the six Statutory Corporations in Karnataka, the CAG is the sole auditor for four State Road Transport Corporations⁶. In respect of State Warehousing Corporation and State Financial Corporation, the audit is conducted by Chartered Accountants while the Supplementary Audit is conducted by the CAG.

Submission of accounts by PSUs

Need for timely finalisation and submission

5. According to Section 394 and 395 of the Companies Act 2013, an Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the House or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for noncompliance with the provisions of Section 129 of the Companies Act, 2013.

Role of Government and Legislature

6. The State Government exercises control over the affairs of these PSUs through their administrative departments. The Chief Executives and Directors to the Board are appointed by the Government.

⁶ Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Eastern Karnataka Road Transport Corporation and North Western Karnataka Road Transport Corporation.

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 Reports in case of Statutory Corporations are placed before the Legislature under Section 394(2) and/or 395 of the Act or 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.

Investment in State PSUs

7. The Government of Karnataka (GoK) has a financial stake in these PSUs. This stake is of mainly three types:

- **Share capital and loans** – GoK provides Share Capital Contribution and 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; and
- **Guarantees** – GoK also guarantees the repayment (with interest) of loans availed by the PSUs from financial institutions.

8. As on 31 March 2019, the investment (capital and long-term loans) in 114 PSUs was ₹ 1,32,841.77 crore⁷ as per details given below:

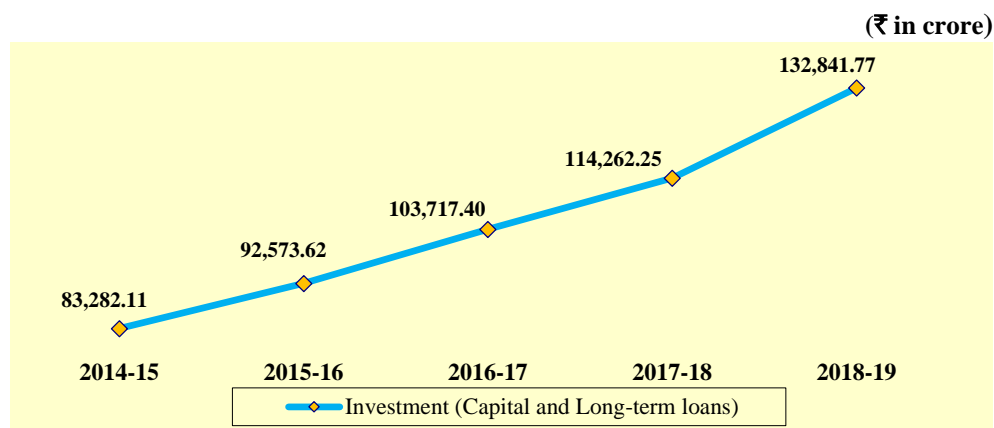
Table No.2: Total Investment in PSUs

Sl. No.	Type of PSUs	Government Companies			Statutory Corporations			Grand total
		Capital	Long term loans	Total	Capital	Long term loans	Total	
		(₹ in crore)						
1	Working PSUs	71,770.40	55,579.18	1,27,349.58	1,613.23	3,334.25	4,947.48	1,32,297.06
2	Non-working PSUs	111.85	432.86	544.71	-	-	-	544.71
	Total	71,882.25	56,012.04	1,27,894.29	1,613.23	3,334.25	4,947.48	1,32,841.77

As on 31 March 2019, of the total investment in State PSUs, 99.59 per cent was in working PSUs and the remaining 0.41 per cent in non-working PSUs. This total investment consisted of 55.33 per cent towards capital and 44.67 per cent in long-term loans. The investment grew by 59.51 per cent from ₹ 83,282.11 crore in 2014-15 to ₹ 1,32,841.77 crore in 2018-19 as shown in the Chart below.

⁷ Twenty-five PSUs (including non-working PSUs) did not furnish information on investments as at the end of March 2019. The information as furnished during previous years has been considered.

Chart No.1: Total investment in PSUs



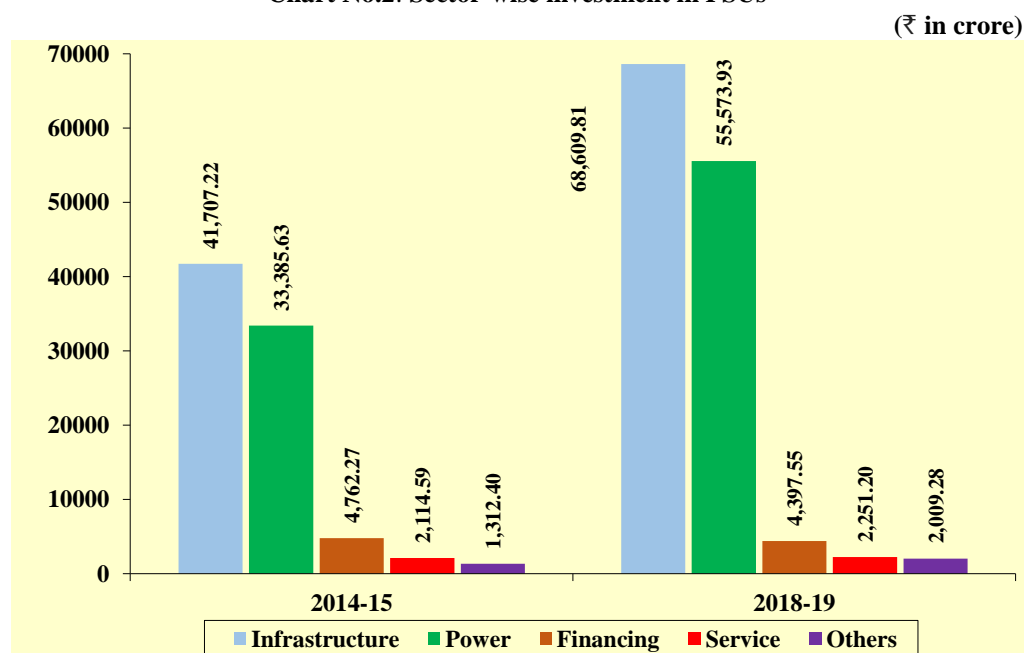
9. The sector-wise summary of investments in the State PSUs as on 31 March 2019 is given below:

Table No.3: Sector-wise investment in PSUs

Sl. No.	Name of the Sector	Government companies		Statutory Corporations	Total	Investment (₹ in crore)
		Working	Non-working			
1	Agriculture and allied	13	5	1	19	919.78
2	Financing	19	-	1	20	4,397.55
3	Infrastructure	23	1	-	24	68,609.81
4	Manufacturing	19	7	-	26	1,089.38
5	Power	11	-	-	11	55,573.93
6	Service	5	-	4	9	2,251.20
7	Miscellaneous	5	-	-	5	0.12
	Total	95	13	6	114	1,32,841.77

The investment in four significant sectors at the end of 31 March 2015 and 31 March 2019 are indicated in the Chart below:

Chart No.2: Sector-wise investment in PSUs



The thrust of investments in PSUs was in Infrastructure and Power sectors, accounting for 51.65 per cent and 41.83 per cent respectively in 2018-19. Between 2014-15 and 2018-19, the investment in Infrastructure and Power sectors increased by ₹ 26,902.59 crore and ₹ 22,188.30 crore respectively.

Coverage of this Report

10. This Report contains observations on Power Sector PSUs and PSUs (other than Power Sector). The observations on the Power Sector PSUs, which were included under Chapters I, II and III, contain one Performance Audit on ‘Creation of infrastructure (220kV/110kV stations and lines) for transmission of power by Karnataka Power Transmission Corporation Limited’ (Chapter – II) and two Compliance Audit paragraphs (Chapter – III). The observations on PSUs (other than Power Sector), which were included under Chapters IV, V and VI, contain one Performance Audit on ‘Development of State Highways through Public Private Partnership by Karnataka Road Development Corporation Limited’ (Chapter – V) and three Compliance Audit paragraphs (Chapter – VI).

The financial effect of the observations related to Power Sector PSUs and PSUs (other than Power Sector) worked out to ₹ 1,605.55 crore and ₹ 277.19 crore respectively.