

OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2005, the State had 82 Public Sector Undertakings (PSUs) comprising 76 Government companies (including 17 non-working companies) and six Statutory corporations as against same number of companies/corporations during the previous year. In addition, there were four deemed Government companies under Section 619 B of the Companies Act, 1956 as on 31 March 2005.

(Paragraphs 1.1 and 1.28)

The total investment in working PSUs increased from Rs. 33,697.10 crore as on 31 March 2004 to Rs. 37,680.84 crore as on 31 March 2005. The total investment in non-working PSUs increased from Rs.536.93 crore to Rs.575.42 crore during the same period.

(Paragraphs 1.2 and 1.16)

The budgetary support in the form of capital, loans, grants and subsidy disbursed to the working PSUs increased from Rs.3,663.61 crore in 2003-04 to Rs.5,387.68 crore in 2004-05. The State Government also provided Rs.42.88 crore in the form of loans to two non-working companies during 2004-05. The State Government guaranteed loans aggregating Rs.1,089.63 crore during 2004-05. Guarantees amounting to Rs.8,425.02 crore against 22 working Government companies and three working Statutory corporations were outstanding as on 31 March 2005.

(Paragraphs 1.5 and 1.17)

Forty two working Government companies and three Statutory corporations finalised their accounts for the year 2004-05. The accounts of the remaining Government companies and Statutory corporations were in arrears for periods ranging from one to three years as on 30 September 2005. The accounts of seven non-working Government companies were in arrears for periods ranging from one to two years as on 30 September 2005.

(Paragraphs 1.6 and 1.19)

According to latest finalised accounts, 37 working PSUs (33 Government companies and four Statutory corporations) earned aggregate profit of Rs.740.35 crore. Out of forty two working Government companies, which finalised their accounts for 2004-05 by September 2005, only five companies declared dividend aggregating Rs.14.95 crore. Twenty one working PSUs (19 Government companies and two Statutory corporation) incurred aggregate loss of Rs.174.30 crore as per their latest finalised accounts. Of the loss incurring PSUs, nine companies and two Statutory corporations had accumulated losses aggregating Rs.722.21 crore and Rs.268.73 crore respectively, which exceeded their aggregate paid up capital of Rs.558.80 crore and Rs.177.14 crore respectively.

(Paragraphs 1.7 to 1.11)

2. Reviews relating to Government companies

Reviews relating to Performance of Schemes operated by **Social Welfare Companies**, Funds Management in **Karnataka Neeravari Nigam Limited** and Performance of Hotel Division including Infrastructure development of **The Karnataka State Tourism Development Corporation Limited** were conducted and some of the main findings are as follows:

Performance of Schemes operated by Social Welfare Companies

The Government of Karnataka formed four Companies viz., KSCSTDC[♦], KBCDC[♥], KMDC[◇] and KSWDC[♣] with the main objective of narrowing the socio-economic gap between the general level of economic and social development of society and that of Scheduled Castes/Scheduled Tribes, Backward Classes, Religious Minorities and Women in Karnataka. These companies were not able to fully achieve these objectives as:

- They failed to utilize Rs.101.21 crore provided by the Central and State Government under various schemes.
- The borewells dug at a cost of Rs.65.74 crore remained unutilized as these Companies failed to energise these borewells reportedly due to lack of funds.
- KSCSTDC increased the number of beneficiaries by widening the scope of the definition of beneficiaries thereby depriving the eligible beneficiaries of the benefits of the schemes.
- KMDC failed to adhere to the ratio of benefits prescribed by the Government for various minority communities.

The Companies did not comply fully with the recommendations of Committee on Public Undertakings.

(Chapter 2.1)

Review on Funds Management in Karnataka Neeravari Nigam Limited

The Company was set up in December 1998 as a special purpose vehicle to complete various irrigation projects on fast track basis by 2003 to utilize the Karnataka State's share of water awarded under Krishna Water Disputes Tribunal. 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:

- it could utilize only 90.17 thousand million cubic feet (tmc) of water by the end of March 2005 as against allocation of 217.61 tmc,

♦ Karnataka Scheduled Castes and Scheduled Tribes Development Corporation Limited.

♥ Karnataka Backward Classes Development Corporation Limited.

◇ The Karnataka Minorities Development Corporation Limited.

♣ Karnataka State Women's Development Corporation.

- 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,
- twenty five new projects costing Rs.6,532 crore were entrusted without identifying and providing for the resources for their execution,
- the Company depends mainly on Government guarantees for mobilisation of funds; and considering the current level of Government support it would take 36 years to complete all the projects.

As against the repairs and maintenance cost of Rs.149.09 crore, the Company made a demand of Rs.73.56 crore as water charges, and collected Rs.7.87 crore only during last five years ended March 2005, which represented 5.28 per cent of repairs and maintenance cost, indicating low internal generation of resources.

(Chapter 2.2)

Performance of Hotel Division including Infrastructure Development of Karnataka State Tourism Development Corporation Limited

The Company set up in February 1971 with a view to promote and develop the domestic as well as international tourism in the State, did not achieve fully its objective as tourists who availed its facilities was negligible.

There was no system of preparing the Annual Plan for taking up the projects for upgradation and renovation of hotels.

The grants received from Central/State Government for creating/developing tourist infrastructure were parked in fixed deposits; the utilization of grants was very low. As such the projected facilities could not be created. The Company, consequently, failed to tap the full tourist potential of its hotels.

There has been delay in implementation of projects for upgradation and renovation of its hotels resulting in foregoing revenue of Rs.2.24 crore during 2000-05.

(Chapter 2.3)

3. Transaction Audit Observations

Audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

- There were 12 cases of losses amounting to Rs.15.71 crore on account of unproductive/extra/avoidable expenditure and undue favour to contractors.

(Paragraphs 3.1 to 3.4, 3.6 to 3.7, 3.9 to 3.12, 3.16 and 3.17)

- Instances of incorrect projections/deviation in tender conditions resulting in loss of Rs.37.49 lakh, loss of export incentive of Rs.1.71 crore, loss of interest of Rs.86.84 lakh and non-recovery of dues of Rs.85.36 lakh were also noticed.

(Paragraphs 3.5, 3.8 and 3.13 to 3.15)

Gist of the important observations are given below:

Karnataka Neeravari Nigam Limited failed to utilize the hard rock available from excavation of canal for dam and allied works resulting in extra expenditure of Rs.2.18 crore.

(Paragraph 3.1)

Karnataka Neeravari Nigam Limited failed to deduct the full cost of rubble supplied/used for the work and the element of profit thereon from the rates payable to the contractor, resulting in undue benefit of Rs.59.09 lakh to the contractor.

(Paragraph 3.3)

Adoption of market rates instead of the rates specified in the schedule of rates for payment for additional quantities, in contravention of the terms of the agreements, resulted in excess payment of Rs.40.54 lakh by **Krishna Bhagya Jala Nigam Limited**.

(Paragraph 3.7)

Failure of **Karnataka Soaps and Detergents Limited** to conduct market survey, resulted in loss of Rs.1.76 crore in sale of 'All Fair' fairness cream.

(Paragraph 3.9)

Hasty decision of **Karnataka Soaps and Detergents Limited** in placing the second order before the expiry of delivery period of first order resulted in avoidable extra expenditure of Rs.1.56 crore.

(Paragraph 3.10)

The decision of **Karnataka Soaps and Detergents Limited** to procure sandalwood oil instead of resorting to in-house production resulted in extra expenditure of Rs.34.83 lakh.

(Paragraph 3.12)

The Mysore Sugar Company Limited failed to claim export incentive of Rs.1.71 crore from the State Government for settlement of dues to farmers.

(Paragraph 3.13)

The Mysore Sugar Company Limited raised bonds without prior consent of the Government for budgetary support resulting in locking up of the funds so raised and consequential loss of interest of Rs.86.84 lakh.

(Paragraph 3.14)