

CHAPTER I

Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2006, there were 76 Government companies (59 working companies and 17 non-working companies*) and six Statutory corporations (working) under the control of the State Government as against same number of companies/corporations as on 31 March 2005. One new company (Chamundeshwari Electricity Supply Corporation Limited) was formed during the year, one company (Karnataka Film Industries Development Corporation Limited) became a non-working company during the year and one non-working Company (Karnataka Tungsten Moly Limited) was dissolved during the year. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per provision of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619(4) of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

Sl. No.	Name of the Corporation	Authority for audit by the CAG	Audit arrangement
1	Karnataka State Road Transport Corporation (KSRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
2	Bangalore Metropolitan Transport Corporation (BMTCL)		
3	North Western Karnataka Road Transport Corporation (NWKRTC)		
4	North Eastern Karnataka Road Transport Corporation (NEKRTC)		
5	Karnataka State Financial Corporation (KSFC)	Section 37(6) of the State Financial Corporations Act, 1951	Audit by Chartered Accountants and Supplementary Audit by the CAG
6	Karnataka State Warehousing Corporation (KSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	Audit by Chartered Accountants and Supplementary Audit by the CAG

The State Government formed the Karnataka Electricity Regulatory Commission, whose audit is entrusted to the Comptroller and Auditor General of India (CAG) as per Item II (2) of Part I of the Schedule to Section 8(7) of the Karnataka Electricity Reform Act, 1999.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

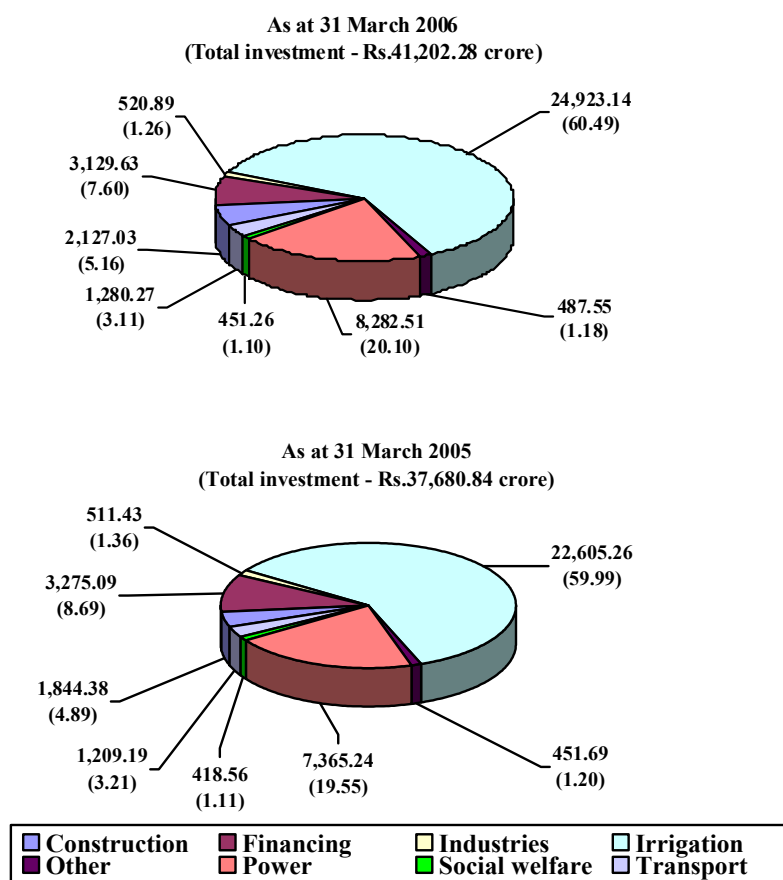
1.2 As on 31 March 2006, the total investment in 65 working PSUs (59 Government companies and six Statutory corporations) was

* Non-working companies/corporations are those, which are under the process of liquidation/closure/merger, etc.

Rs.41,202.28 crore[∇] (equity: Rs.13,753.79 crore; long-term loans[@]: Rs.22,309.64 crore and share application money Rs.5,138.85 crore) as against total investment of Rs.37,680.84 crore (equity: Rs.12,598.05 crore; long-term loans: Rs.22,072.72 crore and share application money Rs.3,010.07 crore) in 65 working PSUs (59 Government companies and six Statutory corporations) as on 31 March 2005. The analysis of investment in working PSUs is given in the following paragraphs.

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2006 and 31 March 2005 are indicated below in the pie charts:

Sector-wise investment in working Government companies and Statutory corporations
(Figures in bracket are percentage)



[∇] State Government's investment in working PSU's was Rs.25,406.41 crore (others: Rs.15,795.87 crore). Figure as per Finance Accounts, 2005-06 is Rs.14,610.84 crore. The difference is under reconciliation.

[@] Long term loans mentioned in paragraphs 1.2, 1.3, 1.4 and 1.16 are excluding interest accrued and due on such loans.

Working Government companies

1.3 Total investment in working Government companies at the end of March 2005 and March 2006 was as under:

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2004-05	59	12,012.46	2,971.66	19,808.01	34,792.13
2005-06	59	13,103.21	5,100.29	19,948.10	38,151.60

As on 31 March 2006, the total investment in working Government companies comprised 47.71 *per cent* of equity capital and 52.29 *per cent* of loans as compared to 43.07 *per cent* and 56.93 *per cent* respectively as on 31 March 2005.

The summarised statement of Government investment in working Government companies in the form of equity and loans is given in **Annexure-1**.

Working Statutory corporations

1.4 The total investment in six working Statutory corporations at the end of March 2005 and March 2006 was as follows:

(Rupees in crore)

Name of the Corporation	2004-05		2005-06	
	Capital	Loan	Capital	Loan
Karnataka State Road Transport Corporation (KSRTC)	220.39	223.50	233.39	237.38
Bangalore Metropolitan Transport Corporation (BMTTC)	64.72	28.93	92.72	26.42
North Western Karnataka Road Transport Corporation (NWKRTC)	102.63	122.97	115.64	172.86
North Eastern Karnataka Road Transport Corporation (NEKRTC)	92.50	32.77	103.50	61.33
Karnataka State Financial Corporation (KSFC)	97.85 (36.01)	1,814.98	97.84 (36.01)	1,825.79
Karnataka State Warehousing Corporation (KSWC)	7.50 (2.45)	41.56	7.50 (2.55)	37.75
Total	585.59 (38.46)	2,264.71	650.59 (38.56)	2,361.53

(Figures in bracket indicate share application money)

The summarised statement of Government investment in working Statutory corporations in the form of equity and loans is given in **Annexure -1**.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government companies and working Statutory corporations are given in **Annexures 1 and 3**.

The budgetary outgo in the form of equity, loans and grants/subsidies from the State Government to working Government companies and Statutory corporations for the three years up to March 2006 are summarised below:

(Amount: Rupees in crore)

	2003-04				2004-05				2005-06			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity outgo from budget	13	1,525.38	-	-	9	2,787.24	3	30.00	10	3,183.24	5	65.10
Loans given from budget	6	89.45	-	-	9	209.64	1	42.00	11	222.07	-	-
Grants	11	108.05	-	-	14	377.27	-	-	17	823.39	2	27.66
Subsidy towards (i)Projects/ Programme/ schemes	3	5.45	1	12.50	4	215.05	-	-	4	316.69	1	2.66
(ii)Other subsidy	9	1,893.67	4	29.11	5	1,585.00	5	141.48	8	1,714.69	4	123.90
Total subsidy	11	1,899.12	4	41.61	9	1,800.05	5	141.48	9	2,031.38	4	126.56
Total outgo*	28	3,622.00	4	41.61	25	5,174.20	5	213.48	28	6,260.08	5	219.32

During 2005-06, the Government guaranteed loans aggregating Rs.493.08 crore obtained by seven working Government companies. At the end of the year, guarantees amounting to Rs.6,623.68 crore against 18 working Government companies were outstanding. The Government had foregone Rs.7.70 crore by way of interest in one company during the year. The guarantee commission paid/payable to the Government, by Government companies and Statutory corporations, during 2005-06 was Rs.2.82 crore/ Rs.263.39 crore and Rs.1.96 crore/Rs.0.87 crore, respectively. Three working companies defaulted in repayment of guaranteed loan of Rs.30.55 crore and payment of interest of Rs.18.11 crore.

Finalisation of accounts by working PSUs

1.6 The accounts of the Government 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 read with Section 19 of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory corporations, their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Thirty eight working Government companies out of 59 such companies and three of the six working Statutory corporations finalised their accounts for the year 2005-06 within the stipulated period as can be seen from **Annexure-2**. During October 2005 to September 2006, 16 working Government companies

* These are actual number of companies/corporations, which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during the year.

finalised 16 accounts for previous years. Similarly, during this period, three working Statutory corporations finalised three accounts for the previous years.

The accounts of 21 working Government companies and three Statutory corporations were in arrears for periods ranging from one to three years as on 30 September 2006, as detailed below:

Sl. No.	Number of companies / corporations		Year for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial number of Annexure 2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1	01	-	2003-04 to 2005-06	3	A-7	-
2	02	-	2004-05 to 2005-06	2	A-5, 45	-
3	18	3	2005-06	1	A-1, 3, 4, 8, 19, 22, 24, 26, 27, 34, 35, 37, 40, 41, 44, 47, 50, 51	B 3, 4, 5

The administrative departments have to monitor and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by Audit of the arrears in finalisation of accounts, no remedial measures had been taken, as a result of which the net worth of these PSU's could not be assessed in audit.

Financial position and working results of working PSUs

1.7 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in **Annexure-2**. Besides, statements showing the financial position and working results of the individual working Statutory corporations for the latest three years, for which accounts were finalised, are given in **Annexures 4 and 5** respectively.

According to the latest finalised accounts of 59 working Government companies and six working Statutory corporations, 18 companies and two corporations incurred an aggregate loss of Rs.101.34 crore and Rs.102.69 crore, respectively and 33 companies and four corporations earned an aggregate profit of Rs.647.38 crore and Rs.146.82 crore, respectively. Five companies had not commenced commercial activities, and in case of two companies excess of expenditure over income was capitalised and no profit and loss account was prepared as these companies are under construction. One company has not yet finalised its first accounts for the period January 2005 to March 2006.

Working Government companies

Profit earning working companies and dividend

1.8 Out of 38 working Government companies, which finalised their accounts for 2005-06, 24 companies earned an aggregate profit of Rs.490.42 crore and only seven companies (serial No.A-2, 10, 25, 42, 43,58 and 59 of **Annexure-2** declared an aggregate dividend of Rs.16.66 crore. The dividend as a percentage of share capital in these seven profit making companies worked out to 2.38 *per cent*. The total return to the Government by way of its share of dividend of Rs.15.68 crore worked out to 0.12 *per cent* in 2005-06 on total equity investment of Rs.12,970.78 crore by the State Government in all Government companies as against 0.12 *per cent* in the previous year. The State Government has not framed any policy for payment of minimum dividend.

Similarly, out of 11* working Government companies, which finalised their accounts for previous years by September 2006, four companies earned an aggregate profit of Rs.153.62 crore (which included profit earned for two or more successive years).

Loss incurring working Government companies

1.9 Of the 18 loss incurring working Government companies, nine companies⁶ had accumulated losses aggregating Rs.827.44 crore, which exceeded their aggregate paid up capital of Rs.550.80 crore. Despite poor performance and complete erosion of paid up capital, the State Government continued to provide financial support to these companies in the form of contribution towards equity, further grant of loans, subsidy, etc. According to available information, the total financial support provided by the State Government by way of equity, loan and subsidy during 2005-06 to five companies amounted to Rs.80.09 crore.

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.10 Three statutory corporations which finalised their accounts for 2005-06 earned an aggregate profit of Rs.144.08 crore and one Corporation (Karnataka State Warehousing Corporation) declared dividend of Rs.48.34 lakh. The dividend as a percentage to its share capital worked out to 6.45 *per cent*. The total return to the Government by way of its share of dividend of Rs.26.43 lakh worked out to 0.05 *per cent* in 2005-06 on total equity investment of Rs.568.62 crore in all Statutory corporations as against 0.03 *per cent* in the previous year. Four corporations had earned profit for two or more successive years.

♣ these exclude five companies which finalised current year's account also.

⁶ Sl. No. A-4-7, 9, 12, 19, 39, 53 of Annexure-2.

Loss incurring Statutory corporations

1.11 Two Statutory corporations, which finalised their accounts for the year 2004-05, incurred losses aggregating to Rs.102.69 crore and their accumulated losses amounted to Rs.371.42 crore, which exceeded their aggregate paid up capital of Rs.195.14 crore.

Operational performance of working Statutory corporations

1.12 The operational performance of the working Statutory corporations is given in **Annexure-6**.

Return on capital employed

1.13 As per the latest annual accounts finalised up to September 2006, the capital employed* worked out to Rs.45,275.36 crore in 59 working companies and total return+ thereon amounted to Rs.1,530.91 crore, which was 3.38 *per cent* as compared to capital employed of Rs.36,871.60 crore and total return of Rs.1,123.11 crore (3.05 *per cent*) in the previous year. Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest annual accounts finalised up to September 2006, worked out to Rs.2,988.31 crore and Rs.252.17 crore (8.44 *per cent*) respectively, as against Rs.2,750.50 crore and Rs.288.74 crore (10.50 *per cent*) in the previous year. The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in **Annexure-2**.

Reforms in the power sector

Status of implementation of the MOU between the State Government and the Central Government

1.14 A Memorandum of Understanding (MOU) was signed in February 2000 between the Ministry of Power, Government of India and the Department of Energy, Government of Karnataka as a joint commitment for implementation of the reforms programme in the power sector with identified milestones.

* Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).

+ For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

Status of implementation of the reform programme against each commitment made in the MOU is detailed below:

Sl. No.	Commitment as per MOU	Targeted completion schedule	Status (as on 31 March 2006)
Commitments made by the State Government			
1.	100 <i>per cent</i> electrification of all villages.	By 2012	As per 2001 census, there are 27,481 inhabited villages, of which 26,772 villages have been electrified, leaving a balance of 709 villages to be electrified.
2.	Reduction in transmission and distribution (T & D) losses by 10 to 15 <i>per cent</i> .	Five <i>per cent</i> reduction in T & D losses every year.	T & D Losses reduced from 35.50 <i>per cent</i> during 2000-01 to 30.46 <i>per cent</i> during 2005-06. Thus, the reduction in T & D Losses achieved over the last five years is only 5.04 <i>per cent</i> as against the target of 20 <i>per cent</i> .
3.	100 <i>per cent</i> metering of all distribution feeders.	September 2001	Completed by December 2002.
4.	100 <i>per cent</i> metering of all consumers.	Before 2003-04 (Revised to 2004-05)	Out of 29.28 lakh consumers in the un-metered category, only 13.51 lakh consumers (46 <i>per cent</i>) were provided with meters.
5.	Energy audit at 11 KV sub-station level.	September 2001	Energy audit of 11 KV feeders, on monthly basis, has commenced from June 2003.
6.	Securitized outstanding due of CPSUs.	---	The dues were securitized by issue of bonds in August 2003. No dues were securitized during 2005-06.
7.	State Electricity Regulatory Commission (SERC)		
	i) Establishment of Karnataka Electricity Regulatory Commission.	The State Electricity Regulatory Commission was to be made functional within six months.	The Karnataka State Electricity Regulatory Commission was established in August 1999, and started functioning from November 1999.
	ii) Implementation of tariff orders issued by KERC during the year.	---	Implemented from time to time.
Commitment made by the Central Government			
8.	Supply of additional power.	The GOI agreed to supply additional 180 MW.	With the introduction of availability based tariff mechanism, the allocation from Central Generating stations is no longer valid as the excess or short drawal is left to the individual electricity supply companies considering the price prevailing at the time of drawal linked to the frequency.
9.	Any other help.	Reduction in interest rate on loans availed from CPSUs i.e. PFC/REC.	Interest rate on loans from Power Finance Corporation has been reduced.
	General		
10.	Monitoring of MOU.	Monitoring was done at Secretary level in the Government on issue-to-issue basis.	

State Electricity Regulatory Commission

1.15 The Government of Karnataka constituted (August 1999) the Karnataka Electricity Regulatory Commission (KEREC) under the Karnataka Electricity Reform Act, 1999 (Act). The Commission comprises of three members including a Chairman, who are appointed by the State Government. As per Section 8(4) of the Act, all expenditure of the Commission is to be charged to the Consolidated Fund of the State. Accounts of the Commission have been finalised up to the year ending 31 March 2006.

Non-working Public Sector Undertakings

Investment in non-working PSUs

1.16 As on 31 March 2006, the total investment in 17 non-working Government companies was Rs.576.51* crore (equity: Rs.101.81 crore, long-term loans: Rs.425.74 crore and share application money: Rs.48.96 crore) as against total investment of Rs.575.42 crore (equity: Rs.100.79 crore, long-term loans: Rs.425.67 crore and share application money: Rs.48.96 crore) in 17 non-working Government companies as on 31 March 2005.

The classification of non-working PSU's was as follows:

Sl.No	Status of non-working PSU's	Number of companies	Investment	
			Equity	Long-term loans
1	Closed [€]	5	82.62	178.55
2	Defunct [¥]	4	15.93	1.58
3	Under liquidation [°]	8	52.22	245.61
	Total	17	150.77*	425.74

* includes share application money of Rs.48.96 crore

Budgetary outgo, grant/subsidy, guarantees, waiver of dues and conversion of loans into equity

1.17 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of non-working PSUs are given in **Annexures 1 and 3**.

The State Government provided budgetary support of Rs.12.44 crore to one non-working company in the form of loans during 2005-06. The Government

* State Government's investment in non-working PSU's was Rs.557.05 crore (Others: Rs.19.46 crore). Figure as per Finance Accounts 2005-06 is Rs.619.11 crore. The difference is under reconciliation.

€ Sl. No. C-1, 4, 5, 16 and 17 of Annexure -1.

¥ Sl. No. C-3, 6, 13 and 14 of Annexure -1.

° Sl. No. C- 2, 7, 8, 9, 10, 11, 12 and 15 of Annexure -1.

had waived loan repayment of Rs.1.73 crore in respect of one company during the year.

Total establishment expenditure of non-working PSUs

1.18 The year wise details of total establishment expenditure of non-working Government companies and the sources of financing them during the last three years up to 2005-06 are given below:

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by		
			Loans from private parties	Loans from Government	Others [@]
2003-04	17	50.69	-	33.21	17.48
2004-05	17	3.17	-	-	3.17
2005-06	17	1.42	-	-	1.42

Finalisation of accounts by non-working PSUs

1.19 The accounts of six non-working companies were in arrears for periods ranging from one to three years as on 30 September 2006, as can be seen from **Annexure-2**.

Financial position and working results of non-working PSUs

1.20 The summarized financial results of non-working Government companies as per their latest finalised accounts are given in **Annexure-2**. The year wise details of paid up capital, net worth, cash loss and accumulated loss of non-working PSUs as per their latest finalised accounts are given below:

(Rupees in crore)

Year of latest finalised accounts	No. of companies	Paid up capital	Net worth	Cash loss	Accumulated loss (-)
1998-99	1	0.50	(-) 8.41	0.87	(-) 8.91
2002-03	3	59.29	(-) 377.08	155.63	(-) 436.37
2003-04	3	59.06	(-) 87.70	3.45	(-) 188.20
2004-05	3	3.96	(-) 22.77	2.00	(-) 26.94
2005-06	7	27.96	(-) 162.42	11.90	(-) 204.92
Total	17	150.77	(-) 658.38	173.85	(-) 865.34

(Note: Net worth, cash loss and accumulated loss are as per last certified accounts.)

[@] includes income from sales, building rent, interest, etc.

Status of placement of Separate Audit Reports of Statutory corporations in the Legislature

1.21 The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by the CAG, in the Legislature by the Government:

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government
1	KSFC	2001-02	2002-03	13 October 2003
			2003-04	30 September 2004
			2004-05	13 September 2005
2	KSRTC	2002-03	2003-04	30 September 2004
			2004-05	26 September 2005
			2005-06	28 September 2006
3	BMTC	2002-03	2003-04	30 September 2004
			2004-05	5 August 2005
			2005-06	7 September 2006
4	NEKRTC	2002-03	2003-04	23 December 2004
			2004-05	20 October 2005
5	NWKRTC	2002-03	2003-04	10 January 2005
			2004-05	5 December 2005
6	KSWC	2002-03	2003-04	13 May 2005
			2004-05	1 February 2006
			2005-06	26 September 2006

Reasons for delay in placement of these Audit Reports in the Legislature were not available.

Disinvestment, privatisation and restructuring* of Public Sector Undertakings

1.22 The Government of Karnataka has approved and adopted (February 2001) a comprehensive policy on Public Sector Reforms and privatisation of Public Sector Undertakings (PSUs) in the State. Accordingly, the Government identified 31 PSUs for closure, privatisation and restructuring. One defunct company viz., Karnataka Tungsten Moly Limited was dissolved during the year. The position of action taken by the

* Restructuring includes merger and closure of PSUs.

Government in respect of the remaining 30 companies identified for closure/privatisation/restructuring is as follows:

	No. of companies	Government order issued	Government order not yet issued
Non-working Government companies decided for closure	17	17 ³	-
Working Government companies decided for closure	3	1 ^ε	2 [@]
Working Government companies decided for privatisation	8	6 [♥]	2 [★]
Restructuring of Working Government companies	2	2 ^Ω	-

Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

1.23 During October 2005 to September 2006, the audit of 55 accounts of 49 Government companies (43 working and six non-working) and six accounts of five Statutory corporations (all working) were selected for audit. As a result of the observations made by the CAG, eleven companies and one Statutory corporation revised their accounts.

Some of the major errors and omissions noticed in the course of audit of annual accounts of some of the companies/corporations are mentioned below.

1.24 Errors and omissions noticed in case of working Government company

The Mysore Paper Mills Limited (2005-06)

- Current Liabilities did not include fringe benefit tax of Rs. 89.96 lakh due on the contribution of Rs.2.67 crore towards superannuation fund. This resulted in understatement of current liabilities and accumulated loss by Rs.89.96 lakh.

1.25 Errors and omissions noticed in case of Statutory corporations

North Eastern Karnataka Road Transport Corporation (2004-05)

- Loss of Rs.40.31 crore shown in the accounts for 2004-05 was overstated by Rs.27.11 crore due to creation of liability for motor vehicle tax (Rs.24.52 crore) in spite of State Government's permission to retain the same and non-capitalisation of interest during construction on funds borrowed for capital works (Rs.2.77 crore).

³ All the non-working Companies as per SI No. C-1 to 17 of Annexure 2.

^ε Karnataka State Construction Corporation Limited.

[@] The Karnataka Fisheries Development Corporation Limited, Karnataka 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 Visveswaraya Vidyuth Nigam Limited to be merged with Karnataka Power Corporation Limited, The Karnataka State Forest Industries Corporation Limited to be merged with Karnataka Forest Development Corporation Limited.

North Eastern Karnataka Road Transport Corporation (2005-06)

- Creation of liability for motor vehicle tax, though the State Government had allowed the Corporation to retain the motor vehicle tax every year from 2000-01 to the extent of cash loss till such time the operation of the Corporation breaks even, resulted in overstatement of liabilities as well as accumulated loss by Rs.96.35 crore.
- Non-provision of interest on Government loans from October 2000 onwards resulted in understatement of current liabilities and accumulated loss by Rs.65.21 lakh.

North Western Karnataka Road Transport Corporation (2005-06)

- Inclusion of the amount collected from passengers towards Accident Relief fund as per the scheme approved by the State Government in February 2002 for payment of relief to accident victims, in contravention to the Government orders, resulted in overstatement of miscellaneous income and understatement of liabilities as well as loss by Rs.7.30 crore.
- Loss for the year and depreciation reserve was understated by Rs.30.26 lakh due to short provision of depreciation on Swaraj Mazda passenger vehicles.
- Debtors include an amount of Rs.2.72 crore on account of accident repairs pending for adjustment /recovery from employees. As per the paragraph 38 of the Truce Agreement this amount is not recoverable, as the departmental enquiries have not been completed within 18 months from the date of accidents. This resulted in overstatement of Debtors and Property Insurance Fund by Rs.2.72 crore.

Karnataka State Road Transport Corporation (2005-06)

- Eleven vehicles valuing Rs.1.16 crore sold during the year as scrap have not been removed from the asset register. This resulted in overstatement of Fixed Assets (Gross Block) and Depreciation Reserve by Rs.1.16 crore and Rs.1.13 crore respectively.
- Miscellaneous income did not include Rs.2.98 crore being the value of 150 fully depreciated vehicles transferred to North Western Karnataka Road Transport Corporation/ North Eastern Karnataka Road Transport Corporation during the year. Non-inclusion of the same resulted in understatement of profit and receivables by Rs.2.98 crore.
- Profit for the year was overstated by Rs.39.13 lakh due to non-provision of depreciation on Swaraj Mazda passenger vehicles as per Government orders.

Recoveries at the instance of Audit

1.26 Test check of records of companies in the power and irrigation sectors conducted during 2005-06 revealed wrong interpretation of contract terms and other observations aggregating Rs.22.29 crore in 67 cases. The companies

accepted the audit observations and a sum of Rs.4.46 crore relating to 23 audit observations was recovered at the instance of Audit.

Internal audit / Internal control

1.27 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 to them by the CAG under Section 619 (3)(a) of the Companies Act, 1956 and to identify areas which need improvement. Such direction/sub-directions were issued to the Statutory Auditors in respect of 57 Government companies involving 57 accounts between October 2005 and September 2006 and such reports involving 40 accounts were received (September 2006) from the Statutory auditors of 38 Government companies.

An illustrative resume of major recommendations/comments made by the Statutory Auditors on possible improvements in the internal control system/internal audit in respect of these companies is given below:

Nature of recommendation/comments made by the Statutory Auditors	Number of companies where recommendations/comments were made	Reference to serial number of Annexure 2
Inadequate internal audit according to size and nature of business	7	A-13,15,18,27,36,38,53
Lack of proper system of internal audit	6	A-10,13,16,29,34,36
Non-formation/non-functioning of Audit Committee	7	A-7,16,27,34,36,55,59

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

1.28 The table below indicates the position of reviews/paragraphs that appeared in the Audit Reports and were discussed by the COPU (as on 30 September 2006):

Period of Audit Report	No. of reviews/paragraphs as appeared in the Audit Report		No. of reviews/paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2000-01	3	29	3	28
2003-04	4	20	0	16
2004-05	3	22	0	0
Total	10	71	3	44

619 B Companies

1.29 There were four companies coming under the purview of Section 619B of the Companies Act, 1956 as on 31 March 2006 as against the same number of companies as on 31 March 2005. **Annexure -7** indicates the details of paid up capital, investment by way of equity, loans and grants and summarised working results of these companies based on their latest available accounts.