

## **OVERVIEW**

### **1. Overview of Government companies and Statutory corporations**

As on 31 March 2006, 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 as on 31 March 2005. In addition, there were four deemed Government companies under Section 619 B of the Companies Act, 1956 as on 31 March 2006.

*(Paragraphs 1.1 and 1.29)*

The total investment in working PSUs increased from Rs. 37,680.84 crore as on 31 March 2005 to Rs. 41,202.28 crore as on 31 March 2006. The total investment in non-working PSUs increased from Rs.575.42 crore to Rs.576.51 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.5,387.68 crore in 2004-05 to Rs.6,479.40 crore in 2005-06. The State Government also provided Rs.12.44 crore in the form of loans to a non-working company during 2005-06. The State Government guaranteed loans aggregating Rs.493.08 crore during 2005-06 to seven working Government companies. Guarantees amounting to Rs.6,623.68 crore against 18 working Government companies were outstanding as on 31 March 2006.

*(Paragraphs 1.5 and 1.17)*

Thirty eight out of 59 working Government companies and three of the six Statutory corporations finalised their accounts for the year 2005-06. 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 2006. The accounts of six non-working Government companies were in arrears for periods ranging from one to three years as on 30 September 2006.

*(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.794.20 crore. Out of 38 working Government companies, which finalised their accounts for 2005-06 by September 2006, only seven companies declared dividend aggregating Rs.16.66 crore. Twenty working PSUs (18 Government companies and two Statutory corporations) incurred aggregate loss of Rs.204.03 crore as per their latest finalised accounts. Of the loss incurring PSUs, nine companies and two Statutory corporations had accumulated losses aggregating Rs.827.44 crore and Rs.371.42 crore respectively, which exceeded their aggregate paid up capital of Rs.550.80 crore and Rs.195.14 crore respectively.

*(Paragraphs 1.7 to 1.11)*

## **2. Performance reviews relating to Government companies**

Performance reviews relating to renovation and modernisation works of hydel generating stations of **Visveswaraya Vidyuth Nigama Limited** and manufacture and distribution of energy food by **Karnataka State Agro-Corn Products Limited** and IT Audit of Information Technology System in the **Mysore Papers Mills Limited** were conducted and some of the main findings are as follows:

### **Renovation and modernisation works of hydel generating stations of Visveswaraya Vidyuth Nigama Limited.**

Renovation and modernisation (R&M) of Mahatma Gandhi Hydro Electric Power Station (MGHE), Shivasamudram Generating Station and Munirabad Hydro Electric Station were taken up by the erstwhile Karnataka Electricity Board. The works were completed between October 2002 and October 2004. Some of the important points noticed in audit are as under:

- Renovation and modernisation works of Mahatma Gandhi Hydro Electric Station (MGHE) were undertaken without taking into account the cheaper cost of generation at Sharavathi Generating Station and the constraints in evacuation of power at the uprated capacity of 139.20 Mega Watt.
- Delay in providing winch and trolley to the contractors resulted in 23 months delay in start of work at Shivasamudram Generating Station and consequential loss of generation of 181 million units of power.
- Leakage of water from the sluice gates 9 and 10 of Tungabhadra Dam owing to lack of maintenance resulted in loss of generation of 14.4 million units per season (July to February) at Munirabad Hydro Electric Station.

*(Chapter 2.1)*

### **Manufacture and distribution of energy food by Karnataka State Agro-Corn Products Limited.**

The Karnataka State Agro-Corn Products Limited was incorporated in April 1973. The Government of Karnataka with the assistance of United Nations Children's Fund introduced a scheme to provide low cost nutritionally balanced and acceptable formulated flours from indigenous raw materials of high nutritive value for distribution to children and lactating mothers. This supplementary nutritional programme is implemented under Integrated Child Development Scheme. The State Government funded the entire cost of the project and undertook to purchase the entire quantity of energy food from the Company for implementation of the programme. The Department of Women

and Child Development was the indenter for the energy food. Some of the important points noticed in audit are as under:

- The actual production decreased drastically from 2003-04 onwards due to diversion of 50 *per cent* of the requirement of energy food to a private party by Department of Women and Child Development (DWCD). Failure to diversify its product range and the continued dependence on DWCD, which was diverting the orders to a private party, has affected the very existence of the Company.
- Non-following of the prescribed nutritional formula in the manufacture of energy food and using cheaper ingredients resulted in saving in cost but compromised the nutritional balance of energy food supplied to children and lactating mothers.
- The Quality control system prevalent in the Company was not effective as the quality tests in its laboratories were carried out by unqualified personnel.

*(Chapter 2.2)*

### **IT Review of Information Technology Systems – Application and General Controls in The Mysore Papers Mills Limited.**

A review by Audit of the General IT Controls and application system prevailing in the Company dealing with Stores, Payroll and Main Accounts (Financial Accounts) revealed the following:

- Lack of key controls rendered the pay roll package vulnerable to risk of incorrect payments.
- Lack of key controls exposed the Main Accounts system to risk of incorrect and inaccurate reports being submitted for management decisions.
- A strong system of physical and logical access control did not exist in the company.
- There was no well developed business continuity plan to take care of IT assets in case of disasters.

*(Chapter 2.3)*

## **3. Performance reviews relating to Statutory corporations**

Performance review relating to construction and operation of warehouses by the **Karnataka State Warehousing Corporation** and information technology

Audit of 'On-line system' of **Karnataka State Financial Corporation** were conducted and some of the main findings are as follows:

**Construction and operation of warehouses by the Karnataka State Warehousing Corporation.**

The Corporation established (November 1957) under Agricultural Products (Development and Warehousing) Corporation Act, 1956 started functioning in 1958. The Corporation is engaged in construction of godowns, storage of agricultural products, fertilizers, manures, cement etc., and also provide other related services to farmers, co-operatives and traders. The activities relating to construction and operation of warehouses and purchase of land by the Corporation were reviewed in audit. Some of the important points noticed in audit are as under:

- Land was purchased without cost-benefit analysis, flouting important parameters viz., accessibility of land etc. Land purchased at 41 locations at a cost of Rs.3.55 crore are lying vacant. The sub-committee formed to recommend on the suitability of land for construction of godown remained ineffective as it met only once and identified only six sites for purchase.
- There was delay in constructing godowns under 'State of Art' technology. The godown constructed under 'State of Art' technology utilized excess space of 11,767.66 square metre and also extra cost of Rs.7.67 crore was incurred when compared to creation of the same storage capacity under the conventional method.
- The Corporation incurred additional interest burden of Rs.4.12 crore by not availing loan available at cheaper rates and drawing instalment of loans without considering the progress of work.

*(Chapter 3.1)*

**Information Technology Audit of 'On-line system' of Karnataka State Financial Corporation.**

The Corporation has an 'On-line system' with 11 modules to facilitate its core activities. A review of the 'On-line system' revealed the following points:

- Not negotiating for the lowest rates quoted for individual items while purchasing hardware for implementation of the 'On-line systems' resulted in avoidable extra-expenditure of Rs.30.14 lakh.
- The application packages lacked many in-built controls and validations to safe guard against incorrect data entries and proper process of data making the information generated by the system not reliable in many areas.

- The Management has not formulated any policy regarding physical and logical security of IT assets including software and existing data. Insufficient security features in respect of access control, passwords and login control rendered the system vulnerable to unauthorised access and data manipulation.

*(Chapter 3.2)*

#### **4. 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 twelve cases of losses amounting to Rs.39.27 crore on account of extra/avoidable/unproductive expenditure and idle investment.

*(Paragraphs 4.1 to 4.3, 4.7, 4.9 to 4.11, 4.15, 4.17,4.18, 4.22.3 and 4.23)*

- There were five cases of loss of revenue amounting to Rs.24.57 crore.

*(Paragraphs 4.12, 4.13, 4.21, 4.22.3 and 4.22.6)*

- There were ten cases of losses amounting to Rs.11.48 crore on account of undue favour to contractor, waiver of interest, violation of licence conditions and loss of interest due to improper tax planning etc.

*(Paragraphs 4.4 to 4.6, 4.8, 4.14, 4.16, 4.19, 4.20, 4.22.7 and 4.22.8)*

Gist of the important observations is given below:

Plantation of pines by **The Mysore Paper Mills Limited** without conducting proper feasibility rendered the investment of Rs.22.74 crore uneconomic.

*(Paragraph 4.1)*

Fixation of price of iron ore to be sold to a 'marketing agent' far below the reference price of MMTC Limited resulted in loss of Rs.22.35 crore to **Mysore Minerals Limited**.

*(Paragraph 4.13)*

Payment by **Cauvery Neeravari Nigam Limited** at rates higher than at the approved Schedule of Rates resulted in excess payment and extension of undue benefit of Rs.4.68 crore.

*(Paragraph 4.14)*

Failure of **Karnataka Power Corporation Limited** to evaluate the compatibility of the software with interface equipment resulted in idle investment of Rs.4.03 crore.

*(Paragraph 4.15)*

Production of spirit directly from sugarcane juice in violation of licence conditions resulted in loss of Rs.3.43 crore to **The Mysore Sugar Company Limited**.

*(Paragraph 4.16)*

Construction of staff quarters by **Karnataka State Warehousing Corporation** without creating other basic amenities resulted in blocking up of funds of Rs.3.15 crore and interest burden of Rs.88.30 lakh.

*(Paragraph 4.23)*