

CHAPTER I

Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2008, there were 75 Government companies (59 working companies and 16 non-working companies¹) and six Statutory corporations (working) under the control of the State Government, as against 76 Government companies (59 working companies and 17 non-working companies) and six Statutory corporations as on 31 March 2007. One Company (Karnataka Agro Proteins Limited) was dissolved and was struck-off by the Registrar of Companies during the year (August 2007). The accounts of the State 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 provisions 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	

The State Government formed (August 1999) 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

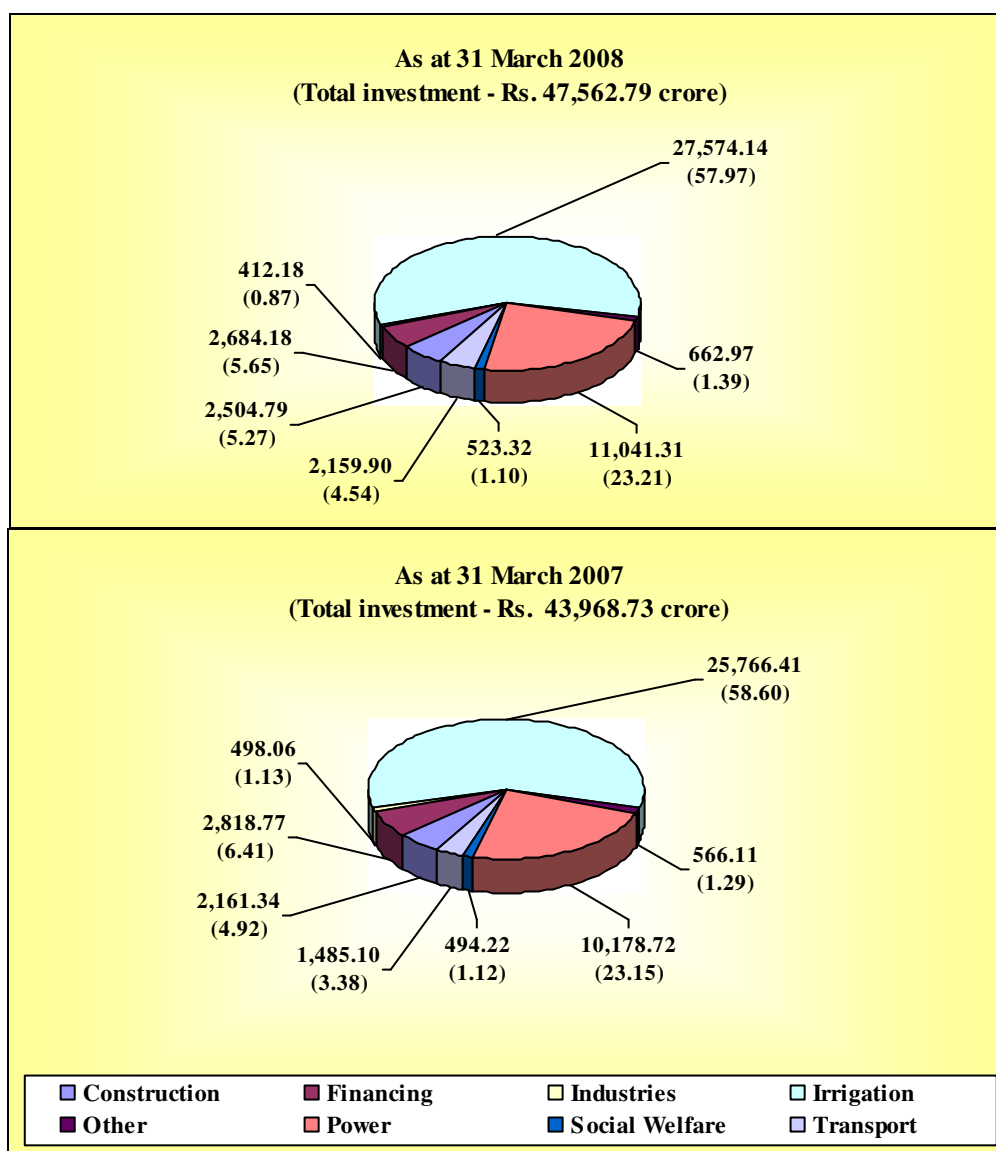
1.2 As on 31 March 2008, the total investment in 65 working PSUs (59 Government companies and six Statutory corporations) was Rs. 47,562.79

¹ non-working companies/corporations are those, which are under the process of liquidation/closure/merger, etc.

crore² (equity: Rs. 16,418.88 crore; long-term loans³ Rs. 23,648.25 crore and share application money Rs. 7,495.66 crore) as against 65 working PSUs (59 Government companies and six Statutory corporations) with total investment of Rs. 43,968.73 crore (equity: Rs. 15,582.63 crore; long-term loans Rs. 22,804.42 crore and share application money Rs. 5,581.68 crore) as on 31 March 2007. The analysis of investment in working PSUs is given in the following paragraphs.

Sector-wise investment in working Government companies and Statutory corporations

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2008 and 31 March 2007 are indicated below in the pie charts:



(Figures in brackets indicate percentage of total investment)

² State Government's investment in working PSU's was Rs. 30,774.41 crore (others: Rs. 16,788.38 crore). Figure as per Finance Accounts is Rs. 22,966.20 crore. The difference is under reconciliation.

³ long term loans mentioned in paragraphs 1.2, 1.3, 1.4 and 1.15 are excluding interest accrued and due on such loans.

Due to significant increase in paid-up capital of irrigation and transport sector companies the debt equity ratio decreased from 1.08:1 in 2006-07 to 0.99:1 in 2007-08.

Working Government companies

1.3 Total investment in working Government companies at the end of March 2007 and March 2008 was as follows:

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2006-07	59	14,866.60	5,543.02	20,522.05	40,931.67
2007-08	59	15,678.55	7,215.93	21,299.16	44,193.64

As on 31 March 2008, the total investment of working Government companies comprised 51.80 per cent of equity capital and 48.20 per cent of loans as compared to 49.86 per cent and 50.14 per cent respectively as on 31 March 2007.

Increase in total investment was due to increase in equity and loans in power, construction and irrigation sectors.

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 2007 and March 2008 was as follows:

(Rupees in crore)

Name of the Corporation	2006-07		2007-08 (provisional)	
	Capital	Loan	Capital	Loan
Karnataka State Road Transport Corporation (KSRTC)	233.39	275.29	268.39	314.29
Bangalore Metropolitan Transport Corporation (BMTCL)	158.16	22.65	104.59 (68.94)	14.45
North Western Karnataka Road Transport Corporation (NWKRTC)	115.64	226.13	128.50 (22.13)	316.75
North Eastern Karnataka Road Transport Corporation (NEKRTC)	103.50	83.30	133.50	106.09
Karnataka State Financial Corporation (KSFC)	97.84 (36.01)	1,652.30	97.85 (186.01)	1,561.42
Karnataka State Warehousing Corporation (KSWC)	7.50 (2.65)	22.70	7.50 (2.65)	36.09
Total	716.03 (38.66)	2,282.37	740.33 (279.73)	2,349.09

(Figures in brackets 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 2008 are summarised below:

(Amount: Rupees in crore)

Particulars	2005-06				2006-07				2007-08			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity outgo from budget	10	3,183.24	5	65.10	9	2,108.14	2	65.54	11	2,345.28	5	265.37
Loans given from budget	11	222.07	-	-	5	124.07	-	-	9	475.40	1	5.61
Grants	17	823.39	2	27.66	20	2,975.37	1	25.13	14	815.64	2	5.11
Subsidy towards												
(i) Projects / Programme / schemes	4	316.69	1	2.66	9	1,079.60	1	1.46	6	397.17	1	3.72
(ii) Other subsidy	8	1,714.69	4	123.90	9	1,705.83	4	276.43	6	786.65	4	244.50
Total subsidy	9	2,031.38	4	126.56	14	2,785.43	4	277.89	10	1,183.82	4	248.22
Total outgo⁴	28	6,260.08	5	219.32	33	7,993.01	4	368.56	27	4,820.14	5	524.31

During 2007-08, the Government guaranteed loans aggregating Rs. 158.02 crore obtained by six working⁵ Government companies. At the end of the year, guarantees amounting to Rs. 4,264.37 crore against 17 working⁶ Government companies were outstanding. During the year, the Government

⁴ 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.

⁵ The Karnataka Handloom Development Corporation Limited, Karnataka Road Development Corporation Limited, D. Devaraj Urs Backward Classes Development Corporation Limited, Dr. B.R. Ambedkar Development Corporation Limited, Karnataka Schedule Tribes Development Corporation Limited and Chamundeshwari Electricity Supply Corporation Limited (Annexure 3).

⁶ Karnataka Soaps and Detergents Limited, The Karnataka Handloom Development Corporation Limited, Karnataka Land Army Corporation Limited, Karnataka State Police Housing Corporation Limited, Rajiv Gandhi Rural Housing Corporation Limited, Karnataka Road Development Corporation Limited, Karnataka Neeravari Nigam Limited, Cauvery Neeravari Nigam Limited, D. Devaraj Urs Backward Classes Development Corporation Limited, Dr. B.R. Ambedkar Development Corporation Limited, Karnataka Schedule Tribes Development Corporation Limited, Karnataka Food and Civil Supplies Corporation Limited, The Mysore Sugar Company Limited, Karnataka Power Corporation Limited, Bangalore Electricity Supply Company Limited, Chamundeshwari Electricity Supply Corporation Limited and Karnataka State Industrial Investment and Development Corporation Limited (Annexure 3).

waived interest of Rs. 22.49 crore in respect of two companies (The Mysore Paper Mills Limited and Karnataka State Electronics Development Corporation Limited). The guarantee commission paid / payable to the Government, by Government companies and Statutory corporations, during 2007-08 was Rs. 17.66 crore / Rs. 186.52 crore and Rs. 0.69 crore / Rs. 0.38 crore, respectively. Three working Government companies⁷ and one non-working Government Company (Karnataka Agro Industries Corporation Limited) defaulted in repayment of guaranteed loan of Rs. 8.48 crore and payment of interest of Rs. 10.88 crore.

Finalisation of accounts by working PSUs

1.6.1 The accounts of the Companies for every financial year are required to be finalised within six months from the end of 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.

Out of 65 working PSUs (59 Government companies and six Statutory corporations), only 44 Government companies and all the six Statutory corporations had finalised their accounts for the year 2007-08 up to 30 September 2008 as can be seen from **Annexure 2**. During the period from October 2007 to September 2008, 12 working Government companies finalised 14 accounts for the previous years.

The accounts of 15 working Government companies were in arrears for periods ranging from one to two years as on 30 September 2008, 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	2	-	2006-07 to 2007-08	2	A-5, 7	-
2	13	-	2007-08	1	A-3, 10, 24, 26, 27, 31, 34, 35, 37, 38, 40, 45 and 51	-

⁷ D. Devaraj Urs Backward Classes Development Corporation Limited, Dr. B.R. Ambedkar Development Corporation Limited and The Mysore Sugar Company Limited.

1.6.2 The State Government had invested Rs. 534.45 crore (equity: Rs. 19.32 crore; loans: Rs. 31.42 crore; grants / subsidy: Rs. 483.71 crore) in seven working PSUs during the year for which accounts have not been finalised as detailed in **Annexure 4**. In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus the Government's investment in such PSUs remain outside the scrutiny of the State Legislature. 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.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. The concerned administrative departments were informed every quarter by the Audit regarding arrears in finalisation of accounts. Details of investments made by State Government in PSUs whose accounts are in arrears are indicated in **Annexure 4**.

Financial position and working results of working PSUs

1.7 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per latest finalised accounts are given in **Annexure 2**. Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years, for which accounts finalised are given in **Annexures 5 and 6** respectively.

According to the latest finalised accounts of 59 working Government companies and six working Statutory corporations, 11 companies⁸ and two corporations⁹ incurred an aggregate loss of Rs. 53.80 crore and Rs. 83.03 crore, respectively and 40 companies and four corporations earned an aggregate profit of Rs. 880.20 crore and Rs. 252.65 crore, respectively. Five companies¹⁰ had not commenced commercial activities as these companies are under construction and in case of two companies¹¹ excess of expenditure over income was capitalized and no profit and loss account was prepared. One company (Karnataka Scheduled Tribes Development Corporation Limited) has not yet finalised its accounts since inception (26 July 2006).

⁸ Karnataka State Agro Corn Products Limited, Karnataka Sheep and Wool Development Corporation Limited, Karnataka Leather Industries Development Corporation Limited, Karnataka State Coir Development Corporation Limited, Karnataka Silk Marketing Board Limited, Karnataka Land Army Corporation Limited, Karnataka Road Development Corporation Limited, D. Devaraj Urs Backward Classes Development Corporation Limited, Karnataka State Women's Development Corporation, The Karnataka State Minorities Development Corporation Limited and The Mysore Sugar Company Limited (Annexure 2).

⁹ North Western Karnataka Road Transport Corporation and North Eastern Karnataka Road Transport Corporation (Annexure 2).

¹⁰ Krishna Bhagya Jala Nigam Limited, Karnataka Neeravari Nigam Limited, Cauvery Neeravari Nigam Limited, KPC Bidadi Power Corporation Private Limited and Bangalore Metro Rail Corporation Limited (Annexure 2).

¹¹ Karnataka State Police Housing Corporation Limited and Rajiv Gandhi Rural Housing Corporation Limited (Annexure 2).

Working Government companies

Profit earning working companies and dividend

1.8 Out of 44 working Government companies, which finalised their accounts for 2007-08 by September 2008, 34 companies earned an aggregate profit of Rs. 763.10 crore and only seven companies¹² declared dividend aggregating to Rs. 23.89 crore. The dividend as percentage of share capital in these seven profit making companies worked out to 3.03 *per cent*. The total return to the Government by way of its share of dividend of Rs. 22.20 crore worked out to 0.14 *per cent* in 2007-08 on total equity investment of Rs. 15,332.11 crore by the State Government in all Government companies as against 0.13 *per cent* in the previous year. The State Government had not formulated any dividend policy for payment of minimum dividend.

Similarly, out of 12 working Government companies, which finalised their accounts for previous years by September 2008, five companies¹³ earned an aggregate profit of Rs. 106.59 crore and all these companies earned profit for two or more successive years.

Loss incurring working Government companies

1.9 Of the 11 loss incurring working Government companies, four companies¹⁴ had accumulated losses aggregating Rs. 199.76 crore, which exceeded their aggregate paid up capital of Rs. 15.14 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 grant and loan. According to available information, the total financial support provided by the State Government by way of grant and loan during 2007-08 to two companies¹⁵ amounted to Rs. 41.70 crore.

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.10.1 Out of six Statutory corporations which finalised their accounts for 2007-08, four corporations¹⁶ earned an aggregate profit Rs. 252.65 crore and one Corporation (Karnataka State Warehousing Corporation) declared dividend of Rs. 57.01 lakh. The dividend as a percentage to its share capital worked out to 7.60 *per cent*. The total return to the State Government by way

¹² Karnataka State Agricultural Produce Processing and Export Corporation Limited, Karnataka Soaps and Detergents Limited, The Hutti Gold Mines Company Limited, The Mysore Paints and Varnish Limited, Karnataka Power Corporation Limited, Karnataka State Beverages Corporation Limited and Marketing Consultants and Agencies Limited (Annexure 2).

¹³ The Karnataka State Forest Industries Corporation Limited, Mysore Minerals Limited, Karnataka State Construction Corporation Limited, The Karnataka State Tourism Development Corporation Limited and Karnataka Renewable Energy Development Limited (Annexure 2).

¹⁴ Karnataka Sheep and Wool Development Corporation Limited, Karnataka Leather Industries Development Corporation Limited, Karnataka State Coir Development Corporation Limited and The Mysore Sugar Company Limited (Annexure 2).

¹⁵ Karnataka Sheep and Wool Development Corporation Limited and The Mysore Sugar Company Limited.

¹⁶ Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, Karnataka State Finance Corporation and Karnataka State Warehousing Corporation.

of its share of dividend of Rs. 31.16 lakh worked out to 0.05 *per cent* in 2007-08 on total equity investment of Rs. 658.37 crore in all Statutory corporations as against 0.09 *per cent* in the previous year. Four corporations had earned profit for two or more successive years.

Loss incurring Statutory corporations

1.10.2 Two Statutory corporations¹⁷ which finalised their accounts for the year 2007-08, incurred an aggregate loss of Rs. 83.03 crore and their accumulated loss amounted to Rs. 526.39 crore, which exceeded their paid up capital of Rs. 284.14 crore.

Operational performance of working Statutory corporations

1.11 The operational performance of the Statutory corporations is given in **Annexure 7**.

Return on capital employed

1.12 As per the latest annual accounts finalised up to September 2008, the capital employed¹⁸ worked out to Rs. 47,950.03 crore in 59 working companies and total return¹⁹ thereon amounted to Rs. 2,141.16 crore, which was 4.47 *per cent* as compared to capital employed of Rs. 44,309.47 crore and total return of Rs. 1,916.06 crore (4.32 *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 2008, worked out to Rs. 3,376.89 crore and Rs. 368.47 crore (10.91 *per cent*) respectively. 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 MOU between the State Government and the Central Government

1.13 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 power sector with identified milestones.

¹⁷ North Western Karnataka Road Transport Corporation and North Eastern Karnataka Road Transport Corporation.

¹⁸ 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).

¹⁹ 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 2008)
1	100 <i>per cent</i> electrification of all villages.	By 2012	18 villages were yet 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 27.06 <i>per cent</i> during 2007-08. Thus, the reduction in T & D Losses achieved over the last seven years is only 8.44 <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.	Original target: 2003-04 (Revised to 2004-05)	13.38 lakh installations were yet to be metered.
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. Dues of Rs. 135.84 crore were outstanding.

State Electricity Regulatory Commission

1.14 The State Government constituted (August 1999) the Karnataka Electricity Regulatory Commission (KERC) under the Karnataka Electricity Reform Act, 1999 (Act). The Commission comprises 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 2008.

Non-working Government companies

Investment in non-working Government companies

1.15 As on 31 March 2008, the total investment in 16 non-working Government companies was Rs. 593.95 crore²⁰ (equity: Rs. 101.20 crore, long-term loans Rs. 429.88 crore and share application money: Rs. 62.87 crore) as against total investment of Rs. 593.79 crore (equity: Rs. 101.81 crore, long-term loans: Rs. 429.11 crore and share application money: Rs. 62.87 crore) in 17 non-working Government companies as on 31 March 2007.

²⁰ State Government's investment in non-working Government companies was Rs. 574.30 crore (others: Rs. 19.65 crore). Figure as per Finance Accounts is Rs. 317.58 crore. The difference is under reconciliation.

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

(Rupees in crore)

Status of non-working PSU's	Number of companies	Investment	
		Equity ²¹	Long-term loans
Closed ²²	5	82.62	179.32
Defunct ²³	4	29.84	4.48
Under liquidation ²⁴	7	51.61	246.08
Total	16	164.07	429.88

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

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

Total establishment expenditure of non-working Government companies

1.17 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 2007-08 are given below:

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by		
			Loans from private parties	Loans from Government	Others ²⁵
2005-06	17	1.42	-	-	1.42
2006-07	17	0.91	-	-	0.91
2007-08	16	0.49	-	-	0.49

Finalisation of accounts by non-working Government companies

1.18 The accounts of five non-working companies out of 16²⁶ were in arrears for periods ranging from one to five years as on 30 September 2008 as can be seen from **Annexure 2**. Two companies finalised accounts for the previous years during the period from October 2007 to September 2008.

The State Government had invested Rs. 87.72 lakh as loans in one non working Company during the year for which accounts have not been finalised as detailed in **Annexure 4**. In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus the Government's investment in

²¹ includes share application money of Rs. 62.87 crore.

²² Karnataka Agro Industries Corporation Limited, Karnataka Small Industries Marketing Corporation Limited, The Mysore Lamp Works Limited, The Mysore Acetate and Chemicals Company Limited and Karnataka Film Industries Development Corporation Limited (Annexure 1).

²³ The Mysore Tobacco Company Limited, Vijayanagar Steel Limited, Karnataka Pulpwood Limited and The Karnataka State Veeners Limited (Annexure 1).

²⁴ The Mysore Cosmetics Limited, Karnataka Telecom Limited, The Mysore Chrome Tanning Company Limited, NGEF Limited, Chamundi Machine Tools Limited, Karnataka State Textiles Limited and The Mysore Match Company Limited (Annexure 1).

²⁵ includes income from sales, building rent, interest, etc.

²⁶ seven companies were under liquidation.

such PSUs remain outside the scrutiny of the State Legislature. 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.

Financial position and working results of non-working PSUs

1.19 The summarised financial results of non-working Government companies as per 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	0.88	8.91
2002-03	2	58.68	(-) 375.49	157.94	434.18
2003-04	2	3.16	(-) 36.54	0.91	39.23
2004-05	1	1.00	(-) 5.30	0.45	8.85
2006-07	4	59.27	(-) 107.03	1.17	166.30
2007-08	6	41.46	(-) 200.91	13.32	242.37
Total	16	164.07	(-) 733.68	174.67	899.84

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

According to available information, the total financial support provided by the State Government by way of loan during 2007-08 to one company²⁷ amounted to Rs. 87.72 lakh.

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

1.20 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	KSRTC	2005-06	2006-07	25.09.2007
2	BMTC	2005-06	2006-07	10.09.2007
3	NEKRTC	2005-06	2006-07	15.11.2007
4	KSFC	2005-06	2006-07 2007-08	09.10.2007 24.09.2008
5	NWKRTC	2005-06	2006-07	15.11.2007

Disinvestment, privatisation and restructuring²⁸ of Public Sector Undertakings

1.21 The State Government has approved and adopted (February 2001) a comprehensive policy on Public Sector Reforms and privatisation of Public

²⁷ Karnataka Agro Industries Corporation Limited.

²⁸ restructuring includes merger and closure of PSUs.

Sector Undertakings (PSUs) in the State. Accordingly, the Government identified 31 PSUs for closure, privatisation and restructuring. Three companies²⁹ were dissolved / amalgamated (up to September 2008). The position of action taken by the Government in respect of the remaining 28 companies identified for closure / privatisation / restructuring is as follows:

Particulars	No. of companies	Government order issued	Government order not yet issued
Non-working Government companies decided for closure	16	16 ³	-
Working Government companies decided for closure	3	1 [€]	2 [@]
Working Government companies decided for privatisation	8	6 [♥]	2 [*]
Restructuring of Working Government companies	1	1 ^Ω	-

Results of audit of accounts of PSUs

1.22 During the period from October 2007 to September 2008, the accounts of 43 PSUs (36 working Government Companies, three Statutory corporations and four non-working companies) were selected for review. The comments of the Comptroller and Auditor General of India were issued on five accounts of five Statutory corporations. The net impact of the important audit observations on the accounts of the PSUs is as follows:

(Rupees in crore)

Particulars	Government companies		Statutory corporations	
	Number of Accounts	Amount	Number of Accounts	Amount
Decrease in profit	-	-	3	276.58
Increase in loss	-	-	2	65.44

Errors and omissions in cases of Government companies

1.22.1 Comments by the Statutory Auditors

Karnataka Leather Industries Development Corporation Limited (2005-06)

- The Balance Sheet, Profit and Loss account did not comply with most of the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India.

²⁹ Karnataka Tungsten Moly Limited, Karnataka Agro Proteins Limited and Vishveswaraya Vidyuth Nigam Limited.

³ All the non-working companies as per Annexure 2.

[€] Karnataka State Construction Corporation Limited.

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

The Karnataka Fisheries Development Corporation (2006-07)

- Valuation of closing stock and leave encashment benefits was not done as per the provisions of AS2 and AS15 respectively.

Karnataka Neeravari Nigam Limited (2006-07)

- Non-provision towards interest accrued and due on bonds (Rs. 21.25 crore).

D. Devaraj Urs Backward Classes Development Corporation Limited (2006-07)

- Non-compliance with AS9 (revenue recognition) as required under sub-section 3(c) of Section 211 of Companies Act.

Karnataka State Construction Corporation Limited (2006-07)

- The accounts do not give a true and fair view as sundry debtors and advance from customers outstanding for more than three years have not been confirmed / provision made / reconciled.

Karnataka Agro Industries Corporation Limited (2006-07)

- Non-provision for debtors, dues to Government, disputed amounts, penal interest, municipal taxes resulted in understatement of cumulative loss of Rs. 7.07 crore.

Karnataka Silk industries Corporation Limited (2007-08)

- Non-provision of interest on Government loan of Rs. 5.32 crore.

Karnataka State Tourism Development Corporation Limited (2007-08)

- During the year, the Company has provided, for gratuity liability (including the entire past service) Rs. 1.93 crore according to actuarial valuation as per AS15, resulting in understatement of profit of Rs. 1.58 crore.

Karnataka Soaps and Detergents Limited (2007-08)

- 21 acres of land was decided to be handed over to Karnataka Forest Department in lieu of their unsecured interest free loan of Rs. 4.86 crore. Non-accounting of the same, eventhough the title deeds are already transferred has resulted in overstatement of unsecured loans by Rs. 4.85 crore, overstatement of fixed assets by Rs. 23 lakh and understatement of profit for the year by Rs. 4.62 crore.

Sree Kanteerava Studios Limited (2007-08)

- Change in policy of charging of compensation paid under voluntary retirement scheme resulted in overstatement of accumulated loss of Rs. 15.54 lakh.

Karnataka Forest Development Corporation Limited (2007-08)

- The Company has not complied with AS2, AS6, AS12, AS22, AS28.

- The Company has not provided for the differential amount of Rs. 22.83 crore payable to the Government of Karnataka towards lease rent for the areas taken on lease with reference to the actual rent paid as against the rate at which the Government has fixed the rate.

The Karnataka Handloom Development Corporation Limited (2007-08)

- The Company has not complied with AS3, AS17, AS22 and AS28.

Karnataka Road Development Corporation Limited (2007-08)

- The State Government informed (2006), that the roads constructed by the Company are the property of the Government. The Company, however, has capitalised the bridges constructed by it to the extent of Rs. 178.98 crore (including current year of Rs. 36.69 crore) and disclosed the same as fixed assets. The depreciation provided till date was Rs. 12.03 crore. This amount should have been receivable from Government. This has resulted in overstatement of fixed assets by Rs. 178.98 crore, loss for the year by Rs. 2.27 crore and understatement of net current assets – receivable from Government to the extent of Rs. 178.98 crore.

Rajiv Gandhi Rural Housing Corporation Limited (2007-08)

- The Balances of 5,652 gram panchayat bank accounts at various locations amounting to Rs. 119.33 crore have not been confirmed.

Karnataka State Police Housing Corporation Limited (2007-08)

- The Company has accounted for Rs. 8.34 crore as income on account of service charges on works. This includes Rs. 5.75 crore for which confirmation has not been received from customers (user departments).

Mysore Sales International Limited (2007-08)

- Non-recognition of lease rentals accrued and due for the year of Rs. 1.06 crore resulted in understatement of profit and assets to that extent and non-provision for earlier years lease rentals amounting to Rs. 8.10 crore due from one of the lessees resulted in overstatement of profit and understatement of liabilities to that extent.
- Non-provision of service tax of Rs. 1.32 crore resulting in overstatement of profit and understatement of liabilities to that extent.
- The Company has not complied with the requirements of AS15 (revised) fully as transitional liability on account of gratuity has not been quantified and adjusted against opening balance of revenue reserve resulting in understatement of profit for the year (amount not quantifiable).

Karnataka State Industrial Investment and Development Corporation Limited (2007-08)

- The Income tax assessments of the Company for the earlier years have been reopened in respect of claim of depreciation in respect of leased

assets costing Rs. 12.09 crore. The matter is contested in appeals. The accounting of service charges on building on lease hold land in earlier years amounting to Rs. 2.86 crore, was not in accordance with AS10 resulting in understatement of profit of Rs. 15.26 lakh for the year. Further, in respect of non-performing assets where the present value of security furnished have not been assessed for erosion in value of securities, are not provided in the accounts. Without considering the unascertained impact of these items, the profit before tax for the year is Rs. 47.99 crore (as against the reported figure of Rs. 47.84 crore) and net block of fixed assets would have been Rs. 267.23 crore (as against reported figure of Rs. 270.09 crore).

Karnataka State Electronics Development Corporation Limited (2007-08)

- The Company's accounting policy of revenue recognition in respect of recognition of income from training on cash basis is contradictory to the provisions of Section 209(3)(b) of the Companies Act, 1956.
- Non-compliance to AS3 – 'Cash flow Statement'.

Karnataka Neeravari Nigam Limited (2007-08)

- No profit and loss account has been prepared for the year as required under section 210(1)(b) of the Companies Act, 1956 eventhough the Company has already completed the works and put to use some of the assets like dams, canals *etc.*, of the projects, and some of the Lift Irrigation Schemes.
- Non-compliance to AS10 and AS15.

Jungle Lodges and Resorts Limited (2007-08)

- Capital grants shown under the head reserves and surplus need to be reconciled. Amounts received on various capital projects need to be correlated with the amount spent on relevant projects. The same is not quantifiable for want of information.

The Mysore Electrical Industries Limited (2007-08)

- Short provision of accumulated interest on loan from State Government to the extent of Rs. 13.83 crore upto 31 March 2008, which includes Rs. 2.11 crore for the year resulted in overstatement of profit and understatement of liabilities to that extent.
- The depreciation provision on the revalued portion of the fixed assets is directly adjusted from revaluation reserves and fixed assets which are in contravention of AS6. This has resulted in overstating the carry forward loss to the extent of Rs. 1.64 crore and understating the profit to the extent of Rs. 15.58 lakh.

Karnataka State Small Industries Development Corporation Limited (2006-07)

- Non-compliance to AS 19 so far as it relates to disclosure of gross investment in the lease and the minimum lease payments receivable at the balance sheet date for the next five years.

The Hutti Gold Mines Company Limited (2007-08)

- The Company has charged off (paid/provided) Rs. 7.18 crore as ex-gratia for the years 2004-08, which is yet to be approved by the State Government.

Dr. B. R. Ambedkar Development Corporation Limited (2007-08)

- The Company has not complied with AS9 and AS15.

Cauvery Neeravari Nigam Limited (2007-08)

- The Company has not complied with AS6, AS10, AS16 and AS28.

Karnataka Power Transmission Corporation Limited (2007-08)

- Non-compliance to AS2, AS6, AS10, AS12, AS15 and AS16.
- Non-provision for service tax liability, lease rentals, capital gains *etc.*, and also receivables, work in progress, preliminary expenses *etc.*, which are more than three years old.

Considering the above comments and other qualifications, the profit for the year would have been Rs. 48.12 crore (as against reported profit of Rs. 61.26 crore), reserves and surplus would have been Rs. 267.57 crore (as against reported Rs. 280.71 crore), total current assets would have been Rs. 4,440.71 crore (as against reported Rs. 4,448.03 crore), and total current liabilities would have been Rs. 5,097.88 crore (as against reported Rs. 5,093.04 crore).

Mangalore Electricity Supply Company Limited (2007-08)

- The Company has not complied with AS2, AS10, AS12, AS13, AS15, AS20, AS22 and AS28.
- The Company was re-organised as on 1 April 2005 bifurcating substantial divisions in favour of Chamundeshwari Electricity Supply Corporation Limited (CESCO), and the amount lying under inter unit accounts of these divisions were allocated to remain under current assets and current liabilities *inter se*. The net debit balances under inter unit accounts pertaining to CESCO in the books of the Company amounting to Rs. 224.77 crore is the difference between assets and liabilities transferred to CESCO and hence it is not appropriate to consider them as inter unit balance, but should be considered as amount recoverable as inter-corporate dues.

Errors and omissions noticed in case of Statutory corporations

1.22.2 Comments during Supplementary Audit

Karnataka State Road Transport Corporation (2007-08)

- Non-provision of liability for gratuity as per actuarial valuation has resulted in understatement of liabilities and overstatement of profit by Rs. 88.37 crore.
- Accounting of infrastructure fee amounting to Rs. 41.22 crore as operating revenue instead of crediting to Specific Reserve Account resulted in overstatement of profit by Rs. 38.05 crore, overstatement of tax on passenger vehicles by Rs. 3.17 crore and understatement of Specific Reserve Fund by Rs. 41.22 crore.

Karnataka State Financial Corporation (2007-08)

- Non-provision of accumulated service charges payable to Small Industries Development Bank of India resulted in overstatement of profit of Rs. 4.46 crore.
- Deduction of amount agreed to be released by the Government by way of budgetary support from the provision of NPA against the accounting policies of the Corporation resulted in overstatement of Loans and Advances as well as profit by Rs. 86 crore.
- Non-provision of leave encashment to the employees has resulted in understatement of expenditure and overstatement of profit for the year by Rs. 7.14 crore.

Recoveries at the instance of audit

1.23 Test check of records of power, irrigation and transport sector companies disclosed wrong interpretation of contract, wrong working of rates payable and other observations aggregating to Rs. 72.59 lakh in three cases. The companies accepted the audit observations and a sum of Rs. 64.08 lakh was recovered during 2007-08 at the instance of audit. In addition, the Mysore Minerals Limited recovered Rs. 25.73 crore due to wrong fixation of premium for iron ore at the instance of audit. In another case, Karnataka Power Corporation Limited recovered Rs. 86.57 lakh being the claim admissible for stones and shales against the collieries at the instance of audit. Further, the Gulbarga Electricity Supply Company Limited collected Rs. 1.46 crore as three months minimum deposit from consumers at the instance of audit.

Internal audit / Internal control

1.24 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 619 (3)(a) of the Companies Act, 1956 and to identify areas which need improvement.

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 State Government companies are indicated in the table 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
Lack of internal audit	2	A-35 and 58
Inadequate internal audit according to size and nature of business	4	A-23, 27, 38 and 41
Lack of proper system of internal audit	9	A-2, 8, 9, 10, 19, 30, 38, 39 and 53
Non-formation / non-functioning of Audit Committee	6	A-19, 25, 29, 30, 34 and 38

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

1.25 The table below indicates the position of reviews / paragraphs appeared in the Audit Reports and were discussed by the COPU as on 30 September 2008:

Period of Audit Report	No. of reviews / paragraphs appeared in the Audit Report		No. of reviews / paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2003-04	4	20	2	20
2004-05	3	22	-	2
2005-06	5	26	-	2
2006-07	5	31	-	-
Total	17	99	2	24

619 B Companies

1.26 There were five companies (all working) coming under the purview of Section 619B of the Companies Act, 1956 as on 31 March 2008 as against four companies as on 31 March 2007. One new 619B Company viz., Power Company of Karnataka Limited was incorporated during the year. Annexure 8 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.