OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2008, the State had 81 Public Sector Undertakings (PSUs) comprising 75 Government companies (including 16 non-working companies) and six Statutory corporations as against 82 Public Sector Undertakings comprising 76 Government companies and six Statutory corporations as on 31 March 2007. In addition, there were five deemed Government companies under Section 619 B of the Companies Act, 1956 as on 31 March 2008 as against four during the previous year.

(Paragraphs 1.1 and 1.26)

The total investment in working PSUs increased from Rs. 43,968.73 crore as on 31 March 2007 to Rs. 47,562.79 crore as on 31 March 2008. The total investment in non-working PSUs increased from Rs. 593.79 crore to Rs. 593.95 crore during the same period.

(Paragraphs 1.2 and 1.15)

The budgetary support in the form of capital, loans, grants and subsidy disbursed to the working PSUs decreased from Rs. 8,361.57 crore in 2006-07 to Rs. 5,344.45 crore in 2007-08. The State Government guaranteed loans aggregating Rs. 158.02 crore during 2007-08 to six working Government companies. Guarantees amounting to Rs. 4,264.37 crore against 17 working Government companies were outstanding as on 31 March 2008.

(Paragraph 1.5)

Forty four out of 59 working Government companies and all the six Statutory corporations finalised their accounts for the year 2007-08 as on 30 September 2008. The accounts of the remaining 15 Government companies were in arrears for periods ranging from one to two years as on 30 September 2008. The accounts of five non-working Government companies were in arrears for periods ranging from one to five years as on 30 September 2008.

(Paragraphs 1.6 and 1.18)

According to latest finalised accounts, 44 working PSUs (40 Government companies and four Statutory corporations) earned aggregate profit of Rs. 1,132.85 crore. Out of 44 working Government companies, which finalised their accounts for 2007-08 by September 2008, only seven companies declared dividend aggregating to Rs. 23.89 crore. Thirteen working PSUs (11 Government companies and two Statutory corporations) incurred aggregate loss of Rs. 136.83 crore as per their latest finalised accounts. Of the loss incurring PSUs, four companies and two Statutory corporations had accumulated losses aggregating to Rs. 199.76 crore and Rs. 526.39 crore respectively, which exceeded their aggregate paid up capital of Rs. 15.14 crore and Rs. 284.14 crore respectively.

(Paragraphs 1.7 to 1.10)

2. Performance reviews relating to Government companies

Reviews relating to the Implementation of the project of four-laning of Bangalore – Mysore State Highway by **Karnataka Road Development Corporation Limited**, Implementation of Upper Tunga Project by **Karnataka Neeravari Nigam Limited** and Information Technology Audit Review Report on Computerisation of High Tension (HT) Billing and Collection by **Bangalore Electricity Supply Company Limited** were conducted. Some of the major findings are as follows:

Implementation of the project of four-laning of Bangalore – Mysore State Highway by Karnataka Road Development Corporation Limited

The Bangalore - Mysore road was a two lane State Highway (No. 17) of 141 kilometres. It was proposed (2001) to widen the existing two lane into four lane (divided carriageway) to accommodate the present and projected traffic volume for 15 years. The project envisaged considerable reduction in travel time between two cities apart from benefits in terms of accident reduction and savings in fuel and vehicle operation cost. The project was taken up (2004) in five packages at a cost of Rs. 641.68 crore to be completed by April / May 2006. While the Bangalore –Maddur and Maddur – Mysore packages were completed and opened to traffic in June and November 2006 respectively, two incidental packages were completed later (January 2007 / May 2008) and only one incidental package is pending completion (July 2008). Some of the important points noticed in audit are as under:

- The decision of the Government to implement the Bangalore – Maddur (BM I & II) package on annuity basis was not economical as it resulted in extra liability of Rs. 17.43 crore as against the option of executing the package through bank loans.

- Though the project work was opened for commercial operation in June 2006, the Company / Government had not been able to levy and collect user fee as Karnataka State Highway Act is yet to be amended and the probable revenue foregone was Rs. 18.30 crore till date (July 2008).

- The Detailed Project Report was deficient in terms of determination of quantities and nature of items of work, adoption of correct nature of sub-soil, technical specification, number of cross drainage works to be constructed, quantum of road reconstruction and allowance of additional transportation charges which resulted in additional / extra expenditure of Rs. 29.81 crore.

- Deficiencies noticed in implementation of project included non-reduction of annuity on account of reduction in capital cost (Rs. 7.34 crore), non-adjustment of reduction in work contract tax in BM III package (Rs. 2.13 crore) and non-adjustment of reduction in taxes on bitumen (Rs. 0.85 crore).

(Chapter 2.1)

Implementation of Upper Tunga Project by Karnataka Neeravari Nigam Limited

The Krishna Water Disputes Tribunal award (July 1971) included 12.24 thousand million cubic feet (TMC) of water to be tapped from the Tunga-Bhadra river basin. The Upper Tunga Project was conceived (October 1991) by the Irrigation Department, Government of Karnataka to irrigate additional 94,698 hectares (Ha) of gross command area (net command area: 80,494 Ha) in the Shimoga, Davanagere and Haveri districts using the above allotment of water and increase food production by 2.09 lakh tonnes, as against the existing irrigable land of 8,700 Ha covering Shimoga district.

The Project was taken up by the Government during 1991-92 and was proposed to be completed in a phased manner over a period of 14 years *i.e.,* by December 2005 at a cost of Rs. 1,052.33 crore. It was decided (February 1999) to construct a new dam 100 metres downstream of existing Anicut and construct a canal to run from the foreshore of the dam to a length of 269.283 kilometres. Government of Karnataka transferred (February 1999) this project to the Company. Out of the total length of the main canal of 269.283 kilometres, contracts were awarded only for works upto running length of 192 kilometres. The Company had so far incurred Rs. 613.16 crore towards the project (March 2008), but water has not been let into the canal till date (July 2008). This was due to non-installation of head regulators in the dam and non-completion of construction work in the first three kilometres of the canal as per the revised design, though the construction of dam was completed in 2002-03.

Some of the important points noticed in audit are as under:

- The allocation of funds to the project was very low and at the rate of financial progress achieved during 2007-08, it would take another six years to complete the project.

- The Company incurred (March 2008), Rs. 613.16 crore towards the project but none of the milestones as contemplated in DPR had been achieved till date. Thus, even after 17 years of project inception the objective to irrigate 80,494 Ha of land was not achieved as water has not been let into the main canal (July 2008).

- The Company did not prepare PERT chart / CPM, which would ensure a detailed plan for achievement of objectives within the target date. In the absence of PERT chart / long-term plan the cost overrun for the work not completed as per milestones could not be assessed.

- Between March 1993 and March 2008, only 54 *per cent* of the land required for canals was acquired.

- There were delays in awarding the works as well as in their execution. Out of 120 works relating to dam and main canal which were awarded, only 33 were completed by June 2008, as evidenced by completion reports. The cost overrun occasioned by the delay of 2 to 133 months in these works was Rs. 239.16 crore.

- The Company incurred additional expenditure of Rs. 21.41 crore towards cement concreting lining works, sanction of excavation of hard rock with controlled blasting as an extra item and re-handling of excavated muck.

(Chapter 2.2)

Information Technology Audit Review Report on Computerisation of High Tension (HT) Billing and Collection by Bangalore Electricity Supply Company Limited

The Company is responsible for distribution of electricity in six districts divided into three operating zones. The revenue from High Tension (HT) services during 2002-07 aggregated to Rs. 7,813 crore. The Company introduced (January 2004) the Real-time Remote Automatic Meter Reading System (RRAMR) under the centrally sponsored Accelerated Power Development and Reforms Programme (APDRP) Scheme. During the same period, installation of communication networks through Digital Subscriber Line / Broadband, Local Area Network and Managed Leased Line was also taken up under the scheme, to establish connectivity between the divisions, sub-divisions and the Corporate Office. In November 2005, the Company introduced a software package called BillNet to overcome the shortcomings in the existing Billing and collection software. Some of the important points noticed in audit are as under:

- RRAMR implemented in January 2004 for automating and remote reading of HT meters could not cover all the HT installations even after three years due to technical problems, inconsistencies in reading, lack of connectivity *etc.*

- The various modes of network connectivity created at a cost of over Rupees two crore for billing and improvement of service were not functional due to technical problems in spite of repeated changes resulting in sub-optimal utilisation of the computerised systems.

- There was delay of nearly three years in implementation of BillNet software and manual feeding of data for billing continued due to software problems. As a result, most of the bills were generated by manual feeding of data and 100 *per cent* billing accuracy could not be achieved.

- Inadequate security features in the software, non-segregation of duties and improper access control allowed unauthorised access to the master data tables at the backend leading to security lapses and absence of audit trail.

- There are no documented Business Continuity Plan / Change Management controls.

(Chapter 2.3)

3. Performance review relating to Statutory corporation

Review relating to the One Time Settlement Schemes in Karnataka State Financial Corporation

Karnataka State Financial Corporation was established in March 1959 under Section 3(1) of the State Financial Corporations (SFC) Act, 1951 with the main objective of promoting and developing industrial growth in the State of Karnataka by providing financial assistance to small and medium enterprises in the State. The Corporation implemented the settlement of outstanding loans under One Time Settlement (OTS) Scheme from the year 1993-94 onwards when the recovery through normal procedure was difficult. It introduced (August 2005) the on-line OTS scheme which provided for settlement of overdues arrived at on the basis of outstanding balance of principal on any day and simple interest thereon. The main objectives of OTS Scheme were to bail out the entrepreneur in distress by recovering maximum amount of the outstanding dues, to improve the liquidity position of the Corporation, to reduce the quantum of Non Performing Assets (NPA) and to improve the recovery rate *vis-à-vis* demand so that the funds can be recycled to earn interest income. Some of the important points noticed in audit are as under:

- During the period 2003-08, the Corporation settled 7,134 loans under OTS, which resulted in additional recovery of Rs. 352.05 crore and a loss of Rs. 633.36 crore (Rs. 12.84 crore by way of write off of principal and Rs. 620.52 crore by way of waiver of interest). The Scheme was discontinued with effect from 31 March 2008.

- The implementation of the OTS scheme reduced the NPAs from 64 *per cent* to 35 *per cent.*

- The OTS guidelines provided for write off of principal which is not permissible as per RBI guidelines. The on-line OTS did not take into account the value of security and had the effect of extending undue favour of waiver of dues to defaulters.

- An examination of OTS scheme relating to 305 cases out of 1,462 cases (loans above Rupees five lakh only) settled during 2003-08 revealed that the Corporation suffered a total loss of Rs. 332.75 crore. Of the 305 cases test checked, audit observed that in 78 cases there were various deficiencies resulting in a loss of Rs. 182.28 crore.

- Pre-audit was not conducted for OTS approvals and only on-line cases were subject to pre-audit.

(Chapter 3.1)

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:

- blocking up of funds, idle investment and loss of interest amounting to Rs. 40.72 crore in three cases.

  (Paragraphs 4.1, 4.7 and 4.8)

- extra, avoidable and wasteful expenditure amounting to Rs. 15.82 crore in seven cases due to failure to return old meters, excess backfilling, re-tendering and mobilisation of funds at higher interest rates.

  (Paragraphs 4.4, 4.6, 4.9, 4.13, 4.15, 4.16 and 4.19)

- loss of revenue / contribution of Rs. 27.82 crore in four cases due to fixing lower margin, delay in procurement of sandalwood oil and faulty agreement.

  (Paragraphs 4.3, 4.10, 4.12 and 4.14)

- irregular payment of Rupees five crore made to staff on account of ex-gratia payment for VRS.

  (Paragraph 4.5)

- violation of contractual obligations, undue favour to contractors/manufacturers in three cases resulting in loss of Rs. 3.92 crore.

  (Paragraphs 4.2, 4.11 and 4.18)

- non-recovery of dues of Rs. 1.29 crore in one case.

  (Paragraph 4.17)

- cases of non-achievement of objectives and non-firming up of source of fuel.

  (Paragraphs 4.20 and 4.21)

Gist of the important observations are given below:

The **Bangalore Electricity Supply Company Limited** procured line materials in excess of the requirements resulting in blocking up of funds of Rs. 4.90 crore.

(Paragraph 4.1)

Improper planning and execution of line/station works for feeding 220 KV Netlamudnur Station by **Karnataka Power Transmission Corporation Limited** resulted in blocking up of funds of Rs. 33.83 crore.

(Paragraph 4.7)

The **Karnataka State Beverages Corporation Limited** fixed lower margin on the landed cost of liquor resulting in non-recovery of operating loss of Rs. 8.21 crore.

(Paragraph 4.10)

The **Mysore Minerals Limited** did not revise the prices as stipulated in the agreement, which resulted in loss of Rs. 16.51 crore**.**

(Paragraph 4.12)

The Delay in procurement of sandalwood oil resulted in stoppage of production at **Karnataka Soaps and Detergents Limited** and consequent loss in contribution of Rs. 2.67 crore.

(Paragraph 4.14)

Failure to take appropriate decision in line with the prevailing market conditions by **Karnataka State Industrial Investment and Development Corporation Limited** resulted in additional financial burden of Rs. 8.28 crore.

(Paragraph 4.16)

Due to lack of long-term plan and adequate technical staff to formulate / execute the schemes, the performance of **Karnataka Sheep and Wool Development Corporation Limited** remained sub-optimal and resulted in non-achievement of the objectives of its formation.

(Paragraph 4.21)