

CHAPTER I

1. Overview of Government companies and Statutory corporations

1.1 Introduction

As on 31 March 2002 there were 70 Government companies (57 working companies and 13 non-working companies*) and 6 Statutory corporations (working) under the control of the State Government as against the same number of companies and corporations as on 31 March 2001. In addition, the State Government had formed Karnataka Electricity Regulatory Commission whose audit is also being conducted by the Comptroller and Auditor General of India (CAG). 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 CAG as per provision of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per provisions of Section 619 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 CAG
2	Bangalore Metropolitan Transport Corporation (BMTCL)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
3	North West Karnataka Road Transport Corporation (NWKRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
4	North Eastern Karnataka Road Transport Corporation (NEKRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
5	Karnataka State Financial Corporation (KSFC)	Section 37(6) of the State Financial Corporations Act, 1951	Chartered Accountants and Supplementary audit by CAG
6.	Karnataka State Warehousing Corporation (KSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	Chartered Accountants and Supplementary audit by CAG

1.2 Working Public Sector Undertakings (PSUs)

1.2.1 Investment in working PSUs

As on 31 March 2002, the total investment in 63 working PSUs (57 Government companies and 6 Statutory corporations) was Rs.22,613.97 crore (equity: Rs.5,065.28 crore; long-term loans@: Rs.14,956.07 crore and share application money Rs.2,592.62 crore) as against a total investment of Rs.19,216.77 crore (equity: Rs.4,008.20 crore; long-term loans: Rs.13,099.96 crore and share application money: Rs.2,108.61 crore) as on

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

@ Long term loans mentioned in Paragraph 1.2 and 1.3 are excluding interest accrued and due on such loans.

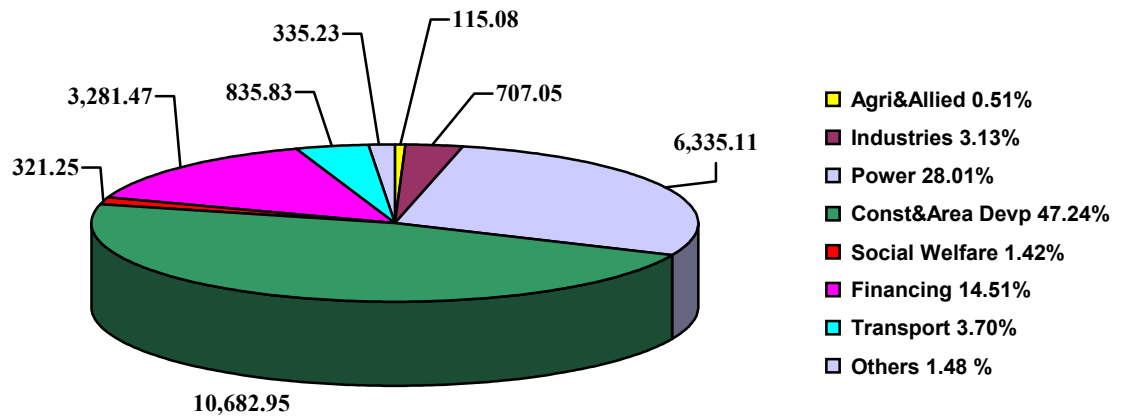
31 March 2001. The analysis of investment in working PSUs is given in the following paragraphs.

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 2002 and 31 March 2001 are indicated below in the pie charts:

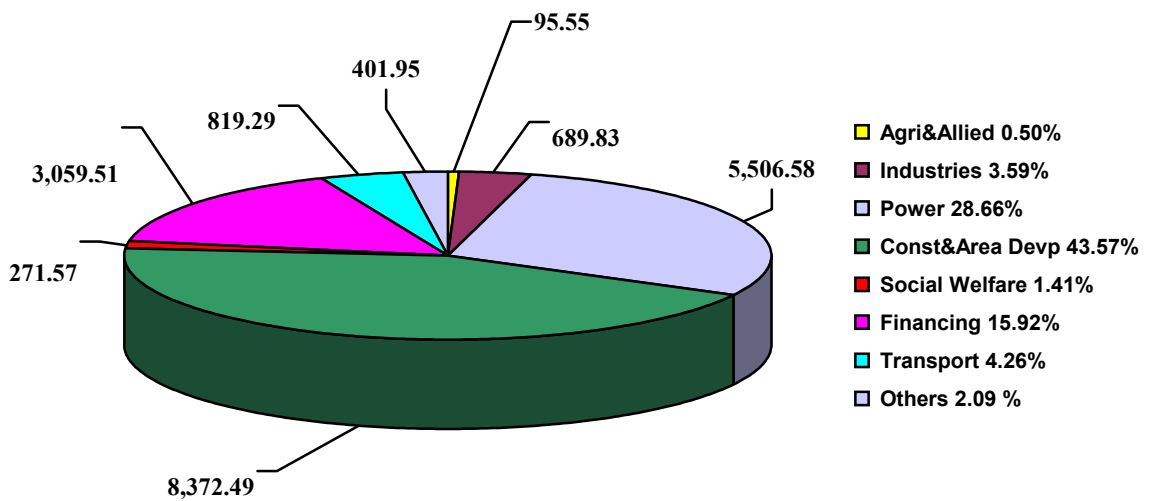
SECTOR-WISE INVESTMENT BY WAY OF PAID UP CAPITAL AND LONG-TERM LOANS IN WORKING GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS AS ON 31 MARCH 2002

Amount : Rupees in crore



SECTOR-WISE INVESTMENT BY WAY OF PAID UP CAPITAL AND LONG-TERM LOANS IN WORKING GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS AS ON 31 MARCH 2001

Amount : Rupees in crore



Though there was significant increase in equity capital and long-term loans in Area Development and Power Sectors, the debt equity ratio decreased from 2.14 : 1 in 2000-01 to 1.95 : 1 in 2001-02.

1.2.1.1 Working Government companies

Total investment in working Government companies at the end of March 2001 and March 2002 was as follows:

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2000-01	57	3,444.40	2,080.71	10,797.93	16,323.04
2001-02	57	4,509.41	2,554.22	12,623.63	19,687.26

As on 31 March 2002, the total investment of working Government companies comprised 35.88 per cent of equity capital and 64.12 per cent of loans as compared to 33.85 per cent and 66.15 per cent respectively as on 31 March 2001.

Increase in total investment was due to significant increase in equity and loans in Power and Area Development sectors.

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

1.2.1.2 Working Statutory corporations

The total investment in six working Statutory corporations at the end of March 2002 and March 2001 was as follows:

(Rupees in crore)

Name of the Corporation	2000-01		2001-02	
	Capital	Loan	Capital	Loan
Karnataka State Road Transport Corporation (KSRTC)	207.57 (1.00)	164.86	208.57	179.94
Bangalore Metropolitan Transport Corporation (BMTC)	64.54	39.33	64.54	43.96
North West Karnataka Road Transport Corporation (NWKRTC)	93.64	98.60	93.92	107.88
North Eastern Karnataka Road Transport Corporation (NEKRTC)	83.20 (0.30)	66.25	83.50	53.53
Karnataka State Financial Corporation (KSFC)	107.45 (26.60)	1,931.34	97.84 (36.01)	1,932.50
Karnataka State Warehousing Corporation (KSWC)	7.40	1.65	7.50 (2.40)	14.63
Total	563.80 (27.90)	2,302.03	555.87 (38.41)	2,332.44

(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 detailed in Annexure 1.

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

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by 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 capital and loans) and grants/subsidies from the State Government to working Government companies and Statutory corporations for the three years up to March 2002 are summarised below:

(Amount: Rupees in crore)

	1999-00				2000-2001				2001-02			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
Equity capital out go from budget	11	500.75	2	10.15	13	1,002.64	3	6.70	17	1,542.93	2	2.73
Loans given from budget	7	61.62	--	--	11	306.55	1	4.84	9	58.79	1	7.80
Grants	9	33.82	-	-	10	40.95	-	-	13	133.39	-	-
Subsidy towards												
(i)Projects/ Programme/ Schemes	7	14.00	--	--	6	220.99	--	--	4	250.54	1	90.37
(ii)Other subsidy	3	3.28	4	1,093.75	1	2,344.63	3	46.88	4	2,235.75	4	107.46
Total subsidy	10	17.28	4	1,093.75	7	2,565.62	3	46.88	7	2,486.29	4	197.83
Total outgo *	25	613.47	6	1,103.90	29	3,915.76	6	58.42	32	4,221.40	4	208.36

During the year 2001-02 the Government had guaranteed the loans aggregating Rs.1,178.69 crore obtained by 18 working Government companies (Rs.1,119.05 crore) and one Statutory corporation (Rs.59.64 crore). At the end of the year, guarantees amounting to Rs.10,114.38 crore against 20 working Government companies (Rs.9,408.51 crore) and 4 working Statutory corporations (Rs.705.87 crore) were outstanding. The guarantee commission paid/payable to the Government by Government companies and Statutory corporations during 2001-02 was Rs.10.37 crore and Rs.80.00 crore, respectively.

1.2.3 Finalisation of accounts by working PSUs

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 Section 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 financial year. Similarly, in

* 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.

case of Statutory corporations, their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

However, as could be noticed from Annexure 2, out of 57 working Government companies, only 37 working companies and none of the 6 working Statutory corporations have finalised their accounts for the year 2001-02 within stipulated period (September 2002). During the period from October 2001 to September 2002, 30 working Government companies finalised 31 accounts for previous years. Similarly during this period 6 working Statutory corporations finalised 7 accounts for the previous years.

The accounts of 20 working Government companies and 6 Statutory corporations were in arrears for periods ranging from one year to three years as on 30 September 2002 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	--	1999-2000 to 2001-02	3	49	--
2	02	--	2000-01 to 2001-02	2	7,8	--
3	17	6	2001-02	1	1,11,12,13,14,19, 20,21,28,30,31,37, 42,43,44,47,48	1,2,3,4,5,6

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. Though the concerned administrative departments and officials of the Government were appraised quarterly by the audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government and as a result, the net worth of these PSUs could not be assessed in audit.

1.2.4 Financial position and working results of working PSUs

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 are finalised are given in Annexure 4 and 5 respectively.

According to latest finalised accounts of 57 working Government companies and 6 working Statutory corporations, 23 companies and 3 corporations had incurred an aggregate loss of Rs.229.41 crore and Rs.86.01 crore, respectively and 28 companies and 3 corporations earned an aggregate profit of Rs.408.89 crore and Rs.25.42 crore respectively. Two companies had not commenced commercial activities and in case of 4 companies excess of expenditure over income is capitalised and no profit and loss account prepared.

1.2.4.1 Working Government companies

1.2.4.1.1 Profit earning working companies and dividend

Out of 37 working Government companies, which finalised their accounts for 2001-02 by September 2002, 17 companies earned an aggregate profit of Rs.279.79 crore and only 4 companies (Sl Nos.A2, A45, A46 and A53 of Annexure 2) declared dividend aggregating Rs.13.65 crore. The dividend as percentage of share capital in the above 4 profit making companies worked out to 2.03 per cent. The remaining 13 profit making companies did not declare any dividend. The total return by way of dividend of Rs.13.65 crore, worked out to 0.19 per cent in 2001-02 on total equity investment of Rs.7,058.13 crore by the State Government in all Government companies as against 0.07 per cent in the previous year.

Similarly, out of 30 working Government companies, which finalised their accounts for previous years by September 2002, 14 companies earned an aggregate profit of Rs.130.68 crore. The State Government had not formulated any dividend policy so far.

1.2.4.1.2 Loss incurring working Government companies

Of the 23 loss incurring working Government companies, 13 companies had accumulated losses aggregating Rs.776.86 crore which exceeded their aggregate paid up capital of Rs.342.06 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, conversion of loans into equity, subsidy, etc. According to available information, the total financial support so provided by the State Government by way of equity, loan and grants during 2001-02 to 9 companies, out of these 13 companies, amounted to Rs.92.22 crore.

1.2.4.2 Working Statutory corporations

1.2.4.2.1 Profit earning Statutory corporations and dividend

Out of 6 Statutory corporations which finalised 7 accounts for previous year by September 2002, 3 corporations earned aggregate profit of Rs.25.42 crore and one corporation (Sl No.B6 of Annexure 2) declared dividend of Rs.44 lakh. The dividend as a percentage of share capital of the three Statutory corporations worked out to 0.27 per cent. The total return by way of dividend of Rs.44 lakh worked out to 0.07 per cent in 2001-02 on total equity investment of Rs.591.80 crore by the State Government in all the Statutory corporations.

1.2.4.2.2 Loss incurring Statutory corporations

Out of 6 Statutory corporations, which finalised their accounts for the year 2000-01, 3 Statutory corporations incurred losses and the accumulated losses of these 3 corporations aggregated to Rs.762.34 crore which had far exceeded their aggregate paid up capital of Rs.426.13 crore.

1.2.4.2.3 Operational performance of working Statutory corporations

The operational performance of the Statutory corporations is given in Annexure 6. Percentage of overdue to the total loans outstanding of Karnataka State Financial Corporation increased from 47.88 in 2000-01 to 62.29 in 2001-02.

1.2.5 Return on Capital Employed

As per the latest finalised accounts (up to September 2002), the capital employed* worked out to Rs.21,418.49 crore in 57 working companies and total return⁺ thereon amounted to Rs.1,169.41 crore which is 5.46 per cent as compared to total return of Rs.491.88 crore (3.60 per cent) in the previous year (accounts finalised up to September 2001). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2002) worked out to Rs.2,605.32 crore and Rs.199.16 crore (7.64 per cent) respectively, as against Rs.2,441.02 crore and Rs.220.71 crore (9.04 per cent) in the previous year (accounts finalised up to September 2001). 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.

1.3 Non-working PSUs

1.3.1 Investment in non-working PSUs

As on 31 March 2002, the total investment in 13 non-working Government companies was Rs.64.06 crore (equity Rs.38.72 crore, long-term loans Rs.24.63 crore and share application money Rs.0.71 crore) as against total investment of Rs.77.90 crore (equity Rs.38.72 crore, long-term loans Rs.38.47 crore and share application money Rs.0.71 crore) in 13 non-working Government companies as on 31 March 2001.

* 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.

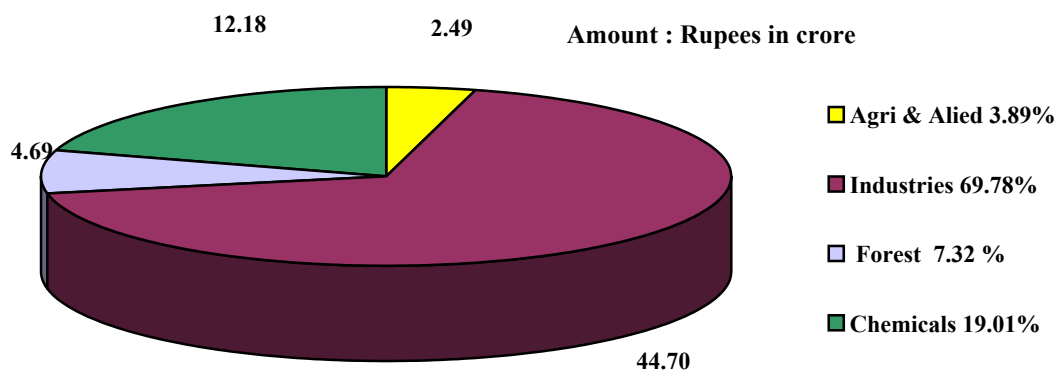
The classification of the non-working PSUs was as under:

Sl. No.	Status of non-working PSUs	Number of companies	(Rupees in crore)	
			Investment	
			Equity ^s	Long term loans
(i)	Under closure [*]	12	38.18	24.63
(ii)	Under merger [♦]	1	1.25	--
	Total	13	39.43	24.63

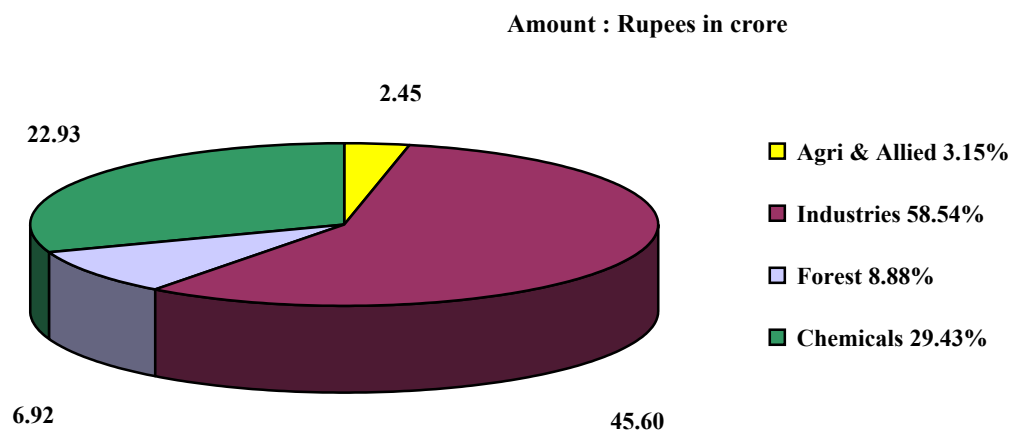
Effective steps need to be taken for their expeditious liquidation or revival.

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2002 and 31 March 2001 are indicated below in the pie charts:

SECTOR-WISE INVESTMENT BY WAY OF PAID UP CAPITAL AND LONG-TERM LOANS IN NON-WORKING GOVERNMENT COMPANIES AS ON 31 MARCH 2002



SECTOR-WISE INVESTMENT BY WAY OF PAID UP CAPITAL AND LONG-TERM LOANS IN NON-WORKING GOVERNMENT COMPANIES AS ON 31 MARCH 2001



^s Equity includes share application money of Rs.0.71 crore for companies under closure.

^{*} Sl.No. C1, C2, C3, C4, C5, C6, C7, C8, C9, C11, C12 & C13 of Annexure - 1

[♦] Sl.No. C 10 of Annexure-1

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

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 Annexure 1 and 3.

The State Government provided budgetary support of Rs.37.33 lakh to three non-working companies in the form of loans during 2001-02.

1.3.3 Total establishment expenditure of non-working PSUs

The year wise details of total establishment expenditure of non-working Government companies and the sources of financing them during last three years up to 2001-02 are given below:

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by				
			Disposal of investment/assets	Loans from private parties	Government by way of		Others [@]
					Loans	Grants	
1999-2000	13	5.43	-	-	3.77	-	1.66
2000-2001	13	7.25	-	-	5.42	-	1.83
2001-2002	13	2.73	-	-	0.08	-	2.65

1.3.4 Finalisation of accounts by non-working PSUs

The accounts of 8 non-working companies were in arrears for periods ranging from one year to four years as on 30 September 2002 as could be noticed from Annexure 2.

1.3.5 Financial position and working results of non-working PSUs

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/cash profits and accumulated loss/accumulated profit 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 (-) / cash profit (+)	Accumulated loss (-)/accumulated profit (+)
1997-98	1	0.0001	--	--	--
1998-99	1	0.50	(-) 8.41	(-) 0.87	(-) 8.91
2000-01	6	11.32	(-) 68.54	(-) 11.70	(-) 79.86
2001-02	5	27.61	(-) 25.18	(-) 1.44	(-) 52.79
Total	13	39.43	(-) 102.13	(-) 14.01	(-) 141.56

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

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

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

The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by 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 Government	Reason for delay in placement in Legislature
1	KSRTC	2000-01	2001-02	Audit under progress	-
2	BMTC	2000-01	2001-02	Audit under progress	--
3	NWKRTC	2000-01	2001-02	Audit under progress	--
4	NEKRTC	2000-01 (First Accounts)	2001-02	Audit under progress	-
5	KSFC	2000-01	2001-02	Audit under progress	-
6	KSWC	2000-01	2001-02	3 January 2003	Assembly session not held

1.5 Disinvestment, Privatisation and Restructuring* of Public Sector Undertakings

1.5.1 Government of Karnataka constituted (March 2000) Public Sector Restructuring Commission (PSRC) to study the performance of PSUs and to make suitable recommendations regarding restructuring through rationalisation, closure, disinvestments, merger and privatisation of some sick units in the context of low return on huge investments. The Government of Karnataka also approved and adopted (February 2001) a comprehensive policy on Public Sector Reforms and Privatisation of PSUs in the State in consultation with PSRC. The Government of Karnataka identified 20^s PSUs for closure/privatisation. The Government has taken decision (March 2001 to May 2002) to close eight* companies and privatise one[^] company. The Government is yet to initiate action for disinvestment.

* Restructuring includes merger and closure of PSUs.

^s (1) Karnataka Telecom Limited (2) The Mysore Lamp Works Limited (3) NGEF Limited (4) The Mysore Acetate and Chemicals Limited (5) The Mysore Electrical Industries Limited (6) Chamundi Machine Tools Limited (7) Karnataka Soaps and Detergents Limited (8) The Mysore Paper Mills Limited (9) The Mysore Match Company Limited (10) Karnataka Vidyuth Karkhane Limited (11) The Mysore Cosmetics Limited (12) Karnataka State Construction Corporation Limited (13) Karnataka State Electronics Development Corporation Limited (14) Karnataka State Textiles Limited (15) Karnataka Agro Proteins Limited (16) Karnataka Small Industries Marketing Corporation Limited (17) The Karnataka State Veneers Limited (18) The Karnataka Fisheries Development Corporation Limited (19) Karnataka Film Industries Development Corporation Limited and (20) Sree Kanteerava Studios Limited.

* (1) Karnataka Telecom Limited (2) The Mysore Lamp Works Limited (3) NGEF Limited (4) The Mysore Match Company Limited (5) The Mysore Cosmetics Limited (6) Karnataka Agro Proteins Limited (7) Karnataka Small Industries Marketing Corporation Limited and (8) Chamundi Machine Tools Limited

[^] The Mysore Electrical Industries Limited.

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

During the period from October 2001 to September 2002, the audit of accounts of 55 Government companies (50 working and 5 non-working) and 6 Statutory corporations (all working) were selected for review. As a result of the observations made by CAG, 15[#] companies and 3[£] corporations revised their accounts. In addition, the net impact of the important audit observations as a result of review of the accounts of PSUs were as follows:

- i) Karnataka State Road Transport Corporation (2000-01) – The loss of Rs.16.79 crore was understated by Rs.0.90 crore.
- ii) North West Karnataka Road Transport Corporation (2000-01) – The profit of Rs.5.07 crore was overstated by Rs.1.58 crore.
- iii) North Eastern Karnataka Road Transport Corporation (2000-01) – The loss of Rs.21.18 crore was understated by Rs.40 lakh.

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the companies and corporations are mentioned below:

1.6.1 Errors and omissions noticed in case of Government companies

The Hutti Gold Mines Company Limited (2000-01)

- (i) Non-capitalisation of works relating to expansion programme resulted in understatement of Fixed Assets and overstatement of Capital Work-in-progress by Rs.21.45 crore.
- (ii) Non-adjustment of amount of deposit of Rs.1.87 crore with Karnataka Power Transmission Corporation Limited for construction of dedicated line, commissioned during October 2000 resulted in overstatement of Sundry Deposit by Rs. 1.87 crore,

[#] Rajiv Gandhi Rural Housing Corporation Limited (2000-01), The Mysore Cosmetics Limited (2000-01), The Mysore Minerals Limited (2000-01), Karnataka State Women's Development Corporation (2000-01), Karnataka Minorities Development Corporation Limited (2001-02), Visveswaraya Vidyuth Nigam Limited (2000-01), Karnataka Power Transmission Corporation limited (2000-01), Karnataka Film Industries Development Corporation Limited (2001-02), Karnataka State Police Housing Corporation Limited (2001-02), Karnataka Vidhyuth Karkhane Limited (2001-02), The Karnataka Fisheries Development Corporation Limited (2001-02), The Hutti Gold Mines Company Limited (2001-02), Karnataka Schedule Castes and Schedule Tribes Development Corporation Limited (2001-02), Sree Kanteerava Studios Limited (2001-02), Karnataka Forest Development Corporation Limited (2001-02).

[£] Karnataka State Road Transport Corporation (2000-01), Bangalore Metropolitan Transport Corporation (2000-01) and North West Karnataka Road Transport Corporation (1999-2000).

understatement of Deferred Revenue Expenditure by Rs. 1.50 crore and understatement of Loss by Rs.37 lakh.

1.6.2 Errors and omissions noticed in case of Statutory corporations

Karnataka State Road Transport Corporation (2000-01)

- (i) Non-provision of no fault liability in respect of accidents occurred during the year resulted in understatement of loss by Rs.0.90 crore.
- (ii) Non-maintenance of proper books of accounts.
- (iii) Large number of errors in cash transactions in the computerized accounting system Enterprise Resources Planning (ERP).

North West Karnataka Road Transport Corporation (2000-01)

- (i) Non-accounting of consumption of diesel to the extent of Rs.1.53 crore resulted in overstatement of Profit by Rs.1.53 crore.
- (ii) Non-maintenance of proper books of accounts.

North Eastern Karnataka Road Transport Corporation (2000-01)

- (i) Non-provision of no-fault liability of Rs.39.50 lakh, in respect of accidents occurred during the year, resulted in understatement of loss.

1.7 Recommendations for Closure of PSUs

Even after completion of five years of their existence, the turnover of 5 Government companies was less than Rs.5 crore in each of the preceding five years of latest finalised accounts. Further, three working Government companies viz., NGEF Limited, The Mysore Lamp Works Limited and Karnataka Agro Industries Corporation Limited have been incurring losses for five consecutive years (as per latest finalised accounts) leading to negative net worth. Besides Karnataka Tungsten Moly Limited had not undertaken any activity since its inception (December 1986). Out of these 9 companies, State Government had taken decision to close down 2* companies. Further, 2* more companies were also identified by the Government for closure/privatisation. In view of poor turnover and continuous losses, the Government may either improve performance of other 5 Government companies or consider their closure.

* (1) NGEF Limited and (2) The Mysore Lamp Works Limited.

* (1) Karnataka Film Industries Development Corporation Limited and (2) Sree Kanteerava Studios Limited.

1.8 Response to Inspection Reports, Drafts paras and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2002 pertaining to 71 PSUs disclosed that 5,254 paragraphs relating to 980 Inspection Reports remained outstanding at the end of September 2002. Of these, 191 Inspection Reports containing 578 paragraphs were pending due to non-receipt of even first replies. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2002 is given in Annexure 7.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that 27 draft paragraphs and 3 draft reviews forwarded to the various departments during February 2002 to July 2002, as detailed in Annexure 8, had not been replied so far.

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who failed to send replies to Inspection Reports/draft paragraphs/reviews as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment in a time bound schedule and (c) revamping the system of responding to the audit observations.

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

The table below indicates the position of reviews/paragraphs appeared in the Audit Reports and pending for discussion as on 30 September 2002.

Period of Audit Report	No. of reviews/paragraphs appeared in the Audit Report		No. of reviews/paragraphs pending for discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1996-97	4	27	0	5
1997-98	8	27	2	7
1998-99	3	32	2	6
1999-2000	3	29	1	6
1999-2000 (SAR)	1	-	1	-
2000-01	3	29	3	29
Total	22	144	9	53

1.10 619-B Companies

There were three companies coming under Section 619-B of the Companies Act, 1956. Annexure 9 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.

1.11 Reforms in Power Sector

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

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 reforms programme in power sector with identified milestones.

Status of implementation of 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 2002)
Commitments made by the State Government			
1	100 per cent electrification of all villages (27,066 villages)	By 2012	26,764 villages, have been electrified.
2.	Reduction in Transmission and Distribution (T & D) losses by 10 to 15 per cent	5 per cent reduction in T & D losses during 2000-01.	T & D losses were reduced by 2.52 per cent during 2001-02.
3.	100 per cent metering of all distribution feeder	September 2001	The work is to be completed by December 2002.
4.	100 per cent metering of all consumers	Before 2003-04	In its efforts to meter all the consumers the company has embarked on purchase of the required quantity of meters. The work of installing the meters is presently under progress.
5	Energy audit at 11 KV sub-stations level	September 2001	The work is to be completed by December 2002.
6	Securitized outstanding due of CPSUs	---	State Government took overdues amounting to Rs.330 crore of CPSUs as on 31 March 2001 for securitisation through issue of bonds. However, bonds were yet to be issued.

Sl. No.	Commitment as per MOU	Targeted completion Schedule	Status (as on 31 March 2002)
7	State Electricity Regulatory Commission (SERC) i) Establishment of KERC	The State Electricity Regulatory Commission was to be made functional within 6 months	The Karnataka State Regulatory Commission was established during August 1999.
	ii) Implementation of tariff orders issued by KERC during the year	---	One tariff order was issued by KERC, which was made effective from December 2000.
Commitment made by the Central Government			
8.	Supply of additional power	The GOI agreed to supply additional 180 MW	The state could get only 80 MW of power due to systems constraints as it was allowed to draw power from NTPC (ER)
9.	Any other help	Reduction in interest rate on loans availed from CPSUs i.e. PFC/REC	Interest rate on loans from PFC has been reduced.
	General		
10.	Monitoring of MOU	Monitoring is done at Secretary level in the Government on issue-to-issue basis.	

1.11.2 State Electricity Regulatory Commission

Karnataka Electricity Regulatory Commission (KERC) was constituted (28 August 1999) under the Karnataka Electricity Reforms Act, 1999 (Act) to provide for the restructuring of the electricity industry in the State; the corporatisation of the Karnataka Electricity Board and rationalisation of generation, transmission, distribution and supply of electricity in the State. The Commission is a body corporate and comprises of three members including a Chairman, who are appointed by the State Government. As per Section 11 of the Act, all expenditure of the Commission are to be charged to the Consolidated Fund of the State. Accounts of KERC have been finalised up to the year ending March 2002.

1.11.2.1 Functions

The main functions of the KERC as per the Karnataka Electricity Reforms Act, 1999 are as follows:

- (i) to regulate the purchase, distribution, supply and utilisation of electricity, the quality of service, the tariff and charges payable,
- (ii) to issue licenses in accordance with the provisions of the Act and determine the conditions to be included in the licenses,
- (iii) to regulate the working of licensees and to promote their working in an efficient, economical and equitable manner,
- (iv) to regulate the assets, properties and interest in properties concerning or relating to the electricity industry in the State,
- (v) to promote competitiveness and progressively involve the participation of private sector while ensuring fair deal to the consumers.

1.11.2.2 Activities

Only one tariff order was issued (December 2000) by KERC since its formation up to March 2002.

1.11.2.3 Sector -wise Tariff* for Consumers

Supply Type	Code	Description	Demand charges (Rs. per KVA [®] of billing month)	Energy charges per month (Rs. per unit)
High Tension	HT1	Public water supply and sewerage pumping installations	Rs.150	Rs.2.30 per unit
	HT2 (a)	Industrial, Non-Industrial, Non-Commercial	Rs.150	Rs.3.25 per unit upto 2 lakh units. Rs.3.75 per unit for balance units
	HT2 (b)	Commercial	Rs.180	Rs.4.00 per unit upto 2 lakh units Rs.4.30 per unit for balance units
	HT3 (a)	Irrigation and agricultural farms, Lift irrigation schemes, government horticultural farms	-	Rs.1.35 per unit
	HT3 (b)	Private horticulture nurseries, coffee, tea, coconut and arecanut plantations	-	Rs.2.75 per unit
	HT4	Rural Electric Co-operative societies	Nil	Rs.0.61 per unit

* Excludes fuel escalation charges at Rs.0.25 per unit to all consumers except categories coming under LT1 (a), LT4 (a), LT4 (b), LT4(c), street lighting under LT6 (a) and LT6 (b), LT7, and HT3 (a) tariff schedules.

Further, Electricity tax at Rs.0.20 per unit for HT1,HT2(a),HT2(b),HT5,LT3,LT5 and LT7 and Rs.0.15 per unit for LT1(b) and Rs.0.10 per unit for HT3(a) ,HT3(b),LT2(a), LT2(b), LT4(c),LT4(d) and LT6(a) and LT6(b) (other than public lighting).

[®] 1 Horse Power (HP) = 0.746 Kilowatt (KW) or 0.878 Kilovolt ampere (KVA)

Supply Type	Code	Description	Demand charges (Rs. per KVA [®] of billing month)	Energy charges per month (Rs. per unit)
	HT5	Residential apartments and colonies availing power supply independently and Govt. hospitals	Rs.75	Rs.2.85 per unit
Low Tension	LT1 (a)	Bhagyajyothi and Kutirjyothi schemes	-	Rs.10 per installation per month
	LT1 (b)	Domestic lighting, Non-domestic lighting, Non-commercial lighting and Government hospitals lighting	Rs.20	Rs.1.25 per unit for first 60 units. Rs.2.05 per unit for next 140 units
	LT2 (a)	Domestic combined lighting, heating and motive power (AEH), Non-domestic, non-commercial combined lighting, heating and motive power.	Rs.20 per KW or part thereof subject to minimum of Rs.60 per installation per month	Rs.2.05 per unit for first 100 units Rs.2.55 per unit for next 100 units Rs.3.00 per unit for next 100 units Rs.3.50 per unit for next 100 units Rs.4.25 per unit of consumption in excess of 400 units.
	LT2 (b)	Private, professional institutions having only lighting or combined lighting and heating and motive power.	Rs.30 per KW or part thereof subject to minimum of Rs.60 per installation per month	Rs.3.50 per unit for first 100 units Rs.4.00 per unit for next 100 units Rs.4.25 per unit for next 200 units Rs.4.70 per unit for beyond 400 units.
	LT3	Commercial lighting, heating and motive power	Rs 35 per KW	Rs.4.15 per unit for the first 50 units Rs.5.00 per unit for beyond 50 units
	LT4 (a)	Agricultural Pump Sets Upto and inclusive of 10 HP	-	Rs.0.50 per unit subject to annual minimum of Rs.30 per HP or part thereof of sanctioned load
	LT4 (b)	Agricultural Pump Sets or more than one set, those owning tractor etc Upto and inclusive of 10HP	-	Rs.1.35 per unit subject to annual minimum of Rs.600 per HP
	LT4 (c)	Agricultural Pump Sets Above 10 HP	-	Rs.1.35 subject to annual minimum of Rs.800 per HP or part thereof of sanctioned load.
	LT4 (d)	Private horticulture nurseries, coffee, tea, coconut and arecanut plantations	-	Rs.1.75 per unit subject to an annual minimum of Rs.600 per HP or part thereof of sanctioned load.

Supply Type	Code	Description	Demand charges (Rs. per KVA [®] of billing month)	Energy charges per month (Rs. per unit)
	LT5	Industrial, Non-industrial, Heating and motive power including lighting	Rs.25 per HP upto 5 HP Rs.30 per HP below 40 HP Rs.40 below 67 HP Rs.100 per HP for 67 HP and above.	Rs.2.25 per unit for first 200 units Rs.2.75 per unit for next 800 units. Rs.3.00 per unit for the next 3000 units Rs.3.25 per unit for units in excess of 4000 units.
	LT6 (a)	Water supply, sewerage pumping and street lights/public lighting of village, mandal, town, and organisation on charitable basis.	Rs.15 per HP or Rs.20 per KW	Rs.1.75 per unit for water supply installations Rs.1.20 per unit for street lights/public lighting installations.
	LT6 (b)	Water supply, sewerage pumping and streetlights of city municipalities, corporations, state and central govt, local bodies and water supply installations of residential layouts.	Rs.30 per HP or Rs.40 per KW	Rs.2.50 per unit for water supply installations Rs.2.00 per unit for streetlights and public lighting installations.
	LT7	Temporary power supply	-	Rs.6.00 per unit subject to a weekly minimum of Rs.125 per KW or part thereof.