

CHAPTER I

Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2003 there were 74 Government companies (58 working companies and 16 non-working companies*) and six Statutory corporations (working) under the control of the State Government as against 70 Government companies (57 working companies and 13 non-working companies) and six Statutory corporations (working) as on 31 March 2002. During the year, five new companies[∇] were formed and one company's[#] name was struck off from the register of the Registrar of Companies. During the year, four working companies[⊙] also became non-working. 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 Western 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

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

∇ Karnataka Togari Abhivridhi Mandali Limited, Bangalore Electricity Supply Company Limited, Hubli Electricity Supply Company Limited, Mangalore Electricity Supply Company Limited and Gulbarga Electricity Supply Company Limited.

Karnataka Implements and Machinery Company Limited.

⊙ Karnataka Small industries Marketing Corporation Limited, The Mysore Lamp works Limited, The Mysore Cosmetics Limited and NGEF Limited.

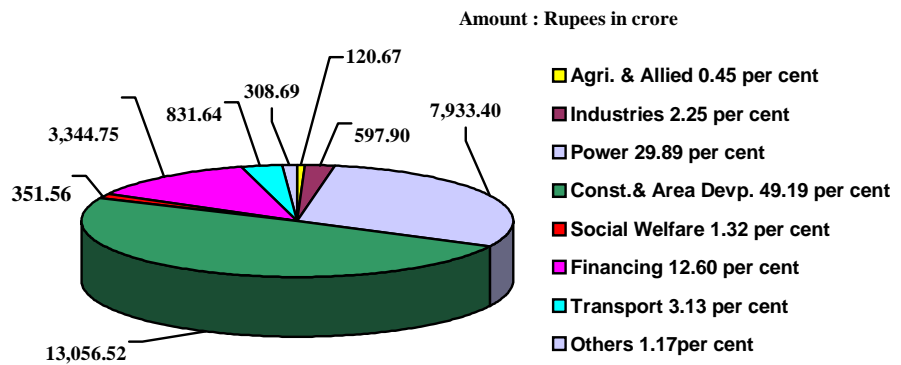
Working Public Sector Undertakings (PSUs)

Investment in working PSUs

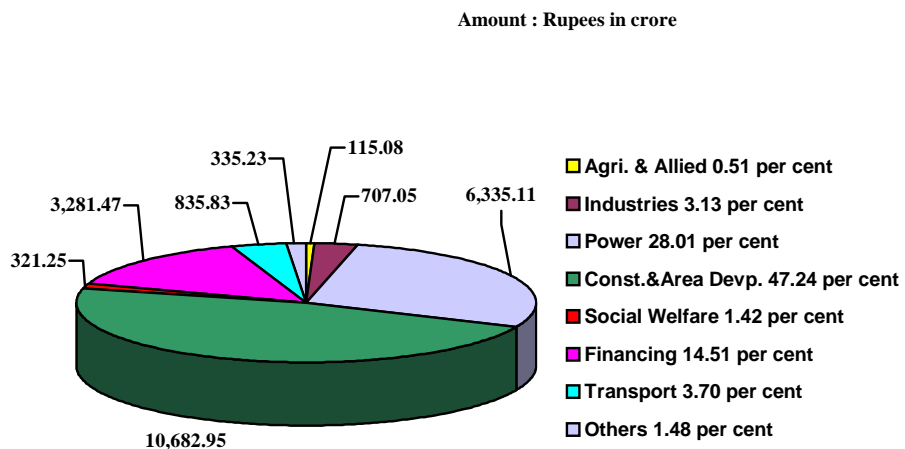
1.2 As on 31 March 2003, the total investment in 64 working PSUs (58 Government companies and six Statutory corporations) was Rs.26,545.13 crore (equity: Rs.6,249.80 crore; long-term loans[@]: Rs.16,407.48 crore and share application money Rs.3,887.85 crore) as against total investment of Rs.22,613.97 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 on 31 March 2002. The analysis of investment in working PSUs is given in the following paragraphs.

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2003 and 31 March 2002 are indicated below in the pie charts:

SECTOR-WISE INVESTMENT IN WORKING GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS
INVESTMENT AS ON 31 MARCH 2003



INVESTMENT AS ON 31 MARCH 2002



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

The debt equity ratio decreased from 1.95 : 1 in 2001-02 to 1.62 :1 in 2002-03.

Working Government companies

1.3 Total investment in working Government companies at the end of March 2002 and March 2003 was as follows:

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2001-02	57	4,509.41	2,554.22	12,623.63	19,687.26
2002-03	58	5,694.50	3,849.15	14,115.68	23,659.33

As on 31 March 2003, the total investment of working Government companies comprised 40.34 per cent of equity capital and 59.66 per cent of loans as compared to 35.88 per cent and 64.12 per cent respectively as on 31 March 2002.

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 Annexe 1.

Working Statutory corporations

1.4 The total investment in six working Statutory corporations at the end of March 2003 and March 2002 was as follows:

(Rupees in crore)

Name of the Corporation	2001-02		2002-03	
	Capital	Loan	Capital	Loan
Karnataka State Road Transport Corporation (KSRTC)	208.57	179.94	208.39	179.74
Bangalore Metropolitan Transport Corporation (BMTCL)	64.54	43.96	64.72	40.07
North Western Karnataka Road Transport Corporation (NWKRTC)	93.92	107.88	93.64	105.94
North Eastern Karnataka Road Transport Corporation (NEKRTC)	83.50	53.53	83.20 (0.30)	55.65
Karnataka State Financial Corporation (KSFC)	97.84 (36.01)	1,932.50	97.84 (36.01)	1895.76
Karnataka State Warehousing Corporation (KSWC)	7.50 (2.40)	14.63	7.50 (2.40)	14.64
Total	555.87 (38.41)	2,332.44	555.29 (38.71)	2,291.80

(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 Annexe 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 State Government to working Government companies and working Statutory corporations are given in Annexe 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 2003 are summarised below:

(Amount: Rupees in crore)

	2000-01				2001-02				2002-03			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	13	1,002.64	3	6.70	17	1,542.93	2	2.73	21	2,960.10	-	-
Loans given from budget	11	306.55	1	4.84	9	58.79	1	7.80	3	14.36	1	6.38
Grants	10	40.95	-	-	13	133.39	-	-	10	51.83	-	-
Subsidy towards (i)Projects/Programme/schemes	6	220.99	--	--	4	250.54	1	90.37	4	196.92	-	-
(ii)Other subsidy	1	2,344.63	3	46.88	4	2,235.75	4	107.46	8	737.86	4	85.45
Total subsidy	7	2,565.62	3	46.88	7	2,486.29	4	197.83	12	934.78	4	85.45
Total outgo*	29	3,915.76	6	58.42	32	4,221.40	4	208.36	32	3,961.07	5	91.83

During 2002-03 the Government had guaranteed the loans aggregating Rs.1,262.80 crore obtained by 19 working Government companies (Rs.1,145.44 crore) and two Statutory corporations (Rs.117.36 crore). At the end of the year, guarantees amounting to Rs.6,887.23 crore against 27 working Government companies (Rs.6,214.31 crore) and four working Statutory corporations (Rs.672.92 crore) were outstanding. The guarantee commission paid/payable to the Government by Government companies and Statutory corporations during 2002-03 was Rs.20.32 crore and Rs.140.09 crore, respectively. Three working Government companies defaulted in repayment of guaranteed loan amounting to Rs.11.53 crore and four working Government companies defaulted in payment of interest on guaranteed loans amounting to Rs.15.20 crore.

Finalisation of accounts by working PSUs

1.6 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

* 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.

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 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 Annexe-2, out of 58 working Government companies, only 32 working companies and none of the six working Statutory corporations have finalised their accounts for the year 2002-03 within stipulated period (September 2003). During October 2002 to September 2003, 16 working Government companies finalised 17 accounts for previous years. Similarly during this period six working Statutory corporations finalised six accounts for the previous years.

The accounts of 26 working Government companies and six Statutory corporations were in arrears for periods ranging from one to three years as on 30 September 2003 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 Annex 2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1	01	--	2000-01 to 2002-03	3	A-8	--
2	01	--	2001-02 to 2002-03	2	A-46	--
3	24	6	2002-03	1	A-1,4,5,6,11,12,13,16,17,18,21,24,25,27,28,34,39,40,44,45,47,48,49,50	B-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.

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 Annexe -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 Annexe 4 and 5 respectively.

According to latest finalised accounts of 58 working Government companies and six working Statutory corporations, 18 companies and two corporations had incurred an aggregate loss of Rs.176.02 crore and Rs.153.71 crore, respectively and 29 companies and four corporations earned an aggregate profit of Rs.369.81 crore and Rs.70.91 crore respectively. Four companies had not commenced commercial activities and in case of two companies excess of

expenditure over income is capitalised and no profit and loss account prepared, five companies are yet to finalise their first accounts.

Working Government companies

Profit earning working companies and dividend

1.8 Out of 32 working Government companies, which finalised their accounts for 2002-03 by September 2003, 18 companies earned an aggregate profit of Rs.314.96 crore and only six companies (Sl. Nos.A-2, 3, 26, 42, 43 & 53 of Annexe 2) declared dividend aggregating Rs.15.58 crore. The dividend as percentage of share capital in the above six profit making companies worked out to 2.30 per cent. The remaining 12 profit making companies did not declare any dividend. The total return by way of dividend of Rs.15.58 crore, worked out to 0.17 per cent in 2002-03 on total equity investment of Rs.9,384.75 crore by the State Government in all Government companies as against 0.19 per cent in the previous year.

Similarly, out of 16 working Government companies, which finalised their accounts for previous years by September 2003, seven companies earned an aggregate profit of Rs.54.69 crore and only four companies earned profit for two or more years. The State Government had not formulated any dividend policy so far.

Loss incurring working Government companies

1.9 Of the 18 loss incurring working Government companies, seven companies had accumulated losses aggregating Rs.520.35 crore which exceeded their aggregate paid up capital of Rs.309.14 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 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, subsidy and grants during 2002-03 to five companies amounted to Rs.18.39 crore.

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.10 Out of six Statutory corporations which finalised their accounts for previous year by September 2003, four corporations earned aggregate profit of Rs.70.91 crore and one corporation (Sl. No.B-6 of Annexe-2) declared dividend of Rs.24.60 lakh. The dividend as a percentage of its share capital worked out to 2.48 per cent. The total return by way of dividend of Rs.24.60 lakh worked out to 0.04 per cent in 2002-03 on total equity investment of Rs.594.28 crore by the State Government in all the Statutory corporations. Only three corporations earned profit for two or more years.

Loss incurring Statutory corporations

1.11 Out of six Statutory corporations, which finalised their accounts for the year 2001-02, two Statutory corporations incurred losses and the accumulated losses of these two corporations aggregated Rs.591.91 crore which had far exceeded their aggregate paid up capital of Rs.217.36 crore.

Operational performance of working Statutory corporations

1.12 The operational performance of the Statutory corporations is given in Annexe 6. Percentage of overdue to the total loans outstanding of Karnataka State Financial Corporation increased from 62.29 in 2001-02 to 89.38 in 2002-03.

Return on capital employed

1.13 As per the latest finalised accounts (up to September 2003), the capital employed* worked out to Rs.23,679.30 crore in 58 working companies and total return+ thereon amounted to Rs.1,271.88 crore which is 5.37 per cent as compared to total return of Rs.1,169.41 crore (5.46 per cent) in the previous year (accounts finalised up to September 2002). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2003) worked out to Rs.2,734.72 crore and Rs.205.38 crore (7.51 per cent) respectively, as against Rs.2,605.32 crore and Rs.199.16 crore (7.64 per cent) in the previous year (accounts finalised up to September 2002). The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in Annexe 2.

Reforms in power sector

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

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

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

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

Status of implementation of 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 2003)
Commitments made by the State Government			
1.	100 per cent electrification of all villages (27,066 villages).	By 2012.	100 per cent electrification of all revenue villages as per census 1981 was completed. However, as per census 1991, 36 new villages were identified, of which as on date (April 2003), six have been electrified and works are in progress for electrification of remaining villages.
2.	Reduction in transmission and distribution (T & D) losses by 10 to 15 per cent.	Five per cent reduction in T & D losses every year.	T&D Losses reduced by 2.03 per cent during 2001-03.
3.	100 per cent metering of all distribution feeders.	September 2001.	Completed by December 2002.
4.	100 per cent metering of all consumers.	Before 2003-04. (Revised to 2004-05).	As against 40.82 lakh instalations, 9.58 lakh meters were installed.
5	Energy audit at 11 KV sub-station level.	September 2001.	Bangalore Electricity Supply Company Limited (BESCOM), has initiated measures to outsource energy audit of all 11 KV feeders. Other ESCOMS will also outsource energy audit of 11 KV feeders by end of June 2003.
6	Securitized outstanding due of CPSUs.	---	Government of Karnataka (GOK) has to issue bonds to securitise the principal amount and balance 40 per cent interest amount. RBI on behalf of GOK will issue bonds.
7	State Electricity Regulatory Commission (SERC)		
	i) Establishment of Karnataka Electricity Regulatory Commission.	The State Electricity Regulatory Commission was to be made functional within six months.	The Karnataka State Electricity Regulatory Commission was established during August 1999.
	ii) Implementation of tariff orders issued by KERC during the year.	---	Implemented from time to time.
Commitment made by the Central Government			
8.	Supply of additional power.	The GOI agreed to supply additional 180 MW.	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.	

State Electricity Regulatory Commission

1.15 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 8(4) 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 2003.

Non-working PSUs

Investment in non-working PSUs

1.16 As on 31 March 2003, the total investment in 16 non-working Government companies was Rs.417.10 crore (equity: Rs.93.30 crore, long-term loans: Rs.323.20 crore and share application money: Rs.0.60 crore) as against total investment of Rs.64.06 crore (equity: Rs.38.72 crore, long-term loans: Rs.24.63 crore and share application money: Rs.0.71 crore) in 13 non-working Government companies as on 31 March 2002. The main reason for increase in investment in non-working companies during 2002-03 is that four companies (Sl.No. C-3, 4, 6 and 10 of Annexe-1) with total investment of Rs.339.91 crore, which were in the category of working companies during the previous years, became non-working during the year.

All the 16 companies have been identified for closure, however decision of Government is awaited in respect of one company*. Effective steps need to be taken for their expeditious liquidation or revival.

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

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

The State Government provided budgetary support of Rs.162.59 crore to seven non-working companies in the form of loans and subsidy during 2002-03. The guarantee commission payable to the Government by non-working Government companies during 2002-03 was Rs.3.72 crore. Two non-working Government companies defaulted in payment of interest on Government loan amounting to Rs.3.54 crore.

* The Mysore Tobacco Company Limited.

Total establishment expenditure of non-working PSUs

1.18 The year wise details of total establishment expenditure of non-working Government companies and the sources of financing them during last three years up to 2002-03 are given below:

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by		
			Loans from private parties	Government by way of loans	Others [@]
2000-2001	13	7.25	-	5.42	1.83
2001-2002	13	2.73	-	0.08	2.65
2002-2003	16	146.27	0.62	116.17	29.48

Finalisation of accounts by non-working PSUs

1.19 The accounts of 11 non-working companies were in arrears for periods ranging from one to four years as on 30 September 2003 as could be noticed from Annexe 2.

Financial position and working results of non-working PSUs

1.20 The summarised financial results of non-working Government companies as per latest finalised accounts are given in Annexe 2.

The year wise details of paid-up capital, net worth, cash loss and accumulated loss/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	Accumulated loss(-) / accumulated profit (+)
1998-99	1	0.50	(-) 8.41	0.87	(-) 8.91
2000-01	1	1.71	(+) 5.43	0.10	(+) 3.72
2001-02	9	19.13	(-) 171.98	29.97	(-) 191.10
2002-03	5	72.51	(-) 217.69	155.75	(-) 446.34
Total	16	93.85	(-) 392.65	186.69	(-) 642.63

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

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

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

1.21 The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by 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	Reason for delay in placement in Legislature
1	KSRTC	2000-01	2001-02	8 May 2003	Delay in furnishing printed Accounts
2	NWKRTC	2000-01	2001-02	2 May 2003	Delay in furnishing printed Accounts

Disinvestment, privatisation and restructuring* of Public Sector Undertakings

1.22 The Government of Karnataka has approved and adopted (February 2001) a comprehensive policy on Public Sector Reforms and privatisation of Public Sector Undertakings (PSUs) in the State. Accordingly, the Government identified 27 PSUs for closure/privatisation. The position of action taken by the Government in respect of the 27 companies identified for closure/privatisation is as follows:

	No. of companies	Government order issued	Government order not yet issued
Non-working Government companies decided for closure	15	13 ¹	2 ²
Working Government companies decided for closure	4	1 ³	3 ⁴
Working Government companies decided for privatisation	8	4 ⁵	4 ⁶

* Restructuring includes merger and closure of PSUs.

¹ Karnataka State Textiles Limited, Karnataka Agro Proteins Limited, Chamundi Machine Tools Limited, Karnataka Small Industries Marketing Corporation Limited, Vijayanagar Steel Limited, Karnataka Telecom Limited, Karnataka Tungsten Moly Limited, The Mysore Acetate and Chemicals Company Limited, The Mysore Cosmetics Limited, The Mysore Chrome Tanning Company Limited, The Mysore Lamp Works Limited, The Mysore Match Company Limited, NGEF Limited.

² The Karnatak State Veeners Limited, Karnataka Pulpwood Limited

³ Karnataka Agro Industries Corporation Limited.

⁴ Karnataka State Construction Corporation Limited, The Karnataka Fisheries Development Corporation Limited, Karnataka Film Industry Development Corporation Limited.

⁵ Karnataka Silk Industries Corporation Limited, Karnataka Soaps and Detergents Limited, The Mysore Electrical Industries Limited, Karnataka Vidyuth Karkhane Limited.

⁶ The Mysore Sugar Company Limited, The Mysore Paper Mills Limited, Sree Kanteerava Studios Limited, Mysore Minerals Limited.

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

1.23 During October 2002 to September 2003, the audit of accounts of 59 Government companies (46 working and 13 non-working) and six Statutory corporations (all working) were selected for review. As a result of the observations made by the CAG, 34 companies and three corporations revised their accounts. In addition, the net impact of the important audit observations as a result of review of the accounts of PSUs was as follows:

- Karnataka State Road Transport Corporation (2001-02) – profit of Rs.16.52 crore was overstated by Rs.11.00 crore.
- North West Karnataka Road Transport Corporation (2001-02) –profit of Rs.11.72 crore was overstated by Rs.3.79 crore.

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

Errors and omissions noticed in case of Statutory corporations

1.24 Karnataka State Road Transport Corporation (2001-02)

- Irregularities and fraudulent refund of fixed deposits from public as a result of which the correctness of the balance under this account is doubtful.
- Improper and poor maintenance of records and primary books of accounts leading to defalcation/excess payments.
- Amount receivable from other corporations in the State towards window collection tickets issued remaining un-adjusted since 1998-99 –the correctness and reliability of which is doubtful- Rs.2.85 crore.
- Cash drawn for disbursement of salary at Bangalore central division remaining un-adjusted, indicating system failure and lack of financial control-Rs.2.51 crore.
- Non-provision of interest on loan from Government of Karnataka-Rs.1.99 crore.
- Non-provision of liability for Motor Vehicle Accident Claim Tribunal claims awarded upto 31 March 2002- Rs.1.41 crore.

Internal audit / internal control

1.25 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 by the Comptroller and Auditor General of India to them under 619 (3)(a) of the Companies Act, 1956 and to identify areas which need improvement.

Direction/ sub-directions under the Act, *ibid*, were issued to the Statutory Auditors in respect of 61 Government companies involving 61 accounts between October 2002 and September 2003. In pursuance of directions so issued, reports of the Statutory Auditors involving 47 accounts of 47 Government companies were received (September 2003).

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 Annexe 2
Lack of internal audit	2	A-7, 53
Inadequate internal audit according to size and nature of business	8	A-6,11,23, 25, 35,36,38,40
Lack of proper system of internal audit	14	A-1,5,9,10, 17,18,26,27,28 34,37,41,46, 58
Non-covering of journal vouchers, monitoring of outstanding balances and confirmation of balances	1	A-55
Surprise checks are required to be made of production and inventory records	1	A-2
Scope needs to be strengthened for identification and classification of non-performing assets, compliance to Reserve Bank of India and Industrial Development Bank of India's guidelines	1	A-52

Recommendations for closure of PSUs

1.26 Even after completion of five years of their existence, the turnover of two[^] Government companies was less than rupees five crore in each of the preceding five years of latest finalised accounts. In view of poor turnover, the Government may either improve performance of these companies or consider their closure.

Response to inspection reports, drafts paras and reviews

1.27 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 2003 pertaining to 73 PSUs disclosed that 4,018 paragraphs relating to 806 inspection reports remained outstanding at the end of September 2003. Of these, 26 inspection reports containing 332 paragraphs were pending due to non-receipt of even first replies. Department-wise break-up of inspection

[^] Karnataka Meat and Poultry Marketing Corporation Limited, Karnataka State Coir Development Corporation Limited.

reports and audit observations outstanding as on 30 September 2003 is given in Annexe -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 22 draft paragraphs forwarded to the various departments during March to July 2003, as detailed in Annexe - 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 is taken within prescribed time, and (c) the system of responding to the audit observations is revamped.

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

1.28 The table below indicates the position of reviews/paragraphs appeared in the Audit Reports and pending for discussion as on 30 September 2003:

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	1
1997-98	8	27	2	4
1998-99	3	32	2	2
1999-2000	3	29	0	3
1999-2000*	1	0	1	-
2000-01	3	29	2	19
2001-02	3	29	3	29
Total	25	173	10	58

619 B Companies

1.29 There were three companies coming under Section 619B of the Companies Act, 1956. Annexe 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.

* Separate volume of Audit Report on the working of Karnataka Small Industries Marketing Corporation Limited.