OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2003, the State had 80 Public Sector Undertakings (PSUs) comprising 74 Government companies and six Statutory corporations as against 76 Public Sector Undertakings comprising 70 Government companies and six Statutory corporations as on 31 March 2002. Of 74 companies, sixteen Government companies were non-working. In addition, there were three deemed Government companies under Section 619 B of the Companies Act, 1956 as on 31 March 2003.

(Paragraphs 1.1 and 1.29)

The total investment in working PSUs increased from Rs.22,613.97 crore as on 31 March 2002 to Rs.26,545.13 crore as on 31 March 2003. The total investment in non-working PSUs increased from Rs.64.06 crore to Rs.417.10 crore during the same period.

(Paragraphs 1.2 and 1.16)

The budgetary support in the form of capital, loans, grants and subsidy disbursed to the working PSUs decreased from Rs.4,429.76 crore in 2001-02 to Rs.4,052.90 crore in 2002-03. The State Government also contributed Rs.162.59 crore in the form of loans and subsidy to seven non-working companies during 2002-03. The State Government guaranteed loans aggregating Rs.1,262.80 crore during 2002-03. The total amount of outstanding loans guaranteed by the State Government decreased from Rs.10,114.38 crore as on 31 March 2002 to Rs.6,887.23 crore as on 31 March 2003.

(Paragraphs 1.5 and 1.17)

Thirty two working Government companies have finalised their accounts for the year 2002-03. The accounts of remaining Government companies and six working Statutory corporations were in arrears for periods ranging from one to three years as on 30 September 2003. The accounts of 11 non-working Government companies were in arrears for periods ranging from one to four years as on 30 September 2003.

(Paragraphs 1.6 and 1.19)

According to latest finalised accounts, 33 working PSUs (29 Government companies and four Statutory corporations) earned aggregate profit of Rs.440.72 crore. Out of 32 working Government companies, which finalised their accounts for 2002-03 by September 2003, only six companies declared dividend aggregating Rs.15.58 crore. Twenty working PSUs (18 Government companies and two Statutory corporations) incurred aggregate loss of Rs.329.73 crore as per their latest finalised accounts. Of the loss incurring PSUs, seven companies and two statutory corporations had accumulated losses aggregating Rs.520.35 crore and Rs.591.91 crore which exceeded their aggregate paid up capital of Rs.309.14 crore and Rs.217.36 crore respectively.

(Paragraphs 1.7,1.8, 1.9, 1.10 and 1.11)

Even after completion of five years of their existence, the turnover of two working Government companies has been less than rupees five crore during the last five years as per their latest finalised accounts. In view of poor turnover, the Government may either improve performance of these companies or consider their closure.

(Paragraph 1.26)

2. Reviews relating to Government companies

2.1 Working of The Karnataka Handloom Development Corporation Limited

The Company was incorporated in October 1975 for promoting growth and development of the handloom industry particularly outside the co-operative sector and also to provide continuous remunerative employment to the handloom weavers. The Company had failed in its objective of providing continuous remunerative employment to weavers as of 48,210 weavers registered with the Company, only 11,801 weavers were working with it at the end of 2002-03.

Audit observed mismanagement in various aspects of working of the Company, which includes reduction in production resulting in increase in overheads and consequent increase in cost per unit. Retail sales prices were non-competitive. Large discounts offered for disposal of stocks led to non-recovery of even cost of sales. Supplies of fabrics under Vidya Vikasa Scheme and Subsidised Saree-Dhoti Scheme were made at un-remunerative prices leading to further losses. There was excessive dependence on a single client, namely, the Government. Retail show rooms, which catered to other clientele, showed poor performance. Some of the important points noticed in audit are given below:

- The accumulated loss of Rs.43.82 crore totally eroded the paid-up capital of Rs.15.72 crore as at the end of March 2003.

(Paragraph 2.1.6)

- The Company's turnover mainly constituted sale under two schemes of the State Government indicating excessive dependence on the Government.

(Paragraph 2.1.20)

- Supply of uniform clothes under Vidya Vikasa Scheme below the cost of production resulted in non-recovery of cost of production of

Rs.12.70 crore and delay in release of sale proceeds resulted in additional interest burden of Rs.3.45 crore.

(Paragraph 2.1.15)

- The Company has established pre-loom and post-loom processing facilities, which were grossly under-utilised during the last five years upto 2002-03. However, due to poor production planning the Company had to resort to outsourcing of post-loom processing during the same period. The Company could have avoided the processing charges paid during 2000-03 on outsourcing to the extent of Rs.7.69 crore if the job was done in-house through proper production planning.

(Paragraphs 2.1.13 and 2.1.14)

- All the 62 show rooms were under loss during 2002-03 and none of the showrooms could even recover cost of production.

(Paragraph 2.1.22)

2.2 Sectoral review on the Implementation of Sharavathy Tailrace Project, Gerusoppa of Karnataka Power Corporation Limited

The Gerusoppa dam is the last in the series of dams built across the river Sharavathy. The dam has four generating units each of 60 mega watt (MW) totalling to 240 MW. The estimated cost of the project was Rs.145.42 crore. The annual energy generation was expected to be 622 million unit (MU).

The project exhibited huge time and cost overrun with its consequent impact on the cost of generation. Compliance of the recommendations of COPU relating to fiscal prudence, operational efficiency and timely completion of the project was not ensured. Changes in terms and conditions of the contract were against the financial interest of the Company. The project has not been able to achieve the target of its generation. Some of the important points noticed in audit are given below:

- As against the targeted period of five years, the Company took more than 12 years to complete the project. Out of this, more than two years were lost due to environmental problems, which were beyond the control of the Company. However, even after receipt of fresh environmental clearances (September 1993), the Company took more than eight years to complete the project.

(Paragraph 2.2.8)

- The Company enhanced the multiplying factor from 0.75 to 0.85 for calculation of escalation in the supplementary agreements. This resulted in undue benefit of Rs.2.06 crore to the contractors.

(Paragraphs 2.2.12 and 2.2.15)

- Premature closure of work by diverting the work to gate contractor resulted in undue benefit of Rs.2.60 crore to dam contractor. Adoption of wrong date of commencement of work also resulted in payment of end point bonus of Rs.8.35 crore instead of recovering penalty of Rs.3.89 crore.

(Paragraph 2.2.14)

- The decision to pay incentive of Rs.17.60 lakh instead of recovering penalty of Rs.5.20 crore for delay in completion of work was not justified.

(Paragraph 2.2.16)

- Failure to synchronise unit–I resulted in loss of revenue of Rs.24.18 crore.

(Paragraph 2.2.20)

2.3 Sectoral review on the Procurement, Performance and Repair of Energy Meters in Karnataka Power Transmission Corporation Limited

In order to assess the quantum of energy sold, the Company is required to install and maintain correct energy meters on each point of supply of energy to consumers for measuring the energy sold as per Section 26(2) of the Indian Electricity Act, 1910. At the end of March 2002, the Karnataka Power Transmission Corporation Limited (KPTCL) was having 84.14 lakh metered consumers and 40.82 lakh un-metered consumers. The un-metered consumers constituted 32.66 per cent of total consumers.

As per progress achieved till date, the Company is not likely to achieve target committed by it to the Government upto 2004. The Company had not rationalised the purchase system. Extension orders were placed at higher rates when prices were falling. The meters that failed within the guarantee period were not replaced. Some of the important points noticed in audit are given below:

- The Company submitted (March 2001) an action plan for 100 per cent metering of all un-metered installations by 2003-04. As against 40.82 lakh un-metered installations, the Company proposed to cover only 37.82 lakh installations by target date.

(Paragraph 2.3.8)

- The Company incurred avoidable extra expenditure of Rs.21.41 crore on the purchase of 7.8 lakh meters by placing extension orders at higher rates.

(Paragraph 2.3.12)

- The decision to install costly meters for Bhagya Jyothi / Kutir Jyothi installations would result in extra expenditure of Rs.63.62 crore.

(Paragraph 2.3.14)

- Test check of seven divisions revealed that 10,664 meters valued rupees one crore, failed within guarantee period, were lying in stores/section offices. Besides, 5,882 meters costing Rs.67.98 lakh were scrapped even though the meters were within the guarantee period

(Paragraphs 2.3.19 and 2.3.21)

3. Miscellaneous topics of interest

Besides the reviews, test check of the records of Government companies and Statutory corporations in general revealed number of irregularities, some of which are given below:

Short drawal of cheaper power from central generating stations by **Karnataka Power Transmission Corporation Limited** resulted in avoidable payment of Rs.6.90 crore due to purchase of power at higher rates from Maharashtra State Electricity Board and Private power producers.

(Paragraph 3.1)

Karnataka Power Transmission Corporation Limited failed to adhere to recommendations of Rural Electrification Corporation to use pre-stressed cement concrete poles resulting in extra expenditure of Rs.1.69 crore.

(Paragraph 3.2)

Non-adoption of the current rate for cement, payment of extra lead charges on cement and non-utilisation of available excavated hard rock in works by **Karnataka Neeravari Nigam Limited** resulted in avoidable payment of Rs.5.97 crore

(Paragraph 3.6)

Non-recovery of the cost of excavated rubble used in the works by **Karnataka Neeravari Nigam Limited** resulted in over payment of Rs.83.98 lakh to the contractor.

(Paragraph 3.7)

Fictitious measurements recorded by the officials of **Karnataka Neeravari Nigam Limited** facilitated payment of Rs.71 lakh for the work not executed by the contractor.

(Paragraph 3.10)

Non-compliance to internal control procedures by **Karnataka Power Corporation Limited** resulted in theft of coils worth Rs.1.10 crore.

(Paragraph 3.15)

Inadequate internal control in **Karnataka State Road Transport Corporation** led to misappropriation of Rs.83.91 lakh at Bangalore central division.

(Paragraph 3.23)

Bangalore Metropolitan Transport Corporation paid penalty of Rs.2.55 crore due to non-compliance of the orders of Commercial Tax Authorities.

(Paragraph 3.25)