

# **Chapter - I**

## **Overview of PSUs**

## Chapter - I

### 1. Overview of State Public Sector Undertakings

#### Introduction

**1.1** The State Public Sector Undertakings (PSUs) have an important place in the economy in Karnataka. Government of Karnataka (GoK) undertakes commercial activities through these PSUs, which are owned, managed and controlled by the State Government. They are basically categorized into Statutory Corporations and Government companies. Statutory Corporations are public enterprises that have come into existence by Special Acts of the Legislature. The Acts define the powers and functions, rules and regulations governing the employees and the relationship of the Corporation with the Government. Government companies refer to companies in which not less than 51 *per cent* of the paid up capital is held by Government(s). It also includes a subsidiary of a Company. Further, a Company in which not less than 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and corporations controlled by Government is treated as if it is a Government company (deemed Government company).

**1.2** The PSUs (Government companies and Statutory Corporations) operate mainly in three major sectors of the economy *viz.*, Infrastructure, Power and Finance. The State PSUs were able to provide employment to about 1.93 lakh persons till 31 March 2014. Sector-wise summary of the investment in the PSUs is given below:

**Table 1.1 : Sector-wise summary of the investment in the PSUs**

Name of sector	Government companies <sup>1</sup>		Statutory corporations	Total	Investment <sup>2</sup> (₹ in crore)
	Working	Non-working <sup>3</sup>			
Agriculture and allied	12	5	1	18	448.23
Financing	14	-	1	15	4,862.42
Infrastructure	12	-	-	12	36,398.10
Manufacturing	21	9	-	30	1,474.39
Power	11	-	-	11	29,468.78
Service	3	-	4	7	2,399.44
Miscellaneous	2	-	-	2	0.10
<b>Total</b>	<b>75</b>	<b>14</b>	<b>6</b>	<b>95</b>	<b>75,051.46</b>

<sup>1</sup> Includes 619-B companies.

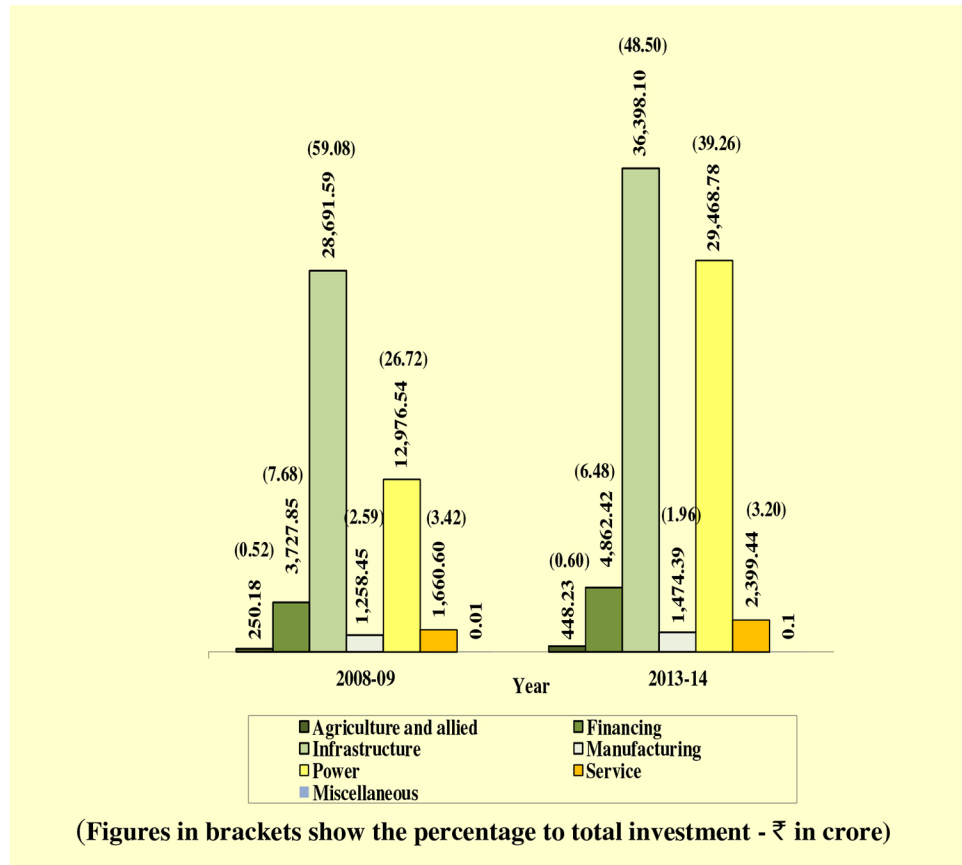
<sup>2</sup> Investment includes capital and long-term loans.

<sup>3</sup> Non-working PSUs are those which have ceased to carry on their operations.

As on 31 March 2014, there were 95 PSUs, of which 81 were working and 14 were non-working. Of these, two Companies<sup>4</sup> were listed in the stock exchange(s). During the year 2013-14, two new PSUs (Karnataka Vishwakarma Community Development Corporation Limited and Bangalore Suburban Rail Company Limited) were established. One company (Karnataka EMTA Collieries Limited) filed (March 2014) an application before the Ministry of Corporate Affairs for striking off the name of the company from the register with the Registrar of Companies.

**1.3** The investment in various important sectors and percentage thereof at the end of 31 March 2009 and 31 March 2014 are indicated below in the bar chart. Out of total investments, the investment in power sector has seen its percentage share rising from 26.72 in 2008-09 to 39.26 in 2013-14.

**Chart 1.1: Investment in various sectors**



**Accountability framework**

**1.4** The accounts of the Government companies/Statutory Corporations for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.* by 30 September.

<sup>4</sup> The Mysore Paper Mills Limited and Mysore Paints and Varnish Limited.

### ***Statutory Audit***

**1.5** The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per the provisions of Section 619 of the Companies Act, 1956.

**1.6** The audit of Statutory Corporations follows different pattern as provided by their respective legislations.

- Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Western Karnataka Road Transport Corporation and North Eastern Karnataka Road Transport Corporation are Statutory Corporations in which the CAG is the sole auditor.
- As per the State Financial Corporations (Amendment) Act, 2000, the CAG has the right to conduct the audit of accounts of Karnataka State Financial Corporation in addition to the audit conducted by the Chartered Accountants appointed by the Corporation out of the panel of Auditors approved by the Reserve Bank of India.
- In respect of Karnataka State Warehousing Corporation, the CAG has the right to conduct the audit of their accounts in addition to the audit conducted by the Chartered Accountants, appointed by the State Government in consultation with the CAG.

### ***Role of Legislature and Government***

**1.7** The State Government exercises control over the affairs of these PSUs through its administrative departments concerned. The Chief Executive and Directors to the Boards are appointed by the Government. The accounts of these PSUs are also subjected to scrutiny by the State Government.

**1.8** The State Legislature also monitors the accounting and utilisation of Government investments in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Report and Comments of the CAG in respect of State Government companies and Separate Audit Report in case of Statutory Corporations are placed before the legislature as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's (Duties, Power and Conditions of Service) Act, 1971.

**Stake of Government of Karnataka**

**1.9** The financial stake of GoK in the PSUs is mainly of three types:

- Share capital and loans – In addition to the share capital contribution, GoK also provides financial assistance by way of loans to the PSUs from time to time.
- Special financial support – GoK provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- Guarantees – GoK also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

**1.10** As on 31 March 2014, the investment (capital and long-term loans) in 95 PSUs (including 619-B companies) was ₹ 75,051.46 crore as per details given below:

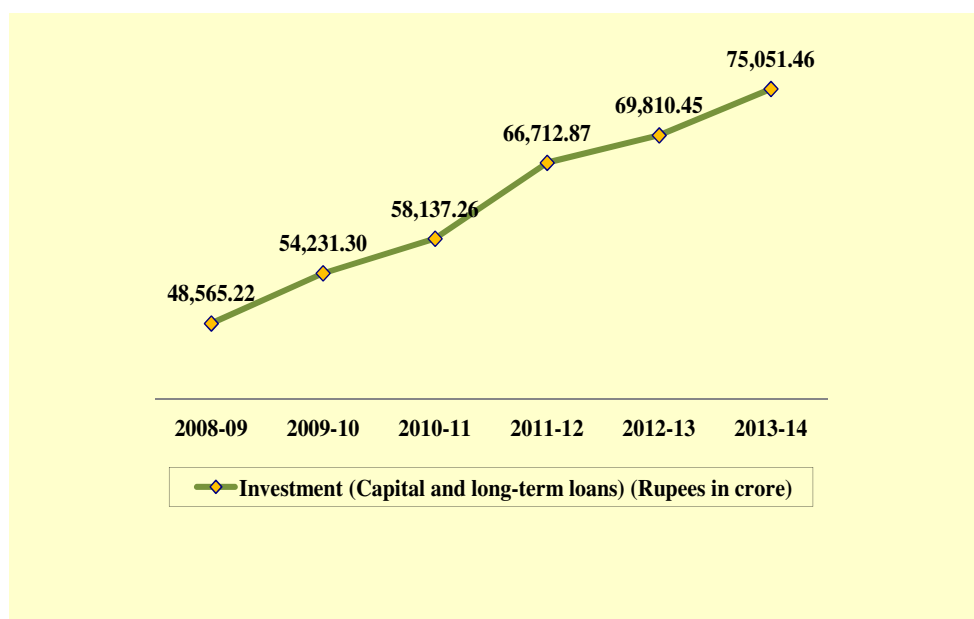
**Table 1.2: Investment (capital and long-term loans) in PSUs**

(₹ in crore)

Type	Government Companies			Statutory Corporations			Grand total
	Capital	Long term loans	Total	Capital	Long term loans	Total	
Working PSUs	44,589.05	24,290.96	68,880.01	1,867.06	3,703.83	5,570.89	<b>74,450.90</b>
Non-working PSUs	161.35	439.21	600.56	-	-	-	<b>600.56</b>
<b>Total</b>	<b>44,750.40</b>	<b>24,730.17</b>	<b>69,480.57</b>	<b>1,867.06</b>	<b>3,703.83</b>	<b>5,570.89</b>	<b>75,051.46</b>

A summarised position of Government investment in PSUs is detailed in **Annexure 1**.

**1.11** As on 31 March 2014, of the total investment in PSUs, 99.20 per cent was in working PSUs and the remaining 0.80 per cent in non-working PSUs. The total investment consisted of 62.11 per cent towards capital and 37.89 per cent in long-term loans. The investment has grown by 54.53 per cent from ₹ 48,565.22 crore in 2008-09 to ₹ 75,051.46 crore in 2013-14 as shown in the graph below:

**Chart 1.2: Investment in PSUs during last six years**

**1.12** The capital investment as well as long-term loans increased by ₹ 22,139.79 crore and ₹ 4,346.45 crore respectively during 2008-2014. There was overall net increase in investment by ₹ 26,486.24 crore during the period.

**1.13** As per the latest finalised accounts of the State PSUs, the capital investment was ₹ 42,268.70 crore and the accumulated profits there against were ₹ 1,894.94 crore.

### Budgetary support to PSUs

**1.14** The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of PSUs are given in **Annexure 2**. The summarised details are given below for three years ended 2013-14.

**Table 1.3: Details regarding budgetary support to PSUs** (₹ in crore)

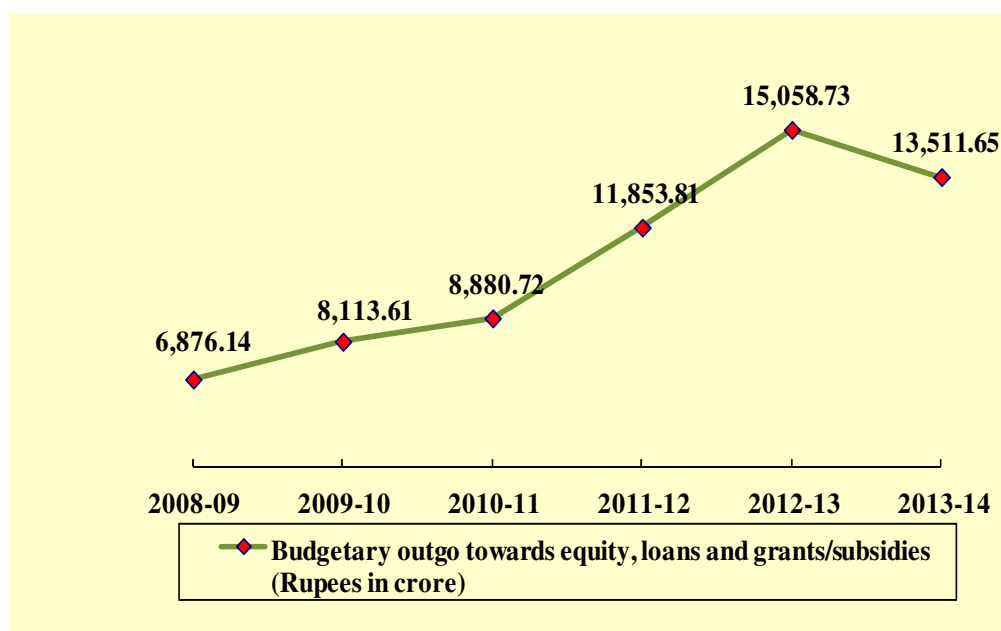
Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	19	4,442.57	23	4,660.59	21	4,078.15
2	Loans given from budget	2	46.60	3	11.08	3	67.55
3	Grants/Subsidy received	34	7,364.64	36	10,387.06	32	9,365.95
4	<b>Total outgo (Sl.No.1+Sl.No.2+Sl.No.3)<sup>5</sup></b>	<b>42</b>	<b>11,853.81</b>	<b>51</b>	<b>15,058.73</b>	<b>42</b>	<b>13,511.65</b>
5	Guarantee commission converted into equity	7	148.27	1	101.50	-	-
6	Loans written off	-	-	-	-	-	-

<sup>5</sup> Indicates actual number of PSUs.

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
7	Guarantee commission written off	-	-	1	2.19	-	-
8	Guarantees issued	7	920.72	7	557.19	12	1,775.65
9	Guarantee commitment	19	3,353.86	20	3,500.88	21	4,542.73

**1.15** The details regarding budgetary outgo towards equity, loans and grants/ subsidies for the past six years are given in the graph below:

**Chart 1.3: Budgetary outgo towards equity, loans, grants and subsidies**



The budgetary support in respect of equity, loans and grants/subsidies increased from ₹ 6,876.14 crore in 2008-09 to ₹ 15,058.73 in 2012-13 and decreased to ₹ 13,511.65 crore in 2013-14.

#### **Guarantees for loan and guarantee commission outstanding**

**1.16** As per Section 5(1) of the Karnataka Ceiling on Government Guarantees Act, 1999 (as amended by Act 15 of 2002), with effect from April 2001, the Government would charge a minimum of one *per cent* as guarantee commission which shall not be waived under any circumstances. During the year 2013-14, the PSUs paid guarantee commission of ₹ 27.20 crore. The guarantee commission remaining outstanding to be paid to the Government by all PSUs was ₹ 79.78 crore. The PSUs which had major arrears were, Rajiv Gandhi Rural Housing Corporation Limited (₹ 40.76 crore) and Karnataka Neeravari Nigam Limited (₹ 20.29 crore).

#### **Absence of accurate figures of the investments in PSUs**

**1.17** The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs should agree with that of the figures appearing in

the Finance Accounts of the State. In case, the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2014 is stated below:

**Table 1.4: Equity, loans and guarantees outstanding as per records of Finance Accounts and PSUs**

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1	2	3	4 = 2-3
Equity	49,070.50	44,503.50	4,567.00
Loans	1,647.85	1,463.94	183.91
Guarantees	5,023.75	4,542.73 <sup>6</sup>	481.02

**1.18** We observed that the differences occurred in respect of 81 PSUs. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

#### Arrears in finalisation of accounts

**1.19** The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of the Statutory Corporations, the accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2014.

**Table 1.5: Position relating to finalization of accounts of working PSUs**

Sl.No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1	Number of working PSUs & Statutory Corporations	75	75	76	79	81
2	Number of accounts finalised during the year	73	69	59	81	73
3	Number of accounts in arrears	20	25	42	40	48
4	Average arrears <i>per</i> PSU (3/1)	0.27	0.33	0.55	0.51	0.56
5	Number of working PSUs with arrears in accounts	20	24	37	36	41
6	Extent of arrears	1 year	1 to 2 years	1 to 2 years	1 to 2 years	1 to 3 years

**1.20** The number of working PSUs with arrears in accounts increased from 20 as at the end of September 2010 to 41 as at the end of September 2014 indicating poor performance in finalization<sup>7</sup> of accounts.

<sup>6</sup> Does not include the guarantees given to Karnataka Minorities Development Corporation Limited and The Mysore Sugar Company Limited.

<sup>7</sup> Between October and November 2014, 15 PSUs finalized their 15 accounts. Thirty three accounts of 28 working PSUs were still pending finalization as of November 2014.



**1.21** In respect of arrears in finalization of accounts by non-working PSUs, out of 14 non-working PSUs, liquidation process was underway in seven PSUs<sup>8</sup>. These accounts are in arrears for periods ranging from seven to eleven years. These Companies are also required to finalise their accounts for the broken period under Section 446A of the Companies Act, 1956. Out of the remaining seven PSUs, six had finalised their accounts for 2013-14 by September 2014<sup>9</sup> and in case of one PSU, finalization of accounts was due for 2013-14.

**1.22** The State Government had invested ₹ 10,601.48 crore (equity: ₹ 3,350.50 crore, grants: ₹ 2,445.87 crore and subsidy: ₹ 4,805.11 crore) in 41 PSUs during the years for which accounts had not been finalised as at the end of 30 September 2014 as detailed in **Annexure 3**.

### **Impact of non-finalisation of accounts**

**1.23** Non-finalisation of accounts by 30 September is a violation of the provisions of the Companies Act, 1956.

**1.24** In the absence of accounts and their audit, there is no assurance that the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature.

**1.25** Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956. In view of the above state of arrears, the actual contribution of PSUs to the State Gross Domestic Product (GDP) for the year 2013-14 could not be ascertained. However, as per the latest finalized accounts the contribution of PSUs to State GDP was 7.46 per cent.

**1.26** The Administrative departments have the responsibility to oversee the activities of these entities. Government must ensure finalisation and adoption of the accounts by these PSUs within the prescribed period.

### **Performance of PSUs**

#### ***Problems in assessing performance***

**1.27** The actual performance of the PSUs, in view of the backlog in finalisation of accounts, could not be ascertained.

**1.28** The financial results of PSUs, financial position and working results of working Statutory Corporations are detailed in **Annexure 4, 5 and 6** respectively. The ratios of PSU turnover to State GDP show the significant extent of PSU activities in the State economy. The table below provides the

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<sup>8</sup> The Mysore Acetate and Chemicals Company Limited, NGEF Limited, Karnataka Telecom Limited, The Mysore Cosmetics Limited, The Karnatak State Veeners Limited, Chamundi Machine Tools Limited and Karnataka State Textiles Limited.

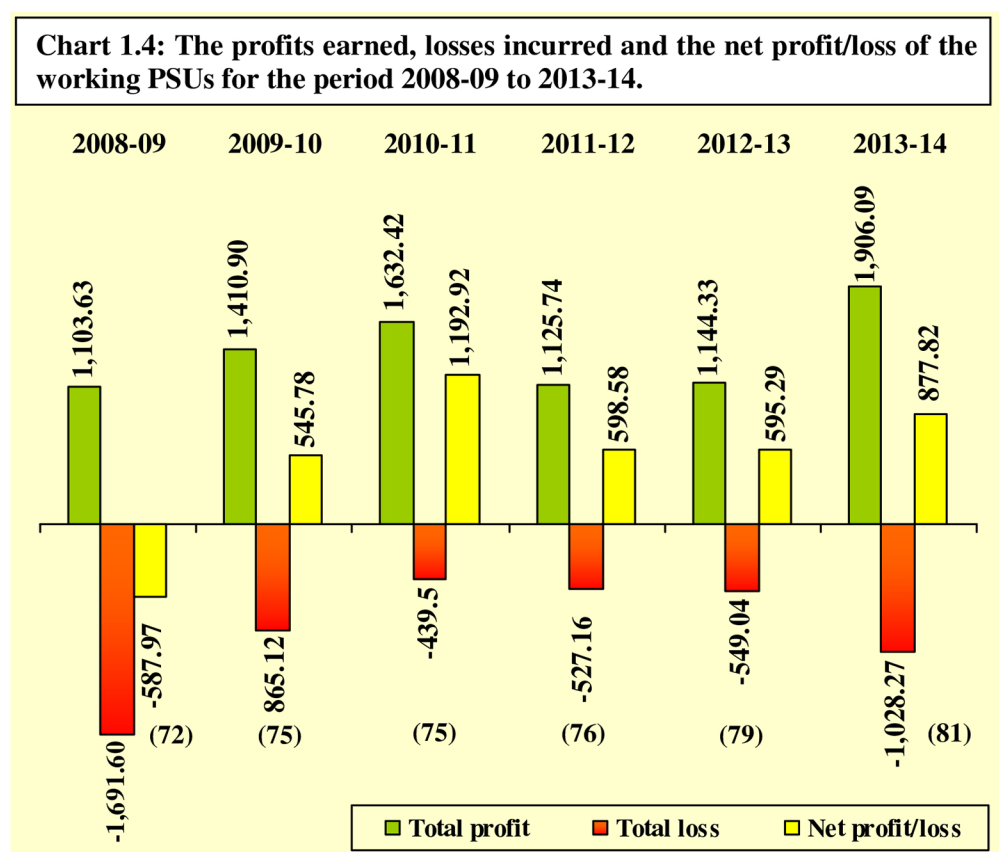
<sup>9</sup> One PSU viz., VSL finalised its accounts for 2013-14 in October 2014.

details of working PSUs' turnover *vis-a-vis* State GDP for the period 2009-10 to 2013-14.

**Table 1.6: Details of working PSUs' turnover *vis-a-vis* State GDP**

Particulars	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Turnover <sup>10</sup>	36,369.48	41,493.51	34,490.58	37,867.13	44,908.32
State GDP <sup>11</sup>	3,35,747.00	3,80,871.00	4,34,270.00	5,22,650.00	6,01,633.00
Percentage of turnover to State GDP	10.83	10.89	7.94	7.25	7.46

**1.29** Profit earned or loss incurred by working PSUs during 2008-09 to 2013-14 is given below in the bar chart.



(Figures in brackets show the number of working PSUs in respective years) (₹ in crore)

**1.30** As per their latest finalised accounts, out of 81 working PSUs, 47 PSUs earned profit of ₹ 1,906.09 crore and 24 PSUs incurred loss of ₹ 1,028.27 crore. Karnataka Vishwakarma Community Development

<sup>10</sup> Turnover as per the latest finalised accounts.

<sup>11</sup> SGDP figures are as per Medium Term Fiscal Plan and figures of the State Government for 2011-12 are Quick Estimates, 2012-13 are Advance Estimates and 2013-14 are projected estimates.

Corporation Limited and Bangalore Suburban Rail Company Limited incorporated in February 2014 and March 2014 respectively have not finalized their first accounts. Five companies<sup>12</sup> did not prepare profit and loss account and had only pre-operative expenditure. One Company (Rajiv Gandhi Rural Housing Corporation Limited) prepared income and expenditure account and capitalized the excess of expenditure over income. Another Company (Karnataka Vocational Training and Skill Development Corporation Limited) prepared statement of income and expenditure. One Company (Karnataka Urban Infrastructure Development and Finance Corporation Limited) recorded zero profit by claiming management fee equal to the net administrative expenses incurred.

The major contributors to profit were Bangalore Electricity Supply Company Limited (₹ 432.77 crore) and Mysore Minerals Limited (₹ 313.35 crore). Huge losses were incurred by Chamundeshwari Electricity Supply Corporation Limited (₹ 268.35 crore), Gulbarga Electricity Supply Company Limited (₹ 194.56 crore) and Karnataka Neeravari Nigam Limited (₹ 172.54 crore).

### ***Reasons for the losses***

**1.31** The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, their operations and monitoring. Cases discussed in the subsequent Chapters of this Report show that there were controllable losses to the extent of ₹ 957.39 crore and infructuous investment of ₹ 86.65 crore. The losses could have been minimized or profits enhanced substantially with better management. Year-wise details from Audit Reports, for the last three years are given below:

**Table 1.7: Controllable losses and infructuous investment commented in Audit Reports**

Particulars	(₹ in crore)			
	2011-12	2012-13	2013-14	Total
Net Profit / Loss(-)	407.87	413.72	693.52	1,515.11
Controllable losses as per the CAG's Audit Report	1,890.63	1,075.66	957.39	3,923.68
Infructuous investment	112.95	524.48	86.65	724.08

**1.32** The above losses pointed out in Audit Reports of the CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

<sup>12</sup> Cauvery Neeravari Nigama Limited, Raichur Power Corporation Limited, Karnataka State Mango Development and Marketing Corporation Limited, Tadadi Port Limited and Karnataka State Coal Mining Company Limited.

**Capital employed, Debt, turnover and dividend**

**1.33** Some other key parameters pertaining to the PSUs are given below:

**Table 1.8: Key parameters pertaining to PSUs**

	(₹ in crore)					
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Return on capital employed (per cent)	1.88	3.47	4.40	4.22	4.77	5.46
Debt	24,087.55	24,704.05	25,364.38	29,197.31	27,434.29	28,434.00
Turnover <sup>13</sup>	32,627.68	36,369.48	41,493.51	34,490.58	37,867.13	44,908.32
Debt-Turnover ratio	0.74:1	0.68:1	0.61:1	0.85:1	0.72:1	0.63:1
Interest payments	1,556.95	1,901.19	2,269.00	2,555.79	2,557.69	3,038.67
Accumulated profits / losses (-)	(-) 39.93	(-) 197.93	1,007.36	1,368.93	1,388.01	1,894.94

(Above figures pertain to all PSUs except for turnover, which is for working PSUs).

**1.34** There was increase in turnover as compared to the previous year, contributed mainly by improvement in turnover of the Power Sector Companies, Transport Corporations, Karnataka Food and Civil Supplies Corporation Limited, Mysore Sales International Limited, Mysore Minerals Limited and Karnataka Rural Infrastructure Development Limited.

**1.35** The State Government had issued (May 2003) guidelines according to which Government nominees on the Boards of Public Enterprises or Joint Ventures, where the State Government had equity holding, should insist on the declaration of minimum dividend of 20 per cent on share holding. As per their latest finalised accounts, 50 PSUs<sup>14</sup> earned an aggregate profit of ₹ 1,906.57 crore. But, only 19 PSUs declared dividend, which amounted to ₹ 65.84 crore.

<b>Non-working PSUs</b>
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**1.36** There were 14 non-working PSUs (all Companies) as on 31 March 2014. Of these, seven PSUs have commenced liquidation process. The numbers of non-working companies at the end of each year for the past five years are given below:

<sup>13</sup> Turnover of working PSUs as per the latest finalised accounts as of 30 September 2014.

<sup>14</sup> Including non-working Government companies.

**Table 1.9: Number of non-working companies**

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
No. of non-working companies	15	14	14	14	14

During 2013-14, seven non-working PSUs<sup>15</sup> incurred an expenditure of ₹ 1.35 crore towards establishment costs. This expenditure was met through rent, interest and other sources by these PSUs.

**1.37** The stages of closure in respect of non-working PSUs are given below:

**Table 1.10: Stages of closure of non-working PSUs**

Sl. No.	Particulars	No of Companies
1	Total number of non-working PSUs	14
2	Of (1) above, the number under	
(a)	Liquidation by Court (liquidator appointed)	7
(b)	Voluntary winding up (liquidator appointed)	-
(c)	Closure <i>i.e.</i> , closing orders/ instructions issued but liquidation process not yet started.	7

**1.38** The companies which have taken the route of winding up by Court order are under liquidation process for the last five to ten years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted / pursued vigorously. The Government may take a decision regarding winding up of the seven non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working.

#### **Comments on Accounts and Internal Audit**

**1.39** Sixty one working companies forwarded their 67 audited accounts to the Principal Accountant General (PAG) between 1 October 2013 and 30 September 2014. Of these, 43 accounts of 40 companies were selected for supplementary audit. Remaining 24 accounts were issued Non-review certificates. The audit reports of Statutory Auditors appointed by the CAG and the supplementary audits of the CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and the CAG are given below:

<sup>15</sup> Karnataka Agro Industries Corporation Limited (₹ 0.15 crore), The Mysore Tobacco Company Limited (₹ 0.29 crore), Karnataka Pulpwood Limited (₹ 0.01 crore), The Mysore Match Company Limited (₹ 0.01 crore), The Mysore Lamps Works Limited (₹ 0.87 crore), Vijayanagar Steel Limited (₹ 0.04 crore), The Mysore Chrome Tanning Company Limited (₹ 0.03 crore).

**Table 1.11: Details of aggregate money value of comments**

(₹ in crore)

Sl. No.	Impact of comments	2011-12		2012-13		2013-14	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	15	1,045.66	5	78.31	15	524.19
2	Increase in profit	2	2.86	5	3.33	6	11.72
3	Decrease in loss	1	1.56	10	1.97	3	37.19
4	Increase in loss	4	45.57	9	228.28	10	499.83

**1.40** During the year 2013-14, the Statutory Auditors had given unqualified reports on 24 accounts, qualified reports on 41 accounts, adverse reports (which means that accounts did not reflect a true and fair position) on one accounts and Disclaimer of Opinion on one accounts. The compliance of companies with the Accounting Standards remained poor as there were 117 instances of non-compliance in 34 companies during the year.

**1.41** Some of the important comments of the Statutory Auditors on the accounts of companies are stated below:

**Karnataka State Construction Corporation Limited (2011-12)**

- The accounts do not give the information required by the Companies Act 1956, in the manner so required and is not in conformity with the accounting principles generally accepted in India and do not give a true and fair view.

**Karnataka Sheep and Wool Development Corporation Limited (2012-13)**

- Considering the adverse comments on non-possession of title of land, non-reconciliation of advances/deposits/creditors/bank accounts, non-filing of Income tax returns upto 2006-07, we are unable to express an opinion on whether the accounts read with the schedules and notes thereon give the information required by the Companies Act, 1956, in the manner so required and whether they give a true and fair view in case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013 and in case of the statement of profit and loss of the Company, of the profit for the year ended on that date.

**Hubli Electricity Supply Company Limited (2012-13)**

- The Company generated assets are accounted through Capital Work-in-progress, which is valued at standard rate, which is not in accordance with Accounting Standard 10.

**Gulbarga Electricity Supply Company Limited (2012-13)**

- The cash balance stated in the books of the Company other than imprest cash, cash deposits from consumers, includes Cheques/DDs collected, Cash Suspense-advance/ salary and other allowance paid to employees but not regularised for the past several years and frauds pending enquiry which is not in compliance with Accounting Standard 3.

**Chamundeshwari Electricity Supply Corporation Limited (2012-13)**

- The difference in Consumer Security Deposit account of ₹ 32.91 crore had resulted in overstatement of interest to the extent of ₹ 1.97 crore and overstatement of liabilities and loss of the company to the extent of ₹ 32.91 crore.

**Karnataka State Industrial and Infrastructure Development Corporation Limited (2013-14)**

- Company has not recognized revenue during the year in respect of recovery of principal and interest against loan account in view of the borrowers contention that a writ petition was filed with the Hon'ble High court of Karnataka regarding eligibility for One Time Settlement scheme. As a result the profit of the Company was understated to the extent of ₹ 3.97 crore and liability was overstated to that extent.

**Karnataka State Forest Industries Corporation Limited (2013-14)**

- Provision and expenses for gratuity and leave encashment do not correspond to the actuarial valuation report, resulting in understatement of expenditure and loss by ₹ 3.48 crore and ₹ 1.08 crore respectively.

**Karnataka Rural Infrastructure Development Limited (2012-13)**

- The Company has not provided ex-gratia of ₹ 1.50 crore approved by the Board for the financial year 2009-10. This has resulted in overstatement of profit and understatement of provisions to this extent.

**1.42** 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 CAG of India to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of 13 Companies is given in **Annexure 7**.

### Finalisation of accounts by Statutory Corporations

**1.43** Separate Audit Reports (SARs) are audit reports of CAG on the accounts of Statutory Corporations. These reports are to be laid before the Legislature as per the provisions of the respective Acts.

Audit of the accounts of six Statutory Corporations for the year 2012-13 was completed during the year 2013-14. The SARs in respect of all Statutory Corporations for the period 2012-13 had been forwarded for placing before the State Legislature.

Four out of six Statutory Corporations forwarded (as at the end of September 2014) their accounts for the year 2013-14 to the Principal Accountant General. The audit of the accounts of all these Statutory Corporations was in progress (September 2014). Two Statutory Corporations (Karnataka State Warehousing Corporation and North Western Karnataka Road Transport Corporation) had not forwarded their accounts for 2013-14 till September 2014.

**1.44** The SARs on the accounts finalised indicated that the quality of maintenance of accounts needed improvement. The details of aggregate money value of comments of the CAG are given below:

**Table 1.12: Details of aggregate money value of comments on the accounts of Statutory Corporations**

(₹ in crore)

Sl. No.	Impact of comments	2011-12		2012-13		2013-14	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	-	-	4	35.39	2	12.03
2	Increase in profit	-	-	-	-	1	2.47
3	Decrease in loss	-	-	-	-	-	-
4	Increase in loss	1	10.90	2	21.37	3	27.15

**1.45** Some of the important comments on the accounts of the Statutory Corporations are stated below:

#### Bangalore Metropolitan Transport Corporation (2012-13)

- No provision had been made for penal interest of ₹ 0.52 crore payable to the Government of Karnataka in respect of ways and means loan of ₹ 0.72 crore (transferred to BMTC consequent upon restructuring and division of KSRTC during the year 1997), which was repayable in five equal installments commencing from March 1997. Government of Karnataka had rejected (March 2011) the request of the KSRTC for waiver of penal interest in respect of KSRTC and BMTC. Non-provision has resulted in understatement of



Current liability and provisions and understatement of loss for the year to the extent of ₹ 0.52 crore.

- Capital work in progress-Civil Works included an amount of ₹ 4.10 crore being the civil works completed during the year 2012-13. This has resulted in over statement of CWIP- Civil Work and understatement of fixed asset to the extent of ₹ 4.10 crore, understatement of depreciation by ₹ 0.07 crore, understatement of prior period expenditure of ₹ 0.02 crore and understatement of loss for the year to the extent of ₹ 0.09 crore.

### **Karnataka State Road Transport Corporation (2012-13)**

- Non provision of ₹ one crore being liability towards MVC cases (excluding interest) of Central office and ₹ 0.14 crore (including interest) relating to Mysore rural division where judgments have been received before 31 March 2013 and accepted by the Corporation resulted in understatement of liability; expenditure and consequential overstatement of profit to the extent of ₹ 1.14 crore.
- Non provision of ₹ 1.15 crore being the liability towards seven chassis received from Tata Motors and delivered to bus body builders (Veera Vahana Udyog Ltd) for bus body building in March 2013, resulted in understatement of liability and corresponding understatement of Capital work in progress by ₹ 1.15 crore.

### **Recoveries at the instance of Audit**

**1.46** During the course of compliance audit of PSUs in 2013-14, recoveries of ₹ 5.15 crore were pointed out to the Managements, of which no recovery has been effected during the year. Recoveries of ₹ 6.89 crore pointed out in the earlier years were, however, effected during the year 2013-14.

### **Disinvestment, privatisation and restructuring of PSUs**

**1.47** The State Government had approved and adopted (February 2001) a comprehensive policy on public sector reforms and privatisation of public sector undertakings in the State. Accordingly, the Government identified 31 PSUs for closure, privatisation and restructuring. Five companies<sup>16</sup> were dissolved /amalgamated as at the end of September 2014. The position about action taken by the Government in respect of the remaining 26 companies identified for closure/ privatisation/restructuring is as under:

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<sup>16</sup> Karnataka Tungsten Moly Limited, Karnataka Agro Proteins Limited, Vishveswaraya Vidyuth Nigam Limited, Karnataka Film Industries Development Corporation Limited and Karnataka Small Industries Marketing Corporation Limited.

**Table 1.13: Status of disinvestment / restructuring of PSUs**

Particulars	No. of companies	Government order issued	Government order not yet issued
Non-working Government Companies decided for closure	14	14 <sup>3</sup>	-
Working Government Companies decided for closure	3	1 <sup>e</sup>	2 <sup>@</sup>
Working Government Companies decided for privatization	8	6 <sup>♥</sup>	2 <sup>*</sup>
Restructuring of Working Government Companies	1	1 <sup>Ω</sup>	-

During October 2005, the Government adopted a comprehensive policy on Public Sector Enterprises Reforms, which enunciated an assessment on a case-to case basis including mechanism for its implementation by incorporating the earlier reform process. After the study, appropriate specific solution was to be considered. The present status of the recommendations of study on case-to-case basis of PSUs is awaited (September 2014).

#### Reforms in power sector

**1.48** The State has Electricity Regulatory Commission (KERC) formed (August 1999) under the Karnataka Electricity Reform Act, 1999 with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences.

**1.49** Memorandum of Understanding (MoU) was signed in February 2000 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones by five Electricity Supply Companies<sup>17</sup> is stated below:

<sup>3</sup> All the non-working companies as per Annexure 1.

<sup>e</sup> Karnataka State Construction Corporation Limited.

<sup>@</sup> The Karnataka Fisheries Development Corporation Limited, Karnataka State Electronics Development Corporation Limited.

<sup>♥</sup> Karnataka Silk Industries Corporation Limited, Karnataka Soaps and Detergents Limited, The Mysore Electrical Industries Limited, Karnataka Vidyuth Karkhane Limited, Mysore Minerals Limited, Sree Kanteerava Studios Limited.

<sup>\*</sup> The Mysore Sugar Company Limited, The Mysore Paper Mills Limited.

<sup>Ω</sup> The Karnataka State Forest Industries Corporation Limited to be merged with Karnataka Forest Development Corporation Limited.

<sup>17</sup> Bangalore Electricity Supply Company Limited (BESCOM), Chamundeshwari Electricity Supply Corporation Limited (CESCO), Gulbarga Electricity Supply Company Limited (GESCOM), Hubli Electricity Supply Company Limited (HESCOM), Mangalore Electricity Supply Company Limited (MESCOM).

**Table 1.14: Status of Power Sector Reforms**

Milestone	Achievement as at March 2014				
	BESCOM	CESCO	HESCOM	GESCOM	MESCOM
100 <i>per cent</i> electrification of all villages by 2012.	100 <i>per cent</i>	100 <i>per cent</i>	99 <i>per cent</i> (26 villages pending to be electrified)	100 <i>per cent</i>	99.90 <i>per cent</i> (Three villages pending to be electrified)
Commitment in the MoU to reduce the overall Transmission and Distribution (T&D) losses by 10 to 15 <i>per cent</i> with target reduction of five <i>per cent</i> every year from 2000-01.	13.96 <i>per cent</i>	14.73 <i>per cent</i>	18.05 <i>per cent</i>	Not available	11.93 <i>per cent</i>
Hundred <i>per cent</i> metering of all consumers by 2004-05.	Metering in respect of all other categories of consumers except Irrigation Pump (IP) sets was completed.	The overall percentage of achievement of metering in respect of all categories of consumers was 93.50.	Out of all categories of consumers, 5,05,407 Nos were to be provided with meters.	Metering of all other categories of consumers, except IP consumers was completed.	The overall percentage of achievement of metering in respect of all categories of consumers was 98.08 <i>per cent</i> .
Energy Audit at 11kV substation level by September 2001.	Information was not made available.	Done	Done	Done	Done

(Source : Information furnished by ESCOMs; Annual Accounts of ESCOMs.)