Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by the CAG. These accounts are also subject to supplementary audit conducted by the CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Karnataka had 72 working PSUs (66 companies and 6 Statutory corporations) and 16 non-working PSUs (all companies), which employed 1.74 lakh employees. The working PSUs registered a turnover of Rs. 32,627.68 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 12.17 per cent of State GDP indicating the important role played by State PSUs in the economy. The PSUs had accumulated loss of Rs. 39.93 crore as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 88 PSUs was Rs. 48,565.22 crore. Infrastructure Sector accounted for nearly 59 per cent of total investment and Power sector about 27 per cent in 2008-09. The Government contributed Rs. 6,876.14 crore towards equity, loans and grants / subsidies during 2008-09.

Performance of PSUs

The working State PSUs incurred a loss of Rs. 587.97 crore in the aggregate for 2008-09 as per their latest finalised accounts. The major contributors to profit were Karnataka Power Corporation Limited (Rs. 391.93 crore), Mysore Minerals Limited (Rs. 192.42 crore), and The Hutti Gold Mines Company Limited (Rs. 154.09 crore). The heavy losses were incurred by Bangalore Electricity Supply Company Limited (Rs. 587.36 crore), Hubli Electricity Supply Company Limited (Rs. 560.51 crore) and Chamundeshwari Electricity Supply Corporation Limited (Rs. 217.15 crore).

Audit noticed various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of Rs. 549.70 crore and infructuous investments of Rs. 392.60 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profits. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for greater professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of working companies needs improvement. During the year, out of 69 accounts finalised, the statutory auditors had given unqualified certificates for 13 accounts, qualified certificates for 47 accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for 7 accounts and disclaimers (meaning the auditors are unable to form an opinion on accounts) for two accounts. There were 115 instances of non-compliance with Accounting Standards in 41 accounts during the year. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

16 working PSUs had arrears of accounts of 18 accounts as of September 2009. Only two accounts pertained to earlier years and the remaining were 2008-09 accounts. There were sixteen non-working PSUs including six under liquidation. The Government may consider winding up these non-working companies.

Discussion of Audit Reports by COPU

The Audit Reports (Commercial) for 2003-04 onwards are yet to be discussed fully by COPU. These five audit reports contained 21 reviews and 122 paragraphs of which 6 reviews and 41 paragraphs have been discussed.

2. Performance reviews relating to Government companies and Statutory corporations

Performance reviews relating to ***Implementation of Accelerated Irrigation Benefit Programme*** **by Karnataka Neeravari Nigam Limited and Krishna Bhagya Jala Nigam Limited**, ***Information System Audit Review on System development of Supply Chain Management software*** **in Karnataka Soaps and Detergents Limited** and ***Functioning of State Road Transport undertakings*.** Executive summary of audit findings is given below:

Implementation of Accelerated Irrigation Benefit Programme **by Karnataka Neeravari Nigam Limited and Krishna Bhagya Jala Nigam Limited.**

This performance review examined the effectiveness in completion of four out of six irrigation projects proposed by the State (between 1996-97 and 2007-08) under Accelerated Irrigation Benefit Programme (AIBP) launched by Government of India (GOI) with a view to accelerate irrigation potential within a short period of four agricultural seasons.

The six projects included two projects (UKP Stage I - Phase III and UKP - Stage II) executed by Krishna Bhagya Jala Nigam Limited (KBJNL) and four projects (Malaprabha, Ghataprabha, Ganodirinala and Varahi) executed by Karnataka Neeravari Nigam Limited (KNNL). The four projects test checked by Audit were UKP Stage-I-Phase III, UKP Stage II, Ghataprabha and Varahi for their implementation during the period 2003-09.

Under AIBP, the funds were released in the form of Central Loan Assistance (CLA) towards works expenditure in the ratio of 2:1 between Centre and State since 1999-2000. With effect from April 2004, 30 per cent of CLA received was convertible to Grant on timely completion of project under terms of Memorandum of Understanding between Central and State Governments.

Non-achievement of objective

The works posed under AIBP estimated at a cost of Rs. 3,135.63 crore had a cost over run of Rs. 2,011.90 crore (March 2009) based on (March 2008) estimates of Rs. 5,147.53 crore. Further, as against 3,47,120 Ha. potential proposed for creation under UKP stage I Phase III and Stage II and 1,57,120 Ha. under Ghataprabha Stage III, 3,27,297 Ha. and 1,47,401 Ha. was created up to March 2009 respectively, after a time over run of eight years. Even the dry potential created has not been converted to wet potential to the extent of 13 per cent, thereby the ultimate objective of bringing benefit to farmers remained partly unfulfilled.

Slow progress of works

During the review period 2003-09, in none of the years the budgeted works could be completed. The actual expenditure incurred on the budgeted works ranged from 36.51 per cent to 72.65 per cent (UKP Stage-I- Phase III), 50.86 per cent to 82.73 per cent (UKP Stage-II) and 45.01 per cent to 69.41 per cent (Ghatprabha-Stage-III).

The delay was attributable to problems of land acquisition, change in scope of works, extra financial implications during execution, insufficient monitoring, etc.

Non completion of canals / distributaries, non synchronization of works coupled with delay in awarding works has also led to delay in potential creation of 0.40 lakh Ha. between 2004-09 in test checked projects.

Loss of grant

The State received Rs. 599.25 crore (March 2005 to April 2008) as grant under Memorandum of Understanding for timely completion of project in respect of UKP stage I Phase III and Stage II. As the State failed to comply with the agreed target date of completion of the projects as stipulated in the MOU entered between GOI and GOK, the grant was liable to be treated as loan bringing an additional burden on the State exchequer.

Conclusion and recommendations

The delay in implementation of projects could have been avoided with better planning and monitoring. The review contains five recommendations to improve the performance.

(Chapter 2.1)

Information System Audit Review on System development of Supply Chain Management software in Karnataka Soaps and Detergents Limited

The Karnataka Soaps and Detergents Limited was incorporated in 1980 by integrating the activities of the erstwhile Government Soap Factory in Bangalore and the sandal oil units at Shimoga and Mysore. The company manufactures toilet soaps, detergents, sandal oil, agarbathies and talcum powder.

Finances and Performance

The turnover of the company for the year 2007-08 was Rs. 146 crore and it earned a pre-tax profit of around Rs. 12 crore during the year. The company has six sales offices across the country.

IT initiatives

The Company decided (July 2008) to implement enterprise-wide computerisation covering all functional areas. It embarked (February 2009) for implementation of a customised software application for Supply Chain Management (SCM) covering purchases, inventory and sales / distribution at a cost of Rs. 10.85 lakh.

Absence of policy, strategy and planning

The Company has not formulated any IT policy or drawn up any IT strategy for preparation of long term and short term plans for computerisation. As a result, it could not realign and link its business / organisational strategy with the IT strategy for achievement of its business objectives / goals. The Company commenced implementation SCM software without comprehensive planning and conducting a feasibility study to review the technology / hardware options. It did not adopt any formal system development life cycle methodology. Also, the project initiation and user requirement documents were not available.

Project Management

In the absence of an agreement, the system design documents, process control specification documents and test documents were not provided by the vendor. There was no provision for incorporating a performance monitoring and an embedded audit module in the SCM software. Though the entire work was to be completed by June 2009, not even design of a single module has been completed and installed in server of the State Data Centre.

Staffing

The company did not have an IT Head / Department. The Company has not taken any initiatives for defining the various positions required for IT functions and policies with regard to recruitment. As a result, competent personnel were not available to take over and run the SCM software.

Conclusion and Recommendations

The Company does not have an IT policy, strategy and long-term plan. The progress of implementation of SCM software was slow. As the project is under implementation, required documents, specification, manuals etc., needs to be obtained from the vendor. Necessary physical and environmental controls need to be reviewed with reference to requirements. The Company should draw up and document IT policy and appoint a senior functionary to plan, monitor and implement its IT activities.

(Chapter 2.2)

Functioning of State Road Transport undertakings

➢ Bangalore Metropolitan Transport Corporation

The Bangalore Metropolitan Transport Corporation (Corporation) provides public transport in the Bangalore city and agglomeration through its 30 depots. The Corporation had fleet strength of 5,542 buses as on 31st March 2009 and carried an average of 36.69 lakh passengers per day. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporation earned a profit of Rs. 55.18 crore in 2008-09. Its accumulated profit and borrowings stood at Rs. 587.55 crore and Rs. 49.66 crore as at 31 March 2009, respectively. The Corporation earned Rs. 24.63 per kilometre and expended Rs. 23.28 per kilometre in 2008-09.

Share in Public Transport

Buses operated by the Corporation are the only authorised mode of public transport in Bangalore city and agglomeration. To cater to the increasing population of the city (0.69 crore in 2004-05 to 0.76 crore in 2008-09), the Corporation increased its fleet strength from 3,925 buses (2004-05) to 5,542 buses (2008-09). The vehicle density per lakh population increased from 57 (2004-05) to 73 (2008-09).

Vehicle profile and utilisation

Corporation's buses consisted of own fleet of 5,312 buses 190 buses taken over from private operators for operation and maintenance and 40 hired buses. Of its own fleet, 560 (10.54 per cent) were overage, i.e., which have covered more than eight lakh Kms. The percentage of overage buses increased from 3.15 per cent in 2004-05 to 10.54 per cent in 2008-09 though the Corporation acquired 3,491 new buses during 2004-09 at a cost of Rs. 621.96 crore. The acquisition was primarily funded through cash from operations and internal resources.

Corporation's fleet utilisation at 94.54 per cent in 2008-09 was above All India Average (AIA) of 84 per cent. Its vehicle productivity at 227.70 kilometres per day per bus was above the AIA of 187 kilometres. However, the achievement of the Corporation was marginally less than its own target of vehicle productivity. Its passenger load factor at 63.80 per cent, was less than the AIA of 71 per cent. No targets have been fixed for load factor. The Corporation did well on operational parameters. However, 44 per cent schedules of buses were unprofitable and 12 per cent schedules were not earning enough to meet even variable cost of operation. Corporation's performance on preventive maintenance was poor with only about 53.75 per cent maintenance done on time.

Economy in operations

Manpower and fuel constitute 74 per cent of total cost. Interest, depreciation and taxes account for 15 per cent and are not controllable in the short term. Thus, the major cost saving has to come from manpower and fuel. The Corporation succeeded in reducing the manpower per bus from 5.20 in 2004-05 to 5.02 in 2008-09. However, the expenditure on repairs and maintenance was Rs. 96.37 crore (Rs. 1.81 lakh per bus) in 2008-09, of which nearly 26.33 per cent was on manpower. The Corporation did not attain its own fuel consumption targets resulting in excess consumption of fuel valued at Rs. 15.76 crore during 2004-09.

As a result of cancellations due to controllable factors like want of crew and vehicles, the Corporation was deprived of contribution to an extent of Rs. 13 crore.

The Corporation has just 40 hired buses as at the end of 31 March 2009, where bus owners provide buses with drivers and incur all expenses. The Corporation provides conductors and makes payment as per kilometres operated. The Corporation earned a net profit of Rs. 40.76 crore from hired buses during 2004-09. Though this arrangement has the potential to cut down the cost substantially, the number of hired buses was reduced from 628 to 40 as the private operators have withdrawn their buses from operation.

Revenue Maximisation

The Corporation has been exploiting the commercial spaces built in the bus stations to generate additional revenue and has 32.26 lakh square metres of land for future development. However, the Corporation does not have any policy for tapping non-traffic revenue sources by taking up large scale PPP projects in the vacant land. The Corporation's claim of reimbursement of student concession was not fully accepted by the Government as the same was not in accordance with approved formula.

Need for a regulator

The Government had approved automatic fare revision whenever there is an increase in cost of fuel and DA. Though revision of fare is being effected, the revision does not take into consideration the increase in other operational costs. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address grievances of commuters.

Monitoring

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. Internal targets are fixed by the Management. Monthly Performance Appraisal Report is compiled and reviewed by top Management. Depot-wise performance is monitored by Departmental Heads and directions issued for remedial actions.

Conclusion and Recommendations

Though the Corporation is earning profits, the margin is declining mainly due to its high cost of operations and very meagre increase in revenue. The Corporation can control the decline by tapping non-conventional sources of revenue and increased line checking. This review contains seven recommendations to improve the Corporation's performance. Creating a regulator to regulate fares and services and tapping non-conventional sources of revenue by undertaking PPP projects are some of these recommendations.

(Chapter 3.1)

➢ Rural Transport Corporations

The Karnataka State Road Transport Corporation (KSRTC), North Western Karnataka Road Transport Corporation (NWKRTC), North Eastern Karnataka Road Transport Corporation (NEKRTC) provide public transport in Karnataka. The three Corporations had a collective fleet strength of 14,684 buses as on 31st March 2009 and carried an average of 49.67 lakh passengers per day. The performance audit of the Corporations for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporations suffered loss of Rs. 39.53 crore in 2008-09. The accumulated losses and borrowings of the three Corporations stood at Rs. 694.25 crore and Rs. 756.78 crore as at 31 March 2009, respectively. The Corporations earned Rs. 16.56 per kilometre and expended Rs. 19.09 per kilometre in 2008-09.

Share in Public Transport

Out of 22,828 buses licensed for public transport in 2008-09, about 64.3 per cent belonged to the three Corporations. The percentage share increased from 54.3 per cent in 2004-05. Vehicle density (including private operators' buses) per one lakh population increased from 37 in 2004-05 to 38 in 2008-09.

Vehicle profile and utilisation

The three Corporations together added 11,259 buses during 2004-09 at a total cost of Rs. 1,469.55 crore thereby reducing the overage fleet from 20.13 per cent in 2004-05 to 16.16 per cent in 2008-09. The acquisition was primarily funded through commercial borrowings and Government support.

The overall fleet utilisation of the Corporations declined from 95.47 per cent in 2004-05 to 90.86 per cent in 2008-09, which was less than the all India average (AIA) of 94.10 per cent in 2008-09. The overall vehicle productivity at 352 kilometres per day per bus in 2008-09 was higher than the AIA of 351 kilometres. Their passenger load factor at 63.9 per cent, was less than the AIA of 68 per cent. The Corporations did well on operational parameters. However, 82 per cent schedules of buses were unprofitable and 50 per cent schedules were not earning enough to meet even variable cost of operation. Corporations' performance on preventive maintenance was poor as the maintenance done on time reduced from 76.07 to 52.37 per cent from 2004-05 to 2008-09.

Economy in operations

Manpower and fuel constitute 69 per cent of total cost. Interest, depreciation and taxes account for 16 per cent and are not controllable in the short term. Thus, the major cost saving has to come from manpower and fuel. The Corporations succeeded in reducing the manpower per bus from 5.59 in 2004-05 to 4.89 in 2008-09. However, the expenditure on repairs and maintenance was Rs. 375.84 crore (Rs. 2.58 lakh per bus) in 2008-09, of which nearly 25.90 per cent was on manpower. The Corporations did not attain their own fuel consumption targets resulting in excess consumption of fuel valued at Rs. 171.35 crore during 2004-09.

The cancellation of scheduled Kilometres for want of buses and crew was about 48.92 per cent of the total cancellations during 2004-09. As a result of this, the Corporations were deprived of contribution to an extent of Rs. 87.06 crore.

The Corporations have just 140 hired buses as at the end of 31 March 2009, where bus owners provide buses with drivers and incur all expenses. The Corporations provide conductors and makes payment as per kilometres operated. The Corporations earned a net profit of Rs. 65.87 crore from hired buses during 2004-09. Though this arrangement has the potential to cut down the cost substantially, the number of hired buses was reduced from 1,450 to 140 as the private operators had withdrawn their buses from operation.

Revenue Maximisation

The Corporations have about 100.63 lakh square metres of land. As they mainly utilise ground floor/ land for their operations, the space above can be developed on public private partnership (PPP) basis to earn steady income, which can be used to cross-subsidise their operations. However, the Corporations do not have any policy for the same.

Need for a regulator

The Government had approved automatic fare revision whenever there is an increase in cost of fuel and DA. Though revision of fare is being effected, the revision does not take into consideration the increase in other operational costs. In the absence of norms, the adequacy of services on uneconomical routes could not be ascertained in Audit. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address grievances of commuters.

Monitoring

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. Internal targets are fixed by the Management. Monthly Performance Appraisal Report is compiled and reviewed by top Management. Depot-wise performance is monitored by Departmental Heads and directions issued for remedial actions.

Conclusion and Recommendations

Though the Corporations are incurring losses, it is mainly due to their high cost of operations (excess consumption of fuel) and negligible reliance on hired buses. The Corporations can control the losses by controlling excess consumption of fuel and tapping non-conventional sources of revenue. This review contains nine recommendations to improve the Corporations' performance. Examining reasons for high consumption of fuel, creating a regulator to regulate fares and services and tapping non-conventional sources of revenue by undertaking PPP projects are some of these recommendations.

(Chapter 3.2)

3. Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of Rs. 17.72 crore in four cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 4.3, 4.8, 4.9 and 4.13)

Loss of Rs. 25.58 crore in eight cases due to non-safeguarding the financial interests of organization.

(Paragraphs 4.2, 4.7, 4.10, 4.11, 4.12, 4.14, 4.15 and 4.16)

Loss of Rs. 3.92 crore in two cases due to defective / deficient planning

(Paragraphs 4.5 and 4.6)

Loss of Rs. 17.25 crore in three cases due to inadequate / deficient monitoring.

(Paragraphs 4.1, 4.4 and 4.18)

Gist of some of the important audit observations is given below:

- **The Mysore Minerals Limited** entered into a supplementary agreement by retaining the selling price of iron ore lumps beyond the agreed period even when the original agreement had provision for price revision resulting in undue benefit of Rs. 6.35 crore to private contractor.

(Paragraph 4.7)

- During the construction of Bellary Nala Irrigation Project in **Karnataka Neeravari Nigam Limited**, excess payment of Rs. 7.20 crore was made to contractors by recording false measurements. In addition, the Company failed to demand Rs. 3.28 crore for deficiencies in execution and violation of terms of agreement.

(Paragraph 4.11)

- Release of advances to subcontractors in **Karnataka Land Army Corporation Limited** without adequate security / guarantee was not in the interest of the Company and resulted in loss of Rs. 6.97 crore.

(Paragraph 4.14)

- Unauthorised and irregular investment in private equity linked funds coupled with violation of the guidelines of Karnataka State Bureau of Public Enterprises by **Power Company of Karnataka Limited** resulted in loss of Rs. 4.98 crore.

(Paragraph 4.15)

- Unauthorised investment in private equity funds through a broker by an Officer of the Company in violation of guidelines of Karnataka State Bureau of Public Enterprises indicated poor corporate governance in **Bangalore Metro Rail Corporation Limited.**

(Paragraph 4.16)