

## Introduction

### 1. Functioning of State Public Sector Undertakings

#### General

**1.1.** The State Public Sector Undertakings (PSUs) in Karnataka consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also occupy an important place in the State's economy. As on 31 March 2020, there were 120 PSUs in Karnataka including six Statutory Corporations and 13 non-working Government companies under the audit jurisdiction of the Comptroller and Auditor General of India. Of these, one PSU<sup>106</sup> was listed on the stock exchange. Six PSUs<sup>107</sup> newly incorporated/entrusted for audit as on 31 March 2020, have been added. The list of 120 PSUs is given in *Appendix-20*.

**1.2.** The financial performance of the PSUs on the basis of their latest finalised accounts as on 31 December 2020<sup>108</sup> is covered in this report. The details of the nature of PSUs and the position of finalisation of accounts are given below:

**Table No.1: Nature of PSUs covered in the Report**

Sl. No.	Type of PSUs	No. of PSUs	No. of PSUs for which accounts received during the reporting period <sup>109</sup>				No. of PSUs for which accounts were in arrears (total no. of accounts in arrears) as on 31 December 2020
			2019-20	2018-19	2017-18 and prior	Total	
1	Working Government Companies	101	61	14	5	80	39 (70) <sup>110</sup>
2	Statutory Corporations	6	-	6	-	6	6 (6)
<b>Total no. of working PSUs</b>		<b>107</b>	<b>61</b>	<b>20</b>	<b>5</b>	<b>86</b>	<b>45 (76)</b>
3	Non-working Government Companies	13	6	1	1	8	7 (73) <sup>111</sup>
<b>Total no. of PSUs (working+non-working)</b>		<b>120</b>	<b>67</b>	<b>21</b>	<b>6<sup>112</sup></b>	<b>94</b>	<b>52 (149)</b>

<sup>106</sup> The Mysore Paper Mills Limited.

<sup>107</sup> CBIC Tumakuru Industrial Township Limited (CTITL), Karnataka Brahmin Development Board (KBDB), Karnataka Savitha Samaja Development Corporation Limited (KSSDCL), Karnataka Madiwala Machideva Development Corporation Limited (KMMDCCL), Karnataka Alemari and Arey-Alemari Development Corporation Limited (KAADCL) and Karnataka Arya Vysya Community Development Corporation Limited (KAVCDCL).

<sup>108</sup> Date of holding Annual General Meeting (AGM) of PSUs for the financial year 2019-20 was extended upto 31 December 2020 by the Registrar of Companies, Bengaluru *vide* its order dated 8 September 2020.

<sup>109</sup> From October 2019 to December 2020.

<sup>110</sup> Includes 29 PSUs which did not finalise accounts for 2019-20 and 10 PSUs which have arrears of 41 accounts (related to 2019-20 and prior periods).

<sup>111</sup> Includes 64 accounts from four PSUs which are under liquidation (KSVL, MCL, KTL and MACCL).

<sup>112</sup> Includes one non-working PSU for 2017-18, two working PSUs for 2016-17, one working PSU for 2015-16, one working PSU for 2014-15 and one working PSU for 2013-14.

The working PSUs which had arrears of accounts include eight PSUs with arrears ranging from three to six years (DDUTTIL, KSSKDCL, KMDC, KSAWDCL, MPM, KSCCL, KVTSDCL and MYSUGAR). Further, four non-working PSUs (KSVL, MCL, KTL and MACCL) had arrears ranging from 15 to 17 years. The working PSUs registered a turnover of ₹ 74,922.04 crore as per their latest finalised accounts as of December 2020. This turnover was equal to 4.60 *per cent* of the State Gross Domestic Product (GDP) for 2019-20 (*i.e.* ₹ 16,28,928 crore). The working PSUs incurred net aggregate loss of ₹ 3,374.05 crore as per their latest finalised accounts as of December 2020. At the end of March 2020, the PSUs had 2.04 lakh employees.

As on 31 March 2020, 13 PSUs having an investment of ₹ 670.18 crore were non-working for the last 17 years. This was a critical area as the investments in non-working PSUs do not contribute to the economic growth of the State.

### **Accountability framework**

**1.3.** The process of audit of Government Companies is governed by respective provisions of Section 619 of the Companies Act, 1956, and Sections 139 and 143 of the Companies Act, 2013 (Act). According to Section 2(45) of the Act, a Government Company means any Company in which not less than fifty-one *per cent* of the paid up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a Company, which is a subsidiary Company of such Government Company.

The Comptroller & Auditor General of India (CAG) appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. Section 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of one hundred and eighty days from the commencement of the financial year. Section 139 (7) of the Companies Act, 2013 provides that in case of a Government Company or Government Controlled Other Company, the first auditor is to be appointed by the CAG within sixty days from the date of registration of the Company and in case CAG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-section 7 of Section 143 of the Act, the CAG may, in case of any Company covered under sub-section (5) or sub-section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company. The provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit. Thus, a Government Company or any other Company, owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. Audit of the Financial Statements of a Company in respect

of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

### ***Statutory Audit***

**1.4.** The financial statements of the Government Companies are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Sections 139(5) or 139(7) of the Act. Thereafter, a copy of the Audit Report is submitted to the CAG under Section 143(5) of the Act, which, among other things, includes the Financial Statements of the Company. These financial statements are subject to supplementary audit to be conducted by the CAG within sixty days from the date of receipt of the Audit Report under the provisions of Section 143(6) of the Act.

Audit of Statutory Corporations is governed by their respective legislations. Out of the six Statutory Corporations in Karnataka, the CAG is the sole auditor for four State Road Transport Corporations<sup>113</sup>. In respect of State Warehousing Corporation and State Financial Corporation, the audit is conducted by Chartered Accountants while the Supplementary Audit is conducted by the CAG.

### **Submission of accounts by PSUs**

#### ***Need for timely finalisation and submission***

**1.5.** According to Section 394 and 395 of the Companies Act 2013, an Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the House or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for noncompliance with the provisions of Section 129 of the Companies Act, 2013.

<sup>113</sup> Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Eastern Karnataka Road Transport Corporation and North Western Karnataka Road Transport Corporation.

### Role of Government and Legislature

**1.6.** The State Government exercises control over the affairs of these PSUs through their administrative departments. The Chief Executives and Directors to the Board are appointed by the Government.

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 Reports in case of Statutory Corporations are placed before the Legislature under Section 394(2) and/or 395 of the Act or 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.

### Investment in State PSUs

**1.7.** The Government of Karnataka (GoK) has a financial stake in these PSUs. This stake is of mainly three types:

- **Share capital and loans** – GoK provides Share Capital Contribution and 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; and
- **Guarantees** – GoK also guarantees the repayment (with interest) of loans availed by the PSUs from financial institutions.

**1.8.** As on 31 March 2020, the investment (capital and long-term loans) in 120 PSUs was ₹ 1,62,348.15 crore<sup>114</sup> as per details given below:

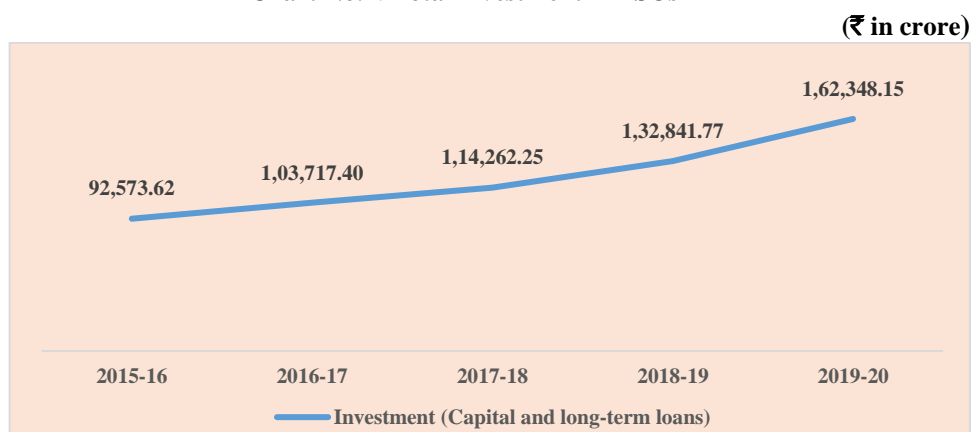
Table No.2: Total Investment in PSUs

Sl. No.	Type of PSUs	Government Companies			Statutory Corporations			Grand total
		Capital	Long term loans	Total	Capital	Long term loans	Total	
1	Working PSUs	79,300.42	77,289.94	1,56,590.36	1,613.10	3,474.51	5,087.61	1,61,677.97
2	Non-working PSUs	160.21	509.97	670.18	-	-	-	670.18
	<b>Total</b>	<b>79,460.63</b>	<b>77,799.91</b>	<b>1,57,260.54</b>	<b>1,613.10</b>	<b>3,474.51</b>	<b>5,087.61</b>	<b>1,62,348.15</b>

As on 31 March 2020, of the total investment in State PSUs, 99.59 per cent was in working PSUs and the remaining 0.41 per cent in non-working PSUs. This total investment consisted of 49.94 per cent towards capital and 50.06 per cent in long-term loans. The investment grew by 75.37 per cent from ₹ 92,573.62 crore in 2015-16 to ₹ 1,62,348.15 crore in 2019-20 as shown in the Chart below:

<sup>114</sup> As forty-three PSUs did not furnish information on investments as at the end of March 2020, the information as furnished during previous years/as per latest finalised accounts has been considered.

Chart No.1: Total investment in PSUs



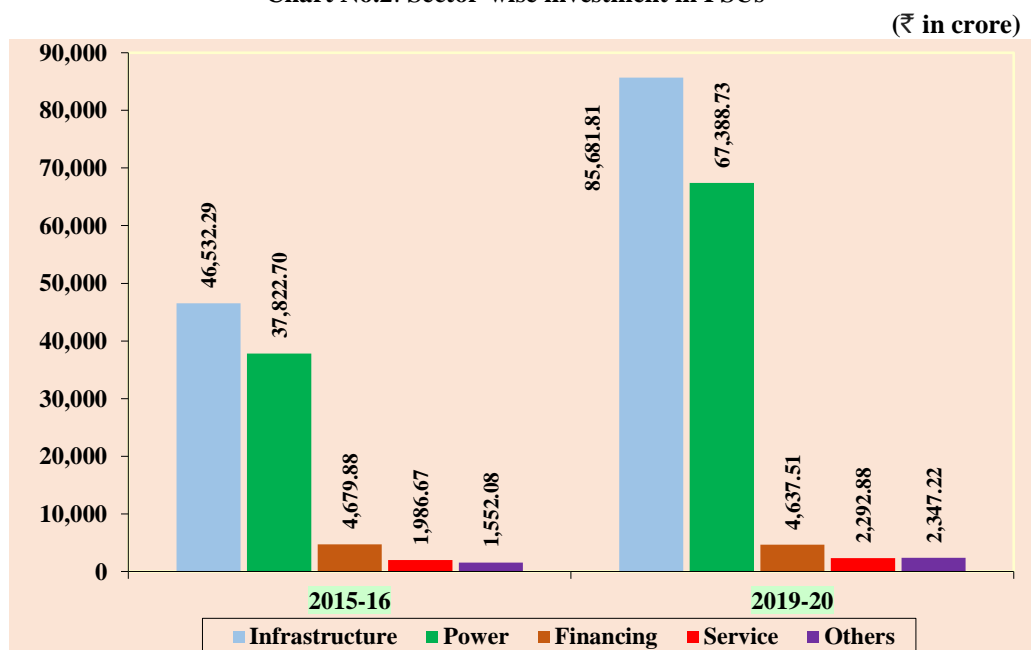
1.9. The sector-wise summary of investments in the State PSUs as on 31 March 2020 is given below:

Table No.3: Sector-wise investment in PSUs

Sl. No.	Name of the Sector	Government companies		Statutory Corporations	Total	Investment (₹ in crore)
		Working	Non-working			
1	Agriculture and allied	13	5	1	19	1,060.02
2	Financing	24	-	1	25	4,637.51
3	Infrastructure	24	1	-	25	85,681.81
4	Manufacturing	19	7	-	26	1,277.13
5	Power	11	-	-	11	67,388.73
6	Service	5	-	4	9	2,292.88
7	Miscellaneous	5	-	-	5	10.07
<b>Total</b>		<b>101</b>	<b>13</b>	<b>6</b>	<b>120</b>	<b>1,62,348.15</b>

The investment in four significant sectors at the end of 31 March 2016 and 31 March 2020 are indicated in the Chart below:

Chart No.2: Sector-wise investment in PSUs



The thrust of investments in PSUs was in Infrastructure and Power sectors, accounting for 52.78 per cent and 41.51 per cent respectively in 2019-20. Between 2015-16 and 2019-20, the investment in Infrastructure and Power sectors increased by ₹ 39,149.52 crore and ₹ 29,566.03 crore respectively.

### Submission of accounts by PSUs

**1.10.** The financial statements of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year, *i.e.* by end of September<sup>115</sup>, in accordance with the provisions of Section 96(1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The following table provides the details of progress made by working PSUs in finalisation of accounts by 31 December 2020<sup>116</sup>:

**Table No. 4: Position relating to finalisation of accounts of working PSUs**

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
1	Number of working PSUs	81	90	94	101	107
2	Total number of accounts finalised during the year	70	72	83	106	110
3	Number of accounts finalised relating to current year	34	30	32	49	61
4	Number of accounts finalised relating to previous years	36	42	51	57	49
5	Number of accounts in arrears	57	75	81	80	76
6	Number of working PSUs with arrears in accounts	47	59	62	52	45
7	Extent of arrears (number in years)	1 to 3 years	1 to 4 years	1 to 5 years	1 to 6 years	1 to 6 years

During the year, 110 accounts pertaining to 86 PSUs were finalised, which included seven accounts of six Statutory Corporations. The number of accounts in arrears increased from 57 (2015-16) to 76 (2019-20). Of the 76 arrears of accounts, 70 accounts pertained to the working Government Companies, which were in arrears ranging between one and six years and six accounts pertaining to six Statutory Corporations, which were in arrears for one year.

The Administrative Departments have the responsibility to oversee the activities of these PSUs and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The PAG/AG had periodically taken up the

<sup>115</sup> For the Financial Year 2019-20, due date extended upto 31 December 2020 by Registrar of Companies, Bengaluru *vide* order dated 8 September 2020.

<sup>116</sup> The progress for the financial years 2015-16 to 2018-19 was as on 30<sup>th</sup> September of the respective years.

matter with the State Government/Administrative Departments concerned for liquidating the arrears of accounts.

**1.11.** The State Government made net investment of ₹ 10,097.32 crore in 18 out of 45 PSUs during the years, for which accounts were not finalised. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred were properly accounted for and the purpose for which the amount was invested was achieved or not. Thus, the Government's investment in such PSUs remained outside the control of the State Legislature.

**1.12.** There were arrears in finalisation of accounts by non-working PSUs. Out of 13 non-working PSUs, four<sup>117</sup> were in the process of liquidation whose accounts were in arrears for fifteen to seventeen years. Of the remaining nine non-working PSUs, six<sup>118</sup> PSUs had no arrears of accounts, the remaining three PSUs (NGEF, BSRCL and MMCL) has arrears of two years (NGEF), six years (BSRCL) and one year (MMCL). The position relating to arrears in finalization of accounts of non-working PSUs is given in the following table:

**Table No.5: Position relating to arrears in finalisation of accounts of non-working PSUs**

Sl. No.	No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
1	1	2019-20	01
2	1	2018-19 to 2019-20	02
3	1	2014-15 to 2019-20	06
4	1	2005-06 to 2019-20	15
5	2	2004-05 to 2019-20	16
6	1	2003-04 to 2019-20	17

### **Performance of PSUs as per their latest finalised accounts**

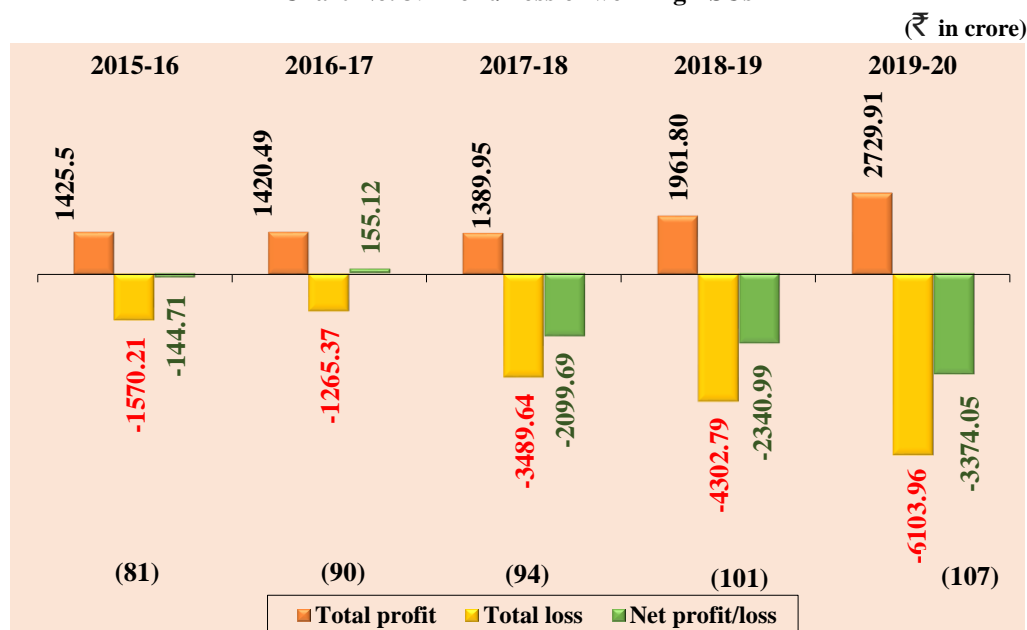
**1.13.** The overall profit (losses)<sup>119</sup> earned (incurred) by the working PSUs of the State during 2015-16 to 2019-20 as per their latest finalised accounts as of 31 December 2020 are given in the following bar chart:

<sup>117</sup> KSVL, MCL, KTL and MACCL.

<sup>118</sup> KAIC, MTC, KPL, MLW, VSL and MCT.

<sup>119</sup> Profit/Losses during 2017-18, 2018-19 and 2019-20 were arrived at after considering Other Comprehensive Income (OCI).

Chart No. 3: Profit/Loss of working PSUs



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

As per their latest finalised accounts, out of the 120 PSUs, 107 PSUs are working and 13 PSUs non-working. Out of 107 working PSUs, 54 PSUs earned profit of ₹ 2,729.91 crore and 37 PSUs incurred loss of ₹ 6,103.96 crore. One PSU (KSSKDCL) did not finalise their first accounts. Nine PSUs<sup>120</sup> prepared only a statement of income and expenditure. One PSU's (KAMICL) expenditure was equal to its income. Further, five PSUs (KBDB, KSSDCL, KMMDC, KAVCDCL and KAADC), incorporated during the year, did not finalise their first accounts.

The major contributors to profit were KPCL (₹ 1,209.56 crore) and KRIDL (₹ 293.94 crore). Significant losses were incurred by RPCL (₹ 2,084.95 crore) and GESCOM (₹ 987.59 crore).

The working PSUs showed net aggregate profits of ₹ 155.12 crore during 2016-17 and incurred net aggregate loss of ₹ 144.71 crore, ₹ 2,099.69 crore, ₹ 2,340.99 crore and ₹ 3,374.05 crore during the year 2015-16, 2017-18, 2018-19 and 2019-20 respectively.

The position of working PSUs which earned profit/incurred loss during 2015-16 to 2019-20 is given in the following table:

<sup>120</sup> RGHCL, KAJDC, KFCSC, KVTSDC, IKF, BBC, TMT, SGB and KMERCL.



**Table No. 6: PSUs which earned profit /incurred loss**

Sl. No.	Year	Total PSUs	Number of PSUs which earned profits during the year	Number of PSUs which incurred loss during the year	Number of PSUs not prepared profit and loss account <sup>121</sup>
1	2015-16	81	51	21	9
2	2016-17	90	52	22	16
3	2017-18	94	51	29	14
4	2018-19	101	54	34	13
5	2019-20	107	54	37	16

### Coverage of Report

**1.14.** The observations on PSUs, which were included under Chapter II of Part II, contained seven Compliance Audit paragraphs.

The financial effect of the observations related to PSUs worked out to ₹ 288.37 crore.

### Response of the Government to Audit

#### *Compliance Audit Paragraphs*

**1.15.** Seven Compliance Audit Paragraphs related to PSUs were issued (between March 2021 and September 2021) to the Government of Karnataka with a request to furnish replies. Replies to six Compliance Audit Paragraphs were received and the reply for the one paragraph had not been received from the Government (February 2022). The views of the Government wherever received have been suitably incorporated.

### Follow up action on Audit Reports

#### *Replies outstanding*

**1.16.** The Reports of the CAG represent the culmination in the process of audit scrutiny. It is therefore necessary that they elicit appropriate and timely response from the Executive. The Finance Department, Government of Karnataka, issued (January 1974) instructions to all Administrative Departments to submit replies to paragraphs and Performance Audits (PAs) included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The status of receipt of replies to the report of Comptroller and Auditor General of India from the GoK is given in the following table:

<sup>121</sup> Includes PSUs which have not prepared profit and loss account pending project completion, PSUs not prepared accounts since first year of their operation, PSUs which prepared income and expenditure statement instead of profit and loss account and PSU with nil profit/loss.

**Table No.7: Replies not received as on 31 December 2020**

Sl. No.	Year of the Audit Report (PSUs)	Date of placing the Audit Report in the State Legislature	Total PAs and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which replies were not received	
			PAs	Paragraphs	PAs	Paragraphs
1	2016-17	22.02.2018	2	12	-	1
2	2017-18	18.02.2020	2	13	2	3
<b>Total</b>			<b>4</b>	<b>25</b>	<b>2</b>	<b>4</b>

It could be seen that replies for two Performance Audits and four Paragraphs, were not furnished by the Government of Karnataka (December 2020).

**Discussion of Audit Reports by COPU**

**1.17.** The status of Performance Audits (PAs) and paragraphs that appeared in Audit Reports on PSUs and discussed by COPU as on 31 December 2020 was as follows:

**Table No.8: Status of discussion of PAs and Paragraphs**

Sl. No.	Period of Audit Report	Number of PAs/paragraphs			
		Appeared in Audit Report		Discussed	
		PAs	Paragraphs	PAs	Paragraphs
1	2010-11	2	11	1	11
2	2011-12	2	12	1	12
3	2012-13	2	12	2	11
3	2013-14	2	19	2	18
4	2014-15	2	17	2	17
5	2015-16	2	14	2	12
6	2016-17	2	12	1	11
7	2017-18	2	13	-	3
<b>Total</b>		<b>16</b>	<b>110</b>	<b>11</b>	<b>95</b>

**Compliance to Reports of COPU**

**1.18.** Three reports of COPU (Report No. 127, 128 and 130) contained 24 recommendations in respect of paragraphs pertaining to three Departments<sup>122</sup>, which appeared in the Reports of the CAG of India between the period 2008-09 and 2014-15 and the five *suo-motu* reports (Report No. 125, 129, 131, 132 and 133) contained 52 recommendations. These reports were presented to the State Legislature between December 2011 and February 2018.

Action Taken Notes (ATN) from the Government of Karnataka pertaining to three paragraphs of above three Reports of COPU and five *suo-motu* Reports of COPU were not received (December 2020).

<sup>122</sup> Commerce and Industries Department, Urban Development Department and Social Welfare Department.

**It is recommended that the Government may ensure sending replies to Paragraphs/Performance Audits and ATNs on the recommendations of COPU as per the prescribed time schedule.**

### **Response to Inspection Reports**

**1.19.** Audit observations noticed during audit and not settled on the spot were communicated to the heads of the PSUs and the concerned Departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of Departments within a period of one month. The Department-wise break-up of Inspection Reports and audit observations outstanding as on 31 March 2020 is given in *Appendix-21*.

**It is recommended that the Government may ensure that a procedure exists for taking action (a) against officials who fail to respond to Inspection Reports based on the reports of Audit Monitoring Cell constituted by the Government; and (b) to recover loss/outstanding advances/overpayment within the prescribed time.**