

CHAPTER I

Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2007, there were 76 Government companies (59 working companies and 17 non-working companies¹) and six Statutory corporations (working) under the control of the State Government, as against same number of Government companies and Statutory corporations as at 31 March 2006. One new Company (Karnataka Scheduled Tribes Development Corporation Limited) was formed during the year and one Company (Visveswaraya Vidyuth Nigam Limited) was amalgamated with another (Karnataka Power Corporation Limited). The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619(4) of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

Sl. No.	Name of the Corporation	Authority for audit by the CAG	Audit arrangement
1	Karnataka State Road Transport Corporation (KSRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
2	Bangalore Metropolitan Transport Corporation (BMTC)		
3	North Western Karnataka Road Transport Corporation (NWKRTC)		
4	North Eastern Karnataka Road Transport Corporation (NEKRTC)		
5	Karnataka State Financial Corporation (KSFC)	Section 37(6) of the State Financial Corporations Act, 1951	Audit by Chartered Accountants and Supplementary Audit by the CAG
6	Karnataka State Warehousing Corporation (KSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	Audit by Chartered Accountants and Supplementary Audit by the CAG

The State Government formed (August 1999) the Karnataka Electricity Regulatory Commission, whose audit is entrusted to the Comptroller and Auditor General of India (CAG) as per Item II (2) of Part I of the Schedule to Section 8(7) of the Karnataka Electricity Reform Act, 1999.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2007, the total investment in 65 working PSUs (59 Government companies and six Statutory corporations) was

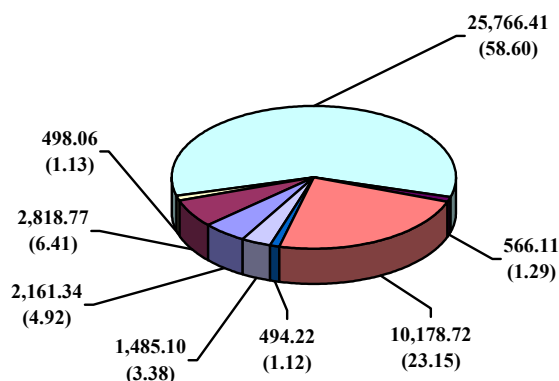
¹ Non-working companies/corporations are those, which are under the process of liquidation/closure/merger, etc.

Rs.43,968.73 crore² (equity: Rs.15,582.63 crore; long-term loans³ Rs.22,804.42 crore and share application money Rs.5,581.68 crore) as against 65 working PSUs (59 Government companies and six Statutory corporations) with total investment of Rs.41,202.28 crore (equity: Rs.13,753.79 crore; long-term loans: Rs.22,309.64 crore and share application money Rs.5,138.85 crore) as on 31 March 2006. The analysis of investment in working PSUs is given in the following paragraphs.

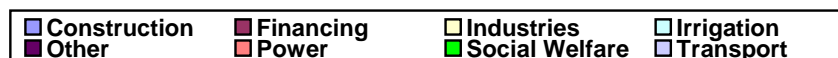
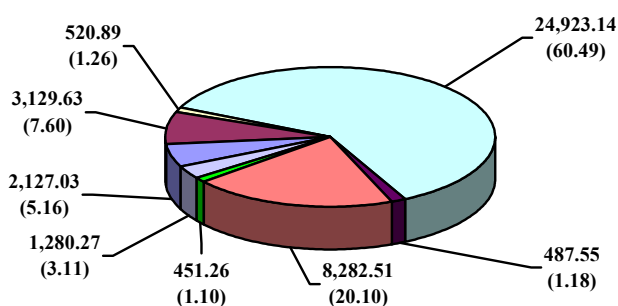
The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2007 and 31 March 2006 are indicated below in the pie charts:

**Sector-wise investment in working Government companies and Statutory corporations
(Figures in bracket are percentage)**

As at 31 March 2007
(Total investment - Rs.43,968.73 crore)



As at 31 March 2006
(Total investment - Rs.41,202.28 crore)



² State Government's investment in working PSU's was Rs.27,721.33 crore (others: Rs.16,247.40 crore). Figure as per Finance Accounts 2006-07 is Rs. 19,140.81 crore. The difference is under reconciliation.

³ Long term loans mentioned in paragraphs 1.2, 1.3, 1.4 and 1.16 are excluding interest accrued and due on such loans.

Due to significant increase in paid-up capital of irrigation sector companies the debt equity ratio decreased from 1.18:1 in 2005-06 to 1.08:1 in 2006-07.

Working Government companies

1.3 Total investment in working Government companies at the end of March 2006 and March 2007 was as follows:

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2005-06	59	13,103.21	5,100.29	19,948.10	38,151.60
2006-07	59	14,866.60	5,543.02	20,522.05	40,931.67

As on 31 March 2007, the total investment of working Government companies comprised 49.86 per cent of equity capital and 50.14 per cent of loans as compared to 47.71 per cent and 52.29 per cent respectively as on 31 March 2006.

Increase in total investment was due to increase in equity and loans in power and irrigation sectors.

The summarised statement of Government investment in working Government companies in the form of equity and loans is given in **Annexure-1**.

Working Statutory corporations

1.4 The total investment in six working Statutory corporations at the end of March 2006 and March 2007 was as follows:

(Rupees in crore)

Name of the Corporation	2005-06		2006-07 (provisional)	
	Capital	Loan	Capital	Loan
Karnataka State Road Transport Corporation (KSRTC)	233.39	237.38	233.39	275.29
Bangalore Metropolitan Transport Corporation (BMTC)	92.72	26.42	158.16	22.65
North Western Karnataka Road Transport Corporation (NWKRTC)	115.64	172.86	115.64	226.13
North Eastern Karnataka Road Transport Corporation (NEKRTC)	103.50	61.33	103.50	83.30
Karnataka State Financial Corporation (KSFC)	97.84 (36.01)	1,825.79	97.84 (36.01)	1,652.30
Karnataka State Warehousing Corporation (KSWC)	7.50 (2.55)	37.75	7.50 (2.65)	22.70
Total	650.59 (38.56)	2,361.53	716.03 (38.66)	2,282.37

(Figures in bracket indicate share application money)

The summarised statement of Government investment in working Statutory corporations in the form of equity and loans is given in **Annexure -1**.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government companies and working Statutory corporations are given in **Annexures 1 and 3**.

The budgetary outgo in the form of equity, loans and grants/subsidies from the State Government to working Government companies and Statutory corporations for the three years up to March 2007 are summarised below:

(Amount: Rupees in crore)

	2004-05				2005-06				2006-07			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity outgo from budget	9	2,787.24	3	30.00	10	3,183.24	5	65.10	9	2,108.14	2	65.54
Loans given from budget	9	209.64	1	42.00	11	222.07	-	-	5	124.07	-	-
Grants	14	377.27	-	-	17	823.39	2	27.66	20	2,975.37	1	25.13
Subsidy towards												
(i)Projects/ Programme/ schemes	4	215.05	-	-	4	316.69	1	2.66	9	1,079.60	1	1.46
(ii)Other subsidy	5	1,585.00	5	141.48	8	1,714.69	4	123.90	9	1,705.83	4	276.43
Total subsidy	9	1,800.05	5	141.48	9	2,031.38	4	126.56	14	2,785.43	4	277.89
Total outgo⁴	25	5,174.20	5	213.48	28	6,260.08	5	219.32	33	7,993.01	4	368.56

During 2006-07, the Government guaranteed loans aggregating Rs.315.76 crore obtained by six working⁵ Government companies. At the end of the year, guarantees amounting to Rs.6,483.65 crore against 22 working⁶

⁴ These are actual number of companies/corporations, which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during the year.

⁵ Karnataka Soaps and Detergents Limited, Karnataka State Police Housing Corporation Limited, Cauvery Neeravari Nigam Limited, D.Devaraj Urs Backward Classes Development Corporation Limited, Hubli Electricity Supply Company Limited, Karnataka State Industrial Investment and Development Corporation Limited (Annexure 3).

⁶ Karnataka Soaps and Detergents Limited, The Mysore Electrical Industries Limited, Karnataka State Electronics Development Corporation Limited, The Karnataka Handloom Development Corporation Limited, The Karnataka Handicrafts Development Corporation Limited, Karnataka Cashew Development Corporation Limited, Karnataka Land Army Corporation Limited, Karnataka State Police Housing Corporation Limited, Rajiv Gandhi Rural Housing Corporation Limited, Karnataka Road Development Corporation Limited, Krishna Bhagya Jala Nigam Limited, Karnataka Neeravari Nigam Limited, Cauvery Neeravari Nigam Limited, D.Devaraj Urs Backward Classes Development Corporation Limited, Dr.B.R.Ambedkar Development Corporation Limited, The Karnataka Minorities Development Corporation Limited, Karnataka Food and Civil Supplies Corporation Limited, The Mysore Sugar Company Limited, Karnataka Power Corporation Limited, Karnataka Power Transmission Corporation Limited, Hubli Electricity Supply Company Limited, Karnataka State Industrial Investment and Development Corporation Limited (Annexure 3).

Government companies were outstanding. During the year, the Government converted loan into equity of Rs.51.95 crore in respect of two companies⁷ (including Rs.22.00 crore converted into preference shares in respect of Karnataka Silk Industries Corporation Limited). The guarantee commission paid/payable to the Government, by Government companies and Statutory corporations, during 2006-07 was Rs.7.32 crore/Rs.325.93 crore and Rs.0.74 crore/Rs.0.59 crore, respectively. Four working Government companies⁸ and one Statutory corporation⁹ defaulted in repayment of guaranteed loan of Rs.29.04 crore and payment of interest of Rs.22.32 crore.

Finalisation of accounts by working PSUs

1.6 The accounts of the Companies for every financial year are required to be finalised within six months from the end of relevant financial year under Sections 166, 210, 230, 619 and 619 B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory corporations, their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Forty six working companies¹⁰ out of 59 working Government companies and all the six working¹¹ Statutory corporations, finalised their accounts for the

⁷ Bangalore Metro Rail Corporation Limited and Karnataka Silk Industries Corporation Limited.

⁸ Karnataka Cashew Development Corporation Limited, D.Devaraj Urs Backward Classes Development Corporation Limited, The Karnataka Minorities Development Corporation Limited, The Mysore Sugar Company Limited.

⁹ Karnataka State Warehousing Corporation.

¹⁰ Karnataka State Agricultural Produce Processing and Export Corporation Limited, Karnataka Togari Abhivridhi Mandali Limited, Karnataka Compost Development Corporation Limited, Karnataka Soaps and Detergents Limited, Karnataka State Coir Development Corporation Limited, Karnataka State Small Industries Development Corporation Limited, The Mysore Paper Mills Limited, Karnataka Vidyuth Karkhane Limited, The Mysore Electrical Industries Limited, NGEF (Hubli) Limited, Karnataka State Electronics Development Corporation Limited, Karnataka Silk Industries Corporation Limited, Karnataka Silk Marketing Board Limited, Karnataka State Power loom Development Corporation Limited, Karnataka Handloom Development Corporation Limited, Karnataka State Handicrafts Development Corporation Limited, Karnataka Cashew Development Corporation Limited, Karnataka Forest Development Corporation Limited, The Hutti Gold Mines Company Limited, Karnataka State Police Housing Corporation Limited, Rajiv Gandhi Rural Housing Corporation Limited, Karnataka Road Development Corporation Limited, Krishna Bhagya Jala Nigam Limited, Cauvery Neeravari Nigam Limited, Karnataka State Women's Development Corporation, Dr.B.R.Ambedkar Development Corporation Limited, The Karnataka Minorities Development Corporation Limited, Karnataka Food and Civil Supplies Corporation Limited, The Mysore Sugar Company Limited, Jungle Lodges and Resorts Limited, The Mysore Paints and Varnish Limited, Karnataka Power Corporation Limited, Karnataka Power Transmission Corporation Limited, Bangalore Electricity Supply Company Limited, Hubli Electricity Supply Company Limited, Mangalore Electricity Supply Company Limited, Chamundeswari Electricity Supply Corporation Limited, Gulbarga Electricity Supply Company Limited, KPC Bidadi Power Corporation Private Limited, Karnataka State Industrial Investment and Development Corporation Limited, Karnataka Urban Infrastructure Development and Finance Corporation Limited, Karnataka State Beverages Corporation Limited, Bangalore Metro Rail Corporation Limited, Sree Kanteerava Studios Limited, Marketing Consultants and Agencies Limited and Mysore Sales International Limited (Annexure-2).

¹¹ Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Western Karnataka Road Transport Corporation, North Eastern Karnataka Road Transport Corporation, Karnataka State Financial Corporation and Karnataka State Warehousing Corporation.

year 2006-07 within stipulated period up to September 2007 (**Annexure-2**). During October 2006 to September 2007, 20 working¹² Government companies finalised 20 accounts¹³ for previous years.

The accounts of 13 working Government companies were in arrears for periods ranging from one to three years as on 30 September 2007, as detailed below:

Sl. No	Number of companies / corporations		Year for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial number of Annexure 2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1	1	-	2004-05 to 2006-07	3	A-7	-
2	2	-	2005-06 to 2006-07	2	A-5, 45	-
3	10	-	2006-07	1	A-1, 4, 23, 24, 26, 27, 32, 34, 37 and 41	-

The administrative departments need to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. The concerned administrative departments were informed every quarter by the Audit regarding arrears in finalisation of accounts.

Financial position and working results of working PSUs

1.7 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per latest finalised accounts are given in **Annexure-2**. Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years, for which accounts finalised are given in **Annexures 4 and 5** respectively.

According to the latest finalised accounts of 59 working Government companies and six working Statutory corporations, 11 companies¹⁴ and one

¹² Karnataka State Agro Corn Products Limited, Karnataka Togari Abhivridhi Mandali Limited, The Karnataka Fisheries Development Corporation Limited, Karnataka Sheep and Wool Development Corporation Limited, Karnataka Leather Industries Development Corporation Limited, Karnataka Soaps and Detergents Limited, Karnataka Handloom Development Corporation Limited, Karnataka Forest Development Corporation Limited, Mysore Minerals Limited, Karnataka State Construction Corporation Limited, Karnataka Land Army Corporation Limited, D.Devaraj Urs Backward Classes Development Corporation Limited, Karnataka State Women's Development Corporation, The Karnataka Minorities Development Corporation Limited, The Karnataka State Tourism Development Corporation Limited, Jungle Lodges and Resorts Limited, Karnataka Renewable Energy Development Limited, Bangalore Electricity Supply Company Limited, Chamundeshwari Electricity Supply Corporation Limited, Gulbarga Electricity Supply Company Limited (Annexure 2).

¹³ excludes the amalgamated company (Visveswaraya Vidyuth Nigam Limited).

¹⁴ Karnataka Sheep and Wool Development Corporation Limited, Karnataka Leather Industries Development Corporation Limited, Karnataka State Coir Development Corporation Limited, Karnataka Silk Marketing Board Limited, Karnataka Cashew Development Corporation Limited, Karnataka Land Army Corporation Limited, Karnataka Road Development Corporation Limited, D.Devaraj Urs Backward Classes Development Corporation Limited, Karnataka State Women's Development Corporation, The Karnataka State Minorities Development Corporation Limited and The Mysore Sugar Company Limited (Annexure-2).

corporation¹⁵ incurred an aggregate loss of Rs.55.33 crore and Rs.29.53 crore, respectively and 40 companies and five corporations earned an aggregate profit of Rs.730.78 crore and Rs.288.80 crore, respectively. Five companies¹⁶ had not commenced commercial activities as these companies are under construction and in case of two companies¹⁷ excess of expenditure over income was capitalized and no profit and loss account was prepared. One company (Karnataka Scheduled Tribes Development Corporation Limited) has not yet finalised its first accounts for the period 26 July 2006 to 31 March 2007.

Working Government companies

Profit earning working companies and dividend

1.8 Out of 46 working Government companies, which finalised their accounts for 2006-07 by September 2007, 33 companies earned an aggregate profit of Rs.657.65 crore and only eight companies¹⁸ declared dividend aggregating Rs.20.63 crore. The dividend as percentage of share capital in these eight profit making companies worked out to 2.94 *per cent*. The total return to the Government by way of its share of dividend of Rs.18.39 crore worked out to 0.13 *per cent* in 2006-07 on total equity investment of Rs.14,704.18 crore by the State Government in all Government companies as against 0.12 *per cent* in the previous year. The State Government had not formulated any dividend policy for payment of minimum dividend.

Similarly, out of 10 working Government companies, which finalised their accounts for previous years by September 2007, six companies¹⁹ earned an aggregate profit of Rs.71.27 crore and only three companies²⁰ earned profit for two or more successive years.

Loss incurring working Government companies

1.9 Of the 11 loss incurring working Government companies, four companies²¹ had accumulated losses aggregating Rs.194.07 crore, which exceeded their aggregate paid up capital of Rs.15.14 crore. Despite poor performance and

¹⁵ North Eastern Karnataka Road Transport Corporation (Annexure-2).

¹⁶ Krishna Bhagya Jala Nigam Limited, Karnataka Neeravari Nigam Limited, Cauvery Neeravari Nigam Limited, KPC Bidadi Power Corporation Private Limited and Bangalore Metro Rail Corporation Limited (Annexure-2).

¹⁷ Karnataka State Police Housing Corporation Limited and Rajiv Gandhi Rural Housing Corporation Limited (Annexure-2).

¹⁸ Karnataka State Agricultural Produce Processing and Export Corporation Limited, Karnataka State Small Industries Development Corporation Limited, The Hutti Gold Mines Company Limited, The Mysore Paints and Varnish Limited, Karnataka Power Corporation Limited, Karnataka State Beverages Corporation Limited, Marketing Consultants and Agencies Limited and Mysore Sales International Limited (Annexure-2).

¹⁹ Karnataka State Agro Corn Products Limited, The Karnataka Fisheries Development Corporation Limited, Mysore Minerals Limited, Karnataka State Construction Corporation Limited, The Karnataka State Tourism Development Corporation Limited and Karnataka Renewable Energy Development Limited (Annexure-2).

²⁰ Mysore Minerals Limited, The Karnataka State Tourism Development Corporation Limited and Karnataka Renewable Energy Development Limited.

²¹ Karnataka Sheep and Wool Development Corporation Limited, Karnataka Leather Industries Development Corporation Limited, Karnataka State Coir Development Corporation Limited and The Mysore Sugar Company Limited (Annexure-2).

complete erosion of paid up capital, the State Government continued to provide financial support to these companies in the form of contribution towards grant and loan. According to available information, the total financial support provided by the State Government by way of grant and loan during 2006-07 to three companies²² amounted to Rs.20.76 crore.

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.10 Out of six Statutory corporations which finalised their accounts for 2006-07 five corporations²³ earned an aggregate profit of Rs.288.80 crore and one Corporation (Karnataka State Warehousing Corporation) declared dividend of Rs.99.18 lakh. The dividend as a percentage to its share capital worked out to 13.22 *per cent*. The total return to the State Government by way of its share of dividend of Rs.54.22 lakh worked out to 0.09 *per cent* in 2006-07 on total equity investment of Rs.634.07 crore in all Statutory corporations as against 0.03 *per cent* in the previous year. Four corporations had earned profit for two or more successive years.

Loss incurring Statutory corporations

1.11 One Statutory corporation (North Eastern Karnataka Road Transport Corporation) which finalised their accounts for the year 2006-07, incurred loss of Rs.29.53 crore and its accumulated loss amounted to Rs.248.39 crore, which exceeded its paid up capital of Rs.103.50 crore.

Operational performance of working Statutory corporations

1.12 The operational performance of the Statutory corporations is given in **Annexure-6**.

Return on capital employed

1.13 As per the latest annual accounts finalised up to September 2007, the capital employed²⁴ worked out to Rs.44,309.47 crore in 59 working companies and total return²⁵ thereon amounted to Rs.1,916.06 crore, which was 4.32 *per cent* as compared to capital employed of Rs.45,275.36 crore and total return of Rs.1,530.91 crore (3.38 *per cent*) in the previous year. Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest annual accounts finalised up to September 2007,

²² Karnataka Sheep and Wool Development Corporation Limited, Karnataka State Coir Development Corporation Limited and The Mysore Sugar Company Limited.

²³ Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Western Karnataka Road Transport Corporation, Karnataka State Financial Corporation and Karnataka State Warehousing Corporation (Annexure 2).

²⁴ Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).

²⁵ For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

worked out to Rs.3,070.34 crore and Rs.436.77 crore (14.23 per cent) respectively, as against Rs.2,988.31 crore and Rs.252.17 crore (8.44 per cent) in the previous year. The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in **Annexure-2**.

Reforms in the power sector

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

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

Status of implementation of the reform programme against each commitment made in the MOU is detailed below:

Sl. No.	Commitment as per MOU	Targeted completion schedule	Status (as on 31 March 2007)
Commitments made by the State Government			
1	100 per cent electrification of all villages.	By 2012	As per 2001 census, there are 27,481 inhabited villages, of which 27,125 villages have been electrified, leaving a balance of 356 villages to be electrified.
2	Reduction in transmission and distribution (T & D) losses by 10 to 15 per cent.	Five per cent reduction in T & D losses every year.	T & D Losses reduced from 35.50 per cent during 2000-01 to 28.96 per cent during 2006-07. Thus, the reduction in T & D Losses achieved over the last six years is only 6.54 per cent as against the target of 20 per cent.
3	100 per cent metering of all distribution feeders.	September 2001	Completed by December 2002.
4	100 per cent metering of all consumers.	Original target : 2003-04 (Revised to 2004-05)	Out of 33.47 lakh consumers in the un-metered category, only 17.12 lakh consumers (51.15 per cent) were provided with meters up to 31 March 2007.
5	Energy audit at 11 KV sub-station level.	September 2001	Energy audit of 11 KV feeders, on monthly basis, has commenced from June 2003.
6	Securitized outstanding due of CPSUs.	---	The dues were securitized by issue of bonds in August 2003. No dues were securitized during 2006-07.
7	State Electricity Regulatory Commission (SERC)		
	i) Establishment of Karnataka Electricity Regulatory Commission (KERC).	The State Electricity Regulatory Commission was to be made functional within six months.	The Karnataka Electricity Regulatory Commission was established in August 1999, and started functioning from November 1999.
	ii) Implementation of tariff orders issued by KERC during the year.	---	Implemented from time to time.

Sl. No.	Commitment as per MOU	Targeted completion schedule	Status (as on 31 March 2007)
Commitment made by the Central Government			
8	Supply of additional power.	The GOI agreed to supply additional 180 MW.	With the introduction of availability based tariff mechanism, the allocation from Central Generating stations is no longer valid as the excess or short drawal is left to the individual electricity supply companies considering the price prevailing at the time of drawal linked to the frequency.
9	Any other help.	Reduction in interest rate on loans availed of from CPSUs <i>i.e.</i> , PFC/REC.	Interest rate on loans from Power Finance Corporation has been reduced.
General			
10	Monitoring of MOU.	Monitoring was done at Secretary level in the Government on issue-to-issue basis.	

State Electricity Regulatory Commission

1.15 The State Government constituted (August 1999) the Karnataka Electricity Regulatory Commission (KERC) under the Karnataka Electricity Reform Act, 1999 (Act). The Commission comprises three members including a Chairman, who are appointed by the State Government. As per Section 8(4) of the Act, all expenditure of the Commission is to be charged to the Consolidated Fund of the State. Accounts of the Commission have been finalised up to the year ending 31 March 2007.

Non-working Public Sector Undertakings

Investment in non-working PSUs

1.16 As on 31 March 2007, the total investment in 17 non-working Government companies was Rs.593.79 crore²⁶ (equity: Rs.101.81 crore, long-term loans: Rs.429.11 crore and share application money: Rs.62.87 crore) as against total investment of Rs.576.51 crore (equity: Rs.101.81 crore, long-term loans: Rs.425.74 crore and share application money: Rs.48.96 crore) in the same number of non-working Government companies as on 31 March 2006. The classification of non-working PSU's was as follows:

(Rupees in crore)

Sl. No.	Status of non-working PSU's	Number of companies	Investment	
			Equity*	Long-term loans
1	Closed ^e	5	82.62	178.45
2	Defunct ^v	4	29.84	4.48
3	Under liquidation ^o	8	52.22	246.18
	Total	17	164.68	429.11

* includes share application money of Rs.62.87 crore

²⁶ State Government's investment in non-working PSU's was Rs.573.77 crore (others: Rs.20.02 crore). Figure as per Finance Accounts 2006-07 is Rs.629.81 crore. The difference is under reconciliation.

^e Karnataka Agro Industries Corporation Limited, Karnataka Small Industries Marketing Corporation Limited, The Mysore Lamp Works Limited, The Mysore Acetate and Chemicals Company Limited and Karnataka Film Industries Development Corporation Limited (Annexure -1).

^v The Mysore Tobacco Company Limited, Vijayanagar Steel Limited, Karnataka Pulpwood Limited and The Karnataka State Veeners Limited (Annexure -1).

^o Karnataka Agro Proteins Limited, The Mysore Cosmetics Limited, Karnataka Telecom Limited, The Mysore Chrome Tanning Company Limited, NGEF Limited, Chamundi Machine Tools Limited, Karnataka State Textiles Limited and The Mysore Match Company Limited (Annexure -1).

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

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

Total establishment expenditure of non-working PSUs

1.18 The year wise details of total establishment expenditure of non-working Government companies and the sources of financing them during the last three years up to 2006-07 are given below:

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by		
			Loans from private parties	Loans from Government	Others ²⁷
2004-05	17	3.17	-	-	3.17
2005-06	17	1.42	-	-	1.42
2006-07	17	0.91	-	-	0.91

Finalisation of accounts by non-working PSUs

1.19 Out of 17 non-working companies, the accounts of five non-working companies (including one company²⁸ under liquidation) were in arrears for periods ranging from one to four years as on 30 September 2007 (**Annexure-2**).

Financial position and working results of non-working PSUs

1.20 The summarised financial results of non-working Government companies as per latest finalised accounts are given in **Annexure-2**. The year wise details of paid-up capital, net worth, cash loss and accumulated loss/profit of non-working PSUs as per their latest finalised accounts are given below:

(Rupees in crore)

Year of latest finalised accounts	No. of companies	Paid-up capital	Net worth	Cash loss	Accumulated loss
1998-99	1	0.50	(-) 8.41	0.87	8.91
2002-03	3	59.29	(-) 377.08	155.63	436.37
2003-04	2	3.16	(-) 36.54	0.96	39.23
2004-05	1	1.00	(-) 5.30	0.44	8.85
2005-06	2	57.61	(-) 87.89	4.73	156.16
2006-07	8	43.12	(-) 181.07	12.91	239.13
Total	17	164.68	(-) 696.29	175.54	888.65

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

²⁷ includes income from sales, building rent, interest, etc.

²⁸ Karnataka Agro Proteins Limited (Annexure 2).

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

1.21 The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by the CAG, in the Legislature by the Government:

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government
1	KSRTC	2005-06	2006-07	25.09.2007
2	BMTC	2005-06	2006-07	10.09.2007
3	KSFC	2005-06	2006-07	Audit in progress as on 30 September 2007
4	NEKRTC	2005-06	2006-07	
5	NWKRTC	2005-06	2006-07	
6	KSWC	2005-06	2006-07	

Disinvestment, privatisation and restructuring* of Public Sector Undertakings

1.22 The State Government has approved and adopted (February 2001) a comprehensive policy on Public Sector Reforms and privatisation of Public Sector Undertakings (PSUs) in the State. Accordingly, the Government identified 31 PSUs for closure, privatisation and restructuring. One defunct company (Karnataka Tungsten Moly Limited) was dissolved (2005-06) and one Company (Visveswaraya Vidyuth Nigam Limited) was amalgamated with another Company (Karnataka Power Corporation Limited) during the year. The position of action taken by the Government in respect of the remaining 29 companies identified for closure/privatisation/restructuring is as follows:

	No. of companies	Government order issued	Government order not yet issued
Non-working Government companies decided for closure	17	17 ³	-
Working Government companies decided for closure	3	1 ⁴	2 [@]
Working Government companies decided for privatisation	8	6 [♥]	2 [*]
Restructuring of Working Government companies	1	1 ^Ω	-

* restructuring includes merger and closure of PSUs.

³ All the non-working companies as per Annexure 2.

⁴ Karnataka State Construction Corporation Limited.

[@] The Karnataka Fisheries Development Corporation Limited, Karnataka Electronics Development Corporation Limited.

[♥] 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.

[♦] The Mysore Sugar Company Limited, The Mysore Paper Mills Limited.

^Ω The Karnataka State Forest Industries Corporation Limited to be merged with Karnataka Forest Development Corporation Limited.

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

1.23 During October 2006 to September 2007, the audit of 69 accounts of 61 Government companies (54 working and seven non-working) and five accounts of five Statutory corporations (all working) were selected for review. As a result of the observations made by the CAG, 15 companies revised their accounts.

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

1.24 Errors and omissions noticed in case of Statutory corporations

Karnataka State Road Transport Corporation (2006-07)

- Non-provision of liability for gratuity as per actuarial valuation (past service gratuity) has resulted in understatement of liabilities and overstatement of profit by Rs.115.41 crore.
- Non-provision of difference in gratuity payable to employees who retired, removed, dismissed or expired during 28 November 1995 to 31 March 1998 as per Supreme Court Order (November 2006) resulted in understatement of liabilities and overstatement of profit by Rs.38.76 crore.
- Non-provision of Motor vehicle Tax payable on subsidies received from the Government towards concession bus passes (Motor vehicle Tax is payable as a percentage of traffic revenue) has resulted in understatement of liabilities and overstatement of profit by Rs.2.87 crore.

Bangalore Metropolitan Transport Corporation (2006-07)

- Non-provision of additional amount payable on account of house rent allowance and city compensatory allowance for the period from 1 April 2006 to 31 March 2007 payable as per Government Order of April 2007 resulted in understatement of liabilities and overstatement of profit for the year by Rs.7.56 crore.
- Non-provision of Motor vehicle Tax payable on subsidies received from the Government toward concession bus passes (Motor vehicle Tax is payable as a percentage of traffic revenue) has resulted in understatement of liabilities and overstatement of profit by Rs.6.03 crore.
- Non-provision for liability towards gratuity and leave encashment based on actuarial valuation (amount not ascertained) payable to its employees for past service.

Karnataka State Financial Corporation (2005-06)

- Treating the interest earned on deposits of sinking fund as income of the corporation instead of crediting it to the sinking fund has resulted in overstatement of receivables and understatement of accumulated loss by Rs.9.72 crore.
- Non-provision of guarantee commission payable to the State Government has resulted in overstatement of profit for the year by Rs.1.23 crore and understatement of accumulated loss by Rs.6.43 crore.
- Non-provision of leave encashment and past service gratuity liabilities has resulted in overstatement of profit for the year by Rs.11.77 crore.

Recoveries at the instance of audit

1.25 Test check of records of irrigation sector companies disclosed wrong interpretation of contract, wrong working of rates payable and other observations aggregating Rs.25.47 crore in 86 cases. The companies accepted the audit observations and a sum of Rs.2.73 crore was recovered during 2006-07 at the instance of Audit.

Internal audit / Internal control

1.26 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 to them by the CAG under 619 (3)(a) of the Companies Act, 1956 and to identify areas which need improvement. Such direction/sub-directions were issued to the Statutory Auditors in respect of 57 Government companies involving 57 accounts between October 2006 and September 2007 and such reports involving 49 accounts were received (September 2007) from the Statutory auditors of 40 Government companies.

An illustrative resume of major recommendations/comments made by the Statutory Auditors on possible improvements in the internal control system/internal audit in respect of State Government companies are indicated in the table below:

Nature of recommendation/comments made by the Statutory Auditors	Number of companies where recommendations/comments were made	Reference to serial number of Annexure 2
Inadequate internal audit according to size and nature of business	13	A-4, 8, 15, 23, 33, 39, 44, 47, 49, 51, 53, 57 and C-1
Lack of proper system of internal audit	7	A-6, 30, 34, 38, 46, 48 and 58
Non-formation/non-functioning of Audit Committee	6	A-34, 38, 41, 43, 51 and C-17

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

1.27 The table below indicates the position of reviews/paragraphs appeared in the Audit Reports and were discussed by the COPU as on 30 September 2007:

Period of Audit Report	No. of reviews/paragraphs appeared in the Audit Report		No. of reviews/paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2000-01	3	29	3	28
2003-04	4	20	1	16
2004-05	3	22	-	2
2005-06	5	26	-	-
Total	15	97	4	46

619 B Companies

1.28 There were four companies (all working) coming under the purview of Section 619B of the Companies Act, 1956 as on 31 March 2007 as against the same number of companies as on 31 March 2006. **Annexure -7** indicates the details of paid up capital, investment by way of equity, loans and grants and summarised working results of these companies based on their latest available accounts.