

## CHAPTER I

### Overview of Government companies and Statutory corporations

#### *Introduction*

**1.1** As on 31 March 2004, there were 76 Government companies (59 working companies and 17 non-working companies\*) and six Statutory corporations (working) under the control of the State Government as against 74 Government companies (58 working companies and 16 non-working companies) and six Statutory corporations (working) as on 31 March 2003. During the year, three new companies<sup>∇</sup> were formed. One company<sup>#</sup> went under the control of the Central Government due to majority share holding by the Central Government. One working company<sup>♦</sup> became non-working during the year. In addition, the State Government had formed Karnataka Electricity Regulatory Commission, whose audit is also being conducted by the Comptroller and Auditor General of India (CAG). The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors, who are appointed by the CAG as per provision 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 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)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
3	North Western Karnataka Road Transport Corporation (NWKRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
4	North Eastern Karnataka Road Transport Corporation (NEKRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
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

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

<sup>∇</sup> Karnataka Sheep and Wool Development Corporation Limited, Karnataka State Beverages Corporation Limited and Cauvery Neeravari Nigam Limited.

<sup>#</sup> Karnataka Meat and Poultry Marketing Corporation Limited.

<sup>♦</sup> Karnataka State Agro Industries Corporation Limited.

## **Working Public Sector Undertakings (PSUs)**

### ***Investment in working PSUs***

**1.2** As on 31 March 2004, the total investment in 65 working PSUs (59 Government companies and six Statutory corporations) was Rs.33,697.10 crore<sup>∇</sup> (equity: Rs.8,417.69 crore; long-term loans<sup>@</sup>: Rs.21,105.38 crore and share application money Rs.4,174.03 crore) as against 64 working PSUs (58 Government companies and six Statutory corporations) with total investment of Rs.26,545.13 crore (equity: Rs.6,249.80 crore; long-term loans: Rs.16,407.48 crore and share application money Rs.3,887.85 crore) as on 31 March 2003. The analysis of investment in working PSUs is given in the following paragraphs.

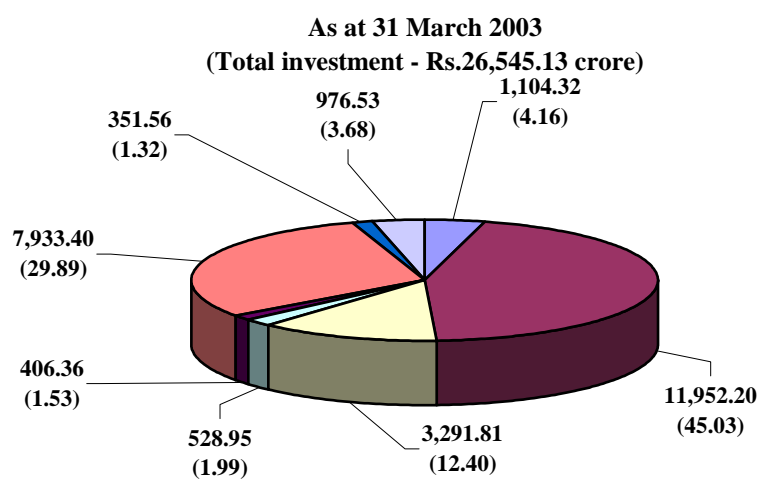
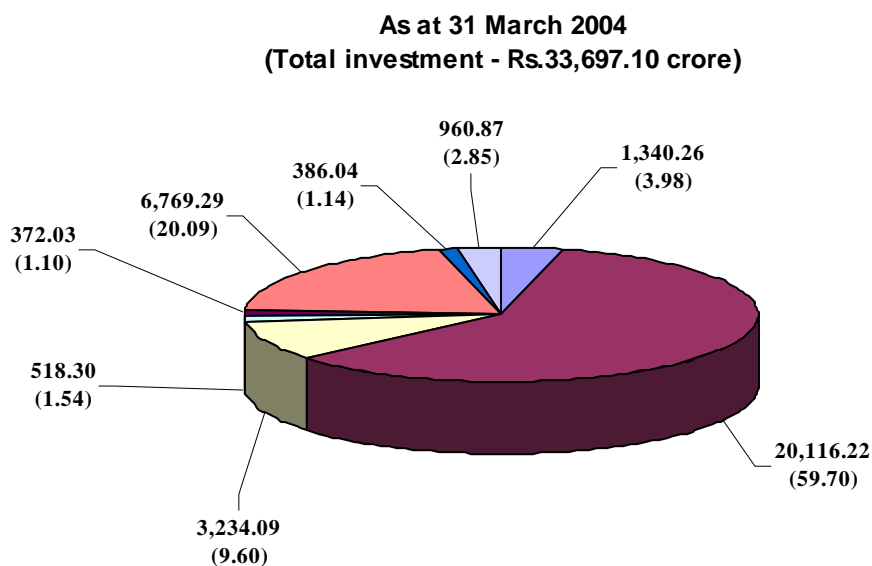
The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2004 and 31 March 2003 are indicated below in the pie charts:

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<sup>∇</sup> State Government's investment in working PSU's was Rs.18,920.93 crore (others: Rs.14,776.17 crore). Figure as per Finance Accounts, 2003-04 is Rs.8,655.27 crore. The difference is under reconciliation.

<sup>@</sup> Long term loans mentioned in paragraphs 1.2, 1.3, 1.4 and 1.16 are excluding interest accrued and due on such loans.

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



The debt equity ratio increased from 1.62 :1 in 2002-03 to 1.68: 1 in 2003-04.

### **Working Government companies**

**1.3** Total investment in working Government companies at the end of March 2003 and March 2004 was as follows:

**(Rupees in crore)**

Year	Number of companies	Equity	Share application money	Loans	Total
2002-03	58	5,694.50	3,849.15	14,115.68	23,659.33
2003-04	59	7,862.10	4,135.62	18,801.36	30,799.08

As on 31 March 2004, the total investment of working Government companies comprised 38.95 per cent of equity capital and 61.05 per cent of loans as compared to 40.34 per cent and 59.66 per cent respectively as on 31 March 2003.

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 detailed in **Annexure 1**.

### **Working Statutory corporations**

**1.4** The total investment in six working Statutory corporations at the end of March 2003 and March 2004 was as follows:

**(Rupees in crore)**

Name of the Corporation	2002-03		2003-04	
	Capital	Loan	Capital	Loan
Karnataka State Road Transport Corporation (KSRTC)	208.39	179.74	208.39	177.25
Bangalore Metropolitan Transport Corporation (BMTCL)	64.72	40.07	64.72	34.97
North Western Karnataka Road Transport Corporation (NWKRTC)	93.64	105.94	93.64	112.90
North Eastern Karnataka Road Transport Corporation (NEKRTC)	83.20 (0.30)	55.65	83.50	40.67
Karnataka State Financial Corporation (KSFC)	97.84 (36.01)	1,895.76	97.84 (36.01)	1,898.66
Karnataka State Warehousing Corporation (KSWC)	7.50 (2.40)	14.64	7.50 (2.40)	39.57
<b>Total</b>	<b>555.29</b> <b>(38.71)</b>	<b>2,291.80</b>	<b>555.59</b> <b>(38.41)</b>	<b>2304.02</b>

(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 detailed 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 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 capital and loans) and grants/subsidies from the State Government to working Government companies and Statutory corporations for the three years up to March 2004 are summarised below:

(Amount: Rupees in crore)

	2001-02				2002-03				2003-04			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	17	1,542.93	2	2.73	21	2,960.10	-	-	13	1,525.38	-	-
Loans given from budget	9	58.79	1	7.80	3	14.36	1	6.38	6	89.45	-	-
Grants	13	133.39	-	-	10	51.83	-	-	11	108.05	-	-
Subsidy towards (i)Projects/Programme/schemes	4	250.54	1	90.37	4	196.92	-	-	3	5.45	1	12.50
(ii)Other subsidy	4	2,235.75	4	107.46	8	737.86	4	85.45	9	1,893.67	4	29.11
Total subsidy	7	2,486.29	4	197.83	12	934.78	4	85.45	11	1,899.12	4	41.61
<b>Total outgo*</b>	<b>32</b>	<b>4,221.40</b>	<b>4</b>	<b>208.36</b>	<b>32</b>	<b>3,961.07</b>	<b>5</b>	<b>91.83</b>	<b>28</b>	<b>3,622.00</b>	<b>4</b>	<b>41.61</b>

During 2003-04, the Government had guaranteed the loans aggregating Rs.1,501.47 crore obtained by 14 working Government companies (Rs.1,465.50 crore) and three Statutory corporations (Rs.35.97 crore). At the end of the year, guarantees amounting to Rs.6,673.22 crore against 24 working Government companies (Rs.6,599.02 crore) and five working Statutory corporations (Rs.74.20 crore) were outstanding. The Government had foregone Rs.28.20 crore by way of interest waiver in one company during the year. The Government also converted loan of Rs.37.76 crore into equity capital in two companies during the year. The guarantee commission paid/payable to the Government, by Government companies and Statutory corporations, during 2003-04 was Rs.7.99 crore and Rs.146.55 crore, respectively. One working company and one Statutory corporation defaulted in repayment of guaranteed loan of Rs.5.32 crore and payment of interest of Rs.56.09 lakh.

\* 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.

### ***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 Section 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 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.

Thirty four working companies out of 59 working Government companies and three of the six working Statutory corporations have finalised their accounts for the year 2003-04 within stipulated period (September 2004), as could be noticed from **Annexure 2**. During October 2003 to September 2004, twenty four working Government companies finalised 25 accounts for previous years. Similarly, during this period, six working Statutory corporations finalised six accounts for the previous years.

The accounts of 25 working Government companies and three Statutory corporations were in arrears for periods ranging from one to three years as on 30 September 2004 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	02	--	2001-02 to 2003-04	3	A5 and 7	-
2	23	3	2003-04	1	A1,3,4,10,11,22,23,24,26,27,30,33,37,39,44,45,46,47,48,49,50,54,55	B-3,4,6

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. The concerned administrative departments and officials of the Government were appraised quarterly 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 were finalised, are given in **Annexures 4 and 5** respectively.

According to latest finalised accounts of 56 working Government companies and six working Statutory corporations, 16 companies and one corporation had incurred an aggregate loss of Rs.244.40 crore and Rs.14.98 crore, respectively and 34 companies and five corporations earned an aggregate profit of Rs.500.13 crore and Rs.128.28 crore, respectively. Four companies

had not commenced commercial activities and in case of two companies, excess of expenditure over income is capitalised and no profit and loss account is prepared. Three companies are yet to finalise their first accounts.

### ***Working Government companies***

#### ***Profit earning working companies and dividend***

**1.8** Out of 34 working Government companies, which finalised their accounts for 2003-04 by September 2004, 20 companies earned an aggregate profit of Rs.367.11 crore and only six companies (Serial No.A-2,25,42,43,58 and 59 of **Annexure 2**) declared dividend aggregating Rs.14.82 crore. The dividend as percentage of share capital in these six profit making companies worked out to 2.11 per cent. The total return to the Government by way of dividend of Rs.14.05 crore worked out to 0.18 per cent in 2003-04 on total equity investment of Rs.7,738.62 crore by the State Government in all Government companies as against 0.17 per cent in the previous year. The State Government had not formulated any dividend policy so far.

Similarly, out of 22 working Government companies, which finalised their accounts for previous years by September 2004, 12 companies earned an aggregate profit of Rs.122.43 crore and only eight companies earned profit for two or more successive years.

#### ***Loss incurring working Government companies***

**1.9** Of the 16 loss incurring working Government companies, nine companies<sup>§</sup> had accumulated losses aggregating Rs.616.43 crore, which exceeded their aggregate paid up capital of Rs.358.41 crore.

Despite poor performance and complete erosion of paid up capital, the State Government continued to provide financial support to these companies in the form of contribution towards equity, further grant of loans, conversion of loans into equity, subsidy, etc. According to available information, the total financial support provided by the State Government by way of equity, loan, subsidy and, loan converted into equity during 2003-04 to four companies amounted to Rs.94.82 crore<sup>¶</sup>.

### ***Working Statutory corporations***

#### ***Profit earning Statutory corporations and dividend***

**1.10** Three Statutory corporations which finalised their accounts for 2003-04 by September 2004 earned an aggregate profit of Rs.106.88 crore and none of the corporations declared dividend. Out of three Statutory corporations, which finalised their accounts for previous year by September 2004, two corporations earned aggregate profit of Rs.21.39 crore and one corporation (Karnataka State Warehousing Corporation) declared dividend of Rs.75 lakh. The dividend as a percentage of its share capital worked out to 10 per cent.

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<sup>§</sup> Serial numbers A-4, 7, 12, 16, 19, 39, 52, 56, 57 of Annexure-2

<sup>¶</sup> Details at Serial numbers A-16, 39, 52 of Annexure -1 and, A-6,7 of Annexure-3

The total return to the Government by way of dividend of Rs.41 lakh worked out to 0.09 per cent in 2003-04 on total equity investment of Rs.473.62 crore by the State Government in all the Statutory corporations. Four corporations earned profit for two or more successive years.

### ***Loss incurring Statutory corporations***

**1.11** Out of three Statutory corporations, which finalised their accounts for the year 2002-03, one Statutory corporation (North Eastern Karnataka Road Transport Corporation) incurred losses aggregating to Rs.14.98 crore and the accumulated losses of the corporation aggregated Rs.137.86 crore, which had far exceeded its aggregate paid up capital of Rs.83.50 crore.

### ***Operational performance of working Statutory corporations***

**1.12** The operational performance of the Statutory corporations is given in **Annexure-6**. Percentage of overdues to the total loans outstanding in respect of Karnataka State Financial Corporation increased from 25.88 in 2002-03 to 45.57 in 2003-04.

### ***Return on capital employed***

**1.13** As per the latest finalised accounts (up to September 2004), the capital employed\* worked out to Rs.27,217.55 crore in 59 working companies and total return<sup>+</sup> thereon amounted to Rs.1,143.71 crore, which was 4.20 per cent as compared to total return of Rs.1,271.88 crore (5.37 per cent) in the previous year (accounts finalised up to September 2003). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2004) worked out to Rs.2,670.39 crore and Rs.339.43 crore (12.71 per cent) respectively, as against Rs.2,734.72 crore and Rs.205.38 crore (7.51 per cent) in the previous year (accounts finalised up to September 2003). 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 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 reforms programme in power sector with identified milestones.

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\* 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).

<sup>+</sup> 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.



Status of implementation of 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 2004)
<b>Commitments made by the State Government</b>			
1.	100 per cent electrification of all villages (27,066 villages).	By 2012	294 villages remain to be electrified (September 2004)
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 30.11 per cent during 2003-04. Thus the reduction in T & D Losses achieved over the last three years is only 5.39 per cent as against the target of 15 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.	Before 2003-04 (Revised to 2004-05)	Out of 29.01 lakh consumers in the un-metered category, only 12.46 lakh consumers (43 per cent) were installed with meters (September 2004).
5	Energy audit at 11 KV sub-station level.	September 2001	Energy audit of 11 KV feeders has commenced from June 2003.
6	Securitized outstanding due of CPSUs.	---	The dues were securitized by issue of bonds in August 2003.
7	<b>State Electricity Regulatory Commission (SERC)</b>		
	i) Establishment of Karnataka Electricity Regulatory Commission.	The State Electricity Regulatory Commission was to be made functional within six months.	The Karnataka State 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.
<b>Commitment made by the Central Government</b>			
8.	Supply of additional power.	The GOI agreed to supply additional 180 MW.	After completion of Talcher-Kolar line, additional power was being received. However, 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 states 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.e. PFC/REC.	Interest rate on loans from Power Finance Corporation has been reduced.
<b>General</b>			
10.	Monitoring of MOU.	Monitoring was done at Secretary level in the Government on issue-to-issue basis.	

### **State Electricity Regulatory Commission**

**1.15** Karnataka Electricity Regulatory Commission (KERC) was constituted (28 August 1999) under the Karnataka Electricity Reforms Act, 1999 (Act) to provide for the restructuring of the electricity industry in the State; the corporatisation of the Karnataka Electricity Board and rationalisation of generation, transmission, distribution and supply of electricity in the State. The Commission is a body corporate, comprises of 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 are to be charged to the Consolidated Fund of the State. Accounts of KERC have been finalised up to the year ending 31 March 2004.

### **Non-working PSUs**

#### ***Investment in non-working PSUs***

**1.16** As on 31 March 2004, the total investment in 17 non-working Government companies was Rs.536.93 crore (equity: Rs.100.79 crore, long-term loans: Rs.387.18 crore and share application money: Rs.48.96 crore) as against total investment of Rs.417.10 crore (equity: Rs.93.30 crore, long-term loans: Rs.323.20 crore and share application money: Rs.0.60 crore) in 16 non-working Government companies as on 31 March 2003. The main reason for increase in investment during 2003-04 was that one company<sup>§</sup>, which was under category of working companies during the previous years, became non-working during the year.

The classification of non-working PSU's was as follows:

Sl.No	Status of non-working PSU's	Number of companies	Investment (Rupees in crore)	
			Equity*	Long-term loans
1	Closed <sup>¢</sup>	4	81.60	139.96
2	Defunct <sup>¥</sup>	5	15.93	1.61
3	Under liquidation <sup>°</sup>	8	52.22	245.61
	<b>Total</b>	<b>17</b>	<b>149.75</b>	<b>387.18</b>

\* includes share application money of Rs.48.96 crore

All these companies have been identified by the Government for closure, however decision of the Government is awaited in respect of one company<sup>♦</sup>. Effective steps need to be taken for their expeditious liquidation.

<sup>§</sup> Karnataka Agro industries Corporation Limited.

<sup>¢</sup> Sl.No.C-1, 4, 5 and 17 of Annexure 1.

<sup>¥</sup> Sl. No. C-3, 6, 10, 14 and 15 of Annexure 1

<sup>°</sup> Sl. No. C- 2, 7, 8, 9, 11, 12, 13 and 16 of Annexure 1

<sup>♦</sup> The Mysore Tobacco Company Limited.

***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**.

The State Government provided budgetary support of Rs.55.69 crore to three non-working companies in the form of loans during 2003-04. The guarantee commission payable to the Government by non-working Government companies during 2003-04 was Rs.4.71 crore. Two non-working Government companies defaulted in payment of principal of Rs.58.91 crore and interest of Rs.7.89 crore on Government loans.

***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 last three years up to 2003-04 are given below:

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by		
			Loans from private parties	Loans from Government	Others <sup>@</sup>
2001-02	13	2.73	-	0.08	2.65
2002-03	16	146.27	0.62	116.17	29.48
2003-04	17	50.69	-	33.21	17.48

***Finalisation of accounts by non-working PSUs***

**1.19** The accounts of nine non-working companies were in arrears for periods ranging from one to two years as on 30 September 2004, as could be noticed from **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

<sup>@</sup> This includes income from sales, building rent, interest, etc.

below:

(Rupees in crore)

Year of latest finalised accounts	No. of companies	Paid-up capital	Net worth	Cash loss	Accumulated loss (-) / accumulated profit (+)
1998-99	1	0.50	(-) 8.41	0.87	(-) 8.91
2001-02	1	1.71	5.77	0.07	4.05
2002-03	11	133.19	(-) 555.33	223.69	(-) 801.74
2003-04	4	14.35	(-) 3.87	0.01	(-) 18.21
<b>Total</b>	<b>17</b>	<b>149.75</b>	<b>(-) 561.84</b>	<b>224.64</b>	<b>(-) 824.81</b>

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

### 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 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	Reason for delay in placement in Legislature
1	KSFC	2001-02	2002-03	13 October 2003	Not available
			2003-04	30 September 2004	
2	KSWC	2001-02	2002-03	27 April 2004	Not available
3	KSRTC	2002-03	2003-04	30 September 2004	
4	BMTC	2002-03	2003-04	30 September 2004	

### Disinvestment, privatisation and restructuring\* of Public Sector Undertakings

**1.22** The Government of Karnataka 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 29 PSUs for closure / privatisation. The position of action taken by the Government in respect of the 29 companies identified for closure/privatisation is as follows:

\* restructuring includes merger and closure of PSUs.

	No. of companies	Government order issued	Government order not yet issued
Non-working Government companies decided for closure	17	16 <sup>o</sup>	1 <sup>§</sup>
Working Government companies decided for closure	4	2 <sup>€</sup>	2 <sup>@</sup>
Working Government companies decided for privatisation	8	5 <sup>♥</sup>	3 <sup>*</sup>

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

**1.23** During October 2003 to September 2004, the audit of 68 accounts of 60 Government companies (48 working and 12 non-working) and nine accounts of six Statutory corporations (all working) were selected for review. As a result of the observations made by the CAG, 26 companies and one corporation revised their accounts. In addition, the net impact of the important audit observations as a result of review of the accounts of PSUs was as follows:

- Karnataka State Road Transport Corporation (2002-03) – Profit of Rs.32.74 crore was overstated by Rs.31.27 crore.
- Karnataka State Road Transport Corporation (2003-04) – Profit of Rs.25.87 crore was overstated by Rs.5.70 crore
- Bangalore Metropolitan Transport Corporation (2003-04) – Profit of Rs.80.14 crore was overstated by Rs.2.71 crore.
- North Western Karnataka Road Transport Corporation (2002-03) – Profit of Rs.12.28 crore was overstated by Rs.19.65 crore turning it into loss of Rs.7.37 crore.
- Karnataka State Financial Corporation (2003-04) - Loss of Rs.1.01 crore is understated by Rs.11.73 crore.

<sup>o</sup> Karnataka State Textiles Limited, Karnataka Agro Proteins Limited, Chamundi Machine Tools Limited, Karnataka Small Industries Marketing Corporation Limited, Vijayanagar Steel Limited, Karnataka Telecom Limited, Karnataka Tungsten Moly Limited, The Mysore Acetate and Chemicals Company Limited, The Mysore Cosmetics Limited, The Mysore Chrome Tanning Company Limited, The Mysore Lamp Works Limited, The Mysore Match Company Limited, NGEF Limited, Karnataka Agro Industries Corporation Limited, The Karnatak State Veeners Limited, Karnataka Pulpwood Limited.

<sup>§</sup> Mysore Tobacco Company Limited

<sup>€</sup> Karnataka State Construction Corporation Limited, Karnataka Film Industry Development Corporation Limited.

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

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

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

#### **1.24 Errors and omissions noticed in case of Statutory corporations**

##### ***Karnataka State Road Transport Corporation (2002-03)***

- Non-provision of Rs.26.19 crore for entry tax and penalty thereon.
- Correctness of Rs.2.85 crore receivables from other corporations in the State towards window collection tickets issued and remained un-adjusted since 1998-99, was doubtful.

##### ***Karnataka State Road Transport Corporation (2003-04)***

- Non-accountal of claim from Bangalore Metropolitan Transport Corporation of Rs.85 lakh, resulted in overstatement of profit to that extent.
- The Corporation had not provided for minimum compensation payable for 2003-04, under Motor Vehicles Act, 1988, resulting in overstatement of profit by Rs.2.67 crore.

##### ***Bangalore Metropolitan Transport Corporation (2003-04)***

- Non-charging of ex-gratia, paid for the year 2001-02, pending Government approval resulted in understatement of profit by Rs.2.60 crore.

##### ***North Western Karnataka Road Transport Corporation (2002-03)***

- Non-provision of Rs.14.91 crore for entry tax and penalty thereon.
- Non-provision of minimum compensation of Rs.4.33 crore, payable under Motor Vehicles Act, 1988.

##### ***Karnataka State Financial Corporation (2002-03)***

- Non-provision of Rs.5.64 crore towards guarantee commission payable to the Government of Karnataka.

##### ***Karnataka State Financial Corporation (2003-04)***

- Non-provision for leave encashment in contravention of Accounting Standard 15 resulted in understatement of loss by Rs.5.10 crore.
- Non-provision of guarantee commission resulted in understatement of loss of Rs.5.45 crore.

#### **Recoveries at the instance of audit**

**1.25** Test check of records of power sector and irrigation sector companies conducted during 2003-04 disclosed wrong interpretation of contract terms and other observations aggregating Rs.11.01 crore in 52 cases. The companies

accepted all the observations and a sum of Rs.7.90 crore relating to 23 audit observations was recovered 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 by the CAG to them under 619 (3)(a) of the Companies Act, 1956 and to identify areas which need improvement. Direction / sub-directions under the Act, *ibid*, were issued to the Statutory Auditors in respect of 59 Government companies involving 60 accounts between October 2003 and September 2004. In pursuance of directions so issued, reports of the Statutory Auditors involving 59 accounts of 50 Government companies were received (September 2004).

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:

<b>Nature of recommendation/comments made by the Statutory Auditors</b>	<b>Number of companies where recommendations/comments were made</b>	<b>Reference to serial number of Annexure 2</b>
Lack of internal audit	1	A-53
Inadequate internal audit according to size and nature of business	10	A - 4, 8, 9, 10, 15, 22, 30, 36, 38, 40
Lack of proper system of internal audit	6	A-16,19,34,39,40, 46
Surprise checks are required to be made of production and inventory records	2	A- 9, 19
Non-formation of Audit Committee	2	A-36, 40

### **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 pending for discussion as on 30 September 2004:

<b>Period of Audit Report</b>	<b>No. of reviews/paragraphs appeared in the Audit Report</b>		<b>No. of reviews/paragraphs pending for discussion</b>	
	<b>Reviews</b>	<b>Paragraphs</b>	<b>Reviews</b>	<b>Paragraphs</b>
1997-98	8	27	2	3
2000-01	3	29	1	17
2001-02	3	29	2	17
2002-03	3	25	3	25
<b>Total</b>	<b>17</b>	<b>110</b>	<b>8</b>	<b>62</b>

**619 B Companies**

**1.28** There were four companies coming under Section 619B of the Companies Act, 1956. **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.