OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2004, the State had 82 Public Sector Undertakings (PSUs) comprising 76 Government companies (including 17 non-working companies) and six Statutory corporations as against 80 Public Sector Undertakings comprising 74 Government companies and six Statutory corporations as on 31 March 2003. In addition, there were four deemed Government companies under Section 619 B of the Companies Act, 1956 as on 31 March 2004.

(Paragraphs 1.1 and 1.28)

The total investment in working PSUs increased from Rs. 26,545.13 crore as on 31 March 2003 to Rs. 33,697.10 crore as on 31 March 2004. The total investment in non-working PSUs increased from Rs. 417.10 crore to Rs.536.93 crore during the same period.

(Paragraphs 1.2 and 1.16)

The budgetary support in the form of capital, loans, grants and subsidy disbursed to the working PSUs decreased from Rs.4,052.90 crore in 2002-03 to Rs.3,663.61 crore in 2003-04. The State Government also provided Rs.55.69 crore in the form of loans to three non-working companies during 2003-04. The State Government guaranteed loans aggregating Rs.1,501.47 crore during 2003-04. Guarantees amounting to Rs.6,673.22 crore against 24 working Government companies and five working Statutory corporations were outstanding as on 31 March 2004.

(Paragraphs 1.5 and 1.17)

Thirty four working Government companies and three Statutory corporations finalised their accounts for the year 2003-04. The accounts of the remaining Government companies and Statutory corporations were in arrears for periods ranging from one to three years as on 30 September 2004. The accounts of nine non-working Government companies were in arrears for periods ranging from one to two years as on 30 September 2004.

(Paragraphs 1.6 and 1.19)

According to latest finalised accounts, 39 working PSUs (34 Government companies and five Statutory corporations) earned aggregate profit of Rs.628.41 crore. Out of 34 working Government companies, which finalised their accounts for 2003-04 by September 2004, only six companies declared dividend aggregating Rs.14.82 crore. Seventeen working PSUs (16 Government companies and one Statutory corporation) incurred aggregate loss of Rs.259.38 crore as per their latest finalised accounts. Of the loss incurring PSUs, nine companies and one Statutory corporation had accumulated losses aggregating Rs.616.43 crore and Rs.137.86 crore respectively, which exceeded their aggregate paid up capital of Rs.358.41 crore and Rs.83.50 crore respectively.

(Paragraphs 1.7,1.8, 1.9, 1.10 and 1.11)

2. Reviews relating to Government companies

2.1 Working of the Mysore Minerals Limited

The Company was incorporated in May 1966 and is engaged mainly in exploration, exploitation and marketing of minerals and precious stones in the State, in the areas leased/reserved for operation by the State Government.

The Company was established with main objectives of exploring, exploitation and marketing of mineral wealth from the leased area in the State. The Company could not achieve the targeted production in any of the years. The Company sustained losses due to high cost of production compared with the realisation. There has been surplus manpower with the Company. Some of the important points noticed in audit are given below:

- Failure to close down non-operational mines resulted in payment of Rs.4.94 crore on salaries and wages of personnel attached to these mines.

  (Paragraph 2.1.10)

- The Company incurred losses of Rs.9.19 crore due to high cost of production.

  (Paragraph 2.1.14)

- Non revision of rates in terms of agreement for sale of iron ore resulted in revenue loss of Rs.3.27 crore.

  (Paragraph 2.1.24)

- The Company incurred losses of Rs.6.17 crore due to acceptance of development cost at lower price, payment of hardship allowance, non-claiming of minimum premium, etc. in the execution of Memorandum of Understanding entered with Jindal Vijayanagar Steel Limited.

  (Paragraphs 2.1.28 to 2.1.34)

- Failure to implement Voluntary Retirement Scheme in respect of surplus staff resulted in expenditure of Rs.6.70 crore towards salaries and wages.

  (Paragraph 2.1.35)

2.2 Sectoral review on Fuel Management in Power Sector companies.

Karnataka Power Corporation Limited (KPCL) and Visveswaraya Vidyuth Nigam Limited (VVNL) are two power generation companies in the State.

As on 31 March 2004, the installed capacity of Karnataka Power Corporation Limited was 4,365.50 Mega Watt (MW) comprising of 1,470 MW coal based thermal power station at Raichur, 2,891 MW hydel (17 stations) and 4.50 MW wind energy (one station). The installed capacity of Visveswaraya Vidyuth Nigam Limited was 354.32 MW, comprising of 127.92 MW Diesel / Low

Sulphur Heavy Stock (LSHS) power station at Bangalore and 226.40 MW hydel (four stations).

Though the Karnataka Power Corporation Limited has a separate 'Fuel Management' wing for efficient handling of the supply and utilisation of coal for its thermal stations, the Company made excess payments towards supply of low grade coal. There were losses due to excessive combustibles in ash and utilisation of excess heat for generation.

The Diesel Generating Plant of Visveswaraya Vidyuth Nigam Limited was operating below the anticipated Plant Load Factor of 68.5 per cent. There was excess consumption of lube oil and payment of additional sales tax.

Some of the important points noticed in Audit are given below.

- Receipt of low grade coal against the billed grade from Singareni Collieries Company Limited resulted in extra cost of Rs.151.83 crore to KPCL.

  (Paragraph 2.2.5)

- Poor quality of coal resulted in loss of generation of 757.118 million units in KPCL.

  (Paragraph 2.2.6)

- Excess quantum of combustibles in ash over and above the norms resulted in consumption of excess coal at an additional cost of Rs.13.44 crore in KPCL.

  (Paragraph 2.2.8)

- There has been excess consumption of lube oil valuing Rs.8.36 crore in VVNL against the norms.

  (Paragraph 2.2.14)

2.3 Sectoral review on the Internal control and Internal Audit System in Financial Sector Undertakings.

The Budgets have not been used as a tool of internal control as they were neither finalised in time nor variations analysed. Internal control in respect of appraisal and sanction, disbursement and monitoring, demand and recovery of term loans were defective resulting in accumulation of dues. Some of the important observations noticed in respect of Karnataka State Industrial Investment Development Corporation Limited (KSIIDC) and Karnataka State Financial Corporation (KSFC) are given below:

- Business Plan and Resource Forecasting was not finalised before commencement of the year and the reasons for variations were not analysed.

  (Paragraphs 2.3.6 to 2.3.8)

- Internal control system in respect of appraisal, sanction, disbursement, monitoring, demand and recovery of term loans was defective.

  (Paragraphs 2.3.14 to 2.3.22)

- KSIIDC adjusted Rs.6.79 crore, being principal of outstanding loans under 'Release and adjustment', in violation of its own decision.

(Paragraph 2.3.25)

- Value of land accepted by KSIIDC for sanction of loan, was overvalued at the time of appraisal.

(Paragraph 2.3.29)

2.4 Sectoral Review on the performance of fair price shops and Minimum Support Price Operations

Karnataka Food and Civil Supplies Corporation Limited was incorporated in September 1973 as a wholly owned Government company, to function as an agent of the State Government to procure and distribute foodgrains and other essential commodities through the Public Distribution System (PDS) in the State. Some of the important points noticed in audit are given below:

- The Company has incurred a loss of Rs.3.30 crore due to opening of shops without conducting feasibility study.

(Paragraph 2.4.3)

- An amount of Rs.5.84 crore was pending recovery mainly due to non-submission of required details/documents, improper documentation and absence of a system for monitoring dues at periodical interval in the Company.

(Paragraphs 2.4.5 and 2.4.6)

- Failure to include the interest component in the cost sheet resulted in non-recovery of interest of Rs. 2.64 crore.

(Paragraph 2.4.12)

3. Transaction Audit Observations

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

- Unproductive expenditure in two cases amounting to Rs.15.11 crore.

(Paragraphs 3.11 and 3.17)

- Extra/avoidable expenses, over payment and theft amounting to Rs.46.52 crore in eight cases.

(Paragraphs 3.1, 3.4, 3.5, 3.6, 3.9, 3.12, 3.13 and 3.15)

- Excess/irregular payment of Rs.5.87 crore in two cases made to staff on account of ex-gratia.

(Paragraphs 3.18.6 and 3.18.7)

- Violation of contractual conditions/undue favours to contractors resulting in loss of Rs.4.41 crore in four cases.

  (Paragraphs 3.3, 3.7, 3.8 and 3.10)

- Delay in commissioning of equipments valuing Rs.7.23 crore in one case.

  (Paragraph 3.2)

- Non-recovery of dues amounting to Rs.53.28 lakh in one case.

  (Paragraph 3.16)

- Miscellaneous/other cases amounting to Rs.29.77 lakh in respect of one case.

  (Paragraph 3.14)

Gist of the important observations are given below:

Failure to exercise the call option in bonds (Series IV and V) deprived **Krishna Bhagya Jala Nigam Limited,** of an opportunity to save Rs.41.07 crore.

(Paragraph 3.1)

Purchase of pump sets by **Krishna Bhagya Jala Nigam Limited** much ahead of commissioning of jackwells and erection of electricity transmission lines resulted in blocking up of funds of Rs.7.23 crore.

(Paragraph 3.2)

Defective estimation and awarding the contract without rationalisation of rates resulted in avoidable expenditure of Rs.1.88 crore to **Karnataka Neeravari Nigam Limited**.

(Paragraph 3.6)

Payment of extra item rates by **Karnataka Neeravari Nigam Limited** for controlled blasting even though it was the responsibility of the contractors resulted in excess payment of Rs.1.62 crore.

(Paragraph 3.7)

Karnataka Neeravari Nigam Limited extended undue benefit of Rs.1.14 crore to the contractors in violation of the contract conditions.

(Paragraph 3.8)

Karnataka Power Transmission Corporation Limited failed to achieve the objective of state wide computerisation project due to implementation of only one module, which was also faulty, even after spending Rs.14.44 crore.

(Paragraph 3.11)