

## Chapter - I

### 1. Functioning of State Public Sector Undertakings

#### Introduction

**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 2015, there were 93 PSUs in Karnataka. Of these, two PSUs<sup>1</sup> were listed on the stock exchange(s). During the year 2014-15, two PSUs<sup>2</sup> were incorporated while four<sup>3</sup> were closed down. The details of the State PSUs in Karnataka as on 31 March 2015 are given below:

**Table No.1.1: Total number of PSUs as on 31 March 2015**

Type of PSUs	Working PSUs	Non-working PSUs <sup>4</sup>	Total
Government Companies <sup>5</sup>	75	12	87
Statutory Corporations	6	0	6
<b>Total</b>	<b>81</b>	<b>12</b>	<b>93</b>

The working PSUs registered a turnover of ₹ 48,765.18 crore as per their latest finalised accounts as of September 2015. This turnover was equal to 7.12 *per cent* of the State Gross Domestic Product (GDP) for 2014-15. The working PSUs earned net aggregate profit of ₹ 538.94 crore as per their latest finalised accounts as of September 2015. The PSUs had employed 1.92 lakh employees at the end of March 2015.

As on 31 March 2015, there were 12 non-working PSUs existing for the last 13 years having investment of ₹ 582.52 crore. This is a critical area as the investments in non-working PSUs do not contribute to the economic growth of the State.

#### Accountability framework

**1.2.** The process of audit of Government Companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2(45) of the Act, 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

<sup>1</sup> The Mysore Paper Mills Limited and The Mysore Paints and Varnish Limited.

<sup>2</sup> Karnataka Solar Power Development Corporation Private Limited and Karnataka Mining Environment Restoration Corporation Limited.

<sup>3</sup> Karnataka EMTA Collieries Limited, Karnataka State Coal Mining Company Limited, Chamundi Machine Tools Limited and Karnataka State Textiles Limited.

<sup>4</sup> Non-working PSUs are those which have ceased to carry on their operations.

<sup>5</sup> Includes other companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013.

State Governments, and includes a Company which is a subsidiary Company of such Government Company.

Further, as per subsection 7 of section 143 of the Act, the CAG may, in case of any Company covered under subsection (5) or subsection (7) of Section 139, if considers necessary, by an order, cause test audit to be conducted of the accounts of such Company and 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. An 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***

**1.3.** The financial statements of the Government Companies (as defined in Section 2(45) of the Companies Act, 2013) are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139(5) or (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>6</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.

### ***Role of Government and Legislature***

**1.4.** 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 of the Act or

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<sup>6</sup> Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Eastern Karnataka Road Transport Corporation and North Western Karnataka Road Transport Corporation.

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.

### Stake of Government of Karnataka

1.5. The State Government has financial stake in these PSUs. This stake is of mainly three types:

- **Share capital and loans** – In addition to the Share Capital Contribution, GoK also provides 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.
- **Guarantees** – GoK also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

### Investment in State PSUs

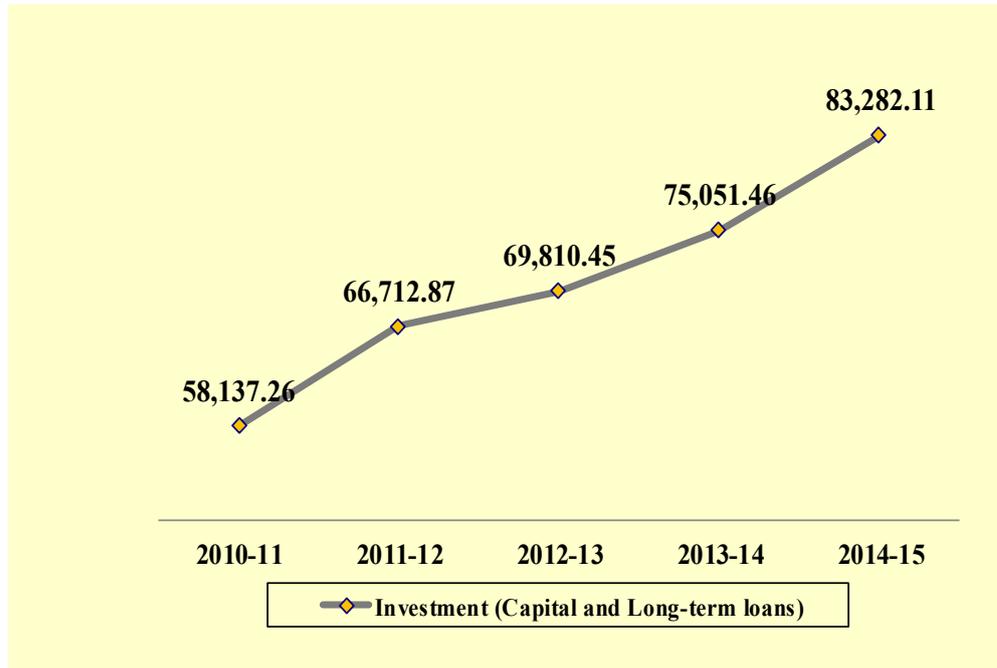
1.6. As on 31 March 2015, the investment (capital and long-term loans) in 93 PSUs was ₹ 83,282.11 crore as per details given below:

Table No.1.2: Total Investment in PSUs

Type of PSUs	Government Companies			Statutory Corporations			Grand total
	Capital	Long term loans	Total	Capital	Long term loans	Total	
Working PSUs	49,092.90	28,800.71	77,893.61	1,942.06	2,863.92	4,805.98	82,699.59
Non-working PSUs	160.21	422.31	582.52	-	-	-	582.52
<b>Total</b>	<b>49,253.11</b>	<b>29,223.02</b>	<b>78,476.13</b>	<b>1,942.06</b>	<b>2,863.92</b>	<b>4,805.98</b>	<b>83,282.11</b>

As on 31 March 2015, of the total investment in State PSUs, 99.30 per cent was in working PSUs and the remaining 0.70 per cent in non-working PSUs. This total investment consisted of 61.47 per cent towards capital and 38.53 per cent in long-term loans. The investment had grown by 43.25 per cent from ₹ 58,137.26 crore in 2010-11 to ₹ 83,282.11 crore in 2014-15 as shown in the graph below:

**Chart No.1.1: Total investment in PSUs (₹ in crore)**



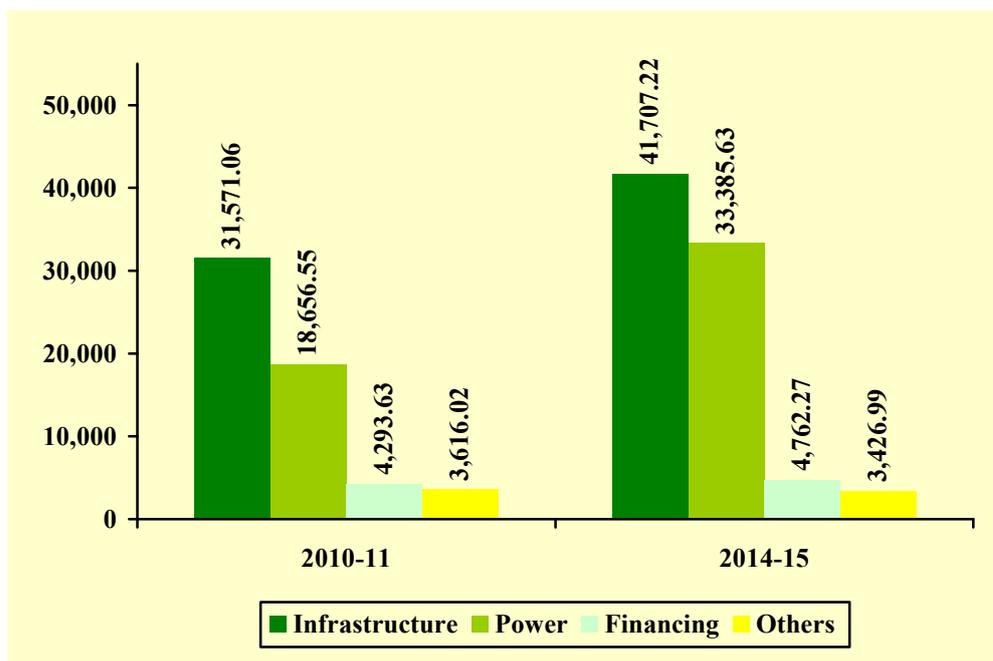
1.7 The sector-wise summary of investments in the State PSUs as on 31 March 2015 is given below:

**Table No.1.3: Sector-wise investment in PSUs**

Name of Sector	Government companies		Statutory corporations	Total	Investment (₹ in crore)
	Working	Non-working			
Agriculture and allied	12	5	1	18	249.71
Financing	14	-	1	15	4,762.27
Infrastructure	12	-	-	12	41,707.22
Manufacturing	19	7	-	26	1,062.58
Power	12	-	-	12	33,385.63
Service	3	-	4	7	2,114.59
Miscellaneous	3	-	-	3	0.11
<b>Total</b>	<b>75</b>	<b>12</b>	<b>6</b>	<b>93</b>	<b>83,282.11</b>

The investment in four significant sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated below in the bar chart.

Chart No.1.2: Sector-wise investment in PSUs



The thrust of investments in the PSU was in Infrastructure and Power sectors accounting for 50.08 *per cent* and 40.09 *per cent* respectively in 2014-15. Between 2010-11 and 2014-15 the investment in power and infrastructure increased by ₹ 14,729.08 crore and ₹ 10,136.16 crore respectively.

### Special support and returns during the year

1.8. The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of State PSUs for three years ended 2014-15 are given below:

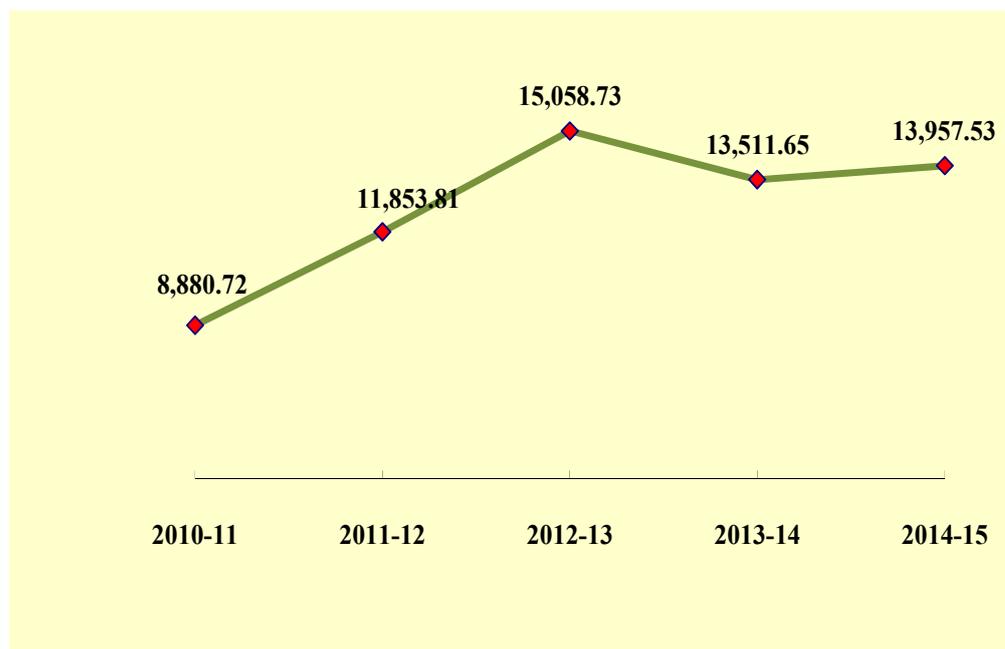
Table No.1.4: Details regarding budgetary support to PSUs

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	23	4,660.59	21	4,078.15	22	3,990.66
2	Loans given from budget	3	11.08	3	67.55	5	38.88
3	Grants/Subsidy from budget	36	10,387.06	32	9,365.95	27	9,927.99
4	<b>Total outgo (1+2+3)</b>	<b>51</b>	<b>15,058.73</b>	<b>42</b>	<b>13,511.65</b>	<b>41</b>	<b>13,957.53</b>
5	Waiver of loans and interest	-	-	-	-	1	8.25
6	Guarantees issued	7	557.19	12	1,775.65	9	3,736.46
7	Guarantee Commitment	20	3,500.88	21	4,542.73	15	7,251.35

The details regarding budgetary outgo towards equity, loans and grants and subsidies for past five years are given in a graph below:

**Chart No.1.3: Budgetary outgo towards equity, loans, grants and subsidies**



The budgetary support in respect of equity, loans and grants and subsidies increased from ₹ 8,880.72 crore in 2010-11 to ₹ 13,957.53 crore in 2014-15.

#### **Guarantees for loan and guarantee commission outstanding**

**1.9.** In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, the State Government gives guarantee under Karnataka Ceiling on Government Guarantees Act, 1999 (as amended by Act 15 of 2002). The Government would charge a minimum of one *per cent* as guarantee commission, which shall not be waived under any circumstances. The guarantee commitment increased from ₹ 3,500.88 crore in 2012-13 to ₹ 7,251.35 crore during 2014-15. Nine PSUs paid guarantee fee to the tune of ₹ 37.27 crore during 2014-15 whereas 21 PSUs<sup>7</sup> did not pay guarantee fees or commission during the year and accumulated guarantee fees or commission there against was ₹ 168.66 crore (as on 31 March 2015).

#### **Reconciliation with Finance Accounts**

**1.10.** The figures in respect of equity, loans and guarantees outstanding as per the records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case, the figures do not tally, the PSUs concerned and the Finance Department should carry out reconciliation of the differences. The position in this regard as at 31 March 2015 is given below:

<sup>7</sup> The PSUs which had major arrears were Rajiv Gandhi Rural Housing Corporation Limited (₹ 51.26 crore), Karnataka Neeravari Nigam Limited (₹ 26.06 crore), Karnataka State Police Housing Corporation Limited (₹ 20.35 crore), Krishna Bhagya Jala Nigam Limited (₹ 19.56 crore) and Karnataka State Finance Corporation (₹ 17.35 crore). The outstanding dues of the remaining PSUs was ₹ 34.08 crore.

**Table No.1.5: Equity, loans and guarantees outstanding as per Finance Accounts vis-a-vis records of PSUs**

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1	2	3	4 = 2-3
Equity	55,651.51	48,600.17	7,051.34
Loans	1,683.90	1,434.92	248.98
Guarantees	8,299.58	7,251.35	1,048.23

There were differences in respect of 83 PSUs. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

### Arrears in finalisation of accounts

**1.11.** 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 September end in accordance with the provisions of Section 96(1) of the Act. 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 table below provides the details of progress made by working PSUs in finalisation of accounts by 30 September 2015.

**Table No.1.6: Position relating to finalisation of accounts of working PSUs**

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1	Number of working PSUs	75	76	79	81	81
2	Number of accounts finalised during the year	69	59	81	73	82
3	Number of accounts in arrears	25	42	40	48	44 <sup>8</sup>
4	Number of working PSUs with arrears in accounts	24	37	36	41	38
5	Extent of arrears (number in years)	1 to 2 years	1 to 2 years	1 to 2 years	1 to 3 years	1 to 2 years

During the year, 82 accounts have been finalised, which includes 7 accounts of 6 Statutory Corporations. The number of accounts in arrears has increased from 25 (2010-11) to 44 (2014-15). Of the 44 accounts, 39 accounts pertained to the working Government Companies, which have arrears ranging between one and two years. The arrears includes five accounts pertaining to five Statutory Corporations.

<sup>8</sup> Two PSUs (Karnataka Vishwakarma Community Development Corporation Limited and Bangalore Suburban Rail Company Limited) were yet to finalise their first accounts. Further, as Karnataka EMTA Collieries Limited was closed down during the year, its arrears is excluded.

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 has periodically taken up the matter with the State Government/Administrative Departments concerned for liquidating the arrears of accounts.

**1.12.** The State Government had invested ₹ 8,305.33 crore in 38 PSUs during the years for which accounts have not been finalised as detailed in **Appendix-1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus the Government's investment in such PSUs remained outside the control of the State Legislature.

**1.13.** In addition to the above, as on 30 September 2015, there were arrears in finalisation of accounts by non-working PSUs. Out of 12 non-working PSUs, five were in the process of liquidation whose accounts were in arrears for ten to twelve years. Of the remaining seven non-working PSUs, only two PSUs<sup>9</sup> had arrears of accounts.

**Table No.1.7: Position relating to arrears in finalisation of accounts in respect of non-working PSUs**

No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
5	-	-
1	2014-15	1
1	2013-14 to 2014-15	2
1	2005-06 to 2014-15	10
2	2004-05 to 2014-15	11
2	2003-04 to 2014-15	12

#### **Placement of Separate Audit Reports**

**1.14.** The position depicted below shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2015) on the accounts of Statutory Corporations in the Legislature.

<sup>9</sup> Karnataka Agro Industries Corporation and Vijayanagar Steel Limited

**Table No.1.8: Status of placement of SARs in Legislature**

Sl. No.	Name of Statutory Corporation	Year up to which SARs placed in the Legislature <sup>10</sup>	Year for which SARs not placed in the Legislature	
			Year of SAR	Date of issue to the Government/ Present Status (December 2015)
1	Karnataka State Road Transport Corporation	2013-14	2014-15	SAR was issued to Government on 23.10.2015.
2	Bangalore Metropolitan Transport Corporation	2013-14	2014-15	Audit is under progress
3	North Eastern Karnataka Road Transport Corporation	2013-14	2014-15	Audit is under progress
4	North Western Karnataka Road Transport Corporation	2013-14	2014-15	SAR issued to GoK on 31.12.2015
5	Karnataka State Financial Corporation	2013-14	2014-15	SAR was issued to Government on 13.10.2015.

#### **Impact of non-finalisation of accounts**

**1.15.** As pointed out above (paragraph 1.11 to 1.13), the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is therefore, recommended that:

- The Government may setup a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.
- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.

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

**1.16.** The financial position and working results of working Government Companies and Statutory Corporations are detailed in **Appendix-2**. A ratio of turnover of PSUs to State GDP shows the extent of PSUs' contribution in the State economy. Table below provides the details of working PSUs' turnover and State GDP for a period of five years ending 2014-15.

<sup>10</sup> SARs up to the year 2013-14 in respect of all the five Statutory Corporations have been forwarded to the State Legislature for placement. The information regarding their placement is awaited (December 2015).

**Table No.1.9: Details of working PSUs turnover vis-a-vis State GDP**

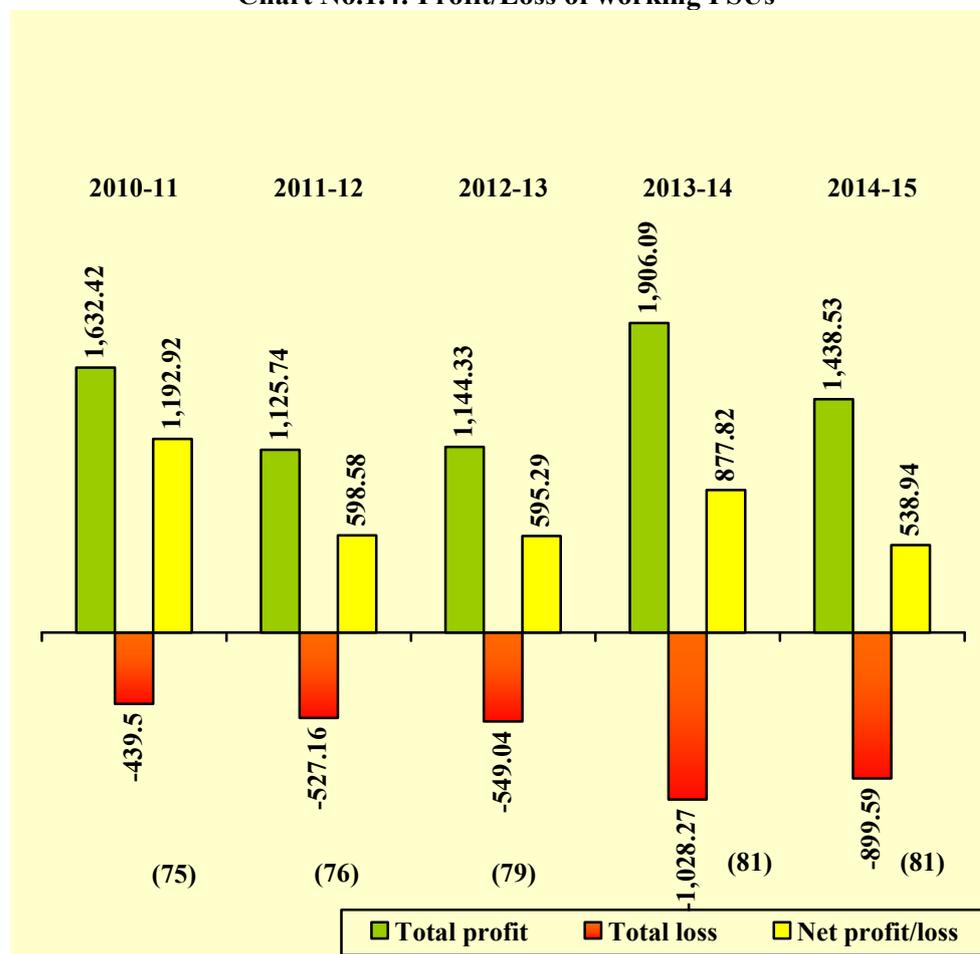
(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover <sup>11</sup>	41,493.51	34,490.58	37,867.13	44,908.32	48,765.18
State GDP	4,10,703.00	4,55,212.00	5,22,673.00	6,14,607.00	6,85,207.00
Percentage of turnover to State GDP	10.10	7.58	7.24	7.31	7.12

The percentage of turnover to State GDP had reduced from 10.10 per cent in 2010-11 to 7.12 per cent in 2014-15.

1.17. Overall profit (losses) earned (incurred) by State working PSUs during 2010-11 to 2014-15 are given below in a bar chart.

**Chart No.1.4: Profit/Loss of working PSUs**



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

As per their latest finalised accounts, out of 81 working PSUs, 50 PSUs earned profit of ₹ 1,438.53 crore and 21 PSUs incurred loss of ₹ 899.59 crore. Further, Karnataka Vishwakarma Community Development Corporation Limited, Bangalore Suburban Rail Company Limited, Karnataka Mining

<sup>11</sup> Turnover as per the latest finalised accounts.

Environment Restoration Corporation Limited and Karnataka Solar Power Development Corporation Limited incorporated in February 2014, March 2014, June 2014 and March 2015 respectively have not finalised their first accounts. Three companies<sup>12</sup> did not prepare profit and loss account and had only pre-operative expenditure. One Company (Rajiv Gandhi Rural Housing Corporation Limited) prepared income and expenditure account and capitalised the excess of expenditure over income. Another Company (Karnataka Vocational Training and Skill Development Corporation Limited) prepared statement of income and expenditure. One Company (Karnataka Urban Infrastructure Development and Finance Corporation Limited) recorded zero profit by claiming management fee equal to the net administrative expenses incurred.

The major contributors to profit were Mysore Minerals Limited (₹ 313.53 crore), Hutti Gold Mines Company Limited (₹ 144.63 crore) and Bangalore Electricity Supply Company Limited (₹ 113.44 crore). Huge losses were incurred by Karnataka Neeravari Nigam Limited (₹ 295.59 crore) and Bangalore Metropolitan Transport Corporation (₹ 147.59 crore).

**1.18.** Some other key parameters of PSUs are given below:

**Table No.1.10: Key parameters of State PSUs**

Particulars	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Return on capital employed ( <i>per cent</i> )	4.40	4.22	4.77	5.46	5.16
Debt	25,364.38	29,197.31	27,434.29	28,434.00	32,086.94
Turnover <sup>13</sup>	41,493.51	34,490.58	37,867.13	44,908.32	48,765.18
Debt-Turnover ratio	0.61:1	0.85:1	0.72:1	0.63:1	0.66:1
Interest payments	2,269.00	2,555.79	2,557.69	3,038.67	4,090.73
Accumulated profits / losses (-)	1,007.36	1,368.93	1,388.01	1,894.94	731.66

(Above figures pertain to all PSUs except for turnover, which is for working PSUs).

**1.19.** The State Government had formulated (May 2003) guidelines according to which Government nominees on the Boards of Public Enterprises or Joint Ventures, where the State Government had equity holding, should insist on the declaration of minimum dividend of 20 *per cent* on share holding. As per their latest finalised accounts, 54 PSUs<sup>14</sup> earned an aggregate profit of ₹ 1,438.66 crore, but only 17 PSUs declared dividend amounting to ₹ 64.93 crore.

<sup>12</sup> Cauvery Neeravari Nigama Limited, Raichur Power Corporation Limited and Tadadi Port Limited.

<sup>13</sup> Turnover of working PSUs as per the latest finalised accounts as of 30 September 2015.

<sup>14</sup> Including four non-working PSUs.

**Winding up non-working PSUs**

1.20. There were 12 non-working PSUs (all companies) as on 31 March 2015. Of these, five PSUs have commenced liquidation process. The number of non-working companies at the end of each year for the past five years is given below:

**Table No.1.11: Non-working PSUs Particulars**

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
No. of non-working companies	14	14	14	14	12

Since the non-working PSUs are not contributing to the State economy and are not meeting the intended objectives, these PSUs may be considered either for closure or action may be taken for their revival. During 2014-15, non-working PSUs incurred ₹ 27.81 crore towards establishment costs. This expenditure was financed by the State Government (₹ 3.09 crore) and through rental, interest receipt and other receipts.

1.21. The stages of closure in respect of non-working PSUs are given below:

**Table No.1.12: Stages of closure of non-working PSUs**

Sl. No.	Particulars	Companies
1	Total number of non-working PSUs	12
2	Of (1) above, the number under	
(a)	Liquidation by Court (liquidator appointed)	5
(b)	Closure <i>i.e.</i> closing orders/ instructions issued but liquidation process not yet started	7

During the year 2014-15, two Companies/Corporations were wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from ten years to twelve years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted vigorously.

**Comments on Accounts**

1.22. Sixty four working companies forwarded their 75 audited accounts to the Accountant General (AG) between 1 October 2014 and 30 September 2015. Of these, 49 accounts (of 42 companies) were selected for Supplementary Audit. The Audit Reports of the Statutory Auditors (appointed by the CAG) and the supplementary audits of the CAG indicate that the quality of maintenance of accounts needs to be improved. The details of aggregate money value of comments of statutory auditors and the CAG are given below:

**Table No.1.13: Impact of audit comments on working companies**

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	5	78.31	15	524.19	14	746.20
2	Increase in profit	5	3.33	6	11.72	7	38.75
3	Decrease in loss	10	1.97	3	37.19	1	1.36
4	Increase in loss	9	228.28	10	499.83	8	656.53
5	Non-disclosure of material facts	-	-	-	-	5	-
6	Errors of classification	-	-	-	-	10	-

During the year 2014-15, the Statutory Auditors had given unqualified reports on 25 accounts, qualified reports on 47 accounts, adverse reports (which means that accounts did not reflect a true and fair position) on three accounts. This includes comments by the CAG on four accounts. The compliance of companies with the Accounting Standards remained poor as there were 101 instances of non-compliance in 33 accounts during the year.

**1.22.1.** Similarly, six working Statutory Corporations forwarded their seven accounts to PAG during the year 2014-15. Of these, four accounts of four Statutory Corporations pertained to sole audit by the CAG, while the other three were supplementary audits after audit by Statutory Auditors. The Audit Reports of Statutory Auditors and the sole/supplementary audit of the CAG indicate that the quality of maintenance of accounts needs improvement. The details of aggregate money value of comments of the Statutory Auditors and the CAG are given below.

**Table No.1.14: Impact of audit comments on Statutory Corporations**

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	4	35.39	2	12.03	3	4.63
2	Increase in profit	-	-	1	2.47	-	-
3	Decrease in loss	-	-	-	-	-	-
4	Increase in loss	2	21.37	3	27.15	4	27.92

During the year all seven accounts received qualified certificates. Two Statutory Corporations reported a total profit of ₹ 76.88 crore while four reported losses amounting to ₹ 329.65 crore.

**Response of the Government to Audit**

***Performance Audits and Paragraphs***

**1.23.** For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015, two performance audits and 17 compliance audit paragraphs were issued to the Additional Chief Secretaries or Principal Secretaries of the respective Departments to furnish replies. Replies in respect of three Compliance Audit Paragraphs were awaited from the State Government (December 2015).

**Follow up action on Audit Reports**

***Replies outstanding***

**1.24.** The Report of the CAG represents the culmination of 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 COPU.

**Table No.1.15: Replies not received as on 30 September 2015**

Year of the Audit Report (Commercial/ PSUs)	Date of placement of 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
2013-14	13.02.2015	2	19	2	7

It could be seen that replies for two performance audits and seven paragraphs in respect of three departments<sup>15</sup>, which were commented upon, were not furnished by GoK (September 2015).

***Discussion of Audit Reports by COPU***

**1.25.** The status of Performance Audits (PAs) and Paragraphs that appeared in Audit Reports on PSUs and discussed by the Committee on Public Undertakings (COPU) as on 30 September 2015 was as under:

<sup>15</sup> Energy Department, Commerce and Industries Department and Water Resources Department.

**Table No.1.16: Status of discussion of Pas and paragraphs**

Period of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Para discussed	
	PAs	Paragraphs	PAs	Paragraphs
2009-10	2	16	2	15
2010-11	2	11	1	11
2011-12	2	12	0	11
2012-13	2	12	2	9
2013-14	2	19	0	5
<b>Total</b>	<b>10</b>	<b>70</b>	<b>5</b>	<b>51</b>

**Compliance to Reports of Committee on Public Undertakings (COPU)**

**1.26.** Action Taken Notes (ATN) from the GoK to four Paragraphs pertaining to Six Reports of the COPU presented to the State Legislature between December 2011 and March 2015 had not been received (December 2015) as indicated below:

**Table No.1.17: Compliance to COPU Reports**

Year of the COPU Reports	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2011-12	1	25	25
2012-13	2	18	18
2013-14	2	18	18
2014-15	1	5	5
<b>Total</b>	<b>6</b>	<b>66</b>	<b>66</b>

These reports of COPU contained recommendations in respect of paragraphs pertaining to four Departments<sup>16</sup>, which appeared in the Reports of the CAG of India for the years 2008-09 to 2011-12.

It is recommended that the Government may ensure: (a) sending replies to inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of the system of responding to audit observations.

**Response to Inspection Reports**

**1.27.** Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and departments concerned of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of one month. Department-wise break-up of Inspection Reports and audit observations outstanding as on 31 March 2015 is given in **Appendix-3**.

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

<sup>16</sup> Commerce and Industries Department, Energy Department, Urban Development Department and Women and Child Development Department.

and (b) to recover loss/outstanding advances/ overpayment within the prescribed time.

### Coverage of this Report

**1.28.** This Report contains 17 Compliance Audit observations and 2 Performance Audits on the ‘Implementation of Niranthara Jyothi Yojana by Electricity Supply Companies in Karnataka’ and ‘Resettlement and Rehabilitation in Upper Krishna Project’, involving a financial effect of ₹ 758.70 crore.

### Disinvestment, Restructuring and Privatisation of PSUs

**1.29.** The State Government had approved and adopted (February 2001) a comprehensive policy on public sector reforms and privatisation of public sector undertakings in the State. Accordingly, the Government identified 31 PSUs for closure, restructuring and privatisation. Seven Companies<sup>17</sup> were dissolved/amalgamated at the end of September 2015. The position about action taken by the Government in respect of the remaining 24 companies identified for closure/ privatisation/ restructuring was as under:

**Table No1.18: Status of disinvestment / restructuring of PSUs**

Particulars	No. of companies	Government order issued	Government order not yet issued
Non-working Government Companies decided for closure	12	12 <sup>3</sup>	-
Working Government Companies decided for closure	3	1 <sup>¢</sup>	2 <sup>@</sup>
Working Government Companies decided for privatisation	8	6 <sup>♥</sup>	2 <sup>*</sup>
Restructuring of Working Government Companies	1	1 <sup>Ω</sup>	-

In October 2005, the Government adopted a Policy on Public Sector Enterprises Reforms, which enunciated an assessment on a case-to-case basis including mechanism for its implementation by incorporating the earlier reform process. After the study, appropriate specific solution was to be considered. The present status of the recommendations of study on case-to-case basis of PSUs was awaited (December 2015).

<sup>17</sup> Karnataka Tungsten Moly Limited, Karnataka Agro Proteins Limited, Vishveswaraya Vidyuth Nigam Limited, Karnataka Film Industries Development Corporation Limited, Karnataka Small Industries Marketing Corporation Limited, Chamundi Machine Tools Limited and Karnataka State Textiles Limited.

<sup>3</sup> All the non-working companies as per **Appendix-2**.

<sup>¢</sup> Karnataka State Construction Corporation Limited.

<sup>@</sup> The Karnataka Fisheries Development Corporation Limited, Karnataka State 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, Sree Kanteerava Studios Limited.

<sup>♣</sup> The Mysore Sugar Company Limited, The Mysore Paper Mills Limited.

<sup>Ω</sup> The Karnataka State Forest Industries Corporation Limited to be merged with Karnataka Forest Development Corporation Limited.