

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 2016, there were 93 PSUs in Karnataka. Of these, one PSU¹ was listed on the stock exchange(s). During the year 2015-16, one PSU² was incorporated while one PSU³ was classified as a Central PSU. The details of the State PSUs in Karnataka as on 31 March 2016 are given below:

Table No.1.1: Total number of PSUs as on 31 March 2016

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

The working PSUs registered a turnover of ₹ 53,787.89 crore as per their latest finalised accounts as of September 2016. This turnover was equal to 7.31 *per cent* of the State Gross Domestic Product (GDP) for 2015-16. The working PSUs incurred net aggregate loss of ₹ 144.71 crore as per their latest finalised accounts as of September 2016. The PSUs had employed 1.93 lakh employees at the end of March 2016.

As on 31 March 2016, there were 12 non-working PSUs existing for the last 13 years, having investment of ₹ 591.30 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 619 of the Companies Act 1956 and 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

¹ The Mysore Paper Mills Limited.

² Karnataka Tourism Infrastructure Limited.

³ Karnataka Solar Power Development Corporation Private Limited.

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

⁵ Includes companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013.

and partly by one or more 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 it 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 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 Corporations⁶. 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(2) of the Act or as stipulated in the respective Acts. The Audit Reports of the CAG are

⁶ Karnataka State Road Transport Corporation, Bangalore Metropolitan Transport Corporation, North Eastern Karnataka Road Transport Corporation and North Western Karnataka Road Transport Corporation.

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

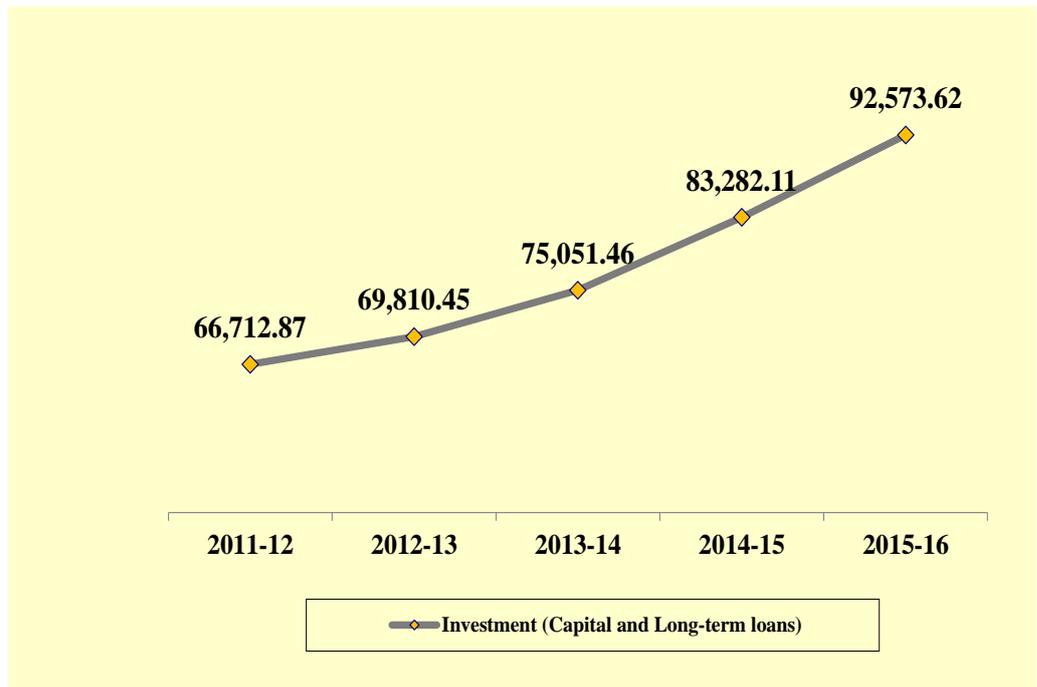
1.6. As on 31 March 2016, the investment (capital and long-term loans) in 93 PSUs was ₹ 92,573.62 crore as per details given below:

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	53,650.88	33,497.96	87,148.84	1,988.35	2,845.13	4,833.48	91,982.32
Non-working PSUs	160.21	431.09	591.30	-	-	-	591.30
Total	53,811.09	33,929.05	87,740.14	1,988.35	2,845.13	4,833.48	92,573.62

As on 31 March 2016, of the total investment in State PSUs, 99.36 per cent was in working PSUs and the remaining 0.64 per cent in non-working PSUs. This total investment consisted of 60.28 per cent towards capital and 39.72 per cent in long-term loans. The investment had grown by 38.76 per cent from ₹ 66,712.87 crore in 2011-12 to ₹ 92,573.62 crore in 2015-16 as shown in the graph below:

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

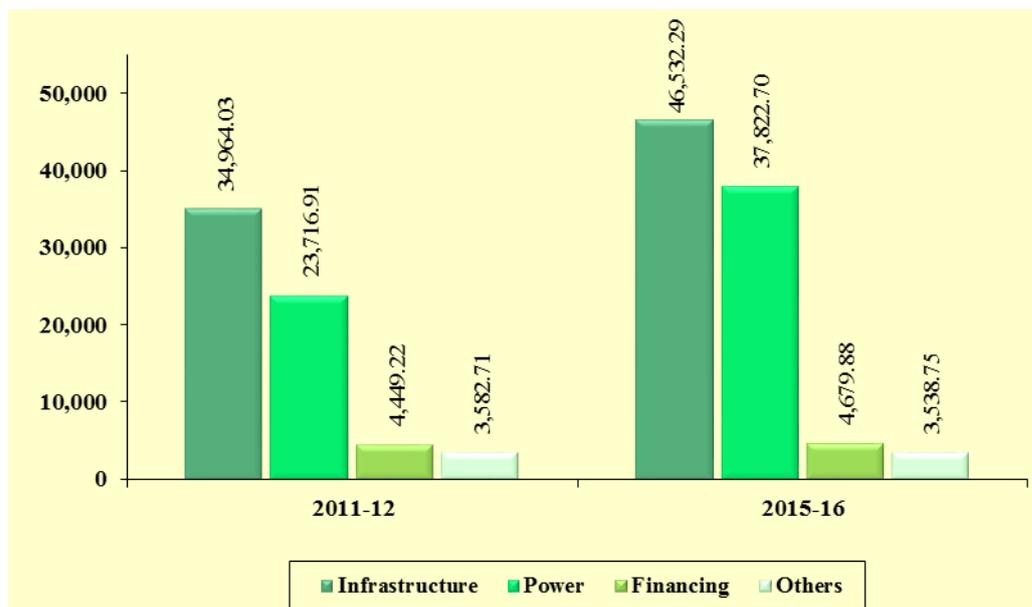


1.7 The sector-wise summary of investments in the State PSUs as on 31 March 2016 is given below:

Table No.1.3: Sector-wise investment in PSUs

Name of the Sector	Government companies		Statutory corporations	Total	Investment (₹ crore)
	Working	Non-working			
Agriculture and allied	12	5	1	18	445.59
Financing	14	-	1	15	4,679.88
Infrastructure	12	-	-	12	46,532.29
Manufacturing	19	7	-	26	1,106.38
Power	11	-	-	11	37,822.70
Service	4	-	4	8	1,986.67
Miscellaneous	3	-	-	3	0.11
Total	75	12	6	93	92,573.62

The investment in four significant sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 are indicated below in the bar chart.

Chart No.1.2: Sector-wise investment in PSUs (₹ in crore)

The thrust of investments in PSUs was in Infrastructure and Power sectors accounting for 50.27 per cent and 40.86 per cent respectively in 2015-16. Between 2011-12 and 2015-16, the investment in Infrastructure and Power sectors increased by ₹ 11,568.26 crore and ₹ 14,105.79 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 2015-16 are given below:

Table No.1.4: Details regarding budgetary support to PSUs

(₹ crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	21	4,078.15	22	3,990.66	22	4,528.88
2	Loans given from budget	3	67.55	5	38.88	7	241.47
3	Grants/Subsidy from budget	32	9,365.95	27	9,927.99	31	12,756.15
4	Total outgo (1+2+3)	42	13,511.65	41	13,957.53	44	17,526.50
5	Waiver of loans and interest	-	-	1	8.25	-	-
6	Guarantees issued	12	1,775.65	9	3,736.46	7	2,434.04
7	Accumulated Guarantee Commitment	21	4,542.73	15	7,251.35	17	10,477.08

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 (₹ in crore)



The budgetary support in respect of equity, loans and grants and subsidies increased from ₹ 11,853.81 crore in 2011-12 to ₹ 17,526.50 crore in 2015-16.

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 ₹ 4,542.73 crore in 2013-14 to ₹ 10,477.08 crore during 2015-16. Fifteen PSUs paid guarantee fee of ₹ 137.94 crore during 2015-16 and outstanding accumulated guarantee fees or commission was ₹ 50.45 crore⁷ (as on 31 March 2016).

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 2016 is given below:

⁷ The PSUs which had major arrears were Rajiv Gandhi Rural Housing Corporation Limited (₹ 24.49 crore), Karnataka Food and Civil Supplies Corporation Limited (₹ 7.64 crore) and Krishna Bhagya Jala Nigam Limited (₹ 7.58 crore). The outstanding dues of the remaining PSUs was ₹ 10.74 crore.

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

(₹ crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1	2	3	4 = 2-3
Equity	53,569.07	52,799.69	769.38
Loans	2,613.27	1,354.15	1,259.12
Guarantees	9,194.72	10,477.08	1,282.36

There were differences in respect of 82 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 2016.

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

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Number of working PSUs	76	79	81	81	81
2	Number of accounts finalised during the year	59	81	73	82	70
3	Number of accounts in arrears	42	40	48	44 ⁸	57 ⁹
4	Number of working PSUs with arrears in accounts	37	36	41	38	47
5	Extent of arrears (number in years)	1 to 2 years	1 to 2 years	1 to 3 years	1 to 2 years	1 to 3 years

During the year, 70 accounts have been finalised, which includes five accounts of five Statutory Corporations. The number of accounts in arrears has increased from 42 (2011-12) to 57 (2015-16). Of the 57 arrears of accounts, 51 accounts pertained to the working Government Companies, which have arrears ranging between one and three years. The arrears include six accounts pertaining to six Statutory Corporations.

⁸ During the year 2014-15, two PSUs (Karnataka Vishwakarma Community Development Corporation Limited and Bangalore Suburban Rail Company Limited) had not finalised their first accounts and one PSU (Karnataka EMTA Collieries Limited) was closed down, hence arrears of these three PSUs were excluded.

⁹ During the year 2015-16, the arrears of two PSUs (Karnataka Vishwakarma Community Development Corporation Limited and Bangalore Suburban Rail Company Limited), which were excluded last year (2014-15) have been added back.

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 ₹ 12,723.60 crore in 47 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. 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 2016, 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 eleven to thirteen years. Of the remaining seven non-working PSUs, no PSUs had arrears of accounts.

Table No.1.7: Position relating to arrears in finalisation of accounts 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
7	-	-
1	2005-06 to 2015-16	11
2	2004-05 to 2015-16	12
2	2003-04 to 2015-16	13

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 2016) on the accounts of Statutory Corporations in the Legislature.

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	Year for which SARs not placed in the Legislature	
			Year of SAR	Date of issue to the Government/ Present Status (December 2016)
1	Karnataka State Road Transport Corporation	2014-15	2015-16	Preparation of SAR under progress
2	Bangalore Metropolitan Transport Corporation	2014-15	2015-16	Preparation of SAR under progress
3	North Eastern Karnataka Road Transport Corporation	2014-15	2015-16	Preparation of SAR under progress
4	North Western Karnataka Road Transport Corporation	2014-15	2015-16	Preparation of SAR under progress
5	Karnataka State Financial Corporation	2014-15	2015-16	Preparation of SAR under progress

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 2015-16 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 2015-16.

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

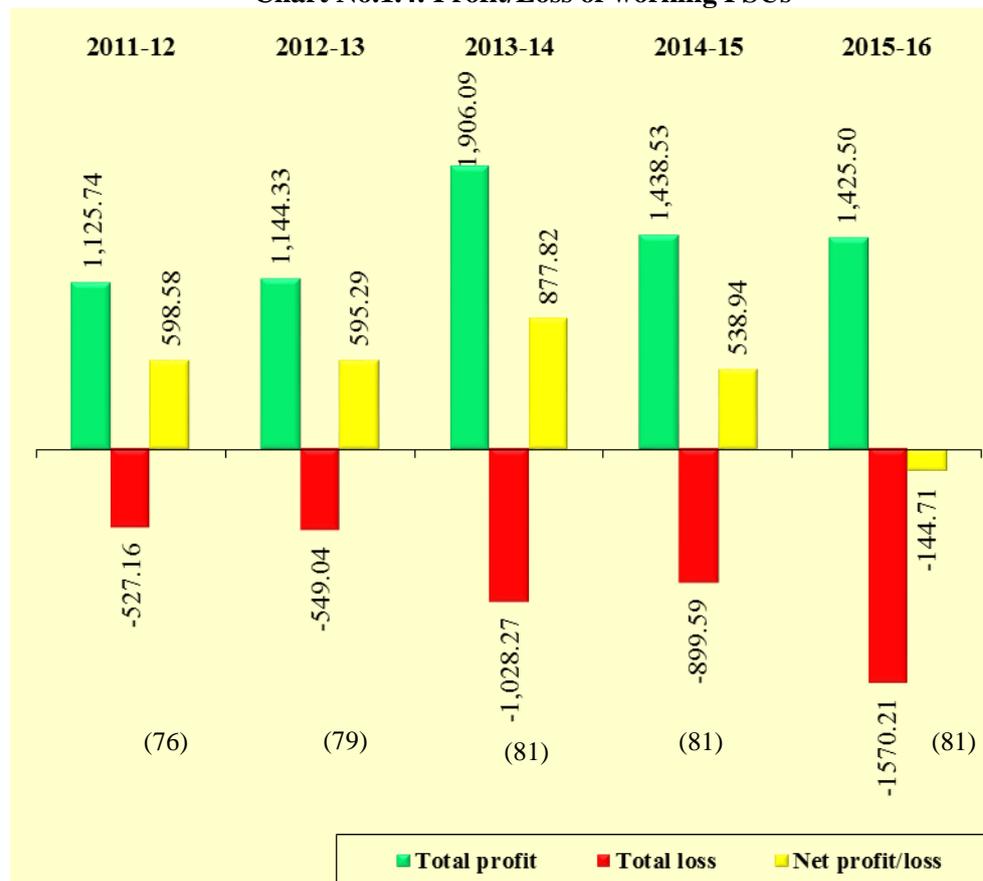
(₹ crore)					
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover ¹⁰	34,490.58	37,867.13	44,908.32	48,765.18	53,787.89
State GDP	4,34,270.00	5,20,766.00	6,01,633.00	6,85,207.00	7,35,975.00
Percentage of turnover to State GDP	7.94	7.27	7.46	7.12	7.31

The percentage of turnover to State GDP had reduced from 7.94 *per cent* in 2011-12 to 7.31 *per cent* in 2015-16.

¹⁰ Turnover as per the latest finalised accounts.

1.17. Overall profit (losses) earned (incurred) by State working PSUs during 2011-12 to 2015-16 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) (₹ crore)

As per their latest finalised accounts, out of 81 working PSUs, 51 PSUs earned profit of ₹ 1,425.50 crore and 21 PSUs incurred loss of ₹ 1,570.21 crore. Further, Bangalore Suburban Rail Company Limited and Karnataka Tourism Infrastructure Limited incorporated in March 2014 and July 2015 respectively have not finalised their first accounts. Three companies¹¹ 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. Two Companies (Karnataka Food and Civil Supplies Corporation Limited and 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.

¹¹ Cauvery Neeravari Nigama Limited, Raichur Power Corporation Limited and Tadadi Port Limited.

The major contributors to profit were Mysore Minerals Limited (₹ 245.47 crore), Karnataka Power Corporation Limited (₹ 181.63 crore), Karnataka Power Transmission Corporation Limited (₹ 178.11 crore) and Karnataka Rural Infrastructure Development Corporation Limited (₹ 113.65 crore). Huge losses were incurred by Karnataka Neeravari Nigam Limited (₹ 970.77 crore), Krishna Bhagya Jala Nigam Limited (₹ 135.44 crore) and Gulbarga Electricity Supply Company Limited (₹ 109.86 crore).

Working PSUs had been showing aggregate profits during the last four years from 2011-12 to 2014-15. However, there is a cause of concern that PSUs incurred net aggregate loss of ₹ 144.71 crore during the year 2015-16. The main contributors, as compared to previous year (2014-15), were increase in losses of Karnataka Neeravari Nigam Limited (by ₹ 675.18 crore) and Krishna Bhagya Jala Nigam Limited (by ₹ 51.88 crore); decrease in profit of Hutti Gold Mines Limited (by ₹ 138.30 crore), Mysore Minerals Limited (by ₹ 67.88 crore), Chamundeshwari Electricity Supply Corporation Limited (by ₹ 48.13 crore) and Karnataka Forest Development Corporation Limited (by ₹ 32.87 crore).

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

Table No.1.10: Key parameters of State PSUs

Particulars	(₹ crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Return on capital employed (<i>per cent</i>)	4.22	4.77	5.46	5.16	4.80
Debt	29,197.31	27,434.29	28,434.00	32,086.94	36,774.18
Turnover ¹²	34,490.58	37,867.13	44,908.32	48,765.18	53,787.89
Debt-Turnover ratio	0.85:1	0.72:1	0.63:1	0.66:1	0.68:1
Interest payments	2,555.79	2,557.69	3,038.67	4,090.73	4,592.09
Accumulated profits / losses (-)	1,368.93	1,388.01	1,894.94	731.66	861.65

(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, 55 PSUs¹³ earned an aggregate profit of ₹ 1,425.66 crore, but only 18 PSUs declared dividend amounting to ₹ 72.16 crore.

Winding up of non-working PSUs

1.20. There were 12 non-working PSUs (all companies) as on 31 March 2016. 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:

¹² Turnover of working PSUs as per their latest finalised accounts as of 30 September 2016.

¹³ Including four non-working PSUs.

Table No.1.11: Non-working PSUs Particulars

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
No. of non-working companies	14	14	14	12	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 for revival. During 2015-16, non-working PSUs incurred ₹ 30.98 crore towards establishment costs. This expenditure was financed by the State Government (₹ 8.78 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 2015-16, no PSU was wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from eleven years to thirteen 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. Fifty six working companies forwarded their 65 audited accounts to the Accountant General (AG) between 1 October 2015 and 30 September 2016. Of these, 42 accounts (of 36 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

(₹ crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	15	524.19	14	746.20	17	2,165.03
2	Increase in profit	6	11.72	7	38.75	4	30.12
3	Decrease in loss	3	37.19	1	1.36	-	-
4	Increase in loss	10	499.83	8	656.53	6	13.83

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
5	Non-disclosure of material facts	-	-	5	-	3	-
6	Errors of classification	-	-	10	-	2	-

During the year 2015-16, the Statutory Auditors had given unqualified reports on 22 accounts, qualified reports on 40 accounts, adverse reports (which means that accounts did not reflect a true and fair position) on two accounts and disclaimer report (which means that auditor could not form an opinion on the accounts) on one accounts. This includes comments by the CAG on three accounts. The compliance of companies with the Accounting Standards remained poor as there were 96 instances of non-compliance in 32 accounts during the year.

1.22.1. Similarly, five working Statutory Corporations forwarded their five accounts to AG during the year 2015-16. Of these, four accounts of four Statutory Corporations pertained to sole audit by the CAG, while the other one was supplementary audit after audit by Statutory Auditors. The Audit Report 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

(₹ crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	2	12.03	3	4.63	1	15.96
2	Increase in profit	1	2.47	-	-	-	-
3	Decrease in loss	-	-	-	-	-	-
4	Increase in loss	3	27.15	4	27.92	3	9.50

During the year all five accounts received qualified certificates. One Statutory Corporation reported a total profit of ₹ 33.72 crore while four reported losses amounting to ₹ 176.59 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 2016, two performance audits and 14 compliance audit paragraphs were issued to the Additional Chief Secretaries or Principal Secretaries of the respective Departments to furnish replies. Replies in respect

three Compliance Audit Paragraphs were awaited from the State Government (22 February 2017).

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 Committee on Public Undertakings (COPU). The status of receipt of replies to the Report of CAG from the GoK is given below:

Table No.1.15: Replies not received as on 30 September 2016

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
2014-15	5.03.2016	2	17	1	10

It could be seen that replies for one performance audit and ten paragraphs in respect of four departments¹⁴, which were commented upon, were not furnished by GoK (September 2016).

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 COPU as on 30 September 2016 was as under:

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
2010-11	2	11	1	11
2011-12	2	12	0	11
2012-13	2	12	2	9
2013-14	2	19	0	5
2014-15	2	17	0	4
Total	10	71	3	40

¹⁴ Energy Department, Commerce and Industries Department, Co-operation Department and Transport Department.

Compliance to Reports of COPU

1.26. Action Taken Notes (ATN) from the GoK pertaining to four Paragraphs of four Reports and two *suo motu* Reports of COPU, presented to the State Legislature between December 2011 and March 2016 had not been received (December 2016) 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	1	11	11
2013-14	2	18	18
2014-15	1	5	5
2015-16	1	7	7
Total	6	66	66

These reports of COPU contained recommendations in respect of paragraphs pertaining to four Departments¹⁵, 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 2016 are 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 and (b) to recover loss / outstanding advances / overpayment within the prescribed time.

Coverage of this Report

1.28. This Report contains 14 Compliance Audit observations and two Performance Audits on 'Implementation of Lift Irrigation Schemes by Karnataka Neeravari Nigam Limited' and 'Implementation of Restructured Accelerated Power Development and Reforms Programme by the Electricity

¹⁵ Commerce and Industries Department, Urban Development Department, Women and Child Development Department and Transport Department.

Supply Companies in Karnataka’, involving a financial effect of ₹ 529.16 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 Companies¹⁶ were dissolved / amalgamated at the end of September 2016. 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 [∩]	-
Working Government Companies decided for closure	3	1 [¢]	2 [@]
Working Government Companies decided for privatisation	8	6 [♥]	2 [♣]
Restructuring of Working Government Companies	1	1 ^Ω	-

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 2016).

¹⁶ 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.

[∩] All the non-working companies are as per **Appendix-2**.

[¢] Karnataka State Construction Corporation Limited.

[@] The Karnataka Fisheries Development Corporation Limited, Karnataka State 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 Karnatak State Forest Industries Corporation Limited to be merged with Karnataka Cashew Development Corporation Limited and Karnataka Forest Development Corporation Limited.