

CHAPTER I

1. OVERVIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

Introduction

1.1 As on 31 March 2005, there were 109 Government companies (88 working and 21 non-working**) and five Statutory corporations (all working) as against 108 Government companies (87 working and 21 non-working) and the same number of working Statutory corporations as on 31 March 2004 under the control of the State Government. There was addition of one working Government Company[▲] during the year ended 31 March 2005. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 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.	Kerala State Electricity Board (KSEB)	Under Rule 14 of the Electricity (Supply) (Annual accounts) Rules 1985 read with Section 185 (2) (d) of the Electricity Act, 2003*	Sole audit by CAG
2.	Kerala State Road Transport Corporation (KSRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
3.	Kerala Industrial Infrastructure Development Corporation (KINFRA)	Section 20(2) of Kerala Industrial Infrastructure Development Act, 1993	Sole audit by CAG
4.	Kerala Financial Corporation (KFC)	Section 37(6) of the State Financial Corporations Act, 1951	audit by the Chartered Accountants and supplementary audit by CAG
5.	Kerala State Warehousing Corporation (KSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	audit by the Chartered Accountants and supplementary audit by CAG

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

▲ Vizhinjam International Seaport Limited

* The earlier provision of Section 69 (2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.

The State Government had formed (November 2002) the Kerala State Electricity Regulatory Commission and its audit is entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003[#].

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2005, the total investment in 93 working PSUs (88 Government companies and five Statutory corporations) was Rs.10,927.32 crore* (equity: Rs.3,157.98 crore, long-term loans** Rs.7,544.68 crore and share application money Rs.224.66 crore) as against 92 working PSUs with a total investment of Rs.11,776.25 crore (equity: Rs.3,129.90 crore, long term loans: Rs.8,429.83 crore and share application money Rs.216.52 crore) as on 31 March 2004. The analysis of investment in working PSUs is given in the following paragraphs:

Sector-wise investment in working Government companies and Statutory corporations

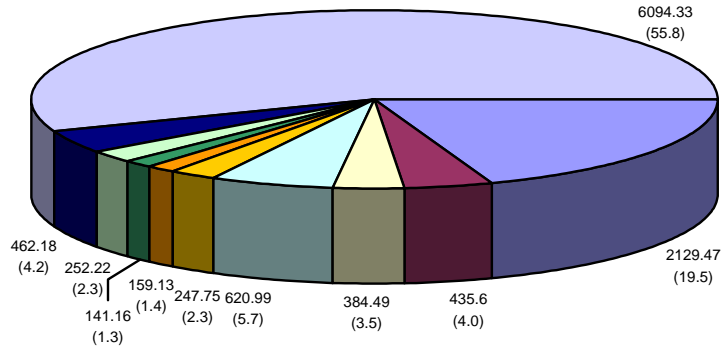
1.3 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2004 are indicated in the pie charts:

[#] Erstwhile Section 34(4) of the Electricity Regulatory Commissions Act, 1998 repealed by the Electricity Act, 2003.

^{*} State Government investment was Rs.4,318.66 crore (Others : Rs.6,608.66 crore). Figure as per Finance Accounts 2004-05 is Rs.5023.24 crore. The difference is under reconciliation.

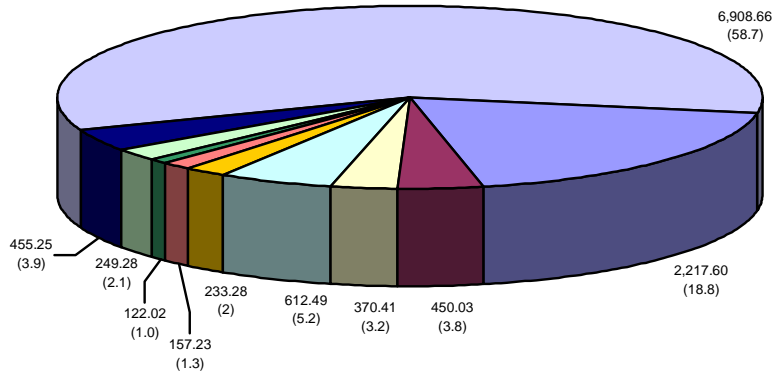
^{**} Long-term loans mentioned in paragraphs 1.2, 1.3 and 1.4 are excluding interest accrued and due on such loans

**Sector-wise investment in working
Government companies and Statutory corporations
As on 31 March 2005
Amount : Rupees in crore
(Figures in bracket indicate percentage of investment)
Total investment - Rs.10,927.32 crore**



- | | | |
|-----------------------|-------------------------------|--------------------------|
| ■ Financing | ■ Engineering and Electronics | ■ Agriculture and Allied |
| ■ Others | ■ Industry | ■ Drugs, etc. |
| ■ Public Distribution | ■ EWS | ■ Transport |
| ■ Power | | |

**As on 31 March 2004
Amount : Rupees in crore
Total investment - Rs.11,776.25 crore**



- | | |
|--------------------------|-------------------------------|
| ■ Financing | ■ Engineering and Electronics |
| ■ Agriculture and Allied | ■ Others |
| ■ Industry | ■ Drugs, etc. |
| ■ Public Distribution | ■ EWS |
| ■ Transport | ■ Power |

Working Government companies

1.4 Total investment in working Government companies at the end of March 2004 and March 2005 was as follows:

(Rupees in crore)

Year	No. of Companies	Equity	Share application money	Loans	Total
2003-04	87	1,285.14	206.52	1,940.47	3,432.13
2004-05	88	1,297.98	222.66	1,966.30	3,486.94

There was increase in investment during the year, mainly due to increase in loans granted by the State Government to the Government companies.

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

As on 31 March 2005, the total investment in working Government companies, comprised 43.6 *per cent* equity capital and 56.4 *per cent* loans as compared to 43.5 and 56.5 *per cent*, respectively, as on 31 March 2004.

Working Statutory corporations

1.5 The total investment in five working Statutory corporations at the end of March 2005 and March 2004 was as follows:

(Rupees in crore)

Name of Corporation	2003-04		2004-05	
	Capital	Loan	Capital	Loan
Kerala State Electricity Board	1,553.00	5,355.66	1,553.00	4,541.33
Kerala State Road Transport Corporation [@]	137.95	317.30	142.95	319.23
Kerala Financial Corporation	155.06*	659.96	157.06*	559.65
Kerala State Warehousing Corporation @	8.75	0.50	9.00	0.50
Kerala Industrial Infrastructure Development Corporation	...	155.94	...	157.66
Total	1,854.76	6,489.36	1,862.01	5,578.37

There was decrease in investment, mainly due to repayment in loans by KSEB and KFC.

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

As on 31 March 2005, the total investment in the working Statutory corporations comprised 25.03 *per cent* equity capital and 74.97 *per cent* loans compared to 22.2 and 77.8 *per cent* respectively, as on 31 March 2004.

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

1.6 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State

[@] Figures are provisional.

* Include share application money of Rs.10.00 crore (2003-04) and Rs.2.00 crore (2004-05)

Government in respect of the working Government companies and working Statutory corporations are given in **Annexures 1 & 3**.

The budgetary outgo in the form of equity, loans and grants/subsidies from the State Government to the working Government companies and working Statutory corporations for the three years up to 2004-05 are given below:

(Amount: Rupees in crore)

	2002-03				2003-04				2004-05			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	19	45.33	4	29.90	16	38.50	3	14.50	18	25.47	1	2.00
Loans given from budget	13	51.97	2	61.16	9	32.92	2	44.15	7	48.40	3	66.21
Grant/subsidy	17	63.93	2	9.34	20	51.75	3	567.21	18	51.03	2	43.39
Total outgo	40*	161.23	5*	100.40	33*	123.17	5*	625.86	33*	124.90	4*	111.60

During the year 2004-05, the Government had guaranteed loans aggregating Rs.445.61 crore obtained by 15 working Government companies. At the end of the year, guarantees of Rs.6,100.94 crore against 28 working Government companies (Rs.3,277.79 crore) and four working Statutory corporations (Rs.2,823.15 crore) were outstanding. The guarantee commission paid/payable to Government by Government companies (Rs.62.95 crore) and Statutory corporations (Rs.42.92 crore) during 2004-05 was Rs.105.87 crore.

Finalisation of accounts by working PSUs

1.7 The accounts of the companies for every financial year are required to be finalised within six months from the end of the 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, Powers and Conditions of Service) Act, 1971. These are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in the case of Statutory corporations their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

As could be noticed from **Annexure 2**, out of 88 working Government companies, only 20 working companies and out of five working Statutory corporations, only three corporations had finalised their accounts for the year 2004-05 within the stipulated period. During the period from October 2004 to September 2005, 50 working Government companies finalised 57 accounts for previous years. Similarly, during this period three working Statutory corporations finalised three accounts for the previous years.

The accounts of 68 working Government companies and two Statutory corporations were in arrears for periods ranging from one to 12 years as on 30 September 2005, as detailed below:

* These are the 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 respective years.

Sl. No.	Number of working companies/corporations		Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Sl. No. of Annexure 2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1	1	...	1993-94 to 2004-05	12	A - 56	...
2	3	...	1995-96 to 2004-05	10	A-55, 66, 80	...
3	2	...	1999-2000 to 2004-05	6	A-10, 18	...
4	3	...	2000-01 to 2004-05	5	A – 5, 41, 54	...
5	4	...	2001-02 to 2004-05	4	A – 11, 52, 57, 62	...
6	11	1	2002-03 to 2004-05	3	A-6, 7, 21, 39, 44, 45, 53, 68, 78, 84, 87	B4
7	14	1	2003-04 to 2004-05	2	A- 2, 9,12, 15, 17, 19, 20, 25, 30, 42, 49, 58, 59, 67	B2
8	30	...	2004-05	1	A- 1, 4, 14, 16, 24, 26, 28, 29, 31, 32, 33, 34, 35, 36, 38, 40, 43, 48, 50, 60, 61, 72, 73, 74, 75, 76, 79, 81, 83, 85	...

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by Audit of the arrears in finalisation of accounts, no remedial measures had been taken, as a result of which the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

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

According to the latest finalised accounts of 88* working Government companies and five working Statutory corporations, 49 companies and two corporations had incurred an aggregate loss of Rs.228.33 crore and Rs.109.02 crore, respectively, 35 companies and three corporations had earned an aggregate profit of Rs.193.19 crore and Rs.103.83 crore respectively. Three companies[#] had not commenced commercial activities. One Company (Serial No. A – 49 of **Annexure 2**) prepares its accounts on ‘no profit no loss’ basis.

* One company at Sl. No. A-49 of Annexure 2 (Kerala Police Housing and Construction Corporation Limited) transfers its excess of expenditure over income to works accounts as per its accounting policy.

[#] Serial numbers A- 46, 51 & 88 of Annexure 2.

Working Government companies

Profit earning working companies and dividend

1.9 Out of 20 working Government companies which finalised their accounts for 2004-05 by September 2005, ten companies earned an aggregate profit of Rs.69.86 crore and only eight companies (Sl. Nos. 3, 8, 13, 47, 63, 69, 70 and 82 of **Annexure 2**) declared dividend aggregating Rs.9.76 crore. Three companies (Sl.No.A-46, 51 and 88 of **Annexure 2**) did not commence commercial activities. The dividend as a percentage of share capital in the above eight profit making companies worked out to 9.51. The total return by way of the above dividend of Rs.9.76 crore, worked out to 0.64 *per cent* in 2004-05 on total equity investment of Rs.1,520.64 crore in all the working Government companies as against 0.3 *per cent* in the previous year. The State Government formulated (December 1998) a dividend policy for payment of minimum dividend. These guidelines were, however, complied with by only three companies (serial numbers 8, 47 and 82 of **Annexure 2**).

Similarly, out of 67 working Government companies which finalised their accounts for the previous years by September 2005, 25 companies earned an aggregate profit of Rs.123.33 crore out of which 20 companies earned profit for two or more successive years.

Loss incurring working Government companies

1.10 Thirty seven companies, out of 49 loss incurring working Government companies, had accumulated losses aggregating Rs.1,914.42 crore which exceeded their aggregate paid-up capital of Rs.575.16 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 so provided by the State Government, by way of equity, loan, conversion of loan into equity, subsidy/grant, etc., during 2004-05 to 15 out of these 37 companies, amounted to Rs.87.68 crore.

Working Statutory corporations

Profit earning Statutory corporations

1.11 Two out of three Statutory corporations (Sl No B1 and B5 of **Annexure 2**) which finalised their accounts for 2004-05 by September 2005, earned a profit of Rs.103.66 crore.

Similarly, one Corporation (serial number B-4 of **Annexure 2**) which finalised its accounts for previous years by September 2005, earned profit of Rs.0.17 crore and had been in profit for two or more successive years.

Loss incurring Statutory corporations

1.12 One of the two loss incurring working Statutory corporations (Serial no. B-2 of **Annexure 2**) had accumulated loss of Rs.1,139.94 crore which exceeded its paid-up capital of Rs.133.70 crore. Despite poor performance and complete erosion of paid up capital the State Government

continued to provide financial support to the Corporation by way of loan (Rs.15.00 crore).

Operational performance of working Statutory corporations

1.13 The operational performance of working Statutory corporations is given in **Annexure 6**.

Return on capital employed

1.14 The details of capital employed and total return on capital employed in the case of working Government companies and Statutory corporations are given in **Annexure 2**. As per the latest finalised accounts (up to September 2005), the capital employed* worked out to Rs.3,799.55 crore in 85^Δ working companies and total return** thereon amounted to Rs.351.37 crore which constituted 9.25 *per cent* as compared to total return of Rs.328.90 crore (8.9 *per cent*) in the previous year (accounts finalised up to September 2004). Similarly, the capital employed and total return thereon in the case of working Statutory corporations as per the latest finalised accounts (up to September 2005) worked out to Rs.8,857.57 crore and Rs.653.36 crore (7.4 *per cent*), respectively, against the total return of Rs.649.97 crore (7.4 *per cent*) in the previous year (accounts finalised up to September 2004).

Power Sector Reforms

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

1.15 In pursuance of the Chief Ministers' conference on Power Sector Reforms, held in March 2001, a Memorandum of Understanding (MOU) was signed on 20 August 2001 between the Ministry of Power, Government of India (GOI) and the Department of Power, Government of Kerala as a joint commitment for implementation of the reforms programme in the power sector. Milestones were also set up for achieving the objective of providing good quality uninterrupted power supply to all its consumers at affordable rates and to maintain the commercial viability of the power sector to meet the increasing investment demands.

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

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

^Δ Excluding three Companies (Sl.No. A-46, 51 and 88 of **Annexure 2**) which did not commence commercial activities.

** 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

	Reform programme commitment as per MOU	Targeted completion schedule	Status (As on 31 March 2005)
I	By the State Government:		
	Reduction in Transmission and Distribution losses	Reduction of loss to 17 per cent by December 2004	Loss was 26 per cent
	100 per cent electrification of all villages	100 per cent	Completed
	100 per cent metering of all distribution feeder	100 per cent by October 2001	Completed
	100 per cent metering of all consumers	100 per cent by December 2001	Completed
	Securitising outstanding dues of Central PSUs	Securitisation limit not to cross two months billing	Completed for the period up to 30 September 2001 (Rs.1,158.25 crore)
	State Electricity Regulatory Commission (SERC):		
	(i) Establishment of SERC	October 2001	SERC established on 29 November 2002
	(ii) Implementation of tariff orders issued by SERC during the year	No tariff orders issued.	
	Others:		
	(i) Energy Audit:		
	(a) 11 KV metering	March 2002	Completed
	(b) Above 11 KV metering	October 2001	Completed
	(ii) Computerisation of accounting and billing in towns	March 2002	Computerised billing and customer service centre completed in 54 sections. Billing, collection and accounting in towns completed in 180 sections.
	(iii) Break even of distribution of power	March 2002	Work in progress
	(iv) Asian Development Bank loans for power sector reforms	Nil	Final report of consultant received.
II	By the Central Government:		
	Supply of additional power	Allocation from Ramagundam and Talcher - 152.7 MW	No allocation made.
	Provision of funds under Accelerated Power Development Reforms Programme (APDRP)	...	Circle Scheme : Rs.181.59 crore Town/New Town Scheme : Rs.298.87 crore
III	General:		
	Monitoring of MOU	Every three months	All parameters are regularly monitored and monthly reports furnished to the Government

State Electricity Regulatory Commission

1.16 Government of Kerala constituted (29 November 2002) the Kerala State Electricity Regulatory Commission (Commission) under Section 17 (1) of the Electricity Regulatory Commissions Act, 1998*. The Commission is a body corporate and comprises three members including a Chairman who are appointed by the State Government. The audit of accounts of the Commission is entrusted to CAG under Section 104 (2) of the Electricity Act, 2003**. No tariff orders had been issued by the Commission as on 31 March 2005.

Non-working Public Sector Undertakings (PSUs)

Investment in non-working PSUs

1.17 As on 31 March 2005 the total investment in 21 non-working PSUs (all Government companies) was Rs.117.57[^] crore (equity: Rs.53.89 crore and long term loans: Rs.63.68 crore) against Rs.124.01 crore (equity:Rs.53.16 crore and long term loans:Rs.70.85 crore) in the same number of non-working PSUs (all Government companies) as on 31 March 2004.

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

The status of the non-working PSUs was as under:

(Amount: Rupees in crore)

Sl. No.	Status of non-working PSUs	Number of companies	Investment	
			Equity	Long term loans
(i)	Under liquidation [#]	13	28.58	33.91
(ii)	Defunct/ under closure ^{##}	8	25.31	29.77
	Total	21	53.89	63.68

All the 21 non-working Government companies were under liquidation or closure under Section 560 of the Companies Act, 1956 for periods ranging from one to 21 years. As substantial investment of Rs.117.57 crore was involved in these companies, effective steps need to be taken for their expeditious liquidation or revival.

* Since replaced with Section 82 (1) of the Electricity Act, 2003.

** Erstwhile Section 34(4) of the Electricity Regulatory Commissions Act, 1998 repealed by the Electricity Act, 2003.

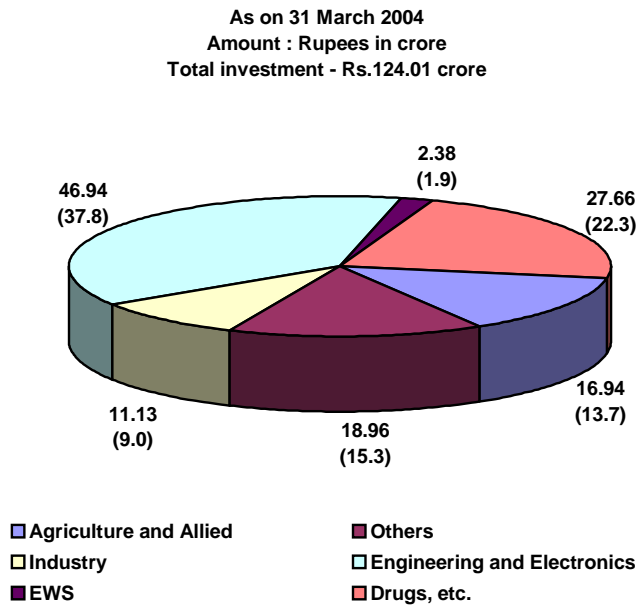
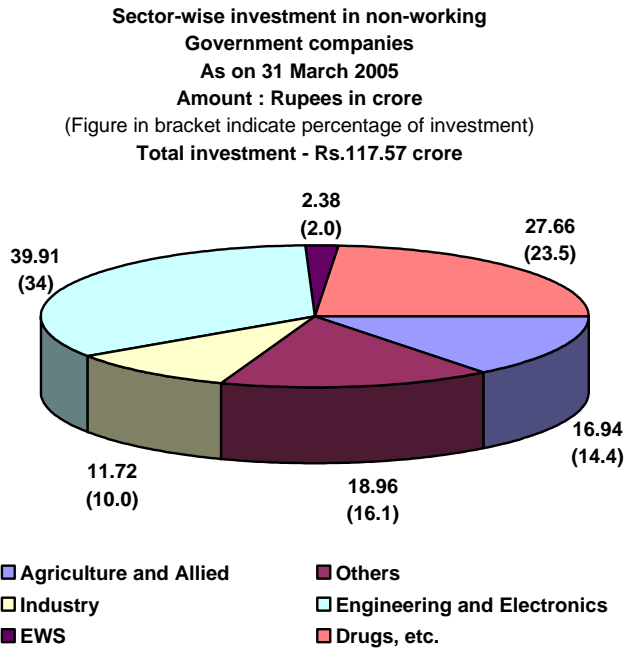
[^] State Government investment was Rs.56.98 crore (Others : Rs.60.59 crore). Figure as per finance accounts 2004-05 is Rs.116.15 crore. The difference is under reconciliation.

[#] Companies at serial nos. C-1,2, 3,4, 6, 7, 8, 9, 13,15, 16, 17 and 19 of Annexure 2.

^{##} Companies at serial nos. C-5, 10, 11, 12, 14, 18, 20 and 21 of Annexure 2.

Sector-wise investment in non-working Government companies

1.18 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2004 are indicated in the pie charts:



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

1.19 During the year 2004-05, the State Government did not provide any budgetary support by way of equity, or loans to any of the non-working Government Companies. As regards financial support by way of subsidy, grant, waiver of dues, etc., by the State Government, no information was available from the non-working Government companies (**Annexures 1 and 3**).

Finalisation of accounts by non-working PSUs

1.20 Thirteen companies out of total 21 non-working Government companies were under liquidation and remaining eight companies were defunct. The accounts of all the eight defunct companies were in arrears for periods ranging from three to 15 years as could be seen from **Annexure 2**. Four defunct Government companies and five companies under liquidation finalised six and eight previous years accounts respectively during the period from October 2004 to September 2005. One company under liquidation (Kerala Special Refractories Limited) finalised its latest accounts during the said period.

Financial position and working results of non-working PSUs

1.21 The summarised financial results of non-working Government companies as per the latest finalised accounts are given in **Annexure 2**.

The details of paid-up capital, net worth, cash loss and accumulated loss of non-working PSUs as per their latest finalised accounts are given below:

(Rupees in crore)

Particulars	Paid-up capital	Net worth	Cash loss	Accumulated loss
Non-working companies	60.49	(-)144.67	13.23	193.82

Note : Net worth, cash loss and accumulated loss calculated are as per last certified accounts.

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

1.22 The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by the CAG of India, 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 the Legislature	
			Year of SAR	Date of issue to the Government
1.	Kerala State Electricity Board	2002-03	2003-04	audit completed; SAR yet to be issued
2.	Kerala State Road Transport Corporation	2001-02	2002-03	audit in progress
3.	Kerala Financial Corporation	2003-04	2004-05	audit in progress
4.	Kerala State Warehousing Corporation.	2000-01	2001-02	10.06.2005
5.	Kerala Industrial Infrastructure Development Corporation	2003-04	2004-05	audit in progress

Disinvestment, Privatisation and Restructuring of Public Sector Undertakings

1.23 The Government had not laid down any policy in regard to disinvestment, privatisation and restructuring of PSUs so far (September 2005). No disinvestment, privatisation and restructuring of PSUs had taken place during the year 2004-05.

Results of audit by the Comptroller and Auditor General of India

1.24 During the period from October 2004 to September 2005, the audit of accounts of 62 Government companies (56 working and six non-working) and four working Statutory corporations were selected for review. As a result of the observations made by CAG, two companies (Serial. no. A- 1 and 10 of **Annexure 2**) revised its accounts for 2003-04 and 1998-99 respectively. The net impact of the important audit observations as a result of review of the remaining PSUs was as follows:

Details	No. of accounts		Amount: Rupees in crore	
	Working Government companies	Working Statutory corporations	Working Government companies	Working Statutory corporations
i. Decrease in profit	4	1	3.43	0.29
ii. Increase in loss	4	...	7.86	...
iii. Increase in profit	1	...	0.64	...
iv. Non-disclosure of material facts	1	1	0.15	300.00

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

Errors and omissions noticed in the case of Government companies

Keltron Electro Ceramics Limited (2003-04)

1.25 Net Loss for the year (Rs. 5.38 lakh) was understated by Rs. 8.42 lakh due to non-provision for arrears of Dearness Allowance payable to employees from July 1999 to January 2001 and from July 2001 to March 2004.

Keltron Component Complex Limited (2003-04)

1.26 Profit after tax for the year (Rs 3.67 crore) was overstated by Rs. 1.21 crore due to non provision for sponsorship fee (Rs. 0.12 crore) shown as recoverable from Kerala Minerals and Metals Limited but rejected in December 2003, recognition of deferred tax (Rs. 0.77 crore) as asset without ensuring with certainty that the tax would be adjusted against future income and non-provision for arrears of income tax (Rs. 0.32 crore) consequent on disallowance of sole selling commission.

Kerala State Industries Development Corporation (2003-04)

1.27 Profit after tax (Rs. 8.81 crore) for the year was overstated by Rs1.40 crore due to non-provision for guarantee commission payable to Government of Kerala on the interest payable up to maturity of bonds.

Kerala Electrical and Allied Engineering Company Limited (2002-03)

1.28 Loss for the year (Rs. 1.84 crore) was understated by Rs.2.32 crore due to non-write off of development expenditure (Rs.2.09 crore) incurred on an abandoned project and non-provision for arrears of DA to employees (Rs.0.23 crore).

Plantation Corporation of Kerala Limited (2002-03)

1.29 Net profit for the year (Rs. 10.06 lakh) turned out to be a net loss of Rs 22.42 lakh due to non-provision for guarantee commission/Dearness allowance to employees (Rs. 37.91 lakh) and under-valuation (Rs 5.43 lakh) of closing stock.

Kerala State Electronics Development Corporation Limited (2003-04)

1.30 Loss carried over to balance sheet (Rs 49.48 crore) was understated by Rs 3.95 crore due to non write off of irrecoverable claims (Rs 69.46 lakh), non-write back of time barred liabilities (Rs 29.32 lakh), non-accounting of interest on mobilisation advance (Rs 92.88 lakh), non-reversal of excess billing of sales (Rs.1.32 crore), and non-accounting of expenditure (Rs 1.30 crore).

Kerala State Construction Corporation Limited (2003-04)

1.31 Net loss for the year (Rs 4.03 crore) was understated by Rs 1.51 crore due to non-provision for penal interest/fine payable to Government for delayed/non-payment of instalments of loans.

Errors and omissions noticed in the case of Statutory corporations

Kerala State Warehousing Corporation Limited (2001-02)

1.32 Share capital advance was understated by Rs.25 lakh due to appropriation of the advance received from Government towards dues (Rs.10.38 lakh) and sundry creditors (Rs.14.62 lakh) without sanction of the competent authority.

Net profit for the year (Rs.16.92 lakh) turned out to be loss of Rs.11.93 lakh due to non-provision of arrears of dearness allowance (Rs.11.09 lakh) and non-reckoning of prior period items of expenditure (Rs.17.74 lakh).

Audit assessment of the working results of Kerala State Electricity Board

1.33 Based on the audit assessment of the working results of the Kerala State Electricity Board (KSEB) for the three years up to 2004-05 and taking into consideration the major irregularities and omissions pointed out in the SARs on the annual accounts of KSEB and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit and return on capital employed of KSEB would be as given in the table below:

(Rupees in crore)

Sl.No	Particulars	2002-03	2003-04	2004-05
1	Net surplus/(-) deficit as per accounts	80.78	91.82	103.49
2	Subsidy from the State Government	1,015.57	1007.43	342.77
3	Net surplus/(-) deficit before subsidy from the State Government (1-2)	(-)934.79	(-)915.61	(-)239.28
4	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts	(-)324.75	(-)49.49	Audit in progress
5	Net surplus / (-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-)1259.54	(-)965.10	Audit in progress
6	Total return on capital employed	(-)687.84	(-)316.89	...

It is evident from the above, that the surplus of Rs.91.82 crore for the year 2003-04 was arrived at after taking credit for Government subsidy of Rs.1,007.43 crore. But for the above subsidy, the working of the Board would have resulted in a deficit of Rs.915.61 crore.

Persistent irregularities and system deficiencies in financial matters of PSUs

1.34 The following persistent irregularities and system deficiencies in financial matters of PSUs were repeatedly pointed out during the course of audit of their accounts but no corrective action had been taken by these PSUs so far:

Statutory corporations

1.35 Kerala State Electricity Board

- Advances paid to suppliers remained unadjusted even after supplies were completed long back.

1.36 Kerala State Road Transport Corporation

- Non-maintenance of assets register.
- Sales relating to 1985-86 were yet to be invoiced for want of details.
- Inclusion of expenditure incurred on interior arrangement/decoration (in a hired building during 1984-88 and surrendered in March 1988) in capital works.
- Short term advances to employees being shown after adjusting credit balances.
- Non-reconciliation of General Provident Fund, State Transport Provident Fund accounts and non-provision of liability on account of pension and gratuity on accrual basis.

Recoveries at the instance of Audit

1.37 Test check of records of Kerala State Electricity Board, Kerala State Road Transport Corporation and other PSUs conducted during the year 2004-05 disclosed wrong fixation of tariff/non-levy/short levy of tariff, short realisation of revenue, excess payment of bonus, pay and allowances, etc., aggregating Rs. 12.22 crore in 8141 cases. The PSUs accepted the audit observations in 365 cases and Rs. 1.17 crore relating to 335 audit observations was recovered at the instance of Audit.

Internal audit/internal control

1.38 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal control/internal audit systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under section 619(3) (a) of the Companies Act, 1956 and to identify areas which need improvement. An illustrative resume of major recommendations /comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of State Government companies is indicated in **Annexure 7**. The major comments were of the following nature:

- There was absence of internal control procedure.
- Internal audit system needed strengthening and improvement.
- Internal audit system was not commensurate with the size and nature of business of the Company.
- Scope and coverage of internal audit reports need to be improved.

Recommendations for closure of PSUs

1.39 Even after completion of ten to 77 years of their existence, the turnover of 23^{*} Government companies (all working) and one[@] working Statutory corporation had been less than Rs.5 crore in each of the preceding five years of the latest finalised accounts. Similarly, nine^{**} Government companies (all working) had been incurring losses for five consecutive years (as per their latest finalised accounts) leading to negative net worth. In view of poor turnover and continuous losses, the Government should either improve the performance of the above companies or consider their closure.

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

1.40 During the period October 2004 to September 2005, COPU held 21 meetings and considered 21 paragraphs relating to the period 1999-2000 (five paragraphs), 2001-02 (12 paragraphs) and 2002-03 (four paragraphs).

* Serial No. A - 12, 18, 22, 25, 33, 35, 36, 44, 47, 52, 53, 54, 55, 56, 57, 58, 63, 68, 79, 80, 81, 83 and 84 of **Annexure 2**.

@ Serial No. B – 5 of **Annexure 2**.

** Serial No. A - 7, 19, 20, 24, 28, 31, 37, 40 and 59 of **Annexure 2**.

The position of Audit Reports (Commercial) pending for COPU discussion as on 30 September 2005 is detailed below:

Period of Audit Report	No. of reviews and paragraphs appeared in the Audit Report		No. of reviews and paragraphs pending (September 2005) for discussion by COPU		No. of COPU Reports outstanding		No. of Reviews/paragraphs on which ATN outstanding	
	Reviews	Paragraphs	Reviews	Paragraphs	Reviews	Paragraphs	Reviews	Paragraphs
1999-2000	4	25	1	...	...	16	2	...
2000-01	3	22	...	...	...	13	...	...
2001-02	3	21	3	...	...	20	...	...
2002-03	3	17	3	13	...	4	...	...
2003-04	2	18	2	18	...	...	...	...
Total	15	103	9	31	...	53	2	...

619-B companies

1.41 As on 31 March 2005 there were six working companies and one non-working company coming under Section 619-B of the Companies Act, 1956. **Annexure 8** 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.