

## CHAPTER I

### 1. OVERVIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

#### Introduction

*1.1* As on 31 March 2006, there were 109 Government companies (84 working and 25 non-working\*\*) and five Statutory corporations (all working) as against 109 Government companies (88 working and 21 non-working) and the same number of working Statutory corporations as on 31 March 2005 under the control of the State Government. During the year ended 31 March 2006, four<sup>∇</sup> working Government companies became non-working. 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 (4) 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)	Rule 14 of the Electricity (Supply) (Annual accounts) Rules 1985 read with Section 172 (a) and 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.

<sup>∇</sup> Serial no C -.9, 13, 20 and 24 of Annexure 1.

\* The earlier provision of Section 69 (2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.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<sup>#</sup>.

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

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

**1.2** As on 31 March 2006, the total investment in 89 working PSUs (84 Government companies and five Statutory corporations) was Rs.10,152.63 crore\* (equity: Rs.3,253.28 crore, long-term loans\*\* Rs.6,753.90 crore and share application money Rs.145.45 crore) against a total investment of Rs.10,927.32 crore (equity: Rs.3,157.98 crore, long term loans: Rs.7544.68 crore and share application money Rs.224.66 crore) in 93 working PSUs as on 31 March 2005. 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 2006 and 31 March 2005 are indicated in the pie charts:

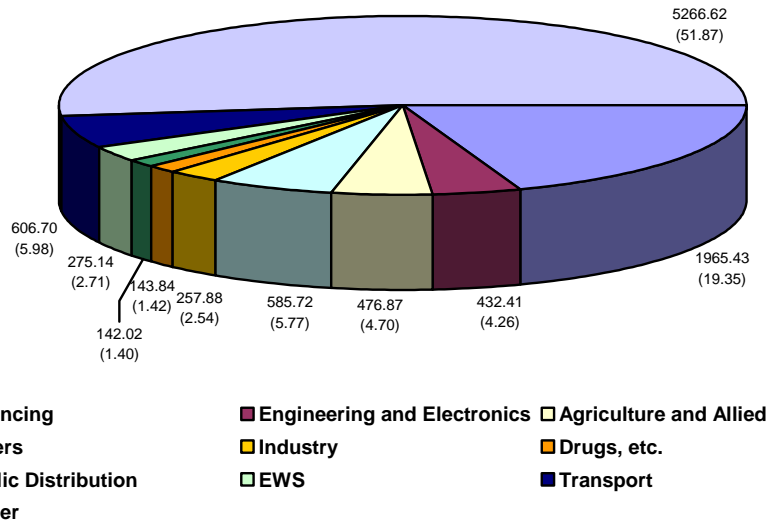
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<sup>#</sup> Erstwhile Section 34(4) of the Electricity Regulatory Commissions Act, 1998 repealed by the Electricity Act, 2003.

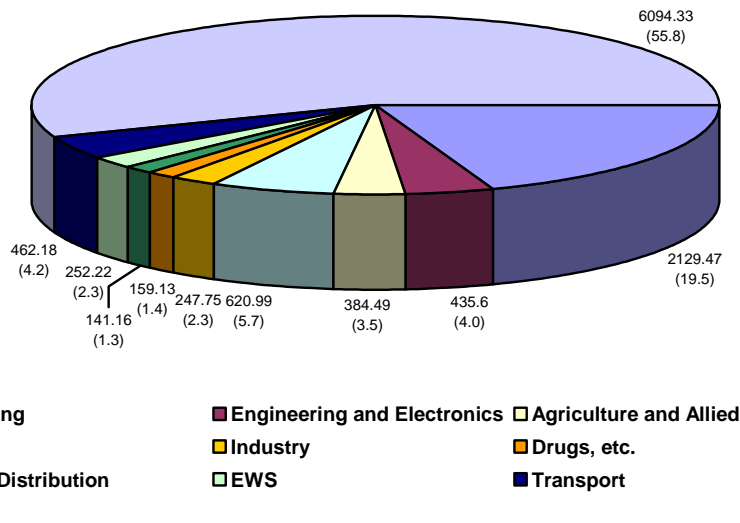
<sup>\*</sup> State Government investment was Rs.4526.34 crore (Others : Rs.5626.29 crore). Figure as per Finance Accounts 2005-06 is Rs.5168.64 crore. The difference is under reconciliation.

<sup>\*\*</sup> 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 2006**  
Amount : Rupees in crore  
(Figures in bracket indicate percentage of investment)  
Total investment - Rs.10,152.63 crore



**As on 31 March 2005**  
Amount : Rupees in crore  
(Figures in bracket indicate percentage of investment)  
Total investment - Rs.10,927.32 crore



**Working Government companies**

**1.4** Total investment in working Government companies at the end of March 2005 and March 2006 was as follows:

(Rupees in crore)

Year	No. of Companies	Equity	Share application money	Loans	Total
2004-05	88	1,297.98	222.66	1,966.30	3,486.94
2005-06	84	1,386.28	143.45	1,910.31	3,440.04

There was decrease in investment during the year, mainly due to repayment of loans by the Government companies to the State Government.

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 2006, the total investment in working Government companies, comprised 44.47 per cent equity capital and 55.53 per cent loans as compared to 43.6 and 56.4 per cent, respectively, as on 31 March 2005.

**Working Statutory corporations**

**1.5** The total investment in five working Statutory corporations at the end of March 2006 and March 2005 was as follows:

(Rupees in crore)

Name of Corporation	2004-05		2005-06	
	Capital	Loan	Capital	Loan
Kerala State Electricity Board	1,553.00	4,541.33	1553.00	3713.62
Kerala State Road Transport Corporation <sup>@</sup>	142.95	319.23	147.95	458.75
Kerala Financial Corporation	157.06*	559.65	159.06*	513.05
Kerala State Warehousing Corporation @	9.00	0.50	9.00	0.50
Kerala Industrial Infrastructure Development Corporation	...	157.66	...	157.66@
<b>Total</b>	<b>1,862.01</b>	<b>5,578.37</b>	<b>1869.01</b>	<b>4843.58</b>

There was decrease in investment, mainly due to repayment of 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 2006, the total investment in the working Statutory corporations comprised 27.84 per cent equity capital and 72.16 per cent loans compared to 25.03 and 74.97 per cent respectively, as on 31 March 2005.

**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

<sup>@</sup> Figures are provisional.

\* Includes share application money of Rs.2.00 crore.

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 2005-06 are given below:

(Amount: Rupees in crore)

	2003-04				2004-05				2005-06			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	16	38.50	3	14.50	18	25.47	1	2.00	9	10.02	1	2.00
Loans given from budget	9	32.92	2	44.15	7	48.40	3	66.21	7	65.22	2	71.28
Grant/subsidy	20	51.75	3	567.21	18	51.03	2	43.39	12	28.85	..	...
Total outgo	33*	123.17	5*	625.86	33*	124.90	4*	111.60	23*	104.09	3*	73.28

During the year 2005-06, the Government had guaranteed loans aggregating Rs.266.73 crore obtained by eight working Government companies. At the end of the year, guarantees of Rs.5193.56 crore against 29 working Government companies (Rs.3138.56 crore) and four working Statutory corporations (Rs.2055.00 crore) were outstanding. The guarantee commission paid/payable to the Government by Government companies (Rs.51.71 crore) and Statutory corporations (Rs.1.77 crore) during 2005-06 was Rs.53.48 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 84 working Government companies, only 19 working companies and out of five working Statutory corporations, only two corporations had finalised their accounts for the year 2005-06 within the stipulated period. During the period from October 2005 to September 2006, 47 working Government companies finalised 51 accounts for previous years. Similarly, during this period one working Statutory corporation finalised two accounts for the previous years.

The accounts of 65 working Government companies and three Statutory corporations were in arrears for periods ranging from one to 12 years as on 30 September 2006, as detailed below:

\* Represent actual number of companies/corporations which have received the budgetary support from the State Government in the form of equity, loans, grants and subsidy 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	...	1994-95 to 2005-06	12	A - 53	...
2	2	...	1995-96 to 2005-06	11	A -52, 76	...
3	1	...	1996-97 to 2005-06	10	A -63	...
4	1	...	1999-2000 to 2005-06	7	A -10	...
5	3	...	2000-01 to 2005-06	6	A - 18, 39, 51	...
6	3	...	2001-02 to 2005-06	5	A – 5, 49, 54	...
7	4	...	2002-03 to 2005-06	4	A – 11, 21, 37, 59	...
8	7	1	2003-04 to 2005-06	3	A – 7, 17, 19, 20, 74, 80, 83,	B 2
9	16	1	2004-05 to 2005-06	2	A – 6, 9, 12, 15, 25, 28, 38, 41, 42, 46, 50, 55, 64, 75, 79, 81	B 4
10	27	1	2005-06	1	A – 1, 14, 16, 24, 26, 27, 29, 30, 31, 32, 33, 34, 40, 45, 47, 48, 56, 57, 66, 67, 69, 70, 71, 72, 77, 82, 84	B 5

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 84\* working Government companies and five working Statutory corporations, 45 companies and three corporations had incurred an aggregate loss of Rs.249.18 crore and Rs.110.73 crore, respectively, 35 companies and two corporations had earned an aggregate profit of Rs.200.20 crore and Rs.101.43 crore respectively.

\* One company (Sl. No. A-46 of **Annexure 2**) functioning on 'No profit no loss' basis while three companies (Sl.No. A - 43, 48 and 84 of **Annexure 2**) had not commenced commercial activities.

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

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

**1.9** Out of 19 working Government companies which finalised their accounts for 2005-06 by September 2006, 11 companies earned an aggregate profit of Rs.73.51 crore and only seven companies (Sl. Nos. 3, 4, 8, 13, 44, 60 and 78 of **Annexure 2**) declared dividend aggregating Rs.4.86 crore. The dividend as a percentage of share capital in the above seven profit making companies worked out to 5.81. The total return by way of the above dividend of Rs.4.86 crore, worked out to 0.32 *per cent* in 2005-06 on total equity investment of Rs.1,529.73 crore in all the working Government companies as against 0.64 *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 3, 8 and 78 of **Annexure 2**).

Similarly, out of 64\* working Government companies which finalised their accounts for the previous years by September 2006, 24 companies earned an aggregate profit of Rs.126.69 crore out of which 19 companies earned profit for two or more successive years.

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

**1.10** Thirty companies, out of 45 loss incurring working Government companies, had accumulated losses aggregating Rs.2,012.96 crore which exceeded their aggregate paid-up capital of Rs.502.41 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of contribution towards equity, further grant of loans, conversion of loans into equity, subsidy, etc. According to available information, the total financial support so provided by the State Government, by way of equity, loan, conversion of loan into equity, subsidy/grant, etc., during 2005-06 to nine out of these 30 companies, amounted to Rs.30.11 crore.

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

#### ***Profit earning Statutory corporations***

**1.11** Out of two Statutory corporations which finalised their accounts for 2005-06 by September 2006, one Corporation (serial number B-1 of **Annexure 2**) earned a profit of Rs.101.26 crore.

Similarly, out of three Statutory corporations which finalised their accounts for previous years by September 2006, one corporation (serial number B-5 of **Annexure 2**) earned a profit of Rs.0.17 crore.

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

**1.12** One of the three loss incurring working Statutory corporations (Serial number 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

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\* Excluding one company (Serial No. A-46 of **Annexure 2**) which is functioning on 'No profit no loss' basis.

performance and complete erosion of paid up capital the State Government continued to provide financial support to the Corporation by way of loan (Rs.5.00 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 2006), the capital employed\* worked out to Rs.4186.40 crore in 81<sup>Δ</sup> working companies and total return\*\* thereon amounted to Rs.372.23 crore which constituted 8.89 *per cent* as compared to total return of Rs.351.37 crore (9.25 *per cent*) in the previous year (accounts finalised up to September 2005). Similarly, the capital employed and total return thereon in the case of working Statutory corporations as per the latest finalised accounts (up to September 2006) worked out to Rs.8596.09 crore and Rs.622.98 crore (7.25 *per cent*), respectively, against the total return of Rs.653.36 crore (7.4 *per cent*) in the previous year (accounts finalised up to September 2005).

## **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.

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\* 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).

<sup>Δ</sup> Excluding three Companies (Sl.No. A-43, 48 and 84 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



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

	<b>Reform programme commitment as per MOU</b>	<b>Targeted completion schedule</b>	<b>Status (As on 31 March 2006)</b>
<b>I</b>	<b>By the State Government:</b>		
	Reduction in Transmission and Distribution losses	Reduction of loss to 17 per cent by December 2004	Loss was 25 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 184 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.
<b>II</b>	<b>By the Central Government:</b>		
	Supply of additional power	Allocation from Ramagundam and Talcher - 152.7 MW	180 MW from Talchar
	Provision of funds under Accelerated Power Development Reforms Programme (APDRP)	...	Circle Scheme : Rs.148.24 crore Town/New Town Scheme : Rs.341.81 crore Cities Scheme :Rs.373.57 crore
<b>III</b>	<b>General:</b>		
	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 2006.

### **Non-working Public Sector Undertakings (PSUs)**

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

**1.17** As on 31 March 2006 the total investment in 25 non-working PSUs (all Government companies) was Rs.163.12<sup>Δ</sup> crore (equity: Rs.66.69 crore and long term loans: Rs. 96.43 crore) against Rs.117.57 crore (equity:Rs.53.89 crore and long term loans:Rs.63.68 crore) in 21 non-working PSUs (all Government companies) as on 31 March 2005.

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

The classification 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 <sup>#</sup>	13	28.58	33.91
(ii)	Defunct/ under closure <sup>##</sup>	12	38.11	62.52
	Total	25	66.69	96.43

All the 25 non-working Government companies were under liquidation or closure under Section 560 of the Companies Act, 1956 for periods ranging from one to 22 years. As substantial investment of Rs.163.12 crore was involved in these companies, effective steps need to be taken for their expeditious liquidation or closure.

\* 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.

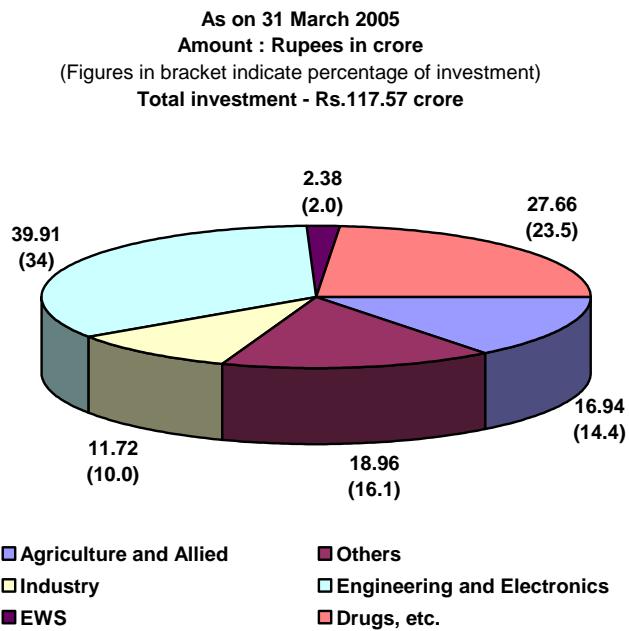
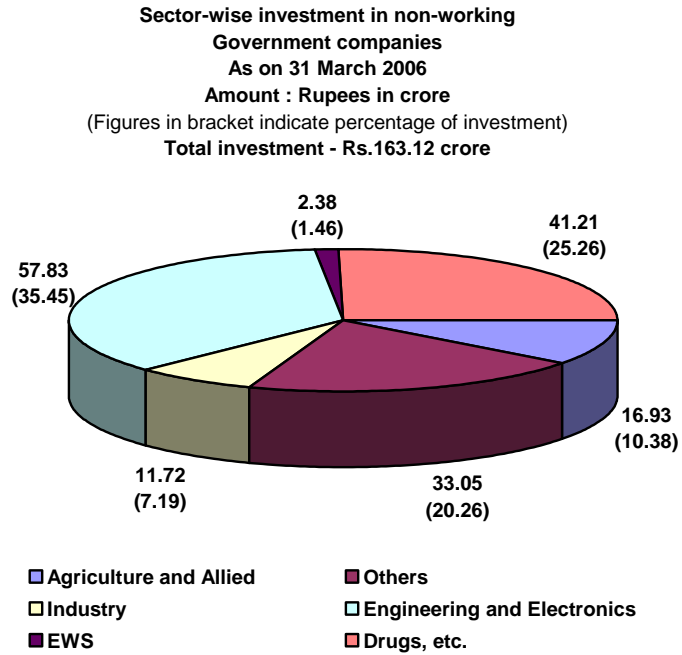
<sup>Δ</sup> State Government investment was Rs.85.59 crore (Others : Rs.77.53 crore). Figure as per finance accounts 2005-06 is Rs.131.54 crore. The difference is under reconciliation.

<sup>#</sup> Companies at serial nos. C-1,2, 3,4, 6, 7, 8, 10, 15, 17, 18 , 19 and 22 of Annexure 2.

<sup>##</sup> Companies at serial nos. C-5, 9, 11, 12,13, 14,16, 20, 21,23,24 and 25 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 2006 and 31 March 2005 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 2005-06, the State Government did not provide any budgetary support by way of equity, or loans to any of the non-working Government Companies. Only one company (Sl.No. C-19 of **Annexure 3**) was provided financial support of Rs.0.52 crore by way of grant/subsidy (**Annexures 1 and 3**).

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

**1.20** Thirteen companies out of total 25 non-working Government companies were under liquidation and remaining 12 companies were defunct. The accounts of all the 12 defunct companies were in arrears for periods ranging from three to 16 years as could be seen from **Annexure 2**. Four defunct Government companies and two companies under liquidation finalised five and four previous years accounts respectively during the period from October 2005 to September 2006. Two companies under liquidation (Sl.No. C- 6 and 8 of **Annexure 2**) 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	72.95	(-) 205.45	36.59	275.98

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	2003-04	2004-05	24.3.2006
2.	Kerala State Road Transport Corporation	2001-02	2002-03	14.3.2006
3.	Kerala Financial Corporation	2004-05	2005-06	audit completed
4.	Kerala State Warehousing Corporation.	2001-02	2002-03	30.3.2006
5.	Kerala Industrial Infrastructure Development Corporation	2003-2004	2004-05	audit completed

### **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 2006). No disinvestment, privatisation and restructuring of PSUs had taken place during the year 2005-06.

### **Results of audit by the Comptroller and Auditor General of India**

**1.24** During the period from October 2005 to September 2006, the audit of accounts of 56 Government companies (52 working and four non-working) and three working Statutory corporations were selected for audit. As a result of the observations made by CAG, one company (Serial. no. A- 56 of **Annexure 2**) revised its accounts for 2004-05. The net impact of the important audit observations as a result of audit 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	3	1	4.15	103.49
ii. Increase in loss	5	...	10.71	...
iii. Non-disclosure of material facts	2	...	5.05	...
iv. Errors in classification	2	...	...	13.74

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

#### ***Errors and omissions noticed in the case of Government companies***

##### ***Kerala Tourism Development Corporation Limited (2001-02)***

**1.25** Loss for the year (Rs.3.50 crore) was overstated by Rs.2.44 crore due to crediting of profit on sale of Land and Building (Rs.2.51 crore) under capital reserve instead of to profit and loss account (as required in AS 10) and short provision for sale tax (Rs.0.07 crore).

##### ***The Kerala State Civil Supplies Corporation Limited (2003-04)***

**1.26** Loss for the year (Rs.74.04 crore) was understated by Rs.3.83 crore due to non-inclusion of DA arrears paid to employees under manufacturing and other expenses in conformity with AS 5.

##### ***Kerala Urban and Rural Development Finance Corporation Limited (2004-05)***

**1.27** Profit for the year (Rs.48.21 lakh) was overstated by Rs.3.10 crore due to accounting of interest income on non-performing assets (Rs.2.79 crore) and non-provision of guarantee commission (Rs.0.31 crore).

**Kerala State Electronics Development Corporation Limited (KELTRON)  
(2004-05)**

**1.28** Net loss for the year (Rs.49 crore) was overstated by Rs.3.64 crore due to non-provision of DA arrears (Rs.2.35 crore), over-valuation (Rs.0.09 crore) of AC plant not in active use, non-accounting of expenditure (Rs.1.20 crore) incurred by various states on behalf of the Company.

**The Plantation Corporation of Kerala Limited (2004-05)**

**1.29** Net profit Rs.5.73 crore was overstated by Rs.71.67 lakh due to non-provision for lease rent payable on 975 hectares of Cheemeni estate for the years 2001-02 to 2004-05.

**Errors and omissions noticed in the case of Statutory corporations**

**Kerala State Electricity Board (2004-05)**

**1.30** Net surplus of the Board for the year (Rs.103.49 crore) was overstated by Rs.190.98 crore due to short provision for interest and finance charges (Rs.139.27 crore), omission to write-off various irrecoverable dues and non-provision for bad debts (Rs.20.91 crore), non-accounting of subsidy allowed to a consumer (Rs.28.96 crore) and transmission charges (Rs.1.84 crore).

**Audit assessment of the working results of Kerala State Electricity Board**

**1.31** Based on the audit assessment of the working results of the Kerala State Electricity Board (KSEB) for the three years up to 2005-06 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	2003-04	2004-05	2005-06
1	Net surplus/(-) deficit as per accounts	91.82	103.49	101.26
2	Subsidy from the State Government	1007.43	342.77	144.58
3	Net surplus/(-) deficit before subsidy from the State Government (1-2)	(-) 915.61	(-) 239.28	(-) 43.32
4	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts	(-) 36.42	(-) 190.98	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)	(-) 952.03	(-) 430.26	Audit in progress
6	Total return on capital employed	(-) 303.82	(+) 113.29	...

It is evident from the above, that the surplus of Rs.103.49 crore for the year 2004-05 was arrived at after taking credit for Government subsidy of Rs.342.77 crore. But for the above subsidy, the working of the Board would have resulted in a deficit of Rs.239.28 crore.

***Persistent irregularities and system deficiencies in financial matters of PSUs***

**1.32** 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**

**1.33 Kerala State Electricity Board**

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

**1.34 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**

**1.35** Test check of records of Kerala State Electricity Board, Kerala State Road Transport Corporation and other PSUs conducted during the year 2005-06 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. 28.24 crore in 3247 cases. The PSUs accepted the audit observations in 1944 cases and Rs. 13.37 crore relating to 541 audit observations was recovered at the instance of Audit.

**Internal audit/internal control**

**1.36** 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 inadequacy of internal control procedure.
- Internal audit system was not commensurate with the size and nature of business of the Company.

- Scope and coverage of internal audit system need to be improved.

### **Recommendations for closure of PSUs**

**1.37** Even after completion of 11 to 78 years of their existence, the turnover of 19\* Government companies (all working) and one@ working Statutory corporation had been less than Rs.5 crore in each of the five years up to 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 may 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)**

**1.38** The status of Audit Reports (Commercial) and their reviews/paragraphs due for discussion by COPU as on 30 September 2006 was as under :

Period of Audit Report	No. of reviews and paragraphs appeared in the Audit Report		No. of reviews/paragraphs discussed by COPU up to September 2006	
	Reviews	Paragraphs	Reviews	Paragraphs
1999-2000	4	25	3	25
2000-01	3	22	3	22
2001-02	3	21	2	21
2002-03	3	17	...	4
2003-04	2	18	...	...
2004-05	4	23	...	...
<b>Total</b>	<b>19</b>	<b>126</b>	<b>8</b>	<b>72</b>

During the period October 2005 to September 2006, COPU held 16 meetings and considered six paragraphs relating to the period 2001-02.

### **619-B companies**

**1.39** As on 31 March 2006 there were six working companies and one non-working company coming under the purview of 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.

\* Serial No. A – 12, 18, 22, 31, 33, 34, 44, 49, 50, 51, 52, 53, 54, 55, 75, 76, 77, 79 and 80 of **Annexure 2**.

@ Serial No. B – 5 of **Annexure 2**.

\*\* Serial No. A - 7, 19, 20, 24, 27, 29, 35, 38 and 56 of **Annexure 2**.