OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2006, the State had 114 Public Sector Undertakings (PSUs) comprising 109 Government companies and five Statutory corporations compared to the same number of PSUs as on 31 March 2005. Out of 109 Government companies, 84 companies were working while 25 companies were non-working. All the five Statutory corporations were working corporations. In addition, there were seven companies (six working and one non-working) under the purview of Section 619 - B of the Companies Act, 1956, as on 31 March 2006.

(Paragraphs 1.1 and 1.39)

The total investment in working PSUs decreased from Rs.10,927.32 crore as on 31 March 2005 to Rs.10,152.63 crore as on 31 March 2006. The total investment in 25 non-working PSUs was Rs.163.12 crore.

(Paragraphs 1.2 and 1.17)

The budgetary support in the form of capital, loans and grants disbursed to the working PSUs decreased from Rs.236.50 crore in 2004-05 to Rs.177.37 crore in 2005-06. The State Government provided budgetary support of Rs.0.52 crore by way of grant/subsidy to one non-working PSU during 2005-06. The State Government guaranteed loans aggregating Rs.266.73 crore obtained by eight working Government companies during 2005-06. The guarantees of Rs.5193.56 crore were outstanding against 33 working PSUs as on 31 March 2006.

(Paragraphs 1.6 and 1.19)

Nineteen working Government companies and two working Statutory corporations had finalised their accounts for the year 2005-06. The accounts of 65 working Government companies and three working Statutory corporations were in arrears for periods ranging from one to 12 years as on 30 September 2006. Thirteen companies out of 25 non-working companies were under liquidation and accounts of the remaining 12 defunct companies were in arrears for periods ranging from three to 16 years.

(Paragraphs 1.7 and 1.20)

Out of 19 working Government companies which finalised their accounts for 2005-06, 11 companies earned an aggregate profit of Rs.73.51 crore and only seven companies declared dividend of Rs.4.86 crore during the year. Of the loss incurring working Government companies, 30 companies had accumulated losses aggregating Rs.2,012.96 crore which exceeded their paid-up capital of Rs.502.41 crore. Kerala State Road Transport Corporation being a loss incurring Statutory corporation, had accumulated loss of Rs.1,139.94 crore, which exceeded its paid-up capital of Rs.133.70 crore.

(Paragraphs 1.9, 1.10 and 1.12)

2. Performance Review in respect of Government company

Performance review relating to Internal Control System in **Kerala State Financial Enterprises Limited** was conducted and some of the main findings were as follows:

The Kerala State Financial Enterprises Limited was set up in November 1969 with the object of socialising Chitty business in the State and diversified the activity to granting of various types of loans. The Company failed to utilise the Budget as a tool of internal control as the budgets were not prepared in time and variations between budget and actuals were not analysed.

The Company neither maintained the stock account of receipt books nor kept the same under safe custody resulting in absence of control over its issue to various officials responsible for handling cash.

An Audit Committee was formed after a delay of four and a half years from the stipulated date but did not transact any of the intended business. No Internal Audit Manual was prepared and the scope and coverage of Internal Audit was inadequate.

There were deficiencies in the internal control procedures with regard to enrolment of subscribers and sanction/disbursements of loans. Chitty default (prized) during the five years ended 31 March 2005 ranged between Rs. 32 crore and Rs. 52 crore. Cost bearing funds ranging between Rs. 61 crore and Rs. 214 crore were diverted for payment of prize money. Credit worthiness of persons was not ensured before admission to Chitties and defaulters in one chitty were allotted tickets in other Chitties.

(Chapter 2.1)

3. Performance Reviews in respect of Statutory corporations

Performance reviews relating to “Funds Management in **Kerala State Electricity Board”**, “Information Technology Audit of the Low Tension Billing System in **Kerala State Electricity Board”,** “Sanction and Disbursement of Loans in **Kerala Financial Corporation”** and the “Role of **Kerala Industrial Infrastructure Development Corporation** in the Development of Industrial Infrastructure in the State” were conducted and some of the main findings were as follows:

Funds Management in Kerala State Electricity Board

The Kerala State Electricity Board constituted in 1957 had a centralized system of management of funds by the Financial Adviser under the supervision of Member (finance). The Board did not prepare budget estimates on a scientific basis with respect to schemes/projects to be executed during the ensuing year and revenue budget did not portray a realistic estimate of the revenue and expenditure of the Board.

The overall percentage of utilisation of capital receipts for capital purposes was only 26 and funds mobilised for creation of capital assets were diverted for debt servicing and for meeting revenue expenditure.

There was deterioration in collection of revenue. Realisation against receivables decreased from 71 in 2001-02 to 68 *per cent* in 2005-06. Arrears more than three years old constituted over 51 *per cent* of the total arrears.

The Board suffered interest loss of Rs.42.44 crore due to excess/avoidable payment of transmission charges/advance income tax and failure to incorporate put/call option in the prospectus for bond issue.

(Chapter 3.1)

Information Technology Audit of the Low Tension Billing System in Kerala State Electricity Board

Kerala State Electricity Board, engaged in generation, transmission and distribution of power in the State of Kerala introduced computerisation in the areas of High Tension Billing, Low Tension Billing, Pay Roll, Accounting and Inventory Management. As against the computerisation of all distribution sections envisaged to be completed by March 2004, only 33 *per cent* sections were computerised. Major deficiencies noticed in the implementation and application of computerisation were as follows:

As the agreement for the development of software was executed after installation of the software, the Board could not ensure that Pricewaterhouse Cooper (PwC) delivered all the components of the software and provided system support during implementation

Failure to demand Additional Cash Deposit (ACD), led to short recovery of ACD to the tune of Rs 13.37 crore in six Sections covered in audit.

Though the Board had formulated a policy regarding security of IT assets, lack of awareness among staff about the System security rendered the system vulnerable to unauthorised access and data manipulation.

(Chapter 3.2)

Sanction and Disbursement of Loans in Kerala Financial Corporation

The Corporation, established in 1953, had been providing financial assistance to small and medium scale industries with a view to promote and aid the industrialisation. There were delays ranging up to three months in the preparation of Business Plan and Resource Forecast and the variations between budget and actual figures were not being analysed. The actual sanction of loans ranged between 46.81 to 78.51 *per cent* of the target and the actual disbursement declined from 105.54 *per cent* in 2001-02 to 66.03 *per cent* in 2005-06.

Non-inclusion of put/call option in the prospectus for issue of Statutory Liquidity Ratio bonds resulted in loss of Rs.3.83 crore.

Loans granted without proper/sufficient security resulted in non recovery of overdue amount Rs.5.53 crore in nine cases.

Non-insistence of condition on promoters contribution as well as repayment of loans through escrow account and disbursement of loan for purposes other than for which it was sanctioned rendered Rs.3.94 crore as NPA.

(Chapter 3.3)

Role of Kerala Industrial Infrastructure Development Corporation in the Development of Industrial Infrastructure in the State

Kerala Industrial Infrastructure Development Corporation, formed with the objective of creating infrastructure facilities for development of industries in the State, had been functioning without proper strategy for creation of infrastructure. The Corporation did not have any definite policy for selection of land for purchase/acquisition of land with reference to nature of industries. Deficiencies existed in the allotment of land and execution of agreements/deeds. With regard to its main activity of setting up of industrial parks for various sectors and groups the Corporation could not fully achieve its envisaged objective since a major portion of the land where infrastructure facilities were created remained unallotted.

Land costing Rs.3.65 crore acquired on behalf of a private entrepreneur had been lying unutilised and interest due there against amounted to Rs.2.83 crore.

Despite specific terms and conditions, the Corporation failed to demand and recover from entrepreneurs enhanced compensation of Rs.seven crore paid to land owners towards cost of land.

Due to failure to first identify adequate water availability for an industrial park the investment of Rs.1.25 crore in water treatment plant had been lying idle and additional expenditure of Rs.4.09 crore had to be incurred on an alternate water supply scheme.

(Chapter 3.4)

4. Transaction audit observations

Audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications which are listed below category-wise:

There were 15 cases of loss amounting to Rs.38.66 crore on account of:

- Undue benefit to contractors/suppliers
- Wrong fixation/classification of tariff
- Undue concessions
- Non-adherence to provisions of contracts/Act
- Failure to incorporate provisions in contract
- Faulty planning
- Injudicious procurement

(Paragraphs 4.1, 4.2, 4.9, 4.10, 4.11, 4.12, 4.13, 4.14, 4.15, 4.17, 4.18, 4.20, 4.22, 4.25 and 4.28)

Thirteen instances of avoidable and wasteful expenditure amounting to Rs.9.35 crore due to :

- Injudicious procurement
- Failure to take timely action
- Misutilisation of funds

(Paragraphs 4.3, 4.4, 4.5, 4.6, 4.7, 4.8, 4.16, 4.19, 4.21, 4.23, 4.24, 4.26 and 4.27)

A few of the important observations are highlighted below:

Government companies

Hasty decision by **The Kerala State Cashew Development Corporation Limited** to import raw cashew nuts at exorbitant cost resulted in loss of Rs.9.76 crore

(Paragraph 4.1)

Decision of the **Kerala Minerals and Metals Limited** to continue the purchase of bags at higher rates from a supplier who had defaulted resulted in avoidable expenditure of Rs.76.73 lakh

(Paragraph 4.4)

Statutory corporations

Failure of **Kerala State Electricity Board** to apply the correct tariff classification resulted in allowing undue tariff concessions amounting to Rs.20.49 crore to a consumer

(Paragraph 4.13)

Grant of rebate by **Kerala State Electricity Board** in contravention of the provisions of the agreement and in violation of the formula prescribed for maximum demand relief resulted in extending of undue benefit of Rs.1.12 crore to a private party.

(Paragraph 4.14)

Kerala State Electricity Board's failure to invoke reduction in prices on belated supplies and refund of the liquidated damages levied in terms of the contract resulted in undue benefit of Rs.1.06 crore to the supplier.

(Paragraph 4.15)

Kerala State Electricity Board misutilised the incentive funds released by the Government of India for development of the Power Sector for payment of donation and gift resulting in non-productive expenditure of Rs.2.50 crore.

(Paragraph 4.16)

Wrong classification of the consumer as non-industrial/non-commercial under HT II category instead of as commercial consumer under HT IV by **Kerala State Electricity Board**, resulted in loss of revenue of Rs.2.30 crore.

(Paragraph 4.17)

The decision of **Kerala State Road Transport Corporation** to procure high value Low Floor buses without conducting any cost benefit analysis and ignoring the lower efficiency levels during trial runs resulted in avoidable extra expenditure of Rs.53.20 lakh

(Paragraph 4.23)