

CHAPTER I

1. OVERVIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

Introduction

1.1 As on 31 March 2007, there were 109 Government companies (84 working and 25 non-working**) and five Statutory corporations (all working) same as on 31 March 2006 under the control of the State Government. In addition, the State had formed (November 2002) Kerala State Electricity Regulatory Commission whose audit is also conducted by the Comptroller and Auditor General of India (CAG). The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors appointed by CAG as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by 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)	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

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

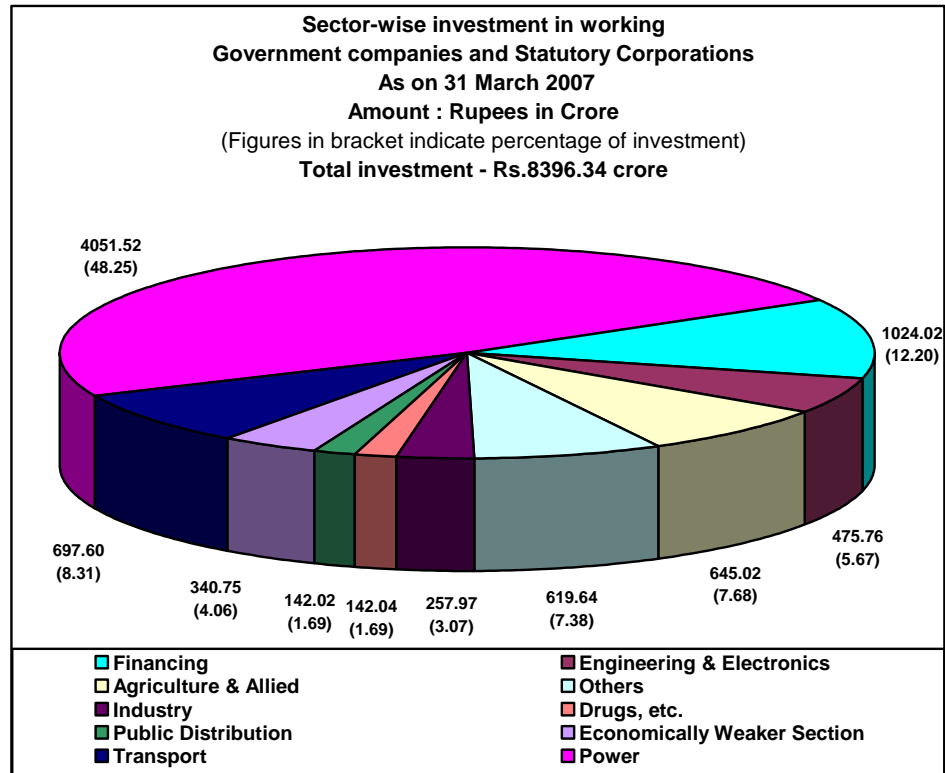
1.2 As on 31 March 2007, the total investment in 89 working PSUs (84 Government companies and five Statutory corporations) was

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

Rs.8396.34 crore* (equity: Rs.3,268.92 crore, long-term loans** Rs.4,954.59 crore and share application money Rs.172.83 crore) against a total investment of Rs.10,152.63 crore (equity: Rs.3,253.28 crore, long term loans: Rs.6753.90 crore and share application money Rs.145.45 crore) in the same number of PSUs as on 31 March 2006. The analysis of investment in working PSUs is given in the following paragraphs:

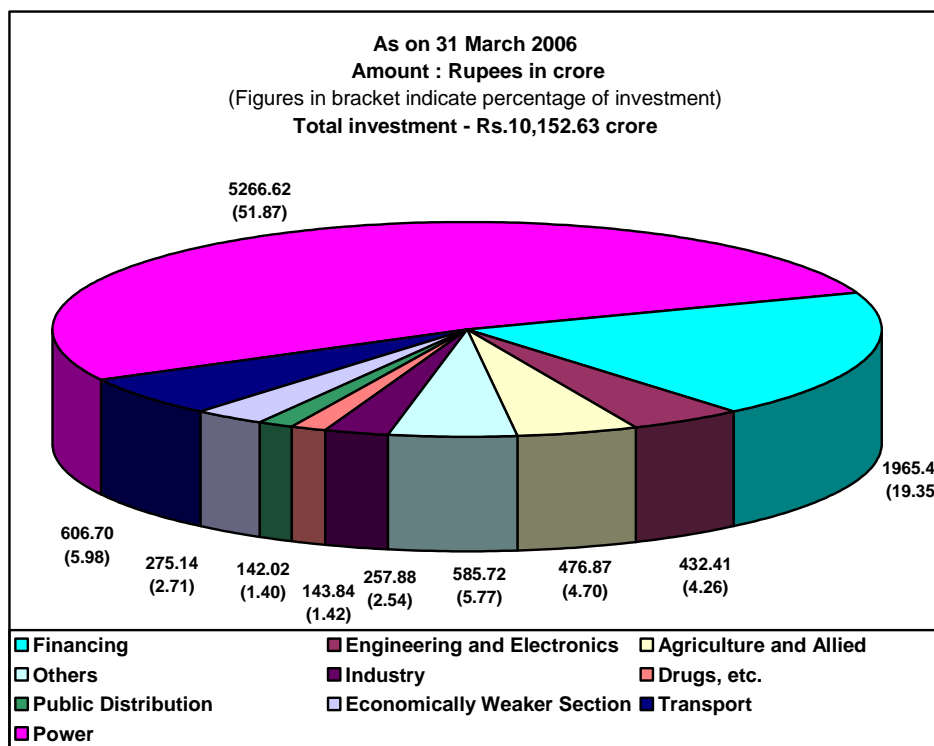
Sector-wise investment in working Government companies and Statutory corporations

1.3 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2007 and 31 March 2006 are indicated in the pie charts:



* State Government investment was Rs. 4453.08 crore (Others : Rs.3943.26 crore). Figure as per Finance Accounts 2006-07 is Rs. 5315.63 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



Working Government companies

1.4 Total investment in working Government companies at the end of March 2006 and March 2007 was as follows:

(Rupees in crore)

Year	Number of Companies	Equity	Share application money	Loans	Total
2005-06	84	1,386.28	143.45	1,910.31	3,440.04
2006-07	84	1,396.91	170.83	1,337.24	2,904.98

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

There was decrease in investment during the year, mainly due to repayment of loans by the Government companies. As on 31 March 2007, the total investment in working Government companies, comprised 53.97 per cent equity capital and 46.03 per cent loans as compared to 44.47 and 55.53 per cent, respectively, as on 31 March 2006.

Working Statutory corporations

1.5 The total investment in five working Statutory corporations at the end of March 2007 and March 2006 was as follows:

(Rupees in crore)

Name of Corporation	2005-06		2006-07	
	Capital	Loan	Capital	Loan
Kerala State Electricity Board	1553.00	3713.62	1553.00	2498.52
Kerala State Road Transport Corporation [@]	147.95	458.75	152.95	544.65
Kerala Financial Corporation	159.06 [#]	513.05	159.06 [#]	424.47
Kerala State Warehousing Corporation [@]	9.00	0.50	9.00	0.50
Kerala Industrial Infrastructure Development Corporation [@]	...	157.66	0.00	149.20
Total	1869.01	4843.58	1874.01	3617.34

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

There was decrease in investment, mainly due to repayment of loans by KSEB and KFC. As on 31 March 2007, the total investment in the working Statutory corporations comprised 34.13 per cent equity capital and 65.87 per cent loans compared to 27.84 and 72.16 per cent respectively, as on 31 March 2006.

Budgetary outgo, grants/subsidies, guarantees issued, 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 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 2006-07 are given below:

(Amount: Rupees in crore)

	2004-05				2005-06				2006-07			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	18	25.47	1	2.00	9	10.02	1	2.00	13	26.69	1	5.00
Loans given from budget	7	48.40	3	66.21	7	65.22	2	71.28	8	66.48	2	79.50
Grant/subsidy	18	51.03	2	43.39	12	28.85	17	30.17
Total outgo	33*	124.90	4*	111.60	23*	104.09	3*	73.28	34*	123.34	2*	84.50

During the year 2006-07, the Government had guaranteed loans aggregating Rs.363.68 crore obtained by nine working Government companies

[@] Figures are provisional.

[#] Includes shares application money of rupees two crore.

^{*} 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.

(Rs.356.88 crore and two Statutory corporations (Rs.6.80 crore). At the end of the year, guarantees of Rs.4541.42 crore against 20 working Government companies (Rs.3177.84 crore) and three working Statutory corporations (Rs.1363.58 crore) were outstanding. The guarantee commission paid/payable to the Government by Government companies (Rs.56.39 crore) and Statutory corporations (Rs.1.34 crore) during 2006-07 was Rs.57.73 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.

Out of 84 working Government companies, only 16* working companies and out of five working Statutory corporations, only three# corporations had finalised their accounts for the year 2006-07 within the stipulated period. During the period from October 2006 to September 2007, 53 working Government companies finalised 61 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 13 years as on 30 September 2007, as detailed below:

Sl. No	Number of working companies/corporations		Year for 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 2006-07	13	A - 53	...
2.	1	...	1995-96 to 2006-07	12	A - 76	...
3.	1	...	1996-97 to 2006-07	11	A - 52	...
4.	1	...	1997-98 to 2006-07	10	A -63	...
5.	2	...	2000-01 to 2006-07	7	A -10, 18	...
6.	3	...	2002-03 to 2006-07	5	A - 39, 51, 54	...
7.	3	...	2003-04 to 2006-07	4	A - 5,11, 21	...
8.	14	1	2004-05 to 2006-07	3	A - 7, 9, 12, 17, 19, 20, 42, 49, 50, 59, 75, 79, 80, 83	B 2

* The Rehabilitation Plantations Limited, Oil Palm India Limited, Kerala Agro Machinery Corporation Limited, Kerala Feeds Limited, Steel Complex Limited, Steel and Industrial Forgings Limited, Keltron Component Complex Limited, Kerala State Textile Corporation Limited, Kerala State Mineral Development Corporation Limited, Kerala Clays and Ceramic Products Limited, The Travancore Sugars and Chemicals Limited, The Travancore Sugars and Chemicals Limited, Kerala Urban & Rural Development Finance Corporation Limited, Kerala State Power and Infrastructure Finance Corporation Limited, Kerala State Industrial Enterprises Limited and Kerala State Ex-Servicemen Development and Rehabilitation Corporation

Kerala State Electricity Board, Kerala Financial Corporation and Kerala Industrial Infrastructure Development Corporation.

9.	15	1	2005-06 to 2006-07	2	A – 6, 15, 25, 28, 37, 38, 41, 46, 47, 48, 55, 56, 71, 74, 81	B 4
10	27	...	2006-07	1	A – 1, 2, 14, 16, 22, 24, 27, 29, 30, 31, 33, 34, 36, 40, 45, 57, 58, 60, 61, 64, 65, 66, 68, 69, 73, 77, 84	

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.233.36 crore and Rs.125.82 crore, respectively, whereas 35 companies and two corporations had earned an aggregate profit of Rs.181.20 crore and Rs.218.33 crore respectively. One company[∇] did not prepare profit and loss account as it capitalised excess of expenditure over income and other three companies[⊗] had not commenced commercial activities (**Annexure 2**).

Working Government companies

Profit earning working companies and dividend

1.9 Out of 16 working Government companies which finalised their accounts for 2006-07 by September 2007 12 companies earned an aggregate profit of Rs.47.06 crore and only seven companies[⊘] declared dividend aggregating Rs.4.13 crore. The dividend as a percentage of share capital in the above seven profit making companies worked out to 7.04. The total return by way of the above dividend of Rs.4.13 crore, worked out to 0.26 *per cent* in 2006-07 on total equity investment of Rs.1,567.74 crore in all the working

[∇] Kerala Police Housing and Construction Corporation Limited.

[⊗] Kerala State Mineral Development Corporation Limited, Kerala Irrigation Infrastructure Development Corporation Limited and Vizhinjam International Sea Port Limited.

[⊘] Oil Palm India Limited, Kerala Agro Machinery Corporation Limited, Kerala State Industrial Enterprises Limited, The Rehabilitation Plantations Limited, Kerala Clays and Ceramic Products Limited, Kerala Urban and Rural Development Finance Corporation Limited and Kerala State Power and Infrastructure Finance Corporation Limited.

Government companies as against 0.32 *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 five companies[√] (**Annexure 2**).

Similarly, out of 67* working Government companies which finalised their accounts for the previous years by September 2007, 23 companies earned an aggregate profit of Rs.134.13 crore out of which 22 companies earned profit for two or more successive years.

Loss incurring working Government companies

1.10 Thirty three out of 45 loss incurring working Government companies, had accumulated losses aggregating Rs.2233.76 crore which exceeded their aggregate paid-up capital of Rs.526.04 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 2006-07 to 22 such companies, amounted to Rs.115.18 crore.

Working Statutory corporations

Profit earning statutory corporations

1.11 Out of three Statutory corporations which finalised their accounts for 2006-07 by September 2007, two Corporations[⊗] (**Annexure 2**) earned an aggregate profit of Rs.218.33 crore.

Loss incurring Statutory corporations

1.12 One working Statutory corporation^Σ (**Annexure 2**) had accumulated loss of Rs.1272.19 crore which exceeded its paid-up capital of Rs.137.95 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.67 crore).

Operational performance of working Statutory corporations

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

[√] Oil Palm India Limited, Kerala Agro Machinery Corporation Limited, Kerala State Industrial Enterprises Limited, The Rehabilitation Plantations Limited and Kerala Urban and Rural Development Finance Corporation Limited.

* Excluding one company (Kerala Police Housing and Construction Corporation Limited) which is functioning on 'No profit no loss' basis.

⊗ Kerala State Electricity Board and Kerala Industrial Infrastructure Development Corporation.

Σ Kerala State Road Transport Corporation.

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 2007), the capital employed* worked out to Rs.4006.86 crore in 81^Δ working companies and total return** thereon amounted to Rs.379.89 crore which constituted 9.48 per cent as compared to total return of Rs.372.23 crore (8.89 per cent) in the previous year (accounts finalised up to September 2006). Similarly, the capital employed and total return thereon in the case of working Statutory corporations as per the latest finalised accounts (up to September 2007) worked out to Rs.5867.81 crore and Rs.596.01 crore (10.16 per cent), respectively, against the total return of Rs.622.98 crore (7.25 per cent) in the previous year (accounts finalised up to September 2006).

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 (March 2001) on Power Sector Reforms, a Memorandum of Understanding (MOU) was signed (August 2001) between the Union Ministry of Power, (MOP) and the State Government as a joint commitment for implementation of the reforms programme in the power sector. Milestones were also set up for providing good quality uninterrupted power supply to all 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:

	Reform programme commitment as per MOU	Targeted completion schedule	Status (As on 31 March 2007)
I	By the State Government:		
	Reduction in Transmission and Distribution losses	Reduction of loss to 17 per cent by December 2004	KSEB has targeted to reduce the loss by 2 per cent every year. The T& D Loss brought down to 23.43 per cent as of March 2007
	Electrification of all villages	100 per cent	All villages have been electrified (as per census of 2001)
	Metering of all distribution feeder	100 per cent by October 2001	Completed
	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	An amount of Rs 1158.25 crore as dues outstanding, payable to CPSU as on 30.09.01 has been securitised

* 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-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.

	Establishment of State Electricity Regulatory Commission (SERC)	October 2001	SERC established on 29 November 2002
	Implementation of tariff orders issued by SERC during the year		Tariff Order issued for ARR & ERC for 06-07 on 30.03.06 and tariff rebate for domestic and commercial consumer was issued on 5.01.2006 (effective from 01.01.06) ARR for 2007-08 filed on 13.12.2006
	Energy Audit of 11 KV metering	March 2002	Completed
	Energy Audit above 11 KV metering	October 2001	Completed
	Computerisation of accounting and billing in towns	Computerised billing & customer service centre (Town Schemes (target 66 nos) Billing collection & Accounting in towns (target 619 as on 31.03.07)	Total 184 sections completed
	Break even of distribution of power	To be achieved upto March 2002	Work in progress
	Asian Development Bank loans for power sector reforms	Nil	ADB has appointed Nextant & Crisil as Consultant. The Consultant has submitted their final report
II	By the Central Government:		
	Supply of additional power	Allocation from Ramagundam and Talcher - 152.7 MW	The MOP has allocated 180 MW of Power from Talcher II STPS to arrive at a composite tariff for Kayamkulam Power.
	Provision of funds under Accelerated Power Development Reforms Programme (APDRP)	...	MOP released an amount of Rs.248.57 crore to the State Government. Rs.287.93 crore has been received by KSEB from State Government. The total amount received by KSEB is Rs. 447.05 crore which included Rs. 159.12 crore counter part funds. Rs. 19.88 crore from KSEB's funds has also been provided and the total amount targeted for APDRP is Rs. 466.93 crore.
III	General:		
	Monitoring of MOU	Every three months	A committee constituted at State Government level is monitoring the performance based on MOU

State Electricity Regulatory Commission

1.16 The State Government constituted (November 2002) 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 conducted by the CAG under Section 104 (2) of the Electricity Act, 2003. No tariff orders had been issued by the Commission during 2006-07.

Non-working Public Sector Undertakings (PSUs)

Investment in non-working PSUs

1.17 As on 31 March 2007, the total investment in 25 non-working PSUs (all Government companies) was Rs.164.72^Δ crore (equity: Rs.66.83 crore and long term loans: Rs.97.89 crore) against Rs.163.12 crore (equity:Rs.66.69 crore and long term loans:Rs.96.43 crore) in the same number of PSUs as on 31 March 2006.

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 [#]	13	28.58	33.91
(ii)	Defunct/ under closure ^{##}	12	38.25	63.98
	Total	25	66.83	97.89

All the 25 non-working Government companies were under liquidation or closure under Section 560 of the Companies Act, 1956 for periods ranging from three to 23 years. As substantial investment of Rs.164.72 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.

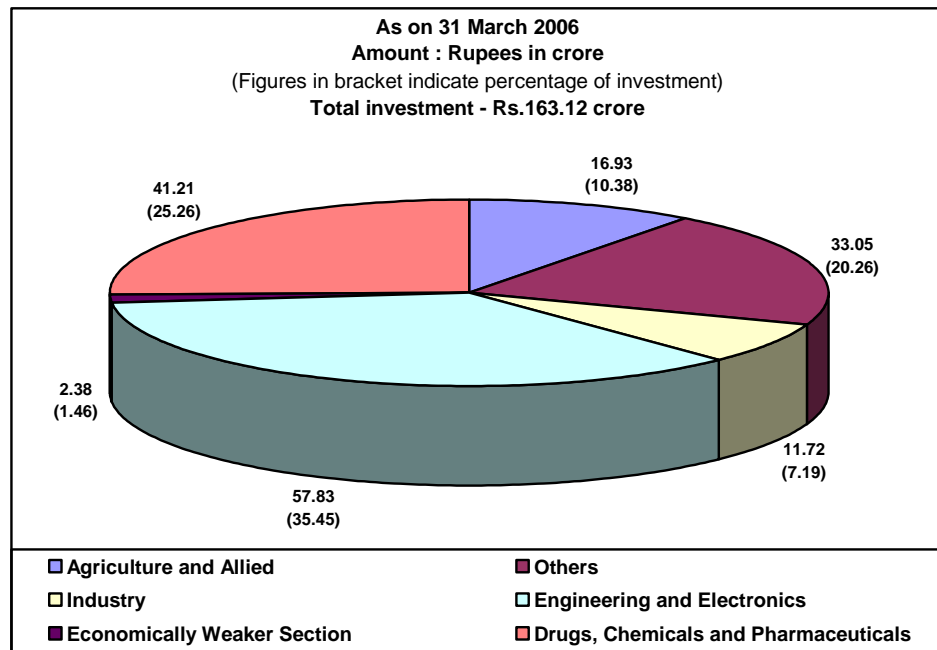
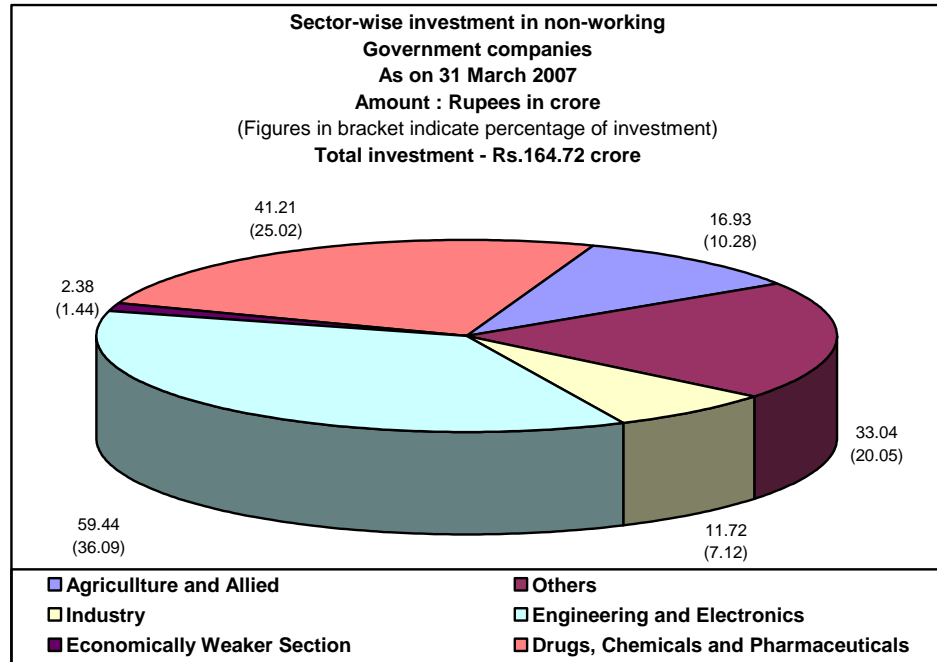
Δ State Government investment was Rs.85.59 crore (Others : Rs.79.13 crore). Figure as per finance accounts 2006-07 is Rs. 127.54 crore. The difference is under reconciliation.

Kerala State Coconut Development Corporation Limited, The Kerala Fisheries Corporation Limited, Kerala Inland Fisheries Development Corporation Limited, The Kerala Premo Pipe Factory Limited, Kerala Special Refractories Limited, The Kerala Asbestos Cement Pipe Factory Limited, Kerala Construction Components Limited, Kerala State Engineering Works Limited, SIDKEL Televisions Limited, Keltron Rectifiers Limited, Trivandrum Spinning Mills Limited, Kerala Garments Limited and Kerala Fishermen's Welfare Corporation Limited

The Chalakudy Refractories Limited, Scooters Kerala Limited, SIDCO Mohan Kerala Limited, The Metropolitan Engineering Company Limited, Keltron Counters Limited, Keltron Power Devices Limited, Astral Watches Limited, Travancore Plywood Industries Limited, Kerala State Wood Industries Limited, Kerala Soaps and Oils Limited, Kerala State Detergents and Chemicals Limited and Kerala State Salicylates and Chemicals Limited.

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 2007 and 31 March 2006 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 2006-07, the State Government did not provide any budgetary support by way of equity, or loans to any of the non-working Government Companies. Only two companies[⊗] (**Annexure 3**) were provided financial support of Rs.2.11 crore by way of grant/subsidy (**Annexures 1 and 3**).

Finalisation of accounts by non-working PSUs

1.20 Thirteen out of 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 17 years (**Annexure 2**). Five defunct Government companies and one company under liquidation finalised seven and one previous years accounts, respectively, during the period from October 2006 to September 2007. One company[⊕] under liquidation (**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	72.94	(-) 205.82	38.94	284.14

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 CAG, 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	2004-05	2005-06	29.05.2007
			2006-07	Audit in progress
2.	Kerala State Road Transport Corporation	2002-03	2003-04	Audit in progress
3.	Kerala Financial Corporation	2005-06	2006-07	SAR under finalisation
4.	Kerala State Warehousing Corporation.	2003-04	2004-05	Audit in progress
5.	Kerala Industrial Infrastructure Development Corporation	2005-06	2006-07	Audit in progress

⊗ Astral Watches Limited and Kerala Garments Limited.

⊕ Kerala Special Refractories Limited.

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 2007). No disinvestment, privatisation and restructuring of PSUs had taken place during the year 2006-07.

Results of audit by Comptroller and Auditor General of India

1.24 During the period from October 2006 to September 2007, the audit of accounts of 55 Government companies (52 working and three non-working) and three working Statutory corporations were selected for audit. As a result of the observations made by CAG, two companies[∅] (**Annexure 2**) revised their accounts for 2002-03 and 2004-05 respectively. 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	4	-	1.76	296.53
ii. Increase in loss	7	-	3.74	-
iii. Non-disclosure of material facts	5	1	43.29	4.54
iv. Errors in classification	4	1	9.41	2.17

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

Malabar Cements Limited (2005-06)

1.25 Profit (Rs.5.39 crore) for the year was overstated by Rs.53.74 lakh due to omission in accounting consumption of spare shell liner plates.

Kerala Urban & Rural Development Finance Corporation Limited (2005-06)

1.26 Loss for the year (Rs. 1.86 crore) was understated by Rs. 37.97 lakh due to non-provision of guarantee commission (Rs.30.75 lakh) and non write-off of rebate thereon (Rs.7.22 lakh) disallowed by the State Government.

Kerala State Electronics Development Corporation Limited (2005-06)

1.27 Loss for the year (Rs. 38.16 crore) was understated by Rs.1.01 crore due to non-write-off of amount shown as receivable from Government towards issue of photo identity cards but rejected by Government.

The Kerala Agro Industries Corporation Limited (2001-02)

1.28 Loss for the year (Rs.2.72 crore) was understated by Rs.74.30 lakh due to non-provision of amount shown as receivable on hire purchase sales, which

[∅] The Kerala Land Development Corporation Limited and Kerala Shipping and Inland Navigation Corporation Limited.

is remaining unrecovered since five to 10 years even after revenue recovery proceedings.

Handicrafts Development Corporation of Kerala Limited (2001-02)

1.29 Net loss for the year (Rs.1.21 crore) was understated by Rs.1.09 crore due to non-provision for liability towards arrears of rent payable as per judgement of the Hon'ble Supreme Court.

Transformers and Electricals Kerala Limited (2005-06)

1.30 Net profit for the year (Rs.1.74 crore) was overstated by Rs.92.44 lakh due to non-provision of expenditure on repair (Rs.91.11 lakh) of transformers, arrears of wages and gratuity (Rs.5.25 lakh) payable to employees of TELK Employees Canteen Co-operative Society, irrecoverable dues (Rs.3.61 lakh) and excess provision for extra shift depreciation (Rs.7.53 lakh) on rail wagons.

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 2006-07 and taking into consideration the major irregularities and omissions pointed out in the SARs on the annual accounts of KSEB and without 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	2004-05	2005-06	2006-07
1	Net surplus/(-) deficit as per accounts	103.49	101.26	217.42
2	Subsidy from the State Government	342.77	144.58	--
3	Revenue gap/ Regulatory Asset	--	--	142.23
4	Net surplus/(-) deficit before subsidy from the State Government 1- (2+3)	(-) 239.28	(-) 43.32	75.19
5	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts	(-) 190.98	(-) 306.10	Audit in progress
6	Net surplus / (-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (4-5)	(-) 430.26	(-) 349.42	Audit in progress
7	Total return on capital employed	(+) 113.29	(+) 167.90	Audit in progress

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 2006-07 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.6.62 crore in 2452 cases. The PSUs accepted the audit observations in 255 cases and Rs.0.31 crore relating to 146 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 CAG 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 needed improvement.
- There was absence of internal audit system.

Recommendations for closure of PSUs

1.37 Even after completion of 12 to 79 years of their existence, the turnover of 19* Government companies (all working) 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 2007 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 2007	
	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	...	5
2003-04	2	18	1	3
2004-05	4	23	...	1
2005-06	5	29
Total	24	155	9	77

* Kerala State Poultry Development Corporation Limited, Trivandrum Rubber Works Limited, The Metal Industries Limited, Keltron Crystals Limited, Keltron Magnetics Limited, Keltron Resistors Limited, Kerala Clays and Ceramic Products Limited, The Kerala Land Development Corporation Limited, Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited, Kerala State Handicapped Persons' Welfare Corporation Limited, Kerala State Development Corporation for Christian Converts from Scheduled Castes & the Recommended Communities Limited, Kerala Artisans' Development Corporation Limited, Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited, Tourist Resorts (Kerala) Limited, Kerala School Teachers and Non-teaching Staff Welfare Corporation Limited, Kerala State Women's Development Corporation Limited, Overseas Development and Employment Promotion Consultants Limited, Kerala State Maritime Development Corporation Limited and Meat Products of India Limited.

** The Kerala State Cashew Development Corporation Limited, The Kerala Ceramics Limited, Kerala Small Industries Development Corporation Limited, Steel Industrials Kerala Limited, Autokast Limited, Kerala State Electronics Development Corporation Limited, Kerala State Textile Corporation Limited, Kerala State Handloom Development Corporation Limited and The Kerala State Civil Supplies Corporation Limited

During the period October 2006 to September 2007, COPU held 21 meetings and considered six paragraphs relating to the periods 2002-03 (one paragraph) and 2003-04 (one review and four paragraphs).

619-B companies

1.39 As on 31 March 2007 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.