

CHAPTER I

1. Overview of Government Companies and Statutory Corporations

Introduction

1.1 As on 31 March 2008, there were 108 Government companies (83[^] working and 25 non-working^{**}) and five Statutory corporations (all working) as against 109 Government companies (84 working and 25 non-working) and five Statutory corporations as on 31 March 2007 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 2008, the total investment in 88 working PSUs (83 Government companies and five Statutory corporations) was

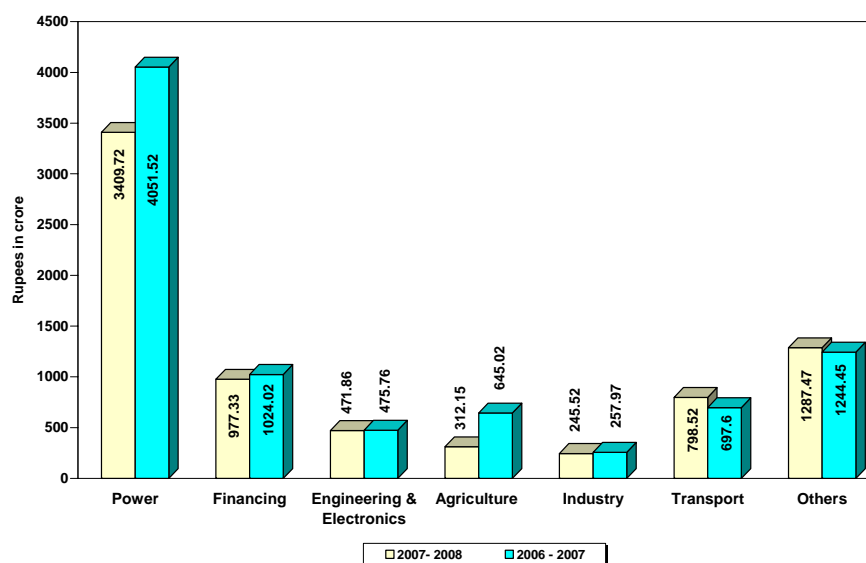
[^] Kerala Hi-Tech Industries Limited was taken over by BrahMos Aerospace Thiruvananthapuram Limited on 1 January 2008.

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

Rs. 7,502.57 crore* (equity: Rs. 3,262.88 crore, long-term loans** Rs. 3,987.47 crore and share application money Rs. 252.22 crore) as against 89 working PSUs (84 Government companies and five statutory corporations) with total investment of Rs. 8,396.34 crore (equity: Rs. 3,268.92 crore, long term loans: Rs. 4,954.59 crore and share application money Rs. 172.83 crore) as on 31 March 2007. 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 total investments (equity and long term loans) of Rs. 7,502.57 crore and Rs. 8,396.34 crore in various sectors as at the end of 31 March 2008 and 31 March 2007 respectively are indicated in the bar chart below:



Working Government companies

1.4 Total investment in working Government companies at the end of March 2007 and March 2008 was as follows:

(Rupees in crore)

Year	Number of Companies	Equity	Share application money	Loans	Total
2006-07	84	1,396.91	170.83	1,337.24	2,904.98
2007-08	83	1,386.17	252.22	905.76	2,544.15

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 and disinvestment of one Government

* State Government investment was Rs. 4,251.28 crore (Others: Rs. 3,251.29 crore). Figure as per Finance Accounts 2007-08 is Rs. 5,389.48 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.

Company.* As on 31 March 2008, the total investment in working Government companies, comprised 64.40 *per cent* equity capital and 35.60 *per cent* loans as compared to 53.97 and 46.03 *per cent* respectively, as on 31 March 2007.

Working Statutory corporations

1.5 The total investment in five working Statutory corporations at the end of March 2008 and March 2007 was as follows:

Name of Corporation	<i>(Rupees in crore)</i>			
	2006-07		2007-08	
	Capital	Loan	Capital	Loan
Kerala State Electricity Board	1,553.00	2,498.52	1,553.00	1,856.72
Kerala State Road Transport Corporation [@]	152.95	544.65	155.65	642.87
Kerala Financial Corporation	159.06	424.47	159.06	432.22
Kerala State Warehousing Corporation [@]	9.00	0.50	9.00	0.50
Kerala Industrial Infrastructure Development Corporation [@]	0.00	149.20	0.00	149.40
Total	1,874.01	3,617.34	1,876.71	3,081.71

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 2008, the total investment in the working Statutory corporations comprised 37.85 *per cent* equity capital and 62.15 *per cent* loans compared to 34.13 and 65.87 *per cent* respectively, as on 31 March 2007.

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 and 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 2007-08 are given below:

	<i>(Amount: Rupees in crore)</i>											
	2005-06				2006-07				2007-08			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	9	10.02	1	2.00	13	26.69	1	5.00	16	54.11	1	2.70
Loans given from budget	7	65.22	2	71.28	8	66.48	2	79.50	9	48.90	2	98.21
Grant/subsidy	12	28.85	17	30.17	22	124.19	1	8.60
Total outgo	23*	104.09	3*	73.28	34*	123.34	2*	84.50	36*	227.20	2*	109.51

* Kerala Hi-Tech Industries Limited.

@ Figures are provisional.

* 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.

During the year 2007-08, the Government had guaranteed loans aggregating Rs. 1,809.26 crore obtained by nine working Government companies (Rs. 1,743.76 crore) and two Statutory corporations (Rs. 65.50 crore). At the end of the year, guarantees of Rs. 4,985.48 crore against 24 working Government companies (Rs. 3,623.53 crore) and three working Statutory corporations (Rs. 1,361.95 crore) were outstanding. The guarantee commission paid/payable to the Government by Government companies (Rs. 46.89 crore) and Statutory corporations (Nil) during 2007-08 was Rs. 46.89 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 88 working PSUs (83 Government companies and five Statutory corporations) only 14** Government companies and three^z statutory corporations had finalised their accounts for the year 2007-08 upto 30 September 2008. During the period from October 2007 to September 2008, 48 working Government companies finalised 56 accounts for previous years. Similarly, during this period one working Statutory corporation finalised its accounts for the previous year.

The accounts of 69 working Government companies and two Statutory corporations were in arrears for periods ranging from one to 13 years as on 30 September 2008, 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.	2	...	1995-96 to 2007-08	13	A - 52,75	...
2.	1	...	1997-98 to 2007-08	11	A -51	...
3.	1	...	1998-99 to 2007-08	10	A -62	...
4.	2	...	2000-01 to 2007-08	8	A -10, 18	...
5.	1	...	2002-03 to 2007-08	6	A - 53	...
6.	3	...	2003-04 to 2007-08	5	A - 5,21,38	...
7.	4	...	2004-05 to 2007-08	4	A - 20,48,50,78	...
8.	14	2	2005-06 to 2007-08	3	A-7,11,12,17,19,37,40, 41,47,49,55,74,79,80	B-2,4

** The Plantation Corporation of Kerala Limited, 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 Clays and Ceramic Products Limited, The Travancore-Cochin Chemicals Limited, The Travancore Sugars and Chemicals 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	14	...	2006-07 to 2007-08	2	A-6,9,15,16,22,25,45,46,54,60,63,64,73,82	...
10	27	...	2007-08	1	A-2,14, 24,27,28,29,30,32,33,34,35,36,39,42,44,56,57,58,59,65,67, 68,69,70,72,76,83	...

The State Government had invested Rs. 492.37 crore (equity: Rs. 83.76 crore; loans: Rs. 252.23 crore; grants/subsidy: Rs. 156.38 crore) in 42 working PSUs during the year for which accounts have not been finalised as detailed in **Annexure 4**. In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus the Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. The concerned administrative departments were informed every quarter by the Audit regarding arrears in finalisation of accounts. Details of investments made by the State Government in PSUs whose accounts are in arrears are indicated in **Annexure 4**.

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 5** and **6** respectively.

According to the latest finalised accounts of 83 working Government companies and five working Statutory corporations, 37 companies and three corporations had incurred an aggregate loss of Rs. 186.03 crore and Rs. 180.43 crore respectively, whereas 42 companies and two corporations had earned an aggregate profit of Rs. 272.62 crore and Rs. 218.59 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**).

[∇] Kerala Police Housing and Construction Corporation Limited.

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

Working Government companies

Profit earning working companies and dividend

1.9 Out of 14 Government companies which finalised their accounts for 2007-08 by September 2008, 11^{*} companies earned an aggregate profit of Rs. 65.62 crore and only eight[∅] companies declared dividend aggregating Rs. 4.53 crore. The dividend as a percentage of share capital in the above eight profit making companies worked out to 7.31. The total return by way of the above dividend of Rs. 4.53 crore worked out to 0.28 *per cent* in 2007-08 on total equity investment of Rs. 1,638.39 crore in all the working Government companies as against 0.26 *per cent* in the previous year. The State Government formulated (December 1998) a dividend policy for payment of minimum dividend of 20 *per cent*. These guidelines were, however, not complied with by any company.

Similarly, out of 65^{*} working Government companies which finalised their accounts for the previous years by September 2008, 31 companies earned an aggregate profit of Rs. 207 crore out of which 17 companies earned profit for two or more successive years.

Loss incurring working Government companies

1.10 Of the 37 loss incurring working Government companies, 28 companies had accumulated losses aggregating Rs. 1,618.45 crore which exceeded their aggregate paid-up capital of Rs. 450.24 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 2007-08 to 16 such companies, amounted to Rs. 132.47 crore.

Working Statutory corporations

Profit earning Statutory corporations

1.11 Out of three Statutory Corporations which finalised their accounts for 2007-08 by September 2008, two[♥] Corporations (**Annexure 2**) earned an aggregate profit of Rs. 218.59 crore.

^{*} The Plantation Corporation of Kerala Limited, The Rehabilitation Plantations Limited, Oil Palm India Limited, Kerala Agro-Machinery Corporation Limited, Steel and Industrial Forgings Limited, Kerala Clays and Ceramic Products Limited, The Travancore-Cochin Chemicals Limited, The Travancore Sugars and Chemicals Limited, Kerala State Power and Infrastructure Finance Corporation Limited, Kerala State Industrial Enterprises Limited and Kerala State Ex-Servicemen Development and Rehabilitation Corporation.

[∅] The Plantation Corporation of Kerala Limited, The Rehabilitation Plantations Limited, Oil Palm India Limited, Kerala Agro-Machinery Corporation Limited, Steel and Industrial Forgings Limited, Kerala Clays and Ceramic Products Limited, Kerala State Power and Infrastructure Finance Corporation Limited and Kerala State Industrial Enterprises Limited.

^{*} Excluding one company (Kerala Police Housing and Construction Corporation Limited) which is functioning on 'No profit no loss' basis and three companies (Kerala State Mineral Development Corporation Limited, Kerala Irrigation Infrastructure Development Corporation Limited and Vizhinjam International Seaport Limited) which have not commenced commercial activities.

[♥] Kerala State Electricity Board and Kerala Industrial Infrastructure Development Corporation.

Loss incurring Statutory corporations

1.12 One working Statutory corporation^Σ (**Annexure 2**) had accumulated loss of Rs. 1,422.26 crore which exceeded its paid-up capital of Rs. 142.95 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. 93.21 crore) and equity (Rs. 2.70 crore).

Operational performance of working Statutory corporations

1.13 The operational performance of working Statutory corporations is given in **Annexure 7**.

Return on capital employed

1.14 As per the latest finalised accounts (up to September 2008), the capital employed* worked out to Rs. 4,598.20 crore in 80^Δ working companies and total return** thereon amounted to Rs. 479.47 crore which constituted 10.43 per cent as compared to total return of Rs. 379.89 crore (9.48 per cent) in the previous year (accounts finalised up to September 2007). Similarly, the capital employed and total return thereon in the case of working Statutory corporations as per the latest finalised accounts (up to September 2008) worked out to Rs. 7,407.04 crore and Rs. 471.99 crore (6.37 per cent) respectively, against the total return of Rs. 596.01 crore (10.16 per cent) in the previous year (accounts finalised up to September 2007). 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**.

Reforms in Power Sector

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:

-
- Σ Kerala State Road Transport Corporation.
* 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-42, 47 and 83 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 2008)
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 two per cent every year. The T& D Loss brought down to 21 per cent as of March 2008
	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. 1,158.25 crore as dues outstanding, payable to CPSU as on 30 September 2001 has been securitised.
	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		New Tariff Order issued by KSERC on 26.11.2007 vide Kerala Gazette No. 2148 dated 27.11.2007 with effect from 01.12.2007
	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 nos as on 31.03.07)	Total 229 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 had 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. 470.52 crore which included Rs. 159.12 crore counter part funds. Rs. 23.47 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. One tariff order had been issued by the Commission during 2007-08. The accounts of the Commission for the year ended 31 March 2008 are yet to be finalised.

Non-working Government Companies

Investment in non-working Government companies

1.17 As on 31 March 2008, the total investment in 25 non-working Government companies was Rs. 164.72^A crore (equity: Rs. 66.83 crore and long term loans: Rs. 97.89 crore) against the same amount of investment in the same number of Government companies as on 31 March 2007.

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 Government companies 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 either 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

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

^A State Government investment in non-working Government companies was Rs. 85.59 crore (Others:Rs. 79.13 crore). Figure as per finance accounts 2007-08 is Rs. 131.80 crore. The difference is under reconciliation.

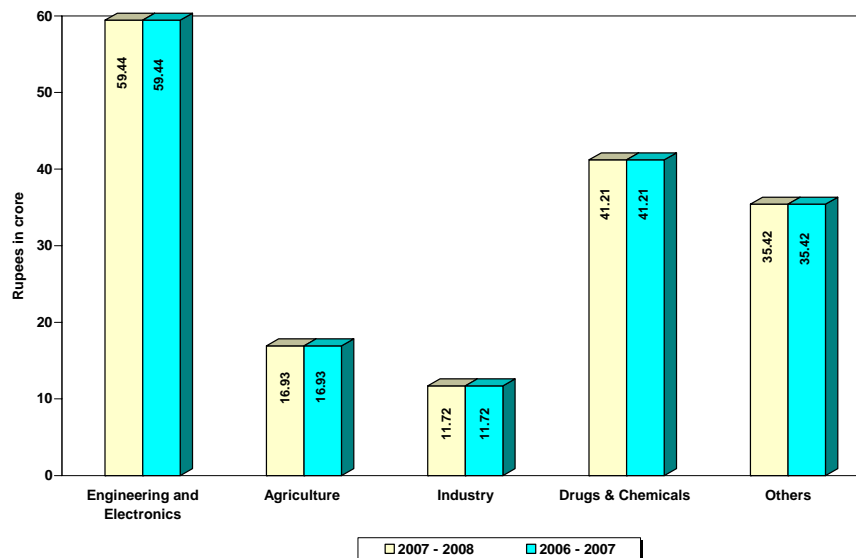
[#] Kerala State Coconut Development Corporation Limited, The Kerala Fisheries Corporation Limited, Kerala Inland Fisheries Development Corporation Limited, The Kerala Premo Pipe Factory Limited, Kerala Special Refractories Limited, The Kerala Asbestos Cement Pipe Factory Limited, Kerala Construction 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.

involved in these companies, effective steps need to be taken for their expeditious liquidation or closure.

Sector-wise investment in non-working Government companies

1.18 The total investments (equity and long term loans) of Rs. 164.72 crore in various sectors on 31 March 2007 remained same as at 31 March 2008 as indicated in the bar chart below:



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

1.19 The details regarding budgetary outgo, grants/ subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to non-working Government companies are given in **Annexure 1** and **3**. During the year 2007-08, the State Government did not provide any budgetary support by way of equity, or loans to any of the non-working Government companies.

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 two to 18 years (**Annexure 2**). Three defunct companies and three companies under liquidation finalised four and three previous years' accounts respectively during the period from October 2007 to September 2008.

In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus the Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

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	(-) 210.15	53.80	287.87

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	2005-06	2006-07	29.08.2008
			2007-08	Audit in progress
2.	Kerala State Road Transport Corporation	2003-04	2004-05	Audit in progress
3.	Kerala Financial Corporation	2006-07	2007-08	SAR under finalisation
4.	Kerala State Warehousing Corporation.	2004-05	2005-06	Accounts not finalised
5.	Kerala Industrial Infrastructure Development Corporation	2006-07	2007-08	SAR under finalisation

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 2008). Kerala Hi-Tech Industries Limited was privatised with effect from 1 January 2008.

Results of audit of accounts of PSUs

1.24 During the period from October 2007 to September 2008, the accounts of 56 Government companies (53 working and three non-working) and three working Statutory corporations were selected for review. As a result of the observations made by CAG, two companies[∅] (**Annexure 2**) revised their

[∅] Keltron Electro Ceramics Limited and Overseas Development and Employment Promotion Consultants Limited.

accounts for 2006-07 and one Company[♦] (**Annexure 2**) revised their 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. Increase in profit	...	1	...	247.91
ii. Decrease in profit	1	1	0.68	59.92
iii. Increase in loss	2	...	6.58	...
iv. Non-disclosure of material facts	1	1	5.61	73.00
v. Errors in classification	2	1	128.03	78.37

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

Errors and omissions noticed in the case of Government companies

1.24.1 Comments by the Statutory Auditors

Plantation Corporation of Kerala Limited (2007-08)

- The Company had not charged depreciation of Rs. 43.32 crore on the development of property for various cultivation, viz, Rubber plantation, cashew, Oil Palm and other heads.

Kerala Clays and Ceramic Products Limited (2007-08)

- The gratuity liability of Rs. 59.69 lakh of employees was not arrived at on the basis of actuarial valuation.

Kerala State Financial Enterprises Limited (2006-07)

- There was a shortfall in the provision by Rs. 7.94 crore with respect to liability towards gratuity.

Kerala Minerals and Metals Limited (2006-07)

- The Company had not made any provision for doubtful advances to the extent of Rs. 22.11 crore.

1.24.2 Errors and omissions noticed in Supplementary Audit

Kerala Hi-Tech Industries Limited (2006-07)

- Income from operations was overstated by Rs. 5.60 crore due to accounting of income from processing charges, fabrication and testing cost and sales relating to subsequent years.

♦ Foam Mattings (India) Limited.

Kerala State Financial Enterprises Limited (2006-07)

- Profit was overstated by Rs. 67.71 lakh due to non-provision of promotional expenses incurred in connection with Golden Jubilee Chitties Campaign during 1 September 2006 to 5 February 2007.

Kerala State Police Housing and Construction Corporation Limited (2005-06)

- Loss for the year was understated by Rs. 97.88 lakh due to non-writing off of debts, overstatement of supervision charges recoverable and recognition of supervisory charges in excess of the funds sanctioned by Government.

1.24.3 Errors and omissions noticed in the case of Statutory corporations

(a) By Statutory Auditors

Kerala Financial Corporation (2007-08)

- The Corporation decided to switch over from 'Pure endowment costing Scheme' to 'Cash Accumulation Scheme' from 2006 onwards for the gratuity premium payable to LIC. The liability existing as on 31 March 2008 amounting to Rs. 3.08 crore against this has not been provided for, resulting in understatement of loss to that extent.

(b) By the CAG as sole auditor

Kerala State Electricity Board (2006-07)

- Net surplus as per Revenue Account was understated by Rs. 241.04 crore due to non-withdrawal of liabilities for which no details were available, inclusion of deposits for payment of gratuity under Administration and general expense, overstatement of depreciation and related debits and understated by Rs. 38.86 crore due to short provision of interest on electricity duty payable to Government, non-provision of dues receivable from a unit closed down in 2003.

Audit assessment of the working results of Kerala State Electricity Board

1.25 Based on the audit assessment of the working results of the Kerala State Electricity Board (KSEB) for the three years up to 2007-08 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	2005-06	2006-07	2007-08
1	Net surplus/(-) deficit as per accounts	101.26	217.42	217.42
2	Subsidy from the State Government	144.58	--	--
3	Revenue gap/ Regulatory Asset	--	142.23	91.28
4	Net surplus/(-) deficit before subsidy from the State Government 1-(2 +3)	(-) 43.32	75.19	126.14
5	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts	(-) 306.10	187.99	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)	(-) 349.42	263.18	Audit in progress
7	Total return on capital employed	167.90	657.39	Audit in progress

Persistent irregularities and system deficiencies in financial matters of PSUs

1.26 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

Kerala State Electricity Board

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

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

1.27 Test check of records of Kerala State Electricity Board, Kerala State Road Transport Corporation and other PSUs conducted during the year 2007-08 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. 43.59 crore in 1,806 cases. The PSUs accepted the audit

observations in 260 cases and Rs. 0.88 crore relating to 260 audit observations were recovered at the instance of Audit.

Internal audit / internal control

1.28 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 the State Government companies is indicated in **Annexure 8**. 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.

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

1.29 The table below indicates the position of reviews/ paragraphs appeared in the Audit Report and discussed by the COPU as on 30 September 2008:

Period of Audit Report	No. of reviews and paragraphs appeared in the Audit Report		No. of reviews/paragraphs discussed by COPU up to September 2008	
	Reviews	Paragraphs	Reviews	Paragraphs
2001-02	3	21	2	21
2002-03	3	17	...	12
2003-04	2	18	1	12
2004-05	4	23	2	4
2005-06	5	29	...	8
2006-07	5	21	...	3
Total	22	129	5	60

619-B companies

1.30 As on 31 March 2008 there were six working companies and one non-working company coming under the purview of Section 619-B of the Companies Act, 1956. **Annexure 9** 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.