OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2008, the State had 113 Public Sector Undertakings (PSUs) comprising 108 Government companies and five Statutory corporations compared to 114 PSUs (109 Government Companies and five Statutory corporations) as on 31 March 2007. Out of 108 Government companies, 83 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 2008.

(Paragraphs 1.1 and 1.30)

The total investment in working PSUs decreased from Rs. 8,396.34 crore as on 31 March 2007 to Rs. 7,502.57 crore as on 31 March 2008. The total investment in 25 non-working PSUs was Rs. 164.72 crore.

(Paragraphs 1.2 and 1.17)

The budgetary support in the form of capital, loans and grants disbursed to the working PSUs increased from Rs. 207.84 crore in 2006-07 to Rs. 336.71 crore in 2007-08. The guarantees of Rs. 4,985.48 crore were outstanding against 27 working PSUs as on 31 March 2008.

(Paragraph 1.6)

Fourteen working Government companies and three working Statutory corporations had finalised their accounts for the year 2007-08. The accounts of 69 working Government companies and two working Statutory corporations were in arrears for periods ranging from one to 13 years as on 30 September 2008. Thirteen out of 25 non-working companies were under liquidation and accounts of the remaining 12 defunct companies were in arrears for periods ranging from two to 18 years.

(Paragraphs 1.7 and 1.20)

Out of 14 working Government companies which finalised their accounts for 2007-08, 11 companies earned an aggregate profit of Rs. 65.62 crore and only eight companies declared dividend of Rs. 4.53 crore during the year. Of the loss incurring working Government companies, 28 companies had accumulated losses aggregating Rs. 1,618.45 crore which exceeded their paid-up capital of Rs. 450.24 crore. Kerala State Road Transport Corporation being a loss incurring Statutory corporation, had accumulated loss of Rs. 1,422.26 crore, which exceeded its paid-up capital of Rs. 142.95 crore.

(Paragraphs 1.9, 1.10 and 1.12)

2. Performance Reviews in respect of Government companies

Performance reviews relating to the **Working of The Kerala State Cashew Development Corporation Limited**, **Funds Management in Kerala State Civil Supplies Corporation Limited and Information Technology Audit of Enterprise Resource Planning System in Malabar Cements Limited** were conducted and some of the main findings were as follows:

Working of The Kerala State Cashew Development Corporation Limited

The Kerala State Cashew Development Corporation Limited was incorporated in 1969 with the objective of purchase of raw cashew nuts, their processing and sale and providing employment to cashew workers in the State. The Company had been operating 30 cashew-processing factories as of 31 March 2008. Major deficiencies noticed during the performance review were:

- Failure of the Company in streamlining the system of procurement of raw cashew nuts and regulating its cost of procurement as per All India procurement cost resulted in a loss of Rs. 19.45 crore.
- The impact of excess price paid in 11 out of 24 consignments (50,247 MT) imported during the five years upto March 2008 worked out to Rs. 7.51 crore.
- Loss on account of low recovery of export wholes amounted to Rs. 24.27 crore.
- Failure to obtain the State average price for kernels during the three years up to 2007-08 resulted in revenue loss of Rs. 14.71 crore.
- As against 275 days, the Company could provide employment to cashew workers for 17 to 138 days only. Arrears pending payment to staff amounted to Rs. 38.89 crore.

(Chapter 2.1)

Funds Management in Kerala State Civil Supplies Corporation Limited

The Kerala State Civil Supplies Corporation Limited was incorporated in June 1974 with the objective of procurement and distribution of food grains and other essential commodities so as to ensure their easy availability to the public at reasonable price. The Company's main sources of funds were realisation from sale of food grains and other essential commodities, subsidy from GoI, State Government, loans from State Government, cash credit from banks, etc. These funds were mainly utilised to meet payment of purchase bills, employee and administration costs, interest on cash credit/loan, remittances against cash credit, etc. Major deficiencies noticed in the management of funds were:

- The Company did not receive Rs. 8.44 crore as subsidy from GoI for three completed Kharif Marketing Seasons due to non-preparation of season-wise accounts and non-consolidation of information and failed to claim additional cost of Rs. 19.81 crore incurred at the instance of State Government.

- Failure of the Company to produce relevant documents resulted in non-realisation of SPEF claim of Rs. 15.44 crore from GoI.
- The Company incurred avoidable interest payment of Rs. 2.64 crore on overdrafts/ loans due to delay in preferring claims, interest loss of Rs. 1.88 crore due to non-realisation of legitimate claim of Rs. 4.10 crore and interest loss of Rs. 22.18 crore due to abnormal delay in realisation of funds.
- Decision of the Company to convert wheat to fortified atta at 95 *per cent* and decentralisation of purchase of medicine without valid grounds deprived the Company of additional income/ eligible discount of Rs. 8.38 crore.
- The Company generated extra income of Rs. 3.59 crore due to distribution of fortified atta at inflated selling price in violation of GoI direction and by collecting tax on an exempted commodity from consumers.
- Due to inefficiency in implementation of computerised MIS, the investment of Rs. 7.93 crore was only partly fruitful.

(Chapter 2.2)

Information Technology Audit of Enterprise Resource Planning System in Malabar Cements Limited

Malabar Cements Limited (Company) is a cement producing company incorporated by Government of Kerala in 1978. The Company had been using stand alone software with limited integration facilities based on FoxPro till 2006. In December 2006, the Company decided to implement SAP-ERP system to integrate all the departments at an initial cost of Rs. 1.20 crore. Major audit findings are as follows:

- Absence of user requirement specification, non-mapping of business rules and business process re-engineering led to deficiencies in implementation.
- Defects in programming logic clubbed with non-performance of acceptance testing led to a number of end user problems relating to erroneous output reports, non-availability of required data for decision making, functionalities not being used by users, etc.
- Non-implementation of Customer Relationship Management, Employees Self Service, Environmental Health & Safety modules despite procurement of licences and plan for implementation.
- User manuals were not circulated to the end users. Training provided to end users and IT team was highly inadequate.

(Chapter 2.3)

3. Performance Review in respect of Statutory corporation

Performance review relating to **Implementation and Performance of Small Hydro Electric Projects by Kerala State Electricity Board** was conducted and some of the main findings were:

During the tenth plan period (2002-2007) the Board had targeted commissioning of ten Small Hydro Electric Projects (SHEPs) with an installed capacity of 40.85 MW to generate 150.62 million units (MU) of power annually. As against this, the Board commissioned seven SHEPs (total capacity of 29.10 MW) with annual generation capacity of 112.62 MUs of electricity. Major deficiencies noticed in the implementation of the projects were:

- Due to laxity in preferring the subsidy allowed by MNES the Board was yet to obtain the benefit of Rs. 15.50 crore.
- Since the capacity of the SHEPs was reduced to suit the Chinese design, the Board could not tap potential energy of 3.40 MU from available water.
- Non-receipt of Chinese suppliers' export credit for projects resulted in excess financing cost of Rs. 38.29 lakh per annum.
- Due to lack of proper synchronisation of work, design deficiencies, failure in co-ordination of civil works, delay in acquisition of land, providing sanction and issue of work orders and resultant delay in commissioning of projects, there was loss of generation of power.
- On account of inferior design leading to frequent failure of equipments and delay in repair of generators during the post-commissioning period, there was generation loss valued at Rs. 4.44 crore.

(Chapter 3)

4. Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications.

The irregularities pointed out are broadly of the following nature:

Wasteful expenditure of Rs. 1.82 crore due to decision to procure unauthorised prototype without proper feasibility study and commencement of construction activity of pole casting project without Government approval.

(Paragraphs 4.1 and 4.5)

Undue benefit of R*s. 0.86 crore to loanees and licensees arising from waiver of upfront fee and decision to waive penal interest .*

(Paragraphs 4.6 and 4.9)

Loss of Rs. 14.22 crore due to failure in revising the price as per pricing policy, omission in prescribing compounded interest rates on deposits, waiver of pole rental charges, failure to keep inventory of critical spares, interest burden on blocked up funds and decision to supply additional quantity at lesser rates.

(Paragraphs 4.2, 4.7, 4.12, 4.13, 4.14 and 4.16)

Avoidable extra expenditure of Rs. 3.48 crore on account of decision to discontinue insurance, failure to regulate payments as per contract, undue delay in conducting inspection of materials and decision to ignore valid lowest offer.

(Paragraphs 4.3, 4.4, 4.10, 4.17 and 4.19)

Non-receipt of subsidy of Rs. 10.57 crore due to violation of guidelines.

(Paragraph 4.11)

Avoidable liability of Rs. 3.72 crore on account of non-deduction of tax at source and acceptance of bids in violation of tender conditions.

(Paragraphs 4.15 and 4.18.)

Overburdening of small scale units by Rs. 0.53 crore due to collection of exempted customs duty.

(Paragraph 4.8)

Gist of some of the important audit observations is given below:

The decision of **Kerala Automobiles Limited** to purchase unauthorised *prototype* of four stroke engine from a local firm without undertaking any technical and financial feasibility study for its development resulted in wasteful expenditure of Rs. 1.15 crore

(Paragraph 4.1)

Failure of **Kerala Feeds Limited** to revise the prices in consonance with its pricing policy so as to achieve the break even levels resulted in a loss of Rs. 3.68 crore

(Paragraph 4.2)

Decision of **Travancore Cochin Chemicals Limited** to discontinue the insurance of critical items of machineries under Machinery Breakdown Policy resulted in extra expenditure of Rs. 74.25 lakh.

(Paragraph 4.3)

Decision of **Kerala State Electricity Board** to include departmentally executed rural electrification works under RGGVY scheme in violation of the REC guidelines and conditions of tripartite agreement rendered it ineligible for capital subsidy of Rs. 10.57 crore.

(Paragraph 4.11)

Decision of **Kerala State Electricity Board** to waive annual increase in pole rentals without justifiable grounds resulted in undue benefit to Asianet to the extent of Rs. 7.79 crore

(Paragraph 4.13)

Decision of **Kerala State Road Transport Corporation** to accept the tenders submitted in violation of tender conditions led to award of work at higher amount leading to extra financial commitment of Rs. 18 lakh.

(Paragraph 4.17)