

OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2005, the State had 114 Public Sector Undertakings (PSUs) comprising 109 Government companies and five Statutory corporations compared to 113 PSUs as on 31 March 2004. Out of 109 Government companies, 88 companies were working while 21 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 2005.

(Paragraphs 1.1 and 1.41)

The total investment in working PSUs decreased from Rs.11,776.25 crore as on 31 March 2004 to Rs.10,927.32 crore as on 31 March 2005. The total investment in 21 non-working PSUs was Rs.117.57 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.749.03 crore in 2003-04 to Rs.236.50 crore in 2004-05. The State Government did not provide any budgetary support to non-working PSUs during 2004-05. The State Government guaranteed loans aggregating Rs.445.61 crore (working PSUs only) during 2004-05. The guarantees of Rs.6,100.94 crore were outstanding against working PSUs as on 31 March 2005.

(Paragraphs 1.6 and 1.19)

Twenty working Government companies and three working Statutory corporations had finalised their accounts for the year 2004-05. The accounts of 68 working Government companies and two working Statutory corporations were in arrears for periods ranging from one to 12 years as on 30 September 2005. Thirteen companies out of 21 non-working companies were under liquidation and accounts of the remaining eight defunct companies were in arrears for periods ranging from three to 15 years.

(Paragraphs 1.7 and 1.20)

Out of 20 working Government companies which finalised their accounts for 2004-05, ten companies earned an aggregate profit of Rs.69.86 crore and only eight companies declared dividend of Rs.9.76 crore during the year. Of the loss incurring working Government companies, 37 companies had accumulated losses aggregating Rs.1,914.42 crore which exceeded their paid-up capital of Rs.575.16 crore. Kerala State Road Transport Corporation

being a loss incurring Statutory corporation, had accumulated loss of Rs.1,139.93 crore, which exceeded its paid-up capital of Rs.133.70 crore.

(Paragraphs 1.9, 1.10 and 1.12)

2. Reviews in respect of Government companies

Reviews relating to Procurement and Distribution of commodities by the **The Kerala State Civil Supplies Corporation Limited**, Information Technology systems in **Kerala State Civil Supplies Corporation Limited** and Operational Performance of **Kerala State Construction Corporation Limited** were conducted and some of the main findings are as follows:

Procurement and distribution of commodities by The Kerala State Civil Supplies Corporation Limited

The Kerala State Civil Supplies Corporation Limited was set up in June 1974 to make available food grains and other essential commodities to the public at reasonable prices. The Company failed in fulfilling the objectives as the prices of commodities supplied were far higher than the market prices. This led to passing on the grant obtained from Government to a few local traders in the form of exorbitant prices. The Company generally relaxed the quality parameters and accepted infested commodities.

The Company purchased pulses and spices at rates higher than open market rates resulting in extra expenditure of Rs. 42.04 crore.

The Company fixed Maveli Sale prices far below the open market retail price which resulted in loss of Rs. 42.73 crore.

Transportation of commodities to primary depots and subsequent retransfer to secondary depots resulted in avoidable expenditure of Rs. 2.97 crore.

(Chapter 2.1)

Information Technology Systems in The Kerala State Civil Supplies Corporation Limited

The Kerala State Civil Supplies Corporation Limited introduced computerisation of sales accounting at all retail outlets/depots in 1987 but could not fully computerise the retail outlets/depots even after a lapse of more than 17 years despite incurring substantial expenditure. The present system has poor access controls and the database was found to be plagued with inaccuracies leaving the system at a risk of being manipulated to cover up theft, pilferage and embezzlement.

Absence of uniform coding procedure led to 20 per cent of sales, valued at Rs. 497.10 crore, escaping commodity-wise accounting during the period from 1999 to 2003 which rose to 33 per cent in the year 2004.

The system in the Regional office did not capture the short collection of Rs. 28.70 crore and short remittance of Rs. 21.73 crore for appropriate follow up. Cash balances recorded in outlets, showed a difference of Rs. 35.41 crore with the figures of short collection/remittance in the database.

(Chapter 2.2)

Operational performance of Kerala State Construction Corporation Limited

Kerala State Construction Corporation Limited was set up in March 1975 to function as a civil construction agency for the execution of the works of the Public Works Department (PWD) economically and effectively and to break the monopoly of private contractors. The Company failed to achieve its objectives owing to low participation in PWD works and the execution of work through private sub-contractors.

The Company failed to execute work in time which led to non-recovery of actual annual average establishment overheads and also termination of 14 works worth Rs. 18.20 crore by the client.

High overhead expenses, low margin on works, diversion of funds, delay in raising/realisation of bills and holding of excessive man power further contributed to the poor working results of the Company.

(Chapter 2.3)

3. Reviews in respect of Statutory corporation

Sectoral review relating to Kerala State Electricity Board was conducted and some of the main findings are as under:

Renovation and modernisation of Pallivasal, Sengulam and Panniar Hydro Power Projects by Kerala State Electricity Board

The Board undertook the renovation and modernisation of Pallivasal, Sengulam and Panniar hydro electric projects ignoring the recommendations of CEA regarding the good condition of the plant at Pallivasal. There were deviations from prescribed procedures in selection of these projects for renovation and in the award of contract to SNC Lavalin, Canada. The terms of foreign loan proved to be detrimental to the financial interest of the Board and further the objective of improvement in efficiency of machines and generation of power could not be achieved.

There were instances of avoidable payments of Rs.33.20 crore towards consultancy fee, commitment fee and exposure fees.

The Government did not receive Rs. 89.32 crore out of the grant of Rs. 98.30 crore agreed by the supplier to be provided for Malabar Cancer Hospital as part of the renovation contract.

The expenditure of Rs.374.50 crore incurred for renovation did not yield commensurate gains due to various technical defects in the equipment renovated and the very objective of improvement in efficiency of machines could not be achieved as there was no improvement in the generation of power.

(Chapter 3)

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 14 cases of loss amounting to Rs.205.41 crore on account of:

- Faulty planning
- Failure to discharge contractual obligations
- Non-realisation of dues
- Undue benefit to contractors/suppliers
- Non-achievement of objectives
- Injudicious procurement

(Paragraphs 4.1, 4.4, 4.7 to 4.15 and 4.17)

Instances of avoidable and wasteful expenditure amounting to Rs.7.42 crore due to :

- Injudicious procurement
- Failure to exclude overlapping provisions in work orders
- Incorrect classification of power tariff

(Paragraphs 4.2, 4.3, 4.5, 4.6, 4.16, 4.18 and 4.19)

A few of the important observations are highlighted below:

Government companies

Delay in furnishing of Bank Guarantee deprived the **Transformers and Electricals Kerala Limited** of the benefit of advance payment with consequential interest loss of Rs.92.40 lakh

(Paragraph 4.1)

Travancore Sugars and Chemicals Limited incurred an extra avoidable expenditure of Rs.59.51 lakh due to an imprudent decision to reject the lowest offer for supply of ENA.

(Paragraph 4.3)

Failure of **Malabar Cements Limited** to exclude overlapping provisions in the work order of service agents with reference to the new fuel supply agreement resulted in avoidable payment of Rs.60.32 lakh towards bonus.

(Paragraph 4.6)

Statutory corporations

Inaction on the part of Government in taking decision in respect of energy charges recoverable by **Kerala State Electricity Board** from a private consumer firm, despite court directions, resulted in non-realisation of Rs.14.27 crore and interest loss of Rs.6.39 crore.

(Paragraph 4.13)

Kerala State Electricity Board failed to reckon the prevailing market rates at the time of negotiation of contract rates which resulted in undue benefit of Rs.5.80 crore to a contractor.

(Paragraph 4.14)

Injudicious decision of **Kerala State Road Transport Corporation** to enter into annual maintenance contract for mini buses despite availability of its own facilities resulted in avoidable expenditure of Rs.1.23 crore.

(Paragraph 4.18)