OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2007, the State had 114 Public Sector Undertakings (PSUs) comprising 109 Government companies and five Statutory corporations compared to the same number of PSUs as on 31 March 2006. Out of 109 Government companies, 84 companies were working while 25 companies were non-working. All the five Statutory corporations were working corporations. In addition, there were seven companies (six working and one non-working) under the purview of Section 619 - B of the Companies Act, 1956, as on 31 March 2007.

(Paragraphs 1.1 and 1.39)

The total investment in working PSUs decreased from Rs.10,152.63 crore as on 31 March 2006 to Rs.8,396.34 crore as on 31 March 2007. 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.177.37 crore in 2005-06 to Rs.207.84 crore in 2006-07. The State Government provided budgetary support of Rs.2.11 crore by way of grant/subsidy to two non-working PSUs during 2006-07. The State Government guaranteed loans aggregating Rs.363.68 crore obtained by 11 working PSUs during 2006-07. The guarantees of Rs.4541.42 crore were outstanding against 23 working PSUs as on 31 March 2007.

(Paragraphs 1.6 and 1.19)

Sixteen working Government companies and three working Statutory corporations had finalised their accounts for the year 2006-07. The accounts of 68 working Government companies and two working Statutory corporations were in arrears for periods ranging from 1 to 13 years as on 30 September 2007. 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 3 to 17 years.

(Paragraphs 1.7 and 1.20)

Out of sixteen working Government companies which finalised their accounts for 2006-07, 12 companies earned an aggregate profit of Rs.47.06 crore and only seven companies declared dividend of Rs.4.13 crore during the year. Of the loss incurring working Government companies, 33 companies had accumulated losses aggregating Rs.2233.76 crore which exceeded their paid-up capital of Rs.526.04 crore. Kerala State Road Transport Corporation being a loss incurring Statutory corporation, had accumulated loss of Rs.1272.19 crore, which exceeded its paid-up capital of Rs.137.95 crore.

(Paragraphs 1.9, 1.10 and 1.12)

2. Performance Reviews in respect of Government companies

Performance reviews relating to **Operational Performance of Travancore Titanium Products Limited, The Contribution of Three Companies in the State for Development of Scheduled Castes, Scheduled Tribes, Christian Converts, Backward Classes and Minorities, Joint Venture Activities of Tourist Resorts (Kerala) Limited** and **Information Technology Audit of Branch Automation in the Kerala State Financial Enterprises Limited** were conducted and some of the main findings were as follows:

Operational Performance of Travancore Titanium Products Limited

The Company suffered heavy loss mainly due to indiscriminate production without considering the marketability, resultant accumulation of stock and exports at reduced rates. Fixation of higher prices for domestic sales at the inappropriate moment contributed to fall in domestic sales. Company had no dependable costing system. The norms fixed for consumption of materials were high and were counter productive to consumption. Consumption of raw materials was excessive when compared to actual optimum levels achieved earlier. The consumption of fuel was also not optimised through planned production. Minimum off take by stockist was not ensured by incorporating enabling provision in the agreement with the stockists. Mineral separation plant for recovery of raw material ilmenite was not taken up as recommended by COPU. The company had been incurring heavy expenditure on wages of surplus staff. Unjustified production incentive system and payment of overtime despite surplus staff contributed to high cost of production. Viability of the Company's proposed expansion project would be affected since another State PSU, from whom technology is to be obtained had been facing market constraints for rutile grade titanium dioxide[#]; technology absorption and marketability constraints.

(Chapter 2.1)

The Contribution of Three Companies in the State for Development of Scheduled Castes, Scheduled Tribes, Christian Converts, Backward Classes and Minorities

The three Companies in social welfare sector formed for economic upliftment of Scheduled Castes, Scheduled tribes and backward communities in the State could not accurately identify their target group and provide assistance to the most deserving sections among them. These Companies failed in channelising the funds available from National Agencies to its full potential. The system of selection of beneficiaries, processing and distribution of funds assistance, monitoring of utilisation and repayment, etc., were deficient. There was lack of professionalism in management of all the three Companies. The cost of

[#] It is a high quality form of mineral TiO_2 with high density and used mainly in the manufacture of interior and exterior paint.

service incurred by SC ST Corporation and CC Corporation was abnormally high. Majority of the schemes implemented by these Companies failed to fulfill the desired social objectives. The Companies have not put in place proper internal control and internal audit due to which the systems are prone to fraudulent practices. The accounts of these Companies were in arrears for years together rendering it difficult to evaluate the efficiency and financial viability of operations on a regular basis.

(Chapter 2.2)

Joint Venture Activies of Tourist Resorts (Kerala) Limited

Without inviting Expression of Interest from leading hotel groups or ascertaining best offer, a joint venture (JV) agreement was entered with Taj Group for forming a JV company TKHRL. The JV agreement did not safeguard the financial interest of the State Government/TRKL and despite huge investments as well as transfer of assets, adequate control and participation in the management of the JV company was not ensured through suitable provisions in the agreement. IHCL, the JV partner, had absolute control over the JV Company and took major share of the revenue by way of operating fee and reimbursement of expenses. In the absence of control over the affairs of the JV company, TRKL could not verify the genuineness of the transactions. Even with the existing nominee directors of TRKL, adequate and effective participation in the affairs of the JV company was not ensured. The Government investment in the JV company had not yielded any return for the last 15 years.

(Chapter 2.3)

Information Technology Audit of Branch Automation in the Kerala State Financial Enterprises Limited

The Company took up the front office automation of the branches as early as 1999 to overcome the threat of efficient customer services by other financial institutions by establishing connectivity between all branches, regional offices and head office, introducing internet remittance facilities, debit cards and virtual branch concept. Even after a lapse of eight years branch automation alone was attempted to and that too was introduced only in 12 out of 269 branches (May 2007). The Branch Automation Software installed at pilot study branches at 2001 accepted after trial run for 4.5 years and rolled out to 12 branches is yet to be stabilized even after three years from the date of freezing. Further the business rules were not mapped in the software properly. Since the head office, Regional offices and branch offices were not fully computerized, the company was not able to collect/generate the required reliable data for the effective control in respect of conduct of chitties and sanction, disbursement, monitoring and recovery of loans. Owing to the continuance of parallel manual accounting beyond six months as projected, at computerised branches, the envisaged labour efficiency of 40 *per cent* failed to materialise.

(Chapter 2.4)

3. Performance Review in respect of Statutory corporation

Performance review relating to **Transmission System Improvement by Kerala State Electricity Board** was conducted and some of the main findings were as follows:

The performance of the Board with regard to transmission system improvement schemes suffered due to avoidable delays in taking timely decisions, poor contract management, non-synchronisation of various constituent parts of the schemes, Board's inability to surmount delays in acquisition of land required for substations and transmission lines. Boards failure to complete the projects undertaken for augmenting the capacity and containing transmission losses resulted in foregone savings. Unprofessional financial management resulted in drawal of funds before requirement and consequent loss due to interest payments. The Board failed to evolve a system to avoid procedural delays in giving and obtaining various approvals from outside agencies for construction of substations and lines. Lack of adequate planning, monitoring, coordination and due professional care resulted in abnormal delay in commissioning and completion of schemes resulting in withdrawal of loans by financing agency, foreclosure of loan, idling of equipments, loss of anticipated benefits to the Board and deprival of uninterrupted better quality power supply to targeted consumers.

(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 :

Loss of Rs.28.15 crore due to injudicious decision to keep the prices firm in a long term contract.

(Paragraph 4.1)

Loss of Rs.7.22 crore on account of undue benefit to contractors and omissions in preparation of bids.

(Paragraphs 4.2, 4.9, 4.11, 4.13, 4.14 and 4.18)

Avoidable payment of Rs.0.95 crore arising from delay in arranging for earth filling, unauthorized conversion of production bonus as special pay and unscheduled import of power.

(Paragraphs 4.5, 4.7 and 4.15)

Avoidable extra expenditure of Rs.6.15 crore due to failure in executing formal agreement and taking timely action, faulty planning, injudicious decision, failure to plan purchase order in time, non-adherence of provisions of contract and delay in arranging work.

(Paragraphs 4.3, 4.4, 4.6, 4.8, 4.10, 4.12, 4.16, 4.17, 4.19 and 4.20)

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

Injudicious decision of **Transformers and Electricals Kerala Limited** to keep the prices firm and failure to protect its interest in a long term contract resulted in avoidable expenditure of Rs.28.15 crore.

(Paragraph 4.1)

Omission on the part of **Transformers and Electricals Kerala Limited** to include the cost of tower materials in the price bid submitted for a turnkey contract resulted in avoidable extra expenditure of Rs. 2.19 crore.

(Paragraph 4.2)

Failure of **Roads and Bridges Development Corporation of Kerala Limited** to commence toll collection for Railway over bridges as provided in the agreement resulted in avoidable loss of revenue of Rs.1.48 crore.

(Paragraph 4.9)

Failure of **Kerala Electrical and Allied Engineering Company Limited** to include the correct estimated raw material cost in the price quoted in response to a tender resulted in avoidable loss of Rs. 1.12 crore.

(Paragraph 4.10)

Decision of **Kerala State Electricity Board** to deviate from the tendered quantity and make counter offer after finalisation of bid resulted in non-recovery of cost of Rs 74.72 lakh

(Paragraph 4.12)

Decision of **Kerala State Electricity Board** to amend the bid documents and make payment for lumpsum civil works without taking measurements resulted in undue benefit of Rs.1.92 crore to the contractor.

(Paragraph 4.18)