

## CHAPTER I

### 1. OVERVIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

#### Introduction

*1.1* As on 31 March 2003, there were 108\* Government companies (91 working and 17 non-working\*\*) and five Statutory corporations (all working) as against 104 Government companies (91 working and 13 non-working) and the same number of working Statutory corporations as on 31 March 2002 under the control of the State Government. During 2002-03, four working companies became non-working companies. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the statutory auditors appointed by the Comptroller and Auditor General of India (CAG) as per provision of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangement of Statutory corporations is shown below:

Sl. No.	Name of the corporation	Authority for audit by the CAG	Audit arrangement
1.	Kerala State Electricity Board (KSEB)	Section 69(2) of the Electricity (Supply) Act, 1948	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	Chartered accountants and supplementary audit by CAG
5.	Kerala State Warehousing Corporation (KSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	Chartered accountants and supplementary audit by CAG

\* Four new working Government companies added during the year were: Kanjikode Apparel Exports Limited, Chamaravattom Regulator Authority of Kerala Limited, Kerala State Ex-Servicemen Development and Rehabilitation Corporation, and Indian Institute of Information Technology and Management Kerala

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

## **Working Public Sector Undertakings (PSUs)**

### ***Investment in working PSUs***

**1.2** As on 31 March 2003, the total investment in 96 working PSUs (91 Government companies and five Statutory corporations) was Rs.10821.70 crore (equity: Rs.3325.06 crore and long-term loans<sup>\*\*</sup>: Rs.7496.64 crore) as against the same number of working PSUs with a total investment of Rs.10283.08 crore (equity: Rs.3339.74 crore and long term loans: Rs.6943.34 crore) as on 31 March 2002. The analysis of investment in working PSUs is given in the following paragraphs:

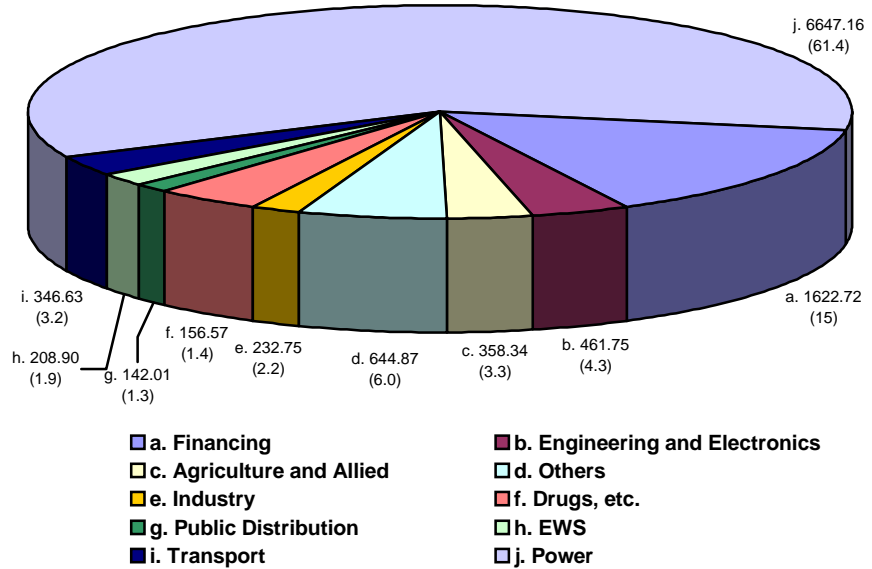
### ***Sector-wise investment in working Government companies and Statutory corporations***

**1.3** The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2003 and 31 March 2002 are indicated in the pie charts:

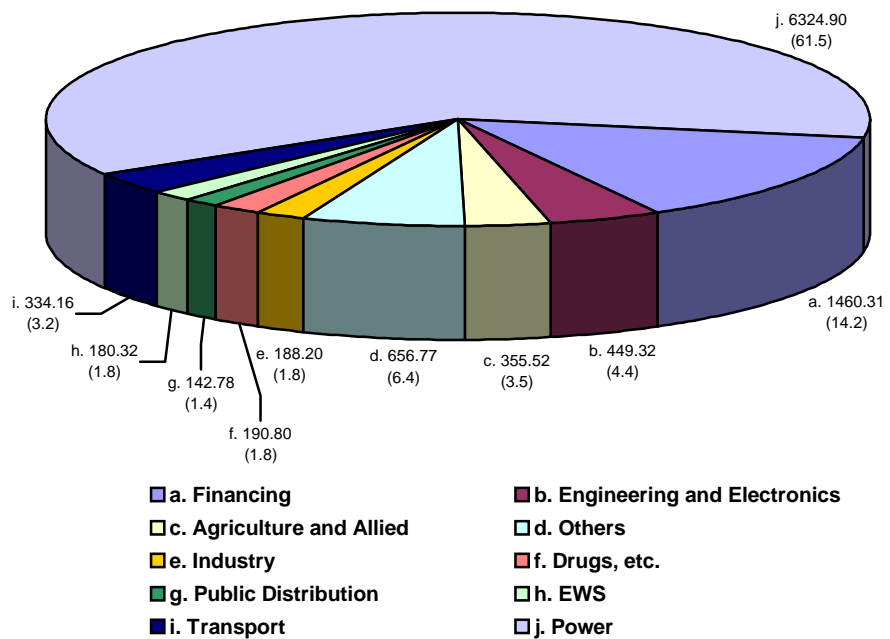
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<sup>\*\*</sup> Long-term loans mentioned in paragraphs 1.2, 1.4 and 1.17 are excluding interest accrued and due on such loans.

**Sector-wise investment in working  
Government companies and Statutory corporations  
As on 31 March 2003  
Amount : Rupees in crore  
(Figures in bracket indicate percentage of investment)  
Total investment - 10821.70 (100)**



**As on 31 March 2002  
Amount : Rupees in crore  
Total investment - 10283.08 (100)**



**Working Government companies**

**1.4** Total investment in 91 working Government companies as on 31 March 2003 was Rs.2758.69 crore (equity: Rs.1440.33 crore and long term loans: Rs.1318.36 crore) as against total investment of Rs.2412.80 crore (equity: Rs.1361.80 crore and long term loans: Rs.1051.00 crore) as on 31 March 2002 in the same number of companies.

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

As on 31 March 2003, the total investment in working Government companies, comprised 52.2 per cent equity capital and 47.8 per cent loans as compared to 56.4 and 43.6 per cent, respectively, as on 31 March 2002.

**Working Statutory corporations**

**1.5** The total investment in five working Statutory corporations at the end of March 2003 and March 2002 was as follows:

Name of Corporation	(Rupees in crore)			
	2001-02		2002-03	
	Capital	Loan	Capital	Loan
Kerala State Electricity Board	1553.00	4771.91	1553.00 <sup>@</sup>	5094.16 <sup>@</sup>
Kerala State Road Transport Corporation	129.70	212.93	133.70 <sup>@</sup>	212.93 <sup>@</sup>
Kerala Financial Corporation	134.75 <sup>*</sup>	789.02	145.06 <sup>*</sup>	739.38
Kerala State Warehousing Corporation	7.50 <sup>@</sup>	2.19 <sup>@</sup>	8.25 <sup>@</sup>	0.50 <sup>@</sup>
Kerala Industrial Infrastructure Development Corporation	29.63	123.31	44.72 <sup>@</sup>	131.31 <sup>@</sup>

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

As on 31 March 2003, the total investment in working Statutory corporations comprised 23.4 per cent equity capital and 76.6 per cent loans as compared to 25 and 75 per cent respectively, as on 31 March 2002.

**Budgetary outgo, grants/subsidies, guarantees, 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 State Government to working Government companies and working Statutory corporations are given in Annexures 1 & 3.

The budgetary outgo in the form of equity capital and loans as well as grants/subsidies from the State/Central Government, etc., to working

\* Include share application money of Rs.7.00 crore (2001-02) and Rs.10.31 crore (2002-03)

<sup>@</sup> Provisional

Government companies and working Statutory corporations for the three years upto 2002-03 are given below:

(Amount: Rupees in crore)

	2000-01				2001-02				2002-03			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	26	55.59	2	17.25	22	21.09	1	7.00	19	45.33	4	29.90
Loans given from budget	11	35.32	2	26.04	12	31.63	1	14.84	13	51.97	2	61.16
Grant/subsidy	11	53.94	4	22.80	14	48.49	1	1.51	17	75.30	2	16.89
<b>Total outgo</b>	<b>40*</b>	<b>144.85</b>	<b>4*</b>	<b>66.09</b>	<b>37*</b>	<b>101.21</b>	<b>3*</b>	<b>23.35</b>	<b>40*</b>	<b>172.60</b>	<b>5*</b>	<b>107.95</b>

During the year 2002-03, the Government had guaranteed loans aggregating Rs.3296.18 crore obtained by 26 working Government companies (Rs.2651.01 crore) and four working Statutory corporations (Rs.645.17 crore). At the end of the year, guarantees of Rs.7184.17 crore against 36 working Government companies (Rs.3016.00 crore) and four working Statutory corporations (Rs.4168.17 crore) were outstanding. The guarantee commission paid/payable to Government by Government companies and Statutory corporations during 2002-03 was Rs.48.20 crore and Rs.33.11 crore respectively.

#### *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 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 Act.

However, as could be noticed from Annexure 2, out of 91 working Government companies, only 22 working companies and out of five working Statutory corporations, only one corporation had finalised their accounts for the year 2002-03 within the stipulated period. During the period from October 2002 to September 2003, 79 working Government companies finalised 100 accounts for previous years. Similarly, during this period four working Statutory corporations finalised four accounts for previous years.

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\* These are the actual number of companies/corporations which have received budgetary support in the form of equity, loans, grants and subsidy from the State/Central Government, etc., during the respective years.

The accounts of 69 working Government companies and four Statutory corporations were in arrears for periods ranging from one to 11 years as on 30 September 2003, as detailed below:

Sl. No.	Number of working companies/corporations		Year from 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	...	1992-93 to 2002-03	11	A - 60	...
2	1	...	1994-95 to 2002-03	9	A-59	...
3	2	...	1995-96 to 2002-03	8	A-70, 84	...
4	1	...	1996-97 to 2002-03	7	A-57	...
5	6	...	1997-98 to 2002-03	6	A-10,18,20,24, 39, 72	...
6	2	...	1998-99 to 2002-03	5	A-45,66	...
7	5	...	1999-2000 to 2002-03	4	A - 2,5,49,56,58	...
8	7	1	2000-01 to 2002-03	3	A - 6,7,11,33, 61, 62, 82	B - 4
9	11	...	2001-02 to 2002-03	2	A-1,17,21,22, 27,42,46,53,88, 89,91	...
10	33	3	2002-03	1	A-9,12,14,15, 16,19,26,28,30, 31,32,34,35,37, 38,40,41,43,44, 47,48,50,52,54, 55,63,64,71, 75,76,77,78,79	B - 1, 2,5

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 and officials of the Government were apprised quarterly by the Accountant General regarding arrears in finalisation of accounts, no effective measures have been taken by the Government and as a result, 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 their latest finalised accounts are given in Annexure 2. Besides, statement showing financial position and working results of individual working Statutory corporations for the latest three years for which accounts were finalised are given in Annexures 4 and 5 respectively.

According to the latest finalised accounts of 91\* working Government companies and five working Statutory corporations, 52 companies and three corporations had incurred an aggregate loss of Rs.230.40 crore and Rs.135.33 crore, respectively, 36 companies and 2 corporations earned an aggregate profit of Rs.220.02 crore and Rs.62.97 crore respectively, while two companies<sup>#</sup> had not commenced commercial activities.

### ***Working Government companies***

#### ***Profit earning working companies and dividend***

**1.9** Out of 22 working Government companies which finalised their accounts for 2002-03 by September 2003, 13 companies earned an aggregate profit of Rs.126.79 crore and only 10 companies (Sl. Nos. 3, 4, 8, 51, 67, 73, 74, 80,81 & 86 of Annexure 2) declared dividend aggregating Rs.9.25 crore. The dividend as percentage of share capital in the above 10 profit making companies worked out to 9.2. The remaining three profit making companies did not declare any dividend. The total return by way of above dividend of Rs.9.25 crore, worked out to 0.6 *per cent* in 2002-03 on total equity investment of Rs.1440.33 crore by the State Government in all Government companies as against 0.2 *per cent* in the previous year. The State Government formulated (December 1998) a dividend policy for payment of minimum dividend. However, these guidelines were complied by only four companies (serial numbers 8, 74, 81 and 86).

Similarly, out of 69 working Government companies which finalised their accounts for previous years by September 2003, twenty three companies earned aggregate profit of Rs.93.24 crore out of which 16 companies earned profit for two or more successive years.

#### ***Loss incurring working Government companies***

**1.10** Of the 52 loss incurring working Government companies, 35 companies had accumulated losses aggregating Rs.1376.53 crore which exceeded their aggregate paid-up capital of Rs.492.62 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/Central Government, etc., by way of equity, loan, conversion of loan into equity, subsidy/grant, etc., during 2002-03 to 14 companies out of these 35 companies, amounted to Rs.78.03 crore.

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\* One company at Sl. No. A-53 of Annexure 2 (Kerala Police Housing and Construction Corporation Limited) transfers its excess of expenditure over income to works accounts as per its accounting policy.

<sup>#</sup> Serial numbers A-50 & 55 of Annexure 2.

### **Working Statutory corporations**

#### **Profit earning Statutory corporations**

**1.11** Out of five working Statutory corporations, two corporations (serial numbers B-1 and B-4 of Annexure 2) which finalised their accounts for previous years by September 2003, earned an aggregate profit of Rs. 62.97 crore.

#### **Loss incurring Statutory corporations**

**1.12** The Kerala Financial Corporation, the only Statutory corporation which finalised its accounts for the year 2002-03 incurred a loss of Rs.6.30 crore. Out of the three loss incurring working Statutory corporations, one corporation (serial number B-2 of Annexure 2) had accumulated loss of Rs.1026.70 crore which exceeded its paid-up capital of Rs.129.70 crore.

#### **Operational performance of working Statutory corporations**

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

#### **Return on capital employed**

**1.14** As per the latest finalised accounts (up to September 2003), the capital employed\* worked out to Rs.2935.11 crore in 91 working companies and total return\*\* thereon amounted to Rs.298.54 crore which constituted 10.2 per cent as compared to total return of Rs.311.27 crore (12.7 per cent) in the previous year (accounts finalised up to September 2002). Similarly, the capital employed and total return thereon in the case of working Statutory corporations as per the latest finalised accounts (up to September 2003) worked out to Rs.8180.15 crore and Rs.584.52 crore (7.2 per cent), respectively, against the total return of Rs.478.95 crore (6.2 per cent) in previous year (accounts finalised up to September 2002). 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.

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\* 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).

\*\* 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



<b>Reforms in Power Sector</b>
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**Status of implementation of MOU between the State Government and Central Government**

**1.15** In pursuance to Chief Ministers' conference on Power Sector Reforms, held in March 2001, a Memorandum of Understanding (MOU) was signed on 20 August 2001 between the Ministry of Power, Government of India (GOI) and the Department of Power, Government of Kerala as a joint commitment for implementation of reforms programme in power sector. Identified milestones were also set up for achieving the objective of providing good quality uninterrupted power supply to all its consumers at affordable rates and to maintain the commercial viability of power sector to meet the increasing investment demands.

Status of implementation of reform programme against each commitment made in the MOU is detailed below:

	<b>Reform programme commitment as per MOU</b>	<b>Targeted completion schedule</b>	<b>Status (As on 31 March 2003)</b>
<b>I</b>	<b>By the State Government:</b>		
	1. Reduction in Transmission and Distribution losses	Reduction of loss to 17 per cent by December 2004	Transmission loss was 30.4 per cent
	2. 100 per cent electrification of all villages	100 per cent	Completed
	3. 100 per cent metering of all distribution feeder	100 per cent by October 2001	Completed
	4. 100 per cent metering of all consumers	100 per cent by December 2001	Completed
	5. Securitising outstanding dues of CPSUs	Securitisation limit not to cross two months billing	Completed for the period up to 30 September 2001 (Rs.1172.51 crore)
	6. State Electricity Regulatory Commission (SERC):		
	(i) Establishment of SERC	October 2001	SERC established on 29 November 2002
	(ii) Implementation of tariff orders issued by SERC during the year	Nil	Nil
	7. Others:		
	(i) Energy Audit:		
	(a) 11 KV metering	March 2002	Completed
	(b) Above 11 KV metering	October 2001	Completed
	(ii) Computerisation of accounting and billing in towns	March 2002	Implemented in eight sections in towns
	(iii) Break even of distribution of power	March 2002	Not achieved

	(iv) ADB loans for power sector reforms	Nil	Consultants' work in progress
<b>II</b>	<b>By the Central Government:</b>		
	8. Supply of additional power	Allocation from Ramagundam and Talchar - 152.7 MW	Received additional allocation of 100 MW
	9. Provision of funds under APDP	...	Rs.60 crore
<b>III</b>	<b>General</b>		
	10. Monitoring of MOU	Every three months	Progress report being sent on quarterly basis

### State Electricity Regulatory Commission

**1.16** Government of India formulated the Electricity Regulatory Commissions Act, 1998 under which the state governments were to establish and incorporate the State Electricity Regulatory Commission. The Commission was constituted by the State Government on 29 November 2002. No tariff orders have been issued by the Commission as of March 2003.

### Non-working Public Sector Undertakings (PSUs)

#### Investment in non-working PSUs

**1.17** As on 31 March 2003 the total investment in 17 non-working PSUs (17 non-working Government companies) was Rs.69.66 crore (equity: Rs.44.78 crore and long term loans: Rs.24.88 crore) as against Rs.40.17 crore (equity:Rs.22.89 crore and long term loans:Rs.17.28 crore) in 13 non-working PSUs (13 non-working Government companies) as on 31 March 2002.

The classification of the non-working PSUs was as under:

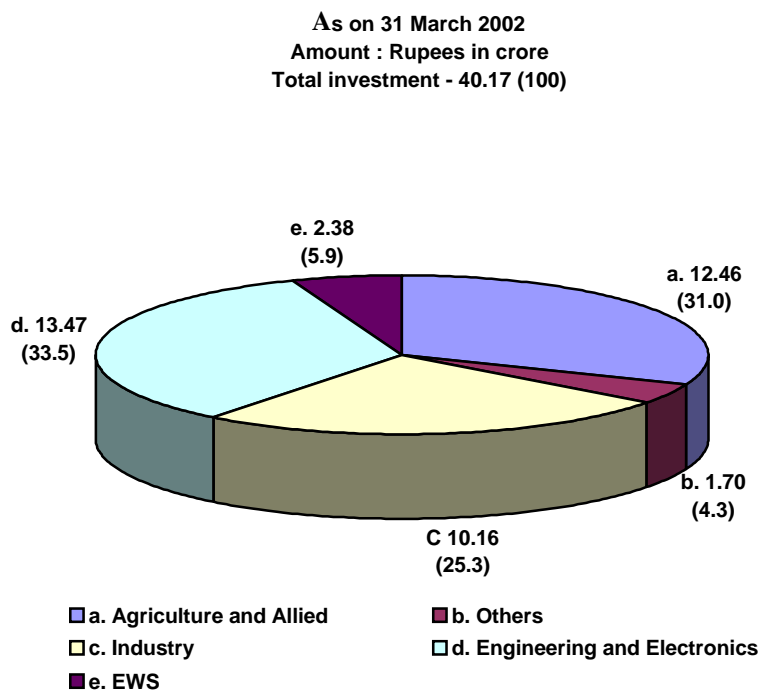
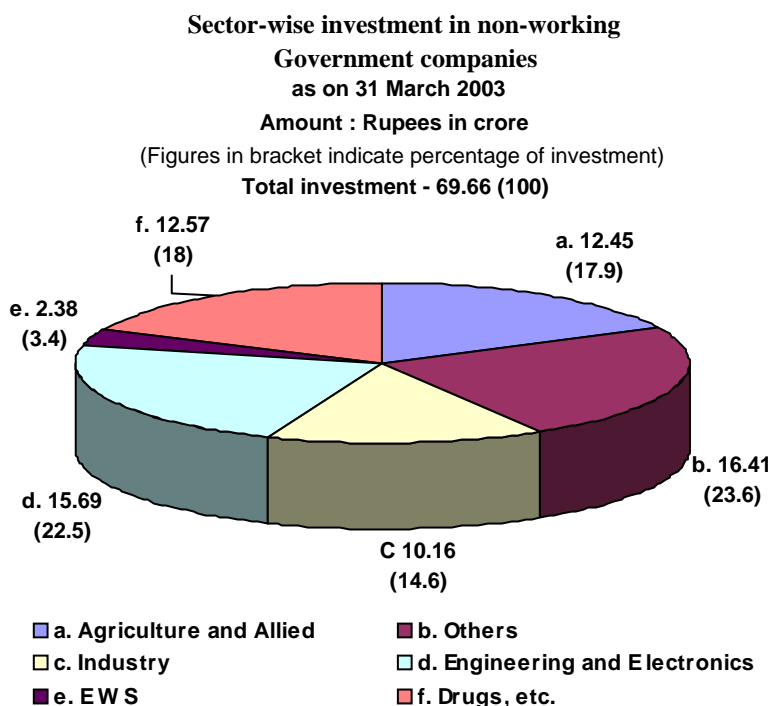
(Amount: Rupees in crore)

Sl. No.	Status of non-working PSUs	Number of companies	Investment	
			Equity	Long term loans
(i)	Under liquidation	12	27.05	17.01
(ii)	Defunct/ under closure	5	17.73	7.87
	<b>Total</b>	<b>17</b>	<b>44.78</b>	<b>24.88</b>

All the 17 non-working Government companies were under liquidation or closure under Section 560 of the Companies Act, 1956 for 1 to 20 years and as substantial investment of Rs.69.66 crore was involved in these companies, effective steps need to be taken for their expeditious liquidation or revival.

**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 2003 and 31 March 2002 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 2002-03, State Government released Rs.1.10 crore by way of loan to one non-working Government company (Sl.No. C-13 of Annexure 1). No other budgetary support by way of equity, subsidy, grant, etc., was provided to non-working Government companies (Annexures 1 and 3).

**Finalisation of accounts by non-working PSUs**

**1.20** The accounts of all the 17 non-working companies were in arrears for periods ranging from one to 20 years as on 30 September 2003 as could be noticed from Annexure 2. Only five non-working Government companies finalised their previous years' accounts during the period from October 2002 to September 2003.

**Financial position and working results of non-working PSUs**

**1.21** The summarised financial results of non-working Government companies as per latest finalised accounts are given in Annexure 2.

The summarised 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	45.96	(-)102.94	12.20	150.17

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 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 the CAG of India, 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 Road Transport Corporation	1999-2000	2000-01	10.10.2003
2.	Kerala Financial Corporation	2000-01	2001-02	10.10.2003
3.	Kerala Industrial Infrastructure Development Corporation	2000-01	2001-02	19.8.2003

## 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 2003). No disinvestment, privatisation and restructuring of PSUs had taken place during the year 2002-03.

## Results of audit by the Comptroller and Auditor General of India

**1.24** During the period from October 2002 to September 2003, the audit of accounts of 85 Government companies (83 working and two non-working) and five working Statutory corporations were selected for review. As a result of the observations made by CAG, four companies (Kerala Livestock Development Board Limited, Kerala Transport Development Finance Corporation Limited, The Kerala Police Housing and Construction Corporation Limited and Kerala Power Finance Corporation Limited ) revised their accounts for 1999-2000, 2000-01, 2000-01, 2002-03 respectively. In addition, the net impact of the important audit observations as a result of review of the remaining PSUs was as follows:

Details	No. of accounts		Amount: Rupees in lakh	
	Working Government companies	Working Statutory corporations	Working Government companies	Working Statutory corporations
i. Decrease in profit	...	2	...	19090.00*
ii. Increase in loss	3	...	243.46	...
iii. Non disclosure of material facts	4	1	885.95	3858.00

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the companies and corporations are mentioned below:

### *Errors and omissions noticed in the case of Government companies*

#### *The Travancore-Cochin Chemicals Limited (2001-02)*

**1.25** Loss (Rs. 6.67 crore) of the Company was understated by Rs.87 lakh due to non-provision of insurance premium (Rs.31 lakh), short provision for depreciation (Rs.31 lakh), over valuation of closing stock of finished goods (Rs.25 lakh).

#### *Plantation Corporation of Kerala Limited (2000-01)*

**1.26** The net loss (Rs.10.94 crore) of the Company was understated by Rs.38.51 lakh due to non-provision for bad debts (Rs.15.27 lakh), non-charging of cost of failed plantation (23.24 lakh).

\* The Separate Audit Report on the accounts of Kerala State Electricity Board for the year 2000-01 is under finalisation. Hence figures are provisional.

**Kerala Forest Development Corporation Limited (2000-01)**

1.27 Net loss (Rs.0.61 crore) of the Company for the year was understated by Rs.1.77 crore due to failure to write-off cost of failed plantation (Rs.1.17 crore), non-provision of arrears of pay (Rs.0.85 crore) and short accounting of sale (Rs.0.25 crore).

**Foam Mattings (India) Limited (2000-01)**

1.28 Net loss (Rs.3.33 lakh) was understated by Rs.27.95 lakh due to non-provision for debt not realisable.

**Errors and omissions noticed in the case of Statutory corporations**

**Kerala Financial Corporation (2001-02)**

1.29 Operating profit for the year (Rs. 1.05 crore) was overstated by Rs.31.56 crore due to wrong exhibition of provision (Rs.29.25 crore) for non-performing assets below the line, overstatement of interest income (Rs.0.14 crore), understatement of bad debts charged (Rs.0.63 crore) and short provision for bad and doubtful debts (Rs.1.54 crore).

**Audit assessment of the working results of Kerala State Electricity Board**

1.30 Based on the audit assessment of the working results of the Kerala State Electricity Board (KSEB) for the three years up to 2001-02 and taking into consideration the major irregularities and omissions pointed out in the SARs on the annual accounts of KSEB and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit and the percentage of return on capital employed of KSEB would be as given below:

(Rupees in crore)				
Sl. No	Particulars	1999-2000	2000-01	2001-02
1	Net surplus/(-) deficit as per accounts	44.12	56.72	62.83
2	Subsidy from the State Government	332.37	1286.05	1316.43
3	Net surplus/(-) deficit before subsidy from the State Government (1-2)	(-)288.25	(-) 1229.33	(-)1253.60
4	Net increase/decrease in net surplus / (-) deficit on account of audit comments on the annual accounts	(-) 323.63	(-) 159.34 *	Audit in progress
5	Net surplus / (-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-) 611.88	(-)1388.67*	-do-
6	Total return on capital employed	(-) 243.95	(-) 937.14	...

It is evident from the above, that the surplus of Rs.56.72 crore for the year 2000-01 was arrived at after taking credit for Government subsidy of Rs.1286.05 crore. But for the above subsidy, the working of the Board would have resulted in a deficit of Rs.1229.33 crore.

\* The Separate Audit Report on the accounts of Kerala State Electricity Board for the year 2000-01 is under finalisation. Hence figures are provisional.

***Persistent irregularities and system deficiencies in financial matters of PSUs***

**1.31** 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**

**1.32 *Kerala State Electricity Board***

- Value of assets sold remained unadjusted.
- Value of assets commissioned/put to use and also expenditure incurred on abandoned projects were included under capital work-in-progress.
- Expenditure incurred on abandoned projects was not written off.

**1.33 *Kerala State Road Transport Corporation***

- Non-capitalisation and non-provision of depreciation on Chief Office building already put to use.
- Non-maintenance of assets register.
- Sales relating to 1985-86 was 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.

**1.34 *Kerala Financial Corporation***

Non-accountal of all expenses on accrual basis instead of cash basis, in terms of directions of Government of Kerala and IDBI.

**Internal audit/internal control**

**1.35** 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 the Comptroller and Auditor General of India to them under section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major recommendations /comments made by statutory auditors on possible improvement in the internal audit/internal control system in respect of State Government companies is

indicated in Annexure 7. It is noticed from the Annexure that major comments were of following nature:

- There was absence of internal audit system.
- Internal audit was not conducted periodically and concurrently.
- Internal audit lacked depth and its scope required to be widened.
- Internal audit system was not commensurate with the size and nature of business of the Company.
- Certain major areas and functions of companies were not covered by the internal audit.

### **Recommendations for closure of PSUs**

**1.36** Even after completion of eight to 75 years of their existence, the turnover of 29 Government companies (all working) and one working Statutory corporation had been less than Rs.5 crore in each of the preceding five years of 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 performance of the above companies or consider their closure.

### **Response to inspection reports, draft paragraphs and reviews**

**1.37** Audit observations made during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2003 pertaining to 92 PSUs disclosed that 6964 paragraphs relating to 1416 inspection reports remained outstanding at the end of September 2003. Of these, 407 inspection reports containing 2392 paragraphs had not been replied to for one to eight years. Department-wise break-up of inspection reports and paragraphs outstanding as on 30 September 2003 is given in Annexure 8.

Similarly draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was however observed that nine draft paragraphs and three draft reviews forwarded to the various departments during May to August 2003, as detailed in Annexure 9, had not been replied to (September 2003).



It is recommended that the Government should ensure that:

- procedure exists for action against the officials who failed to send replies to Inspection Reports/draft paragraphs/reviews as per the prescribed time schedule,
- action to recover loss/outstanding advances/overpayment is taken in a time bound schedule, and
- the system of responding to the audit observations is revamped.

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

**1.38** The position of Audit Reports (Commercial) pending for COPU discussion as on 30 September 2003 is detailed below:

Period of Audit Report	No. of reviews and paragraphs appeared in the Audit Report		No. of reviews and paragraphs pending (September 2003) for discussion by COPU	
	Reviews	Paragraphs	Reviews	Paragraphs
1996-97	5	28	-	3
1997-98	4	29	-	12
1998-99	3	39	1	22
1999-2000	4	25	1	17
2000-01	3	22	2	20
2001-02	3	21	3	21

During the period October 2002 to September 2003, COPU considered seven reviews and 34 paragraphs relating to the period from 1994-95 to 1996-97 (three reviews and 17 paragraphs), 1997-98 (one review and three paragraphs), 1998-99 (eight paragraphs), 1999-2000 (two reviews and four paragraphs), 2000-01 (one review and two paragraphs). As at the end of September 2003, fifty six reports of COPU were pending settlement; of which Action Taken Notes in respect of 48 reports were pending receipt from Government. Remedial Action Taken Notes on 52 audit paragraphs relating to the year 1995-96 onwards were also pending receipt from Government.

**619-B companies**

**1.39** As on 31 March 2003 there were seven working companies and one non-working company coming under Section 619-B of the Companies Act, 1956. Annexure 10 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.