

CHAPTER I

1. OVERVIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

Introduction

1.1 As on 31 March 2004, there were 108 Government companies (87 working and 21 non-working**) and five Statutory corporations (all working) as against 108 Government companies (91 working and 17 non-working) and the same number of working Statutory corporations as on 31 March 2003 under the control of the State Government. During 2003-04, 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 provisions 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 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)	Under Rule 14 of the Electricity (Supply) (Annual accounts) Rules 1985 read with Section 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

The State Government had formed (November 2002) Kerala State Electricity Regulatory Commission and audit is entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003#.

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

* The earlier provision of Section 69 (2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.

Erstwhile Section 34(4) of the Electricity Regulatory Commissions Act, 1998 repealed by the Electricity Act, 2003.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2004, the total investment in 92 working PSUs (87 Government companies and five Statutory corporations) was Rs.11,776.25 crore* (equity: Rs.3,129.90 crore, long-term loans** Rs.8,429.83 crore and share application money Rs.216.52 crore) as against 96 working PSUs with a total investment of Rs.10,821.70 crore (equity: Rs.3,118.52 crore, long term loans: Rs.7,496.64 crore and share application money Rs.206.54 crore) as on 31 March 2003. The analysis of investment in working PSUs is given in the following paragraphs:

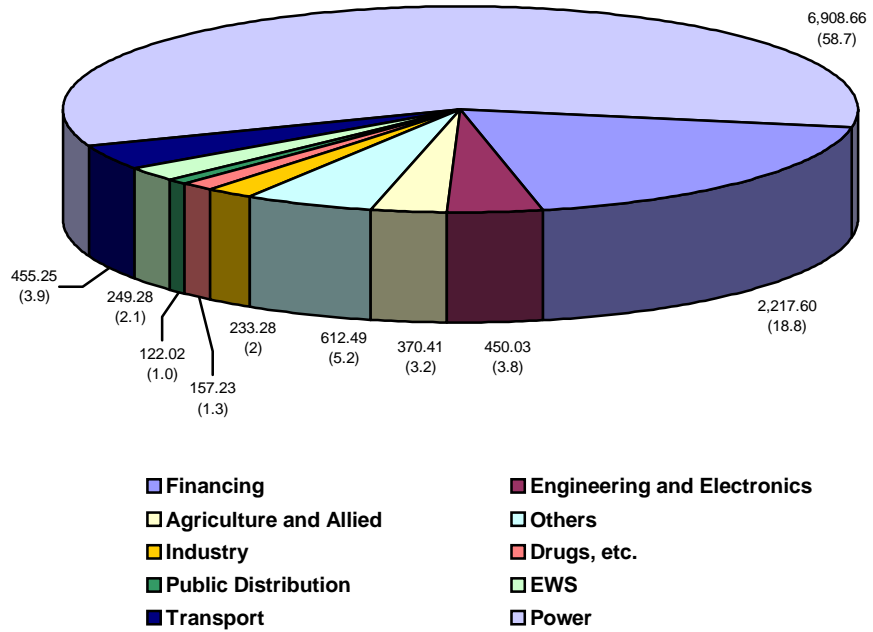
Sector-wise investment in working Government companies and Statutory corporations

1.3 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2004 and 31 March 2003 are indicated in the pie charts:

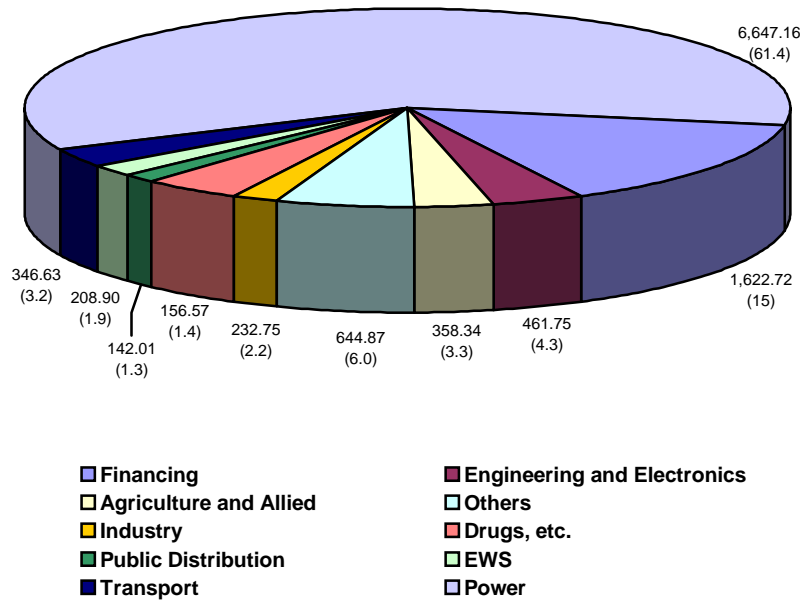
* State Government's investment in working PSUs was Rs.4,134.77 crore (others : Rs.7,641.48 crore). Figure as per Finance Accounts, 2003-04 is Rs.3,726.01 crore. The difference is under reconciliation.

** 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 2004
Amount : Rupees in crore
 (Figures in bracket indicate percentage of investment)
Total investment - Rs.11,776.25 crore



As on 31 March 2003
Amount : Rupees in crore
Total investment - Rs.10,821.70 crore



Working Government companies

1.4 Total investment in working Government companies at the end of March 2003 and March 2004 was as follows:

(Rupees in crore)

Year	No. of Companies	Equity	Share application money	Loans	Total
2002-03	91	1,244.10	196.23	1,318.36	2,758.69
2003-04	87	1,285.14	206.52	1,940.47	3,432.13

There was increase in investment during the year mainly due to increase in loans granted by the State Government to the Government 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 2004, the total investment in working Government companies, comprised 43.5 *per cent* equity capital and 56.5 *per cent* loans as compared to 52.2 and 47.8 *per cent*, respectively, as on 31 March 2003.

Working Statutory corporations

1.5 The total investment in five working Statutory corporations at the end of March 2004 and March 2003 was as follows:

(Rupees in crore)

Name of Corporation	2002-03		2003-04	
	Capital	Loan	Capital	Loan
Kerala State Electricity Board	1,553.00	5,094.16	1,553.00 [@]	5,355.66 [@]
Kerala State Road Transport Corporation	133.70 [@]	212.93 [@]	137.95 [@]	317.30 [@]
Kerala Financial Corporation	145.06 [*]	739.38	155.06 [*]	659.96
Kerala State Warehousing Corporation	8.25 [@]	0.50 [@]	8.75 [@]	0.50 [@]
Kerala Industrial Infrastructure Development Corporation	44.72 [#]	131.31	...	155.94
Total	1,884.73	6,178.28	1,854.76	6,489.36

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 2004, the total investment in working Statutory corporations comprised 22.2 *per cent* equity capital and 77.8 *per cent* loans as compared to 22.9 and 77.1 *per cent* respectively, as on 31 March 2003.

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

[@] Provisional

^{*} Include share application money of Rs.10.31 crore (2002-03) and Rs.10.00 crore (2003-04)

[#] Represents grants

Government to working Government companies and working Statutory corporations are given in **Annexures 1 & 3**.

The budgetary outgo and grants/subsidies from the State Government to working Government companies and working Statutory corporations for the three years upto 2003-04 are given below:

(Amount: Rupees in crore)

	2001-02				2002-03				2003-04			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	22	21.09	1	7.00	19	45.33	4	29.90	16	38.50	3	14.50
Loans given from budget	12	31.63	1	14.84	13	51.97	2	61.16	9	32.92	2	44.15
Grant/subsidy	14	48.49	-	-	17	63.93	2	9.34	20	51.75	3	567.21
Total outgo	37*	101.21	2*	21.84	40*	161.23	5*	100.40	33*	123.17	5*	625.86

During the year 2003-04, the Government had guaranteed loans aggregating Rs.1,748.30 crore obtained by 19 working Government companies (Rs.1,569.66 crore) and two working Statutory corporations (Rs.178.64 crore). At the end of the year, guarantees of Rs.7,091.41 crore against 31 working Government companies (Rs.3,482.79 crore) and three working Statutory corporations (Rs.3,608.62 crore) were outstanding. The guarantee commission paid/payable to Government by Government companies and Statutory corporations during 2003-04 was Rs.66.15 crore and Rs.38.51 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.

As could be noticed from **Annexure 2**, out of 87 working Government companies, only 19 working companies and out of five working Statutory corporations, only two corporations had finalised their accounts for the year 2003-04 within the stipulated period. During the period from October 2003 to September 2004, 72 working Government companies finalised 87 accounts for previous years. Similarly, during this period three working Statutory corporations finalised three accounts for previous years.

* 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 Government during the respective years.

The accounts of 68 working Government companies and three Statutory corporations were in arrears for periods ranging from one to 11 years as on 30 September 2004, 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	...	1993-94 to 2003-04	11	A - 56	...
2	3	...	1995-96 to 2003-04	9	A-55, 66, 80	...
3	3	...	1998-99 to 2003-04	6	A-10,18, 53	...
4	3	...	1999-2000 to 2003-04	5	A-5, 41, 54	...
5	2	...	2000-01 to 2003-04	4	A - 52, 62	...
6	8	1	2001-02 to 2003-04	3	A - 2, 7, 11, 45, 57, 68, 78, 87	B - 4
7	15	1	2002-03 to 2003-04	2	A-1, 6, 9, 17,20, 21, 38, 39, 42, 44, 48, 49, 58, 59, 84	B - 2
8	33	1	2003-04	1	A-12, 14, 15, 16, 19, 24, 25, 26, 28, 29, 30, 31, 32, 33, 34, 35, 36, 40, 43, 46, 51, 60, 61, 67, 70, 71, 72, 73, 74, 75, 83, 85, 86	B - 1

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 87* working Government companies and five working Statutory corporations, 51 companies and two corporations had incurred an aggregate loss of Rs.304.63 crore and Rs.128.64 crore, respectively, 33 companies and three corporations earned an aggregate profit of Rs.224.92 crore and Rs.83.03 crore respectively, while two companies[#] had not commenced commercial activities.

Working Government companies

Profit earning working companies and dividend

1.9 Out of 19 working Government companies which finalised their accounts for 2003-04 by September 2004, 13 companies earned an aggregate profit of Rs.43.40 crore and only seven companies (Sl. Nos. 3, 4, 8, 47, 69, 76 and 82 of **Annexure 2**) declared dividend aggregating Rs.3.87 crore. The dividend as percentage of share capital in the above seven profit making companies worked out to 8.7. The remaining six profit making companies did not declare any dividend. The total return by way of above dividend of Rs.3.87 crore, worked out to 0.3 *per cent* in 2003-04 on total equity investment of Rs.1,491.66 crore in all working Government companies as against 0.6 *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 3,8,69 and 82 of **Annexure 2**).

Similarly, out of 66 working Government companies which finalised their accounts for previous years by September 2004, 20 companies earned aggregate profit of Rs.181.52 crore out of which 13 companies earned profit for two or more successive years.

Loss incurring working Government companies

1.10 Thirty three companies, out of 51 loss incurring working Government companies, had accumulated losses aggregating Rs.1,678.20 crore which exceeded their aggregate paid-up capital of Rs.536.25 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 2003-04 to 16 companies out of these 33 companies, amounted to Rs.61.40 crore.

* One company at Sl. No. A-49 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.

[#] Serial numbers A- 46 & 51 of Annexure 2.

Working Statutory corporations

Profit earning Statutory corporations

1.11 One Corporation (Kerala Financial Corporation) out of two Statutory corporations which finalised their accounts for 2003-04 by September 2004, earned a profit of Rs.1.81 crore.

Similarly, two Corporations (serial numbers B-1 and B-4 of **Annexure 2**) which finalised their accounts of previous years by September 2004, earned an aggregate profit of Rs.81.22 crore and both the corporations earned profit for two or more successive years.

Loss incurring Statutory corporations

1.12 One Corporation (sl. no. B-2 of **Annexure 2**) out of the two loss incurring working Statutory corporations, had accumulated loss of Rs.1,026.70 crore which exceeded its paid-up capital of Rs.129.70 crore. This Corporation did not finalise any accounts during the period from October 2003 to September 2004.

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 2004), the capital employed* worked out to Rs.3,703.38 crore in 85 working companies and total return** thereon amounted to Rs.328.90 crore which constituted 8.9 *per cent* as compared to total return of Rs.298.54 crore (10.2 *per cent*) in the previous year (accounts finalised up to September 2003). Similarly, the capital employed and total return thereon in the case of working Statutory corporations as per the latest finalised accounts (up to September 2004) worked out to Rs.8,743.50 crore and Rs.649.97 crore (7.4 *per cent*), respectively, against the total return of Rs.584.52 crore (7.2 *per cent*) in previous year (accounts finalised up to September 2003). 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**.

* 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

Reforms in Power Sector

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. 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:

	Reform programme commitment as per MOU	Targeted completion schedule	Status (As on 31 March 2004)
I	By the State Government:		
	1. Reduction in Transmission and Distribution losses	Reduction of loss to 17 <i>per cent</i> by December 2004	Transmission loss was 28.5 <i>per cent</i>
	2. 100 <i>per cent</i> electrification of all villages	100 <i>per cent</i>	Completed
	3. 100 <i>per cent</i> metering of all distribution feeder	100 <i>per cent</i> by October 2001	Completed
	4. 100 <i>per cent</i> metering of all consumers	100 <i>per cent</i> 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.1,158.25 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 thirteen sections in towns
	(iii) Break even of distribution of power	March 2002	Work in progress
	(iv) Asian Development Bank loans for power sector reforms	Nil	Consultants' work in progress

II	By the Central Government:		
	8. Supply of additional power	Allocation from Ramagundam and Talchar - 152.7 MW	Nil
	9. Provision of funds under Accelerated Power Development Reforms Programme (APDRP)	...	Circle scheme – Rs.181.59 crore Town scheme - Rs.168.76 crore
III	General:		
	10. Monitoring of MOU	Every three months	All parameters are regularly monitored and monthly reports furnished to the Government

State Electricity Regulatory Commission

1.16 Kerala State Electricity Regulatory Commission (Commission) was formed on 29 November 2002 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 entrusted to CAG under Section 104 (2) of the Electricity Act, 2003**. No tariff orders have been issued by the Commission as on 31 March 2004.

Non-working Public Sector Undertakings (PSUs)

Investment in non-working PSUs

1.17 As on 31 March 2004 the total investment in 21 non-working PSUs (all Government companies) was Rs.124.01 crore (equity: Rs.53.16 crore and long term loans: Rs.70.85 crore) as against Rs.69.66 crore (equity:Rs.44.78 crore and long term loans:Rs.24.88 crore) in 17 non-working PSUs (all Government companies) as on 31 March 2003.

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

Sl. No.	Status of non-working PSUs	Number of companies	(Amount: Rupees in crore)	
			Investment	
			Equity	Long term loans
(i)	Under liquidation [#]	10	23.98	24.20
(ii)	Defunct/ under closure ^{##}	11	29.18	46.65
	Total	21	53.16	70.85

All the 21 non-working Government companies were under liquidation or closure under Section 560 of the Companies Act, 1956 for one to 20 years. As substantial investment of Rs.124.01 crore was involved in these companies, effective steps need to be taken for their expeditious liquidation or revival.

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

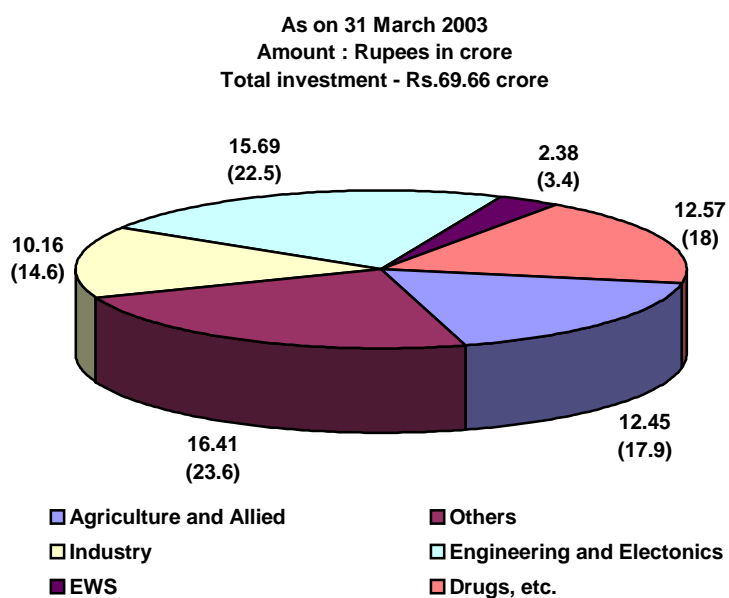
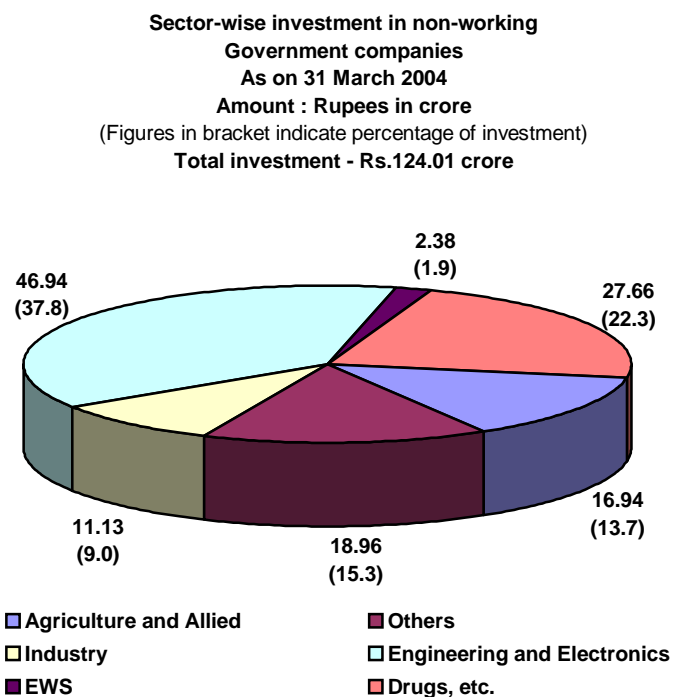
** Erstwhile Section 34(4) of the Electricity Regulatory Commissions Act, 1998 repealed by the Electricity Act, 2003.

[#] Companies at serial nos. C-2, 3, 6, 7, 8, 9, 15, 16, 17 and 19 of Annexure 2.

^{##} Companies at serial nos. C-1, 4,5, 10, 11, 12, 13, 14, 18, 20 and 21 of Annexure 2.

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 2004 and 31 March 2003 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 2003-04, State Government released Rs.0.41 crore by way of grant to one non-working Government company (sl.no. C-17 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 Ten companies out of total 21 non-working Government companies were under liquidation and remaining 11 companies were defunct. The accounts of all the 11 defunct companies were in arrears for periods ranging from one to 18 years as could be seen from **Annexure 2**. Seven defunct Government companies finalised their nine previous years' accounts during the period from October 2003 to September 2004.

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	56.36	(-)135.67	18.92	191.76

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 Electricity Board	2000-01	2001-02	4.6.2004
2.	Kerala State Road Transport Corporation	2000-01	2001-02	4.8.2004
3.	Kerala Financial Corporation	2001-02	2002-03	16.9.2004
4.	Kerala Industrial Infrastructure Development Corporation	2001-02	2002-03	16.9.2004

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 2004). No disinvestment, privatisation and restructuring of PSUs had taken place during the year 2003-04.

Results of audit by the Comptroller and Auditor General of India

1.24 During the period from October 2003 to September 2004, the audit of accounts of 66 Government companies (60 working and six non-working) and four working Statutory corporations were selected for review. As a result of the observations made by CAG, seven companies (sl. nos. A-2, 11, 49, 53, 64, 76 and C-14 of Annexure 2) revised their accounts for 1996-97, 1997-98, 2000-01, 2000-01, 2001-02, 2003-04 and 2003-04 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 crore	
	Working Government companies	Working Statutory corporations	Working Government companies	Working Statutory corporations
i. Decrease in profit	2	2	4.08	645.58
ii. Increase in loss	3	1	5.51	1.67
iii. Decrease in loss	1	...	0.33	...
iv. Non-disclosure of material facts	1	2	0.75	373.49

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

Kerala Land Development Corporation Limited (1999-2000)

1.25 Loss for the year (Rs.58.48 lakh) was overstated by Rs. 33.04 lakh due to short accounting of revenue (Rs.53.06 lakh) and non-provision for arrears of pay and allowances (Rs. 20.02 lakh).

The Kerala Minerals and Metals Limited (2002-03)

1.26 Profit for the year (Rs.93.58 crore) was overstated by Rs.3.46 crore due to non-provision of arrears of salary and allowances of officers of the Company, arising from pay revision.

Kerala Forest Development Corporation Limited (2001-02)

1.27 Profit for the year (Rs.88.10 lakh) was overstated by Rs. 62.39 lakh due to non-adjustment of value of eucalyptus plantation already sold

(Rs. 18.60 lakh) and accounting of sale value of eucalyptus twice (Rs. 43.79 lakh)

Kerala State Electronics Development Corporation Limited (2001-02)

1.28 Net loss (Rs. 41.33 crore) was understated by Rs. 4.22 crore due to non-provision of liquidated damages recovered by BSNL (Rs. 3.74 crore) and non-write off of value of imported material (Rs. 0.48 crore) auctioned by customs authorities.

Errors and omissions noticed in the case of Statutory corporations

Kerala State Electricity Board (2001-02)

1.29 Net surplus (Rs. 62.83 crore) was overstated by Rs. 608.94 crore due to understatement of Electricity Duties and other levies payable to Government (Rs. 214.63 crore) , prior period charges (Rs. 289.58 crore), purchase of power (Rs.70.59 crore) and under provision for depreciation (Rs. 34.14 crore).

Kerala Financial Corporation (2002-03)

1.30 Operating profit of the Corporation for the year (Rs. 1.15 crore) was overstated by Rs. 6.75 crore due to accounting of provision for bad and doubtful debts below the line in contravention of SIDBI guidelines which required exhibition of the item above the line.

Kerala Industrial Infrastructure Development Corporation (2002-03)

1.31 Surplus for the year (Rs.13.20 lakh) was overstated by Rs.1.67 crore due to non-provision of depreciation (Rs. 47.95 lakh) and charging of depreciation (Rs. 1.19 crore) on commissioned projects to project expenses.

Audit assessment of the working results of Kerala State Electricity Board

1.32 Based on the audit assessment of the working results of the Kerala State Electricity Board (KSEB) for the three years up to 2002-03 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 in the table:

(Rupees in crore)

Sl. No	Particulars	2000-01	2001-02	2002-03 (Provisional)
1	Net surplus/(-) deficit as per accounts	56.72	62.83	80.78
2	Subsidy from the State Government	1,286.05	1,316.43	1,015.57
3	Net surplus/(-) deficit before subsidy from the State Government (1-2)	(-) 1,229.33	(-)1,253.60	(-)934.79
4	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts	(-) 128.32	(-)638.83	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)	(-)1,357.65	(-)1,892.43	-do-
6	Total return on capital employed	(-) 906.12	(-)1,372.35	...

It is evident from the above, that the surplus of Rs.62.83 crore for the year 2001-02 was arrived at after taking credit for Government subsidy of Rs.1,316.43 crore. But for the above subsidy, the working of the Board would have resulted in a deficit of Rs.1,253.60 crore.

Persistent irregularities and system deficiencies in financial matters of PSUs

1.33 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

1.34 Kerala State Electricity Board

- Value of assets sold remained unadjusted.
- Advances paid to suppliers remained unadjusted even after supplies were completed long back.

1.35 Kerala State Road Transport Corporation

- Non-capitalisation and non-provision of depreciation on 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.

Recoveries at the instance of audit

1.36 Test check of records of Kerala State Electricity Board, Kerala State Road Transport Corporation and other PSUs conducted during the period from 2000-01 to 2003-04 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. 15.75 crore in 21,981 cases. The PSUs accepted the observations in 19,043 cases which had been pointed out by audit and Rs. 1.39 crore relating to 812 audit observations was recovered at the instance of audit.

Internal audit/internal control

1.37 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 system needed improvement.
- Internal audit system was not commensurate with the size and nature of business of the Company.
- Coverage and frequency of report require to be improved.
- Recommendations of Internal Auditors not complied with in many cases.

Recommendations for closure of PSUs

1.38 Even after completion of nine to 76 years of their existence, the turnover of 25 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, 11 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.

Position of discussion of Audit Reports (Commercial) by Committee on Public Undertakings (COPU)
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1.39 The position of Audit Reports (Commercial) pending for COPU discussion as on 30 September 2004 is detailed below:

Period of Audit Report	No. of reviews and paragraphs appeared in the Audit Report		No. of reviews and paragraphs pending (September 2004) for discussion by COPU	
	Reviews	Paragraphs	Reviews	Paragraphs
1999-2000	4	25	1	5
2001-02	3	21	3	12
2002-03	3	17	3	17

During the period October 2003 to September 2004, COPU considered three reviews and 78 paragraphs relating to the period 1996-97 (three paragraphs), 1997-98 (12 paragraphs), 1998-99 (one review and 22 paragraphs), 1999-2000 (12 paragraphs), 2000-01 (two reviews and 20 paragraphs), 2001-02 (nine paragraphs). As at the end of September 2004, fifty six reports of COPU were pending settlement, of which Action Taken Notes in respect of 46 reports were pending receipt from Government. Remedial Action Taken Notes on 27 audit paragraphs relating to the year 1999-2000 onwards were also pending receipt from Government.

619-B companies

1.40 As on 31 March 2004 there were six working companies and one non-working company coming under Section 619-B of the Companies Act, 1956. **Annexure 8** 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.