Commercial Audit Manual- Part II

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PUBLIC SECTOR UNDERTAKINGS

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PUBLIC SECTOR UNDERTAKINGS

1.01. Introduction

The Comptroller and Auditor General of India (CAG), who is the head of the Supreme Audit Institution (SAI) India, derives his duties and powers mainly from Articles 149 to 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The mandate is further established by practice and convention. The details of various kinds of audits conducted by the CAG are described in the CAG's Manual of Standing Orders (MSO) (Audit) (Second Edition – March 2002).

The CAG is authorised to make regulations for carrying into effect the provisions of the Act ibid in so far as they relate to the scope and extent of audit including the laying down for the guidance of the Government departments, the general principles of Government accounting and the broad principles in regard to audit of receipt and expenditure (*Section 23*). The instructions/publications relating to audit issued by the CAG are covered under the provisions of this section.

1.02. Commercial Audit Wing

Commercial Audit Wing (CAW) of the Office of the AG (ERSA) [AG (ERSA)], Kerala, Thiruvananthapuram is headed by a Group Officer, who is assisted by Senior Audit Officers (Comml) (Sr AOs (C))/Audit Officers (Comml) (AOs (C)) and Assistant Audit Officers (AAOs (C)) and Senior Auditors/Auditors. CAW consisted of five segments as follows.

1. Commercial Audit Parties (CA Parties);
2. Commercial Audit Headquarters Sections (CA HQ Sections);
3. RAO, KSEB;
4. RAO, KSRTC; and
5. Report (Commercial) Section

CAW is mainly engaged in the audit (transaction/ financial)/ performance audit of State Public Sector Undertakings (PSUs), i.e. Government companies (including 619-B companies), Statutory Corporations, Departmental Commercial Undertakings (DCUs) and Regulatory Authorities**,** the details of which are briefly given below.

Government companies (including 619-B companies)

There are 109 Government companies [92 working and 17 non-working companies] and one statutory Body (Kerala Infrastructure Investment Board) as on 31 March 2012. Out of the 109 Companies mentioned above, 17 Companies have been transferred to the Office of the Prl. AG (G&SSA), Kerala after re-structuring and 34 Autonomous Bodies transferred to CA Wing (Annexure 1).

Statutory corporations

There are five statutory corporations in the State as on 31 March 2012 and they are -

1. Kerala State Electricity Board (KSEB);
2. Kerala State Road Transport Corporation (KSRTC);
3. Kerala Industrial Infrastructure Development Corporation (KINFRA);
4. Kerala State Warehousing Corporation (KSWC); and
5. Kerala Financial Corporation (KFC)

Departmental commercial undertakings

There are three DCUs in the State as on 31 March 2012 and they are –

1. Text Book Office;
2. Kerala State Insurance Department; and
3. State Water Transport Department

Regulatory Authority

Kerala State Electricity Regulatory Commission (KSERC).

The relevant provisions under which audit of these entities is conducted by CAG and distribution of work to the Sections are:

Sl. No.	**Name/ Group of entity**	**Authority for audit by the CAG**		**Name and address of the controlling section under CAW**	**Telephone number of the Branch Officer/ controlling section**
		CAG's DPC Act	Relevant provision of the Act forming the entity/group of entity		
1	Government companies (including 619-B companies)	*Section 19 (1)*	*Section 619 (3) and (4)* of the Companies Act, 1956	CA HQ II to IV Sections, Audit Bhavan, O/o the AG (ERSA), Kerala, Thiruvananthapuram	0471-2330799
2	Kerala State Electricity Board	*Section 19 (3)*	*Rule 14* of the Electricity (Supply) (Annual Accounts) Rules, 1985 read with section 185 (2) of the Electricity Act, 2003	RAO, KSEB, Vaidyuthi Bhavanam, Pattom, Thiruvananthapuram	RAO - 0471-2448589 ECA I & II Sections - 0471-2514547 ECA III Section – 0471-2514285
3	Kerala State Road Transport Corporation	*Section 19 (3)*	*Section 33 (2)* of the Road Transport Corporations Act, 1950	RAO. KSRTC, Transport Bhavan, East Fort, Thiruvananthapuram	RAO and TA Section - 0471-2471425
4	Kerala Financial Corporation	*Section 19 (2)*	*Section 37 (6)* of the State Financial Corporations Act, 1951	CA HQ IV Section	0471-2330799
5	Kerala State Warehousing Corporation	*Section 19 (2)*	*Section 31 (8)* of the State Warehousing Corporations Act, 1962	CA HQ II Section	0471-2330799
6	Kerala Industrial Infrastructure Development Corporation	*Section 19 (3)*	*Section 20 (2)* of the Kerala Industrial Infrastructure Development Act, 1993	CA HQ II Section	0471-2330799
7	Departmental commercial undertakings	*Section 13 (c)*	--	CA HQ IV Section	0471-2330799
8	Kerala State Electricity Regulatory Commission	*Section 14 (1)*	*Section 104 (2)* of the Electricity Act, 2003	RAO, KSEB	0471-2514547
Telephone number of Report (Comml) Section : 0471-2330799 (113) – Sr AO ©/Report (Comml) 0471-2330799 (112)					
Telephone number of Group Officer – 0471-2331229 (direct) Extension : 0471-2330779 (205) - Fax No. 0471-2331326					

In addition to the audit on the accounts of the PSUs/DCUs/KSERC, CAW is also entrusted with financial (accounts) audit of Cochin Port Trust.

1.03. Efficiency-cum-Performance audit

A supplementary or test audit is conducted by the CAG on the accounts of State PSUs, DCUs and KSERC which is in the nature of efficiency-cum-performance audit. Some of the objectives of this audit are as follows:

- Examination of the technical accuracy of the books of account and financial results with reference to the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI) (brief details of various AS are given in Chapter 3.22 (Government companies);
- Detection of misstatements and window dressing of the financial statements;
- Examination of the achievement of the auditee entity with reference to its objectives;
- Detection of fraud, misappropriation and other omissions/commissions;
- Compliance to the provisions of the laws governing the auditee entity and instructions issued by the Central and State Governments, etc;
- Examination of major agreements and realisation of revenue; and
- Examination of internal control/audit system, etc.

[CAG's MSO (Audit) – Second edition – 2002]

- Examination of the decisions of the Board of Directors/Committees to ensure that they have exercised their powers in the best interest of the auditee entity and in accordance with the principles of financial propriety;
- Examination of cost accounts of the entity to ensure that the unit is being administered efficiently and economically; and

- Overall performance of the entity and bring out lacunae, if any, in its systems and procedures, etc.

In the case of PSUs, statutory audit by the CAG or by the Chartered Accountant is decided by the respective Acts of the Statutory Corporations/the Companies Act, 1956. The CAG is the Statutory Auditor (sole Auditor) for KSEB, KSRTC, KSERC and KINFRA. The Chartered Accountants conduct the Statutory Audit for KSWC and KFC and Government companies (including 619-B companies). Supplementary audit (financial) is conducted by the CAG on the accounts of KSWC and KFC and Government companies (including 619-B companies). The financial audit of the Proforma Accounts of DCUs is performed by the Pr.AG.

The financial statements of the Government companies (including 619-B companies) are audited in detail by the Statutory Auditors (Chartered Accountants) appointed by the CAG under section 619 (2) of the Companies Act, 1956. Specific directions are issued to them by the CAG to furnish special reports thereon under Section 619 (3) (a) of the Act, ibid while submitting the Auditors Report. These special reports not only give information on various important matters but also ensure that they have discharged their functions with reasonable degree of efficiency. Hence, there is no necessity to cover the entire area again by routine audit checks.

[Headquarters letter 216-CA/61-1965 dated 2-2-1966]

In the case of Statutory Corporations (KFC and KSWC), specific directions are not issued by the CAG to the Statutory Auditors to furnish special reports as in the case of Government companies. Similarly, special reports are not prepared by the CAG for the Statutory Corporations (sole audit)/DCUs/KSERC.

The final audit findings of the financial audit are issued to the State Government/audited entities by way of Comments/Separate Audit Reports (SARs)/Audit Reports (ARs). They are presented in the Annual General Meeting/Board meeting of the PSUs and also before the State Legislature. The procedures for the selection of PSUs/DCUs/KSERC for financial audit, finalization of Comments/SARs/ARs and other related matters are described in the succeeding paragraphs/chapters.

Besides the financial audit, transaction audit is also conducted by the CAG on the accounts of PSUs, DCUs and KSERC annually. Transaction or propriety audit is directed towards examining the propriety of executive action beyond the formality of expenditure to its wisdom, faithfulness and economy and bringing to notice cases of wastes, loss and extravagant expenditure.

This audit is in the nature of efficiency-cum-performance audit rather than checking regularity of expenditure against sanctions or appropriations. The aim of this audit is broadly to ensure that how far an auditee entity has achieved the objectives for which it was established and whether the operations are being carried out efficiently with particular emphasis on economy. In this process, the decisions of the Management and their implementations are scrutinised.

[Headquarters letter 625/CA/IV/8 dated 25-11-1969 –File CA I/17-2/Vol IX]

Audit by the CAG is not a substitute for effective internal audit. Audit should ensure that internal audit adequately covers the entire functions of the entity effectively, its report is properly considered at the appropriate level and that necessary remedial action is taken on it. In such a situation, Audit is conducted on a test check basis as in the case of normal Government transactions.

The final audit findings of the transaction audit are issued to the State Government/audited entities by way of Inspection Reports. In addition to financial and transaction audits, Performance audit of selected entities is also conducted annually. Serious irregularities in PSUs noticed during transaction audit and Performance audit are brought out in the Report of the CAG (Comml) or Audit Report (Comml), while in the case of DCUs, they are featured in the Report of the CAG (Civil) or Audit Report (Civil). Both the reports are presented to the Legislature, which are subject to discussion by the Committee on Public Undertakings and Public Accounts Committee respectively for making suitable recommendations. These recommendations are to be implemented by the respective entities. The procedures for the finalization of Inspection Reports, Audit Report (Comml) and other related issues are brought out in the succeeding paragraphs/chapters.

1.04. Special/In-depth audit

Special audit of a Government company is ordered by the Central Government under *Section 233- A* of the Companies Act, 1956. Hence, such audit cannot be taken up by the CAG directly on the request of the State Government/entity. Statutory/Internal Auditors are usually engaged for special audit and the report thereon shall be submitted to the Central Government for further action.

Request from Government/entity for special audit should be examined on merits of the case and an in-depth audit of the Government company/topic conducted, if necessary, under *Section 619 (3) (b)* of the Act, ibid. In the case of Statutory corporations (sole/supplementary audit), in-depth audit of the entity/topic should be conducted after evaluating the merits of the case and with reference to the provisions contained in the relevant Acts and other factors. In both the cases, the decision for in-depth audit should be taken by the AG (ERSA) without reference to Headquarters. If there is no scope for an in-depth audit, such cases should not be entertained.

[Headquarters letter 119/CA.IV/Tech/1-80 (CA IV/Tech/ 1-80) dated 25-1-1980 (File CA-IA/17-2/Vol XVIII) and 633/CA II/Coordn/circulars/2003-04/55/2004 dated 21-6-2004]

The report on in-depth audit should be finalised in the same manner as that of transaction audit except that it should be approved by the AG (ERSA). The observations therein should be dropped with the approval of the Group Officer and the report closed with that of the AG (ERSA).

1.05. Performance audit

The existing guidelines for performance auditing (review or efficiency-cum-performance audit or value for money audit) contained in the CAG's MSO (Audit) – second edition 2002 – have been further fine tuned and replaced en-block in the context of the Performance Auditing Guidelines of Asian Organisation Supreme Audit Institutions (ASOSAI) and Draft Exposure Implementation Guidelines for Performance Auditing Standards of International Organisation of Supreme Audit Institutions (INTOSAI) and contemporary best practices. Accordingly, the guiding principles for performance audit were published (May 2004) by the CAG as Performance Auditing Guidelines, which are described in eight chapters (Introduction, Strategic planning and selection of subjects, Performance audit and implementation plan, Implementing the audit plan, Evidence and documentation, Reporting process, Supervision, Review and quality control, Follow up procedures, Quality assurance in audit and Critical issues in performance audit). Some of the salient features of performance audit are briefly discussed below.

Performance auditing, usually directed towards specific functions, activities, programmes or operations of the entity, promotes public accountability and is an aid to good governance. It also encompasses the concept of traditional regularity audit consisting of financial, compliance and propriety audits. However, the objective, scope, nature of evidence and reporting in performance audit are different from those in regularity audit. Performance audit is an independent assessment or examination of the implementation of any programme efficiently and effectively with due regard to economy. They are called three E's (Economy, Efficiency and Effectiveness) of performance audit as follows.

i) Economy – minimizing the cost of resources used for an activity, having regard to the appropriate quality. Performance audit should ensure that the resources have been acquired, upheld and used economically;

ii) Efficiency is the relationship between the output in terms of goods, services or other results and the resources used to produce them. It should be ensured that whether the resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn–around time could have been achieved with fewer resources; and

iii) Effectiveness is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity. Effectiveness should address whether the programme/activity has achieved its objectives i.e., spending wisely.

Performance audit should ensure that right things are being done in the right way. It is expected to address concerns relating to equity and ethics while assessing the effectiveness of a programme/activity. Equity in the context of programme management relates to fairness and impartiality in use of public funds. Ethics in managing public affairs enjoins the qualities of honesty and integrity in personal conduct and devotion to the duty as Manager of public funds. Audit findings on ethics and equity should be commented in the Performance Audit Report only when the infringement of the standards of equity and ethics impacts the performance adversely. Performance audit may examine and report on:

- The quality of information and advice available to Government/PSU for the formulation of policy;
- The existence and effectiveness of administrative machinery to inform the Government/PSU whether programme objectives and targets have been determined with a view to fulfilling policy objectives.
- Whether and to what extent, stated programme objectives have been met.
- The economy, efficiency, effectiveness, equity and ethics of the means used to implement a programme/activity.
- The intended/unintended, direct/indirect impacts of programmes/activities and
- Compliance to applicable laws and regulations in the context of the performance audit objectives.

The contemporary common types of programme evaluation techniques used in performance auditing are -

- Process evaluation – assessing the extent to which a programme is operating as intended.
- Outcome evaluation – assessing the extent to which a programme achieves its outcome oriented objectives.
- Impact evaluation – assessing the net effect of a programme by comparing programme outcomes with an estimate of what would have happened in the absence of the programme; and

- Cost-benefit and cost-effectiveness evaluation – comparing a programme's outputs or outcomes with the costs (resources expended) to produce them.
- The performance audit processes are discussed in Chapter -13

1.06. Information Technology audit

Information Technology (IT) audit is the process of collecting and evaluating evidence to determine whether a computer system safeguards assets (such as application systems, technology, facilities and staff skills, etc.), maintains data integrity, allows orgnisational goals to be achieved effectively and uses resources efficiently. It is a broad term that includes financial audit, operational audit (evaluation of internal control structure), information systems audit (including performance audit), specialized audit (evaluation of services provided by a third party as outsourcing, etc.) and forensic audit.

With the increase in the investment and dependence on computerized systems by the auditee, it has become imperative for Audit to change the methodology and approach to audit because of the risks to data integrity, abuse, privacy, etc. In an IT system, an independent audit is required to provide assurance that adequate measures have been designed and are operated to minimize the exposure to various risks. IT audit has become a well established function in the Indian Audit & Accounts Department and the IT Audit Manual (three volumes) guides the audit team for conducting quality audits. The IT audit process includes planning, setting audit objectives and scope, evaluation of controls, evidence collection, evaluation of evidence and reporting and follow up, which are described in detail in the IT Audit Manual. The theoretical construct of the Manual also gives elaborate checklists and audit programmes for conducting IT audit. The IT Audit Manual (Volume I) replaces Chapter 22 (Audit of Computerised Systems) of the CAG's MSO (Audit) – 2002.

1.07. Auditing Standards

Auditing Standards (AuS), which prescribe the norms of basic principles and practices to be observed during audit were initially issued by the CAG in 1994. AuS are required to be supplemented by MSO and other Manuals issued by the Indian

Audit and Accounts Department from time to time. The second revised edition (March 2002) of the AuS has been comprehensively restructured, adopting suitably the AuS formulated (2001) by INTOSAI with particular emphasis on its Code of Ethics and with due consideration to the Constitution of India, relevant statutes and other rules of the land. Some of the salient features of the AuS are briefly described below.

1) Basic postulates

These are the basic assumptions, consistent premises, logical principles and requirements helping in the development of AuS and serve the audit teams in forming their opinions and reports particularly in cases where no specific standards apply. All audit functions (financial audit, regularity audit and performance audit) should be within the CAG's audit mandate and in pursuance of his constitutional responsibility. Keeping this in mind, the CAG is empowered to decide the nature, scope, extent and quantum of audit including the form and content of Audit Reports. The CAG should comply with the AuS of INTOSAI in all matters of materiality. The CAG should apply its own judgment to the diverse situations that arise in the course of Government auditing. The broad aim of the Audit is to safeguard the financial interests of the State and to uphold and promote public accountability and sound/economical and financial management practices by bringing to light wastefulness, failures, system weaknesses, deficiencies and the circumstances leading to infructuous expenditure. Management of the audited entity is responsible for correctness and sufficiency of the form and content of the financial reports and other information. The CAG should advise the Government to issue acceptable AuS for financial reporting and disclosures, the consistent application of which should result in the fair presentation of the financial position and operational results. It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources and ensure compliance with the applicable statutes and regulations to ensure that probity and propriety are observed in decision making. Audit should avoid conflict of interest with the audited entity. Audit should maintain confidentiality of audit matters and the data of an audited entity acquired during the course of the audit should not be used for purposes outside the scope of audit.

2) General standards

General standards describe the qualifications of the Auditors and the auditing institutions so that they may carry out the tasks related to Field and Reporting standards in a competent and effective manner. The CAG should design appropriate quality assurance system and procedures to ensure the quality of the Audit Report, secure improvements and avoid repetition of weaknesses and confirm that the internal quality assurance processes have operated satisfactorily. General standards comprise the following standards.

i. Standards common to both the Auditors and auditing institutions:

- independent from the Legislature, Executive and the audited institution;
- possess the required competence; and
- exercise due care and concern in complying with the AuS.

ii. Standards for the Auditors -

- recruit personnel with suitable qualifications;
- develop and train employees for the effective performance of their tasks (including awareness of the Conduct Rules for Government employees);
- prepare manuals and other guidelines for audit;
- provide a good distribution of skills to auditing tasks, assign sufficient number of personnel for audit and have a proper planning/supervision to achieve its goals; and
- review the efficiency and effectiveness of internal standards and procedures

3) Field standards

Field standards establish the criteria or overall framework for the purposeful, systematic and balanced steps for the audit. They are related to the General and Reporting standards. Field standards applicable to all types of audit are:

- The Auditor should plan and conduct the audit ensuring that audit of high quality is carried out in an economic, efficient and effective way in a timely manner including compliance of applicable laws/regulations;
- The audit work should be supervised at appropriate level/phase and a senior official of the audit team should review the documented work;
- The Auditor should determine the extent/scope of the audit and evaluate the reliability of internal control, keeping in view the objectives of audit and the degree of reliance intended;
- The Auditor should obtain competent, relevant and reasonable evidence to confirm/support the audit conclusions and document the audit evidence in working papers including the basis and extent of the planning, work performed and the findings of audit; and
- The Auditor should analyse the financial statements to establish whether the acceptable AuS for financial reporting and disclosure are complied with in order to express an opinion on the financial statements.

4) Reporting standards

The audit reporting process begins by giving a report (draft Inspection Report/Comments/AR, etc.) timely to the Management in the prescribed format to furnish remarks/comments thereon. Approved AR is placed before the Legislature. The report is not a public document till it is presented to the Legislature. The report should be complete, constructive, fair, accurate and clear. Adequate, prompt and proper follow up action should be taken by the Management for the lapses to promote public accountability. In subsequent audits or otherwise, the Auditor should examine whether satisfactory action was taken on ARs. The content of the report should indicate unambiguously whether it is unqualified or qualified, and in the case of latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion. An unqualified opinion is given when the Auditor is satisfied in all material respects that -

i) the financial statements have been prepared using acceptable accounting basis and policies which have been consistently applied;

ii) the statements comply with statutory requirements and relevant regulations;

iii) the views presented in the financial statements are consistent with the Auditor's knowledge of the audited entity; and

iv) there is adequate disclosure of all material matters relevant to the financial statements.

An adverse opinion is given where the Auditor is unable to form an opinion on the financial statements taken as a whole due to some fundamental disagreements to such an extent that an opinion which is qualified in certain respects would not be adequate. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement quantifying the financial effect, wherever relevant and practicable.

A disclaimer of opinion is given when the Auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to some fundamental uncertainty or scope restriction to such an extent that an opinion which is qualified in certain respects would not be adequate. The wording of a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

1.08. Guidelines for drafting report as per Style guide

The guidelines for drafting the report as per the style guide issued by the Headquarters are indicated below:

a) General advice on good writing

i. Have a clear thinking regarding the matter to be conveyed;

ii. Use short everyday words, simple sentences (15-20 words) and short paragraphs (not longer than one-third of a typed page) listing main points freely and clearly using side headings and minor sub-headings;

iii. Avoid clichés, slang, complicated constructions and gimmicks;

iv. Never use a long word when a short word is suitable;

v. Cut out a word wherever possible; and

vi. Never use a foreign phrase, a scientific word or jargon word in the place of a straightforward English equivalent.

b) Guidance on drafting

The AR, etc., should provide independent information and assurance for the parliamentary readers and public. Following are the characteristics of a good draft.

i. A strong structure with a clear framework presenting the material logically and to the best effect;

ii. A simple and brief presentation, focusing on the main issues, avoiding peripheral aspects and giving only the essential facts using only apt words and phrases;

iii. It should provide complete and accurate information and free from errors in grammar, spelling and punctuation. Besides, the audit findings should be supported by evidence;

iv. A balanced and fair presentation, reflecting the audited entity's views properly in a moderate and non–provocative language;

v. A constructive presentation considering the feasibility of recommendations, looking forward to improvements rather than at faults/weaknesses;

vi. If the main text of AR involves detailed analysis of complicated issues or statistics, these should normally be set out in an appendix, which should be drafted and edited as in the case of main text. As a rule of thumb, if information on less than five items is to be provided, they may be incorporated in the main text itself, rather than as an appendix.

vii. Diagrams, charts, graphs and tables should be used to help get across important messages, incorporating them appropriately in the text. If graphics are simple and well laid out, they can often convey more in a short space than stretches of narrative, thereby saving a lot of explanation.

viii. As a rule of thumb, maximum length of the AR (excluding overview and appendix) should not be more than 120 typed pages except in the case where the number of reviews is four or more in bigger States. Normal reviews and performance audit reviews should be restricted to 20 and 25 typed pages respectively except all-India reviews. Overviews and appendixes/annexures should not normally exceed 8-10 and 65 typed pages respectively. Transaction audit paragraphs should be confined to two typed pages.

ix. There is no ideal drafting model suitable for all reviews. There are two main structures of reviews and they are straight through review incorporating the recommendations in the main text and review preceded by highlights and ending with conclusions containing recommendations. Long reviews (15 pages or more) should be preceded by highlights containing the main findings.

x. The highlights should be concise (not more than three pages) bringing out the main issues to provide the reader with a clear view of the purpose and results of the review. They are not intended to be free standing/mini-report and should contain the minimum of description and narrative. They should cross-refer to the relevant paragraphs of the report. The highlights need not be presented in the same sequence/headings as in the case of main text of the review. They can be brought out according to the materiality of the audit findings.

xi. Review is a condensed description of main issues, findings, conclusions and supporting facts bringing out only the important matters.

c) Conventions

i. Abbreviations should be kept to the minimum. The usage of abbreviations should not be restricted to handful times. If an abbreviation is used, the words may be written in full on their first appearance followed by the initials in brackets. Abbreviations should not be used in *overview* and *highlights* of the AR. Where five or more abbreviations/specialized terms are necessary in the report, they should be listed in a glossary at the end of the report. Certain abbreviations can be pronounced without definite article (eg. UNESCO). In all other cases, they should be preceded by the definite article (eg. the CAG, the GOI);

ii. Introduction to the report should be titled *Preface* and not *Prefatory remarks*;

iii. Use active voice, wherever possible instead of passive voice;

iv. Use of Roman numerals (I, II, III ...) for chapter numbers. Use Roman numbers (i, ii, iii…) for part of the report containing contents, preface and overview of the report. Use Arabic numbers (1, 2, 3…) for the main text and appendices in the report. Never use alpha-numbers (12A, 12B) for page numbering;

v. Use Arabic numerals for paragraph numbers indicating the first digit of the paragraph number showing chapter number. The paragraphs and sub paragraphs should be numbered as 3.1, 3.1.1 etc. Do not use more than four levels in paragraph numbering (3.1.2.1, 3.1.2.2.);

vi. Use capital letter for the particular and a small letter for the general. As there is no general rule on this score, use it consistently throughout the document;

vii. Use any of the following formats for dates without commas -

1. 26/05/2003; 26 May 2003; Monday 26 May; 26-30 May 2003;

2. 26 May – 5 June 2003 and 2002-03;

viii. Never start a sentence with a figure. Instead write the number in words. Use figures for numerals greater than nine and for all numerals including a decimal point or a fraction. Use words for whole numbers from one to nine;

ix. Spell out lakh and crore. No abbreviations for lakh and crore except in tables;

x. No mixing of decimals and fractions (3 ½ lakh or 3.5 lakh but not both);

xi. Use commas appropriately while writing figures (12,34,56,789.99);

xii. Use the same units for comparison (lakh or crore);

xiii. Express number greater than 100 lakh in crore and less than that in lakh;

xiv. Use the same unit for figures in table and narration;

xv. Use font size 12 for the text of the report and a font size not less than 8 for tables and charts;

xvi. Write per cent and percentage as such rather than % and %age;

xvii. Use English spelling and not American.

d) Common errors and weakness

i. Ampersands (&) should be used when they are part of a company/body or when two names are linked to form one unit (Trade & Industry), etc; and

ii. Do not use full stops at the end of headings or in abbreviations

Directions and Guidelines issued by HQ

1.09. Fraud and corruption

Fraud involves deliberate misrepresentation of facts and/or significant information to obtain undue or illegal financial advantage. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. Fraud and corruption are generally interlinked. Though detailed guidelines would be issued by Headquarters when need arises, Standing Orders have been issued in this respect, some of which are briefly given below.

Examination of a system for detection and prevention of fraud and corruption is an integral part of regularity audit and also performance audit, when it forms one of the audit (sub) objectives. During financial audit, two types of intentional misstatements are relevant to the Auditor i.e., misstatements resulting from fraudulent financial reporting and misappropriation of assets. Similar considerations apply to performance audit. In performance audit, while selecting themes and issues/sub-issues, the vulnerability to fraud and corruption should be given due consideration. In the case of information technology fraud, Audit should examine whether appropriate controls are in place in order to ensure the authenticity of computer evidence.

The responsibility for the prevention and detection of fraud and error primarily rests with the Management of the audited entity through the implementation and continued operation of accounting and control systems designed to check fraud. Fraud may involve.

i) manipulation, falsification or alteration of records/documents;
ii) misappropriation/misapplication of assets;
iii) suppression or omission of the effects of transactions from records/documents;
iv) recording of transactions without substance; and
v) misapplication of accounting policies etc.

Fraud has a legal (criminal) connotation. Audit team does not make legal determination of whether fraud has actually occurred. They can report suspected or presumptive fraud. Fraud examination is a part of the normal auditing procedures and includes:

i) being alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transaction or results, which could be indicative of fraud, corruption, improper expenditure or lack of probity; and
ii) focusing audit strategy on areas and operations prone to fraud and corruption by developing effective high risk indicators of fraud.

Corruption is the abuse of public power for personal gain or for the benefit of a group to which one owes allegiance. It involves breach of trust. There is either an offer and/or acceptance of inducements. It is the responsibility of the entity to establish and maintain internal control system to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

The entity should document the system established for prevention, detection, response, follow-up and reporting of fraud and corruption. Audit should evaluate and report on the adequacy of the systems in place and competence with which the Management has discharged its responsibility in relation to prevention, detection, response and follow-up/remedial measures pertaining to fraud and corruption. While reporting all cases of suspected or presumptive fraud or corruption, Audit should refrain from making any judgment regarding the existence of fraud/corruption. Audit should maintain an attitude of professional skepticism throughout the audit. The audit team should check compliance with the provisions of *Rules 29, 33, 34, 37 and 38* of the General Financial Rules, 2005. Before commencing the audit, information about the fraud and corruption awareness, detection and prevention policy and related environment should be collected from the entity. An independent risk assessment should be carried out to identify high risk areas and prioritize the audit planning accordingly. Some of the common risk areas of fraud are contracts of service/procurement, inventory and asset management, sanctions/clearances, performance information, revenue receipts, cash management, general expenditure, grants, financial statements, operating information, computerized environment, privatization of Government entities and other areas involving public interface. Based on the risk assessment, Audit should develop the audit objectives and design audit procedures so as to secure reasonable expectation of detecting and evaluating material misstatement/irregularities arising from fraud and corruption. Controlling sections of CAW should develop guidelines/checklists for audit of fraud and corruption in specific sectors for the guidance of audit team and furnish a copy thereof to Headquarters [Director General (Audit)].

Cases relating to suspected/presumptive fraud and corruption should be specially highlighted in the Inspection Reports and ARs. All such cases should be printed in bold type. While forwarding the bond copy of the AR to Headquarters, the forwarding letter should contain the number of cases of fraud/corruption included in the report together with the money value thereof. The draft of the annual post-audit report letter to the Chief Minister should have a brief mention of issues relating to suspected fraud and corruption where such cases appear in the ARs and systems put in place to monitor paras relating to fraud and corruption. After approval of the bond copy, all such cases should be taken up immediately with appropriate authorities of Central and State Governments (Central/State Vigilance Commission, etc.) as a follow-up.

[Headquarters letter 126/Audit (AP)/1-2004 dated 6-9-2006]

1.10 Review of Internal control/audit system

All draft Inspection Reports should invariably report the extent, adequacy and effectiveness of the internal control and audit systems of the entity audited. A questionnaire for the evaluation of internal control/audit system is enclosed (Annexure 5 of Chapter 12). Headquarters guidelines on this matter are also enclosed (Annexure 6 of Chapter 12). The questionnaire may be filled in by the IO and in his absence by the senior most AAO of the party, which should be reviewed by the controlling section at the time of editing the draft Inspection Report.

[Orders of Pr AG (Au) dated 5.11.2003 and circulars CA IV.A/21-303 dated 18.11.2003 and 6.3.2004]

If the Management follows wrong policy on any area, remedial measures to be taken there against should also be indicated. The internal audit report should cover the name of internal auditors, scope/coverage of audit, periodicity of audit, reporting, action taken by the entity to rectify the lapses, etc. If the Internal Auditor's Report is not discussed by the Board of Directors, the fact there of should also be mentioned in the paragraph.

[Headquarters letter 13/Ca II/25-2001 dated 6.1.2004 circulated in circular No.1/2004 (CA IC/A/21-303 dated 27.1.2004]

On finalization of Draft Inspection Report/Draft Comments, the same along with title sheet, all other documents and back files may be sent to HQ /RAP concerned without delay.

1.11 Pending Court cases

A large number of paragraphs in respect of which legal steps or Revenue Recovery action have been taken are kept pending in the Inspection Reports over a long period for want of final decision of the Court, etc. Auditee entities have limitation in taking further action in such cases. All such cases may be consolidated/updated and brought out in Part-I of the draft Inspection Report in the following proforma. However, if any case deserves to be commented in Part II-A/B, it may be included therein pointing out all the lapses.

Sl. No.	Year of IR and para number	Name of the party and the money value	Brief summary of the case	Action taken by the entity	Name of the advocate and date of filing suit	Present position of the case

[Orders dated 31.5.2002 of DAG (C)]

1.12 Verification of cash/stores

If the situation in any auditee entity warrants, the audit team are allowed to ask the Management to physically verify the cash and stores in the presence of Auditors/entity officials and to record the results thereof in the prescribed documents. The lapses in this regard including defalcation of money detected during audit should be commented in the draft Inspection Report/Comments and suitable cases processed for the Audit Report.

[Order of the Pr AG (Au) dated 10.10.2003 circulated in note ITA/1-5/2003-04 dated 14.10.2003]

1.13 Vigilance cases

While conducting transaction audit, the vigilance mechanism/cases and the related issues in the auditee entities should be examined and the lapses in this respect should be commented in the draft Inspection Report.

[Headquarters letter 1006/CA II/48-99-Vol III dated 29.12.2005 circulated in circular No. 7 (CA IV/A CIRC/Vol II) dated 11.1.2006]

1.14 Provident fund contribution

As per section 6 of the Employee's Provident Funds and Miscellaneous Provisions Act, 1952, the employers of the following industries are required to contribute to the fund at the concessional rate of 10 *per cent* of the wages of the employees per month with effect from 22 September 1997 as against the general rate of 12 *per cent.*

i Sick industries as defined in section 3 (i) (O) of the sick Industrial Companies (Special Provisions) Act, 1985 and which had been declared as such by the Board for Industrial and Financial Reconstruction; or

ii. an establishment having accumulated loss equal to or exceeding its entire net worth at the end of the financial year; or

iii. an establishment engaged in jute, beedi, brick, coir and guar gun.

If any Government company/corporation satisfying any one of the above criterion fails to avail of the concessional rate of provident fund contribution, such case may be suitably commented in the draft Inspection Reports etc.

1.15 Environmental liabilities

State PSUs involved in the development projects having environmental impact are liable to pay financial liabilities towards Compensatory Afforestration Fund created by the Ministry of Environment and Forest, Government of India. Such environmental liabilities and other environment related contingent liabilities may be kept in view while conducting transaction and financial audits of such PSUs' giving due attention to the Wild Life Act, 1972, Water Act, 1974, Forest Conservation Act, 1980, Air Act, 1981 and Environment Protection Act, 1986.

[Headquarters letter 647/CA II/18-2001 dated 5.8.2005]

1.16 Minimum Wages Act, 1948

Under the Minimum Wages Act, 1948 both Central and State Governments can notify the schedule of employments and fix/revise minimum wages therein. Once notified, minimum wages are legally enforceable. Ministries/Departments and organizations including PSUs which are responsible for implementing various projects and schemes are required to pay the minimum wages.

During audit of Ministries/Departments/PSUs and other organisation it may be looked into whether minimum wages are actually paid by them. Central Government has suggested that the CAG can even cross check the position given by Government employees with trade unions/workers representatives so that accurate assessment can be made.

The Compliance with the provisions of the said Act may be looked into during the transaction audit of PSUs.

(Circular no.2-Audit (AP) 30-2006, No. 35-Audit (AP) 30-206[dt. 11.4.07)

1.17 Central/State Government assistance

A draft paragraph highlighting the non-utilization of the Central/State Government assistance should be proposed if the amount has not been utilized according to the terms and conditions of the sanction after the details such as sanction number and date, amount released to Government companies, purpose of the assistance, target date for completion of the project/ scheme, etc., are received from OA HQ Section, etc. The matter should be verified during transaction audit and the CA HQ Section concerned should send the material direct to Report (Civil) Section for the Audit Report (Civil).

[Headquarters letter 845-Rep (C) 130-84- dated 5.9.1984]

1.18 Submission and review of Agenda and minutes of Board meetings

Major decisions in companies/corporations are taken by the Board of Directors. Copies of the agenda and minutes of the Board meetings should be sent by the auditee entities to Audit, by name in a confidential cover. In respect of companies, Audit is entitled to get copies of these documents in terms of *section 619 (3) (b)* of the Companies Act, 1956. In the case of 619-B companies, they are required to furnish these documents as in the case of Government companies, as indicated in *Chapter 3.13* (Government companies). The officer receiving these documents should keep them in his/her custody and review them and issue necessary instructions for detailed examination of selected items locally.

Where the agenda papers are not separately prepared and the relevant files and documents are put to the Board of Directors/Management, the entity concerned should not be asked to compile separate information for being supplied to Audit. In such cases, it should be possible to trace the relevant documents, from copies of all the minutes of Board meetings sent to Audit earlier. Moreover, in such cases, Resident Audit Offices are generally attached to the entities.

[Headquarters letters 185–CA/87–RCA/63 dated 4-7-1963 – File CAI/17-2/Vol V and HA 19 (18)61/772 dated 21-9-1962 - File CA-1/17-2/Vol XV]

State Government instructed all the PSUs to furnish the copies of agenda and minutes of Board meetings to Audit as indicated in *Chapter 2.17* (Commercial Audit Headquarters Sections).

1.19 Disclaimer statement consequent to Right to Information Act, 2005

The forwarding letter enclosing Inspection Report, SAR, Report of certification on accounts, paragraphs already laid on the Table of Parliament/Legislature, etc., issued to the applicant under the Right to Information Act, 2005 should contain the following disclaimer statement.

'The Report has been prepared on the basis of the information furnished and made available by the auditee. The Office of the AG (ERSA) disclaims any responsibility for any misinformation and/or non-information on the part of the auditee'.

[Headquarters letter 14-LC/111-2005 dated 20-1-2006]

(The Right to Information Act, 2005, provides for setting out the practical regime of right to information for citizens to secure access to information under the control of public authorities in order to promote transparency and accountability in the working of every public authority, the constitution of a Central Information Commission and State Commissions and for matters connected therewith or incidental thereto. Every public authority should maintain all its records duly catalogued and indexed in a manner facilitating the right to information under this Act and computerized, within a reasonable time subject to availability of resources and connected through a network all over the country on different systems, so that access to such records is facilitated. Besides, certain prescribed data of the public authority should be published/updated every year).

1.20. Disclosure of audit material by newspapers

Audit findings at draft Inspection Report/AR stage appearing in newspapers have been considered as most objectionable since such findings may finally feature in the AR and consequently face the risk of breach of privilege of the Legislature. In such circumstances, if the reference to the Inspection Report is as *Prl AG/AG Report,* the Editor of the newspaper should be clarified that the report is an Inspection Report. On the other hand, if the reference is a draft AR/proposed audit paragraph, the matter should be taken up with the Chief Secretary by the AG (ERSA) to ensure that the secrecy of such report is not compromised.

[Headquarters letter 168-Audit (AP)/9-2005 dated 9-8-2005

1.21. Manual of auditee entities

Government companies/Statutory corporations should finalise various Manuals for Purchase, Sales, Production, Accounts, etc., by themselves and no vetting thereof by Audit is necessary. Specific advice may be rendered if the entities require clarification on any points.

The Accounting Manual of the Government covers the procedures for the working of DCUs, which should be scrutinised in the prescribed manner.

[Headquarters circular Manual/Comml./7-143 dated 29-1-1951 - File CA/INSP/16-1Vol.I; 875/CA/56/66 dated 23-6-1966 – File CA/INSP/16-1/Vol.III and Audit/17-3/61-62 dated 17-4-1962 - File CA/INSP/16-1 Vol. II]

1.22 Dispute between Chartered Accountants and PSUs

Complete details of litigation/dispute between the firms of Chartered Accountants and PSUs and cases of unbecoming conduct on the part of the former noticed during the course of audit should be reported to Headquarters in the prescribed proforma.

[Headquarters letter 134 CAW/AO/8-72/ Vol II/KW dated 7-1-1984 – File CA IA/17-2/Vol XX]

1.23. Audit fee for Government audit

Audit fee is levied for auditing the accounts of KSEB, KSRTC, KINFRA and KSERC in accordance with the provisions of the Acts governing the Statutory Corporations/Regulatory Authority. The fee is computed by ECA/TA/CA HQ Section based on the guidelines issued by Headquarters from time to time and intimated to the entities concerned for payment. Remittance of audit fee should be watched by the respective sections periodically and delay in this respect should be taken up at appropriate levels.

In the case of Government companies (including 619-B companies) and Statutory Corporations (KFC and KSWC) and DCUs, no audit fee is levied and collected. However, DCUs should show the audit fee as an undischarged liability in their proforma accounts.

1.24. Preservation of records

The period for preservation of records such as Manuals, Board minutes, Registers, Files, etc., is indicated in **Annexure II.**

[Headquarters letter 24/CA-IV/11-2004 dated nil addressed to all MsAB]

Instructions of Govt. of Kerala on PSUs

1.25. Pattern of Government investment

Government of Kerala decided to adopt the following pattern of investment in its PSUs by maintaining the debt-equity ratio of 1:1 to the extent possible.

- to restrict the future investment in capital only;
- to convert the unpaid loans and interest due to Government into capital to the extent necessary; and
- PSUs should obtain approval from Government for new viable expansion projects financed by term lending institutions.

[DO letter 67374/Comml/4/75 Fin dated 11-12-1975 from Finance Secretary to Government addressed to all Secretaries of the State Government - File Report (Comml)/53-40/77/Vol I]

1.26. Monitoring performance of PSUs by Administrative Department

The Administrative Department of each PSU (State Government Department) should closely monitor and review its performance (including the targets and achievements). The performance of the Directors of the PSU should also be monitored and reports in this score sent to Bureau of Public Enterprises (BPE) periodically.

[Circular 8558/BPE-1/06/Plg dated 28-2-2007 of Planning & Economic Affairs (BPE) Department]

1.27. Kerala Industrial Revitalisation Fund Board

The Board was established (1999) by Government of Kerala for the revitalisation of the existing PSUs in the State. It should provide financial assistance in the form of long-term loans and ZERRI (Zero Rate Redeemable Investment) for acquisition of fixed assets for manufacturing purposes, financial restructuring and manpower rationalization. Short term loan assistance for a period not exceeding six months may also be provided including bridge loan for working capital. Before submitting the loan application, the internal audit and statutory audit of the PSUs for the latest financial year should be completed. In case of long-term loans and ZERRI, only a portion of the sanctioned amount may be disbursed initially and the disbursal of the balance amount subject to satisfactory utilisation. They should be covered by hypothecation of assets purchased utilizing the funds and the Chief Executives/Board of Directors should be personally responsible for achieving operational targets in the Performance Contract entered between the Government and the PSU. Long-term and short term loans carry an interest rate not exceeding the cost of borrowings by more than 2 *per cent*, while no interest is levied in respect of ZERRI. In the case of default in payment of interest, PSUs should pay a penal rate of 2.75 *per cent* on the defaulted amount over and above the lending rate of interest.

[GO (P) 47/99/ID dated 29-03-1999 of Industries (J) Department]

1. 28. Release of Government funds

Releasing of funds at the fag end of the financial year by the Administrative Department of any PSU to avoid the lapse of budget provision is against the provisions of *Article 40 (c) 7* of the Kerala Financial Code (Volume I). The scheme funds should be released according to actual requirements and with the concurrence of the Finance Department, which should scrutinize the proposal of the Administrative Department and sanction only the minimum required amount. This is to avoid the payment of interest by the Government on the premature drawn funds deposited in treasury by the PSU. The amount should be drawn by the PSU subject to treasury restrictions in force from time to time and that the unspent balance should be deposited in treasury.

[Circular 55657/PU-C1/89/Fin dated 4-10-1989 of Finance Department]

All proposals for release of funds to any PSU should be sent to the Planning & Economic Affairs (BPE) Department for placing the matter before the Public Enterprises Board (PEB).

[Circular 12989/BPE-2/2006/Plg dated 27-2-2007 of Planning & Economic Affairs (BPE) Department]

PSUs are instructed to withdraw the Government funds, if any, deposited in commercial/cooperative banks and to deposit the same in treasuries. Any loss caused to Government on account of such violation will be recovered from the officers responsible.

[Circular 30/95/Fin dated 14-7-1995 of Finance (Inspection Non-Technical) Department]

1.29. Government guarantee

The Kerala Ceiling on Government Guarantees Act, 2003 came into force with effect from 5 December 2003 and some of the salient features of the Act are as follows.

- Government should give guarantee only for loans taken by PSUs and statutory/cooperative bodies;
- The total amount guaranteed by the Government should not exceed Rs14000 crore;
- No rebate for the prompt payment of guarantee commission;
- Guarantee should not be extended unless the borrower has paid the full guarantee commission;
- Minimum guarantee commission payable on loans (including outstanding loans) with effect from April 2004 should not be less than 0.75 *per cent* and that it should not be waived under any circumstances. The guarantee commission should be worked out as follows.

Sl. No.	Nature of loan	Computation of guarantee commission
1	Term loan	Payable on the actual balance outstanding including interest/penal interest, etc., as on 31 March of the preceding year.
2	Cash credit, overdraft and working capital	Payable on the maximum of the credit limit actually availed of in the month of March of the preceding year plus interest, penal interest, etc., thereon as on 31 March of the preceding year.
3	Bonds, fixed deposits, etc.	**a) Interest payment in instalments:** Payable on the outstanding principal of the bonds/fixed deposits as on 31 March of the preceding year plus interest payable during the year plus total defaulted interest/penal interest, etc., as on 31 March of the preceding year.

		b) Interest payment in lump sum or along with principal: Payable on the total amount including interest, etc., on maturity of the bonds/fixed deposits, etc. In the case of default in the payment of bonds, interest, etc., on maturity, the guarantee commission is payable on the balance outstanding amount as on 31 March of the preceding year.

In all the above cases, no commission need to be paid if the entire guaranteed amount (including interest, etc.) has been fully repaid/settled and on production of a letter/certificate from the financial institution, etc., discharging the Government from the guarantee liability. The guarantee commission should be paid half yearly on 1 April and 1 October every year with a grace period of 15 days. Any delay in remitting the commission will attract payment of simple interest at 12 *per cent* from 1 April and 1 October every year. Guarantee commission in all these cases should be paid with effect from 1 April 2004 for the balance outstanding as on 31 March 2004.

All PSUs, etc., should send half-yearly reports to the Government (Finance Department) endorsing copies to the Secretary to the Government (Administrative Department) and the Head of the Department concerned, indicating the details of guaranteed amount outstanding, guarantee commission payable (with details of computation), etc., in the prescribed format. All other provisions referred to in circulars 27/87/Fin dated 20-4-1987 and 79/99/Fin dated 16-12-1999 continue to apply.

[GO (Ms) 487/04/Fin dated 16-10-2004 of Finance (Public Undertakings-B)Department]

In order to avoid the payment of guarantee commission, etc., for loans, bank guarantees, etc., extended by one Government company to another, the following guidelines should be followed.

(i) No borrowing/lending of funds between two Government companies should be entered into without the prior permission of the Government except for financial transactions with Kerala State Industrial Development Corporation Limited and holding companies such as Kerala State Industrial Enterprises Limited, Kerala State Electronic Development Corporation Limited, etc., and with their subsidiaries.

(ii) The lending Government company while providing financial assistance to the borrowing Government Company should not impose or insist on terms and conditions causing financial hardship/loss to the latter.

[Circular 90/82/Fin dated 23-12-1982 of Finance Department - File CA-I/A/21-G/Vol.VI]

1.30. General insurance business of PSUs through KSID

As per section 36 (1) of the General Insurance Business (Nationalization) Act, 1972, Kerala State Insurance Department (KSID) has the monopoly to underwrite the insurance business of all PSUs. Hence, the general insurance business of all PSUs in which Government have substantial financial interest should be transacted only through KSID.

[Circulars 43/75/Fin dated 7-6-1975 and 35/03/Fin. dated 26-4-2003 of Finance (Establishment D) Department]

1.31 Recruitment of personnel through PSC

It is Government policy to make recruitment of personnel to state PSUs through Kerala Public Service Commission so as to contain corruption in appointments.

Under section 3 of the Kerala Public Service Commission (Additional functions etc) Act, 1970, a Corporation or Board of Directors of a Government company may consult PSC on all matters relating to the recruitment of officers and other employees. For this purpose, the Corporation/company has to include its name under Rule 2 (d) of KPSC (consultation by Corporation and Companies) Rules, 1971.

All PSUs are required to ensure that their name is included under the said Rule and shall frame recruitment rules so as to make appointments through PSC.

(Circular No. 13770/BPE/86/plg dt. 09/86 and Circular No. 15274/BPE 2 2006/plg dt. 17.5.2007).

1.32 Compassionate employment scheme for dependents of employees of PSUs

Dependents of State Public Sector Undertakings who die in harness irrespective of the circumstances of death (including suicide) shall be eligible for employment assistance.

The income of the dependents of employees of State PSUs who are employed in those PSUs should not exceed Rupees Three lakh *per annum* to make them eligible for compassionate employment and this limit will be revised from time to time.

There shall be no minimum service restrictions. Dependents of those PSU employees who are regularly appointed and employed in PSUs shall be eligible for the benefit of the scheme irrespective of the length of service.

Time limit for preferring applications under the scheme will be five years from the death of employee. In the case of minor, the period will be within five years after attaining majority.

All the PSUs are required to incorporate an enabling clause in their Articles of Association/Service Rules for introducing the scheme.

(G.O (P) No. 32/2007/plg Dated. 7 June 2007)

1.33 Granting of leave without Allowance for taking up another employment

All departments of Secretariat are instructed to desist from the practice of granting leave without allowances to Government employees/teaching and non-teaching staff of aided schools and colleges or any body incorporated or not, which is wholly or substantially owned, controlled or aided by any state Government or Government of India and also to incorporate a condition in the leave sanctioning order to the effect that the leave without allowances should not be utilized for accepting employment in such institutions.

(Circular No. 79/2007/Fin dated 23.10.07).

1.34. Constitution of Board of Directors

The Board of Directors of any PSU constituted in accordance with the provisions of a specific Act will be governed by such Act. In other cases, the following guidelines were issued by the State Government for the constitution of

Boards of Directors. The Articles of Association of such PSUs should be amended, if necessary.

- to limit the number of Directors between 7 and 11 excluding those representing financing institutions;
- to have two or three functional Directors in the areas of production, finance, marketing, etc, considering the size and need of each major PSU;
- to appoint Chairman-cum-Managing Director for each PSU depending upon the merit and circumstances;
- to represent the Government by at least two Directors from Administrative and Finance Departments besides giving representation to the executive department concerned of the Government dealing with the activities of the PSU;
- to nominate two or three outside part-time Directors from a panel prepared by the PEB; and
- to allow to continue the existing Worker Directors, if any, and improve their performances by imparting training and extending the term of directorship.

[GO (Ms)/81/86/Plg dated 16-12-1986 of Planning & Economic Affairs (BPE) Department]

Government should make sure that no one with a direct interest in the same industry in the private sector is appointed in the Board of Directors of any PSUs.

[16th Report of CoPU (1973-74) on the action taken on the recommendations of the third Report on Kerala Fisheries Corporation Limited]

A company functioning without Board of Directors is in violation of the provisions of the Companies Act, 1956. Hence, advance action should be initiated by the PSU for reconstitution of the Board immediately after the expiry of the term of the existing Board.

[Circular 22/84/Fin dt 21-3-1984 of Finance (Public Undertakings-B) Department]

1.34.1. Duties and responsibilities of Government Directors

Government Directors represent the shareholders (Government) and they are an important link between the Government and the PSUs. Administrative Department of any PSU should not nominate Government Directors, who had in the past failed to discharge the duties and responsibilities effectively. While selecting the nominees, preference should be given to those having proficiency in management portfolio.

[Circular 1655/BPE-1/98/Plg dated 6-5-1998 of Planning and Economic Affairs Department]

The Board of Directors is the ultimate decision making authority in respect of all matters of the PSUs except in cases where the Memorandum and Articles of Association/Act and general directions issued by Government from time to time specify otherwise. The duties and responsibilities of Government Directors and other related issues prescribed by Government are given below.

- ensure the implementation of all policy guidelines/directions/instructions issued to the PSUs/Directors. If there are deviations, the Directors should bring them to the notice of Government;
- make sure of the periodical review of sales, production and working results with those projected in the annual budget of the PSUs and evaluate the reasons for non-achievement of the targets;
- ensure that the annual report and accounts of the PSUs are finalised and presented in the Annual General Meeting (AGM) in time and for this purpose a status report on the arrears in the finalization of previous and current years' accounts are included in the agenda of each Board meeting for taking appropriate steps;
- furnish a report on the arrears in the finalization of accounts of the PSUs should be submitted within 15 days after attending each Board meeting to the Secretary of the Administrative Department, the Director (BPE) and the Additional Secretary, Finance (PU) Department indicating whether the provisional accounts are up-to-date and if not, the period up to which they were prepared and placed before the meeting;
- ensure that all loans of Government and other financial institutions and

interest thereon are repaid in time. In the case of delay for valid reasons, the Directors should ensure that the PSUs take up the matter with the Government/institutions concerned for rescheduling the payments in time;

- ensure prompt payment of all statutory dues;
- monitor the progress of implementation of projects;
- co-ordinate/speed up matters, if any, pending with Government;
- ensure that the PSUs give adequate notice of the Board meeting to the Directors for sufficient preparation, particularly for Government Directors to emphasis Government position on all matters placed before the Board meeting.
- ensure that the agenda of any Board meeting are circulated among the Government Directors at least 15 days before the meeting. In the event of failure to adhere to this period (15 days), Government Directors may ask for deferment of all or any of the items or postponement of the Board meeting after taking orders from appropriate authorities wherever necessary;
- ensure that the PSUs should provide the additional details, if any, on agenda items placed before the Board meeting to the Government without any delay;
- defer any item to next Board meeting, which has not been finalized by Government due to unavoidable reasons;
- attend all Board and other meetings of the PSUs and if they cannot attend any meeting for any valid reasons, they should obtain leave of absence;
- ensure that only those items which are required to be dealt with by the Board are discussed by it;
- ensure that only the minimum number of Board and other meetings are held by the PSUs and discourage frequent meetings of Board/sub-committees without valid reasons;
- seek Government decision on important matters to be discussed by the Board before the Government Directors attend the meeting and also request the Chairman of the Board to reserve such items for the Government decision, which they consider to be important enough to require prior Government approval;

- if any item is decided by the Board contrary to the views of the Government Directors, they should ensure that their dissents are recorded in the minutes of the meeting and bring the matter to the notice of the Government;
- ensure that all statutory requirements have been complied with by the PSU and that a certificate is recorded by the Chief Executive/Secretary to this effect and made available in every meeting;
- ensure that outside agenda items normally represent routine matters and those requiring immediate decision and when any policy matter is brought outside the agenda with Government Directors expressing the view that the item should be deferred to the next meeting, the Board should under normal circumstances comply with the decision of the Government Directors;
- furnish to the Secretary to the Administrative Department of the PSU after every Board meeting, a resume of the important decisions quoting the number of agenda items (including outside agenda item) considered at the meeting and items which have been reserved for the decision of the Government and their dissent, if any, recorded in the meeting;
- take up all cases with the PEB as per GO (Ms) 27/92/ID dated 11-2-1992 by holding a meeting on third Monday of every month. The agenda of the meeting should be circulated by the Administrative Department to PEB, Finance and Planning Departments two weeks before the meeting by following the procedures prescribed in sub para (iv) of GO (Ms) 4/80/Plg dated 24-1-1980. In case PEB takes a unanimous decision on any matter, orders should be issued by the Administrative Department after circulating the file to the Minister concerned/Finance Minister. In the case of non-unanimous decision, the recommendations of the PEB (including the points of difference) should be further processed by the Administrative Department concerned in accordance with the Rules of Business.

[Circulars 12305/BPE/85/Plg dated 24-1-1986, 13410/BPE-2/93/Plg dated 31-8-93 and 20358/BPE-2/96/Plg dated 10-12-1996 of Planning and Economic Affairs Department]

- ensure that the PSUs furnish first replies to the observations raised by the

Statutory Auditors in their final reports within two weeks;

- make sure that the Board examines the audit observations and replies thereto in detail explaining the matter fully and satisfactorily;
- ensure that PSUs take up the audit observations requiring decision/ratification by the Government with all factual details of the case;
- ensure that while forwarding copies of the annual accounts to the Legislature, the PSU should furnish full details of the action taken on each audit observation brought out in the Auditor's Report together with copies of the replies furnished to the Auditors.

[Circular 63/98/Fin dated 19-9-1998 of Finance (PU-B) Department]

- ensure that the Board of Directors of a sick company/potentially sick company (i.e., a company whose net worth is eroded by 50 per cent or more) made a reference to the Board for Industrial and Financial Reconstruction for its rehabilitation/fact of erosion, within 60 days of finalisation of accounts under the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985.

[Circular 8383/BPE/92/Plg dated 27-12-1992 of Planning and Economic Affairs (BPE) Department]

- ensure that the surplus funds of PSUs are deposited in treasuries and not in banks and report such lapses to Government (Finance Department) so as to take action for non-release of funds by way of share capital, loan and grant.

[Circular 84/97/Fin dated 5-11-1997 of Finance (PU-C) Department]

- ensure compliance of instructions brought out in paragraphs 1.35, 1.36, 1.42, 1.42.2 and 1.42.7 (Finalization of accounts, Replies to audit enquiries/observations, Pay revision of PSUs, Payment of ex-gratia and Foreign tours).

1.34.2. Quorum for Board meetings

The quorum for Board meeting of a Government company should be complete only if at least one Government Director from its Administrative/Finance Department is present in the meeting. The Articles of the Association of the company should be amended to incorporate this provision.

[Circular 12248/BPE-2/91/Plg dated 28-3-1994 of Planning and Economic Affairs (BPE) Department]

1.34.3. Frequency of Board meetings

As per *section 285* of the Companies Act, 1956, the Board of Directors should meet at least once in three months. Adequate powers should be delegated to the Chief Executive to avoid the necessity of frequent Board meetings so as to manage the day-to-day affairs of the Company without any difficulty and with a sense of participation and accountability.

[Circular 43217/K3/81/ID dated 15-7-1982 of Industries Department]

1.34.4. Venue of Board meetings

The Board meetings should be held at the registered office of the company as far as possible to avoid the extra expenditure. Government companies should ensure that Board meetings are held only sparingly at outstations but without violation of *section 301(5)* of the Companies Act, 1956.

[Circular 83309/Comp/4/75/Fin dated 23-4-1976 of Finance Department]

1.34.5. Sitting fees to Directors

The revised sitting fees of non-official Directors/members of the PSUs with an authorized share capital of Rs 5 crore & above, Rs1 crore to Rs 5 crore and below Rs 1 crore are Rs 300, Rs 250 and Rs 200 respectively with effect from 29 December 2004. The revised fee in respect of PSUs without any authorized capital is Rs.300 per non-official Director/member.

No sitting fee should be paid to Government Directors for attending the Board meetings of the PSUs.

[Circular 49/82/Fin dated 19-8-1982 and GO (P) 603/2004/Fin dated 29-12-2004 of Finance (PU-C) Department]

1.35. Finalization of accounts

Government companies should take all possible steps on a war footing to finalise the annual accounts within the time limit prescribed by the Companies Act, 1956 and to chalk out a time bound programme to liquidate the arrears. They should finalise provisional accounts within one month of completion of the financial year in terms of circular (21/8/60-IGC dated 9-2-1970) of the erstwhile Company Law Board. Chartered Accountants may be engaged, wherever necessary, to prepare the accounts. The accounts should be subjected to internal audit so as to speed up the process of statutory audit. They should be approved by the Board of Directors for speedy completion of audit.

[Circular 21295/BPE-2/90/Plg dated 6-5-1991 of Planning and Economic Affairs (BPE) Department]

The audited accounts of a Government company should be placed before its AGM within six months from the close of the financial year in terms of *sections 166 and 210* of the Companies Act, 1956 subject to an extension of three months for holding the AGM under special circumstances. The Directors and officers responsible for non-finalization of accounts within the statutory limit are liable to be punishable with imprisonment or payment of prescribed amount as fine. In the event of prosecution under the provisions of the Act ibid for the delayed finalisation of accounts by Government companies, State Government will not interfere and that the delinquent officers are liable to pay the fine and suffer imprisonment by themselves.

[Circular 17070/BPE-2/91/Plg dated 10-2-1992 of Planning and Economic Affairs (BPE) Department]

State Government shall cause to prepare an Annual Report on the working and affairs of each Government company within three months of the adoption of the accounts by the AGM and place the same before the Legislature along with copies of the accounts and Auditor’s Report, Comments of the CAG and Directors’ Report *[Section 619 (A)]*. The Committee on papers laid before the Table (2001-04) in its sixth report (3 February 2004) has noted serious lapse of the Government (Administrative Department) in ensuring timely presentation of the Annual Report to the Legislature. Hence, each Government company should forward sufficient copies of these documents to the Government (Administrative Department) along with full details of the action taken by the Management on the audit observations raised during statutory and supplementary audits and copies of the replies furnished there against. They were also directed to finalise the accounts within the prescribed time limit. Government Directors should ensure compliance of these instructions strictly.

[Circulars 20808/BPE-2/93/Plg dated 27-11-1993 and 1334/BPE-2/206/Plg dated 27-2-2006 of Planning and Economic Affairs (BPE) Department and 63/98/Fin dated 19-9-1998 of Finance (PU-B) Department]

As the accounts are not finalised in time, accountability of the top Management of a Government company cannot be ascertained and the right of the Legislature to get the annual report of such a company is deprived accordingly. Hence, Government companies are directed to get the accounts audited at the earliest where Statutory Auditors have been appointed. The progress achieved in this regard should be monitored by the Director, BPE by 15th of every month without fail.

[Circular 19592/BPE-2/96/Plg dated 26-11-1996 of Planning and Economic Affairs (BPE) Department]

Lock out in a Government company should not be reported as a reason for the non-finalisation of accounts in the daily statements submitted to the Committee on papers to be laid on the Table of the Legislative Assembly and care should be taken to exclude from lock out, the office staff of Corporate Office essential to carry out its day-to-day activities.

[Circular 7920/BPE-1/98/Plg dated 3-7-1998 of Planning and Economic Affairs (BPE) Department]

PSUs are required to comply with the provisions of the AS issued by the ICAI while finalizing the accounts.

[Circular 1335/BPE-2/06/Plg dated 24-3-2006 of Planning and Economic Affairs (BPE) Department]

1.36. Replies to audit enquiries/observations

PSUs should furnish first replies to the audit observations raised by the Statutory Auditors within two weeks. The Management should give comprehensive replies to all the audit observations while discussing with the Board. The Board (including Government Directors) should examine each case in detail and ensure that the replies are furnished fully and satisfactorily. PSUs are also responsible for giving the final replies to the observations raised during statutory and supplementary audits except in cases where Government decisions/ratifications are required. PSUs should report such cases to the Government with all factual details for examination by the latter.

[Circular 63/98/Fin dated 19-9-1998 of Finance (PU-B) Department]

Chief Executives of PSUs are required to ensure that prompt and complete replies (including first reply) are given to the audit enquiries raised during the transaction audit conducted under *section 619* of the Companies Act, 1956 and make themselves available on the concluding day of the audit for discussion of the draft Inspection Report.

[Circulars 21640/BPE-2/89/Plg dated 20-12-1989 of Planning and Economic Affairs (BPE) Department]

1.37. Income tax audit

The Income Tax Act, 1961 stipulates that tax audit on the accounts of PSUs having a turnover or gross receipt exceeding Rs 40 lakh from the assessment year 1985-86 should be conducted annually by a Chartered Accountant. The Tax Audit Report should be filed with the Income Tax Department in the prescribed proforma within the stipulated time in order to get the benefit of carry forward loss, etc. If the Statutory Auditors were appointed before the close of the financial year, the tax audit should invariably be assigned to them by PSUs having no arrears in the finalization of accounts.

[Circular 11397/88/BPE/Plg dated 17-6-1988 of Planning and Economic Affairs (BPE) Department]

1.38. Internal audit

In view of the heavy investment by Government of Kerala in its PSUs, it was decided to constitute Public Sector Restructuring and Internal Audit Board to audit the accounts of PSUs under Industries Department to ascertain whether they run properly. The Board is allowed to avail of the consultancy service from the Centre for Management Development. The functions of the Board are as follows.

- to act as a watchdog for audit and ensure quick clearance of backlog in audit;
- to tone up the accounting system and ensure that the accounts are made up-to-date within a short period as possible;

- to advice the PSUs on corrective measures in the areas of audit, accounts and related matters;
- to formulate and implement measures for the improvement of the working of the PSUs with their involvement and advice the Government in areas such as suspected wrong accounting/computation of profit or loss, improper account to cover up the actual state of affairs, expenditure control and extravagant expenditure;
- to ensure timely realisation of full income tax and other benefits due to the entity;
- to conduct special audit of companies whenever necessary;
- to formulate guidelines for conducting internal audit as an effective instrument of management control and accounting;
- to analyse the performance of PSUs;
- to recommend financial restructuring of the PSUs;
- to recommend future strategy to be followed in respect of each PSU taken up for study.
- to act as an independent source of information for Government;

The following guidelines are issued by the Government for conducting the internal audit of PSUs.

The objective of Internal Audit (IA) is to assist the top management of any PSU with analysis, appraisals, information and recommendations relating to its activities for improving its performance. IA should focus on providing independent appraisal of operating systems, procedures and controls for maximum efficiency. IA should review or conduct or ensure that:

- the existing internal controls are adequate and effective;
- the financial accounting and other records and reports show results of actual operations accurately and promptly;
- each unit of the PSU follows the policies and procedures as laid down by the top Management.
- the reliability and integrity of financial and operating information and the means used to identify, classify and report such information;

- systems established to ensure compliance with the policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and should determine whether the PSU is in compliance thereof;
- the assets and verify the existence of such assets;
- the economy and efficiency with which resources are employed;
- the operations and programmes to ascertain whether the results are consistent with the established objectives and goals and whether the operations and programmes are being carried out as planned;
- books of account including statutory records are maintained correctly;
- the subsidiary accounts and other relevant records maintained in other departments are scrutinized periodically;
- physical verification of stores, raw-materials, finished goods and movable assets;
- the accuracy of the monthly journal entries prepared by various sections;
- the rules, regulations and orders having financial bearing are issued by the competent authorities and that these are observed by all departments;
- all transactions accounted for in the books with reference to the initial documents like purchase orders, receipts, vouchers, pay rolls, sales invoices, journal entries, etc., and check the books of account like journals, ledgers and final accounts including the schedules;
- all transactions from the angle of financial propriety and recommend correct methods for executive action and ways and means for effecting economy and safeguarding against fraud, misappropriation or other loss with emphasis on prevention and that irregularities detected are reported promptly to the higher authorities for immediate action;
- the efficiency of both accounting procedures and actual performance of the employees;
- studies on procedures for recruitment, performance appraisals, promotions, manpower planning, identification of potential officials for taking up higher job responsibilities, work environment and employee health; and
- special investigations and reviews as required by the top Management from

time to time.

[Letter 44528/J3/84/ID dated 13-3-1985 of Industries (J) Department]

1.39. PSU Manual

PSUs should prepare detailed Manual for the preservation of current and unaudited accounts specifying the officers who are responsible to keep the books of account and files until the accounts are audited and adopted in the AGM. They are also required to preserve the audited records under safe custody of a designated record keeper for a minimum period of eight years from the date of adopting of the accounts. All Chief Executives are directed to finalise the Manual within six months and report compliance to the Government (Administrative Department) under intimation to BPE.

[Circular 12424/BPE-1/98/Plg dated 12-10-1998 of Planning and Economic Affairs (BPE) Department]

1.40. Requirement of Compliance Certificate

Section 383 A of the Companies Amendment Act, 2000, and the Companies (Compliance Certificate) Rules 2001 requires that every company which is not required to employ a whole time Secretary and whose paid up share capital is Rs. 10 lakh or more but less than Rs. 2 crore at any point of time during the financial year shall be required to obtain a compliance certificate from a practicing company secretary in respect of that financial year.

Every company to which the rules apply is required to file with the Registrar of companies the compliance certificate from a secretary in whole time practice within 30 days on which its annual general meeting is held and attach a copy of that certificate with Board's report. The requirement of obtaining compliance certificate is mandatory for a company even if it has employed a whole time secretary.

(Circular No. 954/BPE2/06/Plg Dated. 24.3.06)

1.41 Facilities to non-official part-time Chairman

Apart from full-time executive Chairman, part-time Chairman (officials or non-officials) is appointed by the Government for a PSU. In the case of part-time

Chairman, there will be a Managing Director/General Manager functioning as the Chief Executive of the PSU. In order to bring about certain degree of uniformity, the following facilities are extended to the part-time Chairmen of the PSUs.

Sl. No.	Facilities	Entitlements
1	Functions	To preside over the Board and sub-Committee meetings and approve the minutes of such meetings only.
2	Honorarium	Rs 2,000 per month (from 29-10-1996)
3	Sitting fee for Board/sub-Committee meeting	As per the rates fixed by the Government from time to time for non-official Directors/members.
4	Tours and use of car	Traveling allowance should be paid only for attending the Board and sub-Committee meetings, which will be treated as official. No other tours should be undertaken for official purposes without the prior approval of the Board. For journeys outside the State, prior approvals of the Board of Directors and Government should be obtained. Where a car has been made available exclusively for the Chairman, fuel and oil should be procured at his cost for free use of the car or use the car for private purposes up to 500 km a month on payment of the prescribed sum as in the case of Chief Executive of the PSU.
5	Telephone	600 calls per month (from 29-10-1996). Calls made in excess should be treated as private and recovery made. Telephone rental charge should be met by the PSU.
6	Other payments	Not eligible for any remuneration other than those mentioned above.

[GO (Ms) 9/85/Plg/19/96 dated 5-2-1985, 2/91/Plg dated 1-2-1991, 46/85/Plg dated 21-5-1985 and 19/66/Plg dated 29-10-1996 of Planning and Economics Affairs (BPE) Department and Circular 13525/BPE-2/97/Plg dated 20-10-1997 of Chief Secretary]

1.42. Pay revision of PSUs

PSU employees should not be allowed to enjoy the rights and facilities under the Industrial Disputes Act as well as the automatic extension of all benefits granted to Government servants. No PSU should implement or negotiate any changes in the existing wage structure including payment of interim relief (IR), introduction of new perquisites/allowances, enhancement of existing benefits, etc., without prior approval of the Government (Administrative Department). Before negotiating a new wage agreement, PSUs should compulsorily obtain guidelines from the Government (Administrative Department) in this respect, which should in turn elicit the views of the BPE on all proposals relating to the wage structure. Violation in this score should be reported to the Chief Minister for appropriate orders. Government Directors in the Board should ensure adherence to these instructions.

[Circulars 90/79/Fin dated 27-10-1979 of Finance (Commercial) Department and 27043/BPE/86/Plg dated 2-2-1987 and GO (Ms) 18/93/Plg dated 14-10-1993 of Planning and Economic Affairs (BPE) Department]

Three months before the expiry of the validity of the existing wage agreement, the PSUs should send proposals in the prescribed proforma, in duplicate, to the Government (Administrative Department) with copy to BPE. The proforma should contain data for three years each (past and projected) in respect of installed capacity, production, personnel, budget, financial position, operating results, wage levels and pay scales, etc., and salient features of the existing wage agreement and analysis of the charter of demands by unions/employees.

[Circular 26518/BPE/87/Plg dated 11-12-1987 of Planning and Economic Affairs (BPE) Department]

No wage revision is allowed in any loss making PSU and that wage revision should be considered only if the PSU has made net profit for a consecutive period of two years before the request is made to the State Government in this score.

[GO (Ms) 17/94/Plg dated 24-10-1994 of Planning and Economic Affairs (BPE) Department]

The following judgment of the Supreme Court of India (25-4-2003) upholds the views of the State Government.

Employees of Government companies are not civil servants and hence not entitled to protection under Article 311 of the Constitution of India. They have no legal right to claim that Government should pay their salary and additional expenditure incurred on account of revision of pay scale. The economic viability or financial capacity of the company should be taken into consideration while revising the pay scales of the employees.

[Circular 9894/BPE-2/03/Plg dated 2-3-2005 of Planning and Economic Affairs (BPE) Department]

In the case of PSUs following Government pattern of pay scales and dearness allowances (DA), pay revision should be implemented only on completion of five years from the last pay revision.

[GO (Ms) 12/95/Plg dated 15-7-1995 of Planning and Economic Affairs (BPE) Department]

IR granted to Government employees should be extended to the PSU employees only with the approval of the Government subject to the following stipulations.

- that pay scales in the PSU are identical with those in Government service; and
- that the Board have recommended the extension of IR subject to the condition that the financial commitment in this respect should be met from self-generated income/revenue of the PSU, etc.

Any deviation in this respect should be taken up with the Council of Ministers for specific orders in advance.

[Circular 8069/BPE-2/97/Plg dated 26-3-1998 of Planning and Economic Affairs (BPE) Department]

1.42.1 Sanction for Dearness allowance

No separate Government sanction is necessary for the extension of the payment of DA to the employees of PSUs which follow Government rates of DA, when DA is sanctioned to Government employees. The non-impounding of arrears of DA and payment thereof in cash are applicable to those PSUs following the Employees Provident Fund Rules.

[GO (P) 13/89/Fin dated 11-1-1989 and GO (P) 214/89/Fin dated 15-4-1989 of Finance (PU-C) Department]

1.42.2 Payment of ex-gratia

State Government has been issuing guidelines every year for the payment of bonus and special festival allowance to the employees of PSUs and most of the guidelines are repetitive in nature as follows.

Loss making PSUs should not pay bonus in excess of 8.33 *per cent* admissible under the provisions of the Bonus Act. Profit making PSUs with allocable surplus of over 20 *per cent*, should pay bonus above 20 *per cent* only with the prior approval of the Government. Bonus should be paid only to employees drawing a salary less than the amount fixed by Government. Employees drawing salary above the limit are entitled to special festival allowance only and they should not be paid bonus, ex-gratia, incentive, etc. Payment of bonus and special festival allowance should be disbursed strictly in accordance with the Government guidelines. Board of Directors, Chief Executives and Head of Finance of the PSUs are personally responsible for violation of this condition. PSUs are allowed to deviate from the guidelines only with the specific approval of Government. Proposals on this score should be submitted to the Government by the PSU concerned duly approved by its Board of Directors. Government (Administrative Department) should issue sanction only with the approval of the Council of Ministers. In case where such approval is not possible before making the payment, the sanction should be issued by circulation to the Ministers in charge of the Department, Labour and Finance and the Chief Minister. The Secretary to Government (Administrative Department) and the Officer approving the order should be personally responsible for violation of this condition.

[GO (Rt) 1747/2006/LBR dated 28-7-2006 of Labour and Rehabilitation (D) Department]

Before making the payment of bonus to the employees, PSUs should complete the audit of annual accounts of the previous year.

[Circular 8558/BPE-1/06/Plg dated 28-2-2007 of Planning & Economic Affairs (BPE) Department]

In case where excess amounts have already been paid violating the provisions of the Bonus Act and the Government instructions, the same should be recovered from the officers concerned, if they are still in service.

[GO (P) 601/91/Fin dated 12-11-1991 of Finance (PU-C) Department]

After earning a nominal profit in a particular year, PSUs spend spree and starts paying incentive, performance-cum-motivation allowance, good attendance allowance, etc., in spite of having heavy loss during the previous years and without creating reserve out of profit for product diversification, technology upgradation and replacement of obsolete and worn out machinery. PSUs cannot lean on financial support from Government on all occasions but will have to generate their own resources by sound financial management which includes identifying areas of economy and sensible deployment of profit.

[Circular 2293/BPE-1/98/Plg dated 23-4-1998 of Planning and Economic Affairs (BPE) Department]

1.42.3 House rent allowance

PSUs paying house rent allowance (HRA) to their employees at rates higher than those of the Government employees should adopt Government rates in future. The existing payment should be continued till the next revision of the pay/DA. Future entrants may be given HRA at Government rates only. Prior approval of Government is required in the following cases.

i) to enhance the existing rates of HRA to Government rates;

ii) to introduce the payment of HRA to the employees of PSU;

iii) to pay higher rates of HRA than Government rates for the engagement of specialized personnel.

[Circular 5/78/Fin dated 20-1-1978 of Finance Department]

1.42.4 Conveyance allowance

Conveyance allowance is allowed only in the case of PSU officers who have to move out frequently from Headquarters within a radius of eight km for official work. In such cases, office vehicles should not normally be used. In case where the Chief Executives are provided with vehicles, personal use of the same should be subject to a monthly payment as indicated in *Chapter 1.42.5.* This will apply to non-official Chairmen also who are provided with such facility.

[Circular 56/78/Fin dated 19-7-1978 - File CA/17-17/Vol II and GO (P) 469/84/Fin dated 1-9-1984 - File CA I/A/21-22Vol II]

The eligibility for conveyance allowance to any officer is that he should have a vehicle in his own name and that it should normally be operated for journeys for official purpose at Headquarters within a radius of eight km.

[GO (Ms) 553/78/Fin dated 28-6-1978 and Circular 6/79 Fin dated 22-1-1979 of Finance Department - File CAI/A/17-17Vol.II]

1.42.5 Official car for private purpose

The revised rates of hire charges of PSU vehicles used for non-duty purposes by its Chief Executive are as follows with effect from 1 April 2001.

Sl. No.	Engine power of car	Recovery per quarter		Recovery in excess of 1500 km per quarter
		Kilometre	Amount (Rs)	
1	Small non-AC cars	1,500	2,250	Rs.6 per km
2	Big non-AC cars with engines having above 16 HP	1,500	3,375	Rs.6 per km
3	Small AC cars	1,500	3,000	Rs.6 per km
4	Big AC cars	1,500	4,500	Rs.6 per km

If the quarterly ceiling of 1,500 km has not been made use in any particular quarter, the balance should not be carried over to the subsequent quarter. The concession would be normally admissible only to the Chief Executives of the PSUs.

The concession of treating journeys from residence to office and back as duty is admissible only up to a maximum distance of 15 km from the Registered Office of the PSU in *corporation* areas and 12 km in other areas.

[Circular 65/83 Fin dated 12-10-1983 of Finance Department and GO (Ms) 757/2001/Fin dated 16-5-2001 of Finance (PU-C) Department]

PSU cars should not be used to pick up Managers (other than Chief Executive Officer/Chairman) from their residences to office and back.

[Circular 20214/BPE-1/91/Plg dated 4-1-1992 of Planning and Economic Affairs (BPE) Department]

Log books of cars indicating the Registration Number, make and horse power of the car, details of journeys for official duties and private purpose should be maintained separately. If no register is maintained, recovery at the highest rate should be effected.

[Circular 66/86/Fin dated 19-9-1986 of Finance (PU-C) Department]

No free use of the car owned by any PSU for private purposes for the Managing Director or General Manager will be allowed.

[Govt. of India OMs F14 (43)/EIV (B)/8 dated 1-1-1963, F-2 (18) PC/64 dated20-11-1964 and F-3 (8)-E 11 (a)/84 dated 4-7-1984 and letter 17764/02/66/ID dated 1-11-1966 of the Special Secretary to Government Industries (G) Department, Government of Kerala – File CA/Insp/718 Vol I]

1.42.6 Travelling allowance

Mileage rates of PSU employees may be the same as those of Government employees. If the DA rates of the former are higher than those of the latter, PSUs may review and refix the DA in such a way that the rates conform more or less to those of the latter.

DA rates outside the State have two components (room rent and other expenses). Actual room rent paid with a ceiling of Rs.125 in major cities like Delhi, Mumbai and Kolkata may be allowed. Over and above, they may be allowed DA admissible to Government servants. The payment of actual expenditure without any limit may be stopped. The expenditure incurred for entertainment should be separated from traveling allowance (TA) and met from the provisions for entertainment, if any, made in the approved budget of the PSU. If these guidelines give rise to any serious difficulties in the management of any negotiation and making such other exigencies, specific sanction of the Board of Directors may be obtained for meeting the unforeseen expenditure.

The above power given to the Board may be delegated to the Chief Executive, if necessary, but the expenditure on TA should be reviewed by the former at least once in a quarter.

[Circulars 55/76/Fin dated 12-6-1976 and 102/76/Fin dated 25-10-1976 of Finance Department]

TA/DA rates of Chief Executives/part time Chairmen/non-official Directors of PSUs were made on par with the State Government employees. Government have revised rates of TA/DA and the monthly/quarterly ceiling of TA of State Government employees (GO (P) 4/2004/Fin dated 3-1-2004) and extended the revised rates to the employees and officers of the PSUs also.

PSU employees are not entitled to concessional rate of room rent in Government Guest/Rest House, etc., as in the case of Government employees. Hence, the Board of Directors of PSUs may, if necessary, allow a marginal increase up to 15 *per cent* over and above the admissible rates of DA on the same lines as ordered in Government circular 55/76/Fin dated 12-6-1976. The monthly ceiling limit indicated in the Government order of January 2004 may be enhanced marginally but not exceeding 15 *per cent*. There will be no change in respect of mileage allowance, incidental expenses, reimbursement of room rent, etc. The three star accommodation facilities in star hotels outside the State provided in the Government order of January 2004 will apply only to the Chairmen/Chief Executives of PSUs.

[GO (P) 603/2004/Fin dated 29-12-2004 of Finance (PU-C) Department]

Government Directors who perform official journeys to PSUs are entitled to TA at the rates applicable to them according to the Kerala Service Rules. On submission of the tour claim by the Directors, the payment should be made by the PSUs.

[GO (P) 1003/87/Fin dated 26-11-1987 of Finance (PU-C) Department - File CA IV/A/21-GL/Vol VII]

The Chief Executives of the PSUs may intimate their tour programmes outside the State to the Secretary to the Government in advance indicating the purpose, period of tour and other details.

[Circular13511/BPE-2/89/Plg dated 13-7-1989 of Planning and Economic Affairs (BPE) Department]

1.42.7 Foreign tours

Foreign tour proposals for Government approval are grouped into the following categories:

<table>
<tr><th>Sl. No.</th><th>Type of tour</th><th>Specific conditions for tour</th></tr>
<tr><td>i)</td><td>To negotiate/conclude collaboration agreement or inspect machinery prior to shipment</td><td>-</td></tr>
<tr><td>ii)</td><td>Training</td><td rowspan="2">PSU employee who is about to retire or whose services are not likely to be available for long period should not be considered for foreign tour.

The officer sent for training should occupy the same position at least for a period of two to three years on completion of the training. Suitable service bonds should be executed in respect of training exceeding beyond a period of six months.</td></tr>
<tr><td>iii)</td><td>Training in accordance with the provisions of the existing collaboration agreement, which has been approved by Government</td></tr>
</table>

The proposals covering the itinerary, cost, purpose, etc., should be cleared by the Board of Directors of the PSUs before submitting to the Government (Administrative Department). In order to issue appropriate orders, the Administrative Department should consult the Finance Department and obtain approvals of the Minister concerned, Finance Minister and the Chief Minister through the Chief Secretary. The case should be cleared by the Council of Ministers, if the Minister concerned/Chief Minister desires. Thereafter, necessary clearance should be obtained from Government of India (Ministry of External Affairs) from the political angle and exchange clearance from the Ministry of Finance (Department of Economic Affairs) and Ministry of Home Affairs in respect of Foreign Contribution (Regulations) Act. PSU employees are entitled only to the *split rates* of foreign exchange as prescribed by the Ministry of External Affairs.

The official who visited abroad should submit a tour report to the Chief Executive/Board of Directors within one month of return to India indicating the business transacted/contacts established, orders canvassed, other achievements and follow up action proposed. The Board should evaluate the report and send a copy thereof along with its views thereon to the Government (Administrative Department) within three months of receipt of the report. PSU officer, who visited abroad, should within three months of the submission of the tour report, further submit another report to the Chief Executive/Board, regarding follow up action taken and the benefits actually accrued.

Government Directors in the Board should ensure compliance of these instructions scrupulously.

The proposals to Government for foreign tours should invariably contain the following details.

- Number of foreign tours undertaken by the officer during the past one year;
- Copies of tour reports submitted by the Officer;
- Actual expenses incurred by the Government and the PSU on each tour;
- Actual gain accrued to the State on account of previous tour (itinerary once approved will not be modified on any account);
- Anticipated achievements by the proposed tour; and
- Response of the Embassy/High Commission to the proposed tour.

[Circulars 17974/82/BPE/Plg dated 22-11-1982 - File CAI/A/21-GI./Vol V - 10254/83/BPE/Plg dated 25-1-1984 of Planning and Economic Affairs (BPE) Department and 41306/SS.1/96/Fin dated 16-8-1996 of Finance (SS) Department and 3114/2005/CSO dated 22-9-2005 of the Chief Secretary]

Apart from the above particulars, the proposals for international trade fair/promotion/collaboration with foreign companies should also contain the following additional details.

- Financial position of the PSU such as equity, reserves and details of highest exports ever achieved (including directives of exports country wise), accumulated loss and sales turnover, cash profit and net profit each for the last three years and whether accounts are up-to-date along with copy of the latest provisional accounts; and
- Whether the PSU has defaulted in repayment of loan and payment of interest and guarantee commission to Government.

[Circular 43355/D-3/93/ID dated 8-3-1994 of Industries (D) Department]

Promotional tours to abroad by the PSU officers whether as a part of Government of India delegation or otherwise should not be allowed. In the case of foreign tours for technical collaboration, the proposal should be carefully examined from the point of view of real necessity, the duration of the tour and also its objective and the Finance Department consulted before submitting the case to the Chief Minister. As a measure of economy, proposals for relaxations of the existing guidelines should not be entertained and that no ratification should be given under any circumstances for a foreign tour in violation of the guidelines.

[GO (Rt) 122/85/Plg dated 11-2-1985 - File CA I/D/15-26/Vol XXIII of Planning and Economic Affairs (BPE) Department]

All proposals for the visit of the PSU officers abroad should ensure assured positive results in the interests of the State and that they should be submitted to the Chief Secretary well in advance through the Secretaries/Principal Secretaries of the departments concerned. After approval of the journey, the itinerary/travel should be got approved from the Chief Secretary.

[Circular 3114/2005/CSO dated 22-9-2005 issued by the Chief Secretary]

The total number of foreign tours undertaken by the PSU employees and the total expenditure incurred thereagainst should be indicated in their Annual Reports. Prior approval of Government should be obtained in all these cases.

[No.57/79 Fin dated 29-6-1979 of Finance (Comml) Department and No. 81/80 dated 17-11-1980 of Finance (PU-C) Department]

1.42.8 Guidelines for allotment of quarters

The following guidelines should be observed in the allotment of residential quarters and realisation of rent from the employees of PSUs.

(i) Any PSU possessing its own buildings for quarters may let out the same, if there is any contractual obligation under any Act, Regulation or agreement to that effect and that the allotment should be subject to the provisions of the relevant Act, etc;

(ii) In the absence of own buildings, if HRA in lieu of such a facility is to be given as per the Act, Regulation or agreement, HRA at the specified rates may be given;

(iii) If there are no contractual obligation for providing quarters, but any PSU possessing own quarters may let out the same to its employees and Government officers on deputation, subject to recovery of rent at 7.5 *per cent* of pay and non-payment of admissible HRA;

(iv) PSU should not ordinarily resort to hiring of buildings to provide quarters to its employees/Government officers on deputation. In case quarters are to be provided in terms of the appointment letter, the rent of the hired building should not exceed 40 *per cent* of the pay of the official for New Delhi, Kolkota and Mumbai and 30 *per cent* for Chennai and Bangalore and 25 *per cent* for other cities and towns. In such cases, 10 *per cent* of the pay should be recovered from the official towards rent besides non-payment of HRA; and

(v) Employees already enjoying quarters may continue to occupy them till they vacate the post, subject to the existing terms and conditions.

[Circulars 58/79/Fin dated 5-7-1979 of Finance (Commercial) Department and 4/80 Fin dated 17-1-1980 of Finance (PU) Department - File CA IV/A21-GI/Vol VII]

1.42.9 Voluntary retirement scheme

Government have introduced voluntary retirement scheme (VRS) in PSUs to rationalize the staff strength. The financial assistance given in this respect should be treated as working capital loan carrying interest for such loan.

[Circulars 6038/BPE-1/95/Plg dated 17-11-1995, 58/92/Fin dated 27-11-1992 and 3499/Fin dated 27-5-1999 of Finance (PU-C) Department]

While introducing VRS, the following conditions should be observed.

- The posts held by the officials availing of VRS should be abolished forthwith;
- The employee should have completed 10 years' service or 40 years of age;
- PSUs have the right to sanction or reject VRS for reasons recorded in writing; and

- In addition to the usual terminal benefits (PF, leave encashment, gratuity, etc.) as per the rules of the PSU, the following additional benefits are entitled under VRS:
    - One or three months' notice pay as per the conditions of the service of the PSU; and
    - An amount equal to one and half a months' emoluments (pay plus DA) for each completed year of service or the monthly emoluments at the time of retirement under VRS multiplied by the balance months of service left before normal date of retirement whichever is less.

This general scheme is not applicable in respect of VRS as a part of major restructuring of the PSU such as disinvestment, closure of a unit, etc., and for such cases, separate scheme will be approved by Government.

The PSUs should frame their own rules for VRS strictly in accordance with the general scheme duly approved by the Government (Administrative Department) and that the expenditure in this respect should be met by the PSUs themselves. However, financial assistance will be considered by Government in deserving cases (reduction of work force is essential to revive the PSU though it has no finance to meet VRS expenditure) subject to clearance for central assistance from National Renewal Fund.

[Circular 6038/BPE-1/95/Plg dated 17-11-1995 of Planning and Economic Affairs (BPE) Department]

The following judgment of the Supreme Court of India (25-4-2003) upholds the views of the State Government.

There is no legal or constitutional infirmity in stipulating that for a PSU registered with the BIFR, pay revision and other benefits will be allowed only if it is decided to revive the unit and the revival package should include the enhanced liability on this account. After paying the amount under VRS and the employee ceases to be under the employment of the company, he leaves with all his rights and there is no question of his again agitating for any kind of his past rights with his erstwhile employer including making claim with regard to enhancement of pay scale for an earlier period.

[Circular 9894/BPE-2/03/Plg dated 2-3-2005 of Planning and Economic Affairs (BPE) Department]

1.43. Dispute between PSUs and Government departments

Government constituted a High Power Committee for each department for settling the disputes between the PSUs and Government departments and the PSUs themselves as follows.

Sl. No.	PSUs/Government	High Power Committee
1	Additional Chief Secretary to Government	Chairman
2	Law Secretary	Member
3	Principal Secretary/Secretary of BPE (for PSUs)	Member
4	Principal Secretary/Secretary of the department concerned	Member
5	Head of the Department/Chief Executive of the PSU	Member
6	Finance Secretary (cases involving financial commitment)	Member

All disputes pending before any Courts, Tribunals, etc., should be referred back to the Committee for settlement. The Committee should settle all disputes within a period of three months. In the case of unsettled disputes, it is open to the Committee to give clearance to the parties to proceed with the litigation indicating the detailed reasons for the non-settlement of the disputes.

[GO (Ms) 27/96/P & ARD dated 23-8-1996 of Personnel and Administrative Reforms (D) Department]

Annexure-I
(Referred to in Chapter 1.02)

	Autonomous Bodies
1	National Transportation Promotion and Research Centre
2	Seed Authority
3	Matsya Keralam
4	Tropical Botanic Garden and Research Institute
5	Centre for Water Resources Development and Management
6	Thenmala Eco Tourism Promotion Society
7	Sophisticated Instrumentation Centre
8	State Agriculture Management and Extension Training Institute
9	State Council for Science, Technology and Environment
10	State Fisheries Resource Management Society
11	State Horticulture Mission
12	Land Use Board
13	Malabar Botanical Garden Society
14	Kerala Veterinary and Animal Science University
15	Kerala State Veterinary Council
16	Kerala State Information Technology Mission
17	Kerala State Cashew workers Apex Industrial Cooperative Society
18	Kerala State Biodiversity Board
19	Kerala Road Fund Board
20	Kerala Institute of Tourism and Travel Studies
21	Kerala Khadi and Village Industries Board
22	Kerala Khadi Workers Welfare Fund Board
23	Kerala Forest Research Institute
24	Kerala Agricultural University
25	Infopark
26	Institute of Handloom Textile and Internal Audit Board
27	Integrated Rural Technology Centre
28	International Centre for Free Software and Free Knowledge
29	Centre for Earth Science Studies
30	Debt Commission
31	Electronic Technopark
32	Energy Management Centre
33	Fisheries and Ocean Science University
34	Agency for Non-Conventional Energy and Rural Technology

CHAPTER 2

COMMERCIAL AUDIT HEADQUARTERS

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CHAPTER – 2

COMMERCIAL AUDIT HEADQUARTERS

2.01. Introduction

Commercial Audit Headquarters (CA HQ) in main office consists of four sections under the control of two Branch Officers and under the supervisory control of a Group Officer (Senior Deputy Accountant General/Deputy Accountant General-Commercial). An Assistant Audit Officer (C) is in charge of each CA HQ Section who is assisted by Senior Auditors/Auditors to execute allotted activities of the section.

2.02. Duties and responsibilities

CA HQ Sections are entrusted with the following items of works:

CA HQ IA

- Administration of CA Wing.
- Preparation of Corporate Plan/Annual Audit Plan and quarterly audit programmes of all entities under CA Wing.
- Training needs analysis and nominations for training courses in RTI Chennai, RTC Trivandrum etc.
- Maintenance of tour diary register of field parties, leave accounts and checking of TA bills & Transport allowance claims.

CA IB

- Preparation of consolidated MIS Report to CAG.
- Returns relating to finalization of accounts of Companies and its audit for submission to CAG.
- Other returns relating to IRs for submission to CAG and AG.
- Periodical follow up of clearance of arrears in accounts and pendency in settlement of IRs.
- Consolidation of monthly arrear reports for submission to AG and other returns to Sr.DAG and various controlling sections.
- Preparation of responses to exposure drafts on IPSAS, IGAS and other related topics.
- Financial Attest Audit Monitoring
- Follow up of audit related issues with Government of Kerala.

- Issue of technical directions related to CA wing.
- Work related to Audit Quality Management Framework.

CA II, III & IV Sections

The CA HQ II, III & IV are engaged in editing, finalization, issue and pursuance of Inspection Reports, procession and issue of Draft Comments/Comments/Separate Audit Report (SARs)/Audit Reports (ARs). These sections are also engaged in review of Board Minutes of the respective auditee for further action in field audit and issue of feedback before each audit. The IR paras are being pursued through correspondence and Audit Committee meetings with Companies/ Statutory Corporations/DCUs. The sections are processing SOFs on potential audit paras for issue to the auditee through Report (Commercial) Section. The authority for audit by the CAG and the assignment of audit of these entities to the AG (ERSA) are discussed in the respective chapters.

The specific duties and responsibilities allotted to each section of CA HQ are given below.

CA HQ II to IV Sections

<table>
<tr><th>Section</th><th>Companies under following sector</th><th>Duties</th></tr>
<tr><td rowspan="6">CA II</td><td>Agriculture and plantation
(including Kerala State Warehousing Corporation)</td><td rowspan="9">- Review of Board minutes and maintenance of BM register and further action on important points.
- Liaison with local audit parties before each audit through correspondence/ Google.
- Processing and issue of IRs and comments and preparation of SOF (draft).
- Performance evaluation of each IR/comments.
- Follow up of IR paras through correspondence</td></tr>
<tr><td>Electronics</td></tr>
<tr><td>Information technology and others</td></tr>
<tr><td>Tourism development</td></tr>
<tr><td>Textiles</td></tr>
<tr><td>Industrial infrastructure</td></tr>
<tr><td rowspan="3">CA III</td><td>Mining/clay</td></tr>
<tr><td>Chemicals and drugs</td></tr>
<tr><td>Trading</td></tr>
</table>

	Traditional industries	with auditee/Government. - Settlement of IR paras through audit committees. - Communication with statutory auditors in connection with 619(4) audit. - Updation of data base of respective companies. - Preparation of data for Audit Report (Commercial) as required by Report(C) section. - Weeding out of old records
CA IV	Cement	
	Transport/port	
	Departmental Commercial Undertakings	
	Social welfare	
	Construction works	
	Engineering, Steel and others	
	Finance (including KFC)	

2.03. Corporate Plan/ Annual Audit Plan

The Headquarters has revised the format for Corporate Plan vide letter No. 501/CAII/Coord/Audit Plan2010-11/166-2009 dated 11.9.09.The revised plan is made applicable from the year 2010-11. The revised plan should be submitted to the Headquarters before 31 December every year. The revised plan tries to concentrate on quality rather than quantitative coverage. It also provides time for parties to study previous audit reports/IRs and departmental profiles before going to the field. Secondly, with systematic categorization of units, the manpower requirement may actually go down. Corporate Audit Plan Structure is indicated below.

Ch. I: Introduction and Auditee Profile

1. About the State

(Provide a brief write-up on State, its people, area, economic activities, forest cover, social indicators etc. You may like to incorporate a map of the State. Paras under this may be numbered 1.1, 1.2………..)

2. **Industrial policy of the State**

(Describe the evolution of Industrial Policy in brief; the salient features/thrust areas of Industrial Policy and list the PSUs who are concerned with the thrust areas.)

3. **Agro Industry policy of the State**

(As per Sl. No. 2 above)

4. **Vision of the State**

(Relevant vision points impacting state, PSUs)

5. **Disinvestment policy of the State and progress**
6. **Nodal Department/Agency**
7. **Financial Profile of the State PSUs**

(Provide overview –Sectoral investment with a trend over 5 years, Turnover trend, major sectors, aggregate profit/loss, accumulated loss, manpower employed, capital employed, return on capital employed)

8. **Auditee Profile**

(Information may be provided in the following table)

Pl. see Annexure 'A'.

PSU Category	**No. of PSUs**	**No. of Total Units**	**Units Category (Nos.)**		
			Units 'A'	**Units 'B'**	**Units 'C'**
Category 'A' PSUs					
Category 'B' PSUs					
Category 'C' PSUs					
Total					

(For each PSU, a profile may be prepared as per Annexure 'B'. There will be as many profiles as the PSUs).

Ch. II: Audit Plan

1. **Broad aims**

(State the broad objectives. Aim to cover 80% issues/areas of functioning in 5 years).

2. Achievements so far

(May be stated for previous five years. This should include coverage of substantive issues/areas in audit. Nos. would suffice; individual details may be given in annexures in bullet form)

3. Last year's deployment of audit resources

Overview	Mandays Planned	Mandays Utilised	Shortfall
Certification Audit			
IT Audit			
Performance Audit			
Transaction Audit			
Total			

Audit Plan

Certification Audit

No. of PSUs Planned	No. of PSUs Audited	No. of Accounts Audited	Mandays Planned	Mandays Utilised

IT Audit

No. of IT Audits Planned	No. of IT Audits done	No. of DPs/Reviews prepared	Mandays Planned	Mandays Utilised

Performance Audit

No. of PA planned	No. of PA conducted	No. of reviews printed	Mandays planned	Mandays utilised

Transaction Audit

PSU Category	No. of units planned				No. of units completed				Mandays* Planned	Mandays* Utilised
	'A'	'B'	'C'	Total	'A'	'B'	'C'	Total		
A										
B										
C										
Total										

***Total for the PSU Category**

(Reason for shortfall may be stated)

4. Next year's Audit Plan

4.1 Manpower Availability for Commercial Audit

	Sanctioned Strength	MIP as on 31.10.2009
AOs/SAOs		
AAOs		
Total		

Auditors

Sanctioned Strength =

MIP =

(Audit Plan should be prepared for MIP irrespective of whether there are retirements during the next year).

4.2 Manpower for HQ and RAOs

Staff Deployment	Sr AOs/AOs	AAOs	Total
Staff in HQ			
Staff in RAO Offices			
Total			

(The staff requirement for HQ should be restricted to 20% of the total MIP. Regarding RAO Offices, which are a few in numbers, it should be judiciously worked out)

Excess in HQs & RAOs as per above guidelines			

4.3 Manpower for field audit work

	Sr.AOsAOs	AAOs	Total
Total MIP			
Less: HQ & RAOs			
Staff available for field audit			

(Mandays for this manpower be worked out as shown below)

Per person availability of mandays

	5 Day Week	6 Day Week
No. of mandays in a year	237	273
Less: Leave, transit, training	22	25
Net mandays available	215	248
Time for audit plan discussion, Study of profiles, previous audit files (To be spent in HQ)	15	18
Net mandays in field (on site audit)	200	230

(Total mandays available for field work: Total staff available for field audit X (200 or 230 as the case may be)

4.4 Allocation of mandays for audit

(Available mandays are to be allocated for different audits. The requirement for certification, IT, performance audit should be worked out first. Thereafter, the remaining mandays may be allocated for transaction audit. The process is explained below). (Please note these are mandays and not party days).

<u>Certification Audit</u>	**<u>Mandays Allocated</u>**
• **Supplementary audit** (40 mandays for 'A' category PSU, 30 mandays for 'B', 'C' Category PSUs. To be counted only for **<u>working</u>** Companies) (For a six days week, the numbers are 46 & 34 respectively) (SAR where we are not the sole auditor should also be allocated mandays as above)	Category 'A' No. of PSUs X 40 Category "B', "C': No. of PSUs X 30
• **Sole Audit** (80 mandays for 'A' category PSU, 60 mandays for 'B' & 'C' category PSUs. To be counted only for **<u>working</u>** Corporations) (For a six day week, the numbers are 92 & 69 respectively).	Category 'A' No. of PSUs X 80 Category 'B', 'C': No. of PSUs X 60

(The above norms are for audit planning. It is possible that some PSUs of same category may require more mandays than others. But the overall limit should not be exceeded).

IT Audit

(Generally, one or two major systems may be covered. The norms given above for sole audit may be used).

Performance Audit

(Topic for performance audit may be selected as per annexure 'C'. Our objective should be to select only a few representative units and do a thorough job rather than selecting maximum units). Each review is expected to take 300 to 600 mandays depending on the volume of activities. Provision may be made for one or two performance audit as per the target.

Mandays available for Transaction (Compliance) Audit

Total mandays available			XXX
Less:	Certification audit	XXX	
	IT Audit	XXX	
	Performance Audit	XXX	<u>XXX</u>
Mandays available for TA			<u>XXX</u>

Allocation of mandays for transaction audit

- 60% mandays for 'A' category units XXX
- 25% mandays for 'B' category units XXX
- 15% mandays for 'C' category units XXX

Units for Audit & Mandays

	Unit 'A'	**Unit 'B'**	**Unit 'C'**	**Total**
Total units under Audit jurisdiction				
Planned for next year's audit				
Mandays required				
Of total units, how many units not audited in past 3 years				
Of planned units, how many units not audited in past 3 years				

Out of the units planned for audit under each category, 30% should be those not covered in previous 3 years. The units may be planned as per available mandays and also shown in the following table.

Planned Units

	No. of Units 'A'	**No. of Units 'B'**	**No. of Units 'C'**	**Total**
Category 'A' PSUs				
Category 'B' PSUs				
Category 'C' PSUs				
Grand Total				

There should be uniform allocation of mandays as shown below.

Category ‘A’ PSUs:	Unit ‘A’	: 90 mandays (104 for 6 day week)
	Unit ‘B’	: 60 mandays (69 for 6 day week)
	Unit ‘C’	: 45 mandays (52 for 6 day week)
Category ‘B’ PSUs:	Unit ‘A’	: 75 mandays (86 for 6 day week)
	Unit ‘B’	: 60 mandays (69 for 6 day week)
	Unit ‘C’	: 40 mandays (46 for 6 day week)
Category ‘C’ PSUs:	Unit ‘A’	: 60 mandays (69 for 6 day week)
	Unit ‘B’	: 45 mandays (52 for 6 day week)
	Unit ‘C’	: 35 mandays (40 for 6 day week)

(In practice, the mandays may differ from unit to unit depending on nature of activities. However, the total mandays may be kept within the limits of these norms).

1. Targets for Audit Report

	Target		Achievement	
	DPs	Reviews	DPs	Reviews
Previous Year				
Current Year				
Next Year				

(Reason for shortfall may be mentioned)

2. **Substantive areas for audit**

(These may be stated for selected PSUs. For each PSU areas may be stated in bullet form).

PSU Name: ______________________

- Area 1
- Area 2
- Area 3

PSU Name: ______________________

- Area 1
- Area 2
- Area 3

Ch. III: Status of IRs

1. IR follow –up system in PSU/Govt. instructions
2. Outstanding IRs

Year	Outstanding as at		Outstanding 3 years ago	
	IRs	Paras	IRs	Paras
Grand Total				

(Trend analysis of increase/decrease in position may be given with measures taken).

3. **Audit Committee Meetings**

(Previous year's progress, no. of meetings held, targeted for current year etc. may be mentioned).

Ch. IV: Status of COPU Discussion

1. Status of AR Presentation
2. Outstanding ARs for discussion

A.R. Year	Total		Discussed		Outstanding	
	Paras	Reviews	Paras	Reviews	Paras	Reviews

(Year where discussion is over need not be mentioned).

3. Position of ATNs
   (with statistics)
4. Inventory of COPU Recommendations
   (Provide the details-whether maintained)

Ch. V: Status of Arrears in accounts finalization

1. Arrears position (only for working companies)

Sl.No.	Name of PSU	Year upto which a/cs. finalised & audited	No. of years in arrears
No. of years in arrears			

2. Steps taken to address the issue

Ch. VI: Winding up of non-working Companies

1. Non-working Companies Status

Sl.No.	Name of PSU	Non-working since	Accounts finalised upto	Liquidation status

2. Steps taken to address the issue

Annexure 'A'
Auditee Categorisation

1. Total Capital Employed (CE) in all PSUs (including certain departmental undertakings audited by Commercial Wing such as Electricity Department) should be worked out for the prior year (latest available). Thereafter, individual PSUs may be categorized into 'A', 'B' and 'C' as per criteria given below:

   - CE equal to or greater than 5% of total CE of all PSUs: Category 'A'
   - CE equal to or greater than 1% of total CE but less than 5% of total CE: Category 'B'
   - CE less than 1% of total CE: Category 'C'

2. After categorisation of PSUs, further categorization of PSU units (auditable units) be made in the following ratio:

	Unit 'A'	**Unit 'B'**	**Unit 'C'**
Category 'A' PSU	30% of total units of 'A' category PSUs	30% of total units of 'A' category PSUs	40% of total units of 'A' Category PSUs
Category 'B' PSU	20% of total units of 'B' category PSUs	30% of total units of 'B' category PSU	50% of total units of 'C' category PSUs
Category 'C' PSU	HQ of PSUs (1 unit per PSU of 'C' category PSUs)	30% of total units of 'C' category PSUs excluding HQ	70% of total units of 'C' category PSUs excluding HQ

The categorisation of units into 'A', 'B' and 'C' should be based on risk assessment. Circulars have been issued earlier for risk assessment. You may take help of them or devise your own objective risk assessment criteria to determine the units category. However, the overall number for each category of PSU should be within the above limits.

3. The details may be provided in the following format along with Audit Plan:

(a) **Categorisation of PSUs**

Sl.No.	Name of PSU	Capital Employed (Rs. in crore)	% of CE to total CE	Category (A, B or C)

(Grand totals may be taken at the end)

(b) **Categorisation of units**

Sl. No.	PSU Name	PSU Category	Total No. of Units	No. of 'A' Units	No. of 'B' Units	No. of 'C' Units

(C) **List of Units**

Sl. No.	PSU Name	Unit Name	Unit Category	Last Audit Month/Year

Annexure 'B'

Profile of a PSU

PSU Name:

1. Aims & objectives of setting up of a PSU (Preferably in bullet form)
2. Functions/activities undertaken to achieve objectives (in bullet form)
3. Organisational set-up with details of no. of field offices
4. Financial Results

	Previous 5th Year	**Latest Year**
Capital Employed		
Turnover		
Net Profit		
Accumulated Profit		

(Brief reasons for trend)

5. Revenue elements

   (In a pie chart with 5 to 6 elements & percentages. Also mention total revenue).

6. Expenditure elements

   (As above)

7. Key areas for audit scrutiny

   (For instance, for a Tourism Development Corp., the following areas may be given:

   - Hotel Operations (Revenue: 70%, Expenses: 55%)
   - Catering Outsourcing (Revenue: 3%, Expenses: -)
   - Leasing of Hotels (Revenue: 10%, Expenses: 2%)
   - Sightseeing Operations (Revenue: 12%, Expenses: 15%)
   - Achievement of Objectives (Development of Tourism)
   - Project for construction of 4 new hotels (Project cost of Rs. 25 crore is equal to 20% of present investment in this PSU).

8. Audit concerns from past audit (DPs/Reviews/IRs etc.)

Annexure 'C'

Selection of a topic for Performance Audit

1. The following broad framework may be followed for the selection of a PSU for Performance Audit. You are required to assign the score for each element. While doing that, you may make use of risk assessment methodology already circulated.

Elements	Maximum Points
• Financial Materiality	4
• Significance of activities	2
• Visibility	2
• Estimated impact of audit (Whether we can add value)	2
Total	10

In respect of financial materiality, Capital Employed of 5% & above of total Capital Employed of all PSUs would fetch 4 points. For a PSU with CE of less than 5% of total CE but more than 1% of total CE, the points would be 1.5. Other PSUs will get zero points.

2. A table in the following format may be prepared and sent along with Audit Plan.

Sl. No	PSU Name	Financial Management	Significance	Visibility	Impact of Audit	Whether covered in previous 5 yrs.	Total Score

If a particular PSU was reviewed in previous 5 years, you may like to exclude it unless there is another important topic/area which you would like to review.

A PSU scoring highest points may be selected for a performance audit. You may choose to review the performance of entire PSU or just a few important segments of its working.

3. After approval of the topic by HQ, Field Office may proceed to prepare guidelines.

2.04 Audit programme

Based on the Annual Audit Plan and quarterly break-up of Audit Plan prepared after analyzing the risk perceived the CA HQ section prepares quarterly programmes for the CA Group. The following are the key elements considered while preparing the quarterly audit programme:

- Risk based audit planning considering the resource constraint as per the requirements of Headquarters.
- Sector specific specialization for each party during a quarter.
- Deployment of same audit party for Transaction audit and Financial audit to enable in-depth audit with lesser number of days.
- Periodical rotation of field parties.
- Selection of field parties having high potential for audit of important units.
- Linkage between related auditee units, so that same team will visit the controlling office and field office in one go.

The risks for transaction and performance audits of each unit should be assessed on parameters of materiality, criticality and internal control measures. In addition to these parameters, certain specific parameters were also prescribed for performance audit. Other risk factors identified by the AG (ERSA) should also be considered. Fixed points are allotted for various factors prescribed by Headquarters/identified by the AG (ERSA). After analysis of the risk in each unit based on the above parameters, points should be assigned to each risk parameter and added to arrive at total risk. The period of audit of units should be revised/worked out and formula/criteria for determining period of audit clearly defined. The party days for each audit should be allotted on the basis of the total risk and periodicity of audit.

The risk assessment parameters identified for transaction audit would by and large apply for financial audit also as the latter involves transaction audit in a fair manner. In addition to these parameters, certain specific parameters were also prescribed for financial audit. After allotting the points for each risk parameter, formula/criteria for determining party days should be clearly defined. Thereafter, party days should be worked out as in the case of transaction audit.

[Headquarters letter 605-CA II/Coord/Inst/2005-06/82-2005 dated 3-9-2007]

2.05. Records/ Returns maintained in CA HQ

i) Report on assessment of performance of CA wing

Headquarters office had revised the system of quarterly assessment of performance of CA Wing applicable from 2008-09 which is due for submission to Headquarters by 15th of the month following the quarter. The reporting format consists of various assessment parameters viz. preparation and execution of Audit Plan, existence of Audit Tools (manual, checklist, guidelines), utilization of Manpower resources, Audit output (transaction audit observations, financial audit comments, audit report material) and follow up action on Audit Reports.

(CAG's letter No.CA II/Co-ordination/Ranking/2006-07/77-2007 dated 19 June, 2009)

ii) Quarterly consolidated MIS return

The Headquarters office had introduced quarterly MIS return replacing nine other returns due to Headquarters. The return will fall due on 25th of the month following the quarter is prepared by **CA HQ I-B** section consolidating the information furnished by Resident Audit Offices and other CA HQ sections. The consolidated quarterly return contains 82 items of information to be submitted to CS Wing of Headquarters need to be sent only by email. It covers human resource utilization for each activity and for training, implementation of Audit Plan, timeliness of issue of IRs, COPU discussions and status of ATNs, cost of audit and recovery at the instance of audit, details of accounts comments and SARs, arrears in finalization of accounts, reconciliation of figures in Finance Accounts and Audit Report and details of meetings with Chief Secretary/Finance Secretary. The MIS also contain audit of high value contracts (above Rs.50 crore) and technical inspection done by CS wing. The consolidated MIS should be submitted to AG on line (RCTM)

(CAG letter No.CA II/Co-ord/rationalization/Returns/38-2009 dated 6-4-2009)
(HQ letter 622/CA II/Co-ord/WRA/12/2005 dated 4.11.09)

iii) Register of Auditee institutions

This register contains the particulars of auditees, periodicity of audit, details of audit done and party personnel who have conducted audit.

iv) Programme Register

To facilitate the finalization of audit programmes of IOs/CA Parties and avoid duplication, a Programme Register should be maintained by **CA HQ I-A Section**, showing the name of the auditee institution, period and nature of audit, date of commencement/completion of audit, etc. The register should be submitted to the Branch Officer by 5th of every month. As and when new institutions are assigned for audit, the names of such units should be entered in the register.

v) Programme Deviation Register

Deviation/extension of the audit programmes should be approved by the Group Officer and for this purpose Programme Deviation Register should be maintained by **CA HQ I-A Section**. The register should be submitted to the Group Officer by 25th of every month showing the details such as name of IO/CA Party members, auditee institution, period and reasons for deviation, etc. Copies of the deviated programmes should be sent to the IOs/CA parties, etc.

vi) Register of weekly diaries

The Register of weekly diaries of CA Parties indicating the CA Party number, inward number and date, date of receipt of diary, period of audit, name of auditee institution/party members, etc., should be maintained by **CA HQ I-A Section**. The register should be filled up with reference to the diaries forwarded by the CA Parties and put up to the Branch Officer for review by 25th of every month.

The weekly tour diaries of the CA Parties should show the work done by each member of the party separately during a week against items of work allotted to them. The IO should control and coordinate the work of the CA Party and the AAO (C) should vouchsafe the work done by Senior Auditors/Auditors. The IO should countersign the diaries wherever supervision is provided. It should be ensured that the diaries of CA Parties for the previous week are received by CA HQ I-A Section in the subsequent week itself.

vii) Register of travelling allowance/ transport allowance claims.

The Register of traveling allowance bills is intended to record the details of the TA bills of the IOs/CA Parties. The register should disclose details such as inward number and date of the TA bill, name and designation of the official, month of the bill, transit register number and date of transferring the bill to OE (Entitlement) Section, etc. It should be submitted to the Branch Officer by 10th of every month by CA HQ I-A Section. The TA bills should be verified with reference to the programme register/deviation register, diaries, leave account, etc.

viii) IR watch register (Progress register)

To watch progress in the settlement of IRs, a register shall be maintained by each CA HQ section showing the name of unit inspected, date of completion of audit, number and date under which report was issued, no of paras in the IR etc. The section shall also maintain details of pendancy in receipt of first reply to IRs issued. The register shall be closed on 5th of every month and submitted to Group officer.

(CA IV/A/21-GI/Vol II, Order of AG (Au) dt.8.10.1990)

2.06. Monthly arrear report

A report showing the state of work of CA section concerned for each month shall be submitted to Group officer on 7th of the succeeding month, showing the pending Returns, status of correspondence, progress of Audit, issue of IRs, settlement of IR paras, PDP cases, status of Accounts audit etc. A consolidation of monthly arrear Report of CA group is prepared in CA HQ I-B section consolidating the information in Monthly Arrear Reports of Resident Audit Offices and each CA HQ sections and forwarded to Co-ordination Section for submission to AG by 10th of every month.

2.07 Quarterly arrear report

The materials for the quarterly state of work (arrears report) of all CA HQ Sections should be furnished by **CA HQ I-B Section** consolidating the information furnished by CA HQ sections to Coordination Section in the prescribed proforma (MISAUD) by 6th of April, July, October and January every year for onward transmission to Headquarters. The return should contain the details of Inspection Reports (pending issue and outstanding), position of local audit, correspondence, etc., indicating the mandays (internal and external) required for the clearances of these items. A review report showing the summary of mandays (internal and external) against these parameters together with the reasons for the shortfall should also be sent along with the return duly approved by the Group Officer.

Similar returns should be furnished by Report (Comml), TA and ECA Sections separately in the prescribed proforma before the stipulated time.

2.08. Quarterly statement of arrears in finalization of accounts

Quarterly statement on status of arrears in finalization of accounts by Companies and Statutory Corporations is prepared by CA HQ I-B for submission to Headquarters office. This statement includes the arrears in finalization of accounts of working and non-working companies and statutory corporations under audit of AG, Kerala. Based on the quantum of arrears the matter is being taken up constantly with CEOs of PSUs, their statutory auditors and also with Chief Secretary/Finance Secretary for expeditious clearance. The due date of this Return to Principal Director (Commercial-States) is 5th of the succeeding month of the quarter.

(Hqrs. letter no. 315/CAII/ Co-ordn./Qrly.Arrears/2003-04/57-2002 dated 30-3-2005.)

2.09. Report on status of finalization of comments

This report contains information about the receipt of accounts, date of commencement and completion of audit, date of issue of comments/SAR, their replies and date of final issue of comments/SAR. This Return to Prl. Director (Comml.) is intended to watch the timely clearance of accounts received from auditees. Due date of this Return is 5th day of the succeeding month and is prepared by CA HQ I-B section.

(Hqrs. circular no.844/MIS/ret/2003-04/32-2003 dt.11-8-2006 and Hqrs. letter no.692/CA II dated 28-12-2007)

2.10 Return on certification of accounts

A monthly Return on certification of accounts under Government of Kerala is prepared and sent to Prl. Director (Commercial). This return contains names of companies whose accounts were certified during the month, details of the statutory auditor and their fees. Due date of this Return is 5th day of the succeeding month and is prepared by CA HQ I-B section.

2.11. Quarterly statement of settlement of IR paras

This Return is required to be submitted to Prl. Director (Commercial-States) by 5th of the succeeding month after the end of the quarter. Information about additions and clearance of paras during the quarter and position of outstanding paras (year-wise) is included in the Report.

(Hqrs. letter no.CA II/Co-ord./old IRs/07-08/61-2007/1573 dtd.18-11-2008)

2.12. Targets and achievements

The returns in respect of targets and achievements covering the entire position of CAW of this Office should be furnished to the AG (ERSA)'s Secretariat by **CA HQ I-A Section** in the prescribed formats by 15th April every year for onward transmission to Headquarters for approval. The consolidated return should be finalised after collecting the data from all the sections of CA Wing. The return, duly approved by the Group Officer, should disclose the position of arrears (internal and external), age wise outstanding Inspection Reports/paragraphs, SARs/ARs, draft paragraphs, units planned for audit/unaudited, etc.

2.13. Performance Report

The return for the Performance Report (previously known as Activity Report) of Indian Audit & Accounts Department relating to CA Wing of this Office should be furnished to Headquarters every year in the prescribed proforma duly approved by the AG (ERSA). The weighted aggregation of money value of the Inspection Reports issued during the year should also be indicated in the return on the basis of the revised matrix. All sections under CA Wing should furnish relevant data to **CA HQ I-A Section** for consolidation and submission of the return before the stipulated time fixed by Headquarters.

[Headquarters letters 888-CA II/Co-ordn./Activity Report/2004-05/ 74-2004 dated 5-9-2006 and 894-CA II/Co-ordn./Activity Report/2004-05/74-2004 dated 6-9-2006 – File CA IV/A/21-263/Vol VII and Headquarters letter 904/CA II/Cordn/Performance Report/ 2006-07/ 74.2004 dated 30-7-2007 – File CA IV/A/21-263/Vol VIII]

2.14. Report on Audit of high value contracts

i) With a view to strengthen the audit of contracts, it was decided that a half-yearly return in respect of high value contracts costing Rs.1 crore (KSEB) and Rs.25 lakh (State Government companies and other Statutory corporations) should be furnished to Headquarters by **CA HQ I-B Section** in the prescribed proforma in April and October every year collecting information from CAW. The data should cover details of audit conducted by RAPs and in local audit. The power purchase agreement with independent power producers need not be considered as high value contract for this purpose.

ii) A Contract Register should be maintained by each unit in **CA HQ Section** indicating the particulars such as name of the PSU, original/revised agreement/work order/supply order/purchase order/letter of intent reference and date, brief description of contract, nature of tender, original/revised/actual date of completion of contract and cost of contract, original/revised terms of payment, cumulative payments made, advance pending adjustments (date and amount), security deposit, penalty for delay, etc. The register should be submitted to the Branch Officer by the end of every month for review. This information should be given to the IOs/CA Parties for detailed examination of the contracts by noting in the Audit Note Book. It should contain details such as period of audit, major irregularities, audit enquiry (number and date), points marked for/results of verification, list of cases issued as draft paragraph/included in the draft review/Inspection Report under examination, etc.

A database on the basis of the details collected on major contracts through various sources (newspaper reports, agenda papers/Board minutes and other records of the institution (contracts, etc.)) should be maintained by RAOs and at CA HQ to keep a watch on the progress of contracts.

Defects noticed during the course of audit should be pointed out without waiting for the completion of the contract/scheme. Emphasis should be given to those institutions having large and high value contracts. It is imperative that all contracts above Rs.10 crore/Rs.5 crore (KSEB) and Rs.1 crore/Rs.50 lakh (others) should be reported to the AG (ERSA)/Group Officer for directions.

Similar registers in the prescribed format should be maintained by TA and ECA Sections for detailed examination of high value contracts.

[Headquarters letters 335/CA II/74-97 dated 18-6-1998, 518/CA II/143-97/KWI dated 15-6-1999, 682/CA II/Review of returns/2002-03/32-2003 dated 23-8-2005 and Orders dated 9-8-1999 of Sr DAG (Comml) – Files CA IV/A/21-285/QRC/Vol I & II]

2.15. Audit of foreign branches

In order to conduct the audit of foreign branches of PSUs not falling within the jurisdiction of Principal Director of Audit, London/Washington/Kulalampur a quarterly return should be submitted to Headquarters by **CA HQ I-B Section** by 10th of April, July, October and January every year after collecting the data from the sections concerned. The return should indicate the name of the PSU, name and address of the foreign unit/project, date of opening of the project, likely date of closure of the project, turnover and expenditure during the year, cumulative turnover and expenditure, details of the Statutory/Branch Auditors, whether the unit is due for audit (transaction/financial), whether audit is to be conducted during the year, number of party days proposed, etc. Once a foreign branch of a PSU is identified through the Board minutes, Directors' Report, accounts, Inspection Report, etc., the required details may be called for from the entity by the sections concerned.

Even if there are no materials for the quarterly return, a nil return should be sent on the due date duly approved by the Group Officer.

[Headquarters letter No 237/CA-IV/25-87/III dated 22-6-1992 and orders of DAG (IC) dated 3-8-1992– File CA IV/A/17-58/Vol.I]

2.16. Register for receipt and review of Board minutes

In order to ensure the timely receipt of these documents from the PSUs for review, Register for receipt and review of Board minutes should be maintained by each **CA HQ Section** indicating the name of the PSU, number and date of Board meeting, date of receipt of agenda notes and minutes/review by CA HQ Section, etc.

State Government directed all the PSUs to forward copies of minutes and agenda notes of their Board meetings regularly to the AG (ERSA) confidentially by name. If the agenda notes/minutes are not sent by any PSU, the matter may be taken up with the Chief Executive of the PSU/State Government for compliance. The register should be submitted to the Group Officer by 15th of every month and to the AG (ERSA) by 15th April, July, October and January every year for review.

[Letter 56894/Coml 4/63/Fin dated 12-11-1963 and Circulars 39/75/Fin dated 16-5-1975 and 32460/K2/06/ID dated 16-11-2006 of the State Government (Finance and Industries Departments) and Headquarters circular letter II/CA II/85 dated 12-4-1985]

2.17. Local Audit Note Book

After review of the Board minutes, Government orders, replies to the Inspection Reports, etc., by the controlling sections and the Branch Officer/Group Officer, the relevant particulars thereof should be indicated in the Local Audit Note Book (LANB) for local examination, wherever necessary, during the ensuing transaction or financial audit. The LANB and the files concerned (previous Inspection Reports, etc.) should be forwarded by the controlling sections to the CA Party along with a proforma showing the details for local verification. It should be ensured that all the points noted in the LANB are incorporated in the proforma.

As soon as orders are obtained from the competent authority for the verification of points, the details thereof should be recorded in the LANB and got attested by the AAO (C). The LANB should be submitted to the Branch Officer by 5th of every month for review by each unit in **CA HQ Section**.

2.18. Folder

A Folder showing broadly the essential particulars of each auditee entity such as its objects and present activities (including social objectives), organizational structure, financial control system, accounting system, internal control/ audit system, etc., and also the various registers/records kept by it should be prepared and updated during the course of audit. It should be prepared and each unit of the **CA HQ Section** should send the same to CA Party along with other audit documents. It should serve as reference book/guide to Audit.

[Headquarters letter CA IV/Tech-9/82 (No.503-CA IV/31-82) dated 6-7-1982 – File CA I/A/17-2/Vol XX and orders dated 16-11-2006 of DAG (Comml)]

The Folder should be submitted to the Branch Officer for review after completion of transaction/financial audit.

2.19. Verification of documents

2.19.1. Outstanding Inspection Reports

During the course of audit of an entity, it should be ensured that all outstanding observations raised in the previous Inspection Reports are settled wherever possible. To avoid omissions and facilitate verification of points, a proforma indicating name of the entity, period of Inspection Report, paragraph number and its title, points for local verification/results of verification, further remarks of CA HQ Section, etc., for each Inspection Report should be prepared, wherever applicable, by **CA HQ Section** concerned and sent to the CA Party along with the Inspection Report file. IO/CA Party should discuss all the outstanding paragraphs with the institution to obtain replies wherever possible. The Party should record the results of verification for each paragraph in the proforma, duly approved by the IO and return the proforma along with the Inspection Report file to the section concerned for taking final decision.

In case where it is not at all possible to prepare a proforma in view of the magnitude of the work involved, the original Inspection Report file may be sent to CA Party. This procedure, however, should be resorted to only sparingly. ***[Circular CA IV/A/21-220/Cr. 4/87 dated 8-4-1987]***

2.19.2 Board minutes and agenda notes

Since the original Board minutes and agenda notes are available in the institutions, it is not necessary to forward them to the CA Party during the course of local audit. The Board minutes should be critically reviewed and the points requiring local verification should be entered in the LANB and sent to the CA Party by way of a proforma showing the reference to Board meeting, agenda/minute item, nomenclature, points for/results of verification, further remarks of CA HQ Section, etc.

This proforma should be prepared by **CA HQ Section** soon after review of the agenda notes/minutes of each Board meeting duly approved by the Group Officer. The results of verification should be entered in the proforma by the CA Party duly approved by the IO and the documents returned to CA HQ Section for taking final decision on each item.

2.19.3 Other documents

Verification of other documents such as report under section 619 (3) (a) of the Companies Act, 1956, draft Comments, general items (paper clippings, Government orders, etc.) should be sent to the CA Party by way of proforma showing the points for/results of verification, reference to the file concerned, further remarks of CA HQ Section, etc., along with the file concerned. The results of verification should be entered by the CA Party in the proforma duly approved by the IO and the documents returned for taking final decision on each case.

2.20. Processing of materials received from field

The following documents received from CA Party should be processed by **CA HQ Section** concerned after completion of the transaction/financial audit.

i. Transaction audit

1. Check list (**Annexure 1**)
2. Title sheet (**Annexure 2**) and draft Inspection Report
3. Audit enquiries and replies thereto with rebuttal (wherever necessary)
4. Performance appraisal (**Annexure 2 a**)

5. Questionnaire on Internal control/audit system **(Annexure 5** of Chapter 12**)**
6. Minutes of entry and exit meetings
7. PDPs along with key documents (including all annexures)
8. Separate review remarks in respect of previous Inspection Reports, Board minutes, reports under section 619 (3) (a) of the Companies Act, 1956, general items (paper clippings, Government orders, etc.), etc.
9. Copy of Test Audit Note
10. Folder
11. Local Audit Note Book
12. Dated working sheets with reference to audit enquiries, if applicable
13. Notes spelling out points for examination during financial audit
14. Floppy/Disc, etc., containing the draft Inspection Report, etc.
15. Other related materials

ii. Financial audit

1. Check list **(Annexure 1 a)**
2. Title sheet (**Annexure 3**) and draft Comments/SAR/AR (including check list for compliance of AS (**Annexure 4**)
3. Audit enquiries (along with key documents wherever necessary) and replies thereto with rebuttal (wherever necessary)
4. Checked copy of accounts
5. Certified copies of proforma accounts and Audit Certificate (DCUs)
6. Performance appraisal **(Annexure 3 a)**
7. Minutes of entry and exit meetings
8. Minutes of meeting with Statutory/Branch Auditors
9. Separate review remarks in respect of Board minutes, reports under section 619 (3) (a) of the Companies Act, 1956, previous year's draft Comments/SAR/AR, general items (paper clippings, Government orders, etc.)
10. Proforma on the performance of Auditors of Government companies/corporations (**Annexure 2** of Chapter 3)/Proforma on the audit of Statutory corporations (sole audit) (**Annexure 1** of Chapter 4)

11. Proforma for the commencement and completion of audit **(Annexure 4** of Chapter 3)
12. Folder
13. Local Audit Note Book
14. Dated working sheets with reference to audit enquiries, if applicable
15. Note spelling out points for examination during transaction audit
16. Floppy/Disc, etc., containing the draft Comments/SAR/AR
17. Other related materials

It should be verified whether the check list and the title sheet attached to the draft Inspection Report/Comments/SAR/AR are in the prescribed formats and whether they have been properly filled up. If any further action is to be taken on the basis of the entries therein, suitable action should be initiated invariably after obtaining approval from the competent authorities.

2.20.1. Draft Inspection Report

The following time schedule is prescribed for the timely issue of Inspection Report.

Sl. No	Particulars	No of working days
1	Receipt of draft Inspection Report from CA Party	3
2	Examination/edition of the report in CA HQ Section	4
3	Review and approval by Branch Officer/Group Officer	7
4	Computer typing/correction, comparison and issue	7
	Total	21

[Headquarters letters 799/TAI/83-8 (Circular No.19-TA-1/83) dated18-7-1983 and 343-TA-I/83-83 (Circular No.6 TA I/1985) dated 16-3-1985 and orders of the Prl AG (Au) dated 4-8-2003 - File CA IV/AAO/GEN/Vol IV]

The Inspection Report should be issued within the prescribed period of one month from the date of completion of audit. By proper review, monitoring and control of the various processes involved in the issue of the report, it should be possible to reduce this period to less than three weeks.

[Headquarters letter 282/Audit-11-83-83 (Circular No.10/Audit II/86) dated 18/19-2-1986]

During the course of editing, the draft Inspection Report should be critically scrutinized with reference to the audit enquiries, replies thereto, questionnaire on internal control/audit system, etc., and put up to the Branch Officer and Group Officer for approval. Mere reproduction of audit enquiries in the draft Inspection Report should be discouraged to the maximum extent possible. Cases pointing out tiny lapses should be dropped/marked for local verification and unripe cases featured in Part-II A of the draft Inspection Report should be transferred to Part-II B under orders of the Group Officer. The questionnaire on internal control/audit system should be countersigned by the Group Officer, while approving the Inspection Report.

The approved Inspection Report in respect of a Government company (including a 619-B company)/Statutory Corporation (KFC, KSWC and KINFRA) should be issued to the Chief Executive of the institution endorsing a copy to the Secretary to its Administrative Department (State Government).

In the case of State Water Transport Department and Kerala State Insurance Department, the Inspection Reports should be issued to the Heads of the institutions endorsing copies to the Secretaries to their Administrative Departments (State Government). Inspection Report in respect of Text Book Office should be issued to the Head of the institution endorsing a copy to the Director of Public Instructions. In the case of the units of Text Book Office, Inspection Reports should also be endorsed to respective units.

[Circular PAG (Au)/Secy/IR-Review/Tr. No. 394 dated 15-3-2004 – File CA IV/AAAO/GEN/Vol. IV]

2.20.2. Potential Draft Paragraphs

CA sections concerned should prepare SoF from the Potential draft paragraphs (PDPs) in the Inspection Reports of Government companies (including 619-B companies)/statutory corporations (KFC, KSWC and KINFRA) along with key documents (including all annexures) under orders of the Group Officer. The guidelines issued by Headquarters/Report (Comml) Section should be kept in view while processing the SoF. The SoF duly approved by the Group Officer should be issued to the institution. The SoF along with key documents, reply to the SoF and review remarks thereon should be forwarded to Report (Comml) Section for the finalization of draft paragraph (DP).

The unsettled PDPs/SoF/DPs along with key documents, etc., should be updated during next local audit or pursued through the Inspection Report.

PDPs (including key documents) in respect of DCUs should be transferred by CA Section concerned directly to Report (Civil) Section for the finalisation of DPs. Similarly, cases where Government has incurred loss due to its fault and not due to the lapse of the PSUs, may also be transferred directly to Report (Civil) Section by CA HQ Section concerned.

2.20.3 Draft Comments/SAR/AR

The procedures to be followed in processing the draft Comments of Government companies (including 619-B companies)/DCUs, draft SARs/ARs of Statutory corporations (KFC, KSWC and KINFRA) and issue of approved Comments/SARs/ARs and other related issues are discussed in the respective chapters on Government companies, DCUs and Statutory corporations. For issue of Comments in case of Companies the time limit of two months from date of receipt of accounts is to be strictly adhered to. Field office need not wait beyond the period of seven days for replies of Management/ Statutory Auditor to provisional comments and should dispatch the draft comments to Headquarters within five weeks of receipt of accounts.

[Hqrs. letter No. 844/CA II/Misc. M/s. RET/ 2003-04/32-2003 dated 11.08.2006, Hqrs. letter No. 1846/CA II/Misc./MIS / 2003-04/32-2003 dated 24.12.2008]

2.20.4. Other documents

The review remarks of previous Inspection Reports, Board minutes, general items, etc., should be vetted and considered for dropping/pursuance through Inspection Reports, etc., after approval by the Branch Officer. After settlement of all paragraphs, the Inspection Report should be dropped under the orders of the Group Officer.

2.20.5 Pursuance of Inspection Report

It should be ensured that replies to the points raised in the Inspection Report are invariably received within four weeks from the date of receipt of the report by the auditee institution.

[Letter HA/24(3)/62/1066 dated 14-11-1962 from the Director of Commercial Audit to all Government companies/corporations, etc. - File CA/Insp/18-10/Vol.II]

Each paragraph in the Inspection Report may be dropped or pursued under the orders of the Branch Officer. After dropping all the paragraphs, the Inspection Report should be closed under the orders of the Group Officer.

If no reply is furnished within the stipulated period, the matter should be taken up at Branch Officer/Group Officer level while closing the Despatch Register by each unit in **CA HQ Section** and through the Audit Committee specifically constituted for the settlement of old Inspection Report. Further remarks on each paragraph should also be pursued periodically with the Management or through CA Party/Audit Committee till it is settled. The Despatch Register should be submitted to the Branch Officer for review by 18^{th} of every month.

2.21. Register for issue of Inspection Reports

The Register for issue of Inspection Reports should be maintained by **CA HQ I A Section** to know whether there is any delay in the issue of Inspection Reports by the section concerned and take remedial action. TA, ECA and CA HQ Sections should furnish to CA HQ I A Section by the 18^{th} of every month, a statement showing the particulars of draft Inspection Reports received up to the previous month and Inspection Reports issued there against during the previous/current month. CA HQ IA Section should record these data along with its position in the register and submit it to the Group Officer by 25^{th} of every month for review.

2.22. Progress Register of Inspection Reports

Immediately after the issue of Inspection Reports, each unit in **CA HQ Sections** should enter the details of the report in the Progress Register of Inspection Reports for submission to the Branch Officer by 5^{th} of every month for review. The information on Receipt/Issue of IR should be intimated to **CA HQ IA** section immediately. The register is intended to ascertain the position of outstanding paragraphs against each Inspection Report so as to initiate proper follow up action to elicit replies to them. The register should indicate the name of the institution with

Inspection Report file number, period of Inspection Report, date of completion of audit/issue of the report, details of IR paras with its monetary value, categorization of IR paras, due date for the receipt of reply, date of issue of reminders/receipt of reply/issue of further remarks/receipt of further replies/issue of further reminders/closure of the report, etc.

2.23. Register for fraud and corruption

Fraud and corruption cases featured in the Inspection Reports of Government companies (including 619-B companies), Statutory corporations (KFC, KSWC and KINFRA) and DCUs should be entered in the Register for Fraud and corruption maintained by each **CA HQ Section**. The register should disclose serial number, name of entity, period of Inspection Report, name and designation of the official who detected the case, brief description of the case, action taken by the Management, etc., and it should be submitted to the Branch Officer by the 5th of every month for review. The details, if any, should be entered in the register after the issue of the Inspection Report. Each section should forward the consolidated material in this score to Coordination Section by 25th October and April every year for the half year ended up to September and March respectively for onward transmission to Headquarters. If there is no case for reporting, a *nil* return duly approved by the Group Officer should be furnished on the due dates.

Similar registers should be maintained by ECA and TA Sections for KSEB and KSRTC respectively. They should also furnish the required return on fraud and corruption cases directly to Coordination Section on the due dates.

[Headquarters letter 126/Audit (AP) 1-2004 dated 6-9-2006 and orders of the Prl AG (Au) dated 6-10-2007 communicated in Circular Co-ordn (Au)/I/15-445 of September 2007]

2.24. Register for selection of Inspection Reports

With a view to assessing the quality and contribution made at all levels and giving appropriate directions to the CA Parties/IOs/CA HQ Sections, etc., the AG (ERSA) is required to test check some Inspection Reports issued every month. **CA HQ I-A Section** should maintain the Register for selection of Inspection Reports indicating serial number, name of institution/CA Party, period of audit, name and designation of IO/party members, date of issue of IR, particulars of Inspection Report selected for review, date of selection, etc. The required details should be furnished by the section concerned for maintaining the register. The register should be submitted to the AG (ERSA) by 10th of April, July, October and January every year for review and selection. The selected Inspection Report should be submitted to the AG (ERSA) within three days of selection.

TA and ECA I Sections should maintain similar registers for selection of Inspection Reports in respect of KSRTC and KSEB/KSERC.

[Headquarters DO letter 1453 Rep (C)/99/87 17-8-1987 –File CA IV/ A/20-3/ Vol. VII and orders dated 7-8-2003 of DAG (C) - File CAII/A/Performance]

2.25. Performance Register of Inspecting Officers/CA Parties

The Performance Register of IOs/CA Parties is intended to watch their performances during the transaction audit of PSUs and DCUs and take remedial action. The register should be maintained by **CA HQ I-A Section** and submitted to the AG (ERSA) for review by 10th of April, July, October and January every year showing the name of the institution, period of audit, date of receipt of draft Inspection Report/issue of Inspection Report, IR file number, name of IO/CA Party and period of supervision, details of contribution for the Inspection Report such as paragraph number, objection in brief, money value and name/designation of the official contributor, etc. The register should be kept party wise and immediately after the issue of the Inspection Report, the above data thereof should be entered in the register by the CA HQ Section concerned.

Similar registers should be maintained by TA and ECA I Sections in respect of KSRTC and KSEB/KSERC.

[Minutes of the Audit Planning Group meeting held on 18-1-2002- File CA (HQ) II/A/AAP/2002-03 and orders of DAG (C) dated 7-8-2003- File CA II/A/Performance]

2.26. Follow up of outstanding Inspection Reports

Working entities

All outstanding Inspection Reports of PSUs and DCUs should be reviewed every month by each **CA HQ Section** in such a way that all the reports are reviewed half-yearly. The following returns in this respect should be furnished to State Government and Headquarters.

(i) State Government: A half-yearly return indicating opening balance, additions, clearances and closing balance of outstanding Inspection Reports of PSUs and DCUs for more than six months along with para reference of closing balance, etc., should be sent by **CA HQ I-B Section** to the Heads of the Administrative Departments (State Government) by the end of April and October every year. For this purpose, data should be furnished by each CA HQ Section to CA HQ I-B Section by 15th April and October every year in respect of Inspection Reports issued up to previous 30th September and 31st March every year and outstanding as on subsequent 31st March and 30th September every year.

[Headquarters letters 122-CA IV/92-85/ Vol. IV (CAW/Tech/3/91) dated 23-4-1999 Files CA IV/A/21-220/Vol.I and III]

The return should be issued under signature of the Branch Officer.

(ii) Headquarters: With a view to watching the progress in the settlement of outstanding Inspection Reports of PSUs/DCUs, a quarterly return should be sent to Headquarters by **CA HQ I-B Section** by 15th April, July, October and January every year duly approved by the AG (ERSA) after collecting the data from the sections concerned. The return should indicate the opening/closing balance and additions/clearance of Inspection Reports and paragraphs during the quarter together with year-wise break up of outstanding Inspection Reports and paragraphs of PSUs/DCUs.

[Headquarters letter 61-CA II/398-99 dated 15-1-2004 – File CAIV/A/21-304/ Vol.I]

Non-working entities

In order to reduce the backlog, it was decided that Inspection Reports of closed/under liquidation companies and companies which are now not in the purview of Audit may be treated as settled after sending a gist of such Inspection Reports to their Administrative Departments (State Government).

[Headquarters letter 61-CA II/398-99 dated 15-1-2004 –File CAIV/A/21-304/Vol.I]

2.27. Audit Committee

In order to keep a momentum for the expeditious settlement of old and heavy (more than two years) Inspection Reports, an Audit Committee should be constituted for each PSU. The members of the Committee should comprise senior officials representing the PSU besides the Group Officer and Branch Officer concerned from Audit side.

The venue of the meeting of the Committee may be either at the PSU or in this Office according to convenience. The meeting may be held periodically, at least once in a quarter and the date of the meeting fixed in consultation with the PSU.

A list of audit observations, replies thereto, remarks of this Office and the minutes of the discussion on such paragraphs in the previous meeting, etc., should be furnished by each **CA HQ Section** to the Chief Executives of the PSUs well in advance and a notice of at least 14 days given to them to prepare themselves for the meeting. The minutes of the discussion should be recorded and progress reviewed in the subsequent meetings, if necessary.

Since the involvement of the State Government may also be required for the effective functioning of the Committee, the Administrative Department of the PSU concerned should be intimated about the formation of the Committee as soon as it is constituted.

In order to ensure that the Committee is working effectively, a half-yearly return indicating the name of the institution, period of Inspection Report, date of formation of the Committee/meeting/sending the report to the State Government, number of meetings held/opening/closing balance/additions/clearances of paragraphs, etc., should be furnished by each CA HQ Sections concerned by 10th of April and October every year to **CA HQ I-B** Section for consolidation. **CA HQ I-B Section** should send the consolidated return, duly approved by the AG (ERSA), to Headquarters by the end of April and October every year.

[Headquarters letters 292-CA IV/92-85 dated 7-7-1988, 466-CA IV/92-85 (CA IV/Tech 4/89) dated 29-9-1989 and 122-CA IV/92-85/Vol.IV (CA IV/Tech 3/91) dated 23-4-1991 and orders of AG (Au) dated 17-5-1991 (Files CA IV/A/21-220/Vol.I, II and III]

Similar Committees may be constituted for the expeditious settlement of old and heavy Inspection Reports of KSRTC, KSEB/KSERC and DCUs.

2.28. PDP Register

In order to watch the progress in the finalization of SoF and avoid omission in processing PDPs, the CA HQ Section concerned should maintain a PDP Register showing the name of the institution, period of Inspection Report, brief subject of the paragraph along with paragraph number of the IR, money value, date of issue of SoF/receipt of reply to SoF/transfer to Report (Comml) Section, etc. The register should be submitted to the Group Officer by 1st of every month and the AG (ERSA) by 5th of April, July, October and January every year for review.

[Circulars ITA/27-1/97-98 dated 19-8-1997 and ITA/27-1/2002-03 dated 29-10-2002 – File CA IV/AAO/GEN/Vol. III]

2.29. Progress Register of audit of accounts

In order to watch the progress in the receipt of accounts of Government companies (including 619-B companies), statutory corporations (KFC, KSEWC and KINFRA) and the timely issue of Comments/Nil-Comment Certificate/Non-Review Certificate/SAR/AR, CA HQ I-B Section should maintain Progress Register of Comments. The register should indicate the name of the PSU, period of accounts/date of receipt of accounts/ commencement of audit/issue of draft Comments, SAR/AR/receipt of reply/approval of the final draft Comments, SAR/AR by the AG (ERSA) dispatch to Headquarters/issue of Comments / Nil Comments Certificate/Non-Review Certificate/SAR/AR etc. The register should be submitted to the AG (ERSA) by the first week of every month for review.

Each CA HQ Section should intimate the date of receipt of accounts to CA HQ IA Section immediately for arranging audit and intimate the progress of audit in each stage for entering the details in the register maintained by CA HQ IB.

2.30. Register for performance of Statutory Auditors

The Register for performance of Statutory Auditors is intended to ascertain the performance of Auditors on the audit of accounts of Government companies (including 619-B companies)/Statutory corporations (KFC, KSWC and KINFRA). The register should disclose the name of the PSU, year of accounts, name of Statutory/Branch Auditors, date of despatch of draft Comments/SAR/AR/Nil Comment Certificate to Headquarters, assessment of performance by the AG (ERSA), etc. It should be maintained by each **CA HQ Section** and submitted to the Branch Officer by 10th of every month and the Group Officer by 10th of April, July, October and January every year for review.

[Headquarters DO letter 152/CA-IV/17-96 dated 18-7-1996 and orders dated 13-8-1996 of Sr.DAG (C) - File CAW/A/17-2/Vol.XXVIII]

2.31. Register for status report from Statutory/Branch Auditors

In order to watch the status of certification of accounts of Government companies (including 619-B companies), Statutory/Branch Auditors are required to furnish a report to this effect immediately on receipt of intimation from CA HQ Sections concerned and thereafter every quarter till the certification of accounts. Based on the report, appropriate action should be taken for the expeditious preparation/certification of accounts. In this respect, each **CA HQ Section** should maintain the Register for status report from Statutory/Branch Auditors indicating details such as name of the Government company/and address of the Statutory/Branch Auditors, appointment letter reference and date, initial intimation (reference and date) to furnish status report, date of receipt of first/subsequent status report, reasons for non-delivery of accounts to Statutory/Branch Auditors, intimation (reference and date) to Government/Headquarters indicating the status of accounts, reasons for the inordinate delay in auditing and certifying the accounts, etc. The register should be submitted to the Branch Officer by 10th of every month for review.

2.32. Register for issue of sub-directions to Statutory/Branch Auditors

The CAG/AG (ERSA) is empowered to issue directions/sub directions to the Statutory and Branch Auditors to furnish a report against the state of affairs of each Government company *[Section 619 (3) (a)]* as indicated in *Chapter 3.16* (Government companies).

In order to watch the receipt of such a report for the main and sub-directions for each Government company (including a 619-B company), the Register for special reports of Statutory/Branch Auditors should be maintained by each of **CA HQ Section** indicating the name of the company/Statutory (Branch) Auditors, year of accounts, date of certification of accounts/receipt of report, etc. Each unit in **CA HQ Section** should enter the details in the register immediately on receipt of the appointment order of the Statutory/Branch Auditors. The units receiving the special reports should further record the details thereof in the register and enter the points in the LANB for local verification during transaction audit. If there are serious deficiencies in the report, these lapses may be taken up with the State Government. One copy of the special report should be given to CA HQ I Section for consolidation of important lapses of such reports for comment in the Audit Report (Comml). The register should be submitted to the AG (ERSA) by 15th April, July, October and January every year for review.

[Sectional Order 52 (No.CA-II/Misc/86-87) dated 19-6-1986]

The audit fee for the Statutory/Branch Auditor of a Government company is fixed by the Management for the routine audit work and also for the remuneration for the additional work involved in the preparation of the special report. Hence, the Auditor should be urged to submit the report along with the certified accounts and Auditor's Report. In case of delay, the matter should be pursued closely to expedite the reports by the respective **CA HQ Section.**

[Headquarters letter 192/CA II/Coordn/directions/90-2002 dated 21-2-2005 - File CA IV/AAO/GEN/Vol IV]

2.33. Register of Government companies/corporations

The Register of Government companies/corporations should be maintained by each **CA (HQ) Section** to record all particulars of accounts, etc., of Government companies/corporations in the prescribed proforma. It should be submitted to the Group Officer by 10th of every month for review.

2.34 Register for settlement of Internal Test Audit Reports

The Register for settlement of Internal Test Audit Reports is intended to watch the timely furnishing of replies to the audit observations raised by Internal Test Audit Section on the performance of CA HQ Sections and their settlement. The register should disclose the period of report, paragraph reference, date of issue of report/despatch of reply/receipt of further remarks/settlement of paragraph, etc. The register should be submitted by each of **CA HQ Section** to the Branch Officer by 5th of every month and the Group Officer by 5th of April, July, October and January every year for review indicating the number of opening/closing balance of paragraphs, additions/clearance during the month, etc.

Similar registers should be maintained by Report (Commercial), TA and ECA sections for review.

Annexure-1

CHECK LIST FOR AUDITORS /SR.AUDITORS FOR SUBMISSION OF DRAFT INSPECTION REPORT FOR APPROVAL

(Referred to in Chapter 2.20)

<table>
<tr><th>Sl. No.</th><th colspan="2">Items in Check List</th><th>Whether Received or Not
Yes/No</th></tr>
<tr><td>1.</td><td colspan="2">Title Sheet duly filled up with all its annexures</td><td></td></tr>
<tr><td>2.</td><td colspan="2">Allocation of work done by Inspecting Officers/Senior most AAO/SO</td><td></td></tr>
<tr><td>3.</td><td colspan="2">Draft Inspection Report with its annexures</td><td></td></tr>
<tr><td>4.</td><td colspan="2">Audit enquiries, replies and KD’s</td><td></td></tr>
<tr><td>5.</td><td colspan="2">Performance appraisal statement duly filled in</td><td></td></tr>
<tr><td>6.</td><td colspan="2">Questionnaire for Internal audit / control system duly filled in</td><td></td></tr>
<tr><td>7.</td><td colspan="2">Ranking Statement of paragraphs duly filled in as per the norm fixed by Headquarters</td><td></td></tr>
<tr><td>8.</td><td colspan="2">IT questionnaire duly filled up</td><td></td></tr>
<tr><td>9.</td><td colspan="2">Data on risk assessment duly filled in</td><td></td></tr>
<tr><td>10.</td><td colspan="2">Minutes of entry/exit meetings with the Management</td><td></td></tr>
<tr><td>11.</td><td colspan="2">PDP’s marking the key documents along with list of key documents</td><td></td></tr>
<tr><td rowspan="4">12.</td><td rowspan="4">File numbers covering review remarks on:-</td><td>a. Previous Inspection Reports</td><td></td></tr>
<tr><td>b. Board minutes / Committees</td><td></td></tr>
<tr><td>c. 619 (3) (a) report</td><td></td></tr>
<tr><td>d. General Items</td><td></td></tr>
<tr><td>13.</td><td colspan="2">Folder duly filled in</td><td></td></tr>
<tr><td>14.</td><td colspan="2">Local Audit Note Book</td><td></td></tr>
<tr><td>15.</td><td colspan="2">Dated working papers with reference to audit enquiries, if applicable</td><td></td></tr>
<tr><td>16.</td><td colspan="2">Note showing points for examination for financial audit</td><td></td></tr>
<tr><td>17.</td><td colspan="2">Material for Part II of the CA Manual</td><td></td></tr>
<tr><td>18.</td><td colspan="2">Floppy/ disc containing the Draft Inspection Report, etc</td><td></td></tr>
</table>

Annexure-1a

CHECK LIST FOR AUDITORS /SR.AUDITORS FOR SUBMISSION OF DRAFT COMMENTS FOR APPROVAL

Sl. No.	Items in Check List	Whether Received or Not Yes/No
1.	Title Sheet duly filled up with all its annexures	
2.	Draft Comments /SAR/AR (including check list for compliance of AS and annexures /key documents wherever necessary for draft comments etc)	
3.	Audit enquiries (along with annexures /key documents wherever necessary) and replies	
4.	Performance appraisal duly filled in	
5.	Data on risk assessment duly filled in	
6.	Minutes of entry/exit meetings	
7.	Minutes of meeting with Statutory /Branch Auditors	
8.	Checked copy of Accounts	
9.	Certified /authenticated copies of proforma accounts and Audit certificate for Departmental Commercial Undertakings.	
10.	Proforma on the Performance of Auditors of Government Companies /Corporations along with comprehensive note in case the performance of Auditors is considered unsatisfactory.	
11.	Proforma on the audit of Statutory Corporations (sole audit)	
12	Proforma on commencement and completion of audit	
13	File Numbers covering review remarks on a) Previous year's draft comments b) Board minutes / Committees c) 619(3) (a) report d) General items	
14.	Folder	
15.	Local Audit Note Book	
16.	Dated working papers with reference to audit enquiries, if applicable	
17.	Note showing points for examination during transaction audit	
18.	Floppy/ disc containing draft comments/SAR/AR	

Annexure-2

TITLE SHEET OF THE INSPECTION REPORT

(Referred to in Chapter 2.20)

1 Name of Company audited

2 Name of Party/ Personnel with date of attendance

   i. Supervisory Officer

   ii. Assistant Audit Officer

   iii. Assistant Audit Officer

3 Period of Audit

4 Months selected for detailed audits (in case of Govt. Departments)

5 Duration of Audit (Extension granted should be shown separately)

6 Whether any change in due time allotment is necessary for future audits

7 No. of draft paras enclosed for inclusion in the conventional Audit Report

8 Paragraphs, if any, to be reported to higher authorities in advance and/or to be brought to the special notice of the Headquarters

9 If any work is left not done due to administrative reasons which may require the sending of audit party again to complete the scheduled work may be specified clearly with reasons thereof

10 General remarks, if any

11 Actual date of submission of report

PART B

1 Whether the parts I (A,B) and II of the Inspection Report attached to the Title Sheet have been discussed with the Head of the Undertaking inspected

2 Whether a list showing allocation of duties amongst the members of the party has been sent in Statement I

3 Whether the quantum prescribed has since been completed. If there are any points which cannot be fully investigated at the time and require investigation in future audit may be listed out with reasons for not checking them during the course of current audit

4 Whether a list showing documents and records checked and extent or percentage of audit exercised on each and the detailed processes of audit has been submitted in statement III indicating what particular Register were personally checked by the Superintendent in case and by the Reviewing Officer

5

a. The date when the Balance Sheet/Proforma Accounts were approved by the Management

b. The date of the Audit Report of Company's Auditors (in case of Limited Companies)

c. The date or dates when checked by the Audit Party.

6 Whether a statement of important irregularities has been attached

7 Whether Introductory Para and Chapter for the Technical Manual has been sent

8 Whether there are any claims or transactions which in the opinion of the Supervisory Officer required constant attention

9 Whether there has been delay in replying to the Audit Enquiries for more than 7 days in case of Resident Audit, 3 days in case of party audit and if so, in how many cases

PART C

1 Have the Memorandum and Articles of Association of the Company been scrutinised (First Audit)

2 Have the system of accounting internal checks and of internal audit in existence been examined (First Audit)

3 Has the position as to whether Service Regulations governing the conditions of service of the employees are framed, been ascertained (First Audit)

4 Have the Agenda and Minutes of the meeting of the Board of Directors/Committees and of the General Meeting of share holders relating to the period under audit been scrutinized.

5 Have the major contract agreement relating to project construction works, supply of machinery, equipment, stores and service including agency arrangement entered into during the period under audit been examined

6 Have the adjustment journal entries relating to the period under audit been scrutinized

7 Have the bigger items of bad and doubtful debts which have been outstanding for long time been scrutinized

8 Has the method of charging depreciation on the capital assets been examined

9 Has the position regarding the allocation of expenditure between capital and revenue and preparation of capital and revenue budget been scrutinized

10 Have the Audit Report of the professional auditors to the shareholders and their report to the Board of Directors, if any, been ascertained and scrutinised

11 Has the position in regard to the creation of 'Secret Reserve' together with the reasons therefore been ascertained?

12 Have the following points been looked into in connection with the examination of Balance Sheet and Profit & Loss Account.

   a. Whether large block of share capital has been called up and paid up by Government much in excess of the actual requirements of the Company
   b. Whether there is proper balance between the amount of paid up capital and long term loans taken from Government
   c. Whether the Company is taking advantage of period of credit allowed in every case
   d. Whether a loan has been sanctioned by the Government to the Company, the rate of interest charged is not less than the borrowing rate of the Government
   e. Whether the debts due from the trade debtors are being realized regularly and evenly especially from Government Departments
   f. In the case of manufacturing concerns involving initially a heavy capital outlay, whether the construction part of the Company is proceeding according to the time schedule and the expenditure during the construction is booked systematically so that the cost of a particular unit of construction can be readily ascertained
   g. Whether the administration charges and overheads are being correctly allocated during the period of construction
   h. Whether the unit cost of the outpost of a factory compares favourably with the cost of similar products in the industry, including landed cost of imported products
   i. Whether Company is following the declared policies of the Government regarding purchases, pricing and payment to its workers

13 Has it been examined that as far as possible the funds of Government Companies are banked with the Government banking institutions like the State Bank of India

14 Have the following points been looked into in connection with the control of cash and stores

a. Whether the system of receipt and payment of cash, cheques and bills, banking and custody of cash, verification of cash balances and recording of cash transactions are adequate and satisfactory

b. In regard to purchase of stores, whether there is satisfactory system of calling for tenders, whether the specifications of the tender forms are clear and whether there is any defect in the execution of the contract agreement

c. Whether the system of receipt and issue of stores is satisfactory and pricing of stores used is done on correct principles

d. Whether there is undue accumulation of surplus and or serviceable stores and finished goods

e. Whether there is any waste, extravagance or nugatory expenditure or loss of cash or store due to inadequate safeguard

f. Whether regulations made for the purpose of control over stores including stock taking and valuation of the stock, stores, work-in-progress and materials at the close of the financial year, are adequate and duly enforced

15 Have the following points been broadly examined in connection with the administrative set up of the concern audited

a. Whether the growth of expenditure on administration is reasonable in relation to the turnover and total expenditure

b. Whether the financial powers of various categories of officers have been clearly laid down and whether such points are properly delegated and whether they have been exceeded

c. Whether any unusual concessions or extra amenities are being provided to the staff or the officers without sanction of competent authorities

16 Have the following points been looked into if the concern audited is a manufacturing concern

a. Whether primary records provide for correct booking at the price cost

b. Whether adequate costing systems and costing staff exists for working out the unit cost of the product.

c. Whether administrative, selling and distribution costs are booked separately

d. Whether there is adequate control over idle time of labour and machinery

e. Whether the parts replaced are properly accounted for until they are disposed off

f. Whether there is proper reconciliation between cost and financial accounts

17 Whether report required of the Company audits in terms of the directions issued to them under Section 619(3) of the Companies Act, 1956 been submitted

18 Have the quarterly reports of the Financial Adviser on important points of financial and accounting significance during the period under audit been examined and the party's comments thereon passed on to the Regional Officer? Copies of the reports of the Financial Adviser should be appended

19 Have the following points also been looked into if the concern audited is a departmental concern

a. Whether the figures in the proforma accounts have been reconciled with the Accountant General's books and certified accordingly by the Management

b. Does the capital accounts of the Balance Sheet incorporated the particulars under the following heads:

    (i) Opening Balance

    (ii) Add withdrawals during the year

    (iii) Less remittances during the year

    (iv) Add/Less adjustments during the year

    (v) Net Total

c. Has the interest on the capital been calculated correctly? (The results of the examination of item 1 to 19 of Part 'C' should be clearly indicated in the form of annexure to the Inspection Report)

PART D

1. Certified that all outstanding points in the previous Inspection Reports Part – I (A,B) and II have been discussed with the Management and those have either been dropped or included in the current Audit Report

2. Certified that all points from the Register of Important points marked for next audit by the Head Quarters have been reviewed and action taken thereof indicated in a separate note

3. Certified that all the points raised in the report and in the appendix have been discussed by me personally with the **Managing Director** and that the facts mentioned therein have also been verified by them

Camp : Signature of the Assistant Audit Officer

Date:

Counter signature of the Supervising Officer

STATEMENT– I

Sl. No.	Name	Details of work	Signature
1.			
2.			
3.			

STATEMENT - II

Sl. No.	Particulars of Records	Files put to use

STATEMENT – III

(List of records and documents checked)

Sl. No.	Particulars of records	Extent of percentage of audit exercised

Signature of the Inspecting Accountant

Date:

Annexure 2 a

PERFORMANCE APPRAISAL

(Referred to in Chapter 2.20)

Party No. : **CA Party**
Name of the Institution audited :
Period of audit :
Duration of Audit : From To
No of Days :

I

Sl. No.	Particulars	Inspecting Officer	AAO	AAO	Sr. Adr/Adr.	Total	
1	Name						
2	Actual Attendance (days)						
3	Period of Leave (days)						
1	No. of AE's originated (AE Nos.)						
2	No. of AE's dropped						
3	No. of Paras Part II A						
4	No. of Paras Part II B						
5	No. of Paras in old IR's cleared (Total)						
6	Any other special items of work attended to (specify)						
7	Remarks						
8	Dated Signature						

Annexure-3

TITLE SHEET FOR COMMENTS ON ACCOUNTS

(Referred to in Chapter 2.20)

PART – A

1.	Name of the Company	
2.	Name of the Party Personnel with dates of attendance	
	i. Supervisory Officer ii. Assistant Audit Officer iii. Auditors	
3	Year of accounts	
4	i. Date when the financial statements were approved by the Board of Directors.	
	ii. Date of Audit Report (Applicable where a separate statutory Auditors appointed)	
	iii. Date of receipt of certified accounts along with Auditor's Report (To be filled by HQ Office)	
	iv. Period of Audit	
	v. Details of extension sought for, if any, and the no. of days for which extension granted beyond six weeks.	
5	Provisional Comments (To be filled by HQ Office)	
5 (i)	Date of issue of provisional comments to	
	i. Statutory Auditors	

	ii. Company.	
5(ii)	Date of receipts of replies to the provisional comments from	
	i.) Statutory Auditors	
	ii.) Company	
5 (iii)	Date of sending draft comments to Hqrs.	
6	Date of the AGM in which the accounts for the previous year was adopted.	
7	Did the Audit Committee have a discussion with Auditors and review the financial statements before their submission to the Board of Directors.	
8	Whether the Statutory Auditors attended the meetings convened for planning and finalization of audit of account. If not details of the meetings not attended. (To be filled by the HQ Office)	
9	Whether all the Audit Enquires have been replied to by Management/ Statutory Auditors? If not, whether it has been brought to the personal attention of the Chief Executive?	
10	Whether all records/information required by Audit Team were made available. If not, the details of records not produced to audit.	

PART -B

Review of Statutory Auditor's Report

1.	Whether all the statutory assertion as specified in Sections 227(2) and (3) of the Companies Act 1956 have been stated in the Report.	
2	Whether the requirements of AAS 28 have been fulfilled as regards the form and content of the Report (A check list is enclosed as Annexure 4).	
3	Whether the Report includes the required statements on all matters specified in CARO 2003. Whether the following requirements of CARO 2003 have been complied with.	
	i. If the auditor is unable to report on any of the matters, whether that fact has been indicated along with the reasons.	
	ii. Whether the assessment made by statutory auditors on the adequacy of Internal control system is consistent with the other observation of the Auditors.	
	iii. Whether the report of auditor on maintenance of proper books of accounts under law is correct and verified.	
4	**Qualifications in Audit Report.** Whether the requirements of Section 227(4) and Statement on qualifications in Auditors Report as indicated below have been complied with.	
	i. Has the auditor stated the full information about the subject matter of qualification?	
	ii. Has the auditor stated the reason for the qualification?	
	iii. Has the auditor stated all qualifications in their report itself and also without referring to a report made in earlier years?	

	iv. If any note to accounts is a subject matter of qualification, whether the auditor has stated the full subject matter of the note in his qualification, instead of making a reference to the note.	
	v. Whether the auditor has stated, whether it is possible to quantify the effect of individual qualification and total effect of all the qualifications on profit or loss or state of affairs.	
	vi. If it is not possible to quantify the effect of qualifications accurately, whether the auditor has stated the effect on the basis of estimates made by the management, after indicating the fact that the figures were based on the management estimates.	
5	Whether the auditor has furnished the report U/S 619 (3) (a) along with Auditor's Report u/s 227. If not the date of receipt of report	
6	Has the auditor complied with all directions issued u/s 619(3)(a) and sub-directions issued?	
7	Whether Statutory Auditors has shared his working papers with the Audit Team as and when asked for?	
8	Whether the opinions expressed by the auditors on the financial statement is fair in view of their qualifications.	
9	If the auditor has revised his Audit Report, whether the same is in accordance with 'Guidance Note on Revisions of Auditor's Report'	
10	Whether Statutory Auditors has issued any communications to these charged with Governance under AAS 27? If yes whether the same has been reviewed.	
11	Is there any material evidence regarding non-compliance with any Auditing and Assurance	

	Standards by the Auditor.	
	II. Review of Financial Statements	
	Whether the following have been verified.	
1	Whether the Balance Sheet and Profit and Loss Account have been prepared in the forms set out in Schedule VI – Part I and Part II of the Companies Act 1956 respectively.	
2	Whether the Balance Sheet abstract and company's general business profile have been stated in prescribed format required in Part IV, schedule VI of the Act.	
3	Whether financial statements have been approved by Board of Directors as required under Section 215 (3) of the Companies Act 1956 and authenticated as required under section 215 (1) of the Act.	
4	Whether all significant Accounting policies have been disclosed?	
5	Whether Accounting Policies form part of the financial statements	
6	Whether any accounting policy is vague leaving scope for Mis- interpretation or is against the provisions of Accounting Standards / relevant laws.	
7	If there is change in accounting policy, whether such change has approval of the competent authority.	
8	Whether auditor have signed their report only after adoption of previous years accounts in AGM as required in Companies Act 1956 and letter of appointment of auditor.	
9	Whether unusual transactions have been dealt within accounts properly. If no, has the Auditor given sufficient comments on it?	
10	Whether test check revealed that AAS 21 regarding due consideration of laws & regulations has been	

	followed by the Auditor is adequately reported.	

III. Compliance with Accounting Standards (AS)		
1	Whether the financial statements complied with the AS as required in Section 211 (3A) of Companies Act 1956.	
2	Cases of non compliance if any noticed during test check. (A check list is enclosed as Annexure 4)	
3	i.) Whether the company has made disclosure as required in Sec 211(38) of Companies Act 1956 and	
	ii.) If not, whether the Statutory Auditors has stated the non-compliance in their report.	
IV Compliance with Assurances		
	Whether the company has complied with all the assurances given to audit in the previous year (s)	
V. Compliance with requirement of Regulatory Authorities relating to preparation and presentation of financial statements/accounts.		
	Whether the requirements of any, regulatory authorities viz SEBI, IRDA, RBI, BPE, NHB and Administrative Ministry etc. with regard to financial reporting been complied with by the company? If not, indicate whether specified non-compliance has been pointed out.	
VI. Recommendations of Supervisory Officer.		
1	Whether any change in time allotted is necessary for future audit?	
2	What are the areas to be focused on in transaction audit?	
3	Other recommendations / remarks.	

PART – C

(The matters included in this part are not exhaustive B' Office may include other matter accorded requirement)

1	Whether all the points indicated in the register of important points marked for verification in the accounts audit by the OAD section have been reviewed and action taken. ?	
2	Whether list of audit points which may have some audit value for other RAPs been attached.	
3	Whether the Statutory Auditors' report and the audited accounts of units not selected for audit been reviewed?	
4	Whether contribution statement with money value and the name of the RAP/LAP official been attached.	
5	A list indicating allocation of duty amongst the party members to be attached along with a certificate signed by all the members of the audit party that duty assigned to him or her was completed	

Submitted to Sr.DAG/DAG

Signature of Sr.AO

Camp:

Date :

Annexure 3 a

PERFORMANCE APPRAISAL

Party No. : **CA Party** Name of the Institution audited:

Period of audit :

Duration of Audit : From To No of Days

Sl. No.	Particulars	Inspecting Officer	AAO	AAO	Sr. Adr/ Adr.	Total	
1	Name						
2	Actual Attendance (days)						
3	Period of Leave (days)						
II.1	No. of AE's originated (AE Nos.)						
2	No. of AE's dropped						
3	No. of Draft Comments						
4	Preparation of Review of Accounts						
5	Any other special items of work attended to (specify)						
7	Remarks						
8	Dated Signature						

Annexure-4

CHECKLIST FOR COMPLIANCE OF ACCOUNTING STANDARDS

(Referred to in Chapter 2.20)

1. Disclosure of accounting policies (AS-1)

Sl.No.	Check List	YES	No	N/A	Remarks
1	Whether accounting policies are disclosed				
2	All these policies should be disclosed in one place in the form of Annexure/Schedule to accounts				
3	Is there any change in accounting policies				
4	Effect of change should be disclosed through accounting notes				
5	Auditor to refer this change in his report if material and its effect on profit/loss and assets/liabilities				
6	If fundamental accounting assumptions are not followed, the disclosure should be made.				
7	Auditor to refer the non-compliance of fundamental accounting assumptions				
8	Paras-11 and 12 of Form 3CD should be verified with the requirements of AS-1				

2. Valuation of inventories (AS-2)

S.No	Check List	Yes	No	N/A	Remarks
1	Check classification of inventories in raw material, WIP finished goods				
2	Valuation of inventories – least of cost or realizable value				
3	Cost formula used – FIFO weighted				
4	Any change in cost formula				
5	Borrowing cost is not cost of conversion or other direct cost				
6	For the purpose of Form 3CD of Income tax, the excise duty or any tax incurred whether refundable /adjustable is cost				
7	Disclosure of policy and cost formula				
8	Physical verification of inventory				
9	Third party confirmation				

3. Cash flow statement (AS-3)

Sl.No.	Check List	Yes	No	N/A	Remarks
1	If the reporting enterprise falls under the Level II and Level-III, the accounting standard is not applicable				
2	If company is a listed company, “Indirect method” is to be followed				

3	Verify the cash flow from operating, investing, and financing activities as per AS-3				
4	If reporting enterprises are bank, share broker, investment company, report cash flow on net basis for operating activities				
5	Disclosure of non-cash transaction by way of note				
6	Disclose cash or cash equivalents which are not freely remissible to the company or there is restriction on using those.				
7	Reconciliation of cash and cash equivalent				

4. Contingencies and events occurring after the balance sheet date (AS-4)

S.No	Check List	Yes	No	N/A	Remarks
1	Refer AAS-19 “Subsequent events”				
2	Read minutes of Board of Directors, Executive committee for events occurring after balance sheet date, up to the date of finalization of audit				
3	Go through all legal cases and their position up to the date				
4	Go through interim financial statement				
5	Check if event has bearing on going concern				

5. Net profit or loss for the period, prior period items and change in accounting policies

(AS-5)

Sl.No.	Check list	Yes	No	N/A	Remarks
1	Ensure that prior period term represent only the items due to errors or omission and not change of estimate				
2	Make list of prior period items detailing their nature				
3	Verify clause 22(b) of Form3CD of Income TaxAct,1961				
4	Disclose them separately in Profit and Loss Account				
5	Make a list of extraordinary items and disclose separately				
6	Is there any change in accounting policy				
7	If yes, calculate its impact on current year profit and if material on subsequent year profit				
8	Refer these changes in Audit Report				

6. Depreciation accounting (AS-6)

Sl.No.	Check list	Yes	No	N/A	Remarks
1	Check the cost of asset.				
2	Check the rate of depreciation based on useful life.				
3	In case of companies check whether the depreciation rate is more than Schedule XIV rate.				
4	If yes, see the disclosure in accounting notes and mention it in audit report also.				
5	If assets are revalued, check whether depreciation is on revalued value.				
6	In case of tax audit verify clause 14 of Form 3CD of Income-tax Act.				
7	Check whether the calculation of managerial remuneration is based on the depreciation rate of Schedule XIV to Companies Act 1956.				

7. Construction contract (Revised) (AS-7)

Sl.No.	Check List	Yes	No	N/A	Remarks
1.	Check that only the percentage of completion method is followed for recognizing the revenue of construction contract				
2.	Check the method of making reliable estimate of cost to completion				
3.	Check the method of calculation of contract revenue.				
4.	Check the disclosure requirement as set out in AS-7				
5.	Check the accounting policies regarding revenue recognition.				
6.	Is provision for expected loss required.				

8. Revenue recognition (AS-9)

Sl.No.	Check List	Yes	No	N/A	Remarks
1.	Check in case of sales whether the seller has transferred all significant risk and rewards of ownership to buyer and no effective control on the goods transferred is retained by the seller.				
2.	No significant uncertainty regarding the collection of sale amount exists.				
3.	Check whether interest and royalties are recognized on accrual basis with no significant uncertainty in collection of the interest and royalties.				
4.	Due provisions for un-expired warranty if sales is warranty sales.				
5.	Accounting polices as regards revenue recognition are disclosed.				

9. Accounting for fixed assets (AS-10)

Sl.No.	Check List	Yes	No	N/A	Remarks
1.	Check fixed asset register and details as per Schedule VI, Part –I				
2.	Check the addition and deletion.				
3.	Is there any revaluation or restructuring, if yes, verify				
4.	Check disclosure of revaluation or reduction in balance sheet.				
5.	Asset held for disposal to be separately shown at realizable value or book value whichever is less.				
6.	Check the result of physical verification.				
7.	Any CENVAT credit availed on fixed assets and reduced from the fixed assets.				
8.	In case of Tax Audit verify point- 14 of Form 3CD of Income tax Act.				
9.	Is any subsidy or grant received for fixed asset, if yes, see treatment as per AS -10 and AS -12				
10.	Exchange fluctuation properly dealt or not.				
11.	Are fixed assets subject to impairment, if yes, whether AS -28 has been followed wherever applicable.				

10. The effects of changes in foreign exchange rates (AS-11) (Revised -2003)

Sl.No.	Check List	Yes	No	N/A	Remarks
1.	Check whether foreign currency transaction was entered before 1.04.2004.				
2.	If yes, AS-11 (pre-revised) shall continue to apply.				
3.	If foreign currency transactions are entered on or after 1.04.2004, AS -11 (revised 2003) applies.				
4.	If there are foreign operations				
5.	Whether classified as integral or non-integral				
6.	Exchange difference on integral operation and foreign currency transactions to be expensed or recognized as income.				
7.	Exchange difference in translation of non-integral operation to be transferred to foreign exchange translation reserve.				
8.	Is there partial or full disposal of net investment in integral foreign currency transaction.				
9.	If yes, transfer proportionately or full amount to income or expense as the case may be if there is re-classification of foreign operation.				
10.	If yes, apply the re-classification provision				
11.	Whether reporting enterprises entered into exchange forward contract				
12.	If, yes classify whether it is for risk				

	management/hedging or for trading or speculation				
13.	If for hedging/risk management apply the relevant provisions of accounting standards				
14.	For speculation, apply the relevant provisions of accounting standard.				
15.	Check all disclosures have been made as per accounting standards.				

11. Accounting for Government grants (AS12)

Sl.No.	Check List	Yes	No	N/A	RemarkS
1.	Check whether asset specific grant has been treated as per AS-12				
2.	Check allocation of deferred income				
3.	Un-apportioned deferred income is disclosed in balance sheet				
4.	Grant in nature of promoter contribution credited to capital reserve.				
5.	Refund of grant if debited in profit and loss as extra ordinary items.				
6.	Accounting policy relating to Government grant is disclosed with accounts.				
7.	In case of tax audit verify point 14 (d) (iii) of Form 3CD				
8.	Whether Government grant receivable as compensation for expenses or losses incurred in the previous year is credited to profit and loss account and disclosed as an extra ordinary item				

12. Accounting for investments (AS.13)

Sl.No.	Check List	Yes	No	N/A	Remarks
1.	Check initial recording of investment at cost.				
2.	Check investment classified in current and long-term.				
3.	Check valuation as per AS-13.				
4.	Check disclosure of accounting policy as regard investment.				
5.	Check the requirements of Schedule VI of Companies Act,1956				
6.	Auditor report if required covers point U/s 227(IA) in case of company				
7.	In case of bank check RBI Guidelines				
8.	In case of mutual fund check SEBI guide lines				

13. Accounting for amalgamation (AS-14)

Sl.No.	Check List	Yes	No	N/A	Remarks
1	Go through the scheme sanctioned under section 394 of Companies Act,1956 by the court/tribunal				
2	Whether it is merger or purchase				
3	If merger- pooling interest method of accounting, if purchase- the purchase method of accounting is applied				
4	Check the disclosure requirements as per AS-14				
5	Check whether the scheme sanctioned prescribes a different treatment to be given to reserve of the transferor company as compared to AS-14				
6	If yes, see whether deviation has been reported				
7	Check whether the notes to accounts give the notes regarding the previous year figure not comparable				

14. Employee benefits (AS-15) (Revised 2005)

Sl.No.	Check List	Yes	No	N/A	Remarks
1	Check type of enterprise- Level I or more than 50 employee or less than 50 employee				
2	Check short- term employee benefits are expensed at the time of rendering of services by the employees				
3	Check whether for post- employment benefits – defined contribution plans or defined benefit plans				
4	If defined benefits plans-go through the actuary reports				
5	Examine the assumptions made by the actuary are in compliance with AS-15				
6	Check whether the projected unit credit method to measure the obligation is followed				
7	Examine the policy for employee benefits with reference to AS-15				
8	Check whether all disclosures requirements are complied with AS-15				
9	Check whether termination benefits (VRS) is expensed or if incurred up to 31-3-2009 is in accordance with accounting policy				

15. Borrowing costs (AS-16)

Sl.No.	Check List	Yes	No	N/A	Remarks
1	Check whether enterprise has purchased or constructed any qualifying asset during the period				
2	If yes, whether borrowing cost is incurred				
3	Check amount of borrowing cost as per AS-16				
4	Whether borrowing cost is capitalized				
5	Whether capitalization of borrowing cost is as per AS-16				
6	Whether accounting policy as regard borrowing cost is disclosed				
7	Whether borrowing cost capitialised is disclosed				

16. Segment reporting (AS-17)

Sl.No.	Check List	Yes	No	N/A	Remarks
1	Check whether As-17 is applicable				
2	If yes, ask enterprise to make segment reporting				
3	Check whether segments are truly based on risk and reward				
4	Tally the segments revenue to total revenue in Profit and Loss Account				
5	Tally the segment assets, segments liabilities with consolidated figure in Balance Sheet				
6	Check secondary segment reporting as per As-17				
7	Check same accounting policies followed for segment reporting as followed for preparation of financial statements				
8	If reporting enterprise falls under the level-2 and level -3 the accounting standard is not applicable				

17. Related party disclosure (AS-18)

Sl.No.	Check List	Yes	No	N/A	Remarks
1	See whether AS-18 is applicable				
2	If yes, follow the audit procedure prescribed in AAS-23				
3	Classify the related parties into two categories – control and significant influence				
4	Whether disclosure is done as per AS-18				
5	If required, get representation from management				
6	In case of tax audit verify clause 18 of Form 3CD				
7	If the reporting enterprises falls under the level-II and level-III the accounting standard is not applicable				

18. Accounting for leases (AS-19)

Sl.No.	Check list	Yes	No	N/A	Remarks
1	Check lease agreement				
2	Verify the Accounting policy as regards lease				
3	Classify the lease to be financial or operation				
4	If operating-check the accounting as per AS-19 for lessor and lessee				
5	If financial lease – check the accounting as per AS 19				
6	In case of financial lease, verify the implicit rate of interest/discounting factor				
7	If assets are acquired under H.P.system, the same should be accounted for as per finance lease				
8	In case of sale of lease back, classify the lease				
9	Check whether accounting is done as per AS - 19				
10	Check the detailed disclosure requirements of AS-19				
11	Check whether there is difference in accounting income and taxable income due to lease, if yes create deferred tax as per AS-22				
12	Few disclosure requirements are not applicable to Level II and Level III enterprises				

19. Earnings per share (AS-20)

Sl.No.	Check list	Yes	No	N/A	Remarks
1	Check EPS as mentioned in part IV of schedule vi of the Companies Act,1956 is the basic EPS and has been calculated as per AS20				
2	If it is listed company -				
	The basic and diluted EPS must be disclosed on the face of profit and loss statement.				
	Reconciliation of weighted number of shares and profit available for equity shareholders is disclosed through notes to accounts				
	Check whether basic or diluted EPS has been disclosed with and without extraordinary income/expense				
3	Level – II and Level III enterprises are not required to disclose diluted earning per share				

20. Consolidated financial statements (AS -21)

Sl.No.	Check List	Yes	No	N/A	Remark
1	If Company under audit is holding and is listed, AS 21 applies.				
2	Check whether the Company is covered by exceptions prescribed in AS -21				
3	Consolidation required as per clause 32 of				

	listing agreement.				
4	Consolidation procedure shall be as per AS -21				
5	Check disclosure requirements as per AS-21 and General Clarification (GC-5) issued by ICAI				
6	Check the particulars under section 212-of the Companies Act,1956,				

21. Accounting for taxes on income (AS-22)

Sl.No.	Check list	Yes	No	N/A	Remarks
1	Check whether AS 22 is applicable for enterprise under reporting				
2	Check whether accounting income and taxable income differ				
3	If yes, is it due to permanent or timing difference				
4	Ignore, if due to permanent difference. Create deferred tax for timing difference				
5	Apply prudence for recognizing deferred tax asset				
6	Verify virtual certainty while creating deferred tax asset for unabsorbed depreciation and carry forward losses				
7	Review deferred tax asset				
8	Apply transitional provision, if applicable				
9	Present deferred asset and deferred tax liability in balance sheet after investment and unsecured loan respectively				
10	Disclose breakup of deferred tax asset and liabilities				
11	Verify accounting policy as per AS22				
12	Verify other disclosure requirements as per AS22				

22. Accounting for investments in associates in consolidated financial statements (AS23)

Sl.No.	Check list	Yes	No	N/A	Remarks
1	Is company under audit a listed company				
2	If yes, whether it has subsidiary				
3	If, yes whether it has made investment in associate				
4	If yes, AS-23 is applicable				
5	Investment in associate in consolidated financial statement shall be accounted as per equity method				
6	Is it first occasion AS 23 applicable? Apply transitional provisions				
7	AS is not applicable for Level II and Level III enterprise				

23 Discontinuing operations (AS-24)

Sl.No.	Check list	Yes	No	N/A	Remarks
1.	Whether the enterprise has entered into agreement or approval/announced to sell the substantially in its entirety or in piece meal the assets and liabilities				
2	If yes, AS-24 applies				
3	Disclosure of ‘discontinuing operation’ separately than ‘continuing operation’ required				
4	Check manner of disclosure as per AS-24				
5	Disclosure is also required in quarterly results				
6	Disclosure through notes to accounts is required				
7	AS is not applicable for Level II and Level III enterprises				

24 Interim financial reporting (IFR) (AS-25)

Sl.No.	Check list	Yes	No	N/A	Remarks
1	AS 25 is mandatory in case of listed company and banks				
2	SEBI guidelines to be considered				
3	Minimum components of an interim financial report to be disclosed				
4	Accounting policy should be the same as followed for annual accounts				
5	Generally discrete view is followed in AS 25 except for tax				
6	Selected explanatory statements to be enclosed				
7	Format given under AS 25 is suggestive not compulsory, generally listed company has to follow the format prescribed by SEBI				
8	AS is not applicable for Level II and Level III enterprise				

25 Intangible assets (AS 26)

Sl.No.	Check list	Yes	No	N/A	Remarks
1.	Whether asset is intangible as per AS26				
2.	Whether recognition criteria as per AS 26 are fulfilled				
3	Useful life is presumed to be 10 years if contrary is not proved				
4	Residual value is taken as NIL				
5	Amortization is on straight line method if pattern of benefit not established.				
6	Goodwill as per AS14 and 21 excluded				
7	Addition/subsequent				
8	Intangible asset to be recognized on disposal or when no further benefit is expected				

9	If standard being applicable first time adjustment to intangible asset as required by AS 26 to be made with opening reserve ’Transitional Provision’				
10	Impairment losses to be recognized				
11	Disclosures as per AS 26				

26. Financial reporting of interest in joint venture (AS-27)

Sl.No.	Check List	Yes	No	N/A	Remarks
1	Check joint venture agreement				
2	Classify type of joint venture into jointly controlled operation, jointly controlled assets or jointly controlled entity				
3	Check accounting in separate financial statements for jointly controlled operation and jointly controlled assets as per AS-27				
4	Check accounting for jointly controlled entity in separate financial statements and if consolidated statement are prepared in consolidated financial statement				
5	Check transaction between a venturer and a joint venture				
6	Verify disclosure requirement as per AS-27				
7	AS is not applicable to the extent of requirements relating to consolidated financial statements to level II and level III enterprises				

27. Impairment of assets (AS 28)

Sl.No.	Check List	Yes	No	N/A	Remarks
1	Has management reviewed/assessed the asset for impairment				
2	Consider the indications				
3	Verify the future cash inflow				
4	Assess the net selling price				
5	Verify the impairment loss				
6	Where net selling price or value in use for individual asset is not determinable, check the cash flow of Cash Generating Unit (CGU)				
7	Also consider good will, corporate asset and their allocation				
8	Verify the impairment loss for Cash Generating Unit (CGU)				
9	Verify allocation of impairment loss in case of Cash Generating Unit (CGU)				
10	Check the disclosure requirements				
11	Accounting standard is applicable w.e.f1.4.2004 for Level-I,1.4.2006 for Level-II and 1.4.2008 for Level-III enterprises				

28. Provisions, contingent liabilities and contingent assets (AS-29)

Sl.No.	Check List	Yes	No	N/A	Remarks
1	Check whether there is present obligation as a result of past event not recorded in books				
2	If yes, is it probable				
3	Can the amount be estimated reliably				
4	If yes, recognize the provision				
5	If there is possible obligation or amount cannot be estimated reliably disclose the contingent liability				
6	Ensure that happening of event should not be remote for contingent liability				
7	Ensure the disclosure requirement is met for provisions and contingent liability				
8	Contingent asset neither recognize nor disclosed				
9	Few disclosure requirements are not applicable for Level II and Level III enterprises				

Sr. Audit Officer

CHAPTER 3

GOVERNMENT COMPANIES

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CHAPTER – 3

GOVERNMENT COMPANIES

3.01. Introduction

A Government company is defined as a company in which not less than 51 *per cent* of the paid-up capital (equity and preference share capital) is held by the Central Government or any State Government wholly or jointly. A subsidiary of a Government company is also defined as a Government company (*Section 617* of the Companies Act, 1956).

Companies promoting commerce, art, science, religion, charity or any other useful objects are allowed by the Central Government to incorporate their names without the word (s) *limited/private limited* subject to the stipulations that their profits/other incomes should be used for the promotion of such objects and payment of dividend to the members are prohibited (*Section 25*). Such companies can enjoy all privileges subject to the provisions of this section and the obligations of limited companies. They are permitted to prepare Income & Expenditure Account (instead of the Profit & Loss Account) complying with the provisions of Part II of Schedule VI to the Act ibid as far as possible (*Section 210*). They are not debarred from becoming holding companies.

Any company in which not less than 51 *per cent* of the paid-up capital is held by one or more of the following or any combination thereof is considered as a deemed Government company (*Section 619-B*).

i) The Central Government or any State Government (s) or both and one or more Government companies; or

ii) The Central Government or any State Government (s) and one or more corporations owned/controlled by the Central Government; or

iii) One or more corporations owned/controlled by the Central/State Government; or

iv) More than one Government company

Nationalized banks, General Insurance Corporation of India and Life Insurance Corporation of India are at present considered as corporations owned/controlled by the Central Government. Cooperative institutions, Unit Trust of India and Industrial Finance Corporation of India are outside the purview of this section.

The Ministry/Department of Company Affairs held the view that the CAG has all the powers of Statutory Auditors as enshrined in *section 227 (1)* of the Act ibid by virtue of the provisions of *section 619* which have been made applicable to 619-B companies also. Transaction audit of these companies is conducted annually. Hence, copies of agenda and minutes of the meetings of the Board of Directors of these companies may be called for initial scrutiny in **CA HQ Sections** as in the case of Government companies. Failure to submit these documents by any 619-B company may be taken up with the State Government. If any serious irregularity calling for Government intervention is noticed during the course of audit, the same may be taken up with the Principal Secretary of the Finance Department for remedial action.

[Headquarters letter CA IV/Tech/6-80 dated 23-04-1980]

Sick industrial company means an industrial company whose accumulated loss in any financial year is equal to 50 per cent or more of its average net worth during the four years immediately preceding the financial year or failed to repay its debts within three consecutive quarters on demand in writing by any creditor of the company [Section 46AA of the Sick Industrial Companies (Special Provisions) Repeal Act, 2003].

As on 31 March 2012 there were 118 PSUs (including DCU's and non-working companies) as shown below.

Type of PSUs	**Working PSUs**	**Non-working PSUs**	**Total**
Government Companies	92	17	109
Statutory Corporations	05	…	05
DCUs and KSERC	04	…	04
Total	**101**	**17**	**118**

The district wise location of working/non-working PSUs are enclosed **(Annexure 1).** Out of the 109 Government Companies mentioned above, 17 Companies have been transferred to the Office of the Prl. AG (G&SSA), Kerala after re-structuring (**Annexure-11)**.

3.02. Memorandum and Articles of Association

The Memorandum of Association is an important document defining the powers and objects of the Company while the Articles of Association deal with the provisions relating to its internal Management and other related matters.

The Memorandum and Articles of Association of a Government Company need not be scrutinized by Audit as a matter of course. If it is specifically referred in draft stage, specific comments may be offered. This, however, does not preclude examination of Government control, etc., during the audit of a Government Company mainly to ensure that sufficient powers have been reserved for the Governor (competent authority working under the Governor) by the Articles of Association for the issue of mandatory directions, appointment of Managing Director/Directors, sanctioning of posts carrying pay exceeding a specified limit, incurring of capital expenditure over a specified limit, sale/lease/disposal or otherwise of the entity, formation of a subsidiary, etc.

In the case of a subsidiary company, in the absence of adequate provision in the Articles of Association, such Government control is exercised through the Articles of the holding company.

[Headquarters letter 494-CA IV/83-81 (No. CA.IV/Tech-8/82) dated 25-6-1982 – File CA-I/A/17-2/Vol.II]

3.03. Board of Directors

The Board of Directors of a company is authorised to perform all duties and powers as per its Articles of Association subject to the provisions of the Companies Act, 1956 and other statutes. The Board should approve all major policy decisions of the Company. The Board is allowed to delegate its powers to the Managing Director/functional Directors/Officers and Committee of Directors/Officers to manage the day-to-day activities of the company.

The Board is responsible for the governance of a company/corporation. Corporate governance is the system by which an entity is directed and controlled by the Management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. According to section 217 (2AA) of the Companies Act, 1956, the Board has to report to the shareholders, among other things, that it has taken proper and sufficient care for the maintenance of the accounting records for safeguarding the assets of a company and detecting and preventing fraud and other irregularities. The main components of the corporate governance are matters relating to the Board, Director's Report, Audit Committee, Company Secretary, etc.

3.04. Company Secretary

Every company (including a Government company) having a paid-up capital of Rs 50 lakh and above (present ceiling) should appoint a whole time Secretary possessing the prescribed qualifications (Section 383A) to exercise the secretarial functions.

3.05. Books of accounts

The accounts of a company (including a Government company) should be maintained on double entry system of accounting (mercantile system) and on accrual basis which discloses a true and fair view of its state of affairs. The company is required to keep proper books of account to exhibit a true and fair view of the state of affairs of the entity and explain its transactions. Though the Act has not defined the term true and fair view, the following guidelines are generally followed to assess whether the accounts show a true and fair state of affairs of the company.

i) Balance Sheet and Profit & Loss Account should be drawn up as per the requirements of Schedule VI to the Companies Act, 1956 and give a true and fair presentation of the actual state of affairs and the working results of the company (Section 209);

ii) The financial statements should neither overstate nor understate the state of affairs of the company. Window dressing of accounts should be avoided and there should not be any attempt to create secrete reserve for any item or show a better picture of accounts than the real position;

iii) The financial statements should disclose all material facts such as revenues, expenses, assets and liabilities and that these should be recognised and valued in accordance with the generally accepted accounting principles.

iv) The generally accepted accounting principles should be followed while finalising the accounts and any change to this effect should be disclosed by way of a note;

v) The financial statements should comply with the requirements of the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI) and in the case of non-compliance thereof, the reasons therefor, financial effect of such deviation, etc., should be disclosed by way of a note (Section 211);

vi) The financial statements should convey the required information clearly; and

vii) Subsequent events having a material impact in the financial statements after the Balance Sheet date but before signing the accounts by the Auditors should be considered as provided in the Accounting Standards.

Important financial information is included in the Notes forming part of accounts and the Auditors usually certify them showing a true and fair view of state of affairs of the company subject to such note. In order to have a clear view of the qualifications and their effects, the qualifications should be given in the Auditor's Report itself. The Auditors should also quantify the monetary impact of the qualifications of the financial statements in a clear and unambiguous manner. In the absence of correct data, the impact should be quantified on the basis of estimates made by the Management after carrying out such audit tests as are possible and the fact that the figures are based on Management estimates should be clearly indicated in the Auditor’s Report.

[Headquarters circulars 5-0 & M/RC/5-83 (No.301-CA OM (RC) 91-83) dated 16-9-1983 and 317-CA-O&M (RC)/21/82 (No.8 CA-O&M/RC/5-83) dated 30-11-1983 endorsing the opinion appeared in The Chartered Accountant (August 1983)]

All proper books of account of companies (including cost records and vouchers) shall be maintained preferably at the registered office and in compelling circumstances such as shortage of accommodation, etc. they may be kept at such other places duly approved by the Board of Directors. In the case of branch office of a company, the books shall be kept there and proper summarised returns thereof sent to the registered office quarterly. The books of account shall be prepared in indelible ink and not by pencil and that they shall be preserved in good order/condition for a minimum period of eight years. Central Government has prescribed rules for the maintenance of cost records in respect of specified companies (Section 209).

In the case of winding up of a company, section 209 (3) of the Act shall be read with section 541 (2) dealing with liability.

Government companies engaged in financing industrial projects and approved by the Central Government under section 36 (1) (viii) of the Income Tax Act, 1961 are allowed to follow cash system for interest on loans and advances (Notification 550 (E) dated 16-5-1989). Further, Government companies engaged in the promotion/ development of industries are also exempted from the mercantile system to account for the interest on seed money/bridge loans, interest due on the cost of industrial plots/sheds allotted to entrepreneurs and special rebate from the Central/State Government in the sale of handloom clothes as declared by the Ministry of Textiles (Notification 770 (E) dated 10-9-1990). In both the cases, the accrued amount thereagainst should be disclosed in the accounts by way of a note.

3.06. Statutory books

In addition to the books of account, the companies are required to maintain certain other registers such as Register of Investments/ Charges/ Members/Debenture holders, etc., (statutory books) in order to safeguard the interest of shareholders [Section 2 (8)].

3.07. Board/Committee meeting

The Board of Directors of a company (other than a section 25 company) shall meet at least once in every three calendar months and four such meetings should be held every year (Section 285). In the case of a section 25 company, the Board shall meet at least once in six calendar months.

(Notification S.O. 1578 dated 1-7-1961).

Unless the Articles of a company provide for a large number of Directors, the quorum for a Board meeting of the company shall be five members (public company) and two members (other than public company) (Section 174). In the absence of quorum, the proceedings of the meeting will be invalid.

All companies (including Government companies) shall record the minutes of proceedings of General/Board/Committee meetings in the Minute Book within 30 days of the meetings. The book shall be consecutively numbered and kept at the registered office of the company. Each page of the minutes of the Board/Committee shall be initialed/signed and that last page thereof shall be dated and signed by the existing Chairman/Chairman of the next meeting. In the case of the minutes of the general meetings, the Chairman of the meeting shall do these attestations. The minutes shall convey a fair and correct summary of the proceedings. The minutes shall not be attached to any other books. The names of the Directors present in the meeting and those not concurred with any resolution shall be entered in the book (Section 193).

Statutory Auditors are required to qualify the report under section 227 of the Act, if the Minute Book is not maintained according to section 193 of the Act. If non-compliance is not suitably qualified by the Auditors, suitable draft Comment may be proposed under section 619 (4) of the Act.

[CAG's letter 606-CA IV/48-82 dated 21-8-1982]

If a Government company holds frequent Board meetings without any justification to discuss normal business transactions, such unhealthy practices should be commented in the Inspection Report.

3.08. Balance Sheet and Profit & Loss Account

Every company is statutorily required to prepare the Balance Sheet and Profit & Loss Account for laying before its AGM. The Balance Sheet shall be drawn up in vertical form as required under Part I of Schedule VI to the Act. While preparing the Balance Sheet, the notes/general instructions given under Part I shall be complied with. The Balance Sheet Abstract and the General Business Profile of a company shall be prepared as per the requirements of Part IV. Part III defines and interprets certain items such as provision, reserve, quoted investment, etc.

The Profit & Loss Account shall be prepared as per the requirements of Part II under Schedule VI. It should be made out clearly disclosing the working result of the company for the period covered by accounts. A considerable amount of quantitative and other information should be disclosed in the accounts. The corresponding amount for the immediately previous year should be shown against each item both under Balance Sheet and Profit & Loss Account. Any reference to Balance Sheet and Profit & Loss Account of a company include any note or document annexed thereto [Section 211 (6)]. A company cannot escape from the responsibility of preparing the Profit & Loss Account on the plea that expenditure incurred was during construction and that it has not commenced business. There will be no objection if such account is called Development Account or Expenditure during Construction Account or by any other suitable name while complying with the requirements of Part II. The Profit & Loss Account should be a separate account and not a schedule to the Balance Sheet. If any Company fails to prepare a separate Profit & Loss Account, suitable comment under section 619(4) of the Act should be raised.

[Headquarters letter 81-CA IV/15-79 (No.CA IV/Tech/1-81) dated 29-1-1981I]

It is necessary to prepare Profit & Loss Account for the company as a whole even if it has got branches (*Sections 210 and 211 and Schedule VI*). Any expenditure item exceeding one *per cent* of the total revenue of a company or Rs 5,000 whichever is higher shall be shown as a distinct item against an appropriate accounting head in the consolidated Profit & Loss Account irrespective of the position in the Branch Profit & Loss Account (*clause 3 (x) (i)* of *Part II* of *Schedule VI*). If a Company desires to prepare separate Profit & Loss Account for units/branches, the same can be made in any one of the following.

(a) A consolidated Profit & Loss Account for the company as a whole and separate Profit & Loss Account for each branch and head office; or

(b) A Profit & Loss Account in a columnar form indicating the transactions of both the company as a whole and each branch and head office separately at one and the same place.

If the requirements of *sections 210* and *211* and *clause 3 (x) (i)* of *Part II* under Schedule VI of the Act are not complied with, suitable draft Comment may be raised under *section 619(4)* of the Act.

[Headquarters letter 3-CA IV/Tech/80 (No. 163-CAIV/8-80) dated 6/12-2-1980]

3.09. Audit Committee (Statutory)

Every public company (including a Government company) having a paid-up capital of Rs 5 crore and above shall constitute an Audit Committee of the Board comprising a minimum of three Directors. Two third of the total members of the Committee shall represent non-official Directors and one third shall be from the functional Directors of the Board of the company.

The Board shall decide the functions of the Committee. The Statutory Auditors, Internal Auditors and the Director (Finance) of a company shall attend the meetings of the Committee without exercising the right to vote. The Committee shall hold discussions with the Auditors periodically regarding internal control systems, scope of audit and the audit observations. The Committee shall review the half-yearly and annual accounts of the Company before submission to the Board and ensure compliance of the internal control systems. The Committee can investigate any items specified in *section 292A* or referred to it by the Board. The Committee enjoys access to all the records of the Company and can elicit external professional advice. The Board can reject the recommendations of the Committee on any matter other than financial management including the Audit Report. If rejected, the Board shall record the reasons thereof and intimate them to the shareholders (*Section 292A*).

Non-compliance of *section 292A* should be commented upon under *section 619 (4)* of the Act and no company is allowed to escape from the formation of the Committee by undue delay in allotment of shares despite already receiving the share money.

[Headquarters letter 579-CA II/398-99/KW/Vol I dated 9-7-2003]

3.10. Authentication of accounts

3.10.1. Consolidated accounts

The Balance Sheet and Profit & Loss Account (including the accounting policies and note on accounts) of a company shall be approved by the Board of Directors and signed by two Directors (including the Managing Director (MD)) and the Secretary, if appointed, on behalf of the Board before handing over these documents to the Statutory Auditors for report [*Section 215 (1) and (3)*]. This power of the Board cannot be delegated to a Committee of Directors or to some of the Directors. If there is no MD, the Secretary, if any, and two Directors shall sign the accounts. If MD or only one Director is available in India, such person shall sign the same explaining the reasons for non-compliance of *section 215 (1)*. The Audit Committee, if applicable, shall review the financial statements before submission to the Board and ensure compliance of the internal control systems (*Section 292A*).

3.10.2. Branch accounts

The branch accounts shall be signed by a responsible officer of the branch by way of authentication before submitting to the Branch Auditors, whose report shall be forwarded to the Statutory Auditors of the company for finalizing the consolidated report (Sections 227 and 228).

3.11. Appointment of Auditors

The Statutory/ Branch Auditors of Government companies are appointed/ reappointed by the CAG, fixing the terms and conditions (including the audit fee) [*Section 619 (2)*]. They are usually given a term of four consecutive years subject to satisfactory performance during the immediate previous year and fulfilment of certain conditions put forth in the appointment order.

They should not claim unreasonable travelling/daily allowance and out of pocket expenses. Similarly, no TA/DA claim should be made if the branch office of the audit firm and branch audit of the place happened to be the same station. No assignment for internal audit/consultancy or other services should be accepted by them other than statutory assignment such as tax audit, etc., during the year and immediate succeeding year of audit. They should complete the audit within the time schedule fixed by the Management to place the accounts in the AGM. The Management should also comply with these conditions. The Auditors should produce the working papers/files to the AG (ERSA) when called for. They are required to preserve the audit working papers, etc., for a minimum period of 10 years in normal course.

The remuneration and other allowances payable to the Auditors may be fixed/regulated by the Management as per *section 224 (8) (aa)* of the Act read with the guidelines issued by the Department of Company Affairs (*Notification No.7/76 dated 8-4-1976*) and ICAI prescribing the minimum audit fee (*Notification No.1-CA (7)/75/2004 dated 12-5-2004).* The volume of work and the time normally taken for the completion of audit should also be considered while fixing the audit fee. The remuneration payable so fixed may be intimated to the CAG/Auditors for reference and record.

In the case of appointment of Auditors of a Government company for the first time, the company may take up the matter with Headquarters. If the company has approached the AG (ERSA) in this score, the case should be taken up by the latter. Further, Finance Accounts of the State Government may be examined every year to see whether any investment by way of share capital has been proposed/made in a new Government company/Statutory corporation. Similarly, the Board minutes of the entity may be scrutinised for the formation of its subsidiary companies. In all these cases, the matter should be taken up with Headquarters by the AG (ERSA) along with a copy of its Memorandum and Articles of Association/Act constituting the corporation.

[Headquarters DO letter 83 CA IV/08-95 (II) dated 11-3-1999 – File CA IV/A/17-2/Vol XXX and letter CA V/30-2003/379 dated 21-7-2003]

3.12. Auditor's Report

3.12.1. Statutory Auditor's Report

While bringing out the duties and powers of Statutory Auditors, it was mentioned among other things that they are required to make a report to the members of the company on the state of affairs of the accounts examined by them for the appointed year (*Section 227*). The Auditor's Report shall be made in terms of the Companies (Auditor's Report) Order, 2003 (CARO 2003). A specimen of the Auditor's Report to the members of the company is enclosed (**Annexure 3**).

Consequent on the appointment, the Auditor has access to the books of account and vouchers. Hence, the Auditors are not barred from certifying the accounts on the same date of approval of accounts by the Board. Though no timeframe has been fixed for the Auditors for the certification of accounts, they should not take undue time in this respect violating the provisions of *sections 166* and *210*.

3.12.2. Branch Auditor's Report

The Branch Auditors are required to prepare the report in accordance with *section 227* of the Act and the requirements of CARO 2003. The Branch Auditor's qualifications are normally included in the consolidated report unless the Statutory Auditors are satisfied that either -

i) the qualifications are met while preparing the accounts of the company/ during the course of audit; or

ii) the qualifications are not material in the context of the company's accounts as a whole; or

iii) in the light of the information which were not available to the Branch Auditors.

[Para 3.27 of ICAI's Statement on Qualifications in Auditor's Report]

3.12.3. Fee to Auditors for attending Board meetings

No fee should be paid to the Auditors for attending the Board meetings, if the attendance was in connection with the Auditor's Report.

[Headquarters letter HA/20(5)-61/359 dated 29-5-1961]

3.13. Audit of accounts by the CAG

Audit on the accounts of Government companies (including 619-B companies) is conducted by the CAG under section 19 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and in accordance with section 619 (3) (b) and (4) of the Companies Act, 1956, in addition to the audit conducted by the Statutory and Internal Auditors. This Act empowers the CAG to audit the accounts of Government companies despite anything contained in sections 224 to 233 of the latter Act ibid. The powers include appointment of Statutory Auditors, manner in which financial audit should be conducted, issue of directions/sub-directions to them to furnish reports on the state of affairs of the companies and conduct supplementary/test (transaction) audit and financial audit on their accounts.

Statutory Auditor of Government company (including a 619-B company) located in the State is appointed by the CAG under *section 619 (2)* of the Companies Act, 1956 and a copy of the appointment order is endorsed to the AG (ERSA) entrusting the audit of the entity under *sections 619 (3) and (4)* of the Act ibid. This empowers the AG (ERSA) to take up the transaction and financial audits of such a Government company.

[Headquarters lrs. 690-CA/92-67 dt 16-6-1967 and 2165 CA V/ 95-69 dt.3-10-74)]

The transaction audit on the accounts of a Government company is performed under *section 619 (3) (b)* of the Act and the results thereof are communicated to it by way of Inspection Report endorsing a copy thereof to the Administrative Department of the company. In the case of a company under liquidation, audit may be conducted till the date of passing the winding up resolution and the Inspection Report should be sent to the Government and the Liquidator.

The financial (accounts) audit of Government companies is conducted under *section 619 (4)* of the Act and the results thereof are intimated in the form of comments. Where a company goes into liquidation before the AGM is held, financial audit should also be conducted for the period prior to the date of liquidation. In this case and in respect of non-placement of the Comments in the AGM already held, they should be forwarded to the Government and the Liquidator for placing them before the next AGM under sections *460 (3) (a) and 496 (1) or 508 (1) (a)* of the Act.

3.13.1. Selection of companies

The CAG has an independent right to comment upon or supplement to the Statutory Auditor's Report on the accounts of Government companies (including 619-B companies). Certified financial statements and other documents for supplementary (financial) audit are usually submitted by the Management (instead of by the Auditors) to the AG (ERSA). In this context, the Statutory/Branch Auditors or the Management are required to submit the following documents.

a) two copies each of the Auditor's Report and the approved financial statements of the entity (in original);
b) true copy of the resolution passed by the Board approving the current year's financial statements;
c) true copy of the resolution passed by the AGM adopting/considering the previous year's financial statements;
d) compliance certificate signed by the Statutory/Branch Auditors (as mentioned in Chapter 3.15);
e) report, in original, under section 619 (3) (a) of the Act; and
f) date of the proposed AGM

3.13.2 Financial audit of Government Companies

Supplementary audit under section 619 (4) of the Companies Act, 1956 on the accounts of a State Government company is taken up annually if its paid – up capital or turnover for the year exceeds a specified amount, which is decided by Headquarters from time to time. (The present minimum prescribed amount is Rs.25 crore). Government companies (including 619-B companies) engaged in financing activities or those selected for Audit Report (Comml) are also qualified for annual financial audit irrespective of the amount of paid – up capital or turnover. The audit of the remaining Government companies (including 619-B companies) should be conducted triennially. The AG (ERSA) is empowered to select any other Government company (including 619-B company) also from among these companies for annual financial audit subject to reasons intimated to Headquarters. The annual selection of these companies for financial audit should be exercised by the AG (ERSA).

[Headquarters letters CA IV/Tech 2-86-174-CA IV/25-60 dated.14.4.1986, 1-Circular/Commercial-states/1994 (CAG/P.R.No.451 AG(Au)1/Sectt) dated.16.3.1994 and 289/CA II/Co-ordn/Criteria /Govt. Co/23-2004 dated 15.3.2004]

Immediately after the receipt of certified accounts, it should be scrutinized and proposal for the selection of such Government companies (including 619-B companies) for financial audit or otherwise indicating the name of the company, period of accounts, whether selected for audit during the last two years, share capital and turnover for the current year, present status of the company, etc., should be submitted to the AG(ERSA). Financial audit is either taken up or Non-Review Certificate is issued to the company as per the directions of the AG (ERSA).

While submitting the proposal, certified accounts and the Auditor's Report of each Government company should be reviewed by CA HQ Section to ensure that neither significant variation exist between the current and previous years accounts including the accounting policies nor prima-facie irregularities/deficiencies/inconsistencies, etc., exist in the current year's accounts and audit reports. Accordingly, accounts of a Government company (including a 619-B company) may be considered for non-review on case to case basis.

[Headquarters letter 664/CA II/398-99 dated.1.8.2002]

If the accounts are approved by a Committee constituted by the Board, audit on such accounts should not be taken up and the management should be advised by the CA HQ Section to resubmit the accounts for audit duly approved by the Board of Directors.

3.13.3 Non-review Certificate

If a Government company is not selected for financial audit, a Non-review Certificate should be issued to the Management by the AG (ERSA) in the prescribed format stated as Annexure without reference to headquarters.

The company may be required to set right trivial deficiencies noticed during the initial examination of accounts by CA HQ Section, either at the time of printing/finalizing the next year's accounts.

While forwarding a copy of the Nil Comment/Non-review Certificate to Headquarters, copies of the prescribed documents, as stated in Chapter 2.20 should be sent in the same manner as in the case of draft Comments.

3.13.4 Draft Comments/Comments on accounts

Audit enquiries on the accounts of a Government company (including a 619-B company) are issued to the Management by the IO for remarks during the course of financial audit. On the concluding day of audit, the draft Comments on the accounts should be finalized by the IO and issued to the Statutory/Branch Auditors in the prescribed format endorsing a copy to the Management for their replies to the draft comments.

In the covering letter enclosing the draft Comments, the Auditors and the Management should be specifically required to furnish replies to the Branch Officer of the CA HQ Section concerned within a maximum period of five days from the date of issue of the draft Comments and in the absence of replies, the final draft Comments should be finalised ex-parte as if they have no remarks on the draft Comments. However, Auditors/Management may be addressed again at Group Officer level to furnish replies within a reasonable period in exceptional circumstances so as to consider their views. If extension of time has been required by them, the same may be considered with the approval of Group Officer. All these delays should be indicated in the proforma on the performance of Auditors of Government companies/corporations.

[Orders of the AG (Au) dated 21-2-1991 and 12-3-1991]

Major irregularities having substantial financial significance noticed during the course of transaction audit should be considered for Comments, if they are of special interest to the shareholders and not of tentative or unfinalised character.

[Headquarters circular letter 3670-Rep/222-59-Pt II dated 3-11-199I]

On completion of financial audit, CA Party should submit the prescribed documents to CA HQ Section concerned as indicated in *Chapter 2.21* (Commercial Audit Headquarters Sections). The draft Comments are afresh finalised by **CA HQ Section** in the aide memoire format [showing the audit observations (field), reply of the Auditors, reply of the Management and further remarks there against] for sending to Headquarters. Minor nature of audit observations such as classification error, non-compliance of Schedule VI, totalling mistake, etc., may not be considered while finalising the draft Comments, if the Management agrees to rectify them at the time of printing of the accounts/finalisation of next year's accounts. They may also be urged to rectify the lapses and in the case of non-compliance, suitable draft Comments may be proposed during next year. All these lapses should be noted in the Local Audit Note Book for verification during next audit. Status report may be called for in this respect, if necessary as indicated in *Chapter 2.32*. The following documents should be sent to Headquarters demi-officially (Director/Deputy Director – Commercial States II) for approval of the Comments.

Sl.No.	Documents	Signed by
1	Certified financial statements of the company, in original	-
2	Auditor's Report on the accounts of the company, in original	-
3	Final draft Comments in the aide memoire format comprising the draft Comments retained and dropped	AG (ERSA)
4	Proposed final draft Comments in the prescribed format (as stated in Chapter 3.13.7.)	AG (ERSA)
5	Proforma on the performance of Auditors of Government companies/corporations	AG (ERSA)
6	Proforma for commencement and completion of audit (**Annexure 4**)	Branch Officer/CA HQ Section

After attending to Headquarters queries, if any, on the Comments, the approved Comments should be issued to the Management under the signature of the AG (ERSA) for placing before the AGM. The company may be required to submit six copies of the printed annual report incorporating the certified accounts, Comments, etc., for sending to Headquarters, etc. Before releasing the Comments, the facts and figures therein should be verified by the **CA HQ Section** concerned. A copy of the Comments as issued to the company should be forwarded to Headquarters along with an aide memoire (showing Headquarters queries and further remarks there against), if any, and matrix (**Annexure -5**).

[Headquarters letters 782/CA II/Co-ord/MAE/2002-03/55-2003 dated 8-10-2003 and 266-CA II/Co-ordn/MAE/2002-03/55-2003dated 9-3-2004]

The actual effect of various Comments on the net result of the profit/loss of the company may be summarized in a separate omnibus paragraph in the Audit report in order to facilitate a lay reader and help in the compilation of material for the Audit Report (Comml).

[Headquarters DO letter 135-CA II/90-85 dated 13-1-1987 and Circular 5/CA IV/17-2/Vol XXIII/87 dated 1-6-1987]

3.13.5. Nil Comment Certificate

In case, there is no draft Comments on the original accounts of a Government company/Auditor's Report after financial audit, a Nil Comment Certificate should be issued to the Management by the AG (ERSA) in the prescribed format as stated in *Chapter 3.19.3* without reference to Headquarters.

3.13.6 Time schedule for completion of audit.

In order that the Comments on the accounts of Government companies are issued expeditiously, all the stages including receipt of replies from Auditors/Management and processing at CA HQ Section and Headquarters should be completed within a period of two months. This time schedule will enable the companies to hold the AGMs in time and also for early finalization of the accounts for the succeeding years. The draft Comments should be sent to Headquarters demi-officially.

The following time schedule has been fixed for processing and forwarding of the draft Comments to Headquarters for approval and issue of Comments to the companies.

Sl. No.	Particulars	Days
1	Arrangement, completion of audit and issue of draft Comments (for bigger institutions)	15
2	Receipt of reply from the Management/Auditors	5
3	Finalisation and forwarding of final draft Comments to Headquarters	5
4	Finalisation and issue of Comments by Headquarters to the AG (ERSA)	-
5	Issue of Comments to the Management	3

The receipts of accounts from companies should be specifically watched by the AG (ERSA)/Group Officer maintaining constant liaison with their top Management so as to take up the audit on priority basis without causing any dislocation to other audit work. In the case of companies, whose accounts are in arrears, the probable dates of receipts of accounts should be ascertained to plan the audit in advance.

[Headquarters DO letter 2032-CA II/244-83 dt 16-11-1983 and letters 685-CAII/185-84 (Circular No. 5 CA II/SCA II/85) dt 12-4-1985 and 952/CA II/398-99 dt 23-12-2003]

3.13.7. Finalisation of Comments by the AG (ERSA)

The AG (ERSA) is allowed to finalise and issue the Comments in respect of Government companies having a paid-up capital of less than Rs 5 lakh. If any points require clarification from Headquarters, such draft Comments of these companies may be sent for approval.

[Headquarters letter 1716-RCA/89-Admn III/1962 dated 13-12-1962 Manual of Out Audit Department, Office of the AG, Gujarat]

The AG (ERSA) is delegated to finalise the Comments of all Government companies, whose accounts are in arrears for five years and above, without reference to Headquarters. Before finalizing the Comments, it should be ensured that the provisions of Companies Act, 1956 and various AS issued by ICAI are complied with while preparing the accounts.

[Headquarters letter 132/CA II/55-97 dated 12-3-1998 – File CA IV/A/17-2/Vol XXIX]

3.13.8. Hand delivery of draft Comments

In case of extreme urgency, the draft Comments/Separate Audit Reports (SARs) in respect of Government companies/Statutory corporations may be handed over to their representatives/resident liaison officers by the AG (ERSA) and to receive the approved Comments/SARs by them from Headquarters for onward deliveries to Headquarters and the AG (ERSA) respectively provided they are authorised by the latter in this regard. The material should be enclosed in sealed covers. The AG (ERSA) should watch the receipt of the approved Comments from them before taking further action thereon.

[Headquarters letter 790/CA II/398-99 dated 5-11-1999]

3.13.9. Performance of Auditors

The performance of Auditors of Government companies is assessed during financial audit and while processing the final draft Comments. The criteria to judge the performance of Auditors are indicated in the proforma on the performance of Auditors of Government companies/corporations **(Annexure 2)**. CA HQ Sections may reassess the grade awarded to the Auditors keeping in view the final draft Comments proposed to Headquarters.

[Orders of Prl AG (Au) dated 18-4-2006]

Whenever the performance of Auditors is considered as *Unsatisfactory*, it should be indicated in the proforma on the performance of Auditors of Government companies/corporations (Part D – Assessment) and in the covering DO letter forwarding the draft Comments. Simultaneously, a show cause notice/special memo should be issued by the **CA (HQ) Section** to the Auditors spelling out the various lapses/omissions leading to unsatisfactory performance. They should be required to furnish the reply within five days. They may also be given an opportunity for personal hearing if sought for. Thereafter, the AG (ERSA) should again assess the performance of the Auditors in the light of the reply furnished by them. In the case of unsatisfactory reply, the matter should be reported to Headquarters enclosing the following documents within one month of sending the draft Comments for further action.

Sl.No.	Documents	Signed by
1	A speaking order (indicating the lapses of the Auditors, replies thereto and further remarks there against)	AG (ERSA)
2	Proforma on the performance of Auditors of Government companies/corporations (Part D)	AG (ERSA)
3	Copy of show cause notice issued to the Auditors	Group Officer
4	Copy of the Auditor's reply to the show cause notice	-
5	A statement showing the corrections made in the accounts and the Auditor's observations there against in case having no Comments due to the revision of accounts	AG (ERSA)/ Group Officer

Failure of the Auditors to reply to the draft Comments or participate in the discussion when called for should be highlighted in the proforma on the performance of Auditors of Government companies/corporations.

[Headquarters letter 4358/CA V/AO/40-84 (Circular No.2) of 1984]

The following course of action may be taken considering the seriousness of the situation.

1. the Auditors should merely be cautioned for future audit but not denied any assignments; or
2. the reappointment of the Auditor of the company in question may be withheld but other existing audits renewed in the normal course; or
3. the Auditors may be considered for smaller companies: or
4. all audits should be withheld for a fixed period of time.

3.13.10. Non-production of records

Documents and records are required for conducting financial audit. Particular care should be taken to ensure that they are not called for unnecessarily from the Management. In case, there is any difficulty in getting the required documents, the matter should be brought specifically to the notice of Headquarters while forwarding the draft Comments under *section 619(4)* of the Act.

[Headquarters letter 798-CA-/87-BCA/63 dated 2-7-1964]

3.13.11. Review of Accounts

In the light of the present corporate financial reporting framework, Review of Accounts of State Government companies need not be prepared and issued along with the Comments.

[Headquarters letter 875-CA II/Co-ordn/Review of Accounts/06-07/800-2006 dt. 29-8-06]

3.14. Directions/Sub-directions to Auditors

The CAG is empowered to issue directions to the Statutory/Branch Auditors and to furnish a report against the state of affairs of Government companies [Section 619 (3) (a)]. These directions are standardized for all companies and revised periodically. The report should be furnished under broad headings such as corporate governance and audit Committee, business risk, disinvestment, productivity, system of accounts and financial control, fraud/risk, assets (including inventory), investment, liabilities and loans, contracts, costing, internal audit, human resources development, legal/arbitration, EDP audit, environment and other areas. The report should relate to specific areas under each title.

[Headquarters letters 1050-CA/130-66 dated 11-8-1966 and 44 CA IV/42-2000/Vol II dated 31-1-2006I]

Besides these directions, the AG (ERSA) is authorised to issue sub-directions on the specific weak areas of accounts for detailed examination by the Auditors and the results thereof should be included in the above report. The areas may be identified from the previous years Inspection Reports, Comments, Auditor's Reports, etc. The sub-directions may vary from institution to institution for each year.

The Branch Auditors should submit reports to the Statutory Auditors (consolidated), the AG (ERSA) and the Government Company. The Statutory Auditors should finalise and submit the reports to the CAG, the AG (ERSA) and the Company. The Statutory/Branch Auditors should furnish the reports under *section 619 (3) (a)* of the Act along with Statutory/Branch Auditor's Report on certified accounts.

Deficiencies/shortcomings on certain areas have been reported by the Auditors year after year or since the inception of the companies. In such cases, certain companies may have inherent difficulties in introducing new systems to rectify them or that the introduction of requisite systems may not commensurate with the advantage to be gained. Such cases should be examined to ensure whether it is really necessary to follow new procedures or systems as commented upon by the Auditors and if so, what are the consequences of the failure of the Company in this respect.

[Headquarters letter 344-CA III/574-74 dated 8-3-1979]

3.15. Compliance certificate

The Statutory/Branch Auditors is required to submit Compliance Certificate stating that the directions/sub-directions issued by the CAG for the financial audit of a Government company are complied with while certifying the accounts. The certificate, indicating the name and membership number of the Auditor should be submitted to the AG (ERSA) along with the certified accounts.

[Headquarters letter 221-CA II/Coordn/Instruction/06-07/82-2005 dated 30-3-07]

3.16. Annual General Meeting

Every working/non-working company should hold an AGM in each year for adopting/considering the certified financial statements along with the Auditor's Report and other matters such as payment of dividend, if any, etc. (Sections 166 and 173). In the case of Government companies, the Comments should also be placed before the AGM. The interval between two such meetings shall not be more than 15 months. The first AGM of a company shall be held within 18 months from the date of its incorporation. In this case, it is not necessary to hold the AGM in the year of its incorporation or in the immediate succeeding year. The Registrar of Companies is allowed to grant extension to hold the AGM by three months within nine months from the close of the financial year. Hence, considering the extension of time, the AGM shall be held at the earliest of 18 months from the date of the last AGM or nine months from the close of financial year. The AGM shall be held annually at the registered office of the company or within the city/town/village locating the registered office, irrespective of the fact whether accounts are ready or not as this is only one of the items for consideration at the meeting (Section 166). In such a situation, after holding the AGM, it should be adjourned to a future date within the maximum period allowed. Subject to the Articles of Association of the Company, the Board shall approve/ratify the decision to hold the AGM before it is held.

If the accounts were not adopted in the AGM, it would be treated as a vote of no confidence against the Board. The Act requires only consideration of accounts. Hence, there is no bar to finalise the accounts for next year. It would be correct to say that the accounts of a company are finalised only after approval by the shareholders (Section 210). While appointing the Auditors, the CAG has specifically urged the Auditors to indicate the fact of non-adoption of the previous year's accounts in their reports, if the situation warrants.

If the audited accounts of Government companies were not placed before the AGM within the prescribed time under section 210 (3) and (4) of the Act, the delinquent Directors are liable for prosecution under section 210 (5).

[Headquarters letter 76-CA IV/12-80 dt 3-1-1986 enclosing GOI, Ministry of Industry and Company Affairs' letter 8/1(210/220) 85-CL. V (Circular No. 2/85) dt 25-3-1985]

3.17. Non-placement of Comments in the AGM

The Nil Comment/Non-review Certificate should be treated at par with the Comments under section 619(4) of the Act. The Board of Directors of Government companies should place the Comments or Nil Comment/Non-review Certificate before the AGM at the same time and in the same manner as in the case of Auditor's Report [Section 619 (5)].

Violation of section 619 (5) of the Act need not be raised as a draft Comment under section 619 (4). The matter may be reported to the State Government, Department of Company Affairs and the Registrar of Companies simultaneously endorsing a copy to Headquarters. A consolidated violation of all such cases should be commented upon in the Audit Report (Commercial).

[Headquarters DO 973/CA IV/61-80 dated 30-9-1981]

3.18. Printed accounts

The printed accounts of a Government company may be examined to see whether the replies to the Comments were misrepresented the facts or the shareholders were given an incorrect picture at the AGM or in spite of repeated Comments, the Management failed to rectify the deficiencies/irregularities pointed out by Audit. All such cases may be consolidated and commented upon in the Audit Report (Comml).

[Headquarters letter 568-CA IV/53-88 (No. CA IV/Tech/5/88) dated 8-12-1988]

3.19. Revision of accounts

3.19.1. Consolidated certified accounts

The Board is allowed to reopen the accounts, which were earlier approved and audited but yet to be circulated to the shareholders. The Board shall approve the revised accounts for handing over to the Auditors for recertification. The ICAI has recommended that in such cases, the Auditors should ensure that all copies of the original certified accounts are collected back and make adequate disclosure to this effect on the revised certified accounts. Ordinarily, the accounts once adopted by the AGM cannot be reopened. ICAI has decided that reopening of such accounts should not be permitted under any circumstances. However, Central Government has clarified (August 1987) that a company could reopen and revise the accounts after adoption by the AGM to comply with the technical requirements of taxation laws (*Section 210*).

If a Government company is willing to revise the accounts on the basis of the audit enquiries/provisional Comments, it may be prevailed upon to do so giving effect to all the audit enquiries having material impact. Material audit enquiries not considered for revision of accounts may be proposed as draft Comments.

[Headquarters letter 675/CA II/398-99/KW dated 22-8-2003]

Audit should not advice the Management of a Government company to revise the accounts as a result of financial audit under *section 619 (4)* of the Act. In order that the Balance Sheet and Profit & Loss Account should disclose a true and fair view of the state affairs of the company, Audit should not object if the Management desires to revise the accounts.

If the revision of accounts substantially affects the working results or brings out significant impact on any item in the revised accounts, the fact of revision and the impact thereon should be disclosed in the Note on accounts or Auditor’s Report. In the absence of such a proper disclosure, suitable draft Comment indicating the effect of revision should be made on the revised accounts. If the revision of accounts is of a minor nature and the fact of revision has not been disclosed, no comment need be proposed under *section 619 (4)* of the Act.

[Headquarters letters CA IV/Tech/18-79 dated 15-1-1980 and 393/CA IV/89-79 (No. CA IV/Tech/5-82) dated 1-5-1982}

The correctness of the revision carried out on the revised accounts should be ensured by conducting the financial audit again on such accounts. The final draft Comments/Nil Comment Certificate on the revised accounts of a Government company should be finalised in the same way as in the case of the final draft Comments/Nil Comment Certificate on the original accounts. While sending a copy of the Nil Comment Certificate/final draft Comments on the revised accounts to Headquarters, the required documents as indicated in *Chapter 2.21* should also be sent.

3.19.2. Branch accounts

The Management may make some changes in the accounts at the instance of the Statutory Auditors but without the knowledge of the Branch Auditors, whose report has already been forwarded to the Statutory Auditors but not reported to the members of the company by them. In such circumstances, the Statutory Auditors are required to get a revised report from the Branch Auditors. If the Statutory Auditors have already submitted the report incorporating the changes in the branch accounts without the knowledge of the Branch Auditors, it is not obligatory on the part of the latter to submit a report on the revised accounts.

[Compendium of Opinions issued by ICAI – Vol VI (first edition)]

3.19.3. Formats for Comments, etc. on revised accounts

In order to bring out the impact of audit, the formats for Comments and Nil Comment Certificate on the revised accounts in respect of Government companies have been amended by Headquarters keeping in view the national and international standards of reporting (**Annexures 6**).

[Headquarters letter 221/CA II/Coordn/Instruction/06-07/82/2005 dated 30-3-07]

3.20. Annual reports by Government

State Government shall cause to prepare an annual report on the working and state of affairs of each Government company within three months of the adoption of the accounts in the AGM. The accounts of such a company together with the report of the State Government, Auditor's Report and the Comments of the CAG shall be laid before the Legislature (Section 619A).

3.21. Materiality

Materiality is an important aspect that governs the selection and application of accounting policies by any institution. The extent of audit checks to be conducted would depend upon the materiality of the item relating to financial position and operating results. It is a matter of professional judgement based on experience and may vary from institution to institution for each item depending upon legal requirements and size and nature of the undertaking besides their operations. It is to be determined both with reference to the overall financial information level and in relation to individual account balances and classes of transactions. Risk envisaged by Audit would also decide about the materiality. It can be judged from the impact on the profit/loss and the assets/liabilities and the total of the group of items to which it belongs.

The guidance on CAG's comments on Financial Statements and Statutory Auditors Report are indicated below:

1. CAG's comments on financial statements

i. Compliance with legal and regulatory requirements:

If legal or regulatory requirements applicable to the preparation and presentation of the financial statements have not been followed or complied with, the fact should, with reasons, if any, be commented upon. Such legal/regulatory requirements are prescribed as under:

a. Requirements regarding form and contents of the financial statements as prescribed under the regulating Act like section 211 of the Companies Act 1956 read with schedule VI and section 11 (1) (a) of the Insurance Act, 1938 read with schedule B to IRDA (preparation of financial statements and Auditors Report of Insurance Companies) Regulation, 2000.

b. Compliance with prescribed Accounting Standards, as applicable.

ii. Disclosure of Accounting Policy: Inadequate or improper disclosure of an accounting policy when it is likely that a user of the financial statements would be misled by the description should be commented upon.

iii. Impact of comment: If the impact of an audit comment or the aggregate impact of a number of comments-

a. Converts profit into loss or vice versa in a financial statement;
b. Reverses a trend in the accounts generally or in a particular figure;
c. Increases losses above the limits for disclosure;
d. Increases the amount in expenditure head above the threshold that requires an explanation in the account; and
e. Creates or eliminates the margin of solvency in a balance sheet (post balance sheet events should also be considered).

iv. Repeated comments: In case certain comments are being repeated in the Statutory Auditors Report or are not being proposed for issue as CAG's comments due to low materiality (value) or on which management has offered an assurance but the same has not been complied with, such comments may be proposed after a cycle of two years.

v. Money value of comments:

a. Individual comments- Individual observations on profit/ loss account involving money value equal to or exceeding 2 percent of the net profit/loss; and individual observations on Balance Sheet involving money value of net assets/ liability (line item) to which it pertains should be considered material/significant.
b. Aggregate comments- All quantified observations on the profit/loss account should be aggregated, irrespective of individual values. If the value exceeds 3 percent of the net profit/loss, all observations together should be considered material/significant.

2. CAG's comments on Statutory Auditors Report

vi. Comments on Statutory Auditors Report should be taken in the following cases:

a. Non compliance with Auditing and Assurance Standards of ICAI.

b. Non compliance with reporting requirements of Companies Act, 1956 including any notifications prescribing reporting requirements under the Companies Act.

c. Wrong qualifications involving significant variations.

d. Non quantification of major qualifications where it can be demonstrated as quantifiable in supplementary audit and meet the criteria of materiality/significance by value as listed above.

vii. The 'true and fair' opinion is given by the Statutory Auditors. The opinion of the Statutory Auditors may be viewed in the context of the comments in totality in the following cases:

a. If as an impact of the observations, profit is converted into loss and vice-versa, irrespective of the monetary value.

b. If the aggregate value of the CAG's observations and the value of the statutory auditors quantified qualifications on profit and loss account equals or exceeds 20 *per cent* of the net profit/loss, the Statutory Auditors opinion should be reviewed to consider the sustainability of a 'true and fair' view, if such a view has been expressed by Statutory Auditor.

It is reiterated that the monetary values and percentages mentioned in these guidelines should not be viewed in isolation of the particular circumstances of the financials statements/Statutory Auditors Report.

[Headquarters letters CA IIC-ordn/Instructions/07-08/82-2005]

3.22. Accounting Standards

The National Advisory Committee on Accounting Standards constituted by the Central Government advises the Government for the formulation and laying down of Accounting Policies/Standards for companies (*Section 210A*). The AS issued by the ICAI shall be deemed to be the AS until the Committee is constituted. Besides the AS, the ICAI has been issuing various Accounting Standards Interpretations (ASI) for compliance. While finalising/auditing the financial statements, the Management/Auditors should keep in mind the various AS and ASI to ensure that they are prepared/audited in accordance with the prescribed standards and interpretations. Failure of the Management in this regard should be qualified in the Auditor's Report/Comments. If any AS/ASI is found to be not in conformity with any statute/law, the financial statements should be prepared to satisfy the latter. In the Board's Report, the Directors shall state specifically that in the preparation of annual accounts, the applicable AS had been followed along with proper explanation relating to material departures, if any. [*Section 217 (2AA)*]

For the purpose of applicability of AS, institutions are classified into three categories, viz., Level I, Level II and Level III as shown below.

Level I enterprises	**Level II enterprises**	**Level III enterprises**
i) Enterprises whose equity or debt securities are listed in India or abroad; (ii) Enterprises which are in the process of listing their equity or debt securities; (iii) Financial institutions and banks including co-operative banks; (iv) Insurance institutions; (v) All commercial, industrial and business reporting enterprises, whose turnover (excluding other income) for the immediately preceding accounting period exceeds Rs 50 crore; (vi) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs 10 crore at any time during the accounting period; or (vii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.	(i) All commercial, industrial and business reporting enterprises, whose turnover (excluding other income) for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs 40 lakh but below Rs 50 crore; (ii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs 1 crore but below Rs 10 crore at any time during the accounting period; or (iii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.	Enterprises which are not covered under Levels I and II

Where an enterprise has previously qualified for any exemption (being under Levels II or III), but no longer qualifies for the same in the current accounting period, the relevant standards become applicable from the current period. Where an enterprise has been covered in Level I and subsequently ceases to be so covered, the enterprise will not qualify for exemption available to Level II enterprises, until the enterprises ceased to be covered in Level I for two consecutive years. Similar is the case in respect of an enterprise, which has been covered in Level I or II and subsequently gets covered under Level III.

ICAI has issued 29 AS and ASI each (**Annexure 7**). No relaxation should be given to Levels II and III enterprises in respect of recognition and measurement principles. Relaxations are provided with regard to disclosure requirements. Accordingly, Levels II and III enterprises are fully exempted from certain AS, which primarily lay down disclosure requirements.

If any item in the financial statements of a company is treated differently than the AS due to the judgement of the Court/Tribunal, the following disclosures should be made in the accounts.

i) A description of the accounting treatment made along with the reason thereof (i.e. due to the directive of the Court);
ii) Description of the difference between the accounting treatment prescribed in the AS and that followed by the company; and
iii) The financial impact, if any, arising due to such difference.

As per the Non-banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 formulated by Reserve Bank of India (RBI), prudential norms on income recognition, accounting for investment, asset classification, etc., for all non-banking financial companies (NBFCs) were laid down. Hence all NBFCs are required to adhere to the AS and guidance notes issued by the ICAI in so far as they are consistent with any of the directions.

3.23 Auditing and Assurance Standards

The Auditing & Assurance Standards (AAS) issued by the ICAI establishes standards to ensure that the Auditors carry out their audits in accordance with the accepted auditing practices. There are 35 AAS as indicated in **Annexure 8**.

In addition to the AAS, the Statement on the Companies (Auditor's Report) Order, 2003, Statement on Qualifications in Auditor's Report and Statement on the amendments to Schedule VI to the Companies Act, 1956 issued by the ICAI should also be kept in mind while auditing the accounts of companies/corporations.

3.24. Holding and subsidiary companies

As per section 4 of the Companies Act, 1956, a company shall, subject to the provisions of sub-section (3), be deemed to be a subsidiary of another, if –

(a) that other controls the composition of its Board of Directors; or

(b) exercises or controls more than half of the total voting power of such company, where the holders of preference shares issued before the commencement of this Act have the same voting rights in all respects as the holders of equity shares; or

(c) holds more than half in nominal value of its equity share capital (in case of any other company); or

(d) the first-mentioned company is a subsidiary of any company which is that other's subsidiary.

The composition of a company's Board of Directors shall be deemed to be controlled by another company, if the holding company, without the consent or concurrence of any other person, can appoint or remove the holders of all or a majority of the directorships. However, in determining, whether one company is a subsidiary of another, any shares held or power exercisable by that other company in a fiduciary capacity or by virtue of provisions of any debentures shall be disregarded (*Section 4 (3).*

A company shall be deemed to be the holding company of another only, if that other is its subsidiary (*Section 4 (4).*

The accounts of a holding company shall include a copy of accounts of its subsidiary company (including the Auditor's Report and Board's Report thereon), a statement indicating the extent of holding company's interest in the subsidiary company at the end of the financial year, etc. (*Section 212*). These documents shall be signed by the same persons signing the accounts of the holding company.

The Ministry of Company Affairs has clarified certain issues under section 212 of the Act, as shown below.

Sl. No.	Subject	Clarification
1	Whether it is mandatory for a holding company to lay down the accounts of its subsidiaries before its Board of Directors at the time of obtaining the authentication of its annual accounts under *section 215 (3)* of the Act?	No. As and when received, they may be placed before the Board for perusal and information for compliance of section 212 (1), (3), (4) and (5).
2	At what point of time, the documents referred to in *clause (a) to (d) of sub-section (1) of Section 212* of the Act will be attached to the Balance Sheet of the holding company?	At the time of compliance of section 219 of the Act.
3	Whether the Balance Sheet, Profit & Loss Account, etc., of the subsidiaries are required to be placed before the AGM of the holding company?	Yes
4	Whether the documents referred to in *clauses (c) to (g) of sub-section (1) of section 212* of the Act are required to be submitted to the Auditors at the time of submission of accounts of the holding company for certification?	Yes. These relate to the accounts of the holding company.
5	Whether the Directors of a holding company are responsible for non-compliance of provisions of *clause (a) to (d) of sub-section (1) of section 212* of the Act?	No. They are however, required to watch the compliance of other provisions of section 212 of the Act.

[Headquarters letter 717-CA IV/52-80 (No. CA IV/Tech/6-81)dated 10-8-1981]

3.25. Negative qualification

If the Auditors are unable to certify the correctness of any item in the accounts such as closing stock of stores and spares, non-provision of liability, etc., for the reasons mentioned in the Auditor's Report, it will not be necessary to issue a draft Comment for over valuation of a particular item of store/non-provision of liability, etc., if the amount involved is not material. As it is not possible to visualize and codify all the situations for this purpose, each case should be decided on merits and utmost care should be taken in deciding whether the draft Comment proposed is material in the context of the negative qualification issued by the Auditors. Doubtful cases may be referred to Headquarters for approval.

Major deficiencies qualified in the Auditor's Report of a company may be brought to the notice of Government/discussed with the Principal Secretary (Administrative Department of the company) for appropriate remedial action. If they are not rectified, such cases may be developed into a daft paragraph for the Audit Report (Comml).

[Headquarters lr. 642-CA IV/44-79 (No. CA IV/Technical/12-798) dated 16-8-1979]

3.26. Conversion of loans into share capital

The Finance Commission has suggested that proper disclosure about the conversion of State Government loans into share capital should be made in the accounts of Government companies/Statutory corporations. In the absence of such a disclosure, suitable draft Comment under *section 619 (4)* of the Act may be raised.

[Headquarters letter 465/CA II/18-2000 dated 12-5-2000]

3.27 Hire purchase sales

As the ownership of the machinery sold under hire purchase system passes on the payment of the last instalment by hirers, the more appropriate basis would be to relate the profit to the proportion of sale price realized rather than the time basis.

[Headquarters letter 507/CA II/24-69 dated 16-12-1970]

3.28 Centage charge

Under the mercantile system of accounting, the work-in-progress should represent the actual expenditure incurred on a contract and credit for centage charge should appropriately be taken on the cost attributable to the contract actually executed i.e. the extent of materials that are actually consumed for the works. If any company takes credit of centage charge on the value of materials lying at site also on the last date of the accounting year, suitable draft Comment under *section 619 (4)* may be raised on such cases.

[Headquarters circular CA II/State Com Audit II/82 dated 7-7-1982]

3.29. Excise duty

Excise duty should normally be considered as a manufacturing expense and hence an element of cost for inventory valuation. Where it contributes directly or indirectly to bringing inventory to its present location and condition and is a direct cost, it must be included in cost for the purpose of inventory valuation whether the duty is specific or advalorem. If excise duty is in the nature of a manufacturing overhead, it need not be included as an element of cost for valuation purpose when direct costing system is used but must be included when absorption costing system is followed. Such a situation arises only when excise duty is levied on a compounded basis. Where the excise duty is not considered as a manufacturing expense on the ground that the liability arises only after manufacture is completed and the inventory is valued at direct manufacturing cost, it may be charged out as an expense of the period in which the expenditure is incurred provided the accounting treatment is consistent from period to period and the full liability is provided for in respect of all excisable goods manufactured during the period irrespective of whether they are removed from factory or moved on bond. Where excise duty is paid on excisable goods and such goods are subsequently utilized in the manufacturing process, the duty paid on such goods become manufacturing cost and must be included in the valuation of work-in-process or finished goods arising out of it. Where the liability for excise duty has been incurred but its collection deferred, provision for the unpaid liability should be made. If provision is not made, the fact must be disclosed by way of a note in the accounts. Where the duty is not expensed out, excise duty applicable to items in inventory cannot be considered as a pre-paid expense. The preferable treatment is to include it as an element of cost in the valuation of inventory than to treat it as a deferred charge.

[Headquarters circular 740 CA IV/56-79-CA IV/Tech/7-81 dated 10-8-1981 endorsing Guidance Note on accounting treatment of excise duty issued by the ICAI]

3.30. Interest on customs duty

Provision for interest at the prescribed rate should be created in the accounts of the companies on customs duty in respect of warehoused goods from the expiry of one year/three months (as the case may be) till the date of clearance of such goods, irrespective of the provision for custom duty.

[Opinion of Expert Advisory Committee of the ICAI forwarded in Headquarters circular CA/O&M (RC)/ 7-85 (No.145-CFO&M) (RC) 1-82 dated 29-5-1985I]

3.31. Depreciation

The net profit of a company shall be determined after deducting all working charges, interest, bonus, depreciation, taxes, compensation, bad and doubtful debts, etc. (*Section 349*). The Companies Act, 1956 envisaged new rates of depreciation for various assets with effect from April 1987 both under written down value (WDV) and straight line methods (Schedule XIV read with *Sections 205 and 350*). These rates are the minimum rates. Hence, all companies shall provide for depreciation at the prescribed new rates under any one of the methods. However, if on the basis of a bona fide technological evaluation, higher rates are justified for any asset, they may be provided for subject to proper disclosure in the notes forming part of the accounts. While introducing the new rates, a new category of machinery called continuous processing plant carrying higher rate of depreciation has been brought out. Similarly, higher rates were stipulated for furniture and fixture used in hotels/entertainment industry and any asset costing up to Rs 5,000 is allowed to be written off entirely in the first year of purchase. Any Company following WDV method should provide for depreciation at the new rates, both for its new and existing assets. However, companies following straight line method (SLM) are allowed three options as follows.

i) Apply SLM rates for the existing assets; or

ii) Apply the new SLM rates to the original cost of all new and existing assets; or

iii) Specified period (by which at least 95 *per cent* of original cost of the asset has been provided for by way of depreciation) may be recomputed as per the procedure mentioned in *section 205/350* or Schedule XIV of the Act.

Depreciation for addition and deletion of any asset during the year should be provided for on pro rata basis. The depreciation method followed by the company and the depreciation rates or the useful lives of the assets, if they are different from those of Schedule XIV should be disclosed in the notes forming part of the accounts.

In respect of additions made during the year, no comment under *Section 619 (4)* of the Act need be proposed if full depreciation has been charged for such assets provided

(i) the method followed by the company is on a consistent basis; and

(ii) the requirements of *sections 205 (2) and 350* of the Act for writing off the asset to its residual value at the end of the specified useful life is met.

[Headquarters letter 527-CA IV/39-79 (No. CA IV/Tech/3/81) dated 12-6-1981I]

3.32. Entertainment expenditure

If part of the expenditure on entertainment is accounted under Entertainment Expenditure and the remaining amount is shown against some other heads of account such as Miscellaneous Expenditure, etc., suitable draft Comment may be proposed for the wrong classification of the entertainment expenditure under *section 619 (4)* of the Act.

[Headquarters letter 65-CA IV/5-72 dated 15-1-1972]

Reimbursement of actual expenditure on entertainment to the Directors may not be considered as allowance and hence there may not be any need for disclosure of such matter under *clause 4* of Part II of Schedule VI to the Companies Act.

[GOI, Ministry of Law, Justice and Company Affairs' letter 3/173/77-C VI dt 9-8-1979 communicated in Headquarters letter CA IV/Technical 16/79 dt. 16-11-1979]

3.33. Prior period adjustment

Provision for all known liabilities should be provided for and contingent liabilities disclosed in the accounts to show a true and fair view of the state of affairs of the company. Accountal of substantial expenditure in subsequent years may look prime facia incongruous if there is no qualification in the certified accounts of previous year's on such item. In such a situation, the reasons for non-accountal of such expenditure having materiality may be indicated while forwarding the draft Comments to Headquarters for approval.

[Headquarters letter 290-CA IV/52-60 dated 18-7-1969]

3.34. Excess provision

Part III (item 7 (1) (a) of Schedule VI to the Companies Act, 1956 provides that, where any amount written off or retained by way of depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability (which cannot be determined with substantial accuracy) in excess of the amount which in the opinion of the Directors is reasonably necessary for the purpose, such excess should be treated for the purpose of this schedule as a reserve and not as a provision as this reserve cannot be transferred to Capital Reserve, non-distributable as dividend.

As the debit balance, if any, in the Profit & Loss Account should be shown as deduction from this sub-head total, it would indicate that such reserves have only to be treated as an uncommitted reserve except where it has been funded and is supported by earmarked investments.

[Headquarters letter1754-CA II/42-79 dated 29-9-1982]

3.35. Inter unit transfers

The Profit & Loss Account should not normally show credit balances in respect of capital jobs executed and inter unit transfers as the expenditure and the receipts of different units are squared while preparing the consolidated account. Apart from inflation of both the income and expenditure, such exhibition may be motivated to take credit for a larger amount than the expenditure charged to the accounts.

During financial audit, it should be ensured that the credits are not in any way inflated. In respect of capital jobs, care should first be taken to ascertain that the jobs are not valued above the cost price. Attempts should be made to correlate cost of such jobs done with the tender/market rates. In cases where the cost is more than the market price, suitable draft Comment may be proposed.

[Headquarters letter 290-CA IV/5260 dated 18-6-1969]

3.36. Quantitative details

Clause 3 (ii) of Part II of Schedule VI to the Companies Act, 1956 specifies disclosure of certain quantitative or other information in the Profit & Loss Account by different classes of companies and companies carrying out a combination of functions. The requirement of showing the total amounts with quantitative break up of purchases and opening/closing stock thereof as per *clause 3 (ii) (d)* is applicable to a Company falling under the categories of Manufacturing and Trading in terms of *clauses 3 (ii) (a) and 3 (ii) (b)* respectively and not for a company engaged both in manufacturing and rendering/supplying services under *clauses 3 (ii) (a) and 3 (ii) (c)* respectively. In such a case, only the gross income for rendering/supplying services is required to be shown in addition to the information required to be disclosed under *clause 3 (ii) (a)*, so as to comply with the requirement of the Act.

[Headquarters letter 448-CA IV/87-80 (CA IV Tech/2-81) dated 8-5-1981]

3.37. Perquisites

Perquisites referred to in *clause 4 (vii)* of Part II of Schedule VI to the Act have the same meaning as defined in the Income Tax Act, 1961. Non-compliance of the requirement to disclose the perquisite should be commented upon under *Section 619(4)* of the Act.

[Headquarters letter CA IV/Tech/10-81 dated 14-9-1981]

Use of company's cars by officers otherwise than wholly or exclusively for the performance of their duties is one of the items of perquisites which require disclosure in terms of *clause 4 (vii)* of Part II of Schedule to the Act. Whenever disclosure of the perquisite is made in the accounts, no draft Comment need be taken leaving it to the Income Tax Department to find out the value of such perquisite. Where this facility has been made available to the Managing Director, Directors, etc., but not disclosed in the accounts, the fact that the facility has been made available may be commented upon *under Section 619 (4)* of the Act, without quantifying the value of perquisite.

[Headquarters lr 726-CA IV/56-77 Vol II dated 18-9-1982 – CA IV/Tech/15/82]

3.38. Hiring of accommodation from Directors

Hiring of accommodation from Directors by a Company does not require approval of the Board under *section 297* of the Act as the section did not deal with contracts in respect of immovable property.

[CA III/Central Commercial Audit/3/79 dated 17-10-1979]

3.39. Exemption to Government companies

As per s*ection 620* of the Act, the Central Government is allowed to exempt/modify any provisions of the Companies Act, 1956 (other than *sections 618,* *619 and 619A*) for Government companies and the position in this regard is given for reference (**Annexure 9**).

3.40. Non-banking financial Government companies

As per the guidelines issued by the RBI, all non-banking financial Government companies are exempted from the provisions of the RBI Act with regard to the maintenance of liquid assets, creation of reserve funds, acceptance of public deposits and prudential norms (including assets classification norms)

[RBI's letter DNBS (PD) CC No.2/01-01/99-2000 dated 13-1-2000 communicated by Headquarters in letter 27-CA-II/398-99/KW dated 8-1-2003]

3.41. Important provisions of the Companies Act

Some important sections of the Companies Act, 1956, which may be useful while conducting transaction /financial audit of the Government companies are, enclosed (**Annexure 10**).

Annexure 1

LIST OF STATE GOVERNMENT COMPANIES (INCLUDING 619-B COMPANIES) AS ON 31 MARCH 2010

(Referred to in Chapter 3.01)

Sl. No	Name of the entity	Name of Administrative Department	Date of incorporation
	I. Thiruvananthapuram (51)		
	Working Government companies (36)		
1.	**Bekal Resorts Development Corporation Limited** 'Jesovil', TC 3/2408, Marappalam, Pattom, Thiruvananthapuram -695004. ***E mail i.d:-*** ***bekal@vsnl.com*** ***Fax:- 0471 – 2531567, 2541345***	General Administration	03.07.1995
2.	**Handicrafts Development Corporation of Kerala Limited.** P.B.No. 171, Puthenchanthai, Thiruvananthapuram – 695 001 ***Telephone:-0471 2331358, 2330755, 2331668, 2330625, 2331559*** ***Fax :- 91-0471-2331582***	Industries	16.11.1968
3.	**Indian Institute of Information Technology and Management** *(Section 25 company)* Park Centre, Techno park, Thiruvananthapuram – 695 581. ***E mail i.d:-*** ***director@iiitmk.ac.in*** ***Website :-*** ***www.iitmk.ac.in*** ***Telephone:- 0471 2527567, 3091334*** ***Fax :- 0471 2527568***	Information Technology	5.9.2000
4.	**Kerala Agro-Industries Corporation Limited** Kissan Jyothi, Fort, Thiruvananthapuram – 695 023. ***E mail i.d:-*** ***kaicltd@sancharnet.in*** ***Website :-*** ***www.keralagro.com*** ***Telephone: - 0471 2471343 -346.*** ***Fax : 0471 2463188***	Agriculture	22.03.1968
5.	**Kerala Artisans Development Corporation Limited** TC 12/755, Vanchiyoor P.O, Thiruvananthapuram – 695 035. ***E mail i.d:- financekadco@gmail.com*** ***Telephone:- 0471 2302752, 2302749, 2302746***	Industries	01.10.1981
6.	**Kerala Automobiles Limited** Aralumoodu P O, Neyyattinkara, Thiruvananthapuram – 695 123	Industries	15.03.1978

	E mail i.d:- ***kerauto@vsnl.com*** ***Web address:-*** ***www.keralaautmobile.com*** ***Telephone:- 0471 2222512 – 516, 2223386*** ***Fax:- 0471 2222640, 642, 2224498, 2225927***		
7.	**Kerala Irrigation Infrastructure Development Corporation Limited** Guest House Compound, Thycaud P.O, Thiruvananthapuram – 695 014	Irrigation	3.8.2000
8	**Kerala Land Development Corporation Limited** Wheel House, TC.24/239, Thycaud P O, Thiruvananthapuram – 695 014. ***E-mail i.d:-kldctvm@gmail.com*** ***Telephone:- 0471 2315001***	Agriculture	15.12.1972
9	**Kerala Livestock Development Board Limited** 'Gokulam', Pattom, Thiruvananthapuram – 695 004. ***Telephone:- 0471 2440920, 2552690*** ***Fax:- 0471 2440673***	Agriculture	14.11.1975
10.	**Kerala Police Housing and Construction Corporation Limited** Chandra Sekharan Nair Stadium, Palayam, Thiruvananthapuram – 695 033. ***E mail i.d:-*** ***kphccltd@yahoo.com*** ***Telephone:- 0471 2735533Fax:- 0471 2735511***	Home	02.07.1990
11.	**Kerala School Teachers and Non- Teaching Staff Welfare Corporation Limited** Directorate of Public Instructions, O/O D.P.I, Jagathy, Thiruvananthapuram - 696014. ***Telephone:- 0471 2325105***	General Education	16.08.1984
12.	**Kerala Small Industries Development Corporation Limited (SIDCO)** PB No. 50, Santh Nagar, Thiruvananthapuram – 695 001 ***Em ail i.d:-*** ***tvmkersidco@sancharnet.in*** ***Web address: -*** ***www.keralasidco.com*** ***Telephone:- 0471 2330613/14*** ***Fax:- 0471 2330904***	Industries	06.11.1975
13.	**Kerala State Backward Classes Development Corporation Limited** TC 27/588 (7) and (8), "Sentinel", 2nd floor, Pattoor, Vanchiyoor P.O, Thiruvananthapuram – 695 035 ***E mail i.d:_*** ***ksbcdc@vsnl.net*** ***Web address:-*** ***www.ksbcdc.com*** ***Telephone:- 0471 2577550*** ***Fax:- 0471 2577539***	SC and ST Development	28.02.1995
14.	**Kerala State Beverages (Manufacturing and Marketing) Corporation Limited** PB No. 2263, Sasthakripa Office Complex, Sasthamangalam, Thiruvananthapuram – 695010 ***Email i.d:-*** ***ksbc@satyam.net.in*** ***Telephone:- 0471***	Taxes	23.02.1984

	2724970, 2724913,Fax:- 0471 2727604		
15.	**Kerala State Electronics Development Corporation Limited (KELTRON)** Keltron House, Vellayambalam, Thiruvananthapuram – 695 033. ***E mail i.d:-*** ***ksedc@sancharnet.in*** ***Web address:-*** ***www.keltron.org*** ***Telephone:- 0471 2724444*** ***Fax:- 0471 2724545***	Industries	29.09.1972
16.	**Kerala State Ex-servicemen Development and Rehabilitation Corporation** *(Section 25 company)* TC 14/1024, Rosscote Lane, Vazhuthacaud, Thiruvananthapuram – 695010. ***Telephone:- 0471 2320772, 2320003***	General Admn.	7.12.2001
17.	**Kerala State Film Development Corporation Limited** Chalachitra Kalabhavan, Vazhuthacaud, Thiruvananthapuram – 695 014 ***Email i.d:-*** ***ksfdc@asianetindia.com*** ***Web address:-*** ***www.ksfdc.org*** ***Telephone:- 0471 2325325, 2321586*** ***Fax:- 0471 2325627***	Cultural Affairs	23.07.1975
18.	**Kerala State Handicapped Persons Welfare Corporation Limited** Poojappura, Thiruvananthapuram – 695012. ***Telephone:- 0471 2347768*** ***Fax:- 0471 2340568***	Social Welfare	01.09.1979
19.	**Kerala State Horticultural Products Development Corporation Limited** 'Udayagiri', Poojappura P O, Thiruvananthapuram – 695 012. ***Telephone:- 0471 2359651*** ***Fax:- 0471 2359399***	Agriculture	20.03.1989
20.	**Kerala State Industrial Development Corporation Limited (KSIDC)** Keston Road, Kowdiar, Thiruvananthapuram – 695 003 ***E mail i.d:-*** ***ksidc@vsnl.com*** ***Web address:-*** ***www.ksidc.org*** ***Telephone:- 0471 2318922*** ***Fax:- 0471 2315893***	Industries	21.07.1961
21.	**Kerala State Industrial Enterprises Limited** St. Joseph's Press Buildings, Cotton Hill, Thiruvananthapuram – 695 014. ***E mail i.d:-*** ***ksiel@md2.vsnl.net.in*** ***Telephone:- 0471 2326913, 2326947, 2324159*** ***Fax:- 0471 2334590***	Industries	25.01.1973

22.	**Kerala State Mineral Development Corporation Limited** TC/11, Plamood, Pattom, Thiruvananthapuram – 695 004 ***E mail i.d:-*** ***kemdel@sancharnet.in*** ***Telephone:- 0471 2311222*** ***Fax:- 0471 2311229***	Industries	24.06.1992
23.	**Kerala State Palmyrah Products Development and Workers Welfare Corporation Limited** Kelpalm House, Panchappura Lane, Namdavanam, Thiruvananthapuram – 695033 ***E mail i.d:-*** ***mdkelpalm@gmail.com*** ***Telephone:- 0471 2334626, 2338956*** ***Fax:- 0471 2334627***	Industries	13.11.1985
24.	**Kerala State Poultry Development Corporation Limited** TC 30/697, Pettah Jn., Pettah, Thiruvananthapuram – 695 024. ***E mail I.d:-*** ***kepco@sancharnet.in*** ***Web address:-*** ***www.keralarcade.com(poultry)*** ***Telephone:- 0471 2478585, 2468585*** ***Fax:- 0471 2468585***	Agriculture	15.12.1989
25.	**Kerala State Power and Infrastructure Finance Corporation Limited** KPFC Bhavanam, Vellayambalam, Thiruvananthapuram – 695 010. ***E mail i.d:-*** ***kspifc@asianetindia.com*** ***Web address:-*** ***www.kpfcl.org*** ***Telephone:- 0471 2735533Fax:- 0471 2735511***	Power	20.03.1998
26.	**Kerala State Textile Corporation Limited** Annapoorna", T.C.9/2000 -01, Kochar Road, Sasthamangalam, Thiruvananthapuram – 695 010. ***Email i.d:-*** ***kstc@asianetindia.com*** ***Web address:-*** ***www.kstcl.org*** ***Telephone:- 0471 2723153, 2726240*** ***Fax:- 0471 2726240***	Industries	09.03.1972
27.	**Kerala State Women's Development Corporation Limited** Thazhavila Building, T.C 14/2054 – 1, Medes Lane, University P.O, Thiruvananthapuram. ***Telephone:- 0471 2334296Fax:- 0471 2336006***	Social Welfare	22.02.1988
28.	**Kerala Tourism Development Corporation Limited (KTDC)** Corporate Office, Mascot Square, Thiruvananthapuram – 695033 ***E mail i.d:-*** ***ktdc@vsnl.com*** ***Web address:-*** ***www.ktdc.com*** ***Telephone:- 0471 2727522*** ***Fax:- 0471 2727521***	Thrissur	29.12.1965
29.	**Kerala Transport Development Finance Corporation Limited** Head Office, Level 8 (6th Floor), Trans Towers, Vazhuthacaud, Thiruvananthapuram – 695 014.	Transport	27.02.1991

	E mail i.d:- ***ktdfc@vsnl.com*** ***Web address:-*** ***www.ktdfc.com*** ***Telephone:- 0471 2326883, 2327881 – 2327882, 2329198*** ***Fax:- 0471 2326883***		
30.	**Kerala Urban and Rural Development Finance Corporation Limited** 5th Floor, Trans Tower, Vazhuthacaud, Thiruvananthapuram – 695014 ***Email i.d:-*** ***kurdfc@dataone.in*** ***Telephone :- 0471 3259168, 3259426***	Local self Govt.	28.01.1970
31.	**Overseas Development and Employment Promotion Consultants Limited** Vaikund, TC 26/832 (1), Ambalathumukku, Vanchiyoor P.O, Thiruvananthapuram ***E mail i.d:-*** ***opdepc@sify.com*** ***Web address :www.odepc.com*** ***Telephone:- 0471 2576314, 15, 19*** ***Fax:- 0471 2576318***	Labour Employment	20.10.1977
32	**Tourist Resorts (Kerala) Limited** *(Subsidiary of KTDC)* TC 14/1364, PARIS Road, Bakery Junction, Thiruvananthapuram – 695 033 ***E mail i.d:-*** ***trkl@asianetindia.com*** ***Telefax:- 0471 2336433, 2336733***	Tourism	29.08.1989
33	**Travancore Titanium Products Limited** PB No.1, Thiruvananthapuram – 695 021. ***Email i.d:-*** ***travancoretitanium@vsnl.com, ttpmkting@sancharnet.in*** ***Web address:-*** ***www.travancoretitanium.com*** ***Telephone:- 0471 2500221/222, 2502728, 2508901-908*** ***Fax:- 0471 2501533, 2502724***	Industries	18.12.1946
34.	**Vizhinjam International Seaport Limited** TC 9 – 1564, Sasthamangalam, Thiruvananthapuram – 695 010. ***E mail:-*** ***ceo@vizport.org*** ***Web address:-*** ***www.vizport.org*** ***Telephone:- 0471 6542484*** ***Fax:- 0471 2318616***	Ports	15.12.2004
35	**Trivandrum Spinning Mills Limited** Balaramapuram, Thiruvananthapuram	Industries	01.11.1963
36	**KINESCO Power and Utilities Private Limited** TC 32/2312, KINFRA House, Sasthamangalam P.O., Thiruvananthapuram.	Industries	17.9.2008
37	**Kerala State Information Technology Infrastructure Limited** Regd. Office: TC 3/83 Park Centre, Technopark Campus, Trivandrum 695 581. Phone: 0471-2700222; Fax: 0471 – 2700171 www.keralaitparks.org	IT Department	31.1.2008
38	**Kerala Medical Service Corporation Limited** Kerala State Institute for Health &Family welfare Campus,Thycaud, Trivandrum Phone No-0471-2337353	Health and Family Welfare	December 2007

	Non-working Government companies (12)		
39	**Kerala Asbestos Cement Pipe Factory Limited** (under liquidation)	Self Govt..	09.03.1984
40	**Kerala Special Refractories Limited** (under liquidation) TC 4/1010, Kowdiar, Thiruvananthapuram – 695 003	Industries	05.11.1985
41	**Kerala State Coconut Development Corporation Limited** (under liquidation) Kizhuvalam P.O, Mamom, Attingal – 695 014	Agriculture	10.10.1975
42	**Trivandrum Rubber Works Limited** *(subsidiary of SFCK)* Chackai, Thiruvananthapuram – 695007	Industries	
	619-B companies (3)		
	Working 619-B companies (2)		
43	**Kinfra Film and Video Park** *(Section 25 company)* KINFRA House, Vellayambalam, Thiruvananthapuram	Industries	09.06.2000
44	**Kinfra International Apparel Parks Limited** Park Office, Thumba, St.Xaviers's College, Thiruvananthapuram – 695 586. ***E mail i.d:-*** ***kiap@vsnl.com*** ***Web address:-*** ***www.appaarelaprl.com*** *Telephone:- 0471 2706005 – 07Fax:- 0471 2706003*	Industries	07.08.1995
	Non-working 619-B companies (1)		
45	**Vanjinad Leathers Limited**		
	Kollam (8)		
	Working Government Companies (6)		
46	**Kerala Ceramics Limited** Kundara, Kollam – 691501 ***E mail i.d:-*** ***keralaceramics@sancharnet.in*** *Telephone:- 0474 252252, 2522448* *Fax:- 0474 2522344*	Industries	01.11.1963
47	**Kerala State Cashew Development Corporation Limited** "Cashew House", PB No. 13, Kollam. ***E mail i.d:-*** ***cadeco@sancharnet.in*** *Telephone:- 0474 2742271/72/73, 2742954* *Fax:- 0474 2742557*	Industries	19.07.1969
48	**The Kerala Minerals and Metals Limited** Sankaramangalam, Chavara,Kollam – 691 583. ***E mail i.d:-*** ***kmml@md3.vsnl.net.in*** ***Web address:-*** ***www.kmml.com*** *Telephone:- 0476 2686722 – 733* *Fax:- 0476 2680101, 2686721*	Industries	16.02.1972
49	**The Rehabilitation Plantations Limited** Punalur –691 305, Kollam District. ***E mail i.d:-*** ***mdrpl@sancharnet.in*** ***Web address:-*** ***www.rplkerala.com*** *Telephone:- 0475 2222971 – 73* *Fax:- 0475 2223866*	Rehabilitation	05.05.1976
50	**The State Farming Corporation of Kerala Limited (SFCK)** Farm House, PB No. 13, Vetithitta P.O, Punalur, Kollam – 689696. ***E mail i.d:-*** ***sfckpnlr@sancharnet.in*** *Telephone:- 0475 2222251/52/45* *Fax:- 0475 2222532*	Agriculture	15.04.1972

51	**United Electrical Industries Limited** Pallimukku, Kollam 691 010. ***E mail i.d:-*** ***ueikollam@sancharnet.in*** *Telephone:- 0474 2729241, 2729015, 2729242, 2729473* *Fax:- 0474 2727583*	Industries	03.10.1950
	Non-working Government companies (2)		
52	**Kerala Premo Pipe Factory Limited** (under liquidation)	Local Admn.	12.09.1961
	Alappuzha (6)		
	Working Government companies (4)		
53	**Autokast Limited** *(subsidiary of SILK)* S. N. Puram, Cherthala – 688 582, Alappuzha District. ***E mail i.d:-*** ***Autokast@satyam.net.in***, ***Autokast@sancharnet.in*** ***Web address:-*** ***www.autokast.com*** *Telephone:- 0478 2864961-64* *Fax:- 0478 2862497*	Industries	21.05.1984
54	**Kerala State Coir Corporation Limited** PB No. 191, Factory Ward, Alappuzha – 688 001. ***E mail i.d:-*** ***ho@keracoir.com*** ***Web address:-*** ***www.keracoir.com***, ***www.keralacoir.com*** *Telephone:- 0477 2243651 – 54* *Fax:- 0477 2258162*	Industries	19.07.1969
55	**Kerala State Drugs and Pharmaceuticals Limited** PB No. 30, Alappuzha, PIN 688522 ***E mail i.d:-*** ***ksdpl@sancharnet.in*** *Telephone:- 0477 2258183* *Fax: - 0477 2258162.*	Industries	23.12.1971
56	**Foam Mattings (India** P.B. No-4619,Beach Road,Alappuzha-686 012 Email-fomil@bsnlin.sancharnet.in **Ph No-0477-2251172,2254081,2264216**	Industries	November 1978
	Non -working Government companies (2)		
	Pathanamthitta (1)		
	Working Government companies (1)		
57	**The Travancore Sugars and Chemicals Limited** Valanjavattom, Thiruvalla, Pathanamthitta – 689 104 ***E mail i.d:-*** ***travancoresugars@yahoo.co.in*** *Telephone:- 0469 2610711/12* *Fax:- 0469 2610446*	Industries	23.06.1937
	Kottayam (5)		
	Working Government companies (5)		
58	**Kerala Forest Development Corporation Limited.** Aayurkonam, Karapuzha, Kottayam ***E mail i.d:-*** ***ktm_kfdcktm@sancharnet.in*** *Telephone:- 0481 25810204, 2581205* *Fax:- 0481 2581338*	Agriculture	24.01.1975
59	**Kerala State Development Corporation for Christian Converts from the Scheduled Castes and the Recommended Communities Limited** Near Railway station, Nagampadam, Kottayam. *Telephone:- 0481 2563786, 2564304*	SC and ST Development	31.12.1980
60	**Oil Palm India Limited** XIII – 354, Old Star Theatre Road, PB No. 1715, Kottayam South 686 039. *Telephone:- 0481 2566882, 2567104* *Fax:- 0481 2561442*	Agriculture	21.11.1977

61	**The Plantation Corporation of Kerala Limited** P.B No. 12, Kottayam – 686 004. E mail i.d:- plantcorpktm@sancharnet.in Web address:- www.pcklimited.com, www.pcklimited.org *Telephone :- 0481 2578301 -04,* *Fax:- 0481 2578448*	Agriculture	12.11.1962
62.	**The Travancore Cements Limited** Nattakom, Kottayam – 686 013. ***E mail i.d:- telktm@sancharnet.in*** ***Web address:- www.travcement.com*** *Telephone:- 0481 2360876* *Fax:- 0481 2362354*	Industries	09.10.1946
	Ernakulam (18)		
	Working Government companies (13)		
63	**Forest (Industries) Travancore Limited** Thaikkattukara P O, Aluva – 683 106. ***E mail i.d:- fitkerala@yahoo.co.in*** ***Web address:- www.fitkerala.com*** *Telephone:- 0484 2623641 – 42* *Fax:- 0484 2623643*	Industries	10.08.1946
64	**Kerala Agro-Machinery Corporation Limited** Athani, Angamally south P.O, Ernakulam – 683 585. ***E mail i.d:- kamco@satyam.net.in*** ***Web address:- www.kamcoindia.com*** *Telephone:- 0484 2474301 -305* *Fax:- 0484 2474589*	Agriculture	24.03.1973
65	**Kerala Electrical and Allied Engineering Company Limited** 7th Floor, Housing Board Office Complex, Panampilly Nagar, Kochi – 682 036. ***E mail i.d:- kelindia@eth.net*** ***Web address:- www.kelindia.com*** *Telephone:- 0484 2310012 – 14, 2318960 – 61* *Fax:- 0484 2310015*	Industries	05.06.1964
66	**Kerala Shipping and Inland Navigation Corporation Limited** 38/924 – A, Udaya Nagar road, Gandhi Nagar, Kochi – 682 036. ***E mail i.d:- ksinc@vsnl.com*** ***Web address:- www.keralashipping.com, www.sagararani.com*** *Telephone:- 0484 2203614, 2206232, 2206840 – 842* *Fax:- 0484 2206848*	Transport	29.12.1975
67	**Kerala State Bamboo Corporation Limited** P B No. 20, Angamaly South – 683 573, Ernakulam. ***E mail i.d:- bambooco@md5.vsnl.net.in, bamboo@bambooworldindia.com*** ***Web address:- www.bambooworldindia.com*** *Telephone:- 0484 2452275, 2452248* *Fax:- 0484 2453006*	Industries	21.07.1964
68.	**The Kerala State Civil Supplies Corporation Limited** PB No.2030, Mavcli Bhavan, Maveli Road, Gandhi Nagar, Kochi – 682 020. ***E mail i.d:- supplyco@vsnl.com*** ***Web address:- www.supplycokerala.com***	Food	25.06.1974

	Telephone:- 0484 2206775 -778 *Fax:- 0484 2206799*		
69.	**Kerala State Construction Corporation Limited** III Floor, Carmel Centre, Banerji Road, Kochi – 682 018 ***E mail i.d:-* mail@ksccl.com** ***Web Address:-* www.ksccl.com** *Telephone:- 0484 2390132, 2390466, 2390453* *Fax:- 0484 2390901*	Public Works	25.03.1975
70.	**Kerala State Maritime Development Corporation Limited** Building No. 39/4695, Karimpatta Road, Near Pallimukku, P.B. No.2455, Kochi -682 016. ***E mail i.d:-* ksmdcl@sancharnet.in** *Telefax:- 0484 2353737, 2382903*	Port	06.12.1994
71.	**Meat Products of India Limited** Edayar, Koothattukulam, Ernakulam – 686 662. *Email i.d:- mpiindialtd@vsnl.net* *Telephone :- 0485 2252365, 2253075* *Fax:- 0485 2252695*	Agriculture	13.03.1973
72.	**Roads and Bridges Development Corporation Limited** 2nd Floor, Preethi Building, M.V. Road, Palarivattom, Kochi – 682 025. ***E mail i.d:-* mail@rbdck.com** ***Web address:-* www.rbdck.com** *Telephone:- 0484 2338205-206* *Fax:- 0484 2533294*	Public Works	23.09.1999
73	**Traco Cable Company Limited** XXVII/1242, KSHB Office Complex, Panampally Nagar, P.B.No. 4269, Kochi 682 036. ***E mail i.d:-* tracoho@md3.vsnl.net.in** *Telephone:- 0484 2314847, 2314864, 2320474* *Fax:- 0484 2312744*	Industries	05.02.1960
74	**Transformers and Electricals Kerala Limited** Angamaly South P O, Ernakulam – 683 573. ***E mail i.d:-* telk@VSNL.COM** ***Web Address:-* www.telk.com** *Telephone:- 0484 2452251 – 53* *FAX:- 0484 2452873, 2452363*	Industries	09.12.1963
75	**Travancore Cochin Chemicals Limited** PB No.4004, Udyogamandal P O, Kochi – 683 501. ***E mail i.d:-* tccudl@vsnl.com** *Telephone:- 0484 254011(12 lines)* *Fax:- 0484 2545420*	Industries	08.11.1951
	Non-working Government companies (1)		
76	**Sidco Mohan Kerala Limited** *(subsidiary of SIDCO)* SIDCO Buildings, Kadavanthara, Kochi – 682 020	Industries	20.08.1980
	Working 619- B companies (4)		
77	**Kinfra Export Promotion Industrial Parks Limited** IX/159 A, Kusumagiri P.O, Kakkanad, Kochi – 30 ***Email i.d:-* kepip@vsnl.com** *Telephone:- 0484 2415796/98, 2415614, 2415888* *Fax:- 0484 2415877*	Industries	21.10.1994
78	**Marine Products Infrastructure Development Corporation Private Limited**	Fisheries	08.03.1999

	MPEDA House, Panampally Avenue, Kochi – 683 036 *Telephone:- 0484 2311979, 2311803, 2311854, 2313415, 2321720*		
	Thrissur (10)		
	Working Government companies (7)		
79	**Kerala Feeds Limited** Kalletumkara – 680 683, Thrissur District. ***Email i.d:-*** ***kfl@satyam.net.in*** ***Web Address:-*** ***www.keralafeeds.com*** *Telephone:- 0487 2720179, 2720292, 2725295, 2723685* *Fax:- 0487 2720194*	Animal Husbandry	
80	**Kerala State Development Corporation for Scheduled Casts and Scheduled Tribes Limited** P B No. 523, Town Hall Road, Thrissur – 680 020. Email address:- Ksdc_ho@sancharnet.in *Telephone:- 0487 – 2331064* *Fax:- 0487 – 2331469*	SC and ST Development	17.12.1972
81	**Kerala State Financial Enterprises Limited** Bhadratha, PB No. 510, Museum Road, Thrissur – 680 020. *Telephone:- 0487 2332255* *Fax:- 0487 2336232*	Taxes	06.11.1969
82	**Sitaram Textiles Limited** Poonkunnam, Thrissur – 680 002. *Telephone:- 0487 2381383* *Fax:- 0487 2382751*	Industries	14.02.1975
83	**Steel and Industrial Forgings Limited** (subsidiary of SILK) Athani P O, Thrissur – 680 771. ***E mail i.d:-*** ***sifl@dataone.in***, ***siflc@sancharanet.in*** ***Web address:-*** ***www.siflindia.com*** *Telephone:- 0487 2201751- 52* *Fax:- 0487 2201753, 2201331*	Industries	01.06.1983
84	**Steel Industrials Kerala Limited (SILK)** SILK Nagar, Alhani P O, Thrissur – 680 771. ***E mail i.d:-*** ***silk@md3.vsnl.net.in***, ***steelindkerala@vsnl.com*** ***Web address:-*** ***www.steelinkerala.com*** *Telephone:- 0487 2201421 – 23* *Fax:- 0487 2201331, 2201753*	Industries	03.01.1975
85	**The Pharmaceutical Corporation (Indian Medicines) Kerala Limited** PB No.174, Thrissur – 680 001. ***E mail i.d:-*** ***trc_oushadhi@sancharnet.in*** *Telephone:- 0487 2334519, 2334818* *Fax:- 0487 2334396, 2351675*	Health	08.09.1975
86	**Keltron Power Devices Limited** *(subsidiary of KELTRON)* Mulamkunnathukavu, Thrissur.	Industries	28.01.1976
87	**Keltron Rectifiers Limited (** under liquidation *(subsidiary of KELTRON***)** Shoranur Road, Athani – 680 771, Thrissur		
	Palakkad (3)		

88	**Kanjikode Electronics and Electricals Limited** NIDA, P O Kanjikode West, Palakkad District, PIN: 678 621. *E mail i.d:- kael_ups@rediffmail.com* *Telephone:- 0491 2567558*	Industries	21.3.1996
89	**Malabar Cements Limited** Walayar**,** Palakkad, PIN 678 624. *Email address:- mcistat@sancharnet.in* *Website:- malabarcements.com* Telephone:- 0491 – 2862228/33 Fax :- 0491 – 2862230	Industries	11.04.1978
90	**The Metal Industries Limited** Shoranur, Palakkad - 679 122. *Telephone:- 0466 2222268, 2222359* *Fax:- 0466 2222359*	Industries	06.03.1928
91	**Malabar Distilleries Ltd.** Chittur, Pallakkad	Taxes	1.6.2009
	Malappuram (4)		
92	**Keltron Electro Ceramics Limited** *(subsidiary of KELTRON)* Kuttippuram – 679 571, Malappuram District. *E mail i.d:-* ***koz_kelcera@sancharnet.in*** *Telephone:- 0494 2699231 - 33*	Industries	23.04.1974
	Non- working Government Companies (3)		
93	**Kerala State Detergents and Chemicals Limited** Kuttippuram, Malappuram, 679 571.	Industries	10.06.1976
94	**Kerala State Wood Industries Limited** *(subsidiary of KFDC)* Nilambur, Malappuram – 679 329	Industries	08.09.1981
95	**Sidkel Televisions Limited** (under liquidation) *(subsidiary of SIDCO)* P.B.No. 31, Calicut Road, Manjeri - 679571	Industries	21.03.1984
	Kozhikode (2)		
96	**Steel Complex Limited** *(subsidiary of KSIDC)* PB No. 42, Feroke, Kozhikode – 673631. *Telephone:- 0495 2483328 – 2483332* *Fax:- 0495 2483043*	Industries	12.12.1969
	Non-working		
97	**Kunnathara Textiles Ltd** Modakkallur, Calicut-673321		
	Kannur (7)		
98	**Keltron Component Complex Limited** *(subsidiary of KELTRON)* Keltron Nagar, Kalliasseri P O, Kannur – 670 562 ***E mail i.d:- cnn_kelcan@sancharnet.in*** ***Web address:- www.keltroncomp.com*** *Telephone:- 0479 2780831-834* *Fax:- 0479 2781055*	Industries	08.10.1974
99.	**Kerala Clays and Ceramic Products Limited** Clay House, Pappinisseri, Kannur District – 670 561. ***E mail i.d:- cnn_clays@sancharnet.in*** ***Web address:- www.keralaclays.com***	Industries	27.06.1984

	Telephone:- 0497 2787671 *Fax:- 0497 2787281*		
100	**Kerala State Handloom Development Corporation Limited (KSHDC)** P M 32/249, Thilleri Road, Kannur – 670 001 *Telephone:- 0497 2381383* *Fax:- 0497 2768497*	Industries	24.06.1968
.	Non-working		
101	**Kerala Garments Limited** *(subsidiary of KSHDC)* P M 32/249, Thilleri Road, Kannur – 670 001. *Telephone :- 0497 2768939* *Fax:- 0497 2701998*	Industries	17.07.1974
	Kasargod (1) Non-working		
102.	**Astral Watches Limited** *(subsidiary of KSIDC)* XXI,/54, Beach Road, Kasargod -671 121.	Industries	10.02.1978

Annexure 2

PROFORMA ON THE PERFORMANCE OF AUDITORS OF GOVERNMENT COMPANIES & CORPORATIONS

(Referred to in Chapter 3.13.9)

To be sent to the Comptroller and Auditor General's office with the endorsement copy of issue of Comments/Nil comments/Non review certificate on the accounts of a Company.

A. Basic Data

(I) Name of the Company/Corporation :

(II) Name of the Branch/Unit of the Company/ Corporation audited :

(III) Year of Account :

(IV) Name of Statutory Auditors and Branch Auditors :

(V) Name of the partners, Chartered Accountant Employees and other employees who actually audited the Company/Unit and the man days deployed/spent by the Partners/CA employees/other employees on the audit.

Name	**Man days/hours spent in Audit**	**TA/DA paid/payable (Rs.)**	**Out of pocket expenses paid/payable (Rs.)**
(a) Partners			
(b)Chartered Accountant employees			
(c) Other employees			

(VI) Audit fee and other remuneration paid/payable to the auditors by the Company (please give separate entries for each Audit firm and each type of remuneration).

Name of the statutory Auditor/Branch auditor	Audit fees mentioned in the annexure II attached with the appointment letter	Audit fees actually paid by the Company	Details of other remuneration/fee paid/payable to the auditor along with amount thereof for the year of account.	
			(i) Tax audit	Rs.
			(ii) VAT Audit	Rs.
			(iii) Half yearly/ Quarterly Financial Reviews	Rs.
			(iv) Others (specifying the nature of services rendered	Rs.
			Total	

B. Audit Reporting

	Particulars	Yes/No
(I)	Has the Statutory Auditors reported on all the assertions as specified in sections 227(2) and (3) of the Companies Act 1956?	
(II)	Whether the Statutory Auditors Report on the financial statements complied with the requirement of AAS 28 both in the letter and sprit?	
(III)	Has the Statutory Auditors failed to report any non-compliance of Accounting Standard by the Company Management?	
(IV)	Whether the Statutory Auditors failed to report on any matter specified in Companies Auditors Report Order, 2003.	
(V)	Whether the Statutory Auditors failed to report non-compliance of any of the provisions of Part I and Part II of Schedule VI- of the Companies Act 1956 regarding preparation of Balance Sheet and Profit and Loss Account.	
(VI)	Whether the Statutory Auditors failed to report non-compliance of any of the requirements prescribed by any Regulatory authorities viz The securities and exchange Board of India, Insurance Regulatory Development Authority, Reserve bank of India, Department of public Enterprises, National Housing Board and Administrative Ministry etc, regarding preparation of financial statements ?	
(VII)	Whether the Statutory Auditors failed to state (wherever possible) the effect of individual qualification and total effect of individual qualification and total effect of all the qualifications on profit or loss or state of affairs.	
(VIII)	Were any Statutory Auditors qualifications found to be incorrect/immaterial?	
(IX)	Whether the Statutory Auditors has inadequately commented on an issue in his report which was further elaborated in CAG's comments to bring out the full impact of the issue?	

C. General

(I)	Whether the Statutory Auditors failed to offer his comments on the provisional comments issued by the DG/PAG/AG/MAB office within time stipulated by the DG/PAG/AG/MAB	
(II)	Whether the Statutory Auditors failed to Submit Report under section 619(3) of the Companies Act 1956 simultaneously with the statutory auditors report	
(III)	Whether the Statutory Auditors attended all the meetings convened by the DG/PAG/AG/MAB	

Assessment

		Yes/No	Penalty point if reply is in affirmative	Points scored
(I)	Has the Auditor failed to report non-compliance of any Accounting Standard by the Company management?		5	
(II)	Has the statutory auditor failed to report on any assertions as specified in sections 227(2) and (3) of the Companies Act 1956?		5	
(III)	Whether the Auditor failed to report on any matter specified in CARO 2003?		5	
(IV)	Whether the Auditor failed to report non compliance of any of the provisions of Part I and Part II Schedule VI of the Companies Act 1956 regarding preparation of Balance Sheet and profit and Loss Account ?		5	
(V)	Whether the Auditor failed to report non compliance of any of the requirements prescribed by any Regulatory authorities Viz SEBI, IRDA, RBI, BPF, NHB and Administrative Ministry etc. regarding preparation of financial statements?		5	
(VI)	Has the Auditor revised the Audit Report at the instance of DG/MAB/PAG/AG to correct inaccuracies for which only the Auditor was responsible?		5	
(VII)	Whether the Auditor failed to offer its comments on the provisional comments issued by the DG/PAG/AG/MAB office within the time stipulated by the DG/PAG/AG/MAB.		5	
(VIII)	Whether the Auditor failed to submit Report under Section 619(3) (a) of the Companies Act 1956 simultaneously with the Statutory auditors report.		5	
(IX)	Whether the Auditor failed to attend the meetings convened by the DG/MAB/PAG/AG as and when convened by the DG/MAB/PAG/AG.		5	
(X)	Whether the auditor delayed the audit and submission of Audit Report without proper		5	

	justification?			
(XI)	Has the Auditor failed to state the full information about the subject matter of qualifications along with reasons?		2	
(XII)	Has the Auditor failed to state all the qualifications in their report itself and also without referring to a report made in earlier years.		2	
(XIII)	Whether the auditor failed to state the full subject matter of the note which is a subject matter of qualification, instead of making reference to the note?		2	
(XIV)	Whether the auditor failed to state (Wherever possible) the effect of individual qualification and total effect of all the qualifications on profit or loss or state of affairs.		2	
(XV)	Is there any material evidence regarding non-compliance with any Auditing And Assurance Standards by the Auditor noticed during Test check?		2	
	Total			

(I) If the performance is assessed as Unsatisfactory, then whether any special memo issued to statutory auditors on his failures and asking for reasons in overlooking points raised by DG/PAG/MAB/AG under section 619 (4) ?

(II) Date of issue of special memo to the auditor.

(III) Date of reply of the auditor to the special memo.

(IV) The following documents are to be enclosed.

(a) A copy of the special memo.

(b) A copy of Auditors reply to the special memo (or the fact of his failure to reply within a reasonable time).

(c) Remarks of the DG/PAG/MAB/AG on the reply of the auditor in aide-memoirs form.

Finding of the DG/PAG/MAB/AG in the form of speaking order.

Accountant General (ERSA)

Annexure 3

Specimen of Auditor's Report to the Members of the company
(Referred to in Chapter 3.12.1)

The Members of …………………. (Name of the company)

1. We have audited the attached balance sheet of ……………….. (Name of the company), as at 31 March 20XX, the profit and loss account and also the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that out audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure 3 a statement on the matters specified in paragraphs 4 and 5 of the said order.

4. Further to our comments in the Annexure referred to above, we report that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

(ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books (and proper returns adequate for the purposes of our audit have been received from the branches not visited by us. The Branch Auditors Report (s) have been forwarded to us and have been appropriately dealt with).

(iii) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account (and with the audited returns from the branches).

(iv) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in Sub-section (3C) of section 211 of the Companies Act, 1956.

(v) On the basis of written representations received from the directors, as on 31st March 20XX and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 20XX from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

(vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India.

  (a) in the case of the balance sheet, of the state of affairs of the company as at 31st March 20XX,

  (b) in the case of the profit and loss account, of the profit/loss for the year ended on that date; and

  (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For ABC and Co.
Chartered Accountants
Signature.
(Name of the Member Signing the Audit Report)
Membership No.

Place:

Date:

Annexure

Referred to in paragraph 3 of the report of even date.

(i) (a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

(b) All the assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. No material discrepancies were noticed on such verification.

(c) During the year, the company has disposed off a major part of the plant and machinery. According to the information and explanations given to us, we are of the opinion that the sale of the said part of plant and machinery has not affected the going concern status of the company.

(ii) (a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.

(b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.

(c) The company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.

(iii) (a) The company had taken loan from five other companies covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs.50 crores and the year-end balance of loans taken from such parties was Rs. NIL. There are two firms covered in the register maintained under section 301 of the Companies Act, 1956 to which the company has granted loans. The maximum amount involved during the year was Rs.20 crores and the year-end balance of loans granted to such parties was Rs.20 crores.

(b) In our opinion, the rate of interest and other terms and conditions on which loans have been taken from/granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 are not prima facie, prejudicial to the interest of the company.

(c) The Company is regular in repaying the principal amounts as stipulated and has been regular in the payment of interest. The parties have repaid the principal amounts as stipulated and have been regular in the payment of interest.

(d) There is no overdue amount of loans taken from/granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.

(iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.

(v) (a) According to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of rupees five lakhs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.

(vi) In our opinion and according to the information and explanations given to us the company has complied with the provisions of sections 58 A and 58 AAQ of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. No order has been passed by the Company Law Board.

(vii) In our opinion, the company has an internal audit system commensurate with the size and nature of its business.

(viii) We have broadly reviewed the books of account relating to materials, labour and other items of cost maintained by the company pursuant to the rules made by the Central Government for the maintenance of cost records under section 209 (1) (d) of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained.

(ix) (a) The company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education protection fund, employees state insurance, income tax, sales tax, wealth tax, custom duty, excise duty, cess and other material statutory dues applicable to it.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty, excise duty and cess were in arrears, as at ………….. for a period of more than six months from the date they became payable.

(c) According to the information and explanation given to us, there are no dues of sales tax, income tax, customs duty, wealth tax, excise duty and cess which have not been deposited on account of any dispute.

(x) In our opinion the accumulated losses of the company are not more than fifty *per cent* of its net worth. The company has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

(xi) In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of dues to a financial institution bank or debenture holders.

(xii) We are of the opinion that the company has maintained adequate records where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the company is not a chit fund or a nidhi mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the companies (Auditors Report) Order, 2003 are not applicable to the company.

(xiv) In our opinion, the company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditors Report) Order, 2003 are not applicable to the company.

(xv) In our opinion, the terms and conditions on which the company has given guarantees for loans taken by others from banks/financial institutions are not prejudicial to the interest of the company.

(xvi) In our opinion, the term loans, have been applied for the purpose for which they were raised.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that the no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short-term assets except permanent working capital.

(xviii) According to the information and explanations given to us, the company has made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act. In our opinion, the prize at which shares have been issued is not prejudicial to the interest of the company.

(xix) According to the information and explanations given to us, during the period covered by our audit report, the company had issued 1,00,000 debentures of Rs.100 each. The company has created security in respect of debentures issued.

(xx) We have verified the end use of money raised by public issues as disclosed in the notes to the financial statements.

(xxi) According to the information and explanations given to us, no fraud in or by the company has been noticed of during the course of our audit.

For ABC and Co.,
Chartered Accountants

Signature

Place: (Name of the Member Signing the Audit Report)
Date:

Membership Number

Annexure 4

PROFORMA

(Ref: Circular No.228/CAII/11-78 dated.27.02.1980)

(Referred to in Chapter 3.13.4)

(a)	Name of the Company	:
(b)	Period of accounts	:
(c)	Date of certification by the Statutory Auditors	:
(d)	Date of receipt of accounts	
	(i) Provisional	:
	(ii) Approved	:
(e)	Date of commencement and completion of audit	:
(f)	Date of issue of draft comment to	
	(i) Management	:
	(ii) Auditors	:
(g)	Date of receipt of reply from	
	(i) Management	:
	(ii) Auditors	:
(h)	Proposed date of Annual General Meeting	

SENIOR AUDIT OFFICER.

Annexure 5

MATRIX FOR CERTIFICATION OF ACCOUNTS OF STATE GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS.

(Ref.Nos.782/CA II/Co-Ord/MAE/2002-03/55-2003 dated.08.10.2003 and No.266-CA-II/Co-Ordn/MAE/2002-03/55-2003 dated.09.03.2004)

(Referred to in Chapter 3.13.4)

Name of the Company/Corporation :

Period of accounts :

Sl.No.	Comment No.	Gist of each approved comment	Money value of the comment (Rs. in lakh)	Matrix proposed on the basis of the Comment.		
				Matrix identity	Matrix weight	Total weighted money value

SENIOR AUDIT OFFICER.

Notes : (1) Revision of accounts at the instance of Audit or disclaimer certificate issued on the accounts (A-5)

(II) Understatement of loss/profit and overstatement of loss/profit (I to 10% B3-2), (11-50%-B2-3), (more than 50%-B1-4)

(III) Acceptance for change in accounting policies by the Management, violation of the Companies Act, 1956 and other related Act/Rules. Accounting Standards (C-3)

(IV) Misclassification of income/expenditure and assets/liabilities, qualification of comments already included in the Statutory Auditor's Report (D-2)

(V) General observations like contingent liabilities, non-disclosure of facts in notes on accounts, repeated comments (E-1)

Annexure 6

Format for Comments on original accounts/Nil Comment on original accounts/Non-review certificate/ Nil Comments on revised accounts/Comments on revised accounts

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF…………………………………………………………………. ……………………………………………………………(NAME AND PLACE OF THE COMPANY) **FOR THE YEAR ENDED 31 MARCH ………** (YEAR)

The preparation of financial statements of …………………………………(Name and place of the company) for the year ended 31 March …………(year) in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the Management of the Company. The Statutory Auditor/Auditors appointed by the Comptroller and Auditor General of India under section 619 (2) of the Companies Act, 1956 is/are responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the Auditing and Assurance Standards prescribed by his/her/their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by him/her/them vide his/her/their Audit Report dated ………….(date of the report).

I, on behalf of the Comptroller and Auditor General of India have conducted a supplementary audit under section 619(3) (b) of the Companies Act, 1956 of the financial statements of ……………………………………(name of the company) for the year ended 31 March ………….. (Year). This supplementary audit has been carried out independently without access to the working papers (in case of non-review of working papers) of the Statutory Auditors and is limited primarily to inquiries to the Statutory Auditors and Company personnel and a selective examination of some of the accounting records.

(In the case of Comments on original accounts)

(Referred to in Chapter 3.19.3)

Based on my supplementary audit, I would like to highlight the following significant matters under section 619 (4) of the Companies Act, 1956 which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related Audit Report.

A. Comments on Profitability
B. Comments on Financial Position
C. Comments on Disclosure
D. Comments on Auditor's Report
E. Other Comments

(May be arranged in order of decreasing importance)

OR

(In case of Nil Comments on original accounts)

(Referred to in Chapter 3.19.3)

On the basis of my audit, nothing significant has come to my knowledge which would give rise to any Comment upon or supplement to the Statutory Auditor's Report under section 619 (4) of the Companies Act, 1956.

OR

(In case of Non-review Certificate)

(Referred to in Chapter 3.19.3)

I, on behalf of the Comptroller and Auditor General of India have decided not to review the report of the Statutory Auditors on the accounts of ……………………………..(name and place of the company) for the year ended 31 March ……………..(year) and as such I have no comments to make under section 619 (4) of the Companies Act, 1956.

OR

(In case of Nil Comments on revised accounts)

(Referred to in Chapter 3.19.3)

In view of the revisions made in the financial statements by the Management, as a result of my audit observations highlighted during supplementary audit as indicated in Note No. ….. of the Notes forming part of accounts (Schedule No. ….), I have no further Comments to offer upon or supplement to the Statutory Auditor's Report, under section 619 (4) of the Companies Act, 1956.

OR

(In case of Comments on revised accounts)

(Referred to in Chapter 3.19.3)

The financial statements of the Company have been revised by the Management to give effect to some of my audit observations highlighted during the supplementary audit as indicated in the Note No. ….. of the Notes forming part of accounts (Schedule No. ….). In addition, I would like to highlight the following significant matters under section 619 (4) of the Companies Act, 1956 which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related Audit Report:

A. Comments on Profitability
B. Comments on Financial Position
C. Comments on Disclosure
D. Comments on Auditor's Report
E. Other Comments

(May be arranged in order of decreasing importance)

For and on behalf of the Comptroller and Auditor General of India

Place

Date

Accountant General (ERSA) Kerala

Annexure 7

STATEMENT SHOWING THE ACCOUNTING STANDARDS ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Referred to in Chapter 3.22)

Sl. No	AS	Title of AS	Application of AS			Mandatory Implemen-tation from	Accounting Standards Interpretations
			Level I enterprises	Level II enterprises	Level III enterprises		
1	AS 1 (Issued – 1979)	Disclosure of Accounting Policies	Yes	Yes	Yes	1.4.1991	
2	AS 2 (Revised - 1999)	Valuation of Inventories	Yes	Yes	Yes	1.4.1999	**ASI 2** - Accounting for machinery spares
3	AS 3 (Revised - 1997)	Cash flow Statements	Yes	Not required, but encouraged		1.4.2004	
4	AS 4 (Revised - 1995)	Contingencies and Events occurring after the Balance Sheet date	Yes	Yes	Yes	1.4.1995	
5	AS 5 (Revised - 1997)	Net Profit or Loss for the period, Prior period items and Changes in Accounting Policies	Yes	Yes	Yes	1.4.1996	
6	AS 6 (Revised – 1994)	Depreciation accounting	Yes	Yes	Yes	1.4.1995	
7	AS 7 (Revised - 2002)	Construction Contracts	Yes	Yes	Yes	1.4.2003	**ASI 29** – Turnover in case of contractors
8	AS 8 (Issued – 1985)	Accounting for Research and Development	Not mandatory to any level of industry. AS 8 has been revised in 2002 and substituted with AS 26 (Intangible Assets)			Up to 31.3.2004	
9	AS 9 (Issued – 1985)	Revenue recognition	Yes	Yes	Yes	1.4.1991	**ASI 14** – Disclosure of revenue from sales
10	AS 10 (Issued – 1985)	Accounting for Fixed Assets	Yes	Yes	Yes	1.4.1991	**ASI 2** - Accounting for machinery spares

11	AS 11 (Revised - 2003)	Effects of changes in Foreign Exchange Rates	Yes	Yes	Yes	1.4.2004	
12	AS 12 (Issued – 1991)	Accounting for Government grants	Yes	Yes	Yes	1.4.1994	
13	AS 13 (Issued – 1993)	Accounting for Investments	Yes	Yes	Yes	1.4.1995/ 1.4.2002	
14	AS 14 (Issued - 1994)	Accounting for Amalgamations	Yes	Yes	Yes	1.4.1995	
15	AS 15 (Revised – 2005)	Employee benefits	Yes	Yes	Yes	1.4.2006	
16	AS 16 (Issued – 2000)	Borrowing costs	Yes	Yes	Yes	1.4.2000	**ASI 1** – Substantial period of time **ASI 10** – Interpretation of paragraph 4 (e) of AS 16
17	AS 17 (Issued – 2000)	Segment reporting	Yes	Yes	Yes	1.4.2001	**ASI 20** – Disclosure of segment information **ASI 22** Treatment interest determining segment expense
18	AS 18 (Issued – 2000)	Related party disclosures	Yes	NA	NA	1.4.2004	**ASI 13** – Interpretation of paragraphs 26 and 27 of AS 18 **ASI 19** – Interpretation of the term intermediaries **ASI 21** – Non-executive directors on the Board – whether related parties **ASI 23** – Remuneration paid to key management personnel - whether a related party transaction

19	AS 19 (Issued – 2001)	Leases	Yes	Yes{except paras 22(c),(e) and (f); 25(a),(b) and (e); 37(a),(f) and (g); and 46(b),(d) and (e)}	1.4.2001	
20	AS 20 (Issued – 2001)	Earning per share	Applicable to an enterprise, which has either equity shares or potential equity shares which are listed on a recognized stock exchange in India and which enclose earnings per share.		1.4.2001	**ASI 12** – Applicability of AS 20
21	AS 21 (Issued – 2001)	Consolidated financial statements	If the enterprise prepares and presents consolidated financial statements pursuant to the requirements of a statute/regulator or voluntarily		1.4.2001	**ASI 8** – Interpretation of the term *near future* **ASI 15** – Notes to the consolidated financial statements **ASI 24** – Definition of Control **ASI 25** – Exclusion of a subsidiary from consolidation **ASI 26** - Accounting for taxes on income in the consolidated financial statements **ASI 28** - Disclosure of parent's/ venturer's shares in post acquisition reserves of a subsidiary/jointly controlled entity

22	AS 22 (Issued – 2001)	Accounting for Taxes on income	Listed companies and any of the enterprises in a group, which presents consolidated financial statements (from 1.4.2001) Any of the enterprises in a group which presents consolidated financial statements (from 1.4.2002)	1.4.2006	**ASI 3** - Accounting for taxes on income in the situations of tax holiday under section 80-IA and 80-IB of the Income Tax Act, 1961 **ASI 4** – Losses against Capital Gains **ASI 5** - Accounting for taxes on income in the situations of tax holiday under sections 10 A and 10B of the Income Tax Act, 1961 **ASI 6** – Accounting for taxes on income in the context of section 115 JB of the Income Tax Act, 1961 **ASI 7**- Disclosure of deferred tax assets and deferred tax liabilities in the Balance Sheet of a company **ASI 9** – Virtual certainty supported by convincing evidence **ASI 11 -** Accounting for taxes on income in case of an amalgamation

23	AS 23 (Issued – 2001)	Accounting for investments in associates in consolidated financial statements	If the enterprise prepares and presents consolidated financial statements pursuant to the requirements of a statue/regulator or voluntarily.			1.4.2002	**ASI 8** – Interpretation of the term *near future* **ASI 16** – Treatment of proposed dividend under AS 23 **ASI 17** – Adjustments to the carrying amount of investment arising from changes in equity not included in the Statement of profit and loss of the associate **ASI 18** – Consideration of potential equity shares for determining whether an investee is an associate under AS 23
24	AS 24 (Issued – 2002)	Discontinuing operations	Yes	NA	NA	1.4.2004	
25	AS 25 (Issued – 2002)	Interim financial reporting	Yes (applicable to enterprises which are required by the regulators concerned to present interim financial results)	NA	NA	1.4.2002	**ASI 27** – Applicability of AS 25 to Interim Financial Results
26	AS 26 (Issued – 2002)	Intangible assets	Yes (listed company or turnover exceeds Rs 50 crore from 1.4.2003)	Yes (from 1.4.2004)	Yes (from 1.4.2004)	1.4.2003	

27	AS 27 (Issued – 2002)	Financial reporting interests in joint ventures	If the enterprise prepares and presents consolidated financial statements pursuant to the requirements of a statute/regulator or voluntarily			1.4.2002	**ASI 8** – Interpretation of the term *near future* **ASI 28** - Disclosure of parent's/ venturer's shares in post acquisition reserves of a subsidiary/jointly controlled entity
28	AS 28 (Issued – 2002)	Impairment of Assets	Yes (from 1.4.04)	Yes (from 1.4.2006)	Yes (from 1.4.2008)	1.4.2008	
29	AS 29 (Issued – 2003)	Provisions, Contingent liabilities and Contingent assets	Yes	Yes (except para 67)	Yes (except paras 66 and 67)	1.4.2004	

Annexure 8

STATEMENT SHOWING THE AUDITING AND ASSURANCE STANDARDS ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

AS ON 30 NOVEMBER 2007

(Referred to in Chapter 3.23)

Sl. No	AAS	Title of AAS	Date of implementation/ Accounting period
01	AAS 1	Basic principles governing an audit	1-4-1985
02	AAS 2	Objective and scope of an audit of financial statements	1-4-1985
03	AAS 3	Documentation	1-7-1985
04	AAS 4	Auditor's responsibility to consider fraud and error in an audit of financial statements	1-4-2003
05	AAS 5	Audit evidence	1-1-1989
06	AAS 6	Risk assessments and internal control	1-4-2002
07	AAS 7	Relying upon the work of an Internal Auditor	1-4-1989
08	AAS 8	Audit planning	1-4-1989
09	AAS 9	Using the work on an expert	1-4-1991
10	AAS 10	Using the work of another Auditor	1-4-2002
11	AAS 11	Representations by Management	1-4-1995
12	AAS 12	Responsibility of joint Auditors	1-4-1996
13	AAS 13	Audit materiality	1-4-1996
14	AAS 14	Analytical procedures	1-4-1997
15	AAS 15	Audit sampling	1-4-1998
16	AAS 16	Going concern	1-4-1999
17	AAS 17	Quality control for audit work	1-4-1999
18	AAS 18	Audit of accounting estimates	1-4-2000
19	AAS 19	Subsequent events	1-4-2000
20	AAS 20	Knowledge of the business	1-4-2000
21	AAS 21	Considerations of laws and regulations in an audit of financial statements	1-4-2001
22	AAS 22	Initial engagements – opening balances	1-4-2001

23	AAS 23	Related parties	1-4-2001
24	AAS 24	Audit consideration relating to entities using service organisations	1-4-2003
25	AAS 25	Comparatives	1-4-2003
26	AAS 26	Terms of audit engagement	1-4-2003
27	AAS 27	Communication of audit matters with those charged with governance	1-4-2003
28	AAS 28	The Auditor's Report on financial statements	1-4-2003
29	AAS 29	Auditing in a computer information systems environment	1-4-2003
30	AAS 30	External confirmations	1-4-2003
31	AAS 31	Engagements to compile financial information	1-4-2004
32	AAS 32	Engagements to perform agreed upon procedures regarding financial information	1-4-2004
33	AAS 33	Engagement to review financial statements	1-4-2005
34	AAS 34	Audit evidence – additional consideration for specific items	1-4-2005
35	AAS 35	The examination of prospective financial information	1-4-2007

Annexure 9

STATEMENT SHOWING THE PROVISIONS OF THE COMPANIES ACT, 1956,

MODIFIED/EXEMPTED FOR GOVERNMENT COMPANIES UNDER SECTION 620 OF THE ACT

(Referred to in Chapter 3.39)

Section	Notification number and date	Exemption/ Modification
13 (1) (a)	G.S.R. 1234 dated 30-12-1958	Modified
21	G.S.R. 1649 dated 13-11-1965	Modified
23	G.S.R. 1649 dated 13-11-1965	Modified
43-A	G.S.R. 577(E) dated 16-7-1985	Exempted
100	G.S.R. 238 dated 2-2-1978	Modified
101	G.S.R. 238 dated 2-2-1978	Modified
102	G.S.R. 238 dated 2-2-1978	Modified
103	G.S.R. 238 dated 2-2-1978	Modified
108	G.S.R. 579(E) dated 16-7-1985	Exempted
108(1)	G.S.R. 1294(E) dated 17-12-1986	Exempted
149 (2A)	G.S.R. 577(E) dated 16-7-1985	Exempted
165	G.S.R. 578(E) dated 16-7-1985	Exempted
166(1)	S.R.O. 355 dated 7-1-1957	Modified
166(2)	S.R.O. 355 dated 7-1-1957	Modified
187- C	G.S.R. 232 dated 31-3-1978	Exempted
187-D	G.S.R. 578(E) dated 16-7-1985	Exempted
198	G.S.R. 235 dated 31-1-1978	Exempted
205-A	G.S.R. 580(E) dated 16-7-1985	Exempted
205-B	G.S.R. 577(E) dated 16-7-1985	Exempted
209(3) (b)	G.S.R. 550(E) dated 16-5-1989	Modification suitably incorporated in paragraph 3.7
209 (3) (b)	G.S.R. 770(E) dated 10-9-1990	-do-
217 (1) (e)	G.S.R. 769(E) dated 10-9-1990	Exempted
255	G.S.R. 906 dated 30-7-1981	Exempted
256	G.S.R. 906 dated 30-7-1981	Exempted
257	G.S.R. 906 dated 30-7-1981	Exempted
259	G.S.R. 235 dated 31-1-1978	Exempted
263	G.S.R. 577(E) dated 16-7-1985	Exempted
264	G.S.R. 577(E) dated 16-7-1985	Exempted
265	G.S.R. 577(E) dated 16-7-1985	Exempted
266	G.S.R. 577(E) dated 16-7-1985	Exempted
268	G.S.R. 235 dated 31-1-1978	Exempted
274 (1) (g)	G.S.R. 829 (E) dated 21-10-2003	Directors disqualification
294	G.S.R. 578(E) dated 16-7-1985	Exempted
294AA	G.S.R. 578(E) dated 16-7-1985	Exempted

(2) & (3)		
295	G.S.R. 581(E) dated 16-7-1985	Exempted subject to approval by the Central/ State Government
297(1)	G.S.R. 233 dated 31-1-1978	Exempted
307	G.S.R. 577(E) dated 16-7-1985	Exempted
308	G.S.R. 577(E) dated 16-7-1985	Exempted
309	G.S.R. 235 dated 31-1-1978	Exempted
310	G.S.R. 235 dated 31-1-1978	Exempted
311	G.S.R. 235 dated 31-1-1978	Exempted
316	G.S.R. 577(E) dated 16-7-1985	Exempted
317	G.S.R. 577(E) dated 16-7-1985	Exempted
370	G.S.R. 309 dated 20-2-1978	Exempted subject to approval by the Central/ State Government
372	G.S.R.990 dated 9-8-1975	Exempted
386	G.S.R. 577(E) dated 16-7-1985	Exempted
387	G.S.R. 235 dated 31-1-1978	Exempted
388	G.S.R. 235 dated 31-1-1978	Exempted
391	G.S.R. 238 dated 2-2-1978	Modified
392(1)	G.S.R. 238 dated 2-2-1978	Modified
394	G.S.R. 238 dated 2-2-1978	Modified
621(1)	S.R.O. 355 dated 17-1-1957	Modified

Annexure 10

STATEMENT SHOWING SOME OF THE IMPORTANT PROVISIONS OF THE COMPANIES ACT, 1956, USEFUL IN THE CONDUCT OF TRANSACTION/ FINANCIAL AUDIT

(Referred to in Chapter 3.41)

Section	Subject
2	Definitions
4	Meaning of holding company and subsidiary
4A	Public financial institutions
166	Annual general meeting
174	Quorum for meeting
193	Minutes of proceedings of general meetings and of Board and other meetings
205	Dividend to be paid only out of profits
209	Books of account to be kept by company
210	Annual accounts and balance sheet
210A	Constitution of National Advisory Committee on Accounting Standards
211	Form and contents of balance sheet and profit and loss account
212	Balance sheet of holding company to include certain particulars as to its subsidiaries
213	Financial year of holding company and subsidiary
215	Authentication of balance sheet and profit and loss account
216	Profit and loss account to be annexed and Auditor's Report to be attached to balance sheet
217	Board's report
224	Appointment and remuneration of Auditors
225	Provisions as to resolutions for appointing or removing Auditors
226	Qualifications and disqualifications of Auditors
227	Powers and duties of Auditors
228	Audit of accounts of branch office of company
229	Signature of Auditor’s Report, etc.
231	Right of Auditor to attend general meeting
285	Board to meet at least once in every three calendar months
287	Quorum for meetings
291	General powers of Board
292A	Audit Committee
378	Appointment of secretaries and treasurers

417	Employees' securities to be deposited in post office savings bank or in scheduled bank
418	Provision applicable to provident funds of employees
424G	Winding up of sick industrial company
425	Modes of winding up
433	Circumstances in which company may be wound up by Court.
484	Circumstances in which company may be wound up voluntarily.
617	Definition of Government company.
619	Application of sections 224 to 233 to Government companies
619A	Annual report on Government companies
619B	Provisions of section 619 to apply to certain companies
620	Power to modify Act in relation to Government companies

Name of Companies transferred after restructuring Annexure 11

No.	NAME_OF_PSU	Name of the office to whom audit is presently entrusted	Previous audit office prior to restructuring
1	Aralam Farming Corporation (Kerala) Limited	Office of the Prl. AG(SGSA), Kerala	Office of the Prl.AG(C&CA), Kerala
2	Kerala State Film Development Corporation	-do-	-do-
3	Kerala School Teachers & Non teaching staff Welfare Corporation Limited	-do-	-do-
4	The Pharmaceuticals (IM) Kerala Limited, Thrissur	-do-	-do-
5	Kerala Medical Services Corporation Limited	-do-	-do-
6	Overseas Development & Employment Promotion Consultants Limited	-do-	-do-
7	The Rehabilitation Plantation Limited	-do-	-do-
8	Kerala State Backward Classes Development Corporation Limited	-do-	-do-
9	Kerala State Development Corporation for Christian Converts from Scheduled cases and the Recommended Communities (Limited)	-do-	-do-
10	The Kerala State Development Corporation of Scheduled Castes and Scheduled Tribes Limited	-do-	-do-
11	Kerala State Women Development Corporation Limited	-do-	-do-
12	The Kerala State Handicapped Persons Welfare Corporation Limited	-do-	-do-
13	Norka Roots Ltd	-do-	-do-
14	Kerala Urban and Rural Development Finance Corporation Limited	-do-	-do-
15	Kerala Police Housing & Construction Corporation Limited, TVM	-do-	-do-
16	Kerala State Ex-servicemen Development & Rehabilitation Corporation	-do-	-do-
17	Text Book Depot (Dept Commercial Undertaking)	-do-	-do-

CHAPTER 4

STATUTORY CORPORATIONS

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CHAPTER - 4

STATUTORY CORPORATIONS

4.01. Introduction

As on 31 March 2010, there are five Statutory Corporations under the audit jurisdiction of the Commercial Audit Wing of this Office as follows.

Sl. No.	Name of the entity	Date of incorporation	Head/Corporate Office	Name of controlling section
1	Kerala State Electricity Board (KSEB)	March 1957	Thiruvananthapuram	RAO, KSEB
2	Kerala State Road Transport Corporation (KSRTC)	March 1965	Thiruvananthapuram	RAO, KSRTC
3	Kerala Financial Corporation (KFC)	December 1953	Thiruvananthapuram	CA V HQ Section
4	Kerala State Warehousing Corporation (KSWC)	February 1959	Ernakulam	CA II HQ Section
5	Kerala Industrial Infrastructure Development Corporation (KINFRA)	November 1992	Thiruvananthapuram	CA II HQ Section

Their functions, audit mandate, appointment of auditors etc., are discussed in the respective chapters of the Corporations.

4.02. Audit by the CAG

Audit of Statutory Corporations established by or under any law made by the Parliament/Legislature is conducted as per the provisions of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and in accordance with the relevant provisions of the Acts forming these corporations.

Transaction and financial audits of these corporations are conducted annually except their branches/units, which are audited periodically decided on need basis. The accounts of these corporations are prepared on mercantile system. In view of this, most of the instructions/guidelines issued by Head quarters for financial audit of Government companies are applicable to the Statutory Corporations also.

If the Central/State Government or other Government institutions hold more than 51 per cent of the paid-up capital of any corporation, the audit thereof should be entrusted to the CAG. If any Corporation's Act is silent on this matter, the position should be brought to the notice of Headquarters.

[Headquarters letter 494-CA IV/83-81 dated 25-6-1982]

The special procedures for the finalisation and issue of Separate Audit Report (SARs)/Audit Reports (ARs), etc., on the accounts of the Statutory Corporations are detailed in the respective chapters of these entities. The common procedures and other related issues (including the under performance of Auditors), wherever applicable, in this regard are similar to those of Government companies as mentioned in the Chapters 2 and 3 (Commercial Audit Headquarters Sections and Government companies). While sending the documents to the controlling sections concerned on completion of financial audit of Statutory corporations (KSEB, KSRTC and KINFRA), CA Parties should forward the proforma on the audit of Statutory corporations (sole audit) (**Annexure 1**) instead of the proforma on the performance of Auditors of Government companies and the proforma for commencement/completion of audit, which are applicable for Statutory corporations (other than sole audit), etc. The printed SAR in respect of KFC and the printed accounts of the corporations (other than KFC) incorporating the SAR/AR should be examined and distributed as per the procedures laid down in Chapters 3.18.

While forwarding the final draft SAR/AR to Headquarters for approval, a copy of the latest Inspection Report of the Corporation concerned should also be sent.

[Headquarters letter 367-CA II/Coordn/Misc/2006-07/263 dated 24-3-2006]

The revised format of the Audit Report on the accounts of KSEB, KSRTC and KINFRA are given in **Annexure A**. The revised format of Audit report for KFC and KSWC are given in **Annexure B**.

4.03. Applicability of Accounting Standards

As per Preface to the Statements of Accounting Standards (revised 2004) issued by the Institute of Chartered Accountants of India (ICAI), Accounting

Standards (AS) are applicable to any entity engaged in commercial, industrial or business activities irrespective of whether it is profit oriented or established for charitable/religious purpose or partly commercial, industrial, etc. Besides the AS, the ICAI has been issuing various Accounting Standards Interpretations (ASI) for compliance. Hence, AS/ASI should be kept in mind while auditing the accounts of the Statutory corporations.

4. 04. Tax audit

KSEB and KSRTC are allowed to engage Chartered Accountants for the finalization of tax audit reports under section 44 AB of the Income Tax Act, 1961, with effect from the assessment year 1984-85 though the CAG is the sole Auditor of these entities. They may also clear their backlog as well and in case they face any problem, like levy of penalty for delayed submission of the tax audit reports for past years, they should take up the matter directly with the Central Board of Direct Taxes (CBDT). If any difficulty is experienced by them in this respect, they may bring it to the notice of the AG (ERSA) who in turn may report it to Headquarters to sort out the matter with CBDT.

[Headquarters letter 59 CC IV/69-85 (CA IV/Tech. 2/88 dated 5-2-1988]

The above guidelines are applicable to other Statutory corporations (sole audit) located in the State such as KINFRA.

Annexure 1

PROFORMA ON THE AUDIT OF STATUTORY CORPORATIONS

(SOLE AUDIT)

(Referred to in paragraph 4.11 of the Manual of Instructions for audit of Autonomous Bodies)
(Annexure to Circular letter No. 173-Rep (AB)/27-84(I) dated 10-09-1999)

(Referred to in Chapter 4.02)

(Proforma on progress of audit to be sent to the Office of the Comptroller and Auditor General of India along with audited accounts and Audit Report)

1.	Name of the Statutory corporation (sole audit)	:	
2.	Date of submission of the accounts to the Audit by the Corporation	:	
3.	Where applicable, reasons for returning the accounts for revision indicating why the accounts could not be certified with qualifications	:	
4.	Date of submission of revised accounts to Audit where revision was considered essential	:	
5.	Dates on which audit was taken up and completed	:	
6.	Date of issue of draft SAR to the institution for reply	:	
7.	Date of receipt of reply from the institution (if received)	:	
8.	Date of issue of draft SAR (including reply of the institution along with an aide-memoire) to Headquarters for approval	:	
9.	Date of issue of final Audit Report to State Government/Headquarters	:	
	English Version	:	
	Hindi Version (if required)	:	
10.	Reasons for delay, if any, at various stages	:	
11.	Date of presentation of previous Audit Report before Legislature	:	
	(Where the Audit Reports for previous years have not been placed, years to which these pertain, may also be indicated)	:	

ACCOUNTANT GENERAL (ERSA), KERALA

Annexure A

Separate Audit Report of the Comptroller & Auditor General of India on the Accounts of (name of the corporation/Board) for the year ended 31 March 2XXX.

We have audited the attached Balance Sheet of (indicate name of the corporation/Board) as at 31 March 2XXX and the profit and Loss Account for the year ended on that date under Section (mention the relevant section of the governing Act of the corporation and the Act) as amended vide Notification No………….. (mention the details of amendment if applicable). These financial statements include the accounts of units/branches of the Corporation/Board (strike out if not applicable). These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

This Separate Audit Report contains the comments of the Comptroller & Auditor General of India (CAG) on the accounting treatment only with regard to classification, conformity with the best accounting practices, accounting standards and disclosure norms, etc. Audit observations on financial transactions with regard to compliance with the Law, Rules & regulations (propriety and Regularity) and efficiency – cum-performance aspects, etc., if any, are reported through Inspection Reports/CAG's Audit Reports separately.

We have conducted our audit in accordance with auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, we report that:

i We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

ii The Balance Sheet and Profit and Loss Account dealt with by this report have been drawn up in the format approved by the (mention the name of the authority approving the format) under Section/Rules (mention the relevant section of the Act governing the corporation and the Act).

iii In our opinion, proper books of accounts and other relevant records have been maintained by the Corporation/Board as required under Section (mention the relevant section of the Act governing the corporation and the Act) in so far as it appears from our examination of such books.

iv We further report that :

A Balance sheet

B Profit & Loss Account

C Accounting Policies

D General

(Note: Significant audit observations on financial statements may be classified into above categories and non-compliance if any, of the Accounting Standards may be mentioned under respective category referring to any mandatory requirements to follow Accounting Standards by the Corporation)

v. Subject to our observations in the preceding paragraphs, we report that the balance sheet and profit and Loss Account dealt with by this report are in agreement with the books of accounts.

vi. In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the Accounting Policies and Notes on Accounts, and subject to the significant matters stated above and other matters mentioned in Annexure –I (number of annexure may be mentioned in case where there are more than one annexure to the Audit Report) to this Audit Report give a true and fair view in conformity with accounting principles generally accepted in India.

a. In so far as it relates to the Balance Sheet, of the state of affairs of the Corporation as at 31 March 2XXX; and

b. In so far as it relates to Profit and Loss account, of the profit/loss for the year ended on that date.

A review of accounts showing the summarized financial results of the Corporation for the last three years is given in Annexure – II. (Para applicable where a review of accounts is issued to the Corporation).

For and on behalf of the C & AG of India.

Accountant General (ERSA)

Place

Date

Annexure I to Audit Report

It should contain the following comments/observations:

1. **Adequacy of Internal Audit System**: Whether internal audit system is adequate and commensurate with the size and nature of the Corporation? Deficiencies and weakness in the system and recommendations for improvement/strengthening of internal audit system.
2. **Adequacy of Internal Control System**: Whether internal control system is adequate and commensurate with the size and nature of the Corporation? Deficiencies and weakness in the system and recommendations for improvement/ strengthening of internal control system.
3. **System of Physical verification of fixed assets**: Whether fixed assets have been physically verified by the management at reasonable intervals? Whether any material deficiencies were noticed on physical verification and if so, the same have been properly dealt with in the books of accounts?
4. **System of Physical verification of inventory**: Whether the physical verification of inventory has been carried out by the management at reasonable intervals?
5. **Regularity in payment of statutory dues**: Whether the corporation is regular in depositing undisputed statutory dues including Provident fund, Employees State Insurance, Income Tax, Sales Tax, Service Tax, custom Duty, Cess and any other statutory dues with the appropriate authorities. If not, indicate the extent of the statutory dues at the close of financial year outstanding for more than six months from the date they became payable.
6. Any other observation on the functioning of the Corporation which suggests a significant risk to financial reporting.

Annexure B

Separate Audit Report of the comptroller and Auditor General of India on the Accounts of (name of the Corporation/ Board) for the year ended 31 March 2XXX

The preparation of the financial statements of (indicate name of the Corporation/Board) for the year ended 31 March 2XXX in accordance with financial reporting frame work prescribed under the (mention the relevant governing Act of the corporation and the Act) and the generally accepted accounting principles is the responsibility of the management of the Corporation. The Statutory Auditors appointed by the State Government on the advice of the Comptroller & Auditor General of India or the Shareholders out of the panel of Auditors approved by the Reserve bank of India (strike out whichever is not applicable) under section (mention the relevant section of the governing Act of the corporation and the Act) are responsible to express an opinion on these financial statements based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body- the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 2XXX.

The separate Audit report contains the comments of the Comptroller & Auditor General of India (CAG) on the accounting treatment only with regard to classification, conformity with the best accounting practices, accounting standards and disclosure norms, etc. Audit observations on financial transactions with regard to compliance with the Law, Rules & regulations (Propriety and Regularity) and efficiency-cum-performance aspects, etc., if any, are reported through Inspection Reports/CAG's Audit Reports separately.

We on behalf of the Comptroller & Auditor General of India, have conducted the audit of the Financial Statements of the above said Corporation for the year ended 31 March 2XXX under Section (mention the relevant section of the governing Act of the corporation and the Act). This audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the statutory auditors and the Corporation's personnel and a selective examination of some of the accounting records. Based on our audit, we would like to highlight the following significant matters under section (mention the relevant section of the governing Act of the corporation and the Act) which have come to our attention and which in our view are necessary for enabling a better understanding of the financial Statements and the related Audit report issued by the Statutory Auditors.

A Balance sheet

B Profit & Loss Account

C Accounting Policies

D General

For and on behalf of the C&AG of India.

Accountant General (ERSA)

Place

Date:

Annexure – II

(to form part of Audit Report where Review of Accounts is issued)

Review of Accounts of (name of the Corporation) for the year ended 31 March 2XXX by the Comptroller and Auditor General of India.

NOTE: This Review of Accounts has been prepared without taking into account the audit observations/comments contained in the Audit Report of the Comptroller and Auditor General of India.

(The above note should be mentioned before summarized financial results of the Corporation)

CHAPTER 5

KERALA FINANCIAL CORPORATION

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CHAPTER – 5

KERALA FINANCIAL CORPORATION

5.01 Introduction

Kerala Financial Corporation (KFC) was established (December 1953) under *section 3* of the State Financial Corporations Act (SFC), 1951 with the objectives of encouraging and promoting industrialisation in the State by providing financial assistance by way of loans and advances to small and medium industries (including service and information technology sectors) as provided in sections 25 to 28 of the Act ibid.

The KFC is working under the administrative control of the Finance Department of the Government of Kerala. The State Government is empowered to issue policy guidelines to any SFC in the discharge of its functions after obtaining the advice of Small Industries Development Board of India (SIDBI) and the decision of the Government is final *(Section 39).*

The Corporate Office/Head Office of the Corporation is situated in Thiruvananthapuram with 16 branch offices situated all over the State (**Annexure 1**).

The MD is the Chief Executive of the Corporation, who is at present assisted by a General Manager, a Financial Controller, four Deputy General Managers, seven Assistant General Managers and 13 Chief Managers/Managers (branches) to manage its day-to-day activities. Besides them, the MD is also assisted by a Vigilance Officer (Deputy Superintendent of Police on deputation) to conduct enquiry/investigation on specified areas, provide assistance while taking over a defaulted industry, furnish confidential reports about the functioning, discipline, etc., of branch offices, etc.

Financial assistance is sanctioned by the KFC to the industries based on appraisals of the project reports, verification of land records, etc. Maximum ceiling for financial assistance and rates of interest for the loans/advances is decided by the Corporation from time to time. Loans and advances are sanctioned to the industries by the Branch Managers, Managing Director (MD), Executive Committee and Board of Directors as per the delegation of powers issued by the Corporation from time to time. As a measure to improve the recovery of old defaulted loans/advances and reduce the Non-Performing Assets (NPA), the Corporation started (1995-96) settling such loans under one time settlement (OTS) scheme by waiving the entire/a portion of principal, interest/penal interest and miscellaneous expenses (security charges, etc.). OTS is sanctioned by the above mentioned authorities and the State Government, depending upon the amount involved in each case/as per the delegation of powers issued by the Corporation from time to time.

SFC should be treated as a company for the purpose of income tax and hence it is liable to pay income tax on its income. However, any sum paid by the State Government against guarantee extended by it for mobilizing resources under *sections 7 and 8* of the Act ibid shall not be treated as its income. Similarly, the interest paid by any SFC out of such sum should not be considered as expenditure of the entity *(Section 43).*

5.02. Organisational structure

(i) Board of Directors

The management of a SFC is vested with a Board of Directors *(Section 9).* The Board shall consist of a Chairman, two Directors each nominated by the State Government and SIDBI, two Directors nominated in the prescribed manner by the shareholders under *section 4 (3) (c)* (public sector banks, Life Insurance Corporation of India (LIC) and Central/State PSUs) and such number of Directors elected by other shareholders under *section 4 (3) (d)* of the Act ibid depending upon the shares held by them. One of the directors nominated by the State Government shall have special knowledge/experience in small-scale industries *(Section 10).* A director shall not hold office continuously for more than six years *(Section 11).* In consultation with the State Government, SIDBI shall nominate a director as Chairman of a SFC, initially for a period not exceeding three years and is eligible for re-appointment. The Chairman will be a whole time director, if he is appointed as MD *(Section 15).* The MD is appointed by the State Government in consultation with SIDBI. He shall hold office initially for a period not exceeding three years and is eligible for reappointment. The pay and allowances and other service conditions of the MD are fixed by the Board subject to approval by the State Government *(Section 17).*

The Board is authorized to delegate powers to the MD or any Advisory Committees or any officers of the SFC for its smooth functioning *(Section 43A).* The Board is empowered to make rules and regulations for the smooth functioning of a SFC subject to the approval of the State Government and in consultation with SIDBI *(Section 48).* All the rules/regulations of a SFC shall be laid before the State Legislature *(Section 48A).*

ii) Committees

A SFC is allowed to constitute any number of committees for its smooth functioning as detailed below (*Sections 18 and 48).*

a) Executive Committee

The Board shall constitute an Executive Committee consisting of the Chairman, MD and such other Directors. The Committee shall discharge any functions prescribed by any rule/regulation or delegated to it by the Board from time to time *(Sections 18 and 20).* The minutes of the meetings of the Committee shall be placed before the Board of Directors *(Section 20).*

b) Advisory Committee

A SFC is empowered to constitute any number of Advisory Committees comprising directors/other persons for the efficient discharge of its functions *(Sections 18 and 21).* The minutes of the meetings of such Committees shall be placed before the Board of Directors *(Section 43B).*

c) Audit Committee

The Corporation constituted (August 2005) an Audit Committee comprising three Directors to manage the various assignments provided in *section 292A* of the Companies Act, 1956.

(iii) Officers/Employees

A SFC is authorized to appoint officers/employees and advisors for the efficient performance of its functions and decide their service conditions and remunerations by regulations *(Sections 23 and 48).*

5.03. Share capital

The authorized share capital of each SFC is fixed by the respective State Government but it shall not be less than Rs 50 lakh and exceed Rs 500 crore provided the latter may increase the capital to Rs 1000 crore on the recommendation of SIDBI. The authorized capital is divided into equity (comprising ordinary and special class of shares) and redeemable preference shares. Subject to the approval of the State Government and SIDBI, shares of a SFC shall be allotted to the State Government, SIDBI, public sector banks, LIC, Central/State PSUs and other parties. In any case, not more than 49 per cent of the total equity share capital of a SFC shall be allotted to other parties. Unsubscribed share capital of institutions/parties (other than the State Government and SIDBI) shall be subscribed equally by the State Government and SIDBI *(Section 4).* Special class of shares shall be fully subscribed by these two subscribers in agreed proportion and the amount used only for the specified purpose/sanctioning loan assistance to industries as decided by SIDBI after obtaining the advice of the State Government. The rate of dividend of special class of shares shall not exceed that of other shares *(Section 4-A).*

The paid-up capital of the Corporation is divided into ordinary and special class of shares at Rs 100 each. The share capital is at present contributed by the State Government, Industrial Development Bank of India (IDBI), Scheduled and Co-operative banks, LIC and others.

5.04. Borrowings

SFC is allowed to borrow funds by way of bonds/debentures, etc., to meet its working capital and other purposes from State Government and others on such terms and conditions as decided by its Board of Directors. The repayment of the principal of the bonds/debentures and payment of interest thereon may be guaranteed by the State Government on payment of guarantee commission. It is also allowed to borrow funds from Reserve Bank of India (RBI) by way of ad-hoc bonds against the securities, stocks, bills of exchange, promissory notes, etc., (other than immovable properties), which shall be repaid within a period not exceeding 90 days. A SFC is further authorized to borrow funds, restricting to aggregate twice of its paid-up capital, against the securities of the Central or State Government on maturity or subject to the approval of the latter against bonds and debentures (guaranteed by the latter) issued by the SFC maturing within a period not exceeding 18 months from the date of borrowal. The total of such borrowings (excluding the ad hoc bonds but including contingent liabilities against guarantees or underwriting agreement) of a SFC shall not exceed 10 times of its paid-up capital and reserve fund. This limit can be increased to 30 times subject to the approval of SIDBI *(Section 7).*

A SFC is authorized to accept fixed deposits from the State Government or from local authority/other persons (with the approval of RBI), which shall be repaid within a period not exceeding 12 months and on such other terms and conditions as decided by its Board of Directors. The total fixed deposits of a SFC shall not exceed twice its paid-up share capital, which may be increased to 10 times subject to approval by the State Government. The repayment of the principal of the fixed deposits and payment of interest thereon may be guaranteed by the State Government on payment of guarantee commission *(Section 8).*

5.05. Grants

A SFC is allowed to receive gifts, grants and donations/benefactions from Government or any other sources *(Section 25-B).*

5.06. Deposit/Investment of funds

The funds of the Corporation shall be deposited in banks *(Section 33).* The surplus funds may be invested in accordance with guidelines and prudential norms framed by the Board from time to time by way of regulations in consultation with SIDBI and with the approval of the State Government *(Sections 34 and 48).*

5.07. Right to take over defaulted unit

SFC is allowed to take over the management/possession of any industrial unit when it defaulted in the repayment of the loan/advance, etc., and transfer the same by way of lease/sale for adjusting its dues, etc. All expenses incurred by the SFC in this score are recoverable from the unit *(Section 29).* The power of the SFC to realize the debts under this section is subject to the provisions of the Companies Act, 1956 *(Section 29).*

5.08. Special reserve fund

SFC may establish a special reserve fund to which shall be transferred any agreed portion of the dividend of the State Government and SIDBI and that the fund balance may be utilized for the specified purposes as decided by them *(Section 35A).*

5.09. Accounting of interest/Asset classification

The following guidelines were issued by IDBI for the accounting of interest, classification of assets, etc., while finalising the annual accounts of SFCs.

i) Accounting of interest

Interest (income) on loans/advances/others should be accounted for on cash basis while interest (expenditure) on borrowings/others on accrual basis.

ii) Asset classification

The loans/advances should be classified into four broad groups (Standard asset, Sub-standard asset, Doubtful asset and Loss asset) considering the degree of well defined credit weakness and extent of dependence on collateral security for the realization of dues as shown below. The classification was done to provide the basis for determining the provisions for loans/advances and it should be disclosed in the annual accounts.

a) Standard asset – It neither discloses any problem nor carries more than normal risk attached to the business. Such an asset is not a NPA as defined by RBI in April 1992.

b) Sub-standard asset – It has been classified as a NPA for a period not exceeding two years (e.g. an asset treated as a NPA in October 1988 should be classified as sub-standard asset up to October 1990). The instalments of principal in respect of term loans which are overdue for periods exceeding one year but not exceeding two years should be treated as sub-standard. An asset where the terms of the loan agreement regarding principal and interest have been renegotiated or rescheduled after one year subsequent to commencement of production or as part of rehabilitation package approved by institutions should be classified as sub-standard and should remain in such category for at least two years and satisfactory performance under re-negotiated or re-scheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance of the above condition.

A general provision of 10 per cent of total sub-standard assets should be made in the accounts.

c) Doubtful asset – It is a NPA that remained as such for a period exceeding two years (e.g. a term loan facility to a borrower which is treated as a NPA in October 1988 should be treated as doubtful from November 1990). The instalments of principal in respect of term loan remaining overdue for a period exceeding two years should be treated as doubtful. As in the case of sub-standard asset, rescheduling does not entitle the SFC to upgrade loan automatically except in cases where the assets have been renegotiated and funded or rescheduled as part of a rehabilitation programme approved by institutions/banks/BIFR where the basic viability of the borrower is not in doubt.

100 per cent provision should be created in the accounts to the extent to which the advance is not covered by the realizable value of the security which the SFC has a valid recourse and the realisable value is estimated on a realistic basis. Over and above, depending upon the period for which the asset has remained doubtful, 20 per cent (up to one year), 30 per cent (between one and three years) and 50 per cent (above three years) provision of the secured portion (estimated realizable value of the outstanding) should be made.

d) Loss asset - In this case, a loss has been identified by the SFC or its internal/external Auditors but the amount has not been written off fully or partly though there may be some salvage or recovery value.

Provision for the entire loss asset should be provided for/written off in the accounts of SFC depending upon the circumstances.

SFC should periodically review the recovery performance vis-à-vis the classification of assets once in six months to ensure that the recovery in the case of standard asset is 100 per cent and that in respect of both standard and sub-standard assets put together is not less than 75 per cent. Such review should be sent to IDBI/SIDBI along with the views of the Board.

[IDBI's circular No.FI.1/93-94 (DFID No.278/Coord (SFCS Restr.) dated 27-4-1993 communicated in Headquarters letter 2-circular/Comml States/94 (No.402-CA II/47-93) dated 15-3-1994}

5.10. Special Registers

The following special registers are maintained at the Head Office/branch offices of the Corporation.

Loan Ledger, Default Register, Suit Register**,** Document Register**,** Title Deed Register**,** Insurance Register, Loan Application Register, Receipt Register (Repayment of loans)**,** Inspection Register, General Expenditure Register, etc.

5.11. Internal audit

The internal audit of the Corporation is conducted by its own staff and Chartered Accountants. Both audits should cover the entire activities of Head Office and branch offices annually. While the former should examine the financial position of the Head Office and branch offices, the concurrent audit carried out by the Chartered Accountants should cover areas such as verification of loan accounts, financial accounting, insurance on assets, authentication of payments, etc., at a fixed remuneration. The Internal Audit Reports should be submitted on completion of audit, quarterly to the MD for review. They are forwarded to the Head Office/branch offices for rectification.

5.12. Statutory Audit

The accounts of a SFC shall be audited by a Chartered Accountant within the meaning of *section 226 of the Companies Act, 1956*. The Statutory Auditors shall be appointed by the SFC in its annual general meeting out of the panel of Auditors approved by RBI on such terms and conditions as prescribed *[Section 37 (1)]*. SFC shall supply a copy of its accounts [Balance Sheet, Profit & Loss Account including

Accounting policies and Notes on accounts] to the Auditors for audit *[Section 37 (2)]*. The Auditors shall make a report to the shareholders on the accounts examined by them stating whether the accounts exhibit a true and correct view *(and not fair view as in the case of companies)* of the state of affairs of the entity *[Section 37 (3)]*. The State Government may, in consultation with the CAG, issue directions to the Auditors requiring them to furnish a report regarding the adequacy of the measures taken by the SFC for the protection of the interest of its shareholder/creditors, etc., and enlarge/extend the scope of audit keeping in mind the public interest *[Section 37 (4)]*.

5.13. Annual General Meeting

SFC shall convene an annual general meeting (AGM) annually within four months of the close of the annual accounts as decided by the Board to transact and adopt the following.

a) Balance Sheet and Profit & Loss Account of the SFC;

b) Report of the working of the SFC for the period covered by the accounts;

c) Auditor's Report;

d) Dividend and capitalization of reserves; and

e) Other items.

The certified accounts and the Auditor's Report along with a report of the working of the SFC for the year shall be furnished to the State Government within four months of the close of the financial year for placing before the Legislature *(Section 38).*

In the absence of specific provision in the SFC Act, the Audit Report (AR) of the CAG is not placed in the AGM of any SFC.

5.14. Audit by the CAG

Audit on the accounts of a SFC is conducted by the CAG as per *section 19 (2*) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Consequent on the amendment to the Act ibid in September 2000, the CAG has no role in the appointment of Statutory Auditors of a SFC. Hence, no separate communication entrusting the audit to the AG (ERSA) is sent by Headquarters annually. SFC shall send a copy of the Statutory Auditor's Report to the CAG at least one month before it is placed before the shareholders *[Section 37 (5)]*. The CAG may, either of his own motion or on a request received from the State Government, undertake audit of the SFC at such times as may be considered necessary [*Section 37 (6)]).*

The KFC should send two copies of certified accounts and Auditor's Report (in original) direct to the AG (ERSA) for audit.

[Headquarters letter 708/RCA/129-Rep-62 dated 31-8-1962]

Audit enquiries on the accounts of the Corporation are issued by the Inspecting Officer (IO) to the Management for remarks during the course of financial audit. The draft AR is finalised by the IO in the following format and submitted to CA HQ Section on completion of financial audit without issuing to the Corporation.

Sl. No.	Particulars	Annexure to draft AR
1	Introduction, Capital, Borrowings, Operations, Working results, Loan operations, Internal control and Comments on annual accounts (including effect of audit comments on accounts)	-
2	Financial position	1
3	Working results	2
4	Position of loans	3

If there are no points/observations under a particular title/sub-title in the draft AR, the same may be deleted before sending it to Headquarters for approval. As the format of the AR is intended to serve as a guide, it should be suitably modified/enlarged so as to make it as meaningful as possible.

[Headquarters letters 1795-CA/104-65 dated 31-12-1966, 272-CA/104-65 dated 12-3-1968 and CA IV/Tech/16-80 dated 26-11-1980]

Thereafter, the draft AR is afresh finalised by CA HQ Section and issued to the Corporation and Government for remarks under the signature of the Group Officer. They are required to furnish the remarks within 15 days from the date of issue of the draft AR. Final draft AR is approved by the AG (ERSA). While finalizing the initial and final draft ARs, the views of the Management/Government are considered.

The following documents are sent to Headquarters {Director/Deputy Director (CS)} for the approval of the final AR.

Sl. No.	Particulars	Signed by
1	Certified accounts and Auditor's Report (in original)	-
2	Final draft AR other than annexures (in duplicate) Annexures 1 to 3	AG(ERSA) Branch Officer/CA HQ Section
3	Aide memoire (indicating the audit observations, reply of the Management/Government and further remarks there against)	AG(ERSA)
4	Proforma on the performance of Auditors of Government companies/corporations	AG(ERSA)
5	Proforma for commencement and completion of audit	Branch Officer/CA HQ Section
6	Copy of latest Inspection Report of the Corporation	-

If the remarks of the Corporation/Government on the final draft AR are received thereafter, these should be considered by the AG (ERSA) without reference to Headquarters again for approval. After attending to Headquarters queries, if any, on the AR and checking the facts and figures, the approved AR should be signed by the AG (ERSA)/Branch Officer (CA HQ Section) as above and issued to the State Government for laying before the Legislature *[Section 37 (7)]*. Government is also required to furnish 10 copies of the printed AR for record and other purposes. A copy of the AR is endorsed to the Corporation for information.

A copy of the AR as issued to the Government/Corporation is also forwarded to Headquarters (excluding matrix) along with an aide memoire, if any, showing the Headquarters queries and further remarks there against.

The date of presentation of AR to the Legislature should be ascertained from the Government and intimated to Headquarters. Two copies of the printed AR should also be sent to Headquarters separately.

It is the responsibility of the State Government to arrange the printing of the AR for laying before the Legislature.

[Headquarters letters 1676-CA/171/64 dated 29-12-1964, 1014-CA/47/63 dated 15-9-1965 and 367-CA II/Coordn/Misc/2006-07 dated 24-3-2006]

The criteria to judge the performance of the Auditors are same as those of Government companies. In the case of unsatisfactory performance of Auditors, they may be required to keep the Comments featured in the draft AR as *confidential* by following similar procedures as in the case of Government companies.

[Headquarters letter 5618/CA V/188-69 dated 19-05-1987]

The procedures for the finalization of the Inspection Reports/AR of the Corporation and other related issues are akin to those of Government companies. They are discussed in the Chapters 2, 3 and 4 (Commercial Audit Headquarters Sections, Government companies and Statutory Corporations).

Apart from the normal important areas, the following special areas may also be examined during the transaction audit of the Corporation.

1. Loans/advances, to ensure that they have been granted in accordance with the declared policy of Government/Corporation and after proper appraisal of project report, verification of title deeds (which should be clear in all respects), etc.;

2. Security offered against the loans/advances, to ensure that the same is adequate after proper valuation;

3. Title deeds (Clear), mortgage deeds, etc., and ensure that they are kept under safe custody of the responsible official;

4. Assets tendered as security and accretions thereto, to ensure that they have been properly mortgaged in favour of the Corporation and confirmation thereto has been obtained from competent authority before disbursing the loan/advance;

5. Assets mortgaged to the Corporation as security for the loan sanctioned together with additions and accretions thereto, to ensure that they have been properly insured, premiums in respect of such policies have been paid regularly and the policies are in the safe custody of the Corporation;

6. Cases in which the Corporation released the assets of loanees from mortgage, to ensure whether in the case of sale of such assets, the sale proceeds have been remitted in favour of the Corporation by the loanees without undue delay;

7. Periodical inspection reports of the loanee industries by the inspection wing of the Corporation, to ensure whether there are any cases of diversion of loan funds or other violation of the terms and conditions of the loan and if so, whether the loanee has been proceeded against;

8. Action taken by the Corporation (including Revenue Recovery action/*Section 29*) in the case of defaults and in cases where the loans became irrecoverable, to analyze the reasons for such losses;

9. Periodical cash flow statements, to evaluate the actuals with the projected figures;

10. Investment of surplus funds, to ensure that there are no huge balances in the current accounts;

11. Analysis of the working results of assisted industries done by the Corporation, to ensure whether a proper analysis of the reasons for the loss of such industries has been made.

[Headquarters letter CA IV/Tech/1/78 dated 19-9-1978]

12. Ex-gratia payments to the employees of SFCs to which the payment of Bonus Act, 1965 does not apply, should be objected to in Audit, if these are not (a) covered by any regulations made in pursuance of *section 48* of the Act ibid and/or (b) paid in the absence of any specific directions issued by State Government.

[Headquarters letter CA IV.Tech/36-78 dated 22-11-1978]

13. Borrowings from RBI, SIDBI, commercial banks, etc., and the liquidation of such borrowings;

14. Liquidation of Statutory Liquidity Ratio (SLR) bonds with surplus funds to ensure that effective action has been taken in this regard.

15. Settlement of dues under the OTS scheme to ensure that no cash loss has been incurred.

Annexure 1

STATEMENT SHOWING THE HEAD OFFICE AND BRACH OFFICES OF KERALA FINANCIAL CORPORATION
(Referred to in Chapter 5.01)

Kerala Financial Corporation ***Head Office***: Vellayambalam, Thiruvananthapuram – 695 033. Ph: 0471 2318319 (7 lines), Fax: 2311750, 2318541, 2313693, 2313813 E-mail: kerfinco@sancharnet.in Website: www.kfc.org	
Branch Office	Branch Office
Alappuzha The Branch Manager, Kerala Financial Corporation, Asan Smaraka Building, Near District Court, Alappuzha. *Ph: 0477 2244594, Fax: 0477 2243207* E-mail: kfcalp@satyam.net.in	**Kozhikode** The Chief Manager, Kerala Financial Corporation, M Square Building, Pavamani Road, Kozhikode. *Ph: 0495 2723432, Fax: 0495 2721940* E-Mail: koz_kfckd@sancharnet.in
Ernakulam The Chief Manager, Kerala Financial Corporation, Finance Tower, kaloor Road, Ernakulam. *Ph: 0484 2401884, 2401645, Fax: 04842401982* E-Mail: kfcekm@vsnl.net	**Kottayam** The Chief Manager, Kerala Financial Corporation, Geetha Trade Center, Near YMCA, M.C. Road, Kottayam. *Ph: 0481- 2569649 Fax: 0481 2302760* E- Mail: ktm_kfcktm@sancharnet.in
Idukki The Branch Manager, Kerala Financial Corporation, Pulickal Building, Kattappana, Idukki. *Ph: 0488 2272418, Fax: 0488 2272998* E-Mail: kfctdp@sancharnet.in	**Malappuram** The Chief Manager, Kerala Financial Corporation, Up Hill, Malappuram. *Ph: 0483 2779440, Fax: 0483 2734957* E-Mail: mlp_kfcmlp@sancharnet.in
Kannur The Branch Manager, Kerala Financial Corporation, Chandroth Building, Netaji Road, Kannur. *Ph: 0497 2702194, Fax: 0497 2704734* E Mail: kfcknr@sancharnet.in	**Palakkad** The Chief Manager, Kerala Financial Corporation, First Floor, Century Complex, Matha Kovil Street, Sulthanpet, Palakkad. *Ph:0491 2544641, Fax: 0491 2544638* E-Mail: pgt_kfcpkd@sancharnet.in
Kasargode The Branch Manager, Kerala Financial Corporation, Anebagilu, Near Collectorate, M.G.Road, Kasargode.	**Pathanamthitta** The Branch Manager, Kerala Financial Corporation, Pazhayakunnel Jessy Towers, Ist Floor, Near Municipal Stadium, Pathanamthitta,

Ph: 0499 4230156, Fax: 0499 4230156 E-Mail: kfckgd@sancharnet.in	*Ph: 0468-2222718, Fax: 0468 2221973* E-mail: dmkfcpta@sify.com.
Kollam The Chief Manager, Kerala Financial Corporation, A.G.C Complex, Beach Road, Kollam. *Ph:- 0474 2743769, Fax: 0474 2743604* E- Mail: kfcklm@sancharnet.in	**Perumbavoor** The Branch Manager, Kerala Financial Corporation, S.N.D.P Building, P.P Road, Perumbavoor. *Ph: 0484 2521969, Fax: 0484 2592663* E-Mail: kfcpbvr@sify.com
Thiruvananthapuram The Chief Manager, Kerala Financial Corporation, Branch Office, Vellayambalam, Thiruvananthapuram. *Ph: 0471 2318441, Fax: 0471 2313143* E- Mail: kerfincotvmbo@sancharnet.in	**Thodupuzha** The Branch Manager, Kerala Financial Corporation, Pulimoottil Shopping Arcade, Muvattupuzha Road, Thodupuzha. *Ph: 0486 2223170, Fax: 0486 2226070* E-Mail: kfctdp@sancharnet.in
Thrissur The Chief Manager, Kerala Financial Corporation, K.M.M Complex, Thrissur. Ph: 0487 2441176, Fax: 0487 2421912 E-Mail: kerfincotcr@sancharnet.in	**Wayanad** The Branch Manager, Kerala Financial Corporation, Trident Arcade, Pinangode Road, Kalpetta, Wayanad. Ph & Fax: 0493 6202059 E-Mail: kfcwnd@md5.vsnl.net.in

Commercial Audit Manual
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CHAPTER 6

KERALA STATE WAREHOUSING CORPORATION

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KERALA STATE WAREHOUSING CORPORATION

6.01. Introduction

Kerala State Warehousing Corporation (KSWC) was established (February 1959) under the Agricultural Produce (Development and Warehousing) Act, 1956 which was repealed by the Warehousing Corporations Act, 1962 and came into force in March 1963. Central Warehousing Corporation (CWC) is the apex authority of all State Warehousing Corporations (SWCs). The Corporation is working under the administrative control of the Agriculture Department of the Government of Kerala.

The main functions of the SWC include acquisition and construction of godowns/warehouses in the State with the approval of the CWC and to make use of them for the storage of agricultural products/implements, seeds, manures, fertilizers and notified commodities; to arrange transportation of these goods to and from warehouses; and to act as an agent of the CWC/State Government for the purchase, sale, storage and distribution of the above goods. Besides these activities, the SWC is allowed to establish joint ventures with CWC with the approval of the State Government and carry out such other functions as may be prescribed from time to time *(Section 24)*.

The State Government is authorized to make rules for the additional functions, format of the annual accounts/returns, etc., of the SWC (Section 41). If conflicting policy decisions are formulated on any particular matter either by the Government or the CWC/SWC, the same shall be referred to the Central Government, whose decision is final [Sections 20 (5) and 35].

The SWC should be treated as a company for the purpose of income tax and is liable to pay income tax on its income *(Section 39)*. However, any sum paid by the Central or State Government under any guarantee given for the repayment of the principal of the bonds/debentures and payment of interest thereon under *section 27 (4)* of the Act ibid shall not be treated as its income. Similarly, the interest paid by any SWC out of such sum shall not be considered as expenditure of the entity.

The Corporate Office/Head Office of the Corporation is located in Ernakulam while its three zonal offices are situated in Karunagappally, Thripunithura and Thalassery. Under the zonal offices, nine regional offices are functioning. Besides these offices, there is a large number of warehousing depots working under the direct control of the Regional Offices (**Annexure 1**).

The Managing Director (MD) is the Chief Executive of the SWC, who is at present assisted by two General Managers (Personnel & Marketing) and (Finance) and an Executive Engineer (Construction) to manage its day-to-day activities. They are assisted by three Joint Managers in Head Office for Internal Audit, Accounts and Fertilizer respectively and Zonal Managers in zonal offices and Assistant/Deputy/Senior Managers in warehousing depots.

6.02. Organisation Structure

(i) Board of Directors

The management of the SWC is vested with a Board of Directors comprising 10 Directors (excluding the MD) of whom five each is nominated by the CWC and the State Government. Out of the five directors of the CWC, one director shall be nominated in consultation with the State Bank of India and another director shall be a non-official member. The MD is appointed by the State Government in consultation with all the Directors of the Board and under intimation to CWC. The pay and allowances of the MD are fixed by the SWC with the approval of the State Government and in consultation with CWC. The Chairman is appointed by the State Government from among the Directors of the Board under intimation to CWC *(Section 20)*. A Director shall not hold office continuously for more than six years in terms of *Rule 9* of the Kerala State Warehousing Corporation Rules, 1968.

The Board shall perform its function in public interest as per the policies of the State Government/CWC *[Section 20 (4)]*. The SWC is allowed to make regulations with the approval of the State Government for the service conditions and pay structure of its employees, delegation of the duties and powers of the MD/Officers, convening the meeting of the Board/Executive Committee, etc. *(Sections 33 and 42).*

(ii) Executive Committee

The SWC should constitute an Executive Committee consisting of the Chairman, MD and three other directors (one director representing CWC and two directors nominated by the State Government) *(Section 25 and Rule 13).* The Committee is authorised to deal with any matter of the SWC subject to the directions given by the Board from time to time *(Section 25).* The proceedings of the Committee shall be placed before the Board of Directors (*Regulation 11* under Chapter II of the Kerala State Warehousing Corporation Regulations, 1963).

(iii) Officers/employees

A SWC is authorized to appoint officers/employees for the efficient performance of its functions and decide their service conditions and remunerations by regulations *(Sections 23 and 42).*

6.03. Share capital and Reserve fund

The authorized share capital of the SWC shall not exceed Rs 9 crore (Rs 100 per share) initially, which may be increased by the Central Government in consultation with the State Government. Shares (Rs.100 per share) may be allotted equally to the State Government and CWC *(Section 19).*

The SWC should create a Reserve fund out of its annual net profit *(Section 30).*

6.04. Borrowings

The total borrowings of the SWC should not exceed 10 times of the paid-up capital and Reserve fund. The SWC is allowed to mobilise funds by way of bonds/debentures on such securities in consultation with the Reserve Bank of India and with the approval of the State Government. The repayment of the principal of the bonds/debentures and payment of interest thereon may be guaranteed by the State Government on payment of guarantee commission *(Section 27).*

6.05. Deposit/Investment of funds

The funds of the SWC shall be deposited in banks or invested in the securities of the Central/State Government with the approval of the Executive Committee *(Sections 28 & 29 and Rule 18).*

6.06. Budget

The SWC shall finalise a statement of programme for the succeeding year along with financial budget estimates there against before the commencement of every year. The documents shall be submitted to the State Government for approval and may be revised based on the approval *(Section 26).*

6.07. Rules/Regulations

The following rules and regulations were framed by the SWC in accordance with the provisions of the Act ibid.

(a) The Kerala State Warehousing Corporation Regulations, 1963

(b) The Kerala State Warehousing Corporation Rules, 1968. The Balance Sheet shall be set out as prescribed in form 'A' and the profit and loss account in Form 'B' as prescribed in rule 19, chapter V.

(c) The Kerala State Warehousing Corporation Employees' Provident Fund Regulations, 1968

(d) The Kerala State Warehousing Corporation House Building Advance Rules

(e) The Kerala State Warehousing Corporation Employees' Medical Attendance and Vehicle Advance Rules, 1972

(f) The Kerala State Warehousing Corporation Group Gratuity-cum-Life Assurance Scheme Rules

(g) Other regulations/rules framed by the Corporation

6.08. Special registers/Records

The following special registers/statements are required to be maintained at the Head Office/warehousing depots and Construction Wing of the SWC.

Head Office/Warehousing depots

Suppliers Register, Bills Register, Ship war Register, Collection Register, Insecticides Register, Rent Register, Deposit and Stock Register (Consolidation), Godown-wise viability Register, Depositors Register, Stock Register, Register of warehouse receipt, Monthly statement for deposits/releases/closing stock, Collection and remittance statement, etc.

Construction Wing

Register of sanctioned estimates, Register of sale of tender schedules, Register of tenders, Register of agreements, Register of approved contractors and suppliers, Register of furniture & equipment, Stock Register of materials, Adjustment Register, Work Register, Bills Register, Register of measurement books, Register of materials at site for work, etc.

6.09. Internal audit

Internal audit of the Corporation is conducted by its own staff. Internal Audit Wing of its Head Office/Warehousing Depot is headed by a Joint Manager/Regional Manager. The periodicity of the audit is bi-monthly or depending upon volume of business transactions and the Internal Audit Reports are submitted to the MD for review.

6.10. Statutory audit

The SWC shall maintain proper accounts and other relevant records and prepare the accounts in the prescribed formats (Balance Sheet, Profit & Loss Account, Accounting Policies and Notes on accounts) *[Section 31 (1)]*. The accounts of the SWC shall be audited by a Chartered Accountant within the meaning of *section 226* of the Companies Act, 1956 *[Section 31 (2)]*. The State Government, on the advice of the CAG, shall appoint the Statutory Auditors every year *[Section 31 (3)]*. The SWC shall supply a copy of its accounts to the

Auditors for audit *[Section 31 (4)]*. The Auditors shall make a report to the shareholders on the accounts examined by them *[Section 31 (5)]*. In consultation with the CAG, the State Government may issue directions to the Auditors regarding the manner in which audit shall be conducted and they shall furnish a report regarding the adequacy of the measures taken by the SWC for the protection of the interest of its shareholders/creditors, etc., if called for. In terms of the appointment order, the Auditors are required to verify the initial accounts of the selected warehousing depots during the course of audit. The Auditor's Report shall contain the names of the selected units along with the veracity or otherwise of the initial accounts. If the Auditors accept the initial accounts of any unit of the Corporation without verification, the fact thereof shall be indicated in the report. Besides these data, the Auditors should also audit the provident fund of the Corporation.

6.11. Audit by the CAG

Audit on the accounts of the SWC is conducted by the CAG as per section 19 (2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. A copy of the Auditor's Report on the accounts of the SWC shall be forwarded to the CAG at least one month before holding the AGM at such time as may be considered necessary.*[Section 31 (7)]*. The CAG may, either of his own motion or on a request received from the State Government, undertake audit of the SWC at such times as may be considered necessary *[Section 31 (8)]*. While forwarding the advice for the appointment of Statutory Auditors by the CAG to the State Government for issuing the formal appointment order, a copy thereof is endorsed to the AG (ERSA) entrusting the audit of the Corporation. This empowers the AG (ERSA) to take up the transaction audit, financial audit, etc., of the Corporation.

The Audit Report (AR) of the CAG is issued to the SWC under the signature of the AG (ERSA) under *section 31 (10)* of the Act ibid in the prescribed format* (**Annexure 2)**. Audit enquiries on the accounts of the Corporation are finalised by the Inspecting Officer (IO) and issued to the Management for remarks during the course of financial audit. The AR contains only the important Comments on the accounts of the Corporation as in the case of Government companies. The draft AR is issued to the Statutory Auditors by the IO on completion of financial audit endorsing a copy to the Management with a stipulation to furnish the remarks within seven days. Thereafter, the final draft AR is finalised by CA HQ Section. In both the occasions, the draft AR is finalised considering the reply of/discussion with the Management/Auditors. Two copies of the printed annual report and accounts of the Corporation incorporating the AR should be sent to Headquarters separately.

* This format has been designed locally in line with that of Government companies.

If there are no audit observations, a Nil AR on the accounts of the Corporation should be issued by the AG (ERSA) in the prescribed proforma without reference to Headquarters.

[Headquarters letter 141-CA IV/29-80/Vol II (No. CA IV/Tech/2/85) dated 12-2-1985 & Headquarters letter 1048-CA-II/265-84 (Circular No.7-CA-II/State Commercial Audit-II/85 dated.31.5.1985]

The procedures for sending the final draft AR (along with other related documents) to Headquarters for approval, issue of the approved AR to the Corporation and grading the performance of the Auditors are similar to those of the draft Comments/Comments of Government companies.

While forwarding the final draft AR, a copy of the latest Inspection Report of the Corporation should also be sent. Similarly, the procedures for the finalisation of the Inspection Reports of the Corporation and other related issues are akin to those of Government companies. Both these procedures are discussed in the Chapters 2, 3 and 4 (Commercial Audit Headquarters Sections, Government companies and Statutory Corporations).

Apart from the normal important areas, the following special areas may also be examined during the transaction audit of the Corporation.

(i) Acquisition of land and construction of warehouse;

(ii) Performance of warehouse with special emphasis in respect of its occupancy vis-à-vis storage capacity and stock held at the end of the year;

(iii) Earning per tonne of storage capacity in the Corporation with that of other SWCs;

(iv) Utilization of credit facilities extended by producers, co-operatives, traders, etc., against the pledge of the warehousing receipts issued by the Corporation;

(v) Performance of the Construction Wing of the Corporation with special reference to its establishment charges vis-a-vis the centage earned;

(vi) Contracts with others with special reference to the amount deposited, actual expenditure incurred and loss of interest due to investment of Corporation's funds in respect of works undertaken on behalf of others;

(vii) Performance of agency functions and also contractual obligations for clearing and transportation of goods, etc;

(viii) Basis for the fixation of storage charges;

(ix) Consumption of fumigants and disinfectants according to prescribed dosage and whether the technical staff of the SWC has ensured its correctness;

(x) Performance of other activities (other than the normal warehousing activities) carried out by the SWC;

(xi) Utilization of subsidy; and

(xii) Other activities

6.12. Annual General Meeting

There is no stipulation in the Warehousing Corporations Act to place the AR at the same time and in the same manner as the Auditor's Report as provided for in the Companies Act, 1956. The AR may, therefore, be issued even if the AGM had been held. If the SWC failed to place the AR before the AGM in accordance with section 31 (11) of the Act ibid, the matter should be reported to the Agriculture Department of the State Government and a Comment to this effect included in the Audit Report (Comml). A time schedule should be fixed by the AG (ERSA) for the expeditious completion of audit so as to issue the AR before the AGM. The certified accounts of the SWC together with the Statutory

Auditor's Report thereon and the Audit Report of the CAG shall be placed before the AGM of the SWC within six months of the close of the financial year [Section 31 (10 & 11)].

[Headquarters letters 46-CA IV/29-80 Vol. II (No. CA IV/Tech/1/83)dated 15-2-1983 and 1284-CA II/202-81 (Circular No. 2 CA II/S CA-II/84) dated 5-7-1984] & Headquarters letter 355-CA IV/29-80 (2 CA IV/Tech 29-80) dated.17.4.1982]

The Statutory Auditor's Report and the Audit Report of the CAG shall be forwarded by the SWC to the State Government within one month from the date of AGM for placing them before the Legislature *[Section 31 (11)]*.

Annexure 1

STATEMENT SHOWING THE HEAD OFFICE, REGIONAL OFFICES AND DEPOTS OF KERALA STATE WAREHOUSING CORPORATION.
(Referred to in Chapter 6.01)

Kerala State Warehousing Corporation
Head Office: P.B.No. 1727, Warehousing Corporation Road, Kochi – 682 016.
Phone: 0484 2377137, 2375537, 2375180, 2376616. Fax: 0484 2376339

Sl.No	Name	Sl.No	Name
	Thiruvananthapuram Region		**Thrissur Region**
1.	Thiruvananthapuram	36.	Wadakkanchery
2.	Attingal	37.	Chalakudy
3.	Nedumangad	38.	Kunnamkulam
4.	Neyyattinkara	39.	Nattika
5.	Pallichal	40.	Tirur
	Kollam Region		**Palakkad Region**
6.	Kollam	41.	Palakkad
7.	Karikode	42.	Muthalamada
8.	Punalur	43.	Kozhinjampara
9.	Kottarakkara	44.	Alathur
10.	Pathanamthitta	45.	Perinthalmanna
11.	Parakode		**Kozhikode Region**
12.	Karunagapally	46.	Manjeri
	Alappuzha Region	47.	Cheruvannur
13.	Alappuzha	48.	Nilambur
14.	Thakazhy	49.	Koyilandy
15.	Mavelikara	50.	Vadakara
16.	Certhala	51.	Sulthan Bathery
17.	Haripad	52.	Kalpetta
18.	Kayamkulam	53.	Mananathavady
19.	Thiruvalla		**Kannur Region**
	Kottayam Region	54.	Kannur
20.	Kottayam	55.	Thalassery
21.	Changanassery	56.	Thaliparamba
22.	Ponkunnam	57.	Payyannur
23.	Pallikkathod	58.	Nileswar
24.	Ettumanoor	59.	Kanhangad
25.	Pala	60.	Kasargod
26.	Thodupuzha	61.	Iritty
27.	Vandanmedu	62.	Padannakkad
28.	Kattappana		
	Ernakulam Region		
29.	Thripunithura and CFS		
30.	Eroor		
31.	Fort Kochi		
32.	Muvattupuzha		
33.	Alangad		
34.	Aluva		
35.	North Paravoor		

Annexure 2

(Format for Comments on original accounts/Nil Comments on original accounts/Nil Comments on revised accounts and Comments on revised accounts)

AUDIT REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 31 (10) OF THE WAREHOUSING CORPORATIONS ACT, 1962 ON THE ACCOUNTS OF KERALA STATE WAREHOUSING CORPORATION, ERNAKULAM, FOR THE YEAR ENDED 31 MARCH –

(Referred to in Chapter 6.11)

The preparation of financial statements of Kerala State Warehousing Corporation, Ernakulam for the year ended 31 March ------ in accordance with the financial reporting framework prescribed under the Warehousing Corporations Act, 1962 is the responsibility of the Management of the Corporation. The Statutory Auditor/Auditors appointed by the Government of Kerala on the advice of the Comptroller and Auditor General of India under section 31 (3) of the Act ibid is/are responsible for expressing opinion on these financial statements under section 31 (5) of the Act ibid based on independent audit in accordance with the Auditing and Assurance Standards prescribed by his/her/their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by him/her/them vide his/her/their Audit Report dated ------------------.

I, on behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 31 (8) of the Act ibid of the financial statements of Kerala State Warehousing Corporation, Ernakulam, for the year ended 31 March --------. This supplementary audit has been carried out independently without access to the working papers (in case of non-review of working papers) of the Statutory Auditor/Auditors and is limited primarily to enquiries to the Statutory Auditor/Auditors and the Corporation's personnel and a selective examination of some of the accounting records.

(In the case of Comments on original accounts)

Based on my supplementary audit, I would like to highlight the following significant matters under section 31 (10) of the Act ibid which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related Audit Report

A. Comments on Profitability
B. Comments on Financial Position
C. Comments on Disclosure
D. Comments on Auditor's Report
E. Others

(May be arranged in the order of decreasing importance)

Audit observations on the financial transactions with regard to non-compliance with laws, rules and regulations (propriety and regularity) and efficiency-cum- performance aspects, etc, if any, are issued separately through Inspection Reports/CAG's Audit Reports (Comml).

OR

(In the case of Nil Comments on original accounts)

On the basis of my audit, nothing significant has come to my knowledge which would give rise to any comment upon or supplement to the Statutory Auditor's/Auditors' Report, under section 31(10) of the Act ibid.

Audit observations on the financial transactions with regard to non-compliance with laws, rules and regulations (propriety and regularity) and efficiency-cum-performance aspects, etc, if any, are issued separately through Inspection Reports/CAG's Audit Reports (Comml).

OR

(In the case of Nil Comments on revised accounts)

In view of the revisions made in the financial statements by the Management, as a result of my audit observations highlighted during supplementary audit as indicated in the Note No. ----- of the Notes forming part of Accounts (Schedule No. ----), I have no further comments to offer upon or supplement to the Statutory Auditor's/Auditors' Report, under Section 31 (10) of the Act ibid.

Audit observations on the financial transactions with regard to non-compliance with laws, rules and regulations (propriety and regularity) and efficiency-cum-performance aspects, etc, if any are issued separately through Inspection Reports/CAG's Audit Reports (Comml).

OR

(In the case of Comments on revised accounts)

The financial statements of the Corporation have been revised by the Management to give effect to some of my audit observations highlighted during supplementary audit as indicated in the Note No. ----- of the Notes forming part of Accounts (Schedule No. ----). In addition, I would like to highlight the following significant matters under section 31 (10) of the Act ibid which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related Audit Report:

A. Comments on Profitability

B. Comments on Financial Position

C. Comments on Disclosure

D. Comments on Auditor's Report

E. Others

(May be arranged in the order of decreasing importance)

Audit observations on the financial transactions with regard to non-compliance with laws, rules and regulations (propriety and regularity) and efficiency-cum-performance aspects, etc, if any, are issued separately through Inspection Report/CAG's Audit Report (Comml).

For and on behalf of the Comptroller
and Auditor General of India

Accountant General (ERSA) Kerala

Place

Date

CHAPTER 7

KERALA INDUSTRIAL INFRASTRUCTURE DEVELOPMENT CORPORATION

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CHAPTER – 7

KERALA INDUSTRIAL INFRASTRUCTURE DEVELOPMENT CORPORATION

7. 01. Introduction

Kerala Industrial Infrastructure Development Corporation (KINFRA) was deemed to have been established in November 1992 under the provisions of the Kerala Industrial Infrastructure Development Act, 1993. The main objects of the Corporation are to promote and assist industries in the State; establish, maintain, develop and manage industrial estates at places selected by Government of Kerala; allot the developed plots to entrepreneurs on such terms/conditions fixed by the entity, etc., and such other functions as are necessary to achieve its objects *(Section* 9). The Corporation is at present engaged in the establishment of industrial parks by acquiring/creating infrastructure facilities such as land, building, electricity, water, common facilities, etc., for eventual allotment of developed/underdeveloped land to the prospective entrepreneurs on lease basis *(Section 10).* The lease period is usually 90 years. The entrepreneur is liable to pay to the Corporation, the land revenue, rent, rates and taxes, etc., in respect of leased land before the stipulated time *(Section 34).* Land for the park is usually acquired under the provisions of the Land Acquisition Act, 1894 or through direct purchase. In some cases, Porambukku land (Government land) is also used in this score.

The Corporation is working under the administrative control of the Industries Department of State Government. The Corporation is bound to implement the policy decisions formulated by the Government for achieving its objects *(Section 11).* The Government is authorised to make rules for the maintenance of accounts by the Corporation, terms and conditions for any contract, etc., and these rules shall be placed before the Legislature *(Section 49).* The Corporation may, with the approval of the State Government, make regulations for the efficient conduct of the affairs of the entity, delegation of duties and powers of any Committee/Managing Director (MD)/Officers, etc. *(Section 50).*

The Corporation has developed fully/partially 13 industrial parks in various parts of the State by 31 March 2010 as detailed below:

1. KINFRA Small Industries Park, Menamkulam, Thiruvananthapuram
2. KINFRA Small Industries Park, Mazhuvanoor, Muvattupuzha
3. KINFRA Small Industries Park, Koratty, Thrissur
4. KINFRA Small Industries Park, Kunnamthanam, Pathanamthitta
5. KINFRA Food Processing Park, Adoor, Pathanamthitta
6. KINFRA Small Industries Park, Thalassery, Kannur
7. KINFRA Small Industries Park, Seethangoly, Kasargode
8. KINFRA Small Industries Park, Kalpetta, Wayanad
9. KINFRA Biotechnology Park, Kalamassery, Kochi
10. KINFRA Hi-Tech Park, Kalamassery, Kochi
11. KINFRA Herbal Park, Kalpetta, Wayanad
12. KINFRA Food Park, Kakkencherry, Malappuram
13. KINFRA Information Technology & Electronics Park, Kakkencherry, Malappuram

The Corporation has also developed Integrated Infrastructure Development Centres (IIDC) under the IIDC Scheme of Government of India at Kasargod, Koratty, Kunnanthanam, Mazuvannur, Meenamkulam, Thalassery and Wayanad.

The MD is the Chief Executive of the Corporation, who is at present assisted by two General Managers (Projects) and (Planning & Business Development), Manager (Personnel), Deputy Manager (Finance), and Manager/Assistant Manager (Projects) to manage its day-to-day activities.

The Corporate Office/Head Office of the Corporation is located in Thiruvananthapuram, while its project offices are situated in the respective project Sites.

7.02 Subsidiary companies

The Corporation is allowed to establish subsidiary companies for the development of industrial infrastructure and subscribe to their share capital [Section 10 (m)]. In accordance with this provision, the Corporation has formed three subsidiary companies by 31 March 2010 as follows.

Name of subsidiary company	Month and year of incorporation	Objective	Investment of KINFRA by way of share capital (Rs. in lakh)
KINFRA Export Promotion Industrial Park Limited, Kakkanadu, Kochi	October 1994	To develop industrial infrastructure centres/parks, research and development centres, extend technical/commercial/financial consultancy services and provide integrated assistance/service to industries	25.01
KINFRA International Apparel Parks Limited, Kazhakkutam, Thiruvananthapuram	August 1995	To set up integrated infrastructure development scheme/complex for industrial organisations engaged in the manufacture and export of textile clothes/garments and provide technical/commercial/financial consultancy services	25.01
KINFRA Film and Video Park Kazhakkutam, Thiruvananthapuram (Section 25 company)	June 2000	To promote and develop infrastructure facilities for the film, video, electronic multimedia and other cultural and entertainment industries	150.00

7.03. Joint ventures

The Corporation promoted the following four joint ventures by 31 March 2007.

Name of joint venture	Month and year of incorporation	Objective	Investment of KINFRA by way of share capital (Rs. in crore)	Name of co-promoter
Western India KINFRA Limited, Palakkad	October 1994	To establish/develop a modern integrated industrial township at Kanjikode in Palakkad district	2.78	Western India Services & Estates Limited
ICICI-KINFRA Limited, Thiruvananthapuram (non-banking company)	February 1996	To identify infrastructure projects, prepare project reports and generate private sector participation in the development of these projects.	0.37	ICICI Limited
Rubber Park India Private Limited, Kochi	December 1997	To boost rubber based industries in Kerala	10.00	Rubber Board
Marine Products Infrastructure Development Corporation Private Ltd, Kochi	March 1999	To boost marine exports from the State	2.50	Marine Products Export Development Authority
KINESCO Power and Utilities Pvt Ltd	September 2008	To carry on all or any of the business of generation, transmission, supply and distribution of electricity in Industrial parks, Special Economic Zones, Industrial Infrastructure Projects and any other project as a Licensee under the Electricity Act 2003.	Share Money advance pending allotment is Rs10 lakh (Rs. 5 lakh each).	NTPC Electric Supply Company Limited

7.04. Society

Under the control of the Corporation, a society known as Agency for Development of Food Industries in Kerala (ADFIK) was registered (July 2003) as per the Travancore-Cochin Literary, Scientific and Charitable Societies Registration Act, 1955 with the approval of the State Government. ADFIK is the nodal agency to provide professional and managerial support to Government's initiatives in developing food-processing industries in Kerala.

7.05. Organisational structure

(i) Board of Directors

The management of the Corporation is vested with a Board of Directors comprising not more than 15 directors including six members representing the State Government. The Chief Secretary to Government is the Chairman of the Corporation. The other five Government members are Secretaries to Government (Industries and Finance Departments), Director of Industries & Commerce, Chief Town Planner (Town Planning Department) and Labour Commissioner. Kerala Financial Corporation, Kerala State Industrial Development Corporation Limited (Managing Directors), Kerala State Electricity Board and Kerala State Pollution Control Board (Chairmen) are also represented in the Board. The remaining four directors (excluding MD) representing financial institutions and professional bodies are nominated by the Government *(Section 5).* The MD of the Corporation is appointed by the Government after fixing the terms and conditions of service *(Section 6).*

(ii) Committees

State Government constituted Land Allotment Committee and Pricing Committee for the allotment of land to entrepreneurs and fixation of price of the land/infrastructure facilities respectively. The minutes of these Committees are not reviewed by the Board on the ground that they are formed by the State Government.

The Board has formed Executive Committee (Board Sub-Committee) and Project Implementation Committee. While the functions of the former are decided by the Board from time to time, the latter deals with the activities of the projects. The minutes of these Committees are reviewed by the Board.

(iii) Officers/employees

The Corporation may, with the approval of the State Government, appoint such number of officers/employees as may be considered necessary for the discharge of its functions and they shall be under the administrative control of the MD. The service conditions of these officers/employees may be fixed with the approval of the State Government *(Section 8).*

7.06. Grants

There is no share capital for the Corporation. Instead, grants, loans/advances and subventions may be released by the Government on such terms and conditions for the performance of the Corporation *(Section 14).*

7.07. Reserve fund

The Corporation shall create provision for reserve and other funds subject to the stipulations fixed by the Government. The management and transfer of finance to the funds shall be decided by the Corporation. The fund balances shall be utilised for the purposes for which the funds were created. If the Corporation decides to use the fund balances for any other purposes, specific approval of Government is necessary (Sections 17).

7.08. Borrowings

The Corporation is authorised to borrow funds subject to the terms and conditions fixed by it from time to time. The repayment/payment of such borrowings and interest thereon may be guaranteed by the State Government on payment of guarantee commission *(Section 15)*. The Corporation may accept deposits from the prospective entrepreneurs on such conditions for the furtherance of its objects *(Section 16).* The borrowed funds and the deposits shall be utilized by the Corporation only for capital purposes *[Section 18 (3)]*.

7.09. Investment/Deposit of funds

The funds of the Corporation shall be deposited in Government treasuries and banks while its surplus funds invested in such manner as may be decided by the Government *(Section 13).*

7.10. Budget

The Corporation shall finalise budget every year (showing the estimated receipts and expenditure during the succeeding financial year) in the prescribed proforma and the programme of work for the succeeding financial year and submit them to the Government for approval. The Corporation is allowed to revise the programme of work based on the approval of the Government and a supplementary budget to this effect shall be submitted to Government. All these documents shall be placed before the Legislature *(Section 19).*

7.11. Special registers

The following special registers are maintained at the Head Office/project offices of the Corporation.

Land Acquisition/Allotment Register, Investment Register, Register of Tenders, Register of Agreements, Register of Measurement books, Contractors Payment Register, etc.

7.12. Internal audit

Internal audit of the Corporation is conducted annually by a firm of Chartered Accountants and the report is submitted to the MD for review and rectification.

7.13. Audit by the CAG

The Corporation shall maintain books of account and other registers in such form and in such manner as may be prescribed [*Section 20 (1)]*. Audit on the accounts of the Corporation is conducted by the CAG as per *section 19 (2)* of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and in accordance with *section 20 (2)* of the KINFRA Act. As the CAG is the sole Auditor of the Corporation, no separate audit is conducted by the

Chartered Accountants. The audit is performed on remuneration basis. The financial statements of the Corporation consists of Balance Sheet, Income & Expenditure Account and Notes on accounts including Accounting Policies. However, the Corporation has not prescribed the form of accounts/registers in terms of *section 20 (1)* of the Act ibid.

Audit enquiries on the accounts of the Corporation are issued by the Inspecting Officer (IO) to the Management for remarks during the course of financial audit. The initial draft Audit Report (AR) is finalised by the IO in the following reporting framework without issuing to the Management.

Sl. No.	Particulars	Annexure to the draft AR
1	Introduction, Financial assistance from Government, Financial position and Working results, Non-compliance with the provisions of the Act, Internal control, Comments on accounts, etc.	1
2	Financial position	2
3	Working results	3

Thereafter, the draft AR is afresh finalised by CA HQ Section and issued to the Management under the signature of the Group Officer with a stipulation to furnish the remarks within 15 days. Final draft AR is approved by the AG (ERSA). While finalising the initial and final draft ARs, the views of the Management are considered. The final draft AR comprises the Audit Certificate and all the above data (Annexures 1 to 3). The following documents are sent to Headquarters {Director/Deputy Director (CS)} for the approval of the final draft AR.

Sl. No.	Particulars	Signed by
1	Approved accounts of the Corporation (in original)	-
2	Final draft AR (in duplicate) Audit Certificate and Annexure 1 Annexures 2 and 3	 AG (ERSA) Branch Officer/CA HQ
3	Aide memoire (indicating the audit	

	observations/Comments, reply of the Management and further remarks there against)	AG (ERSA)
4	Proforma on the audit of Statutory Corporations (Sole audit)	AG (ERSA)
5	Copy of latest Inspection Report of the Corporation	-

After attending to Headquarters queries, if any, on the AR and checking the facts and figures, the approved AR should be authenticated by the AG (ERSA) and issued to the Corporation under signatures of the AG (ERSA)/Branch Officer (CA HQ Section). The Corporation is also required to furnish six copies of the printed annual report incorporating the AR for record and other purposes. The Board of Directors of the Corporation takes note of the AR. The Corporation shall send copies of the accounts, AR of the CAG and an annual report on its working to the Government for placing before the Legislature *[Sections 20 (3) & (4) and 38]*.

A copy of the AR as issued to the Corporation is also forwarded to Headquarters (excluding matrix) along with an aide memoire, if any, showing the Headquarters queries and further remarks there against.

[Headquarters letter 367-CA II/Coordn/Misc/2006-07 dated 24-3-2006 – File CA II/C/12-6078}

The date of presentation of AR to the Legislature should be ascertained and intimated to Headquarters. Two copies of the printed annual report incorporating the AR should also be sent to Headquarters by the AG (ERSA).

The other related issues in the finalisation of the draft AR are similar as in the case of draft Comments of Government companies. Similarly, the procedures for the finalisation of the Inspection Reports of the Corporation and other related issues are akin to those of Government companies. Both these procedures are discussed in the Chapters 2, 3 and 4 (Commercial Audit Headquarters Sections, Government companies and Statutory Corporations).

While keeping in mind the various regulations of the Corporation (The Kerala Industrial Infrastructure Development Corporation Disposal of Land

Regulations 1995, etc.), the following special areas may also be examined during its transaction audit apart from the normal important areas.

(i) Acquisition of land – Feasibility study of the project – Suitability of land for the industrial estate/park - Advance payment with the Revenue authorities, etc. – Payment of final compensation (including the amount fixed by Court) to landowners and recovery thereof from the entrepreneurs;

(ii) Utilization of the acquired land – Whether infrastructure facilities were created in time or the land was kept idle without achieving the desired objective;

(iii) Contracts for various infrastructure facilities such as buildings, roads, electricity (including deposit work), water supply, etc;

(iv) Allotment of land and other facilities to the industries – Delay in allotment/execution of licence agreement - Fixation/recovery of lease premium (taking into account the administrative overhead/project expenses) and lease rent etc.

(v) Performance of project office (including common facility centre), subsidiary companies, joint ventures, ADFIK, IIDC, etc.

(vi) Other activities

CHAPTER 8

KERALA STATE ROAD TRANSPORT CORPORATION

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CHAPTER 8

KERALA STATE ROAD TRANSPORT CORPORATION

8.01 Introduction

The Kerala State Road Transport Corporation was established on 15th March 1965 under Section 3 of the Road Transport Corporation Act 1950. It started functioning from 1st April 1965 alongwith Water Transport section, which was operating ferry services around Cochin Harbor. The Water Transport section discontinued its function with effect from 1 July 1994 and possession of certain assets attached to Water Transport wing were transferred to State Water Transport Department.

The Corporation was formed to develop road transport, co-ordinate road transport with other forms of transport, to extend and improve the facilities for road transport in any area and provide an efficient and economic system of road transport. The Corporation became the successor to the State Transport Department.

The Corporation is governed by Board of Directors consisting of six Directors (Official) appointed by the State Government and the day to day affairs of the Corporation are managed by one full time Chairman and Managing Director. The Corporation's Chief Office is located at Thiruvananthapuram. It has various units viz, depots, sub – depots, operating centres, workshops, central purchasing store and regional stores. The primary books of account are kept in these units. The consolidation of accounts is done by the Financial Advisor and Chief Accounts officer.

8.02 Act, Rules and Regulations

1. The Road Transport Corporation Act, 1950.
2. The Kerala State Road Transport Corporation Rules, 1965 as amended by Notification No. 5420 TL 4/65/PW dated: 17.05.1965.

3. The Kerala State Road Transport Corporation (Conduct of Meetings) Regulations, 1965.
4. The Kerala State Road Transport Corporation Committee (Conduct of Meetings) Regulations, 1965.
5. KSRTC (Temporary Association of Persons) Regulations, 1965.
6. KSRTC – Transfer of State Transport Undertaking to the Corporation – G.O. MS 75/PW dated: 22.03.1965.
7. Accounts manual volumes I and II.
8. Hand Book of Commercial Accounts Parts I & II.

8.03. General outline of the system of Accounts

The units are generally treated as independent Accounting units. The revenue collected is remitted into the credit of Kerala State Road Transport Corporation Fund and the amount required for expenses is drawn by the units from treasury by cheque. After the closure of the ledger accounts, the units forward to the Chief Office a monthly statement of balances showing the opening balance, month's transactions and the closing balance in respect of accounts operated by them. A similar statement is prepared by the Chief Office also. The consolidated ledger is posted with reference to the summary of monthly transactions prepared by the Chief Office on the basis of the statement on balances received from the units. After the postings are completed, the consolidated ledger accounts are closed and monthly trial balance is drawn.

For effecting final adjustments, the accounts of a year are kept open upto 31st May for the incorporation of necessary adjustments. After the incorporation of the adjustments, the ledger accounts are closed and the monthly statement of balances for March (final) is prepared and forwarded to the Chief Office by the units. Annual adjustments to be carried out by the Chief Office are incorporated after the consolidation of monthly statements of March (final) received from the units. The entries are posted in the consolidated general ledger, after that final trial balance is drawn and annual accounts is prepared.

8.04 Scope of Audit

The various transactions and account records of the Corporation are audited in accordance with the quantum of check prescribed by the Comptroller and Auditor General of India and Principal Accountant General (C&CA) from time to time.

[No. 780 Admn.III/143-60 dated: 12.04.1960 of CAG.No.662-CA IV/99-74 dated.4.11.1974 of CAG, Circular TM IV/11-4A/Vol.IX/60 dated.27.01.1975, Letter No.RAO KSRTC/T.VIII/70 dated.31st October 1978 addressed to CAG and reply received in letter No.235-CA.IV/99-74 dated/15th March 1978)]

The regular audit is supplemented by an efficiency-cum-propriety Audit. [D.O.No. 72 A-Ar. G (C)/13/73dated:18.10.1973 from Additional Deputy Comptroller and Auditor General]. Audit comments mostly relating to accounts, internal check etc. are included in the Separate Audit Report forwarded to the State Government for being placed before the legislature in accordance with Section 33(4) of the Road Transport Corporation Act, 1950. Financial irregularities and results of review, if any, carried out in respect of the activities of any section or whole of the Corporation are incorporated in Audit Report (Commercial).

8.05 Resident Audit Section

The audit of accounts of the Corporation is the responsibility of the Resident Audit section located in the Chief Office of the Corporation. The section is under the control of an Audit officer and is under the supervisory charge of the Group Officer (Commercial).

The main duties of section are given below:

1. Scrutiny of Agenda notes, minutes, resolutions etc. of the Board and the sub-committees.
2. Editing, issue and pursuance of Inspection Reports on the audit of the units.
3. Scrutiny of purchase contracts with reference to purchase orders received in the section.

4. Scrutiny of contracts, agreements and the audit of work bills relating to Civil Engineering Wing.
5. Scrutiny of budget estimates of the Corporation.
6. Audit of annual accounts of the Corporation with the assistance of local audit parties.
7. Periodical review of Inspection Reports and preparation of draft paragraphs for inclusion in the Audit Report.
8. Finalisation and issue of separate Audit Report.
9. Scrutiny of various statistical returns.
10. Scrutiny of files relating to the advertisement charges and stalls let out in the bus stations etc.
11. Scrutiny of sanctions and connected files.
12. Audit of all vouchers viz. pay bills, travelling allowances bills, contingents bills, overtime bills, pension bills, gratuity bills etc.
13. Audit of GPF and STPF accounts.
14. Checking of pension cases and statements of allocation of expenditure between the Government and the Corporation.
15. Review of log books of the vehicles attached to the Chief Office.
16. Calculation of audit fee recoverable from the Corporation.
17. Check of monthly statement of balances of the Chief Office and review of consolidated accounts.
18. Review of Chief Office ticket accounts and consolidated statements of ticket transactions rendered by units to Chief Office.
19. Service Books of employees in units and Chief Office (to be carried out along with audit of establishment payments).
20. Issue of instructions to local audit parties.
21. Review of broad sheets maintained by the Chief Office.

In the audit of vouchers, contracts, transactions relating to provident fund etc. Resident Audit should follow the instruction in MSO (tech) volume I and in the Audit of commercial accounts, regular commercial audit practice in respect of similar transactions and instruction in this manual.

8.06. Annual programme of audit

The Resident Audit Section should draw up annual programme for the completion of various items of work. Before such a programme is drawn, the position in respect of completion of various accounts records should be ascertained from the Chief Office of the Kerala State Road Transport Corporation (KSRTC). The programme should be got approved by the Group Officer (Commercial) and the progress of work against the programme should be recorded and watched. Any arrears with reference to the programme of work may be reported in monthly arrear reports and quarterly arrear reports. The audit of the transactions of a year should be completed before the accounts of the year are certified by the Principal Accountant General (C&CA).

8.07 Transaction Audit

The Transaction audit of the units of the Corporation is undertaken by Commercial Audit parties. Local audit of units are taken up annually. The Resident Audit section should forward to CA HQ a list of units to be inspected by commercial audit parties on the first of January every year together with information regarding the number of days to be allotted for inspection of each unit. The programme for the local audit of the units concerned is drawn up by Commercial Audit (HQrs.) section in consultation with Resident Audit section. To the extent possible Commercial Audit (HQrs.) should earmark specific Commercial Audit Parties for carrying out the audit of the units of Corporation for fixed periods.

On receipt of a copy of the programme for local audit, Resident audit section should send intimation of audit to the head of the office of the unit to be inspected, with the probable date of visit of the party. Proposals for test check are submitted to the Group Officer and on his approval the details of selection forwarded to the AAO of the local audit party along with outstanding inspection report and details of other points to be investigated during local audit.

On receipt of details of selection of test check, the party should request the required way bills and other accounting records for audit. The hand book of Commercial Accounts Part I & II contains the details of accounting records maintained in the units. During the audit of accounting records of units, commercial audit parties may exercise such cheeks which are generally exercised by commercial auditors in detailing with similar accounts. The instructions contained in this manual and the instructions issued by Resident Audit section regarding quantum of check to be exercised and other matters should be followed in the conduct of local audit. Care should be taken by local audit parties to see that the omissions/commissions pointed out in earlier test audit notes are rectified by the units. After the completion of inspection, the draft inspection report is to be forwarded to Resident Audit section. The form of the title sheet to the inspection report is given in **Annexure-I** to this chapter.

The test audit notes should be issued locally to the head of the office of the unit inspected and a copy of the same should be forwarded to Resident Audit section.

8.08 Allocation of work between Resident Audit and Local Audit

Resident Audit is responsible for the audit of the accounting records and transactions in the Chief Office. As Resident Audit has been entrusted with the audit of vouchers and service books of the employees of the entire organization, the Resident Audit staff may have to visit the units to complete the audit of vouchers and service books in the unit. The commercial audit parties are to audit the accounts of all the units. While conducting such audit they have to carry out the audit of accounting records and transactions which are not covered by Resident Audit.

8.09 Inspection Reports

The inspection reports are edited and issued to the Chairman and Managing Director of the Corporation with a copy to the Head of the office of the unit inspected. Important points which are fit for comment in audit report are noted in the Register of Potential Draft Paras and speedy action is taken to finalise the draft paragraph.

The time schedule for the issue of inspection reports shall be the same prescribed in paragraph 2.20.1 of this manual.

The clearance of paragraphs in the inspection reports is watched through the progress register of inspection reports.

The inspection report should be closed only on the orders of the Group Officer.

8.10 Scrutiny of Agenda and Minutes of Board meetings

Resident Audit Section should make arrangements with the management for rendering copies of agenda and minutes of Board meetings. The results of scrutiny of agenda and minutes should be submitted to the Group Officer in the form of review notes. Further action is taken as per the instructions of the Group Officer.

8.11 Audit of contracts entered into by Civil Wing

Audit is entitled to have a copy of the agreements entered into by the Civil Wing. The tender papers, tabulated statements etc. should be called for by Resident Audit Section and checked.

The accounts of works are maintained in the public works system. The analysis of selected works, scrutiny of deviation from contracts, check of accounts records such as work abstracts, register of works, measurement books, materials at site accounts and examination of transactions relating to advances to contractors and recovery of cost of materials supplied to the contractors are carried out during the local audit of the Civil Wing.

8.12 Audit of Pension cases

The pension papers with service books of the officials concerned are received in Resident Audit Section for check after payments are authorized by Internal Audit Wing of the Corporation. The correctness of the claims are certified and submitted to the Resident Audit Officer for general review. The remarks, if any, on the checking of the claims are communicated to the Financial Advisor and Chief Accounts Officer of the Corporation.

8.13 Audit of Purchase Contracts

The purchases of chasis, spare parts etc. are centralized in the Chief Office of the Corporation. Copies of the purchase orders/contracts in respect of such purchases when received in audit are noted in the Register of purchases maintained in Resident Audit. The purchase files (records containing tender notices, quotations received, tabulated statements, minutes of negotiations etc.) in respect of those purchases selected for audit are called for and checked by Resident Audit.

Resident Audit section prepares review notes on purchase files (up to tender level) for the orders of the Resident Audit Officer. Important irregularities are brought to the notice of the Group Officer.

The local audit parties inspecting the Office of the Controller of Purchases and stores should review further developments during scrutiny of purchase orders and examine purchase contracts entered into by the Corporation during the relevant period of audit.

Contract files for printing of tickets and purchase of uniform cloth should be called for immediately on the issue of sanction and scrutinized by Resident Audit Section.

8.14 Advance payments to Suppliers

1. Check the advance payments with entries, in the advance payment register (CA 85).
2. Check the receipt of goods entry made in the advance payment register (CA 85) with the register of goods received notes.
3. Review the action taken on advances pending adjustment.

4. Trace the advance payments to ‘550 Sundry Creditors for purchase of stores’ and check credits to the account with the entries in the advance payment register.
5. Review the advance payment register to see whether the outstanding advances are transferred to ‘070 Capital miscellaneous advance’.

8.15 Audit of Establishment and other Vouchers

The selection of vouchers for audit and review is to be made based on the quantum of check prescribed by maintaining separate selection register for audit and review. The general principles of audit specified in MSO (T) Vol. I and the rules and regulations made by the Corporation are to be taken into account in the audit of vouchers. Before taking up the vouchers for audit, it would be necessary to check the cash book entries with the vouchers to ensure that all vouchers have been rendered to audit and that there are no missing vouchers. The following instructions may also be followed:-

(a) Audit of establishment vouchers has to be conducted with reference to the Service book, leave account and salary cards.

(b) Bonus payments have to be audited with reference to the emoluments for the year after adjusting excess pay recoveries, leave without allowance, etc.

(c) Pension and gratuity vouchers have to be verified with reference to sanction noted in the pension payment register.

(d) Pay and allowances of higher Division Officers drawn on separate bills are authorized in separate pay slips by the Chief Office. The payment may be audited with reference to initial records.

(e) Audit of vouchers for purchases, works advances and contingencies may be carried out with reference to purchase orders, agreements and sanctions respectively.

The review remarks on the audit of vouchers are finalized and issued to the head of the office within a period of seven days after completion of audit.

8.16 Cash Book

The following checks may be exercised in respect of unit cash book (CA 31) and Chief Office cash book (CA 59):

(1) Check the receipt side with cash receipts (CA 26) counterfoils of cheques, banking sheets, register of valuables received (CA 151) etc.

(2) Check the payment side of the cash book with counterfoils and cheques issue register (CA 46), bank challans register (CA 153), vouchers etc.

(3) Check the entries relating to 'self' cheques with counterfoils of cheques and self cheque register (CA 154)

(4) Check the totaling and balancing for the day and check the closing cash balance with the analysis of cash in hand (CA 60).

(5) Check whether any surprise check of physical balance of cash has been conducted at any time and if so, whether any discrepancy has been noticed.

(6) Check whether the rules and instructions regarding handling of cash have been observed.

(7) Check the cheques issue register (CA 46) with entries relating to the payee's receipts obtained.

(8) Check whether the balances have been reconciled with that of treasury/bank. During local audit, one month's transactions should be verified with the treasury accounts by visiting the Treasury.

8.17 Petty Cash Book (CA 32)

The petty cash is based on imprest system. It may be checked whether:

(i) Petty cash allowed is within sanctioned limits;

(ii) The entries in the cash book relating to reimbursements tally with the entries in the petty cash books; and

(iii) The expenditure actually related to those items for which expenditure can be met out of petty cash.

8.18 Register of Cheque Books (CA 44)

1. The receipt entries may be checked with covering letters from treasury/banks.
2. The counterfoils of cheques and cheque books in stock should be checked with reference to the entries in the register.
3. It should be checked whether more than one cheque book is in use at a time.

8.19 Banking sheets of Manual and ETM way Bills (CA 29)

1. Check the day's way bills with the banking sheet.
2. Check the totals of the banking sheet.
3. Check the banking sheet with the entries in the cash book.

8.20 Stock Accounts

The stores include spares, lubricants, tyres and tubes, batteries, uniforms, plant and machinery, tools and miscellaneous equipments, chassis, other stores, fuel, ticket and passes, other stationary and building materials. The stores received at the Central Stores as per purchase orders are inspected to see whether the stores confirm to the purchase order and goods received note is prepared. The system of stores accounts introduced provides for the maintenance of quantity accounts and value accounts of stores.

The following checks are to be exercised in respect of stores accounts of the Central Stores/other stores:-

1. Check the goods received note (CA 72) and the summary of goods received notes (CA 75/77).
2. Check whether the pricing of stores is made at cost or current issue rate as is applicable to the stores received.

3. Check the debit on account of receipt of stores in the priced stores ledger (CA 79/80) and stock control card (CA 168).
4. Check whether the issues are made on proper indent and issue notes.
5. Check whether the pricing of stores for issue is based on average prices and revision of issue price is made as and when fresh supplies are received.
6. Check the credit to stores on account of issue in the priced stores ledger (CA 79/80) and stock control card (CA 168)
7. Test check the reconciliation of balances between the priced stores ledger (CA 79/80) and the stock control (CA 168) at the end of the year.
8. Check arrangements for periodical verification of stores and review physical verification reports.
9. Check the Summary of goods received notes (CA 75/77) and summary of issue note (CA 76/78) to see whether the receipts and issues are properly adjusted in accounts.
10. Check whether obsolete stores have been segregated and accounted for separately.
11. Check invoices issued for sales.
12. Check acknowledgements obtained for issue to other depots.
13. Check whether a proper account of retrieved spare parts (Scrap) is maintained.

8.21 Fuel Accounts

1. Examine whether proper arrangements exists for taking dip readings at the time of filling up of the fuel tank and internal check arrangements are devised in such a way as to avoid manipulation.
2. Check the issues with the fuel issue statements.

3. Check the entries in the fuel issue statements with the vehicle cards and ensure that acknowledgements are obtained for the issue to the vehicles of other depots.
4. Check the invoices of sales to the authorized parties and the arithmetical accuracy of the abstract prepared for each month.
5. Verify whether the excess or deficiency as per physical verification at the end of each month is investigated and adjusted under orders of the Chief Office.

8.22 Ticket Accounts

The tickets are got printed by private presses. The tickets printed are received in the stationery store of Chief Office and taken to stock and distributed to operating depots. The value of tickets distributed to units is passed through suspense accounts. The stock of tickets at hand in the units is valued at cost and brought to account at the end of the financial year. The following checks are to be exercised in respect of transactions relating to tickets:

8.22.1. Chief Office

1. Check the goods received notes (CA 72) with the stock register of tickets (CA 169).
2. Check issue notes (CA 74) in support of issue of tickets to operating depots with entries in the ticket stock register (CA 169) and acknowledgements received.
3. Check the monthly statements of stores transactions (CA 82) with stock register of tickets (CA 169).
4. Check whether the defective tickets received from units are entered in the register of tickets (CA 170) and tickets which cannot be rectified are destroyed under proper supervision.
5. Check the purchase day book to see whether the cost of printing tickets is correctly debited to ‘006 stock of tickets and passes’ and check further whether the accounts are credited when tickets are distributed to units and

the balance of physical stock of tickets at the end of the financial year agree with the balance shown in the accounts.

8.22.2. Units

1. Check the Chief Office issue note with goods received note (CA 72) and Register of goods received notes for tickets (CA 175) with the main stock register of tickets (CA 19).
2. Check the issue of tickets from main stock register with the subsidiary stock register of tickets (CA 20) and ticket transaction register (CA 21).
3. Check the entries in the register of tickets received from other units (CA 120) with the corresponding entries in the subsidiary stock register of tickets.
4. Check the defective tickets withdrawn from main stock and subsidiary stock and ticket racks with the entries in the register of withdrawn tickets (CA 23).
5. Check the dispatch of defective tickets to the Chief Office.
6. Check the daily postings of withdrawn tickets from the register of withdrawn tickets (CA 23) to the subsidiary stock register of tickets (CA 20).
7. Check the daily postings of issue of tickets from the daily statement of tickets sold (CA 24) to the subsidiary stock register of tickets.
8. Check the totaling and balancing of the main stock register of tickets (CA 19) and the subsidiary stock register of tickets (CA 20).
9. Check the monthly statement of tickets (CA 25) with the book balances in the main stock and sub-stock with the results of physical verification of balances conducted at the end of the month.
10. Check whether cost of tickets received from Chief Office is debited to ‘156 tickets and passes’ and the cost of stock of tickets held at the end of the financial year has been brought to stock by debit to ‘006 stock of

tickets and passes' by credit to '156 tickets and passes' and the closing entry is revised at the commencement of the subsequent financial year.

8.23. Revenue Receipts

The operating revenue of the Corporation consists of single journey ticket fare, season ticket fare, contract services, post mail services and newspaper conveyance charges. The non-operating revenue consists of advertisement fee, rent received, workshop income, sale of scrap/unserviceable material, sale of fully depreciated vehicles, interest on cash deposits, sale of time tables, the excess cash, receipts from lost property and other receipts.

The general scheme of receipt audit in respect of operating revenue is to check fully the assessment of revenue for the selected days and trace the collections and tickets sold for these days to the collection records up to the stage of final remittance into treasuries. The process of check in respect of various records maintained in an operating depot is detailed below:-

8.24. Conductor's way bills including E.T.M Way bills

While auditing the Conductor's way bills, the following checks may be exercised:

(i) Check way bills with the rack issue register to see whether necessary entries have been made at the time of issue of way bills.

(ii) Check the opening entries of tickets in the way bill, with reference to entries in previous way bill and in respect of fresh issues from ticket transaction register.

(iii) Check the opening entries in the journey bills with the way bills' entries, check the opening and closing entries of each trip in the journey bill and check the closing entries of last journey of the journey bill with the closing way bill entries.

(iv) Check whether the value of pre-priced tickets sold has been worked out correctly.

(v) Check whether the correct fares have been charged in respect of emergency and luggage tickets.

(vi) Check the totals in the way bill and trace the proceeds of the way bill to the daily statement of ticket sold and to the banking sheet.

(vii) Trace the totals of the tickets sold as per the daily statement of ticket sold to the issue column of the subsidiary stock register of tickets.

(viii) Check the particulars of the tickets received by the conductor enroute from other depots with the entry in the register of tickets received from other depots.

(ix) Check the particulars of the tickets withdrawn enroute by inspectors with the entries in the register of withdrawn tickets.

(x) Check whether the police motor warrants received against each ticket issued by the conductors have been attached with the way bill, the tickets have been issued correctly and receipt of the warrants noted in the bus warrant registers.

(xi) Check the continuity of the tickets in the way bill with the subsequent way bill.

(xii) Check whether the conductors have remitted collection within the specified time of the completion of their duty.

(xiii) Trace the banking sheet total of the day's collections with the banking challans and entry in the cash book.

(xiv) Check whether the mileage allowance deducted by the crew is at the admissible rates. Check whether short collections in the individual way bills have been debited to the personal ledger account of the conductor concerned.

(xv) Check the entries in the banking sheet (CA 29) with ticket rack issue register (CA 22) and scroll book (CA 28) to see whether the entire way bills issued on a day have been returned with the collections and in respect of stay buses the way bills have been returned with collections the next day.

The efficiency of internal check exercised by the cash duty clerk who received collections from the conductors as also that of internal audit of the way bills conducted concurrently should be assessed while carrying out the above checks.

8.25. Other Way-Bills

The sale of concession tickets, season tickets, reservation tickets and priority coupons are made by the counter clerks to whom the tickets are issued by the ticket and cash office on way bills. In respect of these way bills, the following checks may be exercised:-

(i) Check the continuity of way bills with reference to previous way bills.

(ii) Check the collections with reference to fare tables and the fares levied.

(iii) Check the arithmetical accuracy of the way bills.

(iv) Trace the total amount of the way bill to the banking sheet and the bank challans.

In respect of concession tickets issued to students, it has to be seen whether the ticket is issued to the eligible person and safeguards against fraud such as return of the old tickets or fresh application certificate and penalties prescribed for unauthorized corrections, erasures etc. have been duly undertaken by the issuing clerk.

8.26. Register of Privilege Passes

The staff is entitled for a fixed number of privilege passes in a year, to travel throughout the system. The following checks may be exercised in this connection:-

1. Check the counterfoils of passes issued for the selected month with the application for the pass.

2. Verify whether the issue of passes is strictly in accordance with the rules and a record of passes issued for an employee is kept.

3. Check whether an account of pass books has been kept, only one pass book has been used at a time, and whether the counterfoils of used books and unused books are physically available.

8.27 Contract Service

The buses of the Corporation are let out to the public and other Government Departments on specified hire rates. In respect of hire to private parties, the estimated hire charges are to be deposited to the Corporation in advance and excess, if any, is refunded to the party after the completion of the operation. Action for recovery is taken in case the deposit amount is less than the actual charges. Private hire forms are issued to the conductors who accompany the bus. The private hire forms issued for the month selected for detailed check are audited with reference to the entries in the private hire register and private hire operations for the remaining period are subjected to general review. The following checks are exercised in respect of contract services:-

(i) Whether the estimate of the amount of hire charges to be deposited is assessed correctly based on the application given by the party.

(ii) Whether the refund of deposit amount has been made after the due verification of the operations detailed in the private hire form.

(iii) Whether action has been taken to recover the amount due from non-deposit parties and also from parties who had deposited amount which was less than the total amount due from them.

8.28 Post Mail Services

The Corporation undertakes transportation of mail bags on behalf of the Posts and Telegraphs Department. The Corporation sends out invoices to the Posts and Telegraphs authorities every month and collects the amount due from them. Detailed check of the transactions for the selected month and the general review of the transactions as per the register of invoices for the remaining period is to be conducted. The following checks are to be exercised in respect of the detailed audit of transactions:-

1. Check whether the charges for the post mail are worked out on the basis of the joint verification statements;
2. Check whether the rates are checked by the internal audit and communicated to the Chief Office for approval;
3. Check whether the invoices are prepared promptly and sent to the Posts and Telegraphs authorities.

8.29 Newspaper Conveyance Charges

The Corporation has undertaken the transportation of newspapers and magazines on their agreeing to publish the advertisements of the Corporation free of cost. Charges are levied based on the lumpsum amount fixed by the Chief Officer from time to time in respect of each individual newspaper/magazine. The transactions relating to the selected month are checked in detail and transactions relating to the remaining period are to be checked with reference to the demand register maintained by the unit. The following are the checks to be exercised:-

(i) Whether the conveyance charges of newspapers, magazines etc. are fixed by Chief Office or other competent authority.

(ii) Whether the amount fixed has been received regularly every month.

(iii) Whether there is any practice of weighing newspapers and periodicals during periodical intervals with a view to increase the rates consequent on increase in the weight of newspapers/magazines transported.

8.30 Non-operating Revenue

The following are the checks to be exercised in respect of non-operating revenue:

(i) License for displaying of advertisement in buses, boards etc. are awarded by Chief Office generally based on open tenders. The clauses of the contract may be checked in the Chief Office. Where under any arrangements the units are required to collect the advertising charges, then the check should be with reference to the communications from the chief office fixing the rate of advertisement fees in each individual case.

(ii) License for the occupation of shops, canteen, etc. is granted to the private parties by the Corporation after inviting competitive tenders. It has to be checked whether arrangements are made by the Corporation to invite tenders sufficiently early before the termination of the current lease and fix up the contracts. The loss, if any, incurred by the corporation due to the failure to fix up the fresh contract may be assessed and commented upon. Action taken in cases where the license holders who act in contravention of the provisions of the license may also be reviewed.

(iii) The tenders and contracts in respect of disposal of unserviceable materials, fully depreciated vehicles etc. may be checked and the receipt of the tender amount may be verified. Action taken against successful tenders who failed to lift the material within the time allowed may also be reviewed.

(iv) When goods are received as lost property, the details are entered in the Lost Property Register and if the goods are not claimed by the owners before the expiry of one month, they are to be disposed of and sale proceeds credited to the revenue of the Corporation. The entries in the Lost Property Register for the selected month may be verified alongwith credit particulars of sale of lost properties.

8.31 Refund of Revenue

Refund of reservation journey tickets surrendered within the prescribed time limit can be sanctioned by the Head of the Office. Other cases of refund can be made only with the sanction of the Chief Office. The following checks may be exercised:

(a) Check whether the concerned reservation journey tickets have been surrendered within the prescribed time limit and if so, the necessary deductions have been made and payees' receipt obtained.

(b) Verify the surrendered tickets with reference to the way bill in which the tickets were originally issued.

(c) Check the other refunds with reference to the sanction of Chief Office and entries in the Register of refunds (CA 41).

8.32 Audit of Annual Accounts

The annual accounts of the Corporation consist of:

1. Profit and Loss Accounts
2. Balance sheet
3. Consolidated net revenue appropriation account.

The annual accounts are to be prepared in such form as may be prescribed by State Government in consultation with Comptroller and Auditor General of India [Section 33 (1) of the Road Transport Corporation Act, 1950].

The annual accounts are to be drawn up within six months of the close of each financial year. (Kerala State Road Transport Corporation Rules, 1965- Rule-38).

While auditing the annual accounts of the Corporation, all the checks generally exercised by auditors in respect of other PSUs have to be applied.

The entries from cash book, journal, purchase day book, etc. are traced into ledgers for the prescribed number of months. The final journal entries are checked fully, the totals of the ledgers are then checked and the accuracy of the annual trial balance is verified.

The consolidation of accounts in the Chief Office should also be checked for the prescribed number of months, the totals of consolidated ledgers checked and the accuracy of the annual consolidated trial balance verified. The annual accounts are then checked with reference to the consolidated trial balance.

While examining the accounts of units and Chief Office, it has to be ensured that the entire income and expenditure including those relating to consumption of stores/fuel for the entire year have been brought to account and depreciation has been provided in full in respect of fixed assets. The following are the other important checks to be exercised during the audit of annual accounts:

1. The bulk of the cash balance is held in the Deposit Section in Government treasuries and a small portion in banks. It has, therefore to be ensured that the balances shown in the annual accounts are reconciled with that of the Accountant General/banks. The arrears of work in respect of reconciliation of balances, the difference pending reconciliation, the number of units and the period for which the work is pending may be commented upon.

2. Balances outstanding under the various inter-unit remittance accounts may be checked with reference to unpaid items listed out and action taken in respect of items outstanding for long periods examined.

3. The Corporation has a Civil Engineering Wing which attends to capital and revenue works. The allocation of expenditure to capital works and the distribution of such expenditure among various capital works may be verified.

4. The basis of valuation of various works in progress in the workshops may be examined.

5. The provision for vehicle tax and surcharge on vehicle tax are adjusted in the accounts based on vehicle tax statements received from the units. It may be verified whether necessary adjustments have been carried out for the period up to which assessments have been completed by the Motor Vehicle Department. The provision made in the accounts for vehicle tax may be checked with reference to the provisions of the Motor Vehicles Act.

6. The contributions made to Insurance Funds, Pension and gratuity fund, gratuity fund and State Transport Provident fund may be verified with reference to the rules and policies followed by the Corporation in respect of such contributions.

7. It has to be examined whether the Gratuity Fund and State Transport Provident Fund have been maintained up-to-date and annual credit cards are forwarded to subscribers. The balances under ‘Suspense’ should also be reviewed. The utilization of the balances under the funds for meeting the requirements of the Corporation would result in the payments of interest due from the Corporation’s funds. The assessment of such interest due and its adjustment in revenue accounts may also be verified.

8. Review the assessment of purchase liability in respect of supplies received but invoices not received with reference to Register of outstanding purchase liability (CA 87). Also verify the reversal of a similar entry made in the previous financial year.

9. Verify whether advance payments have been eliminated from ‘Sundry creditors’ at the end of the year by transfer to “070 Capital and Miscellaneous Advances.”

10. Review whether the cost of tickets in stock in the Chief Office compares with the balances under account “006 Stock of tickets and passes.” Also check whether the value of closing stock of tickets has been brought to account in the units.

11. Verify whether the balances under 701 stock adjustment accounts have been analysed and necessary adjustments carried out.

12. Review the arrangements for the physical verification of stock. Examine the report of physical verification of stock in the central store and see whether the excess/deficiencies noticed during physical verification have been adjusted.

13. Check whether the loss due to obsolescence of stores has been assessed by the Controller of Purchase and Stores and adjusted in accounts.
14. Check whether the investments shown as assets in the balance sheet are physically available with the Corporation.
15. Verify whether a physical verification of all assets has been carried out in accordance with Rule 37 of the Kerala State Road Transport Corporation Rules, 1965.
16. Check whether the figures of share capital contribution and loans agree with Government accounts.
17. Check the cost sheets of the Body Building Section to see whether the cost of bus bodies capitalized has been correctly arrived at.
18. Verify whether the amount of interest due on Government loans arrived at by the Corporation agrees with the interest due to Government arrived at by the Loans Section of the Office of the Accountant General (A&E)

8.33 Draft Audit Report (Separate Audit Report)

After the audit of the annual accounts, the preliminary comments are issued to the Chairman and Managing Director of the Corporation. On receipt of replies, the draft comments are finalized and issued to the Corporation. On receipt of the replies to draft comments, the draft audit report is finalized and issued to the State Government and the Corporation. Simultaneously, the draft audit report is forwarded in duplicate along with a copy of the annual accounts to the Comptroller and Auditor General of India for his instructions. In the case of any revision of accounts based on audit comments, the revised accounts are checked. The audit report is finalized based on the replies of the Corporation/Government and forwarded in duplicate with a copy of certified accounts for the approval of the Comptroller and Auditor General of India. On receipt of approval of the Comptroller and Audit General of India the audit report is issued to the State Government alongwith copy of the certified accounts for being placed before the Legislature under Section 33(4) of the Road Transport Corporation Act, 1950. A copy each of the Audit Report and certified accounts is also forwarded to the

Chairman and Managing Director of the Corporation and Comptroller and Auditor General of India. When printed reports/accounts are received, two copies of such reports/accounts are forwarded to CAG.

[CAG's letter No. 456-CA 11 81-78 dated 23.4.1980]

8.34 Format of Audit Certificate

The audit certificate to be furnished in the annual accounts shall be in the format prescribed in Chapter 4.

Before the issue of audit certificate, it should be ensured that:

(i) the accounts are duly passed by the Board.

(ii) the accounts are duly authenticated by the Chairman & Managing Director of the Corporation.

A separate sub para as detailed below should be added at the end of the introductory para of each Separate Audit Report of the Statutory Corporations/Body.

"This Separate Audit Report contains the comments of the Comptroller and Auditor General of India on the accounting treatment only with regard to classification, conformity with best accounting practices, Accounting Standards disclosure norms, etc. Audit observations on financial transactions with regard to compliance with the law, rules and regulations (propriety and regularity) and efficiency-cum-performance aspects, etc, if any, are issued separately after separate audit."

[CAG's Lr. No.CA-II Coordn./Misc/2006-07/34-2006 dated 11.05.2006]

It has been observed that some field offices prepare lengthy SARs and the comments contained therein do not clearly bring out the impact on accounts ie. the comments are not linkable with the annual accounts (for example deficiencies in the accounting records, Fixed Assets register not maintained properly) or the comments are too lengthy or of a general nature.

In order to overcome the above situation, it has been decided to introduce the practice of issuing a 'Management Letter', in addition to the SAR/audit certificate. In such a case, the auditor issues a detailed report termed ' Management Letter' to the management regarding the procedures, systems, weaknesses in the Internal Control System, etc. which would enable the management to exercise a greater degree of control over the operations of the entity. Observations of the following nature may be included in the 'Management Letter'.

- Non-compliance with the financial control/internal control procedures as detailed in the concerned accounting/financial manual of the corporation/authority.
- Deficiencies in the accounting records, systems and controls with recommendations for their improvement.
- Reconciliation between the balances as per subsidiary books of accounts and as reflected in the accounts.
- Recovery of advances, steps to be taken for recovery/adjustment of long outstanding balances on personal accounts.
- Classification errors within the accounting head where management has assured rectification in subsequent year's account.
- Errors which do not qualify the criteria of materiality.
- Typing/printing errors which can be rectified at the time of printing the annual accounts/annual reports;
- Failure to obtain confirmation of balances or to watch receipt of utilization certificates from grantee/beneficiaries, etc;

The SAR should only contain comments which have the necessary attributes of materiality and significance. It must inter alia include the following:

- Non-compliance with the Accounting Standards/instructions contained in the approved format of Accounts.
- Corrections/rectifications/revisions carried out at the instance of Audit.
- Cases where rectification as per the assurances is not carried out in the subsequent accounts.
- Where corrective measures have been taken by the management in relation to matters brought to their attention by the auditors, it may still be necessary for the auditors to report certain cases to the Governing body, for example, cases relating to any fraud/embezzlement committed but loss not compensated by officials committing the fraud/embezzlement.

Every effort should be made to bring out the comments on accounts with clear impact i.e. understatement/overstatement under the respective heads of accounts as appearing in the Balance Sheet/Income & Expenditure Account/Receipt and Payments Accounts. The introductory portion may be kept at the bare minimum.

The Management Letter must be addressed to the Chief Executive Officer of the Corporation/Regulatory authority and issued under the signature of PAG/AG concerned. Mention may be made in the Management Letter of the issuance of the SAR. The SAR should invariably contain a mention about the issuance of the Management Letter to the top management/Chief Executive Officer of the Corporation/authority. It may also be ensured that the 'Management Letter' is issued only at the time of issue of final SAR to the corporation concerned. The 'Management Letter' will not require headquarters approval but a copy thereof should be sent to headquarters along with the draft SAR.

[CAG's letter No. CA-II/Coordn/Audit Certificate/05-06/8-2005/dated 29.05.06]

The Resident Audit Section should prepare the 'Memo of Important Points' to be circulated among the members of the Committee on Public Undertakings as and when the Audit Reports are taken up for discussion by the

Committee. Resident Audit should also furnish to Report (Commercial) such information that section may require in connection with the vetting of notes to be submitted to the Committee and for discussions by the Committee.

8.35 Efficiency of Internal Audit

As per the procedure in vogue in the Corporation, all payments are pre checked and all other transactions are checked by the units of the Internal Audit Organisation located at the Chief Office and units. This is supplemented by an annual inspection by the Headquarters staff of Internal Audit.

The exercise of the various checks by Resident Audit and local audit parties would enable audit to assess the efficiency of internal audit. Serious lapses in internal audit should be brought to the notice of the Chairman and Managing Director. If remedial measures are not taken, the lapses should be commented in Audit Report.

8.36 Efficiency-cum-Performance Audit

The audit of the Road Transport Corporation is directed to ascertain how efficiently and effectively the men and equipment have been put to use. The basic approach should, therefore, be cost analysis of the service coupled with analysis of its utility to the public. In the absence of systematic cost accounts, audit may have to rely on the operational statistics collected and maintained by the Corporation. Before utilization of the statistical figures for framing audit comments, it should be essential to satisfy by test check whether the method of collection of data and the accuracy of the data collected are dependable. The following important points may be considered while conducting the efficiency-cum-performance audit:-

(i) Fleet acquisition and replacement

The fleet of the Corporation comprise of different types and makes of buses. The composition of the fleet may be anlysed in terms of kilometer run and the age of the vehicle. The statistical quality control of the Indian Statistical Control Organisation has determined the optimum period for replacement of buses of the Corporation as seven years and the Corporation has accepted the recommendations. As the preponderance of old buses is an important reason for the financial loss of a Road Transport Corporation, the policy of replacement of old buses would require critical scrutiny. The budgetary policy followed by the Corporation in respect of replacement of old buses, the variation in ratio of 'young buses to old buses' and the impact of such policies on the profits and loss of the Corporation may be probed further.

(ii) Fleet utilization

In order to examine whether the optimum fleet utilization has been achieved, it would be necessary to analyse with the help of daily statements of vehicle position and the percentage of buses on road to average number of buses held. The average distance operated per vehicle per day and the average number of days on road per vehicle may also be analysed separately. While carrying out such analysis the city services should be distinguished from mofussil services.

(iii) Analysis of growth and operations

The Corporation's fleet operates in monopoly routes as well as in routes where they run buses in competition with private firms. The total route distance operated for a period of years and the number of passengers carried during these years would indicate the growth of the unit or the Corporation during the period.

The operations may be analysed as indicated below:

The Corporation frames schedules for the operation of services in the routes where they are permitted to operate. The scheduled distance of operation indicates the distance planned for operation per day and on that basis, the total distance scheduled for operation for the period covered by audit could be arrived at. The distance actually operated against the scheduled distance planned for operation which is indicative of the operational efficiency of the fleet has to be assessed based on actual additional distance operated, dead distance and departmental distance operated and additional distance operated. Comparative analysis of operation between various units would enable audit to identify weaker units, bring out the correct reasons for the poor performance and pinpoint areas of inefficiencies in management.

(a) The total distance operated may include dead distance and departmental distance. The circumstances which warranted such operations and increase in the volume of such unproductive operations would require scrutiny.

(b) The decline in operational efficiency may be due to the cancellation of the scheduled trips. A cause-wise analysis of the trips cancelled is made out in the statistics of the Corporation and the reasons are classified as shortage of buses, shortage of crew and other reasons.

(c) The basic reason for the shortage of buses has to be analysed. The shortage of buses may be due to longer period of repairing buses at the workshops or due to indiscriminate sanctioning of schedules without considering the availability of spare buses as required by rules. The number of break-downs has to be analysed for 10,000 Kms per day and per vehicle.

(d) The cancellation of scheduled trips in large numbers due to shortage of crew should lead to an investigation of the factors taken into account for the fixation of the crew strength. It would also be necessary to examine how the reserve strength available has been utilized to meet un-expected shortage of crew.

(e) A test check of operations for some days may be done to see whether there is reduction of trips due to longer time taken for the operations of trips included in the schedule.

(f) A review of the percentage of delayed departures and arrivals would indicate the extent of punctuality in the operation of services.

(g) An analysis of accidents classifying them as major, minor and fatal may have to be conducted and related to the actual compensation paid for these accidents. The analysis may be carried out on the lines indicated for break-downs.

(iv) Profitability analysis

The analysis comprises examination of the expenditure and revenue of the Corporation over a period of years and comparing the ratio of operating revenue to operating expenditure. The profitability depends on the difference between 'earnings per kilometer of the distance operated' and the 'cost per kilometer of distance operated'. Analysis of the earnings per kilometer in respect of different types of services as express, fast passenger, mofussil, city services and in different routes would enable audit to identify areas of unprofitable operation.

Steps taken by the Corporation to improve profitability by rescheduling or dispensing with un remunerative services etc. may be evaluated.

The profitability analysis conducted before the commencement of a service in a new route could be checked with reference to the actual revenue earned, to see whether the anticipations have been fulfilled.

The result of periodical revision of fares should be assessed with reference to the projections made by the Corporation at the time of suggestion of revision of fares to Government.

(v) Performance of workshops

The Corporation has a central works (Central Workshop), regional workshops, divisional workshops and depot garages attached to operating units. Central works and regional workshops carry out bus body building, major overhauling and reconditioning of vehicles, engines and other major repairs. The divisional workshops mainly attend to half yearly maintenance and repairs for obtaining fitness certificate from the Regional Transport Authorities and also attend to major repairs. The routine maintenance, lubrication, top up of oil levels etc. on the basis of kilometer operated and major repairs and replacement of reconditioning units are done at the depot garage attached to operating units.

The following points should be considered in the audit of workshops of the Corporation:

(i) Whether the targets fixed for Central Works, regional workshop and divisional workshops have been achieved and if not, the reasons thereof.

(ii) Whether the average time taken for the overhauling of vehicles is within 30 days fixed by the Corporation and whether the minor repairs at depot garages have been completed within the limit of 14 days fixed by the Corporation.

(iii) Whether the Corporation has a programme of overhauling all the buses after completion of operation of a prescribed distance and if so, whether such targets have been kept up.

(iv) If there is abnormal delay in completion of repairs when compared to time limit fixed by the Corporation, it has to be examined whether the delay has been caused by any other defective policy followed by the Corporation.

(v) The performance in respect of reconditioning of major repairs, re treading of tyres and recapping of tyres should be compared with the targets fixed and the reasons for shortfall ascertained.

(vi) The impact of delay in completing repairs on the revenues of the Corporation i.e. with reference to cancellation of scheduled services should be assessed.

(vii) It has to be examined whether there is a practice of preparation of estimates for jobs undertaken in the workshop before the commencement of repairs and overhauling work and whether any control over the cost of carrying out repairs has been exercised.

(viii) It has to be examined whether any systematic cost records have been maintained for reconditioning of major assemblies and whether cost has been compared with market prices.

(ix) It has to be examined whether there are any arrangements in the workshop to assess the actual performance of reconditioned parts with that originally estimated.

(vi) Consumption of materials

(a) In respect of new tyres and re treaded tyres, the Corporation has fixed the standard performance for each operating depot. The actual mileage obtained for new/re treaded tyres is recorded in the Tyre History Register. The total shortfall in performance may be assessed and the value of such shortage in terms of the cost of new tyres may be assessed and commented upon. A test check of the entries in the Tyre History Register may reveal whether the short performance of a tyre is due to any negligence on the part of tyre maintenance staff or of the driver of the vehicle.

(b) In respect of high speed diesel oil, the Corporation computes the kilometer per litre performed by each vehicle for each month. This may be compared against the standards fixed by the Corporation for the performance of each make of vehicle. The excess consumption could be evaluated and individual cases of abnormal excess consumption may be investigated in detail.

(c) The performance of costly spare parts and also of some of the reconditioned spare parts is watched against standards fixed and premature failures may be highlighted.

(d) A review of the actual performance of re treaded tyres should be made to assess whether the re treaded tyres have given the service anticipated. If the percentage of premature failures is large, there has to be an investigation of quality of work turned out by the type of re treading units of the workshops.

(e) A critical review of the overtime wages paid to employees with reference to sanctioned strength, actual employment and out-turn/additional revenue may be made.

The following aspects should be examined in respect of construction of bus bodies:

(a) Whether there has been (i) any delay in the transfer of chasis to the body building workshop for more than seven days from the date of receipt of chasis and (ii) delay in transferring the completed bus for the operation of service on some reason or other.

(b) The Corporation has fixed specific norms in man-days for completing body construction. Utilization of more man days may be enquired into.

(c) When arrangements are made to complete the bus body construction by outside parties, it has to be examined whether the existing facilities were completely utilized and how the cost of construction of a bus body of the Corporation compares with that of the outside.

(d) The working of incentive schemes, if any, should be reviewed with reference to productivity, targets and achievements.

(vii) Manpower analysis

1. Review whether the strength of operating crew and other staff have been fixed based on the number of schedules sanctioned for the unit and if so, how the actual strength compares with sanctioned strength.
2. Examine the bus-crew ratio and compare the same with the ratio in the various units of the Corporation and the ratio in other road transport undertakings in the country.
3. Assess the excess strength based on the average number of buses put on road and the average effective schedules (excluding cancellation) operated per day.
4. Review the duty schedules to see how the actual steering duty hours of the operating crew compare with the eight hours duty specified for the operating crew.
5. Check whether crew has been regularly employed on “other duties” inspite of cancellation of scheduled services for want of crew.

(viii) Inventory management

The success/failure of the inventory control policy of the Corporation may be judged by the results. Shortage of critical spares may lead to delay in completing repairs to vehicles resulting in cancellation of services and shortfall in revenue. Shortage of critical spares may be due to any one of the following reasons:

1. Inherent deficiencies in the inventory policy or failure to act in accordance with the declared policy.
2. Lack of funds to effect purchase or to clear the spare parts from the carriers.
3. Failure of manufacturers to supply critical items in time. The effect of deficiencies in the inventory control policy such as delay in carrying out repairs to vehicles, expenditure on demurrage and loss due to local purchase of spares at exorbitant rates may be looked into.

Review whether obsolete stores have been segregated and disposed off. The circumstances leading to accumulation of obsolete stock may also be investigated.

Review whether the Corporation has created facilities for testing the quality of spare parts purchased or whether any arrangement has been made to record the performance of costly spare parts.

(ix) Working results

The Corporation provides travel facilities free of cost or at concessional rates to certain sections of the community and operates unremunerative services in public interest. The loss in such operations, if computed and disclosed by the Corporation may be subjected to scrutiny and the Corporation may be given credit for loss incurred in such activities while evaluating the overall financial results.

(x) Internal control

(a) The proper assessment and collection of revenue of the Corporation depends to a very large extent on the inspection carried out by the ticket checking staff. The fixation of the staff strength of Inspectors may be reviewed with reference to the schedules and routes operated by the units. It has to be examined whether their duty schedules are drawn up in such a way as to cover a substantial section of operations.

(b) An analysis of the types of mistakes and malpractices noticed by the Inspectors in their check reports and action taken thereon may be reviewed.

(c) The constitution and utilization of surprise checking squads, their reports and action taken on their reports may be reviewed.

(d) The security arrangements at the workshops, central stores and sub stores where stores materials are kept may be reviewed. Cases of theft detected may also be analysed and action taken on theft cases may be reviewed.

(e) It may be examined whether there is a system of regulating issues of stores materials to jobs based on approved estimates and any measure to control the frequent issue of same spares to the very same vehicle.

Annexure 1

Title sheet of the Inspection Report relating to the Offices/Units of the Kerala State Road Transport Corporation

(to be submitted with every Inspection Report)

(Referred to in para 8.07)

PART - A

1. Name of the Unit audited.
2. Name of the party and personnel with date of attendance.

(i) Supervisory Officer

(ii) Asstt. Audit Officer

(iii) Senior Auditors/Auditors

3. Period of Audit.
4. Months selected for detailed audit.
5. Duration of audit (extension granted should be shown separately).
6. Whether any change in time allotted is necessary for future audits (If so, a separate note indicating the full justification for the change in the No. of days should be sent duly approved by the supervising officer).
7. No. of draft paras enclosed for inclusion in the conventional audit report (as given in Part II A of the report).
8. Paragraphs, if any, to be reported to higher authorities in advance and /or to be brought to the special notice of the Headquarters.
9. Any work left undone due to administrative reasons which may require the sending of Audit Party again to complete the scheduled work may be specified clearly with reasons thereof.
10. General remarks, if any
11. Actual date of submission of report.

PART – B

1. Whether the Part I and Parts II A and B of the Inspection Report attached to the title sheet have been discussed with the head of the office inspected?
2. Whether a list showing allocation of work among the members of the party has been sent in Statement II?
3. Whether the quantum has since been completed? Any points which cannot be fully investigated at the time and require investigation in future audit may be listed out with the reasons for not checking them during the course of current audit.
4. Whether a list showing documents and records checked and extent/or percentage of audit exercised on each and the detailed process of audit has been submitted in Statement III indicating what particular registers were personally checked by the AAO and Reviewing Officer.
5. Whether statement of important irregularities has been attached.
6. Whether there are any claims of transactions which in the opinion of the Supervising Officer require constant attention.
7. Whether there has been delay in replying to the audit queries for more than 3 days and if so, in how many cases?

PART – C

I. Operating units (Depots and Sub-depots)

A. Efficiency of operation

1. Has the overall average cost of operation of different elements (such as traffic personnel, fuel and lubricants, tyres and tubes, insurances, batteries, maintenance and repairs, administrative personnel, welfare and superannuation and other miscellaneous and general expenses) as a percentage of total cost has been analysed with reference to the performance of the previous year?

2. Has the operational efficiency been analysed for the period of audit with reference to the fleet held in the unit and the fleet operated?

(i) Fleet utilization expressed as a percentage of total fleet strength.

(ii) Whether there is under utilization of buses, if so, the reasons thereof such as breakdown, delay in repairing and releasing of vehicles.

(iii) Average paid kilometreage (excluding dead mileage) per bus.

(iv) Average dead kilometreage per bus, and whether it is reasonable, and

(v) Average time taken to cover a route kilometer.

B. Consumption of materials

Whether the consumption of materials such as diesel/petrol, engine oil, tyres, batteries, lubricants etc. has been examined with reference to the norms fixed?

C. Maintenance

Has the following been analysed?

(i) average life of new/reconditioned diesel engine in kilometers.

(ii) average life of new diesel injection pump in kms and

(iii) number of break liners used over one lakh vehicle Kms.

D. Spare buses

The Corporation has fixed the strength of spare buses as 10% while analyzing the vehicle utilization. Whether the following aspects have been looked into?

(i) more number of buses under repair than the percentage of buses kept as reserve for maintenance,

(ii) absence of Drivers/Conductors,

(iii) break-down, and

(iv) delay in release of vehicles after repair and the reasons for the delay.

E. Crew utilization

Whether the following points have been looked into?

(i) there is any imbalance in the various categories of staff with reference to requirements;

(ii) the system of appointment of casual/reserve Conductors/Drivers resulting in diversion of crew on other duties, and

(iii) there is shortage of staff resulting in under utilization of vehicles.

F. Analysis of revenue

Whether analysis of revenue earned has been done to find out:

(i) average earning per bus per day, and

(ii) average earning per bus per kilometer.

G. Workshops

(i) Whether the repairs and maintenance are promptly attended to. In case of delays the reasons may be analysed and highlighted.

(ii) Whether there is any delay in sending the vehicles to Central Regional Workshop for major repairs?

(iii) Whether the vehicles on road are having valid fitness certificate as contemplated in the Motor Vehicles, Act, 1939?

H. Stores

(i) Whether the system of issue of stores is satisfactory and pricing of stores issued is done on correct principles?

(ii) Whether there are cases of theft, loss of store or misappropriation and if so, safeguards taken to avoid them?

(iii) Whether periodical physical verification of stores is being conducted and the action taken to adjust the shortage/excess noticed?

I. Other items

(i) Whether the system of issue of concession tickets has been examined with reference to the extent of concession, its proportion to the total revenue etc.

(ii) Whether the system of hiring buses by private parties has been examined and ensured that demands are properly and promptly raised and accounted for, and that there is no cancellation of trips by diversion of buses for private hire?

(iii) Whether the arrangements for the carriage of dailies/weeklies etc. have been examined with reference to relevant documents and demands verified?

(iv) Whether the files regarding auction of usufructs have been scrutinized?

(v) Whether local purchases effected have been examined?

(vi) Have the correctness of various statistical statements been test checked?

PART-C

II. Central Works/Divisional Works/ Regional Works

(a) Body building units

Have the following points been looked into?

(i) whether the installed capacity has been fixed?

(ii) whether the manpower utilization has been examined with reference to mandays fixed for building bus bodies and actual utilization and the extent of under-utilisation analysed?

(iii) Whether the workshop has been building bus bodies to the target fixed/capacity and if not, the reasons for shortfall analysed?

(iv) Whether the overtime allowance/incentive bonus is commensurate with the results?

(v) Whether bus bodies are built by other agencies for the Corporation and how far the rates compare with the body building cost of the Corporation? In effecting the comparison, the variable cost of body building in own workshop with that of outside agency's total cost should be the criteria as the fixed cost, in any case, has to be incurred in own workshop?

(vi) Whether the trend of average cost of body building per seat of same and comparable types of buses studied to ascertain the reasons for variation over a period?

(b) Cost accounts

Have the following points been looked into?

(i) the system of allocation of cost of chasis, booking of capital cost, computation of provisional and final costs?

(ii) The system of capitalization of major repairs.

(iii) Allocation of expenses to various jobs with reference to the connected records.

(c) Tyre retreading shop

Whether the following items have been examined?

(i) the installed capacity/targets fixed and achievements and the reasons for shortfall, if any,

(ii) the number of tyres pending retreading is on the high side,

(iii) average prime cost of retreading per tyre with reference to the previous half year/year,

(iv) average prime cost of recapping the tyre with reference to the previous half year/year,

(v) norms fixed for the consumption of materials for retreading and how far the norms are realistic when compared to actuals.

(d) Workshops

Have the following points been looked into?

(i) whether the workshop is attending to the repairs and release the buses reasonably, promptly and if not, whether the reasons for the delay such as want of spares etc. analysed? The extent of work orders in arrears may be studied.

(ii) whether a particular vehicle is repaired frequently and if so, the reasons for the same viz. inefficiency of repair work etc.?

(iii) whether the comparative economics of replacing a vehicle instead of attending major repairs to vehicles/assemblies/components?

(iv) whether the system of cannibalization and disposal of worn-out vehicles, engines etc. has been examined?

(v) whether norms have been fixed for withdrawal of vehicles for overhaul and how far these are adhered to?

(vi) whether estimates are prepared for overhauling the vehicles and proper control over the materials required for reconditioning consumption of spare parts exercised?

(vii) how far the cost of overhauling vary and what are the contributory factors?

(viii) whether targets for the overhaul have been fixed and how far these are achieved?

(ix) whether norms for periodical reconditioning of major assemblies/components have been fixed and the extent to which they are carried out?

(x) whether labour utilization statements are prepared to assess the extent of idle labour?

(xi) whether machine log books are maintained?

(xii) whether for the work done by the workshops for other parties/other undertakings costs are properly worked out and invoices promptly raised?

(xiii) whether the system of sale of scrap/unserviceable materials/fully depreciated vehicles has been examined to ensure:

(a) proper records of scrap materials as contemplated in the Accounts Manual/Hand book of commercial accounts are kept?

(b) that tenders are invited, earnest money deposits are obtained, prompt remittance of value is made and penal action taken wherever necessary?

(c) that proper records are kept for the wornout/damaged parts removed from the vehicles at the time of repairs/overhauling and those are segregated to prevent their unauthorized utilization in lieu of new parts received from the stores?

(e) Accident repairs

(a) whether the cost of repair to buses for which drivers are responsible has been intimated to the respective units and recovery watched?

(b) whether the failure of tyres for which crew are held responsible has been communicated to the units and recovery watched?

PART-D

1. Certified that all the outstanding points in the previous inspection reports Part I and II A & B have been discussed with the unit officers and those have either been dropped or included in the current Inspection Report.
2. Certified that all points from the Register of important points and points marked for next audit by the Headquarters have been reviewed and action taken thereon indicated in separate note.
3. Certified further that all the points raised in the report and appendix have been discussed by me personally with the ……………………….. (designation of the officer to be mentioned here) and the facts mentioned therein have been verified by them.

Camp: **Signature of the Inspecting Assistant Audit Officer**

Date:

Countersignature of the Supervising Officer

Remarks of the Supervising Officer

Camp:

Date:

STATEMENT –I

(List of records and vouchers etc. brought from HQrs.)

Sl. No.	Particulars of records	Files put to use

STATEMENT-II

Sl. No.	Name	Details of work	Signature

STATEMENT-III

(List of records and documents checked)

Sl. No.	Particulars of records	Extent of percentage of audit exercised

Assistant Audit Officer **Supervising Officer**

CHAPTER 9

KERALA STATE ELECTRICITY BOARD

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CHAPTER – 9

KERALA STATE ELECTRICITY BOARD

9.01. Introduction

The Board was constituted on 31st March, 1957 under section 5 of the Electricity (Supply) Act, 1948. The Board took over the functions of generation, transmission and distribution of electricity including the assets and liabilities from the erstwhile Electricity Department of the Government of Kerala.

The Board is headed by the Chairman and seven members comprising four whole time Members, two ex-officio members and one non-official member. The organisational chart of KSEB is given in **Annexure-1**.

In consistence with the state power policy, the Board has been functionally organized into three business entities namely, Generation profit centre, Transmission profit centre and Distribution profit centre with a corporate office for co-ordination. After the enactment of Electricity Act, 2003, KSEB has been functioning as the State Transmission Utility (STU) and a distribution licensee w.e.f 10.12.2004 under section 172 (a) of the Act.

9.02 Generation Profit Centre

The Member (Generation) heads the Generation Profit Centre (GPC). There is a Chief of Generation in the rank of Member who exercises technical and administrative control over the five chief Engineers under GPC as shown below:

- Chief Engineer (Generation)
- Chief Engineer (Investigation, planning, design and safety of dams)
- Chief Engineer (Civil construction-south)
- Chief Engineer (Civil construction- North)
- Chief Engineer (Projects-Electrical Designs)

The history of hydropower development in Kerala begins with the commissioning of Pallivasal Hydro electric project in 1940. The commissioning of Sabarigiri in 1966 and Idukki in 1976 are milestones in the endeavour of power development of KSEB.

GPC operates and maintains 24 hydroelectric generating stations, 2 thermal power plants and a wind farm at Kanjikode (Annexure). Investigation, planning and design of all hydroelectric projects, land acquisition matters connected with various hydel projects, work connected with the environmental aspects of generation schemes, safety and maintenance of dams and connected structures , construction work of all hydroelectric and thermal projects come under the Generation Profit Centre. Other activities include construction and maintenance of various office buildings, fabrication of line materials for distribution, yard structures for substations and accessories to hydraulic structures. The GPC also monitors the progress of schemes implemented through private agencies and local self-government.

Renovation, modernization and uprating works of the hydroelectric projects are also being carried out by GPC. The renovation and modernization of Pallivasal, Panniyar & Shengulam projects have been completed. The renovation and modernization of Sabrigiri and Neriamangalam projects are in progress.

9.03 Transmission Profit Centre

Member (Transmission) heads the Transmission Profit Centre (TPC). The operations of TPC are managed by three Chief Engineers as shown below:

- Chief Engineer (Transmission- North)
- Chief Engineer (Transmission- South)
- Chief Engineer (Transmission- System operation)

TPC manages the construction, operation and maintenance of EHT substations, transmission lines and the supply of power to EHT consumers. TPC is responsible for implementation of transmission loss reduction programmes and co-ordinating activities for system development with other sectors of Board. TPC has absolute control over all load dispatch activities with full responsibility for real time management and matters pertaining to protection system and communication system. Scheduling of generation, scheduling of annual maintenance, import of power from Independent Power Producers and Central Generating Stations are managed by this centre. Other important activities include monitoring of daily system statistics, implementing policy matters related to merit-order dispatching, communication planning, networking of computers and co-ordination of activities under the system operation circles.

The power grid is connected to the southern region transmission system through two 400 KV double circuit lines at Madakkathara and Trivandrum. There are 5 major inter-state transmission lines. The major substations include one 400 KV and seventeen 220 KV substation. The main grid comprises the 220 KV systems.

As per CEA norms, the allowable transmission loss is four percent.

9.03.01 Load Dispatch Centre

The grid is managed by the State Load dispatch Station situated at Kalamassery. There are three sub load dispatch centres- at Thiruvananthapuram, Kalamassery and Kannur. The state load dispatch centre schedule generation from various generating stations, central sector stations and IPPs depending on the load condition and the real time frequency. Transaction of unscheduled energy from the pool when the frequency profile is favourable is co-ordinated by the SLDC effectively. The load dispatch centre also monitors the transmission system and issues sanction for shutdowns. Water availability, inflow, consumption, demand etc. are daily collected and monitored in the Load Dispatch station.

The Load Dispatch activities are co-ordinated by the Chief Engineer, System operation, Kalamassery. The major activities undertaken by this wing are:

- Daily scheduling of Generation
- Short term and long term planning of generation schedule
- Preparation of load generation balance reports on short term and long term basis

- Verification of energy drawals from various central generating stations and Regional Energy Accounts
- Verification of energy availed on unscheduled basis from the central grid depending on the frequency
- Maintenance/scheduling of generating units and transmission lines
- Economic load dispatching.
- Grid discipline.
- Load forecasting and demand estimation
- System security and islanding facility
- Black start preparedness
- Event analysis and preventive measures
- Co-ordination with neighbour grids
- Public relation and consumer interaction
- Certification of availability of generation stations and transmission system
- Maintenance of the communication network, communication equipments and SCADA system
- Protection, co-ordination, commissioning and troubleshooting of protection schemes at all substations and generating stations
- Performance monitoring of major grid elements like power transformers, instrument transformers, generators, capacitor banks, etc
- Undertakes testing and commissioning of protection schemes of major EHT consumers on payment basis.

9.03.02 Power Highway

At present there are two 400 KV substations in Kerala, one at Madakkathara, Trichur and the other at Pallipuram, Thiruvananthapuram. Another

400KV substation is being constructed at Area code, Malappuram by Power Grid Corporation of India Limited (PGCIL).

Nuclear Power Corporation of India Limited is establishing a Power Station at Koodamkulam with capacity 2 * 1000 MW. The first unit of this station is scheduled for commissioning by March 2007 and second unit by December 2007. The evacuation scheme from this power station was approved by the Southern Regional Electricity Board in which KSEB is also a member. PGCIL has been entrusted with the construction of evacuation scheme from the Koodamkulam station.

The present power allocation from 11 CGS stations is about 1200 MW.

9.03.03 Availability Based Tariff (ABT)

KSEB is part of the Southern grid comprising Andra Pradesh, Tamil Nadu, Karnataka, Kerala and Pondichery. Inorder to meet the increasing power requirements of the states, in addition to their own generating station, they have capacity entitlement on Central Generating Stations owned by NTPC, NLC and NPC.

ABT is rational tariff structure for accounting the transaction of energy from interstate generating stations in the central sector.

The central generating stations covered under ABT in the southern region are the following:

- Coal based thermal station of NTPC at Ramagundam-2600 MW
- Lignite based thermal stations of NLC at Neyveli-1980 MW
- Coal based thermal station of NTPC at Talcher, Orissa-2000 MW
- In addition, southern region beneficiaries are having some share in eastern region NTPC stations at Thalcher I, Kahalgaon and Farakka.

ABT was introduced because of:

- Low frequency during peak load hours

- High frequency during off peak hours
- Rapid and wide changes in frequency
- Very low voltages for substantial period
- High voltages during off peak hours
- Very frequent grid disturbances.

Before introducing ABT, the two- part tariff system was prevailing, i.e., the fixed cost and the variable costs are charged from the beneficiary states/SEBs in the proportion of the actual energy drawn during a particular period. Before introducing ABT, if a beneficiary over draws a portion of the other beneficiary's share of power, there was no penalty on those who get the benefit or there was no compensation for those who suffered.

9.03.04 ABT Regime

Methodology under ABT includes:

1. **Unscheduled Interchange charges**: a payment or deviations from schedule at a rate dependent on system conditions.

The UI charges are payable/receivable if:

- A beneficiary overdraws power, thus by decreasing the frequency
- A beneficiary under draws power, thus by increasing the frequency
- A generator generates more than the schedule, thereby increasing the frequency
- A generator generate less than the schedule, there by decreasing the frequency.

Thus any of the beneficiaries get undue benefit from overdrawing from the grid, he shall liable to pay to the affected parties at the UI rates prevailing at the point of time.

2. **Capacity charges**: towards reimbursement of the fixed cost of plant, linked to the plants capability to supply MWs.

3. Energy Charges: to reimburse the fuel cost for schedule generation.

4. Incentive: is payable when actual generation is above target PLF. It is shared as per scheduled ratio.

5. Wheeling charges: States to get wheeling charges based on the actual energy wheeled.

6. VAR charges: identically all reactive load should be compensated locally. In ABT regime there is incentive for reactive energy injection at low voltages and drawals at high voltages.

Similarly, there is penalty for reactive energy injections at high voltages and drawals at low voltages.

9.03.05 Scheduling and load dispatching under ABT

- Each day of 24 hours starting from 0.00 hours is being divided into 96 time blocks of 15 minutes duration.
- Each generating station shall make advance declaration of the capacity available for generation in terms of MW delivery of ex-bus in each time block. The generator shall also ensure that the capacity available during peak hours is not less than the capacity available during off-peak hours.
- Based on the declaration of the generating station, the RLDC shall communicate to the beneficiary SEBs, their respective share of the available capacity
- The beneficiary shall prepare their schedule from the above, based on the internal generation availability, variable cost of generation of their own thermal stations, power purchase facility from other sources and the cost, system constraints and limitations etc.
- Based on the request from the beneficiaries as well as declaration from the generators, the RLDC shall prepare the generation schedules and drawals schedules from the CPS for each time blocks after taking into

account the transmission constraints and other systems constraints, if any.

- Transmission loss shall be apportioned among the beneficiaries in proportion of their drawals.
- In the case of any constraints, the RLDC have right to revise the schedule, which shall become effective from 4th time block
- The generator and beneficiaries are allowed to revise the schedule during a day, but such revisions shall be effective only from 6th block.

9.04 Distribution Profit Centre

Member (Distribution) heads the Distribution profit centre (DPC). Three Chief engineers manage the operations relating to distribution of power.

- Chief Engineer (Distribution North)
- Chief Engineer (Distribution Central)
- Chief Engineer (Distribution South)

KSEB is the sole distributor of electrical energy for the state of Kerala except Thrissur Corporation and Munnar where the distribution is managed by licensees, Thrissur City Corporation and M/s Tata Ltd, respectively.

The system as on 28.02.2010 comprises the following.

Particulars	Existing
LT Consumers (in lakhs)	96.98
11KV lines (circuit kms)	44612
LT lines (circuit kms)	259457
Distribution transforms	51480
Street lights(Nos)	1145535

The total LT consumers comprise 80.05 *per cent* domestic, 14.23 *per cent* commercial, 1.22 *per cent* Industrial and 4.51 *per cent* Agricultural category.

DPC controls distribution of electrical energy in the state, construction, operation and maintenance of distribution networks including 11 KV lines, distribution transformers and other allied system. DPC monitors energy transactions, revenue realisation, voltage improvement/system improvement works and master plan works. DPC implements and monitors APDRP and RGGVY schemes under central assistance. Works under MP LAD/MLA SDF/Kerala development scheme are also undertaken by DPC.

9.05 Corporate office

Corporate office manages the corporate affairs of the Board. Financial management, materials management, corporate planning, legal affairs, reforms, human resources management, tariff and commercial matters are some of the key functions carried out by the corporate office. The Secretary is the authorized representative of the Board for general administration and legal matters.

9.05.01 Finance and Accounts

The finance and accounts wing headed by the Financial Advisor undertakes financial management in terms of long term and short –term resource mobilization, working capital management, investment management, financial planning, budget and budgetary control, management of cash flows, corporate banking and treasury and foreign exchange management. The office of the Financial Advisor also gives advice on finance and contractual matters. This office prepares the accounts of the Board as a whole.

9.05.02. System of Accounts

Government of India, Ministry of Energy (Department of Power) formulated a set of Rules viz. Electricity (Supply) (Annual Accounts) Rules 1985 to be followed by all Electricity Boards in the country. Chapter II of the rules read with the Annexure thereto stipulates the accounting principles to be followed by the Boards in preparing their Annual Accounts.

9.05.03. Acts, Rules, Manuals applicable to the Board.

- The Electricity (Supply) Act, 1948 (Act 54 of 1948).

- Kerala State Electricity Board (Administration of funds and Properties) Regulations, 1960.
- Kerala State Electricity Board (Meetings) Regulations 1957.
- Kerala State Electricity Board (Classification, Control and Appeal Regulations) 1969.
- Kerala State Electricity Board (Employees Disciplinary Proceedings Tribunal) Regulations, 1969.
- KSEB (Tenders) Regulations 1968.
- KSEB (Grid Tariffs) Regulations 1966
- KSEB (General Tariffs) Regulations 1966
- KSEB (General Tariffs) (Amendment) Regulations 1969.
- KSEB Leasing of Private Building Regulations 1963.
- KSEB (Secretariat Service) Regulations
- KSEB (Conduct of Legal Affairs) Regulations 1968
- Book on Tariff – Duties surcharge and Miscellaneous Fees and Surcharges, 1981.
- Revenue Accounting Rules.
- Stores Accounting Rules.
- Internal Audit Manuals for works audit and Establishment Audit.
- Conditions of Supply of Electricity by the Kerala State Electricity Board
- Commercial Accounts Manual of KSEB Vol. I to XI
- The Electricity (Supply) (Annual Accounts) Rules, 1985.
- Electricity Supply Act, 1963.
- Employees Provident Fund Act, 1952.

- Deposit Linked Insurance Scheme 1976.
- Employees Family Pension Scheme 1971.
- Electricity Act, 2003.
- Kerala Electricity Supply Code, 2005.
- Regulations issued by the Kerala State Electricity Regulatory Commission from time to time.
- Kerala State Electricity Grid Code, 2005
- The Electricity Rules, 2005.
- Kerala State Electricity Board (Terms and Conditions of Supply), 2005.

9.05.04. Annual Accounts of the Board.

Annual Accounts of the Board should be in the form prescribed in the Electricity (Supply) (Annual Accounts) Rules, 1985. The Annual Accounts of the Board should comprise the following statements and schedules:

a. Revenue Accounts
b. Net Revenue and Appropriation Accounts
c. Balance Sheet
d. Schedules to the Revenue Account and to the Balance Sheet
e. Statement of Accounting policies
f. Notes to Accounts
g. Function –wise analysis of Revenue and Expenses
h. Sources and use of funds
i. Statement of Capital Base and Surplus
j. Statement of Technical Particulars.

Annual accounts of KSEB are subjected to audit by CAG of India. The accounts of KSEB are audited under Rule 14 of Electricity (Supply) (Annual Accounts) Rules 1985 read with Section 172 (a) and 185 (2) (d) of the Electricity Act, 2003.

Details of various records with their code numbers, maintained in the offices of the Board are mentioned in the new Commercial Accounts Manual brought into effect from 1st April 1986 which may be referred to during local audit for ensuring strict compliance.

In addition to the Separate Audit Report, a separate letter, called the Management letter indicating a list of deficiencies in the procedures, systems and non-observance of the provisions of the Electricity (Supply) (Annual Accounts) Rules 1985 is also issued to the Management to exercise greater degree of control over operations of the Board. Commercial Accounts Manual of Kerala State Electricity Board was prepared by the Board to suit the requirements of Electricity (Supply) (Annual Accounts) Rules 1985 framed by Govt. of India. Manual is in eleven volumes as detailed below:

a. Volume I - Fuel and Fuel Accounting

The accounting principles to be followed in regard to purchases, consumption & accounting of Fuel are to be codified. (This volume has not yet been prepared).

b. Volume II - Material Accounting

The volume deals with stores organization procedures for purchases, stores accounting etc.

c. Volume III - Capital Expenditure and Fixed Assets

This Volume deals with the procedure to be followed in the area of capital expenditure and fixed assets accounting at all levels in the Board. It covers financial accounting system for capital expenditure, project accounting system, accounting of fixed assets and depreciation and accounting of expenditure on repairs and maintenance etc.

d. Volume – IV – Sale of power

Volume IV of the Manual deals with procedures to ensure proper financial management especially in the area of sale of power at all levels in the Board. It contains instructions regarding timing of accounting for revenue, Electricity duty classifications and grouping of consumers, raising of demand, collection and accounting of cash, government levies, accounting for Debtors, disconnection procedure, inter-state sale/purchase of power etc.

e. Volume V – finance

The procedures to ensure proper financial management at all levels in the Board are outlined in this volume. Accounting polices relating to collection and disbursement, Banking, Internal Control and Internal Audit, Reconciliation etc. are dealt with in this volume.

f. Volume VI – personnel

Instructions and guidelines relating to establishment practices, establishment procedures etc. are detailed in this volume.

g. Volume VII – Chart of Accounts

The various account heads, subheads and major heads of accounts are given in this volume.

h. Volume VIII – Journal Entries

This volume has not yet been prepared.

i. Volume IX – Information System

Details of the function of finance and accounts, reporting system, annual accounts compilation and Management Information System (MIS) are detailed in this volume.

j. Volume X – Audit Manual

This chapter deals with the Internal Audit functions and procedure of Statutory Audit by CAG.

k. Volume XI – Print Manual

This volume has not yet been prepared.

The system of accounts ensures:

- Adoption of prescribed basic accounting principles and policies;
- Adoption of the prescribed chart of Accounts
- Compilation of the Annual Statement of Accounts in the prescribed formats uniformly in all the Electricity Boards in India
- Classification of procedural matters relating to accounting transactions of State Electricity Board under:
    - ➢ Capital Expenditure and Fixed Assets
    - ➢ Fuel and materials accounting
    - ➢ Borrowing and Investments

9.05.05 Other Accounting areas

- provision of a new structure of uniform account codes for each type of transactions.
- recording capital work in progress for speedier compilation of project cost data.
- accounting of fixed assets at actual cost and disclosing of an asset once accounted for at historical cost.
- accounting of depreciation on straight line method. Ninety percent cost to be depreciated over the estimated useful life of assets.
- data for age-wise analysis of debtors in order to exercise better control over defaulting consumers.
- the application of accrual basis of accounting for revenue.
- accounting of all personnel cost under designated Expenses Account heads and subsequent reclassification of these costs to capital.

9.06 Scope of Audit

As per Section 185 (2) (d) of the Electricity Act, 2003, read with Section 69 (2) of the erstwhile Electricity (supply) Act 1948, the audit of accounts of the Board is entrusted to the CAG**.**

The various transactions and accounts records of the Board are audited in accordance with the quantum of check prescribed by the C&AG. Whenever the Accountant General feels that the internal check is inadequate he may approach the C&AG with proposals for increasing the quantum with full jurisdiction.

[CAG's No.139/OM/RC/46-81 dated 15-10-1981]

The annual accounts prepared by the Board in the prescribed form are audited and certified by AG (ERSA) and forwarded to the State Government for being placed before the State Legislature as per the provisions contained in Sub Sections 4 and 5 of Section 68 of Electricity (Supply) Act, 1948.

As soon as the final accounts are made available to audit, the checking of the same should be taken up on top priority basis so that the accounts can be certified within a month's time of their being made available. Important points having a vital bearing on the accounts may be incorporated by way of qualification as part of the certificate. The approval of the CAG is necessary for certifying the accounts with comments.

Two copies each of the printed Annual Reports /Accounts may be forwarded to the C&AG.

[CAG's No.142-CA-II/81-78 dated 23-4-1980]

All other points of financial impropriety may be included only in the conventional Audit Report of the State.

[D.O letter No. 441-CA/156/1965 dated 21-4-1965 from Addl. Dy. CAG to AG]

9.07 Resident Audit Sections, KSEB

The audit of the accounts of the Board is conducted by the Resident Audit Sections located in the Board Office and the Commercial Audit Parties visiting various units of the Board. The Resident Audit wing consists of three sections viz ECA I, II and III which are under the charge of a RAO and under the supervisory charge of a Group Officer. The main duties of ECAI, II and III are given below:

9.07.1 Resident Audit I (ECA I)

- Scrutiny of Agenda Notes, Minutes, Resolutions etc. of Board meetings.
- Dispatch of documents to local audit parties on receipt of intimation about selection of audit.
- Editing, issue and pursuance of Inspection Reports.
- Periodical review of Inspection Reports and preparation of Draft Paragraphs for Audit Report (Commercial)
- Editing, finalisation and issue of comments on Annual Accounts of the Board.
- Scrutiny of Budget Estimates of the Board.
- Calculation of Audit Fees recoverable from the Board.
- Watching action taken on cases of defalcation and loss of property.
- Issue of audit certificates in respect of World Bank assisted Projects (vide Para 7.12)
- Acting as a controlling section in respect of the Resident Audit Wing and dealing with general matters such as quantum of check to be exercised, allocation of balances under State Reorganisation Act, furnishing of statistical particulars to other sections, correspondence with State Government, C&AG and Government of India.

9.07.2. Resident Audit II (ECA II)

- Audit of pay slips, salary bills and travelling allowances bills, medical bills etc. of officers.
- Audit of bills for establishment and travelling allowances and medical bills etc. of other establishment.
- Audit of contingent vouchers.
- Audit of pension cases.
- Audit of pension vouchers and interest payment.
- Scrutiny of contracts for purchase of materials for works sanctioned by the Board.
- Review of broad sheets and objection books maintained in the office of the Financial Advisor and Chief Accounts Officer.
- Audit of Provident Fund Accounts including audit of voucher relating to temporary advances, part and final payment, tracing credits and calculation of interest payable to subscribers.

9.07.3. Resident Audit III (ECA III)

- Audit of sanctions for purchase issued by authorities subordinate to the Board and scrutiny of contracts for purchases.
- Audit of monthly accounts received from account rendering units.
- Audit of vouchers relating to works.

In the audit of vouchers, contracts etc. Resident Audit Sections should follow the instructions in M.S.O (Tech) Vol I. In the audit commercial accounts, regular commercial audit practice and instructions incorporated elsewhere in this manual should be followed.

9.07.4. Corporate Audit Team

Corporate Audit Team is also attached to ECA section which consists of a Sr.AO, 2 AAOs and 2 Sr.Auditors.

Corporate Audit Team will be responsible for the audit of the following units in the Corporate office of KSEB.

1. Corporate Office

   (i) Board Secretariat

   (ii) Legal Cell

   (iii) MIS Unit

   (iv) O/o the Public Relations Officer

   (v) APTS HQs/Vigilance

   (vi) Vehicle Monitoring Cell

   (vii) Personnel wing

2. FA (Corporate Finance)

3. CE (Corporate Planning)

4. CE (Supply Chain Management)

5. CE (Human Resource Management)

6. Special Officer, Revenue

7. CE (Commercial & Tariff)

8. CE (Civil, I&P)

The team shall analyse the risk involved in these units and carry out the audit on the basis of the risk analysis and issue separate Inspection Report for all these units by preparing quarterly plans so as to complete the entire audit with in the financial year and to issue a Corporate Inspection Report.

The team is also entrusted with the following duties:

1. Scrutiny of Board Minutes and Agenda Notes

2. Review of orders issued by KSERC with reference to the submissions made by the Board before the Commission

3. Audit of monthly accounts

4. Audit of high value contracts (100 percent) and other contracts on selection basis

5. Audit of Annual Accounts of KSEB and issue of Draft Special Audit Report

6. Collecting information/key documents required for processing PDP cases relating to other PSUs in respect of transactions with KSEB as required by CA HQs/Report (Commercial)/ RAP, KSRTC

7. Disseminating information to FAPs for effective audit of field units of KSEB

8. Maintenance of data base in respect of KSEB

9. Any other duties entrusted by DAG (C)

The team will also be responsible for the audit of KSERC (both transaction and accounts).

The team shall be responsible for the issue of Corporate Inspection Report every year before 30th April commencing from April 2011. The Corporate Inspection Report shall include the following items:

PART I

1. Introduction about the Board
2. Key personnel of the Board
3. Strategic and operating plan for the year
4. Budget and annual revenue and expenditure
5. Key financial indicators and performance
6. Volume of operation in terms of energy generated/purchased and distributed
7. Other import issues to be reported upon after discussion with DAG (C))

PART II

1. Major observations on system lapses in:

    (a) Procurement

    (b) Material management

    (c) Generation policy

    (d) Purchase of power

    (e) Execution of major works- Generation, Transmission and Distribution

    (f) Distribution of energy including cases of fraud, misappropriation etc, detected in the audit of field offices

    (g) Monitoring and follow up of legal cases

    (h) Internal Control

    (i) Internal audit-planning, implementation, coverage etc, with conclusion of adequacy of the system

    (j) Revenue collection and management

2. All deficiencies noticed in policy decisions at Government level/Board level/ Senior management level

3. All major observations noticed that remain unsettled in the audit of field offices including gist of revenue losses noticed under suitable headings

4. Deficiencies in follow up action on the audit observations of internal audit wing and CAG audit.

5. Any other important issues after discussion with DAG (C)

The RAO and the Team Leader, Corporate Audit Team shall hold cross charge of the section in the absence of any of them. The Corporate audit team shall be housed in the space available in Resident Audit Office and shall observe the working hours applicable to RAO.

9.08 Annual Programme of audit

Resident Audit Sections II and III (ECA II & III) should draw up annual programme for the completion of various items of work. Before such a programme is drawn up, the position in respect of completion of various accounts records should be ascertained from the FA's Office. The programme should be got approved by the Group Officer and the progress of work against the programme should be recorded and watched. Any arrears with reference to the programme of work may be reported in the monthly arrear reports and quarterly reports. The audit of the transactions of a year should be completed before the accounts of the year are certified by the Principal Accountant General (C&CA).

9.09 Local Audit

The local Audit of the units of the KSEB is undertaken by Commercial Audit Parties under the control of the Commercial Audit (Head Quarters). The periodicity of local audit of units is annual. The Resident Audit Section (ECAI) should forward to Commercial Audit (Head Quarters) a list of units to be inspected by Commercial Audit Parties on the first of January every year, together with information regarding the number of days to be allotted for inspection of each unit of the Board. The programme for this is drawn up by Commercial Audit (Head Quarters). To the extent possible, Commercial Audit (Head Quarters) should earmark specific Commercial Audit Parties for carrying out the audit of the units of KSEB for fixed periods.

On receipt of a copy of the programme for local audit, outstanding inspection reports and details of other points to be investigated during local audit are forwarded to the Assistant Audit Officer of the local audit party. On commencement of the audit, the local audit party shall select at least one month for test audit and the reasons for the selection of the month(s) should be recorded in the title sheet. After selection for test check, the party should requisite the required records for audit scrutiny. "Commercial Accounts Manual" contains the details of accounts records maintained in various offices of the Board. Commercial audit parties may exercise such checks which are generally exercised by Commercial Auditors dealing with similar accounts. The instructions contained in this manual and the instructions issued by the Resident Audit regarding quantum of check and other matters should be followed in the conduct of local audit. Care should be taken by local audit parties to see that the omissions /commissions pointed out in earlier test audit notes, if any, are rectified by the unit. After completion of inspection, the draft inspection report should be forwarded to the Resident Audit. The form of title sheet to the inspection report is given in **Annexure2** to this Chapter.

9.10. Allocation of work between Local audit and Resident Audit

The Resident Audit mainly attends to audit of sanctions issued by the Board and the Chief Engineers and scrutinize contracts for purchase and works. Monthly accounts and vouchers are received from the account rendering units by the internal check organization centralized at the headquarters of the Board every month and are released for audit by the Accountant General after audit by internal check organization. The monthly accounts and vouchers of the accounts rendering units are checked and objections communicated to the Financial Advisor. The Accounts records of the Board and also the Provident Fund accounts of the Board employees maintained in the office of the FA are audited by Resident Audit Office. In respect of audit of bonus payments and fixation of pay statement, it would be necessary for the resident audit staff to visit the units.

The local audit parties mainly check the initial records maintained in the account rendering units and other units of the Board for exercising the prescribed quantum of check.

9.11. Issue of Inspection Reports

The inspection reports are edited and issued to the Head of the office audited with copies to the immediate controlling officer and Financial Advisor. The time schedule for the issue of inspection reports shall be the same prescribed in paragraph 2.14 of this Manual.

Important points which are fit for comment in Audit Report should be noted in the Register of financial irregularities and speedy action taken to finalise the draft paragraph. The clearance of the paragraphs in the inspection report should be watched through the progress register of reports. The inspection reports should be closed only on the orders of the Group Officer.

9.12. Scrutiny of Agenda and minutes

Resident Audit (ECA I) should make arrangements with the management for rendering copies of agenda and minutes of Board meetings. The result of scrutiny of agendas and minutes should be submitted to the Group Officer in the form of review notes and further action taken as per the instructions of the Group Officer. Resident Audit Section maintain a Register of Board Minutes indicating the dates of each Board Meetings and date of submission of Review Notes to the Group Officer.

9.13. Issue of Audit Certificate in respect of World Bank assisted Projects

Audit Certificate in respect of World Bank assisted projects should be issued in proper printed letter head signed by an officer not below the rank of a Group Officer. The certificate should be issued to the concerned project authorities under intimation to Ministry of Finance (Department of Economic Affairs), New Delhi. The certificate should be issued within a period of nine months of close of the year. In case any delay is anticipated, the position should be intimated to the C&AG and Ministry of Finance (Department of Economic Affairs) in advance, stating the reasons for the delay so as to enable the latter to take up the matter with the World Bank Authorities. It should also be ensured that there is no delay in getting the reconciled expenditure verified by the Accountant General (A&E), wherever necessary.

[Authority: No. 711/Aud/11/93-86 dated 12-5-1987 – file ECA – I/E/ 12-19]

9.14 Audit of pension cases

The pension papers with service books of concerned officials are received in the Resident Audit for checking, after the authorizations for payments are issued by the FA. The correctness of the claims is verified and submitted to the Resident Audit Officer for general review. The remarks, if any, on the checking of claims are communicated to the FA. The statements of allocation of expenditure on pensions between the Board and State Government are also verified by Resident Audit Office.

9.15. Audit of Vouchers

The selection of vouchers for audit to be made based on the quantum of check prescribed in a Selection Register maintained for this purpose. The General principles of audit specified in MSO (T) Vol. I and the rules and regulations made by the Board are to be taken into account in the audit of vouchers. Before taking up the vouchers for audit, it would be necessary to check the vouchers with the monthly accounts to ensure that all vouchers have been rendered to audit and that there are no missing vouchers. The following instructions may also be borne in mind.

- Audit of establishment vouchers has to be conducted with reference to the service book, leave account and payment register.
- Bonus payments have to be audited with reference to the emoluments for the year after adjusting excess pay recoveries, leave without allowance etc.
- Pension and gratuity vouchers have to be verified with reference to sanctions noted in the pension payment register.
- Pay and allowances of higher division offices drawn on separate bills are authorized in separate pay slips by the FA. The payments may be audited with reference to initial records.
- Audit of vouchers of purchases, works advances and contingencies may be carried out with references to purchases orders, agreements and sanctions respectively.

The review remarks on the audit of vouchers are finalized and issued to the head of the office within a period of seven days after completion of audit.

9.16. Scrutiny of contracts

The Resident Audit Office should maintain a “Register of agreements executed” to watch the receipts of purchase files/contracts in audit for scrutiny. The scrutiny of purchase files/contracts by Resident Audit is supplemented by local audit. The Register of purchase orders maintained in the Technical, Stores and Accounts branches of the Chief Engineers office may be checked and cases of irregular purchase may be commented in Inspection Reports.

During the local audit of other units the cases of local purchases may be reviewed.

9.17. Internal Audit

The Internal Check Organisation of the Board functions under the Chief Internal Audit Officer under the supervision of Member (Finance).This office acts as the interface between the Board and the office of Pr. AG. The various sections under internal audit are

- Regional audit officers
- Pay fixation section
- Establishment audit department
- Gazetted officers audit department
- Works audit department
- Pension audit section
- General provident fund section
- Audit report interface section
- RCA
- Permanent audit wing
- RAO monitoring cell

9.18. Efficiency Cum–Performance Audit

The power system of Kerala is mainly hydro generated. The Board is also operating two thermal generating stations and one wind farm. The Board is the only agency in the State for developing power potential by executing hydro electric projects, constructing transmission lines for internal and external supply and for constructing the required distribution net work for supply of power to various consumers such as industrial, commercial and domestic. The Board is entitled to recover energy charges from consumers at tariff rates for services rendered. The Electricity Tariff is revised periodically for the mobilization of resources. A portion of the internal resources generated and loans received from the State Government are utilized for meeting the capital expenditure. The surplus after meeting all charges including payment of interest on loan and allocation are to accrue to the Consolidated Fund of the State.

The following aspects may be considered in the conduct of an efficiency–cum-performance audit of the transactions of the Kerala State Electricity Board.

9.18.01 Audit of Revenue

The revenue of Board consists mainly of energy charges recovered from the following consumers:

- Extra high tension consumers who are supplied with electric energy at a voltage exceeding 33,000 volts under normal conditions, however, subject to the percentage of variation indicated in the agreement with the Board or allowed by the Indian Electricity Rules, 1956.
- High tension consumers who are supplied with electric energy at a voltage of either 33,000 volts, 22,000 volts or 11,000 volts under normal conditions, the voltage, however, being subject to the percentage of variation indicated in the agreement with the Board or allowed by the Indian Electricity Rules, 1956.

- The Board fixed the tariff rates applicable to electricity licensees by classifying them into two categories – Grid I and Grid II. The licensees consuming less than 50 per cent of energy by themselves fall under Grid I category and others under Grid II category.
- Low tension consumers who are supplied with electric energy at a voltage either 240 volts (single phase) or 415 volts (three phase), the voltage however being subject to allowable percentage variation indicated in the agreement with the Board or allowed under the Indian Electricity Rules 1956.

The recovery from these consumers is made on the basis of tariff notified by the Board and other conditions of supply specified by the Board and incorporated in the agreement with the consumers.

The Board shall require from any consumer having monthly billing at all times maintain with the Board an amount equivalent to two months electricity bill as security, and for consumers having bi-monthly billing maintain equivalent to three months electricity bill as security. The adequacy of the security shall be reviewed in the first quarter of every financial year based on the average consumption of the preceding financial year. The shortfall/excess in security amount would be adjusted by giving thirty days notice to the consumer. The consumers shall be paid interest on security deposit at bank rate prevailing on 1st April of the financial year for which interest is due. This is effective from 1st April 2005 onwards and the accrued interest shall be credited to the consumers account during the first quarter of the subsequent year by adjustments against electricity bill. The delay in payment of interest would attract payment at twice the rate specified.

[Notification No. 1/1/KERC-2005/IV dated 2 March 2005 of Kerala State Electricity Regulatory Commission]

The billing and collections of revenue from extra high tension consumers and high tension consumers are centralized in the Office of the Special Officer (Revenue) situated at the headquarters of the Board. The readings of the meters installed in the premises of extra high tension and high tension consumers are taken by Assistant Engineers attached to the concerned Electrical Division and intimated to the Special Officer (Revenue). The Consumer is instructed to remit the energy charges within 15 days of the receipt of the bill failing which a penalty at the rate of 18% per annum on the bill amount is leviable from him. The following special points may be looked into, during the audit of the office of the Special Officer (Revenue):

- The bill amounts in respect of extra high tension and high tension consumers are for substantial amount and any delay in billing and dispatch of the bill may lead to loss to the Board by way of interest. It may, therefore, be reviewed whether any time limit has been fixed for the preparation and despatch of the bills and if so, these limits have been scrupulously followed. It may also be reviewed whether the limits fixed are reasonable.

- Check whether the special provisions in respect of lighting load and supply to the staff colonies of the consumers have been scrupulously followed.

- Whether the deposit amounts of high tension consumers are revised every year based on the average energy charges for the preceding financial year.

- Review the periodicity of the test check of meter readings fixed for the Assistant Executive Engineers and checking of meters by the Transformer Meter Repair Division and review such reports.

- In case the meters of the consumers are reported defective, the action, if any, taken to rectify the defects, the time taken to rectify the defects etc. may be reviewed.

- Abnormal reduction in the consumption of energy by any consumer calls for a detailed investigation as to the circumstances under which such reduction in energy consumption took place.

- The Agreement with the consumers would contain provision for the consumers to maintain certain power factor. It may be reviewed whether the provision in the agreement have been followed by the consumer and if so, whether any penalty has been imposed on the consumer for not maintaining the power factor.

- An analysis of the amount pending collection at the end of the period may be made segregating the amount under civil suits, the amounts under dispute etc. to assess the liquidity of the figures included under Sundry Debtors.

- Check whether the reconciliation of remittances with Banks has been completed.

- In respect of Low Tension consumers billing and collection of revenue are carried out by the respective Electrical Sections under the Electrical Divisions. Under the system followed, the consumers are classified into different categories and monthly/bi-monthly bills are issued by taking meter readings at fixed intervals.

The following special points may be looked into during the test check of the prescribed quantum of Low Tension energy bills.

- There has been any delay in the issue of first bill to the consumer after granting service connection.

- There has been delay in taking meter readings and issue of bills to consumers for consumption.

- The meter of any consumers has been reported faulty for long periods and if so, whether any of the Board Officers are responsible for not taking action to rectify the defects in the meter.

- Action has been taken to disconnect the service in case of nonpayment of dues on the due dates.

- Where remittances are not made on due dates, penal interest has been included in the subsequent bill.

- The readings recorded by the meter readers have been checked by the Sub Engineer, Asst. Engineer and Asst. Executive Engineer as per the quantum specified.
- Revenue recovery proceedings have been initiated in respect of long pending dues.
- Demand Collection Balance Statement has been prepared for every month and the unit has sufficient details of year wise and consumer wise amounts agreed with the outstanding under Demand Collection Balance Statement.
- The remittances into bank/treasuries have been reconciled with entries in the bank reconciliation statement /schedule of settlement with treasuries.
- Any concessions have been granted to the employees of the Board in project area in respect of energy consumed by them and if so, the extent of concession allowed may be evaluated.
- During review of the service connections given under any minimum guarantee agreement executed by the consumers, the minimum guarantee or the unconnected minimum amounts have been recovered from the consumers regularly.
- Surprise squads (Anti Power Theft Squad) or other agencies have been created for the detection of pilferage of energy and review cases of pilferage detected by the Board and action taken thereon.

9.18.2 Tariff

While the rate for inter state supply is decided by Government, the rates for supply in respect of others are regulated by periodical tariff notified by the Board. The taxation enquiry committees appointed by the State Government have given several guide lines in respect of electricity tariff guide. The revision of tariff is, however, made from time to time with a view to augment resources to meet working expenses of the Board and to generate internal resources for the execution of the various development schemes. The Board has not created an organization for the maintenance of systematic cost accounts and in the absence of such an organization, the cost of energy to various points of supply such as generation and EHT end, HT end and LT end is worked out on the basis of figures of energy supplied at various supply points and the expenditure as per financial accounts.

The following aspects may be examined:

a. The cost per unit at various supply points may be compared to assess the profit or loss in respect of supply to any particular group of consumers.

b. It may be examined whether the Board has conducted a study of the profit/loss of the consuming industries and industrial power tariff has been regulated in accordance with any findings in such study.

c. The impact of the revision on revenues of the Board maybe studied on the basis of subsequent revenue collections and it may be seen whether the objectives of revision has been fulfilled.

d. It may be seen whether the tariff revision has enabled utilization of such peak loads and resulted in load growth.

9.18.3. Billing and collection of Revenue

A substantial part of the power generated is supplied to other States and to major industrial consumers and the billing in such cases is attended to by the Office of the Special Officer (Revenue). In respect of Industrial Low Voltage, Commercial, Agricultural and Domestic supplies, the billing and collection of revenue is attended to by the Electrical Sections. The following aspects may be seen in respect of billing and collection of revenue in the Electrical Sections.

a. Check the cost of billing over a period compared with amount realized and units distributed.
b. Review whether there is delay in billing and assess the loss of interest due to delay.
c. Review any measures under consideration for reducing the cost of billing and collections.
d. Examine the incentive schemes in vogue in respect of billing work.

e. Review the efficiency of the internal check in billing with reference to short/excess billing detected during test check.

9.18.4. Materials Management and Inventory Control

The following aspects may be examined:

- Whether a suitable inventory control system is in vogue.
- Whether any expert body has recommended any system and if so, whether the recommendations have been considered by the Board.
- Whether there is any accumulation of items of stores in the Board's Central stores and if so, what are the circumstances under which these are purchased and what action has been taken for their disposal?
- Are decisions to buy transformers taken after making an assessment of the transformers that could be repaired in the Transformers- Meter Repair Division of the Board. How does the performance of the T.M.R divisions compare with targets fixed and the work on hand at the end of the year?
- What are the targets and achievements of Teak wood pole treatment yards and RCC pole manufacture in Electrical Division?
- Is there a physical verification of stores and there are handing over charge reports insisted when storekeepers are transferred? If so, is there a procedure of taking action against the persons responsible immediately on the assessment of shortages?
- Is there a procedure of comparing actual consumption of bulbs, tubes etc, with the specified burning hours? If so, what is the result?
- Have the board defined the duties and responsibilities of various officials in respect of keeping watch over material stored in the yard, road side etc? Have there been major cases of thefts? Have it been possible for the Board to fix responsibility in major cases of thefts that have been facilitated due to the negligence of the officials of the Board?

- Has annual physical verification of stock been conducted? If not, what is the extent of arrears? Has prompt action been taken on physical verification reports?
- What is the procedure for transfer of material to Sections when the work is actually carried out? Is the system of accounting of materials in the sections sound?
- What is the procedure for effecting local purchase? Is there any ground to doubt that the local purchase have been made at exorbitant rates?

9.18.5. Man power Analysis

Review the recommendations of any reputed body on fixing the staff strength of the various sections of the Board. The excess strength, if any, may be computed. The policy of deployment of personnel and completion of major projects may be examined to see how the Board intends to absorb staff rendered surplus on completion of major projects.

9.18.6. Local audit of Divisions and integrated Account Rendering Units.

1. The main objectives of local audit of Divisional Offices which execute the works and that of integrated account rendering circle offices are:

- to satisfy by test audit that the initial accounts including those maintained to account transactions relating to cash, stores and works from which the monthly accounts are compiled are maintained in prescribed forms in accordance with the Board's rules and orders.
- to test audit such accounts, vouchers etc. which are not rendered along with monthly accounts and hence may not be available for check by the Resident Audit.
- to review and comment on the operational performance of the Division/Circle with reference to targets and audit capital expenditure with reference to estimates, revised estimates, targeted date of completion etc.
- Local Audit should combine the routine check of initial accounts along with aspects relating to efficiency cum propriety audit.

- Test audit of Accounts for selected months.

2. The test audit of the accounts of the selected month consists of the following:

- examination of office copies of vouchers with the original records in the Divisional Office and audit of vouchers of the month not rendered along with monthly accounts;
- check of Cash Book and Cash transactions;
- check of transfer entries;
- check of stock accounts;
- check of works accounts and analysis of selected major/ minor works;
- tracing of posting in ledgers from other books/records, check of ledger totaling, ledger balances, monthly trial balances and schedules.

  In the analysis of selected major/minor works it should be seen that:

- the accounts exhibit accurately the actual cost of work done relating to the particular object for which the particular estimate was sanctioned.
- all the recoverable charges have been made good to Board by an equivalent cash recovery or short payment of dues.
- the contractors and others on whose behalf the recoverable charges are incurred do not get the benefit of any concession to which they would not have been entitled, if they had themselves incurred the charges;
- the rules for the issue of materials of contractors are not infringed;
- generally there has been no irregularity in the up keep of the accounts including the initial records relating to them;
- the payments to contractors have been made in accordance with the terms of the agreement and detailed measurement of work done as recorded in the measurement book.

3. Cash Book and Cash Transactions

- Check the opening balances with the closing balances of the previous month.
- Check the entries in the receipts side of the Cash book for receipts of Cash and cheque with the counterfoils of receipts.
- Check payments by cheques with the counterfoils of cheques.
- In respect of remittances made into the treasury /bank.
  - Check the credit entry with the remittance book and challans.
  - Check contra entry and the debit side of the cash book.
  - Check whether the receipts are remitted into the treasury without delay.
- In respect of self cheques drawn for office use, check the payment entry in the Bank column in the credit side and receipts entry in the cash column in the debit side.
- Check entries for temporary advances grants to subordinate officers with imprest and temporary advance registers, check adjustments and ascertain delay.
- Check the first entry for payment of Imprest, subsequent entries for increase or decrease of imprest accounts and verify adjustment entries.
- Check whether in respect of time expired, lost or cancelled cheques, the prescribed procedure is followed.
- Check that there are no errors or interpolations and the errors, if any, are rectified properly.
- Check whether there is any tendency to keep unduly large cash balance in hand.
- Check whether the cash book is closed and balance struck on prescribed dates.
- Check whether balances and the transactions have been reconciled with the Bank/Treasury figures.

4. Cheques and Receipts Book

The cheque and receipts books should be examined to see that:

- all books on receipt are entered into the Register of 'Cheque and Receipts Books' and the Register is maintained and reviewed properly as per paragraphs 182 and 186 of the Kerala Public Works Account Code ;
- the corrections, if any, on the counterfoils of the memoranda of balances on their back do not disclose any financial irregularity of overdrawal.
- the certificate of count of the number of forms is duly recorded on the flyleaf of each book;
- the certificate of used receipts books are forwarded promptly to the Divisional Office for verification and return and the returned books bear the check certificate of the Divisional Accountant;
- no cheque is drawn unless the amount is to be paid at once;
- the procedure prescribed for time expired, cancelled or lost cheque is followed; and
- The paid cheques are traceable in the Treasury / Bank pass Book.

5. Vouchers not rendered with monthly accounts

The vouchers not rendered along with monthly accounts should be scrutinized to see that:

- every voucher bears a pay order properly signed or initialed and dated by the responsible disbursing officer and the payee's acknowledgement.
- a proper form of voucher applicable to each case is used; and
- generally it is complete in every respect in accordance with the general instructions contained on the subject in the Public Works Account and the Kerala Financial Code.

6. Imprest and Temporary Advance Accounts

The Imprest and temporary Advance Accounts should be examined to see that:

- they are regularly closed and recouped punctually before the cash book for the account month concerned is closed and the amounts of imprest are not unduly excessive;
- they are properly examined by the recouping officer before recoupment;
- there are no avoidable delays in the adjustment of long standing “temporary advances”;
- the certificates of count of cash balances in the Imprest Accounts are given after actual count;
- receipts from the imprest holders have been obtained and filed for imprest outstanding on 31st March (paragraph 616 of Kerala Public Works Account Code); and
- payments from imprest holder’s private cash are not made for Board’s liabilities or charges before the imprest cheque is cashed.

7. Stock accounts

The initial account records relating to stock for the month selected for test audit should be checked with the schedules and vouchers of the month and the records for the period of inspection should be scrutinized generally to see that:

- the initial accounts are in proper order and the receipts and issues are recorded therein in the order of occurrence;
- there are no fictitious adjustments in the accounts;
- authority exists for the receipt or issue of materials and there is proper acknowledgment for every issue accounted for;
- materials received are examined and measured at the time of actual receipt by an authorised person;
- The method of verifying the quality and quantity of stores, whether collected for work or reserve stock should be examined to see that the verification is complete and reliable in accordance with the rules;

- the value accounts are maintained and issue rates fixed in accordance with the instructions;
- the head “stock” is charged only with the cost of stores which includes a prescribed percentage to cover conveyance and other incidental expenditure of stores and is duly credited with the cost of materials issued arrived at on the basis of prescribed stock issue rates;
- issues to works are correctly classified as per paragraph 348 of Kerala Public Works Account Code as "Issues to Contractors” or “Issues direct to works” and correctly charged for, if necessary at higher rates vide paragraph 214 ibid;
- in respect of issues to works, the conditions laid down in paragraphs 358, 359, 365 and 368 of Kerala Public Works Account Code are fulfilled viz;
- the issues are ordinarily confined to materials which have to be supplied under the conditions specified in the contracts;
- the issues are charged for at the rates shown there in, the difference between the stock issue rates and those chargeable under the contracts being treated as additional final outlay on the work concerned under paragraph 355 and 361;
- the balances under store handling suspense are not heavy;
- surplus materials returned from works are valued at the original issue rates and dismantled materials are valued at the depreciated value or assessed value or market rate which ever is less;
- in the case of materials collected for work or for reserve stock, the collection is not made for in advance or much in excess of the actual requirements;
- in the case of materials or stock surplus to requirements or obsolete, proper steps are taken to circulate lists of such materials to other divisions and that suitable arrangements are made to dispose of all such materials without loss to Board;

- adequate action has been taken to secure the adjustment of profit and loss due to stock taking or other causes and for the disposal of unserviceable or surplus materials;
- inspecting staff should scrutinize the accounts of stores as carefully as other accounts and bring to notice cases of irregularities connected with the purchase and disposal of stores, proper store keeping and maintenance of initial records of stores by Departmental Officers;
- non verification of stores;
- purchase of materials in anticipation of orders or in advance of or in excess of requirements resulting in unnecessary locking up of capital and possible loss by deterioration ;
- purchase of stores at excessive rates compared with the rates in similarly situated areas or the rates published in catalogues of engineering firms, if available;
- irregularities in the procedure for the purchase of stores;
- loss or shortage of stores (For this purpose it would be helpful to examine locally the reports of verification of stores and to bring to notice the unusual circumstances connected with any item).

8. Measurement Books

(i) The measurement books should be examined to see that they are carefully kept, that measurements have been promptly recorded and that the books are complete with records of the actual measurements of each kind of work done for which certificates have been granted. It should be specially seen that entries are made with due attention to rules on the subject that no page in a measurement book is missing, no entries are erased or defaced or are illegible and that all corrections are properly made and attested.

(ii) Inspection parties should note that superior authorities can never take action against individual offices on remarks in an inspection reports which are expressed in general terms. Thus, when the reports merely state that certain classes of mistakes are common in the measurement book of certain division and give no concrete instances, this can only be regarded as a warning that these mistakes should not be committed in future and one cannot expect superior authorities to do more than to reiterate that warning. In these cases, however, the comments in the inspection reports certainly give the impression that the work of measurements and check measurements and of recording the results was being done very badly. If that impression is to be corrected, a mere warning in these cases would have been insufficient and the inspecting officer should have investigated that matter much more thoroughly, should have brought out more precisely the degree of neglect and should have quoted numerous instances. It would then have been possible to press for definite action against individuals. The entries in a measurement book must be so reliable as to be acceptable as evidence in Court of Law. More over, serious frauds may be cloaked by the manipulation of entries in a measurement book. Such manipulation is easily capable of detection, if a measurement book is properly checked. Finally the entries in a book constitute the basis of all payments and there fore they must be made with such attention to rule as to raise the presumption of accuracy. These results are quite unattainable, if there are unattested corrections or other omissions, irregularities such as pages not crossed off and left blank, correction made by overwriting, contractors' signature not taken in acceptance of measurements, details of measurements not recorded and no evidence of check–measurements by Sub Divisional Officers. As the grave results of these irregularities, some of which are apparently trivial, are frequently overlooked it is incumbent upon Inspecting Officers, when they come across serious cases of neglect of the rules regarding measurements and their record in measurement books; to investigate them very carefully and to report in such a way as to make the degree of the irregularity apparent.

(iii) A few entries of measurements, selected at random, should be checked to see that they are arithmetically correct. It should also be seen that:

a. the arrangements in force for taking measurements and for checking measurement do not indicate any laxity of control;

b. the rates in the abstracts of measurements are entered only by authorized persons (paragraph 327 of the of the Kerala Public Works Account Code);

c. the arithmetical check of calculation of “Contents or area” is certified to by the person carrying out of the check;

d. the pages containing detailed measurements are scored out by a diagonal line in red ink and the abstract bears a reference to the number and the date of the voucher of payments;.

e. the dates of measurements of outstation work if any, are correctly traceable in the Travelling Allowances Journals of the officials concerned;

f. acknowledgements are taken from responsible persons when ever measurement books change hands vide Para 198 (b) of Kerala Financial Code Volume No. I;

g. the remarks made by the Sub-Divisional Officer or the Executive Engineer in the Measurement Book and corrections in rates made after check measurements do not indicate that irregular and incorrect measurements have been made;

h. works liable to submersion such as closing of breaches, clearing of silt and brushwood filling in river margin, are check measured in time by the Sub- divisional Officers and the reasons for not having done so in exceptional cases are given concisely and clearly in the remarks column of the measurement book by the Sub –Divisional Officer [Paragraph 320 (a) of the Kerala Public Works Account Code];

i. the date of measurement should be compared with the date of payment to see that payments are not intentionally postponed to the following year with a view to avoid excess over appropriation;

j. in the case of cancelled measurements, the cancellation is supported by the dated initials of the officer ordering the cancellation and also full reasons for the same are given [Paragraph 316 (f) of the Kerala Public Works Account code]; and

k. check measurement is conducted with discretion and the items of work easily susceptible to fraud or which would most materially affect the total amount of the bill are selected for check measurement [Paragraph 320 (4) of Kerala Public Works Account Code].

(iv) The "Register of Measurement Books" prescribed in paragraph 314 of the Kerala Public Works Account Code should be examined to see that it is properly maintained and is a complete record of all the measurement books held in a Division. The Prompt return of completed measurement books to the Divisional Office and their retention for the prescribed period after the date of completion of works, the measurements of any part of which are recorded in the books should also be checked through this register.

9. Muster Rolls

Muster Rolls should be generally examined to see that the instructions contained in paragraph 311 of KPWA Code are followed:

It should be seen that:

(i) payment is made through muster rolls only to day labourers and not to permanent and temporary employees whose pay is chargeable to the head "establishment" or to members of the work charged establishment employed on the actual execution of a specific work or upon subordinate supervision of departmental labour, stores etc. (vide Paragraph 309 of the KPWA Code);

(ii) attendance is taken daily and the record of attendance is checked at intervals by responsible officers of the Sub-Divisions;

(iii) a systematic record is maintained of all unpaid items and of their subsequent payments and wages remaining unpaid for three months are regularly reported to the Divisional Officer;

(iv) there are no unusual delay in payment; and

(v) duplicate copies of muster rolls are not prepared and separate rolls exist for each payment.

A few muster rolls paid during the month of the test audit should be selected at random by the Inspecting Officer and checked arithmetically.

It should also be seen that payment of labour engaged through a contractor is not made or authorized on a muster roll as in such cases the use of the muster roll (or the measurement book) is not permissible (vide Paragraphs 313 of the KPWA Code).

10. Work charged establishment

The Register of the work –charged establishment employed in a Division should be scrutinized to see that:

(a) Proper sanction exists for all the posts;

(b) Provisions for the purpose has been made under a separate sub-head of the sanctioned estimate; and

(c) The pay of such posts does not exceed the prescribed rates in cases where such rates have been definitely laid down by a higher authority for any particular class of posts.

11. Account of works (General)

1. The following points should be borne in mind:

- the materials to be supplied by Board for use on the work as specified in the contract are paid for by the contractors to the Board at the specified rates regardless of fluctuations in the market rates or in the stock rates of the Divisions. This examination is specially necessary in the case of materials, the market rates of which are known to be lower than the rates to be charged by Board as per contract:

- no carriage charges or incidental charges are borne by Board for moving the material beyond the place or places of delivery specified in the contract [Paragraph 358 (c) Kerala Public Works Account Code];
- materials not specified in a contract are not to be supplied to the contractor but which are required for use on the work and which are available in the stock of the Board are issued only with the express authority of the Divisional Officer, and at rates specified by him subject to the condition mentioned in clause (b) of Paragraph 359 of the KPWA Code;
- suitable arrangements exist for limiting the total issues of materials to a contractor in connection with a particular work to the reasonable needs of that work (Paragraph 364 KPWA Code). This precaution is specially necessary when the rates at which articles issuable under the contract are lower than the market rates or when the commodities are controlled items in whose case there is a possibility of re-sale of such materials in black market;
- the cost of materials issued to a contractor is recovered promptly in accordance with the instructions contained in Paragraph 363 of the KPWA Code;
- no advances or recoverable payment is made to or on behalf of a contractor and no financial aid is given to him except in accordance with the terms of his contract and the relevant rules on the subject (Para 358 and 339 of the KPWA Code);
- in cases where the cost of materials is adjusted at once as a final charge, arrangements exists for exercising detailed control over the transactions relating to materials and for verifying the unused materials;

- in regard to the issue of stores in respect of work done by Departmental agency, scrutiny should be made of the quantity actually issued and charged to work as against the quantity issuable on an estimated or on the basis of actual work done;
- in cases probability of excess of actual cost over estimated cost of work exists, work slips in the prescribed form are submitted to the Deputy Chief Engineer/Chief Engineer without delay (Para 403 of KPWA Code); and
- in regard to rates paid for work done and supplies made, abnormalities in rates are carefully watched. A comparative examination of the rates paid by various offices in the same or neighboring localities may be made on this point. The assistance of the Finance Department may also be taken to obtain schedule of rates and other necessary information.

2. All the cases of expenditure on demolition, restoration or rebuilding works in connection with buildings or structures, irrespective of the amount involved or of the date of the original construction, should be investigated with reference to the reports on estimates etc. in order to see that:

- the original expenditure has not proved unnecessary or fruitless;
- the new expenditure is not due to lack of foresight or neglect either in the arrangements for original construction or in those of maintenance after construction; and
- there was reasonable justification for the original and for the new expenditure.

Note: Where an existing work is replaced by a new work it should be seen that the rules on the subject of accounting for the material received from dismantled work are observed and that all such materials are properly disposed of.

3. In respect of any works or portions of work abandoned, the accounts and correspondence in connection with such works should be examined to see whether there has been any avoidable loss to Board and whether such loss has been due to negligence.

12. Contract Agreements

The files of contract agreement and Register of tenders etc. should be scrutinized to see that:

- tenders are invariably invited in the most open and public manner possible;
- security for the due fulfillment of the contracts is taken unless specially ordered otherwise by competent authority;
- satisfactory reasons are recorded for accepting a tender other than one which is prima-facie in the tax payer's interest. Audit should only challenge cases in which it has definite reasons to believe that the discretion has not been properly exercised;
- contracts are executed on standard form applicable to each case or on special forms prepared in consultation with Law Officers of Board and are sanctioned by Competent Authority.
- contracts containing unusual conditions are not entered into without previous consultation with the Legal Section of the Board and material variations in contracts once entered into are not made without the consent of the Board;
- if materials are to be supplied by Board, the place or places of delivery and the rates to be charged to contractors are specified in the contracts and such rates do not differ from those notified in the notice calling for tenders (Paragraph 358 of KPWA Code);
- contractors are free from ambiguities, that rates to be allowed are definitely stated and that if contracts provide for payment of work done at a specified percentage below or above the estimate or other rates, it is stated in clear terms in the contracts that such percentages will be calculated on the gross and not the net amounts of the bills for work done;
- transactions relating to two or more separate work estimates are not covered by a single contract (KPWA Code Para graph 336);

- the terms of contracts and the penalties for non-fulfillment of any of the terms are duly enforced in practice;
- in the case of revised agreement providing higher rates and accepted by the Divisional Officer, the sanction of the appropriate higher departmental authority has been obtained for the same;
- agreements have been accepted by competent authority before the liability is incurred (notice inordinate delays in their acceptance);
- in cases where tenders are received substantially lower in amount than the estimated cost of work, the estimates are as a rule revised by the Divisional Officer;
- when estimates provide for using old and new materials in a certain proportion, the agreement should show different rates of work with new and that with old materials;
- in case of non-tender works when materials are supplied departmentally and the values recovered from bills, the contractors profit, if any, included in the rates is deducted;
- corrections in agreements are attested by both the parties;
- agreements are not revised on the plea that the market rates have risen after the agreements are accepted; and
- the rates entered in the original agreements are the same as the tendered rates in the case of works for which tenders are called for.

13. Register of Tender Forms

It should be seen that the procedure for the accounting of tender forms is being correctly observed by the Divisional Officer.

14. Schedule of Rates

(1) A schedule of rates for each kind of work commonly executed is required to be kept in each Divisional Office prepared on the basis of rates prevailing in each locality. It should be intelligently scrutinized to see that it is correctly

maintained. The rates entered in the estimates should generally agree with the schedule of rates, but if any departure from these rates is made or authorized in any of the estimates, the report of the estimates should indicate in detail the manner in which the rate adopted in the estimate has been arrived at.

(2) It should also be seen that:

(i) the schedule of rates is up-to-date and sanctioned by competent authority ;

(ii) it is supported by detailed data; and

(iii)the rates paid in the month of test audit in the bills not covered by agreements and muster rolls do not exceed the schedule of rates.

15. Accounts of interest bearing securities

(1) In addition to the checks prescribed in paragraph 46 of the secret Memorandum, the accounts of interest bearing securities should be examined to see that;

(i) security as determined by the competent authority in each case under the relevant orders on the subject is furnished by the cashiers, store keepers, sub–store keepers, members of subordinate and clerical establishment entrusted with the custody of cash or stores (Para 49 of KPWA Code); and

(ii) security deposits are covered by a proper bond or agreement setting forth the conditions under which the security is held (Para 49 of KPWA Code).

(2) In the case of Government Securities deposited with the Divisional Officer against contracts, it should be seen that the securities stand in the name of depositor and that the contract or other document executed by the depositor conveys authority to Government to appropriate or cancel the securities, if the contract is not fulfilled. Care should be taken to see that particulars of the Government Securities such as number, loan and amount, which are deposited

against due performance of a contract are mentioned in the contract or other document executed by the depositor.

(3) When securities are deposited on behalf of a firm or an incorporated company it should be seen that:

(i) the securities stand in the name of the firm or company as the case may be;

(ii) the person who has signed the contract had the requisite authority to bind the firm or company;

(iii) the necessary documents authorizing the person who has signed the contract to bind the firm or company have been filed or registered with the Public Debt Officer.

(4) The endorsements on the Government securities should also be examined in the light of instructions in Chapter V of the Government Securities Manual and it should be seen that all the endorsements and not only the last endorsements are regular, that the title of the depositor or other persons from whom the security was received is absolutely clear.

(5) The Treasury Savings Pass Books should be examined to see that:

(i) they are hypothecated to the Divisional Officer;

(ii) they are sent to the Treasury at the close of every financial year for interest being added to the accounts;

(iii) they are kept in the custody of the officer to whom the deposits are pledged (vide paragraph 494 of the Kerala Public Works Code): and

(iv) Government paper tendered as a security should be taken at its market value at the time of deposit and in the event of its subsequent appreciation or depreciation in value, a readjustment should be made, if necessary.

16. Deposit Register

During local audit, the Register of Deposits maintained by the Division should be checked, detailed check being done in respect of one month in each half year.

It should be seen that:

(i) reference to agreements of security deposits is quoted in the deposit register (Paragraph 419 of KPWA Code);

(ii) there are no avoidable delays in the adjustment of long standing items;

(iii) the deposit registers are properly maintained and correctly posted and reviewed monthly;

(iv) notes regarding refunds are duly made and attested; and

(v) balances tally with the schedules sent with monthly accounts.

17. Execution of projects

A Project is taken up for execution on receipt of green signal from the Planning Commission or even before that on the specific instructions of the State Government. The following aspects may be looked into while conducting a review of execution of a project.

- a detailed project report would contain the estimated outlay on the various component works of the projects. The actual expenditure against the estimates, revised estimates etc., may be reviewed.
- almost all the works in the projects are executed through private contractors and the tenders, tabulated statements etc, in respect of each such work may be reviewed. Concession granted at the time of negotiations would merit special attention as such concession would be available to other tenders at the time of tender notification.
- the contracts entered into for the project's major item of machinery, heavy earth moving equipment etc, may be examined to see whether the purchase orders have been placed after inviting competitive tenders and

selecting the best. The loss/extra expenditure to the Board due to delay in taking decision on the purchase of machinery or delay in receipts of machinery may also be analysed.

- the circumstances which led to the change of design or location may be investigated. The loss or extra expenditure, if any, incurred by the Board in such circumstances may also be evaluated.
- audit shall evaluate the extra expenditure on the grant of concessions and see whether the concession was justifiable and whether it has been possible to avoid delay in spite of such concessions.
- as the delay in completion of a project might lead to considerable escalation in cost as well as heavy loss of revenue, it would be necessary to examine in detail the reasons attributed for the delay in commissioning the project. The investigation to be conducted should be of such a nature that in respect of lapses on the part of Board, it should be possible to fix definite responsibility.
- an appraisal of the project may be taken up after the commissioning of the project to see whether the declared objectives have been achieved and if not, whether any remedial measures are under consideration.

9.19.1. Investigation of Hydro Electric Projects

According to an assessment made by the Board, the firm power potential at 100% load factor in 12 river basins of the State is estimated at 1870.6 MW.

The Board has an investigation wing which collects data from the river basins to judge the viability of hydro–electric projects in specific locations. After the study of the data, the project report is prepared and submitted to the Central Water and Power Commission and the Planning Commission for approval. The progress in carrying out various items of work in connection with the investigation works may be assessed with reference to the time schedule prescribed, man power deployed and expenditure incurred. Delay in completion of various works in connection with investigation may be brought out.

9.19.2. Generation of Electricity

All the power stations in Kerala are inter-connected and despatch of load is controlled by the Load Control Station at Kalamasserry. Generation of power has to be correlated with the load, which may fluctuate during the day. The peak load in the system being between 6 p.m and 8 p.m when load increase due to domestic consumption, commercial use and street lighting. When the load develops, the generators are brought into commission one after the other and generally one generator with the largest capacity (in any of the power stations) is retained as “spinning reserve”. The total installed capacity less the “spinning reserve” is generally known as the “effective capacity”. The installed capacity and effective capacity of the system is found to be far higher than firm power (rate of average generation based on anticipated storage in reservoirs). The installed capacity of power stations when compared with the maximum demand on the systems would give idle capacity and idle investment may be brought out.

The power system of Kerala is connected with the power system of the neighboring States and agreements have been entered into with other Boards to supply power. Some of the projects executed by the Board are for the total control of the river flow and water is expected to be let out only in exceptional circumstances. At the same time many of the other schemes are “run of the river” schemes where there would be over flow during monsoons.

A question arises as to why it is not possible to utilize a greater portion of the water allowed to overflow to generate power, especially when the Board has added extra generating capacity for generation of seasonal power during monsoons. While load planning is a highly technical subject on which it may not be possible for audit to express any opinion, it would be possible for audit to quantify the power that could have been generated had the water allowed to overflow been fully utilized for the generation of power in some of the ‘run of the river’ projects executed by the Board. Such review should take into account the total demand during the monsoon period and how power generation during those periods has been apportioned between the projects for the total river flow control and the ‘run of the river’ schemes.

A portion of the power generated is consumed by power station’s auxiliaries. In the case of pumped storage scheme, power is utilized for the operation of the pump also. It should be reviewed whether the power station auxiliary consumption is with in the norms.

The plan for the annual maintenance of the various generating sets in the power houses may be reviewed and it has to be seen whether the maintenance period has been extended in any case. The details of the outages of the generating sets, the delay in re-commissioning of sets and consequent under utilisation of potential may be examined.

The generating sets are expected to give a specified output per hour of operation. It would be possible to collect data from the log books of generators to find out the energy generated per hour of operation. This may be compared with the actual out put. The circumstances of low production which could be due to the inefficiency of the operation of the power system may have to be further investigated.

9.19.3. Transmission and distribution

There has to be a balanced investment in generation, transmission and distribution of electricity as otherwise full utilization of the generating capacity created cannot be availed of. The Board should have, therefore, plans to expand the transmission and distribution system along with the increase in generating capacity. Whether such expansion schemes have been implemented or not and, if so, how far the non- implementation or the delay in implementation of expansion of transmission and distribution system resulted in the non-utilisation of the generation capacity created would be a major item for investigation by audit.

The construction of major transmission lines, outstations etc, is executed through private contractors either on turn key basis or by executing different works through various agencies by the supply of necessary materials.

An analysis of works executed by these contractors with the agreements entered with them and time schedules prescribed for the completion of the various items may be carried out.

Interruption in supply of power through the major transmission lines cause loss to the consuming industries and to the Board. The number of interruptions and the duration of such interruption in 220 KV, 110 KV and 66KV lines are reported to the Load Dispatch Circle (Kalamaserry). An analysis of the interruption reports may reveal how many of these interruptions are due to natural phenomenon, equipment failure, foreign object, system deficiency and unknown causes. A committee (Rep. Committee) consisting of representatives of the Board and the consuming industries has been constituted by Board to review the position and the minutes of the meetings of the committee are available at the Load Dispatch Circle, Kalamaserry. These may be reviewed.

An analysis of utilization of the capacity of the transmission lines may also be made.

9.19.4. System Loss

The loss comprise of loss of energy in transmission and distribution. The quantum and the percentage of system loss are computed by the Board from the details of energy generated, procured through purchases and finally distributed. The statement of technical particulars attached to the annual accounts would give all particulars of energy generated, energy purchased, consumption by power stations auxiliaries, energy distributed, energy sold and the system loss. In view of the high density of population in the state and proximity of generating stations to the power consuming centres, loss are not expected to exceed 15% of the energy distributed.. The Central Water and Power Committee is, however, of the opinion that the system loss should be brought down to below 10%. As regards the Kerala State Electricity Board is concerned, bulk of the energy generated is distributed to neighbouring States and as such the system loss recorded up to the State border in respect of inter state supply is very low when compared to overall system loss. In the computation and analysis of system loss it would, therefore, be necessary to segregate system loss in respect of transmission of power to other States and then arrive at the internal system losses separately. During audit, it should be necessary to examine whether the Board has conducted any test check in any particular area to assess the extent of pilferages, unusual loss etc. The various works or steps taken to reduce system loss may also be reviewed.

9.19.5. Rural electrification

The progress achieved in the matter of rural electrification may be reviewed to see how far the actual progress compares with the targets fixed. The norms adopted by the Board to treat a village/centre as electrified may be examined to see how far these norms could be accepted as there is a practice of subsiding loss of rural electrification by the State Government. It may be examined whether the loss have been worked out correctly.

9.19.6. Availability Based Tariff and Unscheduled Interchange.

On the basis of Availability Based Tariff structure (ABT), the Board is drawing power from the Southern Grid. The allocation of power and its transmission are arranged by the Chief Engineer (System Operations) Kalamassery. The Load Despatch Centre is also under the control of CE (System Operations). The drawal of power from the grid and consequent arrangements of generation of power are regulated as per the decisions taken every day. The economics of the operation in this regard has to be subjected to scrutiny during local audit.

9.19.7. Expenditure on Research

The expenditure incurred in research, man power employed on item taken up for research and achievements, may be reviewed.

9.19.8 Standard Measurement Books

(1) The instructions in paragraphs 317 and 318 of the Kerala Public Works Account Code should be borne in mind while examining standard measurement books and any deviations noticed should be pursued. It should be particularly seen that:

(i) the standard measurement books are written up in ink, are numbered alphabetically and are traceable in the Register of Standard Measurement Books in Form KPW 84;

(ii) measurements are duly certified as fully checked by the Sub-Divisional Officer and as finally approved by the Divisional Officer;

(iii) the books are brought up to date from time to time under the supervision of the Sub-Divisional Officer, are scrutinized by the Divisional Officer and are personally examined by the Divisional Officer at least once a year; and

(iv) the annual reports prescribed under the rules to be submitted to the Deputy Chief Engineer/Chief Engineer are regularly and punctually submitted [Para 318 (6) of K.P.W Account Code].

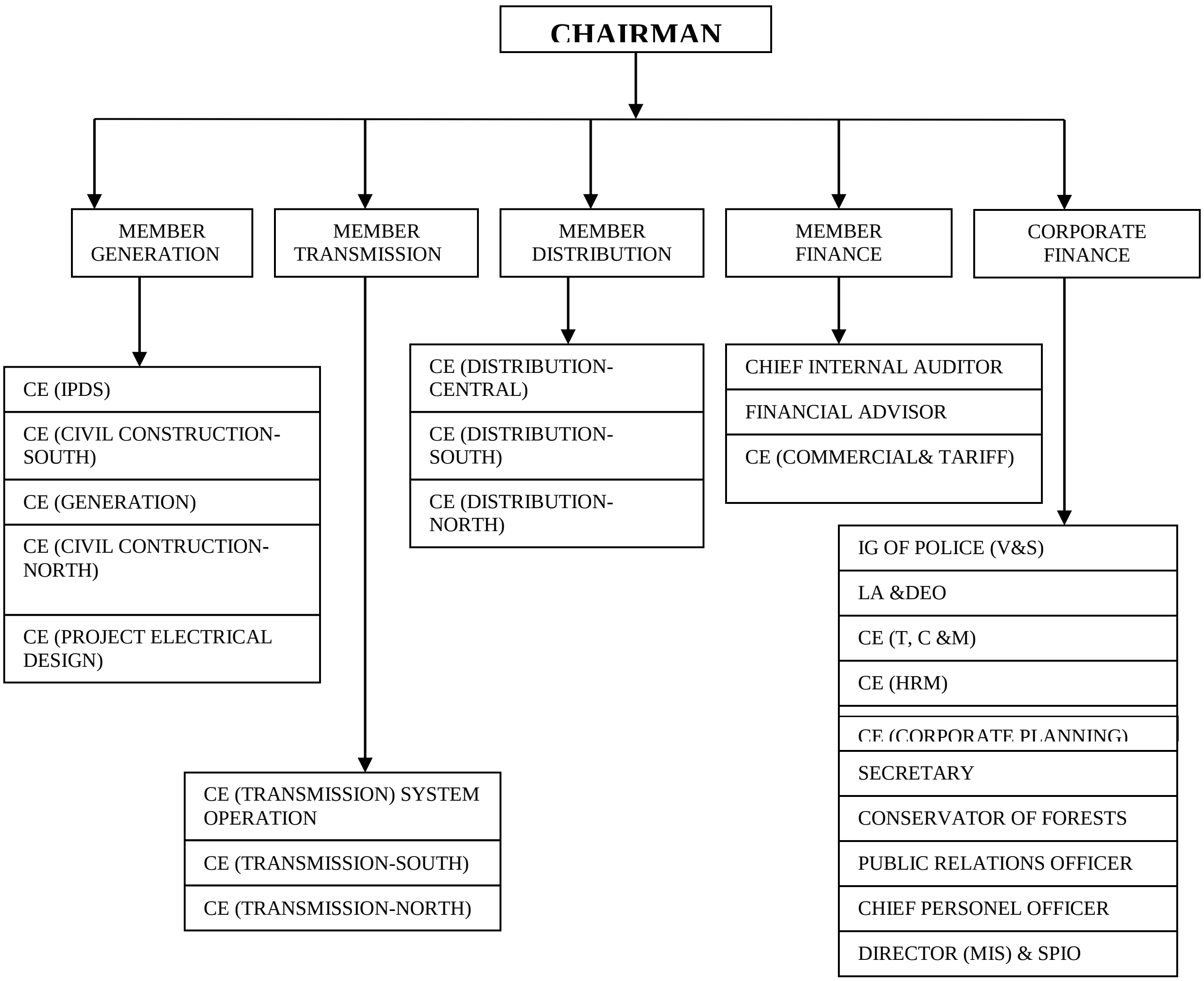
(2) It should be seen that the Register of Standard Measurement Books is kept under lock and key in the personal custody of the Divisional or Sub-Divisional Officer concerned.

Note: *The maintenance of standard measurement books is only optional and their non- maintenance does not require the sanction of any higher authority. The option is left to the discretion of the Executive Engineer of the Division.*

Annexure-1

(Referred to in Chapter 9.01)

ORGANISATION CHART OF K.S.E.B



Annexure 2

TITLE SHEET OF THE INSPECTION REPORT

(Referred to in Chapter 9.09)

(To be submitted with every inspection Report relating to the office/Units of the KSEB)

PART A

1. Name of office/unit audited with full postal address
2. Name of party & personnel with date of attendance
    1) Supervisory Officer
    2) Assistant Audit Officers
    3) Sr Auditors/Auditors
3. Period of Audit
4. Months selected for detailed audit
5. Duration of Audit **(Extension granted should be shown separately)**
6. Whether any change in time allotment is necessary for further audits?
7. Number of Draft paragraphs enclosed
8. Paragraphs, if any, to be reported to Higher authorities in advance and/or to be brought to the special notice of the Headquarters
9. If any work is left/ not done due to administrative reasons which may require the sending of audit party again to complete the scheduled work may be specified clearly with reasons
10. General remarks, if any.
11. Actual date of submission of report

PART B

1. Whether Parts I (A, B) and Part II of the Inspection Report attached to the Title Sheet have been discussed with the Head of the Office/Unit inspected.
2. Whether a list showing allocation of duties amongst the members of the party has been sent in Statement-I
3. Whether the quantum prescribed has been completed. If any point which cannot be fully investigated at the time and require Investigation in future audit they may be listed out with reasons for not checking them during the course of current audit.
4. Whether a list showing documents and records checked and extent or percentage of audit exercised on each and the detailed process of audit has been submitted in Statement III indicating that the Particulars/ Registers were personally checked by the Asst.Audit Officer in each case and by the reviewing officer.

5. The date when the Balance Sheet/ Proforma Accounts are approved by the Management in the case of Annual Accounts

6. Whether a statement of important irregularities has been attached.

7. Whether introductory Para and Chapter for Technical Manual have been sent

8. Whether there are any claims or transactions which in the opinion of the Supervisory Officer required constant attention.

9. Whether there has been delays in replying to the Audit Enquiries for more than 7 days in case of Resident Audit and 3 days in case of Local Audit and if so, in how many cases.

PART C

1. Have the report of the departmental Inspection (including reports of internal check organization) been reviewed? Are there any arrears in respect of Departmental Inspection? What action has been taken in respect of important irregularities pointed out in these reports?

2. Has the position of cash balances been reviewed? Is the cash balance in excess of the requirements? If so what are the reasons advanced by the management for retaining heavy cash balance?

3. Has the position of Imprest/Temporary Advances with subordinate officers been reviewed? Are there cases where Temporary Advances are pending adjustment for long periods? If so what action has been taken in such cases?

4. Have targets been fixed in respect of increase in line capacity, increase in transfer capacity and also giving service connections for various classes of consumers such as Industrial, Agricultural, Commercial and Domestic Consumers? If so, have the achievements been compared with targets? Have the reasons for the shortfall, if any, been investigated?

5. Have the inventory holding been checked with reference to the reserve limits fixed? Are there any excess holdings? If so, how these excesses have been regularized?

6. Have any transfer of store keepers taken place and if so whether any proper transfer of charge reports is available? What action has been taken in respect of any deficiencies noticed at the time of transfer of charge?

7. Have the reports of periodical physical verification of stores been reviewed? What action has been taken in respect of deficiencies, if any, noticed?

8. Have there been accumulations of surplus and/or unserviceable stores?

9. Have a proper system been evolved to get the transformers and meters repaired in proper time by TMR Division of the Board?

10. Have the contracts for casting RCC poles been examined? If the work was carried out departmentally, how does the actual cost

compare with the estimates for the quoted rates?

11. How does the consumption of consumable articles such as bulbs compare with the rates of consumption?
12. Have the procedure of disposal of scrap materials been examined?
13. Has the procedure followed for effecting local purchase been verified? Has the unit followed the declared policy of the Board in respect of local purchase?
14. Are the Major Civil Engineering Works and the Transmission Construction Works progressing in accordance with Schedules? Have the reasons for the delay, if any, been examined?
15. Have a proper procedure been evolved for the physical verification of the balances under material suspend? Has there been any delay in the adjustment of balances under materials suspense account?
16. Have the balances under suspense heads been analysed?

1. Certified that all outstanding points in the previous Inspection Report Part I (A,B) and II have been discussed with the management and these have either been dropped or included in the current audit report.

2. Certified that all points from the register of important points and points marked for next audit by the headquarters have been reviewed and action taken thereon indicated in separate note.

3. Certified that all the points raised in the report and in the appendix have been discussed by me personally with the head of the office audited and that the facts mentioned therein have also been verified by them.

Camp :

Date :

Signature of Assistant Audit Officer

Counter Signature of the Supervising Officer

STATEMENT - I

Sl No	Name	Details of Work Done	Signature
1			
2			

STATEMENT - II

(List of records and vouchers etc brought from headquarters)

Sl No	Particulars of records	Files put to use

STATEMENT - III

(List of records and documents checked)

Sl No	Particulars of records	Extent of percentage of audit exercised etc

Signature of the Supervising Officer

Name of Billing Supervision Unit 1. No. of collection centres as at the beginning and at the end of the year under audit 2 No. of consumers at the beginning and at the end of the year under audit 3 Change, if any, in the system of billing introduced since last audit 4 Demand collection and outstanding of revenue at the beginning and at the end of the year for the last three years ending with 31st March of the year under audit. Analyse the outstanding figure to find out the age of arrears 5 What is the position of the un-reconciled differences as on 1.4.1967 (between DCB and Billing Suspense Ledger Accounts as on that date) transferred to Billing Suspense Adjustment Account? Is there any progress in the clearance of the differences? Were any further additions made to this account by transferring un-reconciled balances of subsequent years? 6 Are the DCB statements prepared correctly and forwarded to FA&CAO monthly and quarterly as prescribed? Does it contain category and year-wise details? Any defect in the preparation of such statement? What is the extent of arrears in preparation of DCB's? 7 Was the unit the successor of any previous unit from which balances are yet to be transferred or already transferred but without details? Similarly, are there any balance still carried in the books of this unit which should have been transferred to other unit for watching the recovery? 8 Are the individual accounts of consumers being closely reviewed and action initiated to transfer items of disconnected services to an outstanding ledger accounts after six months from the date of disconnection? 9 Is there a proper system of noting the service disconnected in the consumer's individual accounts? List out the consumers which do not record consumption of electricity but the services were not disconnected and comment in the Inspection Report. 10 Was there any delay in billing? Month upto which invoices had to be issued as on the date of audit and the details of pendency 11 To what extent is the delay in invoicing attributable to delay in receipt of meter cards from the field staff? What is the delay in the Billing Unit itself? 12 Have the bills/invoices been checked by audit as per quantum prescribed and what were the defects/irregularities noticed? What is the amount of short/excess billing noticed in audit? 13 Has the collection of the electricity duty checked and the	

separate report thereon enclosed?	
14 Is there a proper system of revision of the minimum guaranteed amount based on the actual capital cost vis-à-vis the estimated cost? Is the minimum guarantee invoked where the actuals fell short of the guaranteed amount?	
15 Is there a proper record to watch the levy of unconnected minimum charges?	
16 Whether the services are disconnected for non-payment of dues within the stipulated period and services disconnected for over six months are dismantled	
17 Whether outstanding ledger accounts (for disconnected services) are maintained and prompt effective action at appropriate levels undertaken for recovery of dues. Is there a proper record of cases reported for recovery under Revenue Recovery Act?	
18 How does the actuals compare with the norms? The staff strength sanctioned and the staff actually in position may be given	
19 Were there any irregularities in the payment of incentive allowance/overtime allowance/holiday wages for preparation of invoices, DCB's etc?	
20 Indicate the name of collection centre test checked. Was there any delay in accounting of receipt of remittance or collections? Were the counterfoils of pre-written receipt verified for all uncollected invoices?	
21 Were the Billing Units and Collection Centres inspected periodically by the concerned authorities of the Board? Serious irregularities reported by the Inspecting Staff together with the remedial action taken thereon may be considered for comment in the Inspection Report.	
22 Adequacy of security deposit made by the consumers periodically may be reviewed. Has action been taken to make good the short deposits?	
23 Analyse cost of billing incurred per unit of electricity sold.	
24 Are instructions regarding percentage of checks by Jr. Superintendent, Sr. Superintendent, Asst. Accounts Officer etc in respect of invoicing as per Accounts Manual being complied with?	
25 Have instructions in the Revenue Accounting Rules been complied with?	
26 Cash balance at the end of the financial year to be analysed to see	
whether the balance represented only the unremitted amount of previous day's collection	
whether the balance includes cash actually remitted into treasury	

or bank treated as cash balance (even though not physically available) for want of challans or remittance slips and particulars	
(a) Have cash receipt statement for the selected month been traced to cash book abstract and cash book	
(b) Whether they include any minus cash balance	
27 Whether hire charges for meter and other equipments let out on hire are duly levied and recovered	
28 Whether the inspection fees to be collected and remitted to Government are properly levied and accounted/remitted? Whether the commission of 1% for the collection charges has been credited to Board's revenues?	
29 Whether Electricity Duty to Government on the power generated by self generating sets is levied, collected and remitted to Government?	
30 Whether Electricity Duty on the consumption of power by the Kerala State Electricity Board on Administrative Building etc is being paid to State Government?	
31 Whether MO remittances made by consumers at the billing units are properly accounted for in the cash book and consumer's personal ledger?	
32 Whether defective meters are replaced promptly and assessment for the period during which the meter was faulty done in accordance with the rules?	

Supervising Officer

PERFORMANCE APPRAISAL

Party No. : **CA Party**
Name of the Institution audited :
Period of audit :
Duration of Audit : From To
No of Days :

I

Sl. No.	Particulars	Inspecting Officer	AAO	AAO	Sr. Adr/Adr.	Total	
1	Name						
2	Actual Attendance (days)						
3	Period of Leave (days)						
4	No. of AE's originated (AE Nos.)						
5	No. of AE's dropped						
6	No. of Paras Part II A						
7	No. of Paras Part II B						
8	No. of Paras in old IRs cleared (Total)						
9	Any other special items of work attended to (specify)						
10	Remarks						
11	Dated Signature						

CHAPTER 10

KERALA STATE ELECTRICITY REGULATORY COMMISSION

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CHAPTER – 10

KERALA STATE ELECTRICITY REGULATORY COMMISSION

10.01. Introduction

The Kerala State Electricity Regulatory Commission was constituted by Government of Kerala on 29 November 2002, under Section 17 (1) of the Electricity Regulatory Commission Act, 1998 (since repealed by Section 82 (1) of the Electricity Act, 2003). The Commission is a corporate body and comprises three members including a Chairman, who are appointed by the State Government. The Office of the Commission is situated at Thiruvananthapuram.

10.02. Functions

The State Commission shall discharge the following functions:

- determine the tariff for generation, supply, transmission and wheeling of electricity, wholesale, bulk or retail, as the case may be, within the State provided where open access has been permitted to a category of consumers under section 42, the State Commission shall determine only the wheeling charges and surcharge thereon, if any, for the said category of consumers;
- regulate electricity purchase and procurement process of distribution licensees including the price at which electricity shall be procured from the generating companies or licensees or from other sources through agreements for purchase of power for distribution and supply within the State;
- facilitate inter state transmission and wheeling of electricity;
- issue licenses to persons seeking to act as transmission licensees, distribution licensees and electricity traders with respect to their operations within the State;
- promote co-generation and generation of electricity from renewable sources of energy by providing suitable measures for connectivity with the Grid and sale of electricity to any person, and also specify, for

purchase of electricity from such sources, percentage of the total consumption of electricity in the area of a distribution licensee;

- adjudicate upon the disputes between the licensees and generating companies and to refer any dispute for arbitration;
- levy fee for the purposes of this Act;
- specify State Grid Code consistent with the Grid Code specified under clause (h) of sub section 1 of Section 79;
- specify or enforce standards with respect to quality, continuity and reliability of service by licensees;
- fix the trading margin in the Inter State trading of electricity, if considered, necessary; and
- discharge such other functions as may be assigned to it under this Act. (*Section 86 of the Electricity Act, 2003)*

The State Commission shall advise the State Government on all or any of the following matters viz.

- promotion of competition, efficiency and economy in the activities of the electricity industry;
- promotion of investment in electricity industry;
- reorganization and restructuring of electricity industry in the State;
- matters concerning generation, transmission, distribution and trading of electricity or any other matter referred to the State Commission by that Government; and
- The State Commission shall ensure transparency while exercising its powers and discharging its functions.

In discharge of its functions, the State Commission shall be guided by the National Electricity Policy, National Electricity Plan and Tariff Policy published under Section 3 of the Act ibid.

10.03. Accounts and Audit

As per Section 104 of the Electricity Act 2003, the State Commission shall prepare annual statement of accounts in such form as may be prescribed by the State Government in consultation with the CAG. The annual accounts of the Commission shall be audited by the CAG at such intervals as may be specified by him and any expenditure incurred in connection with such audit shall be payable by the Commission to the CAG.

The form of accounts has not been prescribed by the State Government so far (January 2008)

10.03.1 Internal audit

i) Internal audit as an aid to the efficiency of financial control may be entrusted to a firm of Chartered Accountants.

ii) The purpose of internal audit, as an independent function outside the function of accounts keeping, is to ensure that;

- the accounts of the commission truly represents the facts;
- all transactions having a financial effect are in accordance with the rules and the procedures laid down from time to time;
- the initial records like cash book, store registers, other records, etc., are as far as possible, maintained correctly and up to time;
- the expenditure conforms to the general principles of financial propriety.

iii) It shall be the duty of the internal auditor to suggest steps so that the Commission may take up appropriate action not only to rectify an irregularity or an impropriety but also tighten up the procedures so as to prevent its recurrence.

The accounts of the Commission as certified by the CAG or any person appointed by him on his behalf, together with the Audit Report thereon shall forward annually to the State Government and that Government shall cause the same to be laid, as soon as ,may be after it is received, before the State Legislature.

10.04. Operational Performance

The Commission is mainly financed by grant-in-aid from State Government. In the discharge of its functions, the Commission issues regulations/notifications on matters relating to petition, appeals, supply of electricity, terms and conditions of supply, licensing, tariff etc.

10.05. License fee

Clause 34 of Part V of the Notification N.1/KERC/2006/XI dated 23.2.2006 stipulates that, the licensee shall pay every year license fees to the Commission at the rate of 0.03 per cent of the revenue from sale of power stated in the certified financial statements of the previous year. Section 108 of the Act states that the Commission shall be guided by such directions in matters of policy involving public interest as the State Government may give to it in writing and if any question arises as to whether any such direction relate to a matter of policy involving public interest, the decision of the State Government shall be final. On the basis of these powers, State Government, as per GO (MS) No. 34/06/PD dated 16.12.2006 directed the Commission not to levy license fee from Kerala State Electricity Board considering that the latter is a Public Sector Undertaking and an existing licensee.

The following are the licensees of the Commission

a. Kerala State Electricity Board
b. Thrissur Municipal Corporation
c. Kannan Devan Limited
d. Cochin Port Trust
e. KINFRA Rubber Park
f. Techno park, Trivandrum
g. KINFRA Export Promotion Zone
h. Cochin Special Economic Zone

10.06. Points for local audit

The following special points may be looked into during local audit:

- Details of license fees collected and that receivable from licensees.
- Constitution of the State Electricity Regulatory Commission Fund under Section 103 of the Electricity Act, 2003 which is pending approval of the State Government.
- Approval of KSERC (Terms and conditions of Service) Regulations 2005 from the State Government.
- Establishment matters and related expenditure.
- Expenditure incurred on litigation of various cases.
- Internal Control procedures.
- Payment made and terms and conditions thereon for the office accommodation of the Commission to the Kerala Power Finance Corporation.
- Receipt of application fee for the petitions considered by the Commission.

CHAPTER 11

DEPARTMENT COMMERCIAL UNDERTAKINGS

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CHAPTER - 11

DEPARTMENTAL COMMERCIAL UNDERTAKINGS

11.01 Introduction

Departmental commercial undertakings (DCUs), which perform trading/ manufacturing activities are recognized by the State Government as Commercial Departments (as distinct from Service Departments) and are declared as such. They were established mainly for rendering services/providing supplies of specified items on payment basis. Each DCU is working under the administrative control of the State Government subject to Government rules and procedures.

There are only three DCUs under the audit jurisdiction of the Commercial Audit Wing of this Office as follows.

Sl. No.	Name of DCU	Period of establishment/ becoming as DCU	Administrative Department of the DCU	Section dealing with the DCU
1	Text Book Office, Thiruvananthapuram	1950/October 1952	General Education Department	CA HQ IV Section
2	Kerala State Insurance Department, Thiruvananthapuram	1896/October 1979	Finance Department	CA HQ IV Section
3	State Water Transport Department, Alappuzha	June 1968/ December 1968	Transport Department	CA HQ IV Section

11.01.1. Text Book Office

Text Books Office (TBO) was established (1950) and declared by the State Government as a DCU in October 1952. The main activities of the TBO is procurement of printing papers and pulp boards for printing the text books for Standards I to X through the Controller of Stationery. The payments there against are made by the TBO at rate contract prices. Besides, it is also engaged in organising printing of text books through Government Presses/other agencies, manufacture of note books under work experience programme, distribution of text/note books for school children, etc.

TBO is headed by the Text Books Officer and working under the overall control of the Director of Public Instruction, Thiruvananthapuram (DPI). The Text Books Officer is assisted by a Junior Superintendent and an Accountant for managing the day-to-day activities of the TBO. Under the direct control of the TBO, there are three Central Text Book Stores (Thiruvananthapuram, Ernakulam and Shoranur) and 30 Text Book Depots (one in each education district) headed by Storekeepers (**Annexure 1**). They are working under the administrative control of the District Educational Officer. The Stores and Depots are engaged in the distribution and maintenance of text books received from the TBO and Stores respectively. The books are distributed by the depots to the School Cooperative Societies or Assistant Educational Officer/Headmaster/Headmistress where no such societies exist for eventual issue to the school children.

The procedure for the maintenance of accounts, internal audit, etc., is laid down in the Accounts Manual (1960), which has not been revised even after a lapse of over 50 years (March 2010). The department staff conducts internal audit of the TBO and its units. Internal audit of TBOs/units is conducted prior to the retirement of the Text Book Officers/Storekeepers to assess their departmental liabilities.

11.01.2. Kerala State Insurance Department

Kerala State Insurance Department was established (1896) by the erstwhile Government of Travancore and declared as DCU by the State Government in October 1979. The Department is authorised to underwrite general insurance business of any transaction in which the State Government has substantial financial interest. The general insurance business underwritten by the Department is reinsured with General Insurance Corporation of India (GIC) and its four subsidiary companies. A separate fund was created by the Department for each insurance branch and the receipts (premiums) and payments (claims/final payments) thereof are credited/debited to the fund. The Department is mainly engaged in the following types of insurance business.

1. Life Insurance Branch; and

2. General Insurance Branch consisting of:

    (a) Accident (Act liability - third party insurance in respect of vehicles belonging to State PSUs);

    (b) Marine Insurance (Marine Hull Insurance, Marine Cargo Insurance and Transit Insurance);

    (c) Fire Insurance;

    (d) Group Insurance (Group Insurance Scheme for the State Government employees);

    (e) Kerala State Advocate Clerks Welfare Fund Scheme; and

    (f) Miscellaneous Insurance (Boiler explosion, Machinery break down, Cash-in-transit, Personal accident, Public liability, Aircraft, Workmen compensation, Employees liability, Fidelity guarantee and Motor comprehensive insurances)

The Department is headed by the Director of Insurance, who is assisted by three Deputy Directors and Assistant Directors each dealing with insurance, suit, administration, internal audit, etc., besides an Accounts Officer, for managing its day-to-day activities. The Department has a branch in each revenue district headed by a District Insurance Officer.

The department staff conducts the internal audit of the DCU and its Internal Audit Wing is headed by a Deputy Director. Though there is no separate Manual for internal audit, provisions of Kerala Service Rules and guidelines issued by GIC, etc., are kept in mind while conducting the internal audit. The areas covered by internal audit are administration, collection of premiums, settlement of claims, etc., in respect of Head Office and branch offices.

11.01.3. State Water Transport Department

State Water Transport Department was established (June 1968) and declared as a DCU in December 1968. It is engaged in operating boat services in the backwaters of Alappuzha, Kannur, Kasargode, Kollam, Kottayam and Ernakulam districts. The erstwhile water transport wing of Kerala State Road Transport

Corporation (KSRTC) operating ferry services in Ernakulam was merged with the Department in July 1994.

The Department is headed by a Director, who is assisted by an Administrative Assistant, Works Manager and Finance Officer for managing its day-to-day activities. There are four Regional Offices (Alappuzha, Ernakulam, Changanassery and Payyannur) headed by Senior Superintendents and 13 operating centres each under the control of a Station Master (**Annexure 2**).

The internal audit of the DCU is conducted by the department staff headed by a Senior Superintendent. Internal audit is covered in all the stations at least once in a year covering the areas such as ticket accounts, way bills, etc.

11.02. Proforma accounts

Actual transactions of the DCUs are primarily entered on cash basis as in the case of Government departments, which are later transformed into mercantile system of accounting by way of proforma accounts in order to give a *true and fair view* of the state of affairs of the DCUs. The main objective of the proforma accounts is to ascertain the actual cost of services rendered/supplies made by the DCUs in addition to giving an opportunity to the Government to evaluate their performances with those of similar institutions to take remedial measures. The accepted principles of commercial accounting should be applied while auditing the proforma accounts of each DCU. Besides the Audit Certificate, the proforma accounts of each DCU should be finalised in the following reporting framework.

Sl.No.	Name of DCU	Documents
1	Text Book Office	1. Balance Sheet as at 31 March …… 2. Profit & Loss Account 3. Accounting Policies and Notes on accounts 4. Schedules/sub–schedules
2	State Water Transport Department	1. Balance Sheet as at 31 March …… 2. Profit & Loss Account 3. Accounting Policies and Notes on accounts 4. Schedules/sub–schedules
3	Kerala State Insurance Department	1. Balance Sheet for State Life Insurance Business as at 31 December …….

		2. Revenue Account for State Life Insurance 3. Accounting Policies and Notes on accounts 4. Schedules/sub–schedules 5.Balance Sheet for General Insurance Business comprising Fire, Marine and Miscellaneous (including Act) 6. Revenue Account for Fire Insurance 7. Revenue Account for Marine Insurance 8. Revenue Account for Miscellaneous (including Act) Insurance 9. Profit & Loss Account 10. Profit & Loss Appropriation Account

Government of India introduced revised procedures (1973-74) for the preparation of proforma accounts by all central DCUs with the approval of the CAG as follows.

1. All capital and revenue expenses should be met out of the capital and revenue heads respectively. Capital expenditure financed out of capital should be treated as Government capital. Where it was difficult to change the method of financing (i.e., to finance certain items of capital expenditure met out of revenue), the existing procedure may be allowed to continue, segregating the capital expenditure met out of revenue as Government capital.

2. In order to operate capital and revenue heads initially in the proforma accounts under the revised system, the existing Government capital should be divided into Government Capital Account and Government Current Account. The amount of the former should be equivalent to the cost of net fixed assets and other expenditure on capital account, if any, included in advances, current assets, etc. The balance of the existing Government Capital Account should represent Government Current Account on the same date.

While implementing the revised guidelines, difficulties are likely to arise in arriving at the net value of fixed assets where depreciation reserve is maintained and gross value of fixed assets is exhibited in the assets side of the Balance Sheet as in the case of Government Presses, Overseas Communication Services, etc., as the

Depreciation Reserve Funds do not exactly represent the cumulative depreciation. In view of this, Government Capital Account should be equivalent to net fixed assets where gross value is not known as on 1 April 1973 and where the gross value is known, it should be adopted for computing Government Capital Account as on 1 April 1973.

[Headquarters letter 466-CA IV/57/69 dated 27-6-1975 forwarding GOI, Ministry of Finance OM FI 135-B/71 dated 9-6-1975]

In some cases, the Government Current Account shows a minus closing balance, which indicates that excess remittance has been made. In such a situation, it is more appropriate to show the debit balance in the assets side instead of classifying it as a minus balance in the liability side of the Balance Sheet.

[Headquarters letter 1149-CA III/93-76 dated 24-8-1976 – File CA VII/11-7]

3. All withdrawals and remittances of revenue account should be debited/credited to a current account. All remittances/withdrawals on capital account should be adjusted against Government Capital Account.

4. All adjustments (withdrawals or remittances) should be made in the Government Capital or Current Account depending upon the nature of transactions.

5. The profit or loss should not be merged with the Government Capital and it should be shown separately in the liability or asset side of the Balance Sheet.

6. Interest on capital should be worked out on the total capital (Government Capital and Current Accounts). As interest is revenue expenditure, its adjustment should be made in the Government Current Account.

[Headquarters letter 182-CA IV/57/CA/69 dated 14-2-1974 forwarding GOI, Ministry of Finance OM F I3(5)/A/71 dated 23-1-1974 – File CA VII/11-7A]

State Government decided to implement the revised guidelines for its DCUs with effect from 1973-74.

[GO (P)/108/76/Fin dated 2-4-1976 of Finance Department – File CA VII/11-7A]

The Balance Sheet and Profit & Loss Account of the DCUs should be drawn up in the prescribed formats. Accounting policies and Notes on proforma accounts should be attached to these documents. Schedules should be provided for, wherever necessary, to give details of items. Previous year's figure for each item should be shown in the Balance Sheet, Profit & Loss Account and Notes on proforma accounts. Discrepancies, if any, between the previous and current years' figures should be reconciled and disclosed in the proforma accounts by way of a note, if necessary. Loans and advances to Government departments/companies and private parties and bank balances (current and deposit accounts) lying with various banks should be exhibited separately. The raw materials and inventories should be valued on the basis of the physical verification. If physical verification was not carried out at the end of the year, the fact thereof should be disclosed in the accounts. If the original cost of any asset is not ascertainable, the valuation shown in the books should be disclosed. In case of any asset sold and if the original cost thereof is not known, the sale proceeds may be taken. Provisions for depreciation and bad debts should be created and correct allocation made between revenue and capital. Further, it should be ensured that the internal control system in the DCU is adequate and independent and the system is applied efficiently.

The Head of the DCU and the Officer-in-charge of the proforma accounts should authenticate and sign the proforma accounts. The Inspecting Officer (IO) should certify and sign the proforma accounts.

The mode of valuation of investments, raw materials, stores, work-in-progress and finished goods and the nature of investment and loans/advances should be disclosed in the proforma accounts.

[Headquarters letter 592/CA/97-53 dated 28-7-1975]

11.02.1. Capital account

Government Capital and Current Accounts should be exhibited in the following manner.

1. Opening balances
2. Add: Withdrawals during the year
3. Less: Remittances during the year
4. Add/Less: Adjustments during the year

5. Total

11.02.2. Interest on capital

Interest on capital should be computed as follows. The rate of interest is fixed by the State Government and it is indicated in the Finance Accounts maintained by the Office of the Accountant General (A&E).

Interest on capital	1. Government capital and current accounts (opening balances) 2. Less: Accumulated loss (opening balance) 3. Net capital (opening balance) 4. Add: Withdrawals during the year 5. Add/Less: Adjustments during the year 6. Less: Remittances during the year 7. Net capital (closing balance) 8. Mean of capital - (3 + 7) ÷ 2 9. Interest on capital – 8 x Rate of interest ÷ 100

If this procedure is followed and there is no delay in the finalisation of proforma accounts, interest in the Government account and proforma accounts will be the same. In the case of delay in the finalisation of the proforma accounts, provisional interest should be considered for Government accounts, which should be adjusted when actual figures are available. The profit/loss of the DCU should be excluded while working out the interest on capital.

[GO (P) 108/76/Fin dated 2-4-1976 of Finance Department –File CA VII/11-7]

11.02.3. Retirement liabilities

The retirement liabilities of the employees of the DCUs should be adjusted in the accounts on contribution basis. The adjustment of such contribution is not a recovery in respect of officials on foreign service, but is merely intended to exhibit the provision for such liabilities, the charges of which will be debited subsequently to pension and other retirement benefits. Therefore, the entire period of service including the period of leave should be taken into account for the calculation of such contributions.

[Headquarters letter 544-AC/176-60 dated 30-5-1962 –File CA/11/12-13/Misc/60-61]

11.02.4. Advances

Any advance such as provident fund, festival, cycle, etc., paid to the employees by the DCUs should not be included in the proforma accounts in view of the fact that these advances do not form part of the expenditure of the entities and such advances have no impact on the cost of operation or service of the DCUs.

[Headquarters letter 786-CA IV/90-75 dated 2-12-1977 forwarding GOI, Ministry of Finance OM F1 (35)-B/71 dated 8-11-1977 – File CA IV/10-22/Vol V]

11.02.5. Applicability of Accounting Standards

The Institute of Chartered Accountants of India is of the opinion that the Accounting Standards (AS) apply in respect of commercial, industrial or business activities of any enterprises irrespective of whether it is profit oriented or is established for charitable or religious purposes. As the DCUs are required to maintain the accounts on commercial principles and the Government declared them as Commercial Departments, the AS may be kept in mind while finalizing/auditing the proforma accounts. If any AS is found to be not in conformity with any statute/law, the financial statements should be prepared to satisfy the latter.

11.02.6. Arrears of proforma accounts

The proforma accounts of the Department should be prepared and finalised annually to know its financial position and working results. However, in exceptional cases, the preparation of the accounts may be dispensed with by the Government for want of records, etc., subject to the stipulations mutually agreed upon by the State Government and the AG (ERSA).

11.03. Audit by the CAG

The audit of the DCUs is conducted by the AG (ERSA) in accordance with the provisions of section 13 (c) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Transaction (efficiency-cum-propriety) and financial audits of these DCUs, (including the Central Text Book Stores of TBO) are conducted annually, the details of which are discussed in the succeeding paragraphs. The units of these DCUs are, however, covered triennially/need basis.

Head of the DCU should send the proforma accounts to the AG (ERSA) for audit. Audit enquiries thereon are finalised and issued to the Department by the IO for remarks. The draft Comments on the proforma accounts should be finalised and issued to the Head of the DCU by the IO in the same manner as that of a Government company. On completion of financial audit, CA Parties should send the required documents to CA HQ IV Section for finalizing the Comments, as stipulated in Chapter 2.26 (Commercial Audit Headquarters Sections)

If the Department is willing to revise the proforma accounts in the light of the audit enquiries/draft Comments, financial audit should be conducted again on the revised proforma accounts to check the revisions. While revising the proforma accounts, all or some of the draft Comments are considered by the Department. Depending upon the situation, the draft Comments should be finalised again, if necessary, and sent to CA HQ IV Section along with necessary documents. The draft Audit Certificate should clearly bring out the fact of revision of the proforma accounts, if revised, and the impact thereon. The adequacy of internal control and audit systems should also be reported in the draft Comments. As in the case of Government companies, the Comments are finalised in the *aide memoire* format (indicating the draft Comments, replies of the DCU and further remarks there against) for the approval of the Group Officer. The final Audit Certificate (including Comments, if any) and certified accounts should be issued to the Department under the signatures of the Group Officer and the IO respectively endorsing copies to the DPI/Administrative Department of the DCU and Report (Civil) Section. Inordinate delays in the preparation of proforma accounts and important Comments thereon should be brought out in the Audit Report (Civil).

If printed accounts incorporating the Audit Certificate (including Comments) are sent by any DCU, the same should be compared with the original documents and if any discrepancy is noticed, the matter should be taken up with the DCU concerned for rectification.

Transaction audit should not be postponed merely because proforma accounts have not been prepared by any DCU. The methods of processing the draft Inspection Reports, issue of approved Inspection Reports, etc., are similar to those Government companies as detailed in the Chapter 2 (Commercial Audit Headquarters Sections). All potential draft paragraphs featured in the Inspection Reports of the DCUs should be transferred by CA HQ IV Section directly to Report (Civil) Section for finalising them as draft paragraphs. Major transaction audit findings and the performance reviews of the DCUs are commented in the Audit Report (Civil) and subject to discussion by the Public Accounts Committee.

While conducting the transaction audit of DCUs, the following areas/documents may be reviewed/kept in mind.

- Internal control systems to ensure that no payment is made without in built scrutiny;
- Internal audit reports of Head Office and its units/branches to ensure that proper and prompt action has been taken on the lapses pointed out therein;
- Minutes of any Committee constituted by the Government/Department, etc;
- Rules/Regulations/Manuals of the Department;
- Recovery of outstanding amounts (sundry debtors, loans/advances, etc.) due to the Department;
- Asset Register, Audit Register, etc;
- Remittance of the revenue of the Department into the treasuries/banks to ensure that the proceeds have been deposited without any delay;
- Bank/treasury reconciliation statements;
- Computerisation in the Head office and its units/branches;
- Man power with the prescribed norms;
- Fraud and corruption;
- Detailed review of cash/bank book with vouchers for one month; and
- Other areas/documents noticed during the course of audit.

The following special areas/documents may be reviewed during the course of transaction audit of each DCU. Apart from these, if any additional special areas/documents were noticed during the course of audit, such items may also be audited.

(a) Text Book Office

Review:

- Contracts entered into with Kerala Books and Publication Society, Thrikkakara and other parties to ensure among other things, that the terms and conditions are revised periodically, if required, for the best interests of the Department and payments are made to the suppliers after verification of the material with reference to terms and conditions and at the rates fixed by the Government from time to time and not at the revised rate, etc;
- Whether the entire quantity of printing papers (at rate contract prices) allotted has been received and consolidated accounts of papers received, utilised and closing balances have been maintained in the TBO;
- Actual wastage of printing of text/note books by Government Presses and other private parties with the prescribed norms;
- Periodical verification reports of stock of papers, pulp boards, text books, etc., held in the Stores and Depots to ensure that proper and prompt action has been taken on the irregularities pointed out in the physical verification reports, etc;
- Actual stock of text/note books held by the Stores and Depots with the prescribed norms/minimum requirements;
- Accounts relating to manufacture and distribution of note books, with special reference to utilisation of paper wastage, disposal of cutting waste, wages, payment of commission, etc.
- Cases of non-return of unused printing papers by printing presses;
- Consumption of printing papers, pulp boards, etc., with the prescribed norms;
- Quality/Quantity of unused printing papers, etc., returned by the printing presses to ensure that cost of damaged papers was recovered from them;

- Transportation of printing papers to ensure that they are despatched directly to the ultimate consignees (presses) and not through stores/depots to avoid the cost of transportation and loading/unloading charges etc;
- Incidence of annual obsolescence of text books with original requirements indented by the Education Department;
- Disposal of obsolete text books, pulp boards, vehicles, etc;
- Fixation of selling prices of text/note books (including individual case) with cost of production;
- Free distribution of text/note books;
- Performance of the Department vehicles;
- Fuel consumption and utilization of fleet with the log book of vehicles; and
- Monthly accounts of the Department submitted to the Office of the Accountant General (A&E), Kerala, Thiruvananthapauram.

(b) Kerala State Insurance Department

Review:

- Compliance of Government directives to join the life insurance scheme of the Department by all the new Government employees and the collection of premiums (at the rates fixed by the Government from time to time) and the settlement of cases;
- Group insurance scheme for Government employees and the collection of premiums (at the rates fixed by the Government from time to time) and the settlement of cases with particular emphasis to ensure that no loss has been sustained to the Department due to the delay in implementing rate of interest fixed by Government from time to time, etc;
- Other insurance businesses in its Head Office/branches;
- Claims against the life policies to ensure that proper investigation has been conducted before settlement;

- Posting of the actuarial valuation in the personal ledgers of the subscribers to ensure that the same agrees with the deductions made from the salaries of Government employees;
- Profit assessed as a result of actuarial valuation of the life insurance policies to ensure that bonus to subscribers has been declared periodically at the correct rates;
- Claims/final payments of policies to ensure that they were issued/settled after observing the prescribed procedures/rules;
- General Insurance Branch to ensure that all State PSUs and other industries, in which the State Government or any State PSU have substantial financial interest, insured their assets, etc., with Department;
- Premiums, to ensure that they are collected in advance by way of cheques and that they are honoured and proceeds credited into the treasury promptly and that in no case the insured amount has been paid for defaulted policy after accident;
- Collection of service tax on insurance premium with reference to the rate as per the latest Finance Act;
- Action taken to renew the general insurance policies to see whether any loss has been sustained;
- Reinsurance arrangements with GIC and its subsidiaries mainly to see the methodology by which limit for reinsurance business has been fixed;
- Statement of accounts of reinsurance to ensure that income and expenditure in respect of business under reinsurance agreements have been correctly worked out;
- Claims under general insurance have been got verified by authorised surveyors and their findings have been approved before settling the claims;
- MACT claims to ensure that they are settled on time to avoid loss of interest;

- Recovery of profit commission from GIC and loan instalment (principal and interest) from Government employees;
- Performance/functions of Development Officers as per the Government directive in this matter;
- Performance of Head Office and its various branches; and
- Balances under various funds to ensure that they have been worked out monthly and reconciled with the figures of the Office of the Accountant General (A&E), Kerala,Thiruvananthapuram.

(c) State Water Transport Department

Review:

- Operational analysis with reference to the percentages of utilization of passenger capacity, trips cancelled and actual number of passengers travelled over a period of years;
- Fleet strength and utilisation;
- Performance of the dockyard and Repair Section of the Department;
- Procurement of oil, spare parts, timbers, etc;
- Consumption of oil, etc., with the norms fixed for each boat;
- Stock of consumables;
- Construction and procurement of new boats;
- Disposal of unserviceable boats, etc;
- Fixation of fare structure with the cost of operation; and
- Man power with the prescribed norms.

Annexure 1

STATEMENT SHOWING THE DEPOTS OF TEXT BOOK OFFICE

(Referred to in Chapter 11.01.1)

Sl. No.	Text Book Depot	Sl. No.	Text Book Depot
1	Thiruvananthapuram	16	Muvattupuzha
2	Kollam	17	Thalassery
3	Kottayam	18	Kottarakkara
4	Pathanamthitta	19	Mavelikkara
5	Alappuzha	20	Pala
6	Ernakulam	21	Neyyattinkara
7	Aluva	22	Kattappana
8	Thrissur	23	Thodupuzha
9	Kozhikkode	24	Tirur
10	Attingal	25	Vadakara
11	Thiruvalla	26	Chavakkad
12	Kanjirappally at Ponkunnam	27	Palakkad
13	Malappuram	28	Kothamangalam
14	Ottappalam	29	Kannur
15	Irinjalakkuda	30	Kasargode

Annexure-2

STATEMENT SHOWING THE OPERATING CENTRES OF STATE WATER TRANSPORT DEPARTMENT

(Referred to in Chapter 11.01.3)

Sl. No.	Operating centre
1	Alappuzha
2	Changanassery
3	Kollam
4	Kottayam
5	Vakkom
6	Panavally
7	Ernakulam
8	Edathara
9	Nedungadi
10	Kavalam
11	Pulimkunnu
12	Muhamma
13	Payyannur

CHAPTER 12

COMMERCIAL AUDIT PARTIES

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CHAPTER – 12

COMMERCIAL AUDIT PARTIES

12.01. Audit by the CAG

CAW is mainly engaged in the audit of Public Sector Undertakings, Departmental Commercial Undertakings (DCUs) and Kerala State Electricity Regulatory Commission (KSERC). The authority for audit by the CAG in respect of these entities is discussed in *Chapters 3, 4, 8 and 11* (Government companies, statutory corporations, DCUs and KSERC). Audit on the accounts (financial audit/transaction audit) of these working institutions is conducted by CA Parties consisting of two AAOs and one Sr. Auditor/Auditor; *or* one AAO and two Sr Auditors/Auditors) and the IOs (Sr. Audit Officers/Audit Officers). (Apart from CA Parties, in the case of KSEB/KSRTC, audit is also performed by Electricity Concurrent Audit/Transport Audit Section headed by Resident Audit Officer (RAO) , the results of which are conveyed to the entities at RAO level by way of Review Remarks and not by Inspection Reports as in other cases).

While Head Office/Corporate Office of working Government companies, Statutory Corporations (KFC, KSWC and KINFRA) and DCUs is selected for transaction audit annually, its units/branches/depots are normally audited triennially/need basis. Transaction audit of KSERC is conducted annually. In the case of KSRTC and KSEB, the lists of account rendering units (ARUs)/Non-account rendering units are furnished by TA and ECA Sections respectively to CA HQ Section by the end of every financial year. In other cases, new units/branches/depots are intimated by the IOs on completion of audit. Transaction audit is conducted in all the ARUs and Non-account rendering units of KSRTC/KSEB annually, while the units/sections under the jurisdiction of the ARUs are selected for audit triennially/need basis. The selection of the units/branches/depots of the entities for audit is made by CA HQ Section. The transaction audit of an entity may be conducted annually irrespective of the performance audit by the CAG because of the fact that performance audit covers only selected topics/schemes of the entity.

The financial audit of Government companies (including 619-B companies) is conducted on the basis of the selection made by the AG (ERSA) in accordance with the instructions issued by Headquarters from time to time. In the case of Statutory corporations (KINFRA, KSWC and KFC), DCUs and KSERC, financial audit is taken up annually. The units/branches/depots of these Government companies, statutory corporations and DCUs are selected by CA HQ Section for audit triennially/need basis. In the case of KSRTC and KSEB, while certain ARUs are selected for audit annually considering the significant roles played by them for the entities, others are covered triennially. The ARUs are selected by the IOs in consultation with the respective controlling sections (ECA and TA) and CA HQ Section.

12.02. Duties and responsibilities

Important audit findings of the CAG are finally presented before the Legislature and hence the IOs and CA Parties assume a greater role in the audit of PSUs, DCUs and KSERC. The level (IOs and CA Parties, etc.) of original review of a transaction of an entity is determined according to the instructions issued by Headquarters/AG (ERSA) from time to time and depending upon its nature, money value, etc. Financial and transaction audits should be conducted and completed as per the quantum fixed by Headquarters/AG (ERSA) from time to time.

While implementing the scheme for restructuring the cadres of the Department in March 1984, Headquarters had issued certain instructions for the delegation of duties and powers of all audit officials (Auditors to Sr. Audit Officers). Based on the model allocation of duties and powers prescribed by the Headquarters, revised duties and powers for the audit officials of the PSUs have been locally designed and included in the CA Manual (second edition – January 1991). In view of the inflation in the cost of materials and taking into account Headquarters guidelines on high value contracts, present money value (Rs.10 lakh and above) for draft paragraphs, etc., revised allocation of duties and powers of audit officials and the quantum for checking the accounts of PSUs, DCUs and KSERC are framed as follows.

Sl. No.	Auditee entities	Annexure
1	Transaction audit of Government companies (including 619-B companies), Statutory corporations (KFC, KSWC and KINFRA), DCUs and KSERC.	**Annexure 1**
2	Financial (accounts) audit of Government companies (including 619-B companies), Statutory corporations (KFC, KSWC and KINFRA), DCUs and KSERC.	**Annexure 2**
3	Transaction and financial audit of KSRTC and its units (including Resident Audit/TA officials)	**Annexure 3**
4	Transaction and financial audit of KSEB and its units (including Resident Audit/ECA officials)	**Annexure 4**

Items not covered in the revised allocation of duties and powers may be allotted afresh by the IO or in his absence by the AAO in charge of the party. The prescribed allocation of duties and powers may be modified, wherever necessary, at the discretion of the IO or in his absence by the AAO in charge of the party. A statement showing the fresh allocation of duties and powers of the party members and the IO indicating the reasons thereof should be attached to the title sheet of the draft Inspection Report/Comments, etc. These instructions are only supplementary to the provisions of the Commercial Audit Manual and other directives issued from time to time.

[Headquarters letter CA IV/Tec 4/84 (No. 545-CA IV-87-81/Vol VI) dated 11-09-84, Office Order CAI/A/21-217/Vol II dated 11-03-1986 of CA HQ I Section and orders dated 1-3-2007 of DAG (Comml)]

As per paragraphs 2.9 of the Manual of Instructions on Restructuring and 2.5 of the Manual of Instructions of Central Audit, Sr. Auditors/Auditors are expected to be able to finalise audit enquiries and put up notes independently. However, the head of the party (IO or AAO) remains responsible for the audit as a whole and he/she must guide other members of the party by general instructions and always keep himself/herself posted with the progress of the work. While allotting and supervising the work of the party members, the head of the party should keep in mind the level of experience, caliber and efficiency of each audit official to ensure the general quality of audit. The allocation of work among the party members and the IO should be made in such a way so as to complete the work within the allotted time. If for extraneous reasons, the work could not be completed within the allowed time, extension of time may be sought for with sufficient justification to enable CA HQ Section to obtain the approval of the Group Officer.

The party members are generally guided by the IO and they should conduct the audit in accordance with his/her instructions. The IO has a dual role in the audit of an entity i.e. original audit of a transaction and supervision of the CA Party. The IO should finalise audit enquiries and review remarks (on Board minutes, previous Inspection Reports, Statutory Auditor's Report under section 619 3 (a) of the Companies Act, 1956, general items, etc.) and draft Inspection Report/Comments/Audit Report, etc. If any objection has been dropped from the Inspection Report during discussion, the minutes of such meeting should be finalised and filed in the file concerned for review by the controlling section/Group Officer. In the absence of the IO, these functions are performed by the senior most AAO of the party.

While conducting the efficiency-cum-propriety audit and performance audit, specific instructions given by the controlling sections (CA HQ, ECA, TA and Report (Comml) Sections), Group Officer and AG (ERSA) should also be kept in mind. The lapses brought out by the Statutory/Branch Auditors in the reports under section 619 (3) (a) of the Companies Act, 1956 and other irregularities should be reviewed and suitably commented in the draft Inspection Report/Test Audit Note (TAN). If the test check of a transaction reveals any serious irregularities, the IO should conduct detailed examination of such cases after appraising the position to the Branch Officer of the controlling section and the Group Officer and after approval of the audit programme. Complete set of key documents (including all annexures/appendixes) for all potential draft paragraphs (PDPs) should be collected so as to avoid the deployment of any audit official again for collecting them. The details of such PDPs should invariably be brought out by the IO in the monthly DO letter to the AG (ERSA) endorsing a copy to Group Officer. The IO and the CA Party should discuss serious and major irregularities of an auditee entity during the visit of the Group Officer.

Vouchers (payment and receipt) of the entity for one month for each financial year should be selected by the IO/CA Party for detailed audit as per the prescribed quantum. The month selected for audit with details of the quantum of vouchers checked and the results thereof should be documented and indicated in the title sheet.

[Circular 11 (No. CAIV/A/CIR0 dated 15-2-2007]

The AAO should ensure that Senior Auditors/Auditors have completed the work allotted to them in all respects. The points on the Board minutes, previous Inspection Reports, general items, etc., marked by the controlling sections in the Local Audit Note Book for verification during transaction/financial audit should be examined and the review remarks thereon prepared and put up to the IO for approval. The Folder of the entity sent by the controlling section should be updated. The details as to which member of the audit team checked a particular document should be indicated and initialed against the respective item in the Folder. All the records (Inspection Reports, Board minutes, etc.) sent by the controlling sections should be kept under the control of the AAO of the CA Party. All circulars/books, etc., issued by the controlling sections should be properly maintained by the junior most AAO of the party in a Guard File. Further, the AAO should send the draft Inspection Report/Comments/Audit Report, title sheet, review remarks with previous Inspection Report files and other related documents as stated in *Chapter 2.21* (Commercial Audit Headquarters Sections) to the controlling section immediately on completion of the audit. The account of service postage stamps should be kept as per the rules. The AAO should also ensure that the tour diaries of the CA Party for each week are sent to CA HQ Section by the end of the week duly approved or countersigned by AAO or the IO as indicated in *Chapter 2.06* (Commercial Audit Headquarters Sections).

The Title Sheet should be filled up completely with clear answers (e.g. the questionnaire on the statement showing the list of records checked should be filled in with the actual percentage of check exercised along with logic in the choice of sample). The details of work allotted and completed by the IO and CA Party should be clearly recorded and signed by them in the title sheet.

[Circular PAG (Au)/Secy/IR-Review dated 15-3-2004]

12.03. Attitude of Audit

The IO and CA Party, while not deviating in any manner from their duties, should be careful to avoid any misunderstanding or friction with the auditee entities. Their attitude should not be merely to criticise the entities. Audit will invariably receive full co-operation from the entities, if it avoids frivolous objections and convince them that it is not interested in complicating any of their procedures but in simplifying them. Audit should also apprise them the manner in which it proceeds to work. The audit team (including the IO) should bear in mind that unnecessary meticulous and badly expressed objections not only bring discredit to Audit and cause annoyance to the auditee entities but also increase the workload of both the parties. They should, therefore, maintain a strictly detached, dispassionate and technical attitude in the day-to-day conduct of work. Nothing should be done to tamper with the evolution of the complementary roles of Audit and administration either by the use of extravagant language or by the attitude that Audit alone is the keeper of nation's financial conscience.

[CAG's DO letter P. 5588/56 dated 23-10-1956]

Audit should not suggest auditee entities to maintain records other than those prescribed or to dispense with any prescribed records. Audit also should not hold out any assurance to the entities. The IO should be more circumspect while discussing the objections with the entities and should advise only in minor cases where no detailed examination is necessary. The substance of such advice should be attached to the draft Inspection Report for the information of the controlling section/Group Officer.

12.04. Methodology of audit

As the object of the financial statements is to present a true and fair financial picture, an intelligent and proper audit requires verification of all financial transactions in their proper perspective as a whole and not merely their presentation or the examination of the final result. Before taking up the audit, the audit team should be conversant with the objects of the entity, the nature of transactions, the system of accounts (including the account books prescribed/maintained), the budget, the Accounting/Audit Manual and the Administrative/Annual Report of the entity, etc.

Similarly, the IO and the CA Party should be well versed with Headquarters guidelines/instructions on audit, Government directives on various matters, etc. A general review of the agenda papers and minutes of the Board meetings/Committees, other Management Information System data, previous Inspection Reports, replies given by the Management thereto, etc., would be informative. The audit procedures are discussed in the preceding/succeeding paragraphs/chapters.

12.05. Entry meeting

CA Party headed by the IO should meet the Chief Executive of the entity on the first day of the audit soliciting its cooperation for the smooth conduct of the audit (including timely furnishing of records and specific replies to audit enquiries and availability of officials for discussion, etc.). The period of audit at its Corporate Office and units/branches/depots should be mentioned in the entry meeting so that the Management could give suitable instructions to its subordinate officers to keep the records ready for audit, etc. The audit plan (including the potential risk areas identified by Audit/Management) should also be discussed in the meeting. The Chief Executive may be informed to be present on the concluding day of the audit, as far as possible, to discuss the draft Inspection Report/Comments/Audit Report. The minutes of the meeting should be prepared and signed by all the members of the audit team and the Chief Executive. The minutes should be attached to the draft Inspection Report/Comments/Audit Report for review by the controlling section, etc.

12.06. Exit meeting

On the concluding day of the transaction audit, the IO should finalise and discuss the draft Inspection Report with the Chief Executive of the entity. The party members may be involved in the discussion. Besides affixing the signature of the IO to this effect on the first page of the draft Inspection Report, the signature of the Chief Executive should be obtained therein in token of verification of facts and figures and for having discussed the draft Inspection Report. In his absence, the draft Inspection Report should be discussed with the official immediately junior to the Chief Executive and his signature obtained. Non-production of records and non-furnishing/delayed furnishing of replies to audit enquiries, if any, should also be discussed in the meeting and the Management's response thereto recorded in the draft Inspection

Report/minutes of the meeting. If necessary, controlling section will report such cases to the entity/Government for further action. Depending upon the circumstances, the audit team may discuss the draft Comments/AR with the Chief Executive and the Statutory Auditors of the entity. In the case of meeting with the Statutory Auditors, proper minutes should be prepared and signed by all the participants.

The discussion on the draft Inspection Report should cover all the lapses in the system implementation, procedures and responsibility centres and that assurances should be obtained from the entity in writing regarding the corrective measures for arresting potential risks. If the Management is unable to give such an assurance, the minutes of the exit meeting should be drawn up accordingly.

[Circular PAG (Au)/Secy/IR-Review dated 15-3-2004]

12.07. Audit requisition

As far as possible audit requisition calling for the records from the entity may be discouraged and these may be obtained personally. If it is necessarily required to obtain records, they may be called for by way of audit requisition and not by audit enquiry. Two copies of the audit requisition should be prepared (original for issue to the Management and the duplicate for record).

Non-production of records should be clearly brought out in the draft Inspection Report as a separate paragraph.

[Circular PAG (Au)/Secy/IR-Review dated 15-3-2004]

12.08. Audit enquiry

The objections/irregularities noticed as a result of transaction/ financial/ performance audit should be conveyed to the Management by way of audit enquiries (AEs). They give an opportunity to the Management to express their views on the irregularities/lapses so that trivial objections could be dropped/ considered for TAN and others considered for the draft Inspection Report. A thorough study of the records of the entity will help in drafting the objections with proper emphasis on different aspects of the transaction. The AEs should be self-contained in all respects. Annexures should be signed and attached to the AEs wherever necessary. Full particulars of the cases should be gathered before the issue of the AEs so that there may not be much difference between the former and the final paragraphs appearing in the draft Inspection Reports as far as audit objections are concerned. However, the final paragraphs should be drafted free from any ambiguity indicating the replies furnished by the Management to the AEs and the rebuttal thereto. In no case, vague replies should be accepted by the audit team and in such cases specific replies should be called for from the Management. Based on the replies and with valid reasons, AEs should be dropped by the IO or AAO. While finalizing the draft Inspection Report/TAN or dropping AEs, rebuttal to the Management's replies or reasons for dropping should be recorded in the AEs and approved by the IO. Every effort should be made to elicit the replies to the AEs. If there is undue delay on the part of the entity in furnishing the replies to the AEs, the audit team should meet the Chief Executive in this regard. The draft Inspection Report should in no case be delayed due to non-receipt of replies to the AEs.

Before finalizing the draft Inspection Report/Comments/Audit Report, the audit team should ensure compliance of various items (Accounting Standards, CARO 2003, the Companies Act, 1956, Accounting Policies, Government directives, etc.) as specified in the title sheets. In the case of non-compliance of any item by the Management/Statutory Auditors, suitable AE should be issued and such cases considered for draft Inspection Report/ Comments/Audit Report on merit basis.

The AEs originated by the Sr Auditors/Auditors should be initially vetted by the AAO and thereafter by the IO. Similarly, the AEs originated by the AAO should be vetted by the IO. The approved AEs should be issued to the Management under the signature of the IO or AAO. The AEs should be prepared in triplicate (original for issue to the Management, duplicate for Inspection Report and the triplicate for finalizing the draft Inspection Report/Comments/Audit Report). The AEs should be issued in sequence with date and proper dated acknowledgement obtained from the responsible official of the entity. If the Group Officer is available during audit, the AEs should be issued under his/her signature.

12.09 Internal control/audit system

All draft Inspection Reports should invariably comment the entire lapses of the internal control and audit systems of the entity audited. A questionnaire for the evaluation of internal control/audit system is enclosed (**Annexure 5**). Headquarters guidelines on this matter are also enclosed (**Annexure 6**). The questionnaire may be filled in by the IO and in his absence by the senior most AAO of the party, which should be reviewed by the controlling section at the time of editing the draft Inspection Report.

[Orders of Prl AG (Au) dated 5-11-2003 and Circulars CA IV/A/21-303 dated 18-11-2003 and 6-3-2004]

If the Management follows wrong policy on any area, remedial measures to be taken there against should also be indicated. The internal audit should cover the name of internal auditors, scope/coverage of audit, periodicity of audit, reporting, action taken by the entity to rectify the lapses, etc. If the Internal Auditor's Report is not discussed by the Board of Directors, the fact thereof should also be mentioned in the paragraph.

Equity contribution to the Government company/corporation by the State Government through an intermediary may result in diluting the control of the latter over the former. Such cases and the reasons for making the indirect investment may be examined during audit and the irregularities in this score should be brought out under internal control/audit system of the draft Inspection Report.

[Headquarters letter 13/CA II/25-2001 dated 6-1-2004 circulated in circular No.1/2004 (CA IV/A/21-303 dated 27-1-2004]

12.10. Pending Court cases

A large number of paragraphs in respect of which legal steps or Revenue Recovery action have been taken are kept pending in the Inspection Reports over a long period for want of final decision of the Court, etc. Auditee entities have limitations in taking further action in such cases. All such cases may be consolidated/updated and brought out in Part-I of the draft Inspection Report in the following proforma. However, if any case deserves to be commented in Part II-A/B, it may be included therein pointing out all the lapses.

Sl. No.	Year of IR and para number	Name of the party and the money value	Brief summary of the case	Action taken by the entity	Name of the advocate and date of filing suit	Present position of the case

[Orders dated 31-5-2002 of DAG (C)]

12.11. Verification of cash/stores

If the situation in any auditee entity warrants, the audit team are allowed to ask the Management, to physically verify the cash and stores in the presence of Auditors/entity officials and to record the results thereof in the prescribed documents. The lapses in this regard including defalcation of money detected during audit should be commented in the draft Inspection Report/Comments and suitable cases processed for the Audit Report (Comml).

[Orders of the Prl AG (Au) dated 10-10-2003 circulated in note ITA/1-5/2003-04 dated 14-10-2003]

12.12. Vigilance cases

While conducting transaction audit, the vigilance mechanism/cases and the related issues in the auditee entities should be examined and the lapses in this respect should be commented in the draft Inspection Report.

[Headquarters letter 1006/CA II/48-99-Vol III dated 29-12-2005 circulated in circular No.7 (CA IV/A/CIRC/Vol II) dated 11-1-2006]

12.13. Provident fund contribution

As per section 6 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, the employers of the following industries are required to contribute to the Fund at the concessional rate of 10 per cent of the wages of the employees per month with effect from 22 September 1997 as against the general rate of 12 per cent.

1. sick industries as defined in *section 3 (i) (O)* of the Sick Industrial Companies (Special Provisions) Act, 1985 and which had been declared as such by the Board for Industrial and Financial Reconstruction; or

2. an establishment having accumulated loss equal to or exceeding its entire net worth at the end of the financial year; or
3. an establishment engaged in jute, beedi, brick, coir and guar gum.

If any Government company/corporation satisfying any one of the above criterion fails to avail of the concessional rate of provident fund contribution, such case may be suitably commented in the draft Inspection Reports etc.

12.14. Short/Over Provision of Interest on Loans

While proposing draft Comments on over/short provision of interest, incorrect classification of interest accrued but not due and interest accrued and due, CA Party should furnish the following details to CA HQ Section concerned for onward transmission to Headquarters.

(i) Details in support of the amount stated to have been incorrectly classified (principal, due date of interest, provision for the year and period to which it relates);

(ii) Whether interest for the corresponding period in the previous year has also been classified accordingly (under provided/over provided);

(iii) Whether payment of interest in respect of any part of the previous year (paid during current year) was taken against the provision made in the first year thereby ensuring that debit to Profit & Loss Account in respect of interest is for 12 months; and

(iv) The policy of the company in regard to adjustment of interest on borrowings (whether this is being adjusted on accrual basis and whether the quantum of interest to the Profit & Loss Account would be equal to 12 months and not more than or less than 12 months)

[Headquarters letter 1841-CA/II/199-80-II (Circular No. CA II/State Commercial Audit/5/81) dated 9-11-1981 - File CA/IV/A 17-2/Vol XX]

12.15. Environmental liabilities

State PSUs involved in the development projects having environmental impact are liable to pay financial liabilities towards Compensatory Afforestation Fund created by the Ministry of Environment and Forest, Government of India. Such environmental liabilities and other environment related contingent liabilities may be kept in view while conducting transaction and financial audits of such PSUs giving due attention to the Wild Life Act, 1972, Water Act, 1974, Forest Conservation Act, 1980, Air Act, 1981 and Environment Protection Act, 1986.

[Headquarters letter 647/CA II/18-2001 dated 5-8-2005 –File CA IV/A/21/Gl/Vol.XVI]

12.16. Central/State Government assistance

A draft paragraph highlighting the non-utilization of the Central/State Government assistance should be proposed, if the amount has not been utilized according to the terms and conditions of the sanction after the details such as sanction number and date, amount released to Government companies, purpose of the assistance, target date for completion of the project/scheme, etc., are received from OA HQ Section, etc. The matter should be verified during transaction audit and the CA (HQ) Section concerned should send the material direct to Report (Civil) Section for the Audit Report (Civil).

[Headquarters letter 845-Rep (C)-130-84 dated 5-9-1984 –File CA IV/A/17-2/Vol XXI]

12.17. Draft Comments/Audit Report

Generally, the responsibility to conduct financial audit of a Government company under section 619 (4) of the Act ibid would arise only on receipt of certified accounts. But in order to issue the final Comments early, audit may be started on receipt of a copy of the accounts duly approved by the Management more or less simultaneously along with the Auditors. However, the preliminary Comments/AEs on such accounts should neither be issued nor contents made known to the Management/Statutory Auditors till the certified accounts along with the Auditor's Report are made available to Audit.

[Headquarters letter Nos 447-CA IV/63-72 dated 22-8-1972 and 531-CA IV/63-72 dated 29-8-1972 – file CA – VII/17-2 Vol XII]

During the course of financial audit, the IO/CA Party should ensure that there is no deviation in the accounting system of a Government company from its distinct accounting policies particularly with reference to Headquarters circular instructions and the AS issued by the ICAI. In case the deficiencies/omissions pointed out earlier are repeated in the succeeding year's accounts, suitable draft Comments should be proposed. At the end of each audit, a comprehensive note should be sent to CA HQ Section concerned in respect of points, if any, to be taken up with the Management.

[Headquarters letter 334-CA/O&M (RC) 99-83 dated 1-12-1983)

The draft Comments/Audit Report on the accounts of a Government company (including a 619-B company) and KSWC should be finalized by the IO and issued to the Statutory Auditors in the prescribed format under his/her signature endorsing a copy to the Management. The covering letter to them should specifically state that replies to the draft Comments/Audit Report may be furnished direct to the Branch Officer concerned in CA HQ Sections within five days of receipt as otherwise they would be finalized ex-parte presuming that they have no remarks to offer against the draft Comments/Audit Report. The draft Audit Reports of KSRTC, KSEB, KSERC, KINFRA and KFC and Comments of DCUs should be finalized by the IOs in the prescribed formats and sent to the controlling sections for further necessary action without reference to the entities. The draft Comments/Audit Reports should be clear and brief, as far as possible, while the AEs should be elaborate containing all the required details so that a cross reference at a later stage may not create any difficulties.

The title sheet for draft Comments/Audit Reports is different from that of the Inspection Report. The proforma on the performance of Auditors of Government companies/corporations should be filled with due care. The details of the Statutory Auditors and the mandays spent for the statutory audit of the entity, remuneration (other than audit fee paid/payable to the Auditors) for income tax audit, value added tax audit, etc., should be called for from the entity/Statutory Auditors and documented for review by the controlling section.

Controlling sections should request the Statutory Auditors to deliberate on the observations raised by Audit during the course of audit and be present on the concluding day of audit for discussion.

[Circular 3 (No. CA IV/A/CIRC dated 23-5-2007]

12.18. Draft Inspection Report and Test Audit Note

Separate title sheets should be adopted for the draft Inspection Reports of KSEB, KSRTC and Government companies (including 619-B companies), KFC, KSWC, KINFRA DCUs and KSERC. Inspection Report consists of two parts viz., Part-I and Part-II (A and B) as follows and they should be presented function wise according to the order of importance (sales, purchase, etc.).

Part I	An introduction of the entity, names and location of the branches/units, their functions, organizational structure, financial position (provisional figures in the absence of certified accounts), commentary on targets and achievements in brief (physical performance in production, sales, etc.) and working results apart from the brief details of unsettled objections of previous Inspection Reports, etc.
Part II-A	Major irregularities to be developed as draft paragraphs (DPs).
Part-II B	Other important objections.

Objections of minor nature that could be rectified by the Management without any difficulty should be issued locally as TANs. The action taken on such objections should be verified during the next visit of the CA Party.

[Headquarters letters 799 TA 1/83 dated 16-7-1983,10 Audit II/86 and 282/83 dated 18-2-1986 and orders dated 25.10.2007.of DAG (Comml)]

The draft Inspection Report should be made in simple and clear language without ambiguity as per the Style Guide. It should be neatly typed, wherever possible, and referenced. All questionnaires in the title sheets should be answered completely without fail. The draft Inspection Report should highlight weak and suspect areas vulnerable to the risk of defalcation, fraud, etc. While conducting transaction audit, due importance should be given to the establishment matters of the entity such as pay fixation, log books of vehicles, etc.

The IO should finalize and write the draft Inspection Report himself/herself and should not leave the drafting to the subordinate officials in all cases where full supervision has been provided. The names of the audit officials, who have detected the lapses/irregularities, should be indicated against each paragraph of the draft Inspection Report.

TAN should be prepared and issued by the senior most AAO of the party to the Management/ duly approved by the IO. After examining the reply to each AE and considering its merit, the IO should segregate the AEs for the draft Inspection Report and TAN.

12.19. Grading of Inspection Reports

The paras in the Draft Inspection Report should be categorized on the basis of quality as follows:

Broad heading/Category of para	**Category**	**Points**
Fraud/misappropriation/embezzlement/loss detected in audit	A	10
Recoveries at instance of audit and overpayments detected in audit.	B	9
Violation of contractual obligations/undue favours to contractors	C	8
Avoidable/excess expenditure	D	7
Wasteful/infructuous expenditure	E	6
Regulatory issues	F	5
Idle investment/idle establishment/blockage of funds	G	4
Delays in commissioning of equipment	H	3
Non-achievement of objectives	I	2
Miscellaneous observations	J	1

Certification of accounts of PSUs is an important activity of commercial audit and therefore 20 points have been allocated for accounts audit. Points are awarded on the basis of:

- Revision of accounts as a result of audit or disclaimer certificate issued on the accounts
- Impact of comments on the profitability
- Money value of accounts comments

- Percentage of companies/corporations to whom the approved comments issued.

While approving each draft Inspection Report, the Group Officer should grade it as *Very Good*, *Good* and *Poor* based on the overall assessment of the completeness of documentation, quality of evidence/presentation and materiality of audit findings. The grading should be recorded in the Performance Register maintained by CA HQ Section and communicated to the IO to improve the quality of the Inspection Report.

[Circular PAG (Au)/Secy/IR-Review dated 15-3-2004]

12.20. Monthly DO letter

Each IO should send a demi-official letter to the AG (ERSA) before 5th of every month indicating the details of audit conducted by him in the immediate preceding month. The position of PDPs finalized, constraints faced during audit, etc., should also be indicated therein for review by the AG (ERSA).

12.21. Targets and achievements

Target is fixed by Headquarters every year for the paragraphs appearing in the Audit Report (Comml). All DPs for the Audit Report (Comml) should be finalized by the end of June every year. Based on this, targets for DP Cell/CA HQ, ECA and TA Sections for Statement of Facts in respect of Government companies and Statutory Corporations are fixed by Report (Comml) Section every year. They should submit the Statement of Facts along with key documents to Report (Comml) Section monthly so as to avoid bunching towards the fag end of the target period (April-March every year). In order to submit the materials to Report (Comml) Section, targets for DPs and PDPs are fixed by the Group Officer for each IO and AAO of the CA Party. While finalizing the PDPs during transaction audit, the following aspects may be kept in mind.

a) Cases of identical nature should be clubbed together and proposed as a single case;

b) PDP below the monetary value of Rs.10 lakh (present ceiling) should not be considered unless it highlights system lapse, cash loss, misappropriation, fraud, etc;

c) Cases which are more than three years old need not be considered in normal circumstances; and

d) Cases with persistent and pervasive weakness and irregularities should be attempted to improve the performance of the PSUs, etc.

The details of the annual targets and the achievements there against indicating the nature of the case in brief, money value, name of the entity, year of Inspection Report, etc., should be intimated to the Group Officer by the IOs and AAOs of CA Parties by the end of April every year for review.

12.22. Attendance Register

Each CA Party should obtain blank Attendance Register in the prescribed format from General Section by the end of December every year. The party members should mark their attendances daily in the register. The IO should also affix his/her attendance daily if he/she is on supervision of the party. The register should be closed as per the provisions of the Manual of General Procedures. The used register should be returned to CA HQ Section in January every year i.e. (after the completion of the calendar year) and proper acknowledgement obtained for record.

Field party members shall mark their attendance in the register maintained in CA HQ section while on duty in HQ.

Weekly diaries

All field party members are required to sent weekly diaries to HQ showing the details of work done during the week, duly countersigned by the inspecting officer on the first working day of the succeeding week. HQ section should maintain a Register of weekly diaries in Form Sy. 325 to watch proper receipt of weekly diaries from party members. **(Refer Para 2.01 and Para 3.34 of OAD Manual)**

Absentee statement

The AAO who is in charge of the party shall sent an absentee statement showing the name, designation, and period of absence from duty of officials, if any, so as to reach Bills section before 10th of succeeding month.

Annexure 1

ALLOCATION OF DUTIES AND POWERS OF AUDIT OFFICIALS FOR TRANSACTION AUDIT OF GOVERNMENT COMPANIES (INCLUDING 619-B GOVERNMENT COMPANIES) AND

STATUTORY CORPORATIONS (KFC, KSWC AND KINFRA), DEPARTMENTAL COMMERCIAL UNDERTAKINGS and KSERC

(Referred to in Chapter 12.02)

Sl. No.	Allocation of duty	Sr. AO (C)/AO (C)	AAO (C)	Sr. Auditor/ Auditor
1	Memorandum and Articles of Association and other documents connected with incorporation of the entity (first audit)	General review	General review	-
2 (a)	Agenda and minutes of meetings of the Board of Directors and Sub/Standing/Apex Committees of the Board	Review	Detailed review	-
2 (b)	Agenda and minutes of other committees of the entity	Review	Detailed review	-
3	Memorandums of Understanding, Preliminary/Detailed Project Reports and Agreements	Review	Detailed review	-
4	Corporate governance, Management Information System data, statistical and operational data including budgets	Review	Detailed review	-
5	Internal control/audit system (including Internal Auditor's Report) and Audit Committee report on internal control/audit	Review	Detailed Review	-
6	Statutory/Branch Auditor’s Report (including qualifications, etc.) and Supplementary Report {619 (3) (a)}	Review	Detailed Review	-
7	Delegation of duties and powers and various Manuals/Regulations	Review	Detailed review	-
8 (i)	Capital items – Investment decisions, policy and procedures	Review	Detailed review	-
8 (i) (a)	Procurement and utilization * Depending upon the volume of transactions, the monetary limit and	1. Above Rs.50 lakh (100 per cent	1. Between Rs.10 lakh and Rs.25 lakh (50 per	Below Rs.10 lakh

	quantum may be revised by the Inspecting Officer and fresh allocation of duties fixed and intimated to CA HQ Section concerned. However, all cases above Rs.25 lakh should be reviewed in depth.	review)* and 2. General review of cases audited by the CA party	cent review)* 2. Between Rs.25 lakh and Rs.50 lakh (100 per cent review)*	(50 per cent review)*
8 (i) (b)	Asset Register	Review	Detailed review	-
8 (ii)	Raw materials, stores, etc. – Purchase policy and procedures	Review	Detailed review	-
8 (ii) (a)	Procurement	Same as item 8 (i) (a)		
8 (ii) (b)	Receipts and issues of inventory	-	Review of the system, procedures, documentation of receipts, consumption with the prescribed norms (test check)	Test check of receipts and issues
8 (ii) (c)	Physical verification reports	-	Review (test check)	-
8 (ii) (d)	Idling, non-moving and disposal of stores	-	Review	Test check of non-moving items
9 (i)	Management of Plant and Machinery	Review	Detailed review	-
9 (ii)	Production	Review of capacity utilization of various plants/ units with reference to corporate objectives	Review of production records (including evaluation of actual production with installed capacity and budgeted production, process losses/wastage, machine utilisation,etc.),	Disposal of by-products and scrap

			activities of service departments, etc.	
9 (iii)	Consumption of power and fuel	-	Detailed review with ref to requirement and prescribed norms	-
9 (iv)	Cost accounts	Review of cost elements, cost of sales, etc.	Review of factors leading to excess consumption of items, variances, allocation of overheads, cost of sales, etc.	-
9 (v)	Cost Auditor's Report	Review	Detailed review	
10	Pricing policy	Review	Detailed review with reference to the justification for discount, etc.	-
11 (i)	Sales policy and procedures	Review of the policy/procedures and long-term contracts	Detailed review and scrutiny of sales contracts with selling agents/customers and their performances	Review of rejections by customers
11 (ii)	Contracts	Same as item 8 (i) (a)		
12 (i)	Credit policy	Review	Detailed review	-
12 (ii)	Sundry debtors *Depending upon the volume of transactions, the monetary limit and quantum may be revised by the Inspecting Officer and fresh allocation of duties fixed and intimated to CA HQ Section concerned.	Above Rs.20 lakh (50 per cent review)* and 100 per cent review of debts outstanding over three years in the above category	Between Rs.5 lakh and Rs.20 lakh (50 per cent review)* and 100 per cent review of debts outstanding over three years in the above category	Below Rs.5 lakh (25 per cent)* and 100 per cent review of debts outstanding over three years in the above category
13 (i)	Civil works System and procedures of awarding contracts	Review	Detailed Review	-
13 (ii)	Contracts	Same as 8 (i)(a)		

14	Performance of Transport wing	Review	Detailed Review	-
15	Performance of R & D wing	Review	Detailed Review	-
16	Performances of Canteen, Quarters, Guest house, Hospital, etc.	General review	Review	Detailed review
17	Man power	General review	Review	-
18	Share capital, grant-in-aid and borrowings	Review	Detailed Review	-
19	Working capital	Review	Detailed Review	-
20 (i)	Investment – Policy and procedures	Review	Detailed Review	
20 (ii)	Investment of surplus funds	Review	Detailed Review	
21	Main and petty cash books and imprest advance, bank reconciliation statement, Payments/receipts and vouchers, etc. (month to be selected by the Inspecting Officer or AAO)	General review	Detailed check of one month cash book and vouchers in a year and review of bank reconciliation statement, imprest advance, etc.	Assist Sr.AO/AO and AAO
22	Pay revision	Review of pay revision orders	Review of cases (test check) with reference to revision package	Detailed scrutiny of cases (test check)
23	Establishment payments	General review	Review of cases (test check)	Assist Sr. AO/AO and AAO
24	Cases of losses/theft/ embezzlement, fire, payment of wharfage/demurrage, etc.	General review	Review of 100 per cent cases	Assist Sr.AO/AO and AAO
25	Payment of customs/excise duty, income/sales tax (value added tax)/ agriculture income tax, VRS, bonus/ex-gratia/incentive, project/ preliminary expenses, advertisement charges, research and development, insurance premiums and settlement of insurance claims, write off of	Review	Detailed review	-

	claims/expenses, etc.			
26	Pollution control measures and energy audit	Review	Detailed review	-
27	Directives/orders of Government for the use of entity's vehicles, telephone, perquisites to Chairman/Government directors, bonus/ex-gratia payment etc.	Review	Detailed review	Detailed review
28	Performance of subsidiary companies/joint ventures, etc.	Review	Detailed review	-
29	Performance of units of the entity (branches, warehousing depots, project offices, etc.)	Review	Detailed review	-
30	Sanctioning and disbursement of loans (including hire purchase/lease, chitties, etc.)	Same as item 8 (i) (a)		
31	Realisation of principal and interest/penal interest, etc. (including default/takeover and OTS cases, etc.)	Same as item 12(ii)		
32	Underwriting contracts	Review	Detailed review	-
33	Computerisation	Review	Detailed review	Assist Sr. AO/AO and AAO
34	Files sent from CA HQ Sections and other points marked for local verification and preparation of review remarks	General review	Review and preparation of review remarks	Assist Sr. AO/AO and AAO
35	Meetings with MD/Key personnel of the entity and discussion of draft inspection report	Sr.AO/AO should conduct the meetings	Assist Sr. AO/AO	Assist Sr. AO/AO and AAO
36	Co-ordination/Supervision of the Commercial Audit Party and finalisation of audit enquiries and review remarks, draft Inspection Report and PDP cases	Sr. AO/AO should attend to these items of works	In the absence of Sr.AO/AO, senior most AAO should attend to these items of works	-
37	Items not covered above	Sr. AO/AO should allot the work to AAO/ Sr.Auditor/Auditor	-	-

38	Collection of key documents for PDP cases	-	AAO should ensure that all KDs are collected	Sr Auditor/ Auditor should attend to this work
39	Forwarding of documents to CA HQ Section concerned	-	AAO should attend to this work.	-

Annexure 2

ALLOCATION OF DUTIES AND POWERS OF AUDIT OFFICIALS FOR FINANCIAL AUDIT OF GOVERNMENT COMPANIES

(INCLUDING 619-B GOVERNMENT COMPANIES) AND

STATUTORY CORPORATIONS (KFC, KSWC AND KINFRA), DEPARTMENTAL COMMERCIAL UNDERTAKINGS AND KSERC.

(Referred to in Chapter 12.02)

Sl. No.	Allocation of duty	Sr. AO (C)/AO (C)	AAO (C)	Sr. Auditor/ Auditor
1.	Agenda and minutes of meetings of the Board of Directors and Sub/Standing/Apex Committees of the Board	Review	Detailed review	-
2.	Items 2 (b), 5, 6, 34, 37 and 39 of Efficiency-cum-Propriety audit	As in items 2 (b), 5, 6, 34, 37 and 39 in respect of Efficiency-cum-Propriety audit		
3.	Accounting policies	Review with reference to the Accounting Standards, accepted principles/practices of commercial accounting, etc.	Detailed review	-
4.	CARO, 2003	-	Review	-
5.	Auditing and Assurance Standards	-	Review	-
6.	Balance Sheet (including Balance Sheet Abstract and Company's General Business Profile) and Profit & Loss Account (form and content) to see whether they meet the requirements of the provisions of the Companies Act, 1956 and other statutes	Review	Detailed review	-
7.	Balance Sheet, Profit and Loss Account and grouping schedules and notes on accounts	Review	Detailed review	Review of trial balance with ledger and grouping statements, stock statements with stock

				ledger, previous year's figures and arithmetical accuracy
8.	Journals	Review	Detailed review	-
9.	Share capital and Grants	Review	Detailed review	-
10.	Reserves and surplus	Review	Detailed review	-
11.	Borrowings and cash credit, etc.	Review	Detailed review	-
12.	Current liabilities	Review	Detailed review	-
13.	Deferred tax liability/asset	Review	Detailed review	-
14.	Miscellaneous expenditure (preliminary/project expenses, etc.)	Review	Detailed review	-
15.	Provisions for taxation, dividend (including dividend tax), gratuity, pay revision, VRS, interest, sub-standard assets, doubtful assets, loss assets, customs duty, outstanding liabilities, etc.	Review	Detailed review	Check the calculations of various provisions
16.	Fixed Assets (including Asset Register) and provision for depreciation	Review	Detailed review	Check the calculation of provision
17.	Capital work-in-progress	Review	Detailed review	-
18.	Investments	Review	Detailed review	-
19.	Valuation of closing stock (finished goods and raw materials), work-in-progress and goods-in-transit	Review	Detailed review	-
20.	Stores and spares and provision for non-moving stores and physical verification reports	Review	Detailed review	-
21.	Cash and bank balances (including cash flow statement) and bank reconciliation statement	Review	Detailed review	-
22.	Sundry debtors and provision for bad and doubtful debts	Review	Detailed review	-
23.	Loans and advances (including deposits, income tax, excise duty (modvat), provision for doubtful	Review	Detailed review	-

	loans/advances/claims, etc.)			
24.	Consumption of raw materials and stores	Review	Detailed review	-
25.	Sales/interest income and insurance premiums	Review	Detailed review	-
26.	Miscellaneous and other income	General review	Review	Detailed review
27.	Salaries/wages, contribution to provident fund, R & D Expenses, welfare expenses, etc.	General review	Review	Detailed review
28.	Interest and finance charges	Review	Detailed review	
29.	Payment of excise/customs duty, sales tax (value added tax), etc.	Review	Detailed review	-
30.	Administrative, selling and other expenses (including audit fee)	General review	Review	Detailed review
31.	Inter departmental transfer	-	Review	-
32.	Prior period items and extra ordinary items	General review	Review	-
33.	Notes on accounts (including contingent liabilities)	Review	Detailed review	-
34.	Review of accounts (Statutory corporations)	-	AAO should attend to this work.	-
35.	Meetings with MD/Key personnel of the entity, Statutory/Branch Auditors	Sr. AO/AO should conduct the meeting	Assist Sr.AO/AO	Assist Sr. AO/AO and AAO
36.	Co-ordination/Supervision of the Commercial Audit Party and finalisation of audit enquiries/review remarks and draft comments/SAR/AR.	Sr. AO/AO should attend to these items of works.	In the absence of Sr.AO/AO, senior most AAO should attend to these items of works.	Assist Sr. AO/AO and AAO

Annexure 3

Distribution of duties among personnel in parties conducting audit of Kerala State Road Transport Corporation
(Referred to in para 12.02)

District Transport Offices/Assistant Transport Offices

Item/Particulars of work	Audit Officer	AAO	Sr. Auditor/Auditor
1. Way bills and abstracts (both ETM and manual)	Review of route earnings	Scrutiny and tracing, check of incentive payments, mileage etc.	Work assigned by Sr. AO/AO and AAO
2. Cash balance/Bank balances/Treasury balance reconciliation and related matters	General Review	Detailed check	Check
3. Ticket stock accounts	-	Reconciliation of physical stock and book stock. Checking receipts and issues	Check
4. Fuel accounts	Review of fuel, sales and actual consumption	Check of receipts and issues and physical verification reports	Check
5. Stores Accounts	Review of idle and obsolete stores Review of local purchases Review of type performance Review of consumption	Check of receipt and issues and physical verification reports Scrutiny of priced stores ledger Tyre cards. Register of empty barrels.	Work assigned by Sr. AO/AO and AAO
6. Vehicle attendance Register, Tyre history register, log books, performance of batteries	Review of efficiency of vehicle utilization	Performance of reconditioned assemblies, engine oil change	Check
7. Unit Workshops		Review of performance Scrutiny of estimates for works and job	Check

		cards, register of scrap.	
8. Private hire or contract service	-	Scrutiny of contracts and tracing credits and check of receipt	Work assigned by Sr. AO/AO and AAO
9. Post Mail subsidy, Paper subsidy, bus warrants	-	Check of receipts	Work assigned by Sr. AO/AO and AAO
10. Leasing of stalls and collection of usufructs	-	Review of contracts and tracing credits	Work assigned by Sr. AO/AO and AAO
11. Inspector's check sheets and duty programme and reports of surprise squad	Review	-	Work assigned by Sr. AO/AO and AAO
12. Utilization of manpower	-	Review	Work assigned by Sr. AO/AO and AAO
13. Revenue refunds	-	Check of revenue refunds	Work assigned by Sr. AO/AO and AAO
14. MACT claim-review of accidents and compensation paid and cost of damages realized.	Review	Detailed scrutiny	Work assigned by Sr. AO/AO and AAO

ANNUAL ACCOUNTS

Item/Particulars of work	Audit Officer	AAO	Sr. Auditor/Auditor
1. Consolidated Ledgers	-	Review	Work assigned by Sr. AO/AO and AAO
2.Journal and adjustment journal entries	Review	Detailed check	Work assigned by Sr. AO/AO and AAO
3. Trial balance	Review	Detailed check	Work assigned by Sr. AO/AO and AAO
4. Loans and interest	Review	Detailed check	Work assigned by Sr. AO/AO and AAO
5. Depreciation and asset register	Review	Detailed check	Work assigned by Sr. AO/AO and AAO
6. Allocation between capital and revenue	Detailed check	-	Work assigned by Sr. AO/AO and AAO

7. Reconciliation of remittance/payments with Bank/Treasury	-	Detailed check	Check
8. Register of investments/securities	-	Detailed check	Work assigned by Sr. AO/AO and AAO
9. Check of Balance sheet and profit and loss account	Review	Detailed check	Check of previous year figures and authenticated accounts.
10. Provisions of other item of outstanding liabilities/contingent/deferred liabilities	General review	Detailed review	Check
11. Checking of accounting policies and notes on accounts	General review	Detailed review	Check
12. Checking of working sheets for arriving at Stores balances & all adjustments/entries passed centrally	General review	Detailed review	Check

CONTROLLER OF PURCHASES AND STORES, ESTATE DIVISION, MECHANICAL SECTION

Item/Particulars of work	Audit Officer	AAO	Sr. Auditor/Auditor
1. Agenda and minutes of Board meeting and sub committee	Review	Detailed scrutiny	-
2. Contracts for purchase and Civil Works * Depending upon the volume of transactions, the monetary limit and quantum may be revised by the Inspecting officer and fresh allocation of duties fixed intimated to CA (HQ) section concerned. However all cases above Rs. 25 lakh should be reviewed in depth.	Scrutiny of contracts above Rs. 100 lakh*	Scrutiny of contracts between Rs. 10 lakh and 100 lakh	Scrutiny of purchase upto Rs. 10 lakh
3. Body building contracts	Detailed scrutiny	-	Work assigned by Sr. AO/AO and AAO
4. Advertisement contracts	-	Detailed scrutiny	Work assigned by Sr. AO/AO and AAO
5. Acquisition, construction, utilization and disposal of land and buildings	-	Detailed scrutiny	Work assigned by Sr. AO/AO and AAO

6. Cash book	-	Detailed check and general review	Check
7. Journal vouchers/ Annual closing adjustment entries	-	Check journal vouchers and annual closing adjustment entries	All other journal entries
8. Daily payment register and register of check books (register of cheques drawn)	-	Check	Work assigned by Sr. AO/AO and AAO
9. Register of cheques received	-	Check	Work assigned by Sr. AO/AO and AAO
10. Bank pass book		Detailed check with reference to reconciliation of bank/treasury balance	Work assigned by Sr. AO/AO and AAO
11. Register of E.M.D.	-	Detailed check	Work assigned by Sr. AO/AO and AAO
12. Scrutiny of sanctions	-	Detailed check	Work assigned by Sr. AO/AO and AAO
13. Log books of departmental vehicles	-	Detailed check	Work assigned by Sr. AO/AO and AAO
14. Leasing of stalls	-	Detailed check	Work assigned by Sr. AO/AO and AAO
15.Fleet management including acquisition, deployment, maintenance and withdrawal	Review	Detailed scrutiny	Work assigned by Sr. AO/AO and AAO

CIVIL ENGINEERING WING

Item/Particulars of work	Audit Officer	AAO	Sr. Auditor/Auditor
1. Register of estimates	Review	Detailed Review	Work assigned by Sr. AO/AO and AAO
2. Register of contracts	Review	Detailed Review	Work assigned by Sr. AO/AO and AAO
3. Works abstract and register of works	-	Detailed check of the works.	Work assigned by Sr. AO/AO and AAO

		Abstract and register of works	
4. Material at site accounts	-	Detailed check of the records	Work assigned by Sr. AO/AO and AAO
5. Register of advances to contractors	Review	Detailed check	Work assigned by Sr. AO/AO and AAO
6. Review of selected works	-	Detailed scrutiny of the selected works	Work assigned by Sr. AO/AO and AAO
7. Register of penalty to be recovered from the contractors	-	Check of records	Work assigned by Sr. AO/AO and AAO
8. Works advance register	-	Check of works advances register	Work assigned by Sr. AO/AO and AAO
9. Completed capital works register	Review	Scrutiny of Registers	Work assigned by Sr. AO/AO and AAO
10. Register of Land and building	-	Scrutiny of Register	Work assigned by Sr. AO/AO and AAO
11. Register of Transport Deposits	-	Check of records	Work assigned by Sr. AO/AO and AAO
12. Register of interest bearing securities	-	Check of records	Work assigned by Sr. AO/AO and AAO
Accounts, comments to all the units			
Item/Particulars of work	Audit Officer	AAO	Sr. Auditor/Auditor
1. Cash book, petty cash book, journal, ledger receipt books and vouchers	-	Check and tracing	Work assigned by Sr. AO/AO and AAO
2. Monthly statement of balances	-	Check	Work assigned by Sr. AO/AO and AAO
3.Treasury/Bank reconciliation statements	-	Review	Work assigned by Sr. AO/AO and AAO
4. Monthly statement of stores transactions	-	Review	Check of register of uniforms
5. Lease of premises/shop, collection usufructs	Review	Detailed scrutiny	-
Workshops/Body Building works			
Item/Particulars of work	Audit Officer	AAO	Sr. Auditor/Auditor
1. Cost Estimates	-	Check	Work assigned by Sr. AO/AO and AAO
2. Work order and Register of work orders and job	-	Check	Work assigned by Sr. AO/AO and AAO

cards			
3. Cost sheet	-	Check	-
4. Cost sheet summary	-	Check	-
5. Monthly production cost register	-	-	-
6. Stores accounts	-	Review	Check
7. Monthly material abstract	-	Review	Check
8. Monthly labour abstract	-	Review	Check
9. Overhead allocation	Review of principles of allocation	Review	Check
10. Reconciliation with financial accounts-	-	Review	-
11. Valuation of work-in-progress statement)	-	Review	-
12. Local purchase	Review	-	-
13. Accrual and disposal of scraps, unserviceable vehicles, tyres, etc.	-	Review	-
14. Recondition of major assemblies	-	Review	-
15. Retreading and reconditioning of tyres	-	-	Detailed check
16. Performance of workshops	Review	Review	-

Establishment Audit

Item/Particulars of work	Audit Officer	AAO	Sr. Auditor/Auditor
17. Audit of vouchers			-
(a) Pay slips & Officer's salaries (b) Pay rolls of establishment (c) Travelling allowance bills (d) Medical bills (e) Pension payments (f) Contingent vouchers (g) Other miscellaneous vouchers (h) Bonus payment	 - - - - - - -	 Detailed check Detailed check Detailed check Detailed check Detailed check Detailed check Detailed check	 - - - - - - -
18. Audit of Provident Fund accounts	-	Detailed check	Detailed check
19. Checking of pension cases	General Review	Detailed check	Detailed check

Annexure 4
Revised distribution of duties among the personnel in Resident Audit and local audit parties conducting
Audit of the various units of the Kerala State Electricity Board.
(Referred to in Para 12.02)

SCHEDULE – I-A
CENTRAL AUDIT/ECA-I

Sl. No.	Item/particulars of work/Document	Audit Officer	A.A.O	Sr. Auditor/Auditor
1.	Minutes and Agenda papers	Review	Detailed scrutiny	_
2.	Co-ordination and overall supervision from Central office of the work of local audit parties	Review	Detailed scrutiny	Initial action
3.	Scrutiny of contracts/agreements for purchases/works.	Scrutiny of purchases to the value of Rs. 10 lakh and above.	Detailed scrutiny of purchases above Rs. 1 lakh but below Rs. 10 lakhs.	Scrutiny up to Rs. 1 lakh
4.	Review of tariff structure, scrutiny each time tariffs are reviewed.	Review	Detailed scrutiny	_
5.	Review of purchase procedures/policy and inventory control	General Review	Detailed Review	_
6.	Review of loans raised by the Board & credit control.	General review	Detailed review	_
7.	Review of Board's Budget.	Review	Detailed scrutiny	_
8.	Edition, issue & pursuance of Inspection Reports	Finalisation of reports & closure of IRs on the basis of replies received.	Review and supervisions	Applying AA checking, initial scrutiny of paras with AEs & editions, prompt comparison & issue of fair copies of report .

				Pursuance till reply is received & paras were cleared.
9.	Calculation of Audit Fee recoverable from the Board.	Review	Detailed check	Computation
10	D.P. cases finalization for each audit report.	Review and finalization.	Finalisation of DPs.	Assist AO/AAO in taking copies of Key papers, preparation of work sheets, comparison of FCs.
11.	Annual accounts certification and issue of audit report.	Review and finalization of Audit Report.	Detailed scrutiny of the accounts and preparation of draft Audit Report in all its different stages.	Initial scrutiny of draft comments received from the audit party.
12.	General matters relating the Board audit such as certification of expenditure and orders issued by CEA State Govt. matters of general importance to Board.	Review and finalization of disposal of each case.	Detailed scrutiny	Limited scrutiny and putting up notes and drafts.
13.	Forwarding of Inspection Reports of previous years and intimations in time of all points marked for local verification during each time local audit is arranged and examination & disposal of the review reports received from the party	–	Review	All connected works to be executed promptly and in time.
14.	Investment of Board Funds	Detailed review		
15.	Internal check/control/measures in actual operation.	Detailed review		

SCHEDULE I-B
CENTRAL AUDIT/ECA-II

Sl. No.	Item/particulars of work/Document	Audit Officer	A.A.O	Sr. Auditor/Auditor
1.	Audit of pay slips, salary bills and TA bills, medical bills etc of officers	General review and checking as per the quantum of checks prescribed	Review and checking as per the quantum prescribed.	Detailed check as per the quantum prescribed
2.	Audit of bills for Estt. and TA & medical bills etc. of other Estt.	General review and checking as per the quantum of checks prescribed	Review and checking as per the quantum prescribed	Detailed check as per the quantum prescribed
3.	Audit of contingent vouchers	General review and checking as per the quantum of checks prescribed	Review and checking as per the quantum prescribed	Detailed check as per the quantum prescribed
4.	Audit of pension cases	General review and checking as per the quantum of checks prescribed	Review and checking as per the quantum prescribed	Detailed check as per the quantum prescribed
5.	Audit of pension vouchers and interest payment	-do-	Review and checking as per the quantum prescribe	Detailed check as per the quantum prescribed
6.	Review of Broad sheets and objection books maintained by FA & CAO	General review	Review	Detailed Review
7.	Audit of PF accounts included in audit of vouchers relating to temporary advances, part and final bills tracing credits and	General Review	Review	Detailed check as per the quantum prescribed.

	calculation of interest payable to subscribers.			
8.	Finalisation of DP cases	Review and finalization	Initial scrutiny and processing	Assist the Audit Officer/Asst. Audit Officers in finalization of DPs., taking copies of key papers, preparation of work sheets, comparison of copies etc.

SCHEDULE I-C

CENTRAL AUDIT/ECA-III

Sl. No.	**Item/particulars of work/Document**	**Audit Officer**	**A.A.O**	**Sr. Auditor/Auditor**
1.	Audit of sanctions for purchases issued by authorities subordinate to the Board and scrutiny of contracts for purchases.	General review and scrutiny as per the quantum of checks prescribed.	Review and scrutiny as per the quantum of check prescribed.	Detailed check.
2.	Audit of the monthly accounts received from account rendering units.	General review.	Review.	Detailed check of all vouchers as per the quantum prescribed.
3.	Audit of vouchers relating to works.	General Review and scrutiny of all vouchers as per the quantum of checks prescribed.	Review and scrutiny of all vouchers as per the quantum of checks prescribed.	Detailed check of all vouchers as per the quantum prescribed.
4.	Finalisation of DP cases.	Review and finalization.	Initial scrutiny	Assist the Audit Officer/Asst.

			and processing.	Audit Officer in the finalization of DPs. Like taking copies of key papers, preparation of work sheets comparison of fair copies etc.

SCHEDULE II-A
INVESTIGATION /CIVIL/PROJECT DIVISIONS/CIRCLES

Sl. No	Item/particulars of work	Audit Officer	AAO	Senior Auditor/Auditor
1	Cash book and all connected records	-	Detailed scrutiny	Assist the AAO
2	Stores Accounts and all connected records	General review	Review	Detailed check
3	Records relating to theft/ misappropriation of cash/stores	General review	Check	-
4	Physical verification 'Reports and their final disposal under orders of competent authority	General review	Check and review	Detailed check
5	Disposal of unserviceable/ obsolete dead stock	General review	Check and review	Detailed check
6	Review of slow moving/ non-moving items	General review	Review	
7	File relating to loss in transit/demurrages paid, insurance claim	General review	Review	
8	Registers/Records relating to write off of losses/recovery	-	Check and Review	Detailed check
9	Register of tenders/tender form	-	-Do-	-Do-
10	Register of sanctions for estimates /works	-	-Do-	-Do-
11	Register of agreements for works and agreements	General review	Detailed check	

12	Analysis of major works, scrutiny of tenders and agreements for works & work execution files (both Account Branch & Drawing branch files are to be scrutinized)	Scrutiny of contracts for works Rs.10 lakhs and above	Scrutiny of contracts for works above Rs.1 lakh but below Rs.10 lakhs	Scrutiny of contracts upto Rs.1 lakh
13	Register of purchases	General Review	Review and check	Check
14	Scrutiny of purchase file (purchase orders given by higher authorities) & local purchases& related matters till supply is completed	Scrutiny of purchases upto Rs.10 lakhs and above	Scrutiny of purchases upto Rs.10 lakhs	Scrutiny of purchases upto Rs.1 lakh
15	Construction Accounts Ledger	General review	Review	Check
16	Contractor's ledger	-Do-	-Do-	Detailed check
17	Register of Tools& Plant	-Do-	-Do-	-Do-
18	Monthly/Annual return of Tools & Plant	-Do-	-Do-	-Do-
19	Register of Security Deposits	-Do-	-Do-	-Do-
20	Register of Earnest Money Deposits	-Do-	-Do-	-Do-
21	Register of advances made to contractors/suppliers, levy of interest if any and their prompt adjustment	-Do-	-Do-	-Do-
22	Register of vehicles/log books of vehicles	-Do-	-Do-	-Do-
23	Register of incoming/out going invoices	-Do-	-Do-	-Do-
24	Register of RS advances	-Do-	-Do-	-Do-

25	Register of Suspense items, stores handling suspense, materials suspense, vehicle workshop suspense	-Do-	-Do-	-Do-
26	Register of M Books and their scrutiny	-Do-	-Do-	-Do-
27	Register of check measurements	-Do-	-Do-	-Do-
28	Divisional Accountant's Objection Book	-Do-	-Do-	-Do-
29	Register of Survey Reports and disposal of Survey reported items	-Do-	-Do-	-Do-
30	Register of OT payments and their scrutiny	-Do-	-Do-	-Do-
31	Checking of General ledger, subsidiary ledgers, journal & vouchers for the selected months	-	-Do-	-Do-
32	Register of Sundry Debtors/ Sundry Creditors and records connected with follow up actions	-	General review	Detailed check
33	Register of fixed charges	-	-Do-	-Do-
34	Register of Rent received in respect of Board's buildings let on hire, recovery of rent etc.	-	-Do-	-Do-
35	Review of closure of Accounts of projects which have been completed years back (delay if any) (Applicable to Project Circles/ CEs Office)	General review	Detailed scrutiny	
36	Review of investigation works on H.E. Schemes completed long back	-Do-	-Do-	

	but schemes not taken up for execution (applicable to investigation Circles/Divisions)			
37	Compensation payments in respect of land acquisition, tree cutting of land etc. if any	-Do-	-Do-	

SCHEDULE – II - B
MAIN /CHIEF STORES, REGIONAL STORES (ELECTRICAL &CIVIL)

Sl No.	Item /Particulars of work	Audit Officer	Assistant Audit Officer	Senior Auditor/Auditor
	(Item 1 to 34 as given in schedule II A)			
1.	Records relating to damages caused to Boards property and their recovery	-	Review	Scrutiny
2.	Files/Records relating to losses in transit	-	-Do-	-Do-
3.	Register of writes off	-	-Do-	-Do-
4.	RR Register / LR Register	-	-Do-	-Do-
5.	Stores imprest register	-	-Do-	-Do-
6.	Review of excess stock held and fixation of minimum limit etc.	General review	-Do-	-Do-
7.	Scrutiny of payments made for supplies effected by Contractors in respect of escalation claims	-Do-	-Do-	-Do-
8.	Scrutiny of imposition of penalty recovery of demurrages, loss due to shortages, insurances claims etc.	General Review	Review	Scrutiny
9.	Arrangements for pumping of cements to silos, their efficiency, demurrages	-Do-	-Do-	-Do-

	payment to Railways etc.			

SCHEDULE - II C

T.M.R. DIVISION/MECHANICAL WORKSHOP DIVISIONS

	Item/particulars of work	Audit officer	A AO	Senior Auditor / Auditor
1.	Transformer testing Register	General Review	Review	Detailed check
2.	Meter testing Register	-DO-	-DO-	-DO-
3.	Settlement in respect of shortages, damage sustained in transit, in the receipts of meters &transformers from suppliers & their follow up action	-DO-	-DO-	-DO-
4.	Scrap Register &Disposal	-DO-	-DO-	-DO-
5.	Arrangements of repairs of meter /transformers with private parties	-DO-	-DO-	-DO-
6.	Review of MRT Suspense	-DO-	-DO-	-DO-

SCHEDULE – II - D

TRANSMISSION DIVISIONS/CIRCLES

	Item/particulars of work	**Audit officer**	**A AO**	**Senior Auditor / Auditor**
(item I to 34 as given in schedule II A				
1.	Records relating to damages caused to Board's property and their recovery	General Review	Review	Detailed check
2.	Compensation in respect of land acquisition, tree cutting to private parties and Forest department and losses caused to private parties.	-DO-	DO	-DO-
3.	Review of schemes for construction of HT lines (66, 110, 220 KV lines etc)	General review	Review and scrutiny	-DO-
4.	Delay in installation and commissioning of Sub station	-DO-	DO	-DO-
5.	Transformers after their receipt and	-DO-	DO	-DO-

	performance during their guarantee period.			

SCHEDULE II - E
GENERATION DIVISIONS /CIRCLES

	Item/particulars of work	Audit officer	A AO	Senior Auditor /Auditor
Items 1 to 34 as given in schedules II A				
1.	Log book of Generation and review of performance and utilization of capacity	General Review	Review & scrutiny	Detailed check
2.	Forced outages preventive maintenance of generation review	-DO-	DO	-DO-

SCHEDULE II - F
ELECTRICAL DIVISIONS /CIRCLES

	Item/particulars of work	Audit officer	A AO	Senior Auditor / Auditor
Items 1 to 34 as given in schedules II A				
1.	Records relating to damages caused to Board's property and their recovery	-	General review	Detailed check
2.	Implementation of RE schemes	General Review	Review &Scrutiny	-Do-
3.	Execution of minimum guarantee works (Scrutiny of MG agreement and refixation of MG amounts based on actual costs and follow up	-DO-	DO	-DO-
4.	Selection of Teakwood saplings from forest ranges and their payment	-DO-	DO	-DO-
5.	Arrangements made for transportation to treatment yard to sections /work spots	-DO-	DO	-DO-

6.	Arrangements made for chemical treatment of TW saplings	-DO-	DO	-DO-
7.	Contracts for castings of RCC/PSC poles and their transportation to sections/workshops	(As in the case of work files scrutiny)		

SCHEDULE III
CHIEF ENGINEER (ELECTRICAL /CIVIL)

	Item/particulars of work	**Audit officer**	**A AO**	**Senior Auditor / Auditor**
Items 1 to 34 as given in schedules II A as are applicable each CE' Office				
1.	Review of Overall performance of generation	General Review	Review	
2.	Review of new HE &investigation & transmission scheme	-DO-	DO	
3.	Review of distribution systems losses etc.	-DO-	DO	
4.	Review of final disposal of physical verification Reports	Review	Detailed scrutiny	Initial scrutiny
5.	Review of disciplinary cases involving monetary loss to Board on account of misappropriations/theft of cash &Stores	-DO-	DO	Initial scrutiny
6.	Sanction /contracts for Review of purchases	Scrutiny of all purchases above Rs. 10 lakhs.	Scrutiny of purchases below Rs10 lakhs but more than Rs 1 lakh	Scrutiny of purchases up to Rs. 1 lakh
7.	Review of sanction /award of civil works	-DO-	DO	-DO-
8.	Review of utilization of loans/subventions received from specific projects from outside agencies like Govt/ World Bank etc.	General review	Review	-DO-
9.	Review of survey reports sanctioned & disposal	-DO-	DO	-DO-

SCHEDULE - IV

AUDIT OF ELECTRICITY – REVENUE, OFFICE OF THE SPECIAL OFFICER (REVENUE).

Sl. No	Item/ particulars of work	Audit Officer	AAO	Senior Auditor/ Auditor
1	Agreement of bulk extra state supply of power and review of outstandings	Detailed Audit		
2	Agreement for H.T and bulk supply	Review	Detailed check	
3	Tariff structure	-Do-	- Do-	
4	H.T &EHT Monthly Bills & Energy charges, duty and inspection fee etc.	- Do	Detailed audit & Review of Auditor's work	Detailed audit of the bills of those consumers selected
5	L.T monthly bills & Energy charges duty and inspection fee etc	- DO-	Review	Detailed check
6	Consumer Ledger	-	Detailed check of bills (E.H.T & H.T) & credits outstanding	Detailed check of duty/ (LT) &outstanding .
7	Consumers reports	-	Review	
8	Cash book and connected records	-	Detailed check	-
9	Bank reconciliation statement	-	Detailed check	-
10	Reports of Inspection of Meters /under taken /faulty meters /replacement in time	-	Review	Detailed check
11	Collection of Electricity duty in respect of self generating sets/ licenses	-	-	Detailed check
12	Review of R.R proceedings	-	Review	
13	Minimum guarantee Register	-	Detailed check Review of outstanding	

14	New consumers Register	-	-	Detailed check
15	Monthly trial balance	Review	Detailed check	
16	Category wise unit realization	-	Review	

SCHEDULE - V
BOARD SECRETARIAT

	Item/ particulars of work	Audit Officer	AAO	Senior Auditor/ Auditor
1	General scrutiny of Board minutes/Agenda papers and Minutes Book	General review	Detailed scrutiny	
2	Review of legal cases instituted by/ against the Board	-DO-	Review	Scrutiny
3.	Review of disciplinary cases instituted against the officials of the Board	-Do-	Scrutiny	
4	Review of misappropriation of cash/theft of stores cases reported to the Board	Scrutiny	Scrutiny	
5	Review of arbitration cases	Review	Detailed Scrutiny	
6	Review of performance / achievements of the technical wing of the Board in all its aspects for the year	General Review	Review	
7	Cash Book &Connected records	Detailed Check	General Review	Detailed check
8	Review of general & subsidiary Ledgers		General Review	Detailed check
9	Agreement on take over of license and payment of compensation	Scrutiny & Review	Scrutiny	

SCHEDULE VI A

FINANCIAL ADVISOR'S OFFICE

	Item/particulars of work	Audit Officer	AAO	Senior Auditor / Auditor
1	Fixed Deposit	-	Review	Check
2	Register of payment for Government Dues	-	- Do-	-DO-
3.	Assignment Register	-	-Do-	-Do-
4	Issue and Redemption of Bonds and connected files	General Review	Scrutiny	- Do-
5	Raising of loans from Government financial institution and their repayment etc.	-Do-	- Do-	- Do-
6	Payment of guarantee commission and matters connected therewith	- Do-	- Do-	- Do-
7	Aids from foreign agencies/ Government and their utilization /repayment ,payment of interest	General Review	Scrutiny	Check
8	Cash management and all related aspects	Detailed	- Do-	- Do-
9	Miscellaneous income	General Review	Review	- Do-
10	Deferred /contingent liabilities	- Do-	- Do-	- Do-
11	Borrowings for capital purposes in relation to borrowings powers of the Board	- Do-	Scrutiny	
12	Creation of Reserve for redemption of loan	- Do-	- Do-	
13	Creation of other reserves	- Do-	- Do-	- Do-
14	Fixed assets	- Do-	Check	Detailed Check
15	Current assets	- Do-	- Do-	- Do-
16	Creation of reserve for bad and doubtful debts, policy matters	Review	- Do-	

17	Policy on accounting matters	Review	Scrutiny	
18	Review of all current Accounts &Central Collection Accounts with the various Banks at Head Office operated by Financial Advisor &CAO	- Do-	Detailed	
19	Payment of Government dues on Electricity duty & Inspection Fee	General Review	- Do-	
20	Payment of import of energy agreements Scrutiny	- Do-	- Do-	
21	Examination of records relating to opening of L/C Release of payments for foreign exchange in relation to imports /visits of Board officials to foreign countries	- Do-	Scrutiny	

SCHEDULE VI B

FINANCIAL ADVISOR'S OFFICE (ANNUAL ACCOUNTS AUDIT)

	Item/ particulars of work	Audit Officer	AAO	Senior Auditor /Auditor
1	Checking of postings of monthly trial balances in the classified/consolidated Register /Abstracts	-	Review	Check
2	Checking of journal and Journal voucher	General Review	Detailed review	- Do-
3	Trial balance of the Board for the year	- Do-	- Do-	- Do-
4	Fixed assets, Depreciation and related matters	- Do-	- Do-	- Do-
5	Cash balances/ Trial balances, reconciliation and related matters	- Do-	- Do-	- Do-
6	Interest calculations and related mattes in respect of all loans, bonds raised/ issued	- Do-	- Do-	- Do-
7	Provisions of other item of outstanding liabilities/contingent /deferred liabilities	- Do-	- Do-	- Do-
8	Checking of accounting policies and notes on accounts	General review	Detailed Check	Check
9	Sale of energy and provisions for accrued income	- Do-	- Do-	- Do-
10	Subventions from Government	Review	Checking	
11	Checking of working sheets for arriving at stores balances & all adjustments/entries passed centrally	General Review	Detailed check	Check
12	Scrutiny of files relating to Income Tax	Review	Detailed Scrutiny	

13	Checking of correctness of balance sheet, Net revenue and Appropriation Accounts and all supporting schedules forming part of the Accounts and compliance with respect to Electricity Supply Rules	Review	Detailed Scrutiny	
14	Test check of units trial balances at the units to be made in accordance with the above allocation of duties			

Annexure 5

QUESTIONNAIRE ON INTERNAL CONTROL AND INTERNAL AUDIT SYSTEM
(Referred to in Chapter 12.09)

i) Name of the entity	
ii) Period of Audit	
iii) Name/Designation of the official who conducted the evaluation	
iv) Duration of Audit	
v) Name of the Chief Executive during the period covered in audit	
vi) Signature official who conducted the scrutiny	

Internal Control

BUDGET

1. Whether the periodical budget estimates are prepared by a competent authority and properly complied with?

2. Whether there was any expenditure without budget provision or excess expenditure over budget provision?

3. Whether the budget and the expenditure there from conform to the relevant manuals, General Financial Rules, Treasury Rules/Manual and delegation of powers?

4. Whether expenditure incurred was properly documented and sanctioned by the competent authority and ensures economy and efficiency?

CASH & BANK

5. Whether the duties relating to authorization of transactions, handling of cash/Bank book and other related books of accounts (eg. Drs Ledgers, Crs Ledgers etc) are segregated and rotated periodically?

6. Whether cash transactions are recorded daily, balance physically checked and authenticated and surprise checks conducted by a higher authority?

7. Whether safeguard such as restrictive crossing of cheques and use of preprinted pre numbered forms are in vogue?

8. Whether safe custody of cash, cheque books, receipt books etc. are ensured and cash security/fidelity insurance obtained?

9. Whether the cash book balance and Bank Balances were reconciled periodically?

INVENTORY

10. Whether all stores transactions are properly documented, physical verification conducted at regular intervals and balances appearing in stores ledgers reconciled?

11. Whether control procedures in respect of inventories provide for segregation of such function whose combination may permit commitment or concealment of fraud or error? Eg. Duties of store keeper and persons conducting physical verification of inventory.

12. Whether stores procedure provides for pre numbered standard forms?

13. Whether there is a system of cross checking the data generated by different operating departments?

14. Whether the security of stores, action on shortages/pilferage/loss of inventory is adequate?

15. Whether a system of disposal of old unserviceable, surplus stores is properly devised?

16. Whether the credit limits for customers are determined and laid down properly and such limits are fixed by an official independent of sales department?

AMOUNTS RECEIVABLES

17. Whether periodic review of credit limit to individual customers is conducted?

18. Whether recording of debt, its realization and linking of receipts with outstanding is prompt?

19. Whether the statements of accounts are sent to all debtors for confirmation, by an official independent of the ledger keeper and necessary action taken for discrepancies?

20. Whether age-wise statements of debtors are prepared and reviewed by a responsible official and action initiated in respect of over dues?

21. Whether all material adjustments in Debtors accounts particularly those relating to rebates, discounts, commissions etc. and write-off are approved by a competent authority?

22. Whether periodic reconciliation of debtors' balances with related control accounts is done?

LOANS & ADVANCES

23. Whether system specify:-
    - ❖ Total amount up to which loans to be made
    - ❖ Purpose of loans
    - ❖ Maximum amount of loan for such purpose in individual cases
    - ❖ Terms of loan
    - ❖ Persons authorized to make loan
    - ❖ Procedure for compliance with relevant legal requirements

24. Whether loans and advances are secured and adequacy there of reviewed by a responsible official?

25. Whether security documents are kept in safe custody and documents verified periodically?

26. Whether confirmation of balances obtained at periodic intervals?

27. Whether system provides for identification of cases where principal, interest become over-due?

28. Whether the system specify:-
    - ➢ Borrowing powers and limits
    - ➢ Persons competent and authorized to borrow
    - ➢ Terms of borrowing
    - ➢ Compliance with relevant legal requirements and regulations

29. Whether variation, if any, in terms of loans/borrowings is approved by the competent authority?

30. Whether security offered against loan is properly recorded, reviewed and kept under safe custody?

31. Whether the system brings out all cases of non-compliance of terms and conditions and overdue cases?

CREDITORS

32. Whether confirmation of balances obtained at periodic intervals and discrepancies investigated?

33. Whether payment to creditor is in line with the approved policy?

34. Whether specific procedures are in vogue for payment against duplicate invoices/ other duplicate records and payment against unclaimed accounts?

35. Whether statement of account of creditors were prepared at regular intervals and reconciled with the record of creditors?

36. Whether all adjustment in creditors account such as claims for returns, short supply, rebate and allowances are properly approved by the competent authority?

REVENUE

37. Whether system and procedures are relating to generation of revenue including authority to fix prices, offer discounts and terms of sales are proper?

38. Whether the accounting procedures relating to recognition of revenue is sound?

39. Whether the system of preparation of periodic report on actual performance vis-à-vis budget is in existence?

INVESTMENTS

40. Whether the acquisition and disposal of investments were made with proper sanction and in accordance with legal requirements and internal regulations?

41. Whether investments are in the name of the entity and the title and benefits passed on to the entity?

42. Whether a proper system exists for safe custody of all investment documents?

FIXED ASSETS

43. Whether capital budgeting exists for control over expenditure incurred on fixed assets acquired/self constructed and periodical comparisons of actual with budgets made?

44. Whether accountability over each fixed asset is established and physical verification of each fixed asset conducted at regular intervals?

45. Whether utilisation controls in order to ensure utilization of individual assets are effective?
46. Whether reliable information is available for calculating and allocation depreciation, recording disposals/retirements, preparing tax returns, insurance claims and controlling repairs and maintenance cost?

Internal Audit

1 What is the organization of internal audit wing?

2 Whether the internal audit wing is independent in its functioning?

3 Whether it is reporting to the Chief Executive directly?

4 Whether the adequacy and effectiveness of the internal controls are reviewed in internal audit?

5 Whether the financial and other reports show the results of actual operations?

6 Whether each unit of the organization follows the policies and procedures as laid down by the top management?

7 Whether any standards set by the top management on documentation?

8 Whether any code/manuals etc defining and supporting internal audit function has been prescribed?

9 Whether such manuals are reviewed and updated?

10 Whether the internal audit staff is properly qualified and trained?

11 Whether any separate cadre exists for internal audit or deployed from line staff specific period?

12 Whether any audit plan is prepared and approved by the top executive?

13 Whether there are any criteria for selecting field units for audit?

14 What is the periodicity of internal audit?

15 What is the extent of coverage in internal audit? Whether the extent of coverage is adequate?

16 Is there any abnormal delay in issuing audit reports?

17 What is the volume of pendency of audit?

18 How far is the quality of checks in internal audit satisfactory?

19 What is the time taken by the units to rectify mistakes pointed out by internal audit?

20 Any persistent irregularities reported in internal audit?

21 Whether any departmental action was taken for non-compliance to internal audit observations?

22 What is the role of internal audit in settling objections of C & AG?

23 How far the system is effective in achieving the objectives of the organization?

24 Whether the cost effect analyses justify the system?

SENIOR AUDIT OFFICER

Annexure-6
Guidelines on Internal Control System
(Referred to in Chapter 12.09)

I. Objectives

1. Does the organization have a statement defining its objective clearly and in specific terms?
2. Whether the objectives can be identified from the policy guidelines issued by the management where there is no written statement of objectives?
3. Whether the broad objectives broken down into detailed targets periodically by way of plans? Whether separate targets for each responsibility centre are formulated?
4. Whether the objectives are being revised periodically in the light of changes in internal and external environment?
5. Whether the objectives are expressed in specific quantitative terms i.e. rate of return, physical output or quantum of service etc.
6. Whether the guidelines in terms of policies in the area of management are clear-cut.

II. Planning

1. Whether the organization has a system of long range and short range planning?
2. Whether planning is viewed as the starting point of the management function. Whether the planning is related to the objectives of the organization?
3. What is the degree of involvement of various levels of management in the planning process?
4. Whether the operating plans are being prepared periodically and expressed in quantitative terms for each area of operations?
5. How are the budgets framed? Whether the budgeting is a co-ordinated activity?
6. How the budget estimates developed?
7. Whether the budget estimates are reviewed by a high level committee in depth?
8. Whether it is prepared, scrutinized and approved sufficiently before budget period?
9. Whether the budget conveyed to all operational levels in time and it is easily understandable?
10. How far the functional managers committed to the targets set up in the budget?

III. Organisation

1. Whether the company has a well defined organizational structure and an organizational chart has been prepared?
2. What are the various levels in the organizational hierarchy? Whether the authority and responsibility are clear? Whether there is a position where a person reports to two or more authorities?

3. Whether the principles of formal organization are being followed?
4. What is the managerial philosophy in the organization? Whether the decision-making is centralized or decentralized?
5. What is usual span of supervision?
6. What is nature of superior – subordinate relationship in general? Whether the authority patterns fraternal in nature?
7. How do the various managers view people at work?
8. What is the system of motivation in the organization? Whether the motivation is performance based?
9. Whether the distribution of work is done as per the modern theories of organization? Whether there is too much specialization?

IV. Control

1. What is the philosophy of control? Whether the controls are close, detailed and frequent. They are broad and periodic?
2. Whether there is a list of active and identifiable controls? Whether the controls are physical or monetary or both?
3. Whether the control related to plans?
4. What are the main parameters of controls? Whether these are defined precisely for each responsibility areas?
5. Whether the controls highlight variances between actual performance and targets?
6. Whether the controls are acceptable to various levels of management?
7. Whether there is system of rewards and punishment linked with controls?
8. Whether the cost of each control has been worked out and ensured that cost does not exceeds the benefits?
9. Whether the controls are reviewed periodically and inactive controls are eliminated? What is the procedure for altering or terminating controls?
10. What is the detailed system of operational control over various assets and transactions of the organization?
11. What is control system over cash, bad debts, fixed assets, pay roll, inventory levels, research and development, overtime, tax-payment, obsolescence and collection of sundry debtors?

V. System and procedures

1. Who is responsible for designing system? Whether the department responsible for it is adequately manned with qualified people?
2. Whether there are proper descriptions, flow charts and manuals showing various systems?
3. Whether the system related to the changing technology and environment of the business and whether there is a system of periodic review?

4. Whether the systems properly explained to various people before they are put in operation? What other steps are taken to meet the usual resistance to a new system?
5. Whether there is a periodic review of cost benefit of a particular sytem?
6. What are the various forms in use? Whether they are designed to give proper information with minimum efforts?
7. What are the steps taken to reduce the paper work?
8. Whether the routing of various forms and statements periodically reviewed keeping in view the need for information at various levels and possibility of delays?
9. Whether the filing and storage procedure for various documents properly laid down? Is there a definite system for automatic disposal of documents?
10. Whether the organization has a computerized information system? Whether its cost effectiveness, need for creation of necessary knowledge and motivation levels have been considered?
11. Whether there is periodic review of efficacy of computerized system in the context of developments in technology?

VI. Accounting and Finance

1. What is the role of accounting and finance department in overall management structure? Whether it is properly staffed with qualified persons? What is its relationship with other departments?
2. Whether the organization has a proper system of financial accounts and cost accounts? Are the two integrated or separate?
3. Whether the financial accounting system is efficient? How regularly the trial balance is prepared and how much time it takes in preparing the final accounts after annual closing?
4. How effective is the internal control checks in the accounts department? Whether the system has been designed to minimize the possibility of errors, frauds and mis-appropriations? What are the control on flow of cash, goods and documents?
5. Whether the manuals and flow charts exist describing various accounting procedures and they are reviewed periodically?
6. Whether there is an internal audit department and how the reports of internal auditors are dealt with?
7. Whether the costing systems suited the needs of the department?
8. Whether standard costs been determined? Whether they are developed on the basis of time, motion and work studies?
9. Whether the cost statements are prepared in time and reviewed periodically?
10. What is the system of budgetary control? How are the variance between actual figures and budget figures dealt with?

11. What are the basis of allocation, apportionment and absorption of overheads? Are they fair and objective?
12. Whether the costs are classified by their nature and the cost departments use the technique of marginal costing for profit planning?
13. Whether the future requirement of funds estimated periodically? Are the projections related to the planned level of activities?
14. Whether the capital structure designed keeping cost and risk factors in mind?
15. What is the cost of the capital? How does it compare with that of other similar units?
16. Whether detailed financial analysis conducted before funds are committed for capital expenditure?
17. Whether working capital requirement properly analyzed? Are they related to the changes in the level of activities?
18. Whether the policies regarding credit, stocks and cash etc. are reviewed periodically to keep the working capital at the optimum level?
19. How the working capital financed?
20. How the cash management organized? Is it centralized? How do various segments of Organisation receive adequate cash?
21. Whether there is a constant watch on the solvency and liquidity of the organization? Whether ratios are computed periodically to ensure that the Organisation earns an optimum return on investment while maintaining a sound financial health?
22. How does the return on investment of the Organisation compare with that of other similar organizations?
23. What is the system of financial control? Whether the various divisions appraised on the basis of their financial results.

CHAPTER 13

REPORT (COMMERCIAL) SECTION

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CHAPTER – 13

REPORT (COMMERCIAL) SECTION

13.01 Introduction

Report (Commercial) Section is working under the direct control of the AG (ERSA). The work of the section is carried out/supervised by a Sr AO (Comml) and reported through the Group Officer. The Sr AO (Comml) is assisted by AAOs and Senior Auditors/Auditors to manage the day-to-day activities of the section. The work relating to the Committee on Public Undertakings (COPU) is attended to by another AAO under the direct control of a Branch Officer/CA HQ Section for administrative convenience. The Section is responsible for the -

- selection of topics for performance reviews for the Audit Report (Commercial);
- finalisation and issue of draft paragraphs (DPs)/draft performance reviews in respect of Government companies, Statutory corporations and Regulatory authorities;
- preparation, finalisation and issue of the Audit Report (Commercial);
- preparation and finalisation of the Memo of Important Points (MIP) for discussion of the Audit Report (Comml) by COPU;
- vetting of the notes, reports etc., in respect of the Audit Report (Comml) forwarded by the Administrative Departments and Legislative Secretariat for being placed before the COPU;
- review of the Reports of COPU, Audit Reports (ARs) of other States and circulation of important Comments in the ARs to the section concerned;
- preparation and finalisation of various returns as per the Calendar of Returns; and
- other items of works allotted from time to time.

Headquarters has stressed the importance of the Report (Comml) Section and visualizes that the Officer in charge of the section should function as a bureau of research and vigilance.

[Dy CAG's DO letter 790/Report/ 71-51 dated 21-11-1951 – File AA/54-4/52-53 and orders of DAG (Comml)]

13.02. Finalisation of draft paragraphs and reviews

Potential draft paragraphs (PDPs)/draft reviews as approved by the Group Officer, should be forwarded to the Report (Comml) Section for further processing and finalisation. Copies of all relevant key documents and details of statement of calculations in support of the facts and figures cited therein as key documents should accompany the PDPs/draft reviews. While forwarding the material, the section concerned (DP Cell/CA HQ, TA and ECA Sections)/Inspecting Officers and CA Parties should ensure that the draft MIP in respect of the PDPs/draft reviews are attached so as to enable the Report (Comml) Section to finalise the MIP at a later stage. This would also enable the Section to understand the significance of the irregularities brought out in the PDPs/draft reviews and how they would figure at the time of discussion by the COPU.

All audit paragraphs must contain the following features:

(i) central idea or theme of the para;

(ii) specific observation on the system lapse or flaw in the decision due to which irregularity or loss occurred; and

(iii) rectification measures to plug the flaws.

[Headquarters letter 513-CA-II/co-ordn/2001-02/ Misc/48-2002 dated 02.06.2003]

While finalizing the DPs/draft reviews, the following points should be kept in mind.

- Any DP more than five years old may not be considered unless the issue involved has a continuing relevance;
- Confidential communications of the Government should not be directly referred to in the AR; and
- DPs on fraud and corruptions should be highlighted in bold type and forwarded to the Chief Vigilance Commissioner as soon as the AR is placed before the State Legislature endorsing a copy to Headquarters for record.

[Headquarters letter 608/CA II/Co-ordn/Sr. Officers meeting/2003-04/87-2004 dated 24.05.2006]

- As a general rule, transactions over five years old should not be considered. However, cases of lack of response to constructive suggestions of Audit aimed at remedying deficiencies in control systems may be commented upon, if the continuance of the unsatisfactory features is attended with risk of fraud or loss to Government;
- Obvious errors in the AR should not be repeated next year;
- AR should not make any reference to any document, which is of a secret/confidential nature;
- Irregularities, which have already come to the notice of the executive on its own or through internal audit, etc., and on which action is being taken or proposed, should not be considered for the AR;
- Highlights appearing in the performance reviews should list out major audit findings;
- Money value attributed to paragraphs should not be inflated; and
- Paragraphs relating to fraud/misappropriation should be printed in bold letters.

[Headquarters letter 435-Rep (s)/ 120-2006 dated 07.04.2006]

- As far as possible, cases which are of identical nature should be clubbed and proposed as a single case.
- Cases below the monetary value of Rs 10 lakh (present ceiling fixed for DPs) need not be included unless they contain system lapse/cash loss/misappropriation/fraud, significant deficiencies in internal controls, etc.
- Audit observations trying to bring out managerial lapses after adequate remedial action has been initiated by the Management may not be proposed as PDPs.
- Cases involving financial loss raised in previous ARs, in one unit of an entity should not be attempted for another unit while sending PDPs when a systemic weakness is being highlighted.

- Analysis of reasons for lapses into controllable/non-controllable should be done with a view to distinctly point out the managerial lapses.
- The angle in which COPU may view the lapse at the time of discussion should also be kept in mind while processing the PDPs and the irregularity/ lacunae/lapse clearly brought out so as to ensure that the spirit of the para is not left out at the time of discussion.
- As far as possible, attempts may be made to highlight systemic, persistent and pervasive weakness and irregularities, so that audit findings and recommendations can lead to improvement in PSU operations.
- Management's reply should not be considered as key documents.
- Management views may be obtained in all the cases and wherever key documents are wanting, the same may be collected.

[Orders dated 7-12-2007 of the Prl AG (Au) –File Rep (Comml) 53-8/DP target/2007-08]

Report (Commercial) Section should edit each PDP with reference to the materials made available by the section concerned for the approval of the AG (ERSA). After approval, the DP should be sent to the Secretary to the Administrative Department concerned by name, so as to know the proposed comment in the AR at the earliest opportunity and for verification of facts and figures, simultaneously endorsing a copy each to the Finance Secretary to Government and the Chief Executive of the auditee entity by name. This is to ensure that the facts and figures mentioned in the DP will not be challenged later when it is taken up for discussion by the COPU. The remarks on the DP are required to be communicated by them to the AG (ERSA) within six weeks from the date of receipt of the DP. Before sending the verification report/remarks, the officers concerned are required to collect all the facts which have a direct or indirect bearing on the irregularity commented upon, so as to ensure that the audit paragraph portrays a true account of the alleged irregularities or lapses. If the proposed DP requires any modification to bring out the facts of the case, it should be suggested by them while sending the verification report. In case where the Department is not in a position to furnish a final reply within the time limit of six weeks, it is expected to send an interim reply to the AG (ERSA) indicating the time by which the final reply could be sent. In any case, the final reply is required to be sent within three months from the date of receipt of the DP.

A convention has been set up with the State Government, by which if the final reply to the DP is not received within stipulated period; the same would be considered a paragraph for the AR.

[Government Decision DDIS/9401/52/ Fin. dated 22-4-1952 - File Rep (Civil)/AA/55-11/50-53]

All DPs/draft reviews for AR should be marked as *confidential* invariably while sending them to Headquarters for approval or to State Government/State PSUs for verification of facts or calling for comments. Adequate care should be taken at every stage to see that materials for AR are not leaked out till it is presented to the State Legislature.

[Headquarters letter 864/ CA II/ 398-99 dated 21.11.2003]

Style Guide, as prescribed in Chapter I (Public Sector Undertakings), aimed to bring about uniformity in the style of reporting in the Indian Audit & Accounts Department should be adopted right from the DP stage.

[Headquarters letter 215 Audit [AP]/ 6-2003 dated 03.12.2004 – File Rep [Comml] / 53-8/ CAG Instructions /Gl/Vol.X]

Care and caution should be taken in the drafting of audit paragraphs and expansive conclusions should be avoided.

[Headquarters letter 352/CA-II/ 43-97 dated 02.04.2004 - File Rep (C0mml)/53-8/Gl/CAG Vol.X]

DPs and draft reviews may be discussed in the meetings between the AG (ERSA) and the Administrative Secretaries. The Finance Secretary and Chief Secretary may also be associated in these meetings, if possible. In any case, opportunity may be taken to associate them in the meeting and Finance Secretary, in particular, informed of the results of audit likely to find a place in the AR.

[Headquarters letter 792/Rep/294-78 dated 23-8-1978 – File Rep (Civil)/I/54-1/XXIII]

All the DPs incorporating the replies of the Management/Government to initial DPs along with rebuttal may be re-issued second time to the Administrative

Department concerned with a copy to the PSU concerned and they may be given 7-10 days time to respond. If no reply thereto is received within the prescribed time, the DP may be included in the AR as it is. If the replies of the State Government/Management are received, a summary of their replies may be included in the AR. Their second replies need not be rebutted in the AR.

[Headquarters letter 818/ CA II/143-97/ KW dated 05.11.2003]

If replies to DPs are abnormally delayed by the Government Departments and where the invitations for discussion do not get any responses, such cases should be brought to the notice of the Finance Secretary to Government. Further an omnibus DP may be proposed bringing out cases of non-receipt/abnormal delay in receipt of replies to DPs/draft reviews.

[Headquarters letter 1890-Rep/180-81 (General Circular No.18) dated 21-12-1981]

All the cases wherein replies have been received, the AG (ERSA) should devote personal attention for verification of facts for arriving at a conclusive view point.

[Headquarters DO letter 535/CA-II/184-2001 dated 30.06.2003]

Names of the officials personally responsible for any irregularity should not be disclosed in the Audit Report (Commercial).

[Headquarters letter 804/ CA II/ 398-99 dated 23.10.2003]

Covering letter forwarding every DP/draft review for AR (Commercial) to Headquarters for approval should be signed by the AG (ERSA).

[Headquarters letter 560/CA-II/ 398-99 dated 27.06.2003]

Revision in DPs/draft reviews or appraisals should be carried out, to the extent required on the basis of Headquarters queries at every stage and also while despatching of material to Headquarters.

[Headquarters letter 668/CA-II/ Gen.Cir. (D-3)/39-2003 dated 19.08.2003]

DPs on important financial irregularities, loss etc., should be sent to Headquarters well in advance in convenient batches as soon as they are ready irrespective of the fact whether they have been accepted by the Management or not. As soon as five or more important DPs have been finalised, two copies thereof should be forwarded to Headquarters for approval. These DPs should be pursued in the normal manner, special action being taken in the light of any comments or suggestions made by Headquarters.

[Headquarters letter 222-Rep/350-58 dated [4-10-1958 and orders of the CAG dated 16-10-1958 - File AA-54-1/56-57]

The AG (ERSA) should issue DPs/draft reviews to the PSUs and the Government and send them simultaneously in batches to Headquarters for vetting.

[Headquarters letter 509/ CA II/ CS-II/ Gen Cir./39-2003 dated 30.05.2003 and orders of DAG (Comml)]

Copies of DPs in respect of 619-B companies may be sent to Headquarters simultaneously when they are issued to the Management of such companies. Such DPs may be sent to the Administrative Ministry/Department or the Ministry of Finance only after clearance by Headquarters.

[Headquarters circular CAW/Tech. 6/84 issued in letter 602-CAW/57-84 dated 29-10-1984 addressed to all Directors of Commercial Audit]

On receipt of the comments from Headquarters on the DPs sent in batches, action should be taken expeditiously to revise them whenever necessary. The AG (ERSA) is free to make such further amendments as may be considered necessary to bring out the factual position correctly and completely.

Every effort should be made to obtain and consider Government’s remarks on the DPs sent to it. In spite of such efforts, if replies are not received, a sub-para may be suitably embodied in each DP to indicate the date on which the case was reported to Government/Management and the fact that the reply has not been received.

The paragraphs and reviews for the draft AR should then be prepared. Accuracy, brevity, clarity and purposiveness should be the hall mark of the AR. The audit findings should be significant and the tone and content of the AR should be such as would command the attention and interest of the Legislators and other readers. Efforts should be made to reduce the use of passive voice and complex sentences, avoid verbosity, brackets, parenthesis, extraneous information, etc.

13.03. Performance review

Performance review is conducted by following the procedures prescribed in the Performance Auditing Guidelines issued by SAI, India.

The first stage in performance auditing is strategic planning *for performance audits*, which requires the development and maintenance of information on the entity that will assist in identifying potential areas for performance audit. Potential topics can then be analysed to form audit strategy documents. Annual operational plans for performance audits may be formulated in line with the strategic plan.

The topics for performance review are selected based on the Corporate Plan/contemporary relevance of the topics as approved by Headquarters. Once a subject has been selected, performance audit is initiated by developing a plan with details for the conduct of the audit.

The implementation stage of a performance audit involves:

- development and execution of an audit programme;
- collection and documentation of sufficient, relevant and reliable evidence, including quantitative and qualitative analysis;
- development of audit findings, conclusions and recommendations; and
- development of discussion papers/draft field ARs and confirmation of audit findings at exit conference.

It is a good practice to conduct a pilot study in one or two representative units of the entity to assist the performance Auditor in refining the risk analysis, audit objectives, audit criteria, audit approach and audit test programme. In some cases, the result of pilot study may necessitate more intense field audit and in others, the result may lead the AG (ERSA) to either defer the audit or abandon it due to one or more reasons. Some illustrative findings of the preliminary study could be special skills and more time required for finalisation of the guidelines, higher risk perception, the subject being difficult from the auditability angle, sensitive subject from one or other points of views, very low risk or materiality and negligible perceived impact of audit, *etc.*

The output of the process of planning the performance audit of the selected subject will be a detailed guideline for the performance audit of the selected subject for internal use within the SAI, India. The guideline will consist of detailed information on the subject of performance audit along with enclosures consisting of copies of important documents relating to the programme/subject, scope of audit, audit objectives, audit criteria, evidence for each criteria, their source/location, audit test programmes, sampling of units to be audited, time-frame of field audit, objective of audits in each field unit, evidence to be gathered in each unit, tentative evidence gathering techniques and supervision and control system, *etc.* The AG (ERSA) will obtain approval of SAI top Management, where required, to the guidelines as per the practice prevailing within the SAI, India.

13.03.1. Entry conference

Entry conference at the commencement of each field audit serves more than one objective. It affords an opportunity for introduction of the audit team with the Chief Executive of the entity and heads of various divisions. The entry conference affords an opportunity for the Audit Officer to explain the audit plan as applicable to the entity consisting of the audit objectives, approach and time frame besides appraising the entity of the data, information and documents that will be required by the audit team. The working procedures for audit may also be established in this meeting. The Audit Officer may also utilise this occasion to request the Chief Executive of the entity to provide assistance to the team by way of office accommodation, access to office equipment, etc. It is useful to make a request for the entry conference in the audit engagement letter itself to enable the Chief Executive of the entity to set aside appropriate time on the very first day of the audit and inform his division heads in time. The entry conference should be followed by a brief minutes of the proceedings.

13.03.2. Study and evaluation of internal control

One of the objectives of performance audit is study and evaluation of the internal control that assist the conduct of the business of the entity in an economic, efficient and effective manner, ensuring adherence to the management policies and producing reliable and timely, financial management and performance information.

The study and evaluation of internal control depends on the objectives of the audit and the degree of reliance intended.

The performance audit team will document the internal control system significant to the audit objectives and carry out tests to arrive at the findings on their adequacy and actual performance. The documentation and tests will form part of the working papers and the audit findings and conclusion will be included in the Performance Audit Report.

The paragraph must inter alia indicate that Internal Audit Standards/Manuals have been prescribed; that these standards are in practice; that the responsibilities and duties of the Internal Audit Wing have been clearly defined; that the independence of the internal audit has been ensured; that the internal audit staff is adequately trained and competent; that internal audit planning is done in a professional manner; that standards of knowledge, honesty, probity and integrity are maintained by the internal audit staff.

13.03.3. Audit findings

Audit findings are identified by relating audit observations to audit criteria. Audit observations are based on the analysis of information collected during the audit. Audit findings should be developed and evaluated throughout the various phases of performance audit. Potential findings identified in the planning stage or during the preliminary study should be followed up in the detailed examination phase of the audit since the Auditor, rather than carrying a hindsight audit, is expected to take into account the circumstances prevailing at the time of events, it may be desirable that avoidable and unavoidable causes of findings are segregated.

Instances where entity performance exceeds the expected performance (as inferred from the audit criteria) may suggest good management, provided the targets/benchmarks are realistically determined, such cases should also be reported. Some of such instances may warrant a review of the criteria or the performance measures. At appropriate stages in the performance audit cycle, impact analysis may be carried out while developing the audit findings.

13.03.4. Conclusion Recommendations

Performance audit ought to conclude with well thought-out recommendations. If the dialogue with the entity during the entire process of performance audit has been consistent, constructive and effective, both the SAI, India and the entity may be required to focus only on the recommendations and their implementation, at the close of the performance audit, all or most other related issues already having been established. For developing recommendation, the AG (ERSA) should identify the underlying cause(s) of a finding, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings. The audit team may identify a cause-and-effect chain and have the option of reporting the findings at different points in the chain. In this situation, the Auditor should highlight the most critical deficiencies in the chain. A good quality performance audit should yield recommendations, which should, in most cases, be acceptable to the entity.

13.03.5. Exit conference

In audit of all units, the audit team should conclude the audit with an exit conference/meeting with the chief officer of that unit. The Group Officer or the AG (ERSA) should lead the team for SAI, India side in the exit conference depending upon the level of the field entity. All audit observations must be issued to the entity at least one or two days before the scheduled exit conference. The exit conference is an opportunity for the entity to discuss the audit findings with the SAI representatives. This also affords opportunity to the Audit Officer/Group Officer to clarify any points of doubt that the entity may like to raise. The minutes of exit conference should be recorded and endorsed to the entity.

13.03.6. Draft Performance Audit Report

Draft Performance Audit Report is to be prepared by the AG (ERSA) upon conclusion of the field audit of the controlling unit of the entity and all field units selected for audit. The draft AR provides the first opportunity to the AG (ERSA) as well as to the entity to view the full context of audit findings. The draft AR should be prepared exactly similar in form and content as the final AR with the exception that the entity may expect details to enable it to provide a response. The purpose of preparation of the draft report is to seek formal response of the Chief Executive of the entity. The performance AR should be presented as per the following structure:

- *Title*: the subject of the performance audit.
- *Highlights:* major audit findings either in the sequence of their materiality or in the same sequence as the audit objectives and sub-objectives.
- *Recommendations:* while recommendations may be included at various places in the AR in different contexts, all major recommendations should be presented together, immediately after the highlights, preferably, in a box or highlighted print. Ideally all matters of facts/figures/evidence, audit findings and conclusions included in the report should have been accepted by the entity by the time the final report is prepared. Thus, in so far as the entity and the SAI, India are concerned, the action would revolve around implementation of the recommendations and follow-up respectively. It would, therefore, be desirable to gather all recommendations together.
- *Introduction:* a brief description of the subject of study, information on programme/activity/institution, its objectives, inputs, implementation structure, expected outputs and outcome, *etc.*, should be brought out. The introduction should be brief, yet sufficient to enable the reader to understand the context of the programme.
- *Scope of audit:* scope of performance audit in terms of the period of the programme covered in audit and segments of the programme audited should be spelt out precisely.
- *Audit objectives:* are the pivots of the performance audit, which set out the reason for undertaking the audit. The entire exercise of performance audit is built around the audit objectives. These should, therefore, be stated in simple and clear terms. It is useful to set out the audit objectives and sub-objectives within each audit objective in the form of complete statement/question.
- *Audit criteria:* to arrive at the audit findings and conclusions with reference to each audit objective and sub-objective which should be stated with appropriate explanations.

- *Audit methodology:* used for data collection/evidence gathering and testing may be stated in brief. This adds to the acceptability of the audit findings and forms a statement for transparency of the audit procedure.

- *Audit findings:* in respect of economy, efficiency and effectiveness should be presented in a logical manner, preferably in the same order as the statement of the audit objectives.

- *Conclusions, recommendations and impact (outcome) analysis:* with reference to each audit objective should be stated, preferably immediately following the audit findings. The completeness of the report enhances if recommendation(s) with respect to each conclusion is/are kept together with the conclusions. Distinctiveness between the conclusions and recommendations may be achieved through formatting techniques.

- *Lessons learnt and sensitivity to error signals*: significant audit findings on sensitivity and effectiveness of the internal control system to ensure that the Management recognised major causes of underperformance brought out in internal or external studies/reports, including past audit reports and the remedial measures may be included. Also the audit findings on the sensitivity of the Management to various error signals generated through internal inspections, evaluations, media reports, complaints, study by interest groups, etc., and effectiveness of the action taken may also be included. In both cases, the audit findings that could have been avoided with effective lessons learnt and error signal response system may be highlighted.

- *Acknowledgement:* it may be useful to indicate or acknowledge in brief the co-operation, acceptance of the criteria/findings and recommendations by the entity. In case the co-operation or response was not forthcoming at any stage, it may be indicated, if it has resulted in any limitation along with its implication and the special efforts made by the AG (ERSA) to seek cooperation or response. Care should be taken to state them as a matter of fact rather than giving an impression to convey any accusation.

- *Graph, charts, diagrams, photographs, etc.*: The AG (ERSA) is encouraged to illustrate the audit findings with the use of graphs and charts and improve the visibility of the analysis and findings. Photographs can be used as evidence where they are able to corroborate evidence.

- *Glossary of terms:* explaining all technical and uncommon terms used in the report that need to be explained.
- *References or bibliography:* containing reference to all published material utilised in developing the report.

It is important that the draft report describes the objectives and scope of the audit to enable any reader understand the purpose of the audit. Any limitation imposed on the scope of the audit, the reasons thereof and efforts made to resolve it should be indicated in the draft report. The scope and limitation may occur, for example, when it is not possible to audit any unit or segment of unit or programme or to perform necessary audit procedure due to factors beyond the control of the Auditor, viz., failure of the entity to facilitate audit, failure to furnish documents and information, *etc*. It will be incumbent for the Audit Officer to seek the guidance from the Group Officer, who should promptly bring the matter to the notice of the AG (ERSA), if his own efforts are not successful.

The presentation and language of the performance AR should abide by the Style Guide of SAI, India as brought out in Chapter I (Public Sector Undertakings).

The AG (ERSA) may forward the draft performance AR to the Government in a demi-official forwarding letter to the Secretary of the Administrative Department which should contain the following:

a. subject of the performance audit and reference to previous dialogues;

b. gist of major audit findings and recommendations along with the risks and materiality of the issues;

c. attention to the orders of the Government issued on the recommendation of the Parliamentary/Legislature Committee, setting time limit for formal response (when specific time limit has not been set, the AG (ERSA) may follow that set by the Parliamentary Committee or any other Legislature

Committee as a reference point);

d. invitation to a formal discussion and presentation of the audit findings and conclusions; and

e. the expected value additions to the programme management, if the recommendations are implemented.

13.03.7. Response of the entity

It is important that the entity is persuaded to provide written response to the draft performance AR. This may be achieved through correspondence, personal meetings and presentation of the draft AR. A formal response, apart from ensuring compliance to the orders of the Government, issued mostly at the behest of Parliamentary/Legislative Committees demonstrates earnestness of the entity in implementing the recommendations of audit for improvement in programme management. The AG (ERSA) is encouraged to facilitate a formal presentation of the draft performance review before the Secretary of the Administrative Department and his team.

13.03.8. Audit Review Committee

As per Headquarters guidelines, Audit Review Committee (ARC) should be constituted with the AG (ERSA) as the Chairman of the Committee, Accountant General holding commercial charge of a neighbouring State as expert Member, Secretary of the respective Administrative Department as Government nominee, Chief Executive of the Company/Corporation as Company/Corporation nominee and Group Officer in charge of Commercial Audit Wing as Member Secretary to discuss the findings of the draft performance review. The views of the Government/Management are considered and the audit findings are suitably modified.

[Headquarters DO letter 746/DAI (C/P&T)/ARCPSE/84-2002 dated 4.9.2002]

13.03.9. Headquarters response

The observations in relation to the audit findings and conclusions, recommendations, evidence, drafting, etc., by Headquarters is a combination of quality control, quality assurance and supervision measures. The observations and suggestions for improvements by Headquarters provide assurance on the logical development of findings and conclusions, quality and validity of supporting evidence and objective approach by the field office/by the top management, which has not been involved on day-to-day basis with the conduct of the audit. It also facilitates review by the SAI top management to ensure that appropriate procedures have been followed by the AG (ERSA) in implementation of the audit.

The system of simultaneous forwarding of the draft AR to the entity for its response and Headquarters for approval facilitates parallel processing. On receipt of the response of the entity and observations of the SAI top management, the AG (ERSA) may incorporate the modifications warranted by them and forward the draft report along with a response sheet to Headquarters for approval of the report.

13.03.10. Final Performance Audit Report

On approval of the report by SAI top management, the AG (ERSA) may send the bond copy of the report with appropriate annotations for formal approval of the report by CAG, after which the report stands cleared for printing of the prescribed numbers of copies, signature copies for signature of the CAG in ink and others with his facsimile signature.

The printed signature copies of the report are to be forwarded to Headquarters for the signature of CAG. The signed copies of the report should be forwarded to the Government for placing it on the table of the Parliament/Legislatures. The remaining copies of the printed reports are forwarded to the Parliament/Legislature Secretariat on their request, generally on the day the report is presented.

13.04. Drafting of Audit Report (Commercial)

Drafting of the materials for Audit Report (Commercial) should be in accordance with the provisions of paragraph 7.3.29 of CAG's MSO (Audit), which provides that since the AR is intended for Parliamentarians, Legislators, the press and the citizens, the language used in the AR should be intelligible to an ordinary reader. The AR should present a clear and correct account of the issues involved in plain language so that a person not versed in the intricacies of accounts and audit may be able to easily understand the financial implications.

The draft AR should be finalised as per the procedures prescribed in the Style Guide (Chapter I – Public Sector Undertakings).

[Headquarters letter 170- Audit [AP]/ 8-2003 dated 25.11.2003 - File Rep [Comml] / 53-8/ CAG Instructions / Gl Vol.X]

There should be personal involvement of the AG (ERSA) in the editing of the draft AR. Besides improving the quality of reporting, this may also give the AG (ERSA) an opportunity for self-scrutiny and introspection to judge whether all the efforts made and resources deployed were worthwhile and yielded optimal results.

The draft AR should be finalized after discussion between the officers of Headquarters and the AG (ERSA).

Copies of the draft AR should be clearly typed, properly bound and page numbered. Three typed script copies of the AR should be sent to Headquarters for approval within one month of receiving comments on the last batch of DPs. One of these copies should contain replies to the queries of Headquarters so as to indicate the portions which have undergone material revision, notes containing background information or clarifications on specific points.

In the letter forwarding the draft AR to Headquarters for approval, the name of the AG (ERSA) responsible for the finalization of the Report may also be indicated. In case more than one AG (ERSA) had held the charge, the periods for which they held the charge, should also be indicated.

[Headquarters letter 892-Rec.A IV/7(ii)/87 dated 17-9-1987]

The marginal remarks, if any, on the approved AR should be carefully checked by the Section and immediate action taken to supply further information, verify facts, fill up blanks, etc. Modification, if any, to the approved AR should be carried out with the prior approval of Headquarters. The approved AR should then be sent for printing.

The emphasis of the material for the AR should be more on the quality than quantity. Results of audit should be brought out clearly in reviews. Performance reviews of schemes/projects should receive greater emphasis.

[Headquarters DO letter 792/Rep/294-78 dated 23.08.78]

The following procedures should be observed invariably while sending the material for the draft AR to Headquarters for approval.

(i) The matter should be typed on a reasonably thick type of white paper;

(ii) It should be typed strictly in half margin and with triple line spacing; and

(iii) The typing should be neat and clean.

[Headquarters letter 1300-CA II/253-82 (Circular No.3-CA II/State Commercial Audit-11/86) dated 21-7-1986]

Material for the draft AR should be sent to Headquarters by speed post or by air. If sent by air, message indicating the consignment number, etc., should be despatched to the Joint Director by name on the same day itself.

[Headquarters letter 2372-Rep/212-82 (General Circular No.15) dated 10-12-1982]

Parcels/packets booked to Headquarters through Indian Airlines should be specifically marked for *City delivery*. The address on the parcels/packets may be as shown as *The Comptroller and Auditor General of India,10, Bahadur Shah Zafar Marg,(City Delivery), Indraprastha Head Post Office, New Delhi – 110 124.*

Name of the officer should be indicated in the address as usual, if the parcel/packet is to be addressed by name. Intimation about the despatch should also be sent to the addressee by telex or telegram in all cases.

[Headquarters letter 1/R&1/86 dated 6-8-1986]

Sensitive issues in every Audit Report (Commercial) should be submitted to the Headquarters 15 days before submission of bond copy so that the quality of such paragraphs could be examined in depth and unfavourable auditee reaction could be anticipated.

[Headquarters letter 239/CA-II/ Co-ordn/Sr. Officers meeting/2003-04/87-2004]

Monetary figures in descriptive part including Overview, Highlights and side/top gist of the bond copy of the AR should be indicated when the amount involved is below Rs 50 lakh only in lakh and above Rs.50 lakh only in crore.

[Headquarters letter 617/CA-II/ 398-99/KW dated 23.07.2003]

13.05. Lay-out of Audit Report (Commercial)

13.05.1. Overview

A brief epitome of the contents of the AR in about six to 10 pages titled as Overview should be included as Chapter I of the draft AR. The contents of the Overview should be lucid, accurate, brief but comprehensive and well drafted without parenthesis, etc., and of such phraseology which the public and members of Legislature/Parliament can easily understand. Cross reference to relevant paragraphs should be made in the *Overview* which should be printed in distinct coloured pages. To improve the visual impact of the AR, graphs, charts, photographs, diagrams, sketches, etc., should be used wherever relevant. Overview in the AR should give clearer picture of the performance of PSUs and highlight the factors responsible for poor/ better performance.

[Headquarters letter 873/ CA II/ 143-97 dated 10.12.2001- File Rep (Comml)/53-8/CAG/Gl. Vol.IX]

The Overview in the AR should not be assigned any chapter number. Overview should be printed in colour pages. Overview should contain brief of those paragraphs/ reviews having very significant audit findings. The preface of the AR indicating that "Chapter I of the AR is an Overview bringing out the significant audit findings" need not be included in the AR. Page numbering of Table of Contents (including Annexures), Preface and Overview should be consecutive and numbered in roman numbers (i, ii, …)

[Headquarters letter 1678-Rep(c)/99-87/vol.I dated 8.9.1988 and orders of DAG (Comml)]

Table of Contents (including Annexures) discloses the paragraph/page numbers of Preface, Overview, Chapters and Annexures. Annexures indicate the details of annexures attached to the AR. Preface shows the details of the authority of audit by the CAG.

13.05.2. Chapter I – General view of Government Companies and Statutory corporations

This Chapter gives a general view of the working of State Government companies and aspects relating to statutory corporations. It deals with particulars about the investment, state of accounts, etc., in respect of Government companies and statutory corporations. The Chapter also shows the position of disinvestment, privatization and restructuring of PSUs, details of pending ARs for discussion by the COPU and the details of 619-B companies.

With a view to indicating the achievement of audit with regard to recovery, all recoveries at the instance of Audit (Inspection Reports, PDPs and DPs) but not printed out in the AR may be included under a paragraph titled Recoveries at the instance of audit in the Introductory Chapter (Chapter I).

[Headquarters letter 568/CA-II/ 48-99/111 dated 02.06.2004]

A paragraph on Reforms in Power Sector (under two sub-heads (a) status of implementation of Memorandums of Understanding between State Government and the Central Government (b) State Electricity Commission, should be included in the Introductory Chapter of AR.

[Headquarters letter 724/CA-IICo-ordn/PSR/2001-02/87-2002 dated - File No Rep (Comml)/53-8/Gl/CAG/Vol.IX]

A paragraph on internal audit based on major comments/recommendations by the Statutory Auditors in the supplementary reports under section 619 (3) (a) of the Companies Act, 1956 in respect of State PSUs may be incorporated in Chapter-1 (Introductory Chapter) below the paragraph on Results of audit of accounts of PSUs by the CAG.

[Headquarters letter 672/CA-II/ 48/99-Vol.III dated 21.08.2003]

A synopsis of important audit observations included in the comments under section 619 (4) of the Companies Act, 1956 should be included in the draft AR.

[Headquarters letter 281-CAII/182-78 dated 06.03.80]

Figures of Government's investment (equity and loans) in State PSUs, guarantees given by State Government and outstanding guarantees in respect of State PSUs, subsidies, conversion of loan into equity, waiver of dues, etc., as indicated in Introductory Chapter of Audit Report (Commercial) should be compared with the figures of Finance Accounts of the State Government. If there is difference in figures, those as per Finance Accounts may be indicated in the text against the above items by way of a footnote as the *figures as per Finance Accounts are Rs….crore, the difference is under reconciliation*. Thereafter, necessary action may be taken to reconcile the dissimilar information appearing in the AR in consultation with Accountant General (A&E)

[Headquarters letter 567/CA-II/ 48-99III dated 02.06.2004) and Headquarters general circular 3 of 1999 (751-Rep (S)/99-99) dated 06.08.1999 - File Rep (Comml)/53-8/96-97/VolVIII]

13.05.3. Chapter II - Reviews in respect of Government companies

The performance reviews of selected Government companies are included in this Chapter.

13.05.4. Chapter III - Reviews in respect of statutory corporations

The performance reviews of selected topics of statutory corporations are included in this Chapter.

13.05.5. Chapter IV - Transaction audit observations

Important audit findings noticed as a result of test check of transactions made by the State Government companies, statutory corporations and Regulatory authorities are included in this Chapter.

With a view to focusing the attention of COPU/PAC, the paragraph on Response to Inspection Reports, DPs and draft reviews has been shifted from Chapter I (Introductory Chapter) to the Chapter IV (Transaction Audit Observations) of the AR under the broad heading *General* after a paragraph on follow-up action.

[Headquarters letter 361/ CA II/ Co-ordn/ IR/ 2003-04/40-2003 dated 06.04.2004 and orders of DAG (Comml) - File Rep (Comml)/53-8/CAG/Gl. Vol.X]

13.05.6. Annexures

The following annexures relating to general topics are included in the AR.

i) **Annexure 1 -** Statement showing particulars of up-to-date paid-up capital, budgetary outgo, loans given out of budget and loans outstanding in respect of Government companies and Statutory Corporations.

ii) **Annexure 2 -** Summarised financial results of Government companies and Statutory Corporations for the latest year for which accounts were finalized.

iii) **Annexure 3** - Statement showing subsidy received, guarantees received, waiver of dues, loans on which moratorium allowed and loans converted into equity during the year and subsidy receivable and guarantees outstanding at the end of the year.

iv) **Annexure 4** - Statement showing financial position of Statutory corporations.

v) **Annexure 5** – Statement showing working results of Statutory corporations.

vi) **Annexure 6** – Statement showing operational performance of Statutory corporations.

vii)**Annexure 7** – Statement showing important comments/recommendations by Statutory Auditors on internal audit system of Government companies in their reports under section 619 (3) (a) of the Companies Act, 1956.

viii) **Annexure 8** - Statement showing paid-up capital, investment and summarised working results of 619-B companies as per their latest finalised accounts.

Glossary of terms used in the AR should be shown as last annexure in the AR without giving annexure number though it should be included in the Table of Contents (Annexures).

To ensure compliance of Auditing Standards issued by SAI, India with reference to the AR to be tabled in the Parliament/State Legislatures, all the field audit offices should certify as follows either in the preface or in the Audit Certificate.

"It is certified that the audits have been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India".

[Headquarters Office Memorandum 105-Audit (AP)/4-207 dated June 25, 2007]

13.06. Bond copy of Audit Report (Commercial)

In order to assess the quality and impact of audit, bond copies of the AR should be accompanied by Assurance Memos signed by the AG (ERSA), containing the following declarations:

(i) that the Audit Plan for the year has been fully implemented;

(ii) that all observations have been discussed with the Heads of Administrative Department and assurance obtained in regard to corrective measures for arresting potential risks;

(iii) that all contested evidences have been conclusively handled with reference to the facts at the disposal of audit; and

(iv) that in respect of reviews of schemes, samples have been selected based on risk analysis or risk perception and that the evidence of such exercises is available on record.

[Headquarters letter 116-Audit (AP)/4-2003 dated 22.08.2003]

With a view to obviating the possibilities of errors in the AR, an internal quality assurance framework, containing a number of check points, should be applied before submission of the bond copy for the CAG's approval. Following formatting styles are to be created for the AR.

Name of the style	**Formatting features**	**To be applied for**
Chapter heading	14 bold with auto shape- rounded rectangle and shaded in 25 per cent grey with slightly less than the maximum to the light with shading style from centre	Chapter
Para heading I	13 bold left aligned, space before 36 pt- keep with next keep together-auto shape- rectangle-shaded in 25 per cent grey with maximum to light with shading style to horizontal (choose option out of the four for best visual fit)	Title/Caption of the paragraph/review
Para heading 2	12 bold and italic-keep with next keep together, left aligned, hanging indent by 0.5''	Title of sub-paragraph of the same paragraph/review

[Headquarters letter 864/CA-II/ 118-94 dated 09.12.1999 -File Rep (Comml)/53-8/Gl/CAG/Vol.I]

Modification in the post-bond copy of the AR should be carried out based on the observations and approval from Headquarters in respect of the changes made. Further, printed copies of the AR should be thoroughly checked before submission to Headquarters for counter-signature of the CAG.

[Headquarters letter 666/CA-II/ 398-99 dated 02.08.2000 -File Rep (C0mml)/53-8/Gl/CAG/Vol.IX]

Bond copy of the AR should be submitted to Headquarters indicating money value, classification of paragraph and the weighted aggregation of money value in the margin of each para of review/paragraph.

[Headquarters letter 189/CA-II/ Co-ordn/MAF/2002-03/55-2003 dated 18.02.2005 - File Rep (C0mml)/53-8/Gl/CAG/Vol.IX]

13.07. Printing of Audit Report (Commercial)

The following instructions should be borne in mind while printing the AR (Comml).

(i) In case there are two or more volumes of the AR, these may be marked as Volume I, Volume II and so on. Otherwise, number of the AR need not be mentioned.

(ii) The spine side of the AR should indicate as under:

Audit Report (Commercial) - Government of Kerala----- (year).

(iii) Each type of the AR except the first page of each chapter, should have a header in font *Times New Roman* font size 10 pt (italic) indicating name of the AR viz, Audit Report (Commercial) for the year ended 31 March ----(year) on the even page aligned to left and chapter heading on the odd page aligned to right. Single line footer with page number below the line should also be indicated.

(iv) the web-site address should also be printed on the inner cover page/back page of the AR.

[Headquarters letter 72/CA-II/ 398-99 dated 18.01.2001- File Rep (Comml)/53-8/Gl/CAG/Vol.IX]

Header on all *even* pages of Annexures should indicate name of the Report viz, Audit Report (Commercial) for the year ended 31 March ----(year) aligned to the left, while header on all odd pages of Annexures should indicate *Annexure* aligned to the right.

[Headquarters letter 115/CA-II/ 398-99 dated 06.02.01- File Rep (Comml)/53-8/Gl/CAG/Vol.IX]

The front cover of the AR should show the emblem of the State Government followed by the title of the AR 'Report of the Comptroller and Auditor General of India for the year ended 31 March ……(year) Commercial Government of Kerala' in capital letters. This should be presented in the manner prescribed by Headquarters. The inner cover page of the AR should also indicate similar information except the emblem of the State Government.

The space on the signatory page of the printed AR between the designation of the *Accountant General (ERSA), Kerala* and the word *countersigned* should be one inch (1") and that of between the word *countersigned* and name of the Comptroller and Auditor General of India should be one and a half inches (1 ½") in both English and Regional language versions.

[Headquarters DO 497- Rep (S)/140-2001 dated115.05.2002 - File Rep (Comml)/ 53-8/Gl/CAG/Vol.IX]

The signatory page of the AR should show the places where the Offices of the AG (ERSA) and the CAG are located. These should be shown in the left side of the page against the names of the AG (ERSA) and the CAG in the manner prescribed by Headquarters. Below the places, the dates of signatures of the AG (ERSA) and the CAG should be mentioned in the manner prescribed by Headquarters.

The name of the AG (ERSA)/CAG of India should be got printed with brackets in capital letters, in the AR just below the place meant for his signature/countersignature leaving sufficient space for signature.

[Headquarters letter 5311-Rev.A/424-68 dated 5-12-1968 and orders of DAG (Comml) and orders of DAG (Comml) – File Rep.V/54-1/S VII]

The portions left blank for signature should be so spaced that there is ½" space between the designation *Accountant General (ERSA), Kerala* and the word *countersigned* and also ½" space between the word *countersigned* and the name of the *CAG of India*. A blank space of 1" should be left for the signature of the AG (ERSA) between the last line of the body of the text and the name of the AG (ERSA).

[General Circular 204-Rep (S)/4-86 dated 5-2-1987]

Printed copies of the AR should be got countersigned and forwarded to State Government well before start of the budget session. Following instructions are to be followed for considering the time frame between approval of bond copy and submission of printed AR for countersignature:

(i) Field offices, immediately on receiving the Headquarters approval, should send the AR for printing. The printing should be completed within 10 days through private printers, if necessary. Translation into regional language should also be taken up simultaneously with the preparation of bond copy;

(ii) All procedures for selection of private printer should be completed at the time of submission of bond copy to Headquarters;

(iii) Printed copies of AR in English as well as regional language should be forwarded to Headquarters through messenger/courier immediately after printing.

[Headquarters letter 562/CA-II/Co-ordn/ Sr. Officers meeting/2003-04/97-2003 dated 04.07.05 – File Rep (Comml)/53-8/Gl/CAG/Vol.IX]

Instructions to be followed while printing the ARs as given in the erstwhile CAG’s MSO (T) should be followed scrupulously. It is not necessary to send to the CAG, proof copies of the AR after printing unless specially required by him.

[Headquarters letter 1462-Rep/48-63 dated 2-8-1963]

Any delay on the part of the Government Press in printing the AR should be taken up by the AG (ERSA) personally with Government at higher level for getting the report printed expeditiously.

[Headquarters letter 1019/Rep/10155 dated 5-8-1955 – File AA 54/1/50-56]

With a view to getting the AR printed expeditiously there should be closer co-ordination with the State Government. Photo off set method in printing should be adopted wherever feasible. The possibility of getting the AR printed at private presses maintaining its confidentiality may also be explored with the State Government, if that will help minimize delay in printing and thereby save time.

[Headquarters DO letter 1453/Rep.C/99-87 dated 14-8-1987]

The AR should be printed in RA5 size in single column. Different sober colours should be used for the covers of the Audit Reports to distinguish different types of Reports (Civil, Revenue, Commercial, etc.)

The following copy right symbol should be printed on all copies of the AR.©

COMPTROLLER AND AUDITOR GENERAL OF INDIA

…….. (Calendar year of printing)

[Headquarters letters 931-Admn-11/7462 dated 27-6-1962, 37875/BG-3/62 Fin. dated 13/16-8-1962 and orders of DAG (Comml) – File AA/54-4(1)60-61/Vol.I]

At the time of forwarding final printed copies of AR to the CAG for countersignature, a summary of important points highlighted therein should also be sent for the approval of Headquarters.

[Headquarters DO 1116-Report (C) 177/78 dated 28-8-78 – File Report (Commercial) 53-8 /78-79 Vol.I]

The entire expenditure of printing the AR will be borne by the State Government. The cost of 150 copies will be reimbursed by the Indian Audit & Accounts Department to the State Government.

[GO Rt. 4733/80/Fin.dated 17-11-1980 of Finance (PAC) (A) Department]

The total number of copies of AR to be printed is 975 as shown below:

Sl. No.	Particulars	No. of copies
1	Legislature Secretariat	300
2	Finance Department (including 20 silk ribbon copies)	175
3	Internal use in AG (ERSA)'s Office and mailing list	400
4	Government Press for sale to public	100

Copies to be supplied to the AG (ERSA) will be in good white paper. Of these, nine copies will be bound in full leather and one copy in calico and seven copies interleaved and bound in calico. In five of the leather bound copies which are to be signed in ink, the facsimile signature of the AG (ERSA) and the Comptroller and Auditor General of India will not be printed.

[GO MS 690/69/Fin. Dated 23-12-1969, GO MS 63/71/Fin. dated 5-2-1971. File Rep. I/53-3(A)/69-70 & 70-71 and GO (Rt) 4533/87/Fin. dated 7-12-1987]

Seven leather bound copies including five which to be signed in ink are intended to the CAG. The remaining two leather bound copies are to be kept in AG (ERSA)'s library in the same form as the Report sent for countersignature of the CAG.

Twenty printed copies of the AR (12 ordinary copies, 7 copies bound in leather, 1 copy bound in calico intended for Press Information Bureau) should be forwarded to Headquarters. Five copies bound in leather should be signed by the AG (ERSA) and space for the countersignature of the CAG left blank.

Headquarters will return the ARs after signature for distribution as follows.

i. Two leather bound copies countersigned by the CAG intended for submission to the Governor in compliance with Article 151(2) of the Constitution of India with covering letter addressed to the Finance Secretary to Government with instructions to the AG (ERSA) to arrange delivery of the same to the addressee;

ii. One leather bound copy countersigned by the CAG for submission to the Governor under a separate covering letter;

iii. One leather bound copy countersigned by the CAG for the record of this Office. This should be handed over to the Secretary to the AG (ERSA) for safe custody.

The signature of the AG (ERSA) on the final copy of the AR sent to the CAG should bear the date on which it is signed.

[Headquarters OM 1222-Rep./199/57 dated 3-8-1957 – File AA 54-1-55-56/Vol.III and General Circular 1031-Rep(C) 190-87 dated 7-9-1987]

The date of signature of the CAG in the AR intended for submission to the Governor should be left blank, the actual date being inserted at the time when it is signed by the former. This date is to be incorporated in the other final copies by means of a dated rubber stamp on receipt of a communication from Headquarters.

[Headquarters letter 756-Rep/105-51 dated 7-11-1951 – File AA 55-6/51-52]

While forwarding the printed copies of the AR for the signature of the CAG, the name of the Finance Secretary to Government should be intimated to enable the Headquarters to forward the signed copies of the Report to him by name.

[Headquarters letter 42-Rep/167-67(XIV) dated 6-1-1969 – File V/54-1/Vol.XVII]

All changes/modifications in the approved bond copy of the Audit Report may be got approved by the CAG before incorporation in the printed AR.

[Headquarters confidential note 312/CAII/344-89 dated 12.2.91]

13.08. Corrections to Audit Report (Comml)

Headquarters has ordered that correction slips should be issued only in exceptional cases to the final copies of the AR after they have been submitted by the CAG to the Governor, but before they are presented to the Legislature. Such correction slips should not bear any date.

[Headquarters letter 461-Rep/135-50 dated 30-7-1951- File AA 54/50-53]

On receipt back of the AR signed in ink by the CAG, errata may be printed if required. However, insignificant errors need not be included in the errata.

[Headquarters DO letter 1453 Rep(C)/99-87 dated 14-8-1987]

13.09. Placing of Audit Report (Comml) before the Legislature

Report (Comml) Section should be in liaison with the Finance Department and the Legislature Secretariat regarding the receipt of assent of the Governor for placing the AR before the Legislature.

A copy of the press handout approved by the AG (ERSA) should be handed over to the Secretary, Legislature Secretariat for necessary action.

The date of placing the AR before the Legislature should be intimated to Headquarters.

The constitutional position regarding laying of the AR before Parliament under Article 151(1) of the Constitution of India and examination thereof before they are laid before Parliament are contained in Ministry of Law U.O. No.F-136/50 C dated 16-9-

1950 endorsed to Government of India, Ministry of Finance. The same position holds good in the case of State Audit Reports in regard to their submission to the State Legislature and Legislative Committees. Since the ARs are to be presented to Parliament or State Legislature, they cannot become *public* until they have been laid on the Table of the House. The ARs, therefore, are to be appropriately categorized as *confidential* documents till they are presented to Parliament/State Legislature.

Adequate care should be taken to see that the copies of the AR are secured against use by outsiders till it is presented to the Legislature.

[Headquarters letter 987/Rep (S)/82-85 dated 16-9-1985 – File Rep.I/54-1/XXIX]

The printed AR as well as the salient features contained therein is to be exhibited on the Notice Boards of this Office as and when they are presented to the State Legislature.

[Orders of Accountants General (Au I &II) dated 1.06.90 and 9.6.90 - File Rep (Comml)/53-8/Gl Vol.IV]

13.10. Press brief of Audit Report (Comml)

On receipt back of the countersigned copies of AR and its delivery to the Finance Secretary/Secretary to the Governor, a press communiqué may be issued indicating the fact of submission of the AR to the Governor through the State Government.

[Headquarters General Circular 1031-Rep (C) 90-87 dated 7-9-1987]

Press brief for each Report (Revenue, Commercial, Civil, etc.) will be issued separately as and when each Report is laid.

[Headquarters letter 1015-Rep(S)/99-99 dated 25.10.1999 – File Rep (Comml.)/53-8/Gl./CAG/Vol.IX]

A press note would be issued after submission of the AR to the Government for placement in the Legislature. The press brief would be prepared on the basis of the Overview of the AR and sent under a D.O letter from the AG (ERSA) to the editor or regional representative after the AR is laid before the Legislature. Simultaneously copy of the press brief, brochure and the AR would also be sent by the AG (ERSA) to the Press Information Bureau and to the Secretary, Legislature. Press brief would also be sent to the editors of national dailies and also leading news magazines on the day of laying of the AR.

[Headquarters General Circular No. 3 of 1999 No.751-Rep (S)/99-99 dated 6.07.99, File no. Rep (Comml.)/53-8/96-97/Vol.VIII]

Press brief on AR may be prepared by the AG (ERSA) based on the Overview approved by the Headquarters. It could be more or less of the Overview with some omissions at the discretion of the AG (ERSA). However, no addition to the material given in the Overview should be included in the press brief.

[Headquarters General Circular 1321-Rep(S) 97-87 dated 30-11-1988]

Soon after placement of the AR in the Legislature, the AG (ERSA) may put the same on the web site of the AG (ERSA). Simultaneously a CD containing the updated/ countersigned version of the AR should be forwarded to the Headquarters for putting on the web site of the CAG.

[Headquarters letter 334/CA-II/Co-ordn/ Misc./2003-04/32-2003 dated 11.04.2005 - File Rep (C0mml)/53-8/Gl/CAG instruction/Vol XI]

13.11. Pricing of Audit Report (Comml)

A uniform price of Rs.65 (inland) and US $ 5 (foreign) has been fixed for each volume of the AR (viz. Civil, Revenue, Commercial, etc.) and would be applicable separately for its English or regional language version. Officers responsible for printing of AR may work out arrangements for its sale through Government channels as also through private book-sellers. A commission up to 25 per cent on the printed price may be offered to book sellers.

[Headquarters letter 138-Rep(C)/139-94 dated 10.03.1997 – File Rep (Comml.)/53-8/96-97/Vol.III]

13.12. Distribution of Audit Reports (Comml)

Copies of the AR may be supplied to other Audit Offices as per the approved mailing list on an exchange basis as soon as it is formally submitted by the CAG to the Governor. While sending copies, it should be stipulated that they should be treated as confidential until its presentation to the Legislature.

Five copies of the AR may be sent to other AsG as soon as the same is placed before the Legislature.

[General circular 3 Rep (s) 90 (280-Rep (s)/41-90) dated 23-3-1990]

13.13. Audit Report (Comml) of other States

As soon as the ARs are received from other Audit Offices, important comments there from should be extracted and circulated to all Sr AOs/AOs/AAOs to enable them to watch for similar irregularities in their own spheres of work. This should be done within a month of receipt of the ARs.

[Headquarters letter 817-Rep/6-59/KW(i) dated 17-3-1951- File AA/54-1/56-57]

A register should be maintained in this respect and it should be reviewed by the AAO at the time of closing the Despatch Register every month, with a view to ensure whether any AG (C&CA) may be reminded for non-receipt of the AR or intimation of date of presentation of the AR to the Legislature.

[Orders dated 21-5-1962 of the AG – File AA/VII 54-1/Vol.IX]

13.14. Committee on Public Undertakings (COPU)

The Kerala Legislature has constituted the COPU, the functions of which shall be:

(a) to examine the ARs, if any, of the audit on PSUs (Government companies, Statutory corporations and Autonomous Bodies constituted by the State Government);

(b) to examine the reports and accounts of specified PSUs;

(c) to examine in the context of the efficiency of PSUs whether their affairs are being managed in accordance with sound business principles and prudent commercial practices; and

(d) to exercise such other functions vested with the COPU and the Committee on Estimates in relation to specified PSUs and are not covered by sub clauses above and as may be allotted to the Committee by the Speaker of the Legislative Assembly from time to time.

The Committee shall not examine and investigate any of the following matters:

(i)matters of major Government policy as distinct from business or commercial functions of public undertakings;

(ii) matters of day-to-day administration; and

(iii) matters for consideration of which machinery is established by any special statute under which a particular PSU is established.

[Rule 247 of the Rules of Procedure and conduct of business in the Kerala Legislative Assembly]

It is not necessary for Audit to participate in any investigation or enquiries which COPU might take up independently of the AR or in respect of discussion on ARs submitted by the AG (ERSA). Department-wise break up of the paragraphs included in the AR together with the approximate time required for examination thereof should be intimated to the Legislature Secretariat immediately after the laying of the AR in the Legislature. This is done to enable the Legislature Secretariat to draw up programme for the sittings of the COPU.

13.14.1. Rules of Procedure

The Rules of Procedure of the COPU (internal working) were framed (10 December 1968) by it and approved (11 December 1968) by the Speaker in accordance with Rule 199 of the Rules of Procedure and Conduct of Business in the Kerala Legislative Assembly. Revised edition of the Rules has been published on 8 September 1972.

Instructions regarding the procedure for dealing with and co-ordination of the action on the reports of the Public Accounts Committee (PAC) and Estimates Committee are contained in paragraphs 39 to 51 of the Hand Book of Instructions issued by the Chief Secretary for the speedy settlement of audit objections, etc., and timely action on matters pertaining to the PAC and Estimates Committee. The instructions will be applicable mutatis mutandis to the COPU also as far as paragraphs relating to PSUs commented in AR.

[Circular 90/71/ Fin. dated 15-9-1971 of Finance Department]

13.14.2. Memo of Important Points

The AG (ERSA) attends the meetings of the COPU by special invitation and helps the members to understand the importance of a paragraph or an irregularity and the steps to be exactly taken in dealing with these issues.

The programme of work of the COPU should also be intimated to Headquarters as soon as it is settled. This is to enable the CAG to consider attending the meetings, if possible.

In order to guide the COPU to pick out the really important points, a MIP dealt with in the AR should be finalised duly approved by the AG (ERSA), to which he attaches importance and which he would like to comment for special attention of the COPU. Sufficient copies (at present 35 copies) of the MIP should be sent confidentially to the Secretary to the Legislative Assembly for distribution among the members of the Committee, the Departmental witness having no access to it. The MIP should also contain such additional or background information as may be relevant for a proper appreciation of the issues that arise and also contain an account of the further developments, if any, taken place in each case.

[Headquarters DO letter 702-Rep/13-56 dated 7-5-1956 and letter 175-Rep/6-59 (IV) dated 15-1-1960 - Files AA53-2/56-57/ and AA 53-2-Gl/ 59-60/Vol. II and orders of DAG (Comml)]

The COPU is entitled to discuss only what is included in the AR placed before the Legislature and Audit is not entitled to disclose to the COPU any discussions between Audit and Government on matters not referred to in the Report.

[Headquarters letter 1540-Rep/19-4-54 dated 21-8-1974 - File AA. VII/53-2/64-65 Gl]

The Secretariat of the COPU cannot call for particulars and documents regarding the irregularities, etc., direct from Audit for scrutiny and inspection by its selected members. If required, they should be collected from the Administrative Department of Government. Correspondence with Audit is not, however, precluded on matters of a routine character.

[Headquarters DO letter Admn-1/51 dated 28-7-1951- File AA. 54-1/50-33]

13.14.3. Recommendation of COPU

It is the duty of the Legislature Secretariat to watch the action taken or proposed to be taken by the Government on the recommendations of the COPU arising out of the ARs and to take necessary action in pursuance thereto. The general responsibility for watching the continuous action taken on the AR of each year rests on the AG (ERSA) and hence the work of the COPU in this Office will receive his personal attention. For this a Register should be maintained to monitor the action taken by the Department on the recommendations of the COPU as stated in the succeeding paragraph.

[Headquarters confidential DO 838- Rep /71/55(II) dated 18-8-1953 - Files AA.54-4-52-53; GO (P)/51/60/Fin. dated 21-1-1960 and AA- 53-39/58-59/ Vol.II]

The action taken by Government on the recommendations of the COPU has to be reported to the Committee. Where the Government does not accept the recommendations of the Committee after reconsideration and the latter do not reiterate its recommendations, the matter ends. If the Committee reiterates the recommendations and if the Government does not accept them even after such reiteration, the matter has to be brought before the Legislature either by Government in the form of a resolution or by a further report by the COPU.

13.14.4. Vetting of Notes, etc.

All written notes/statements of action taken on the recommendations of the COPU should be got vetted by Audit before these are forwarded to the Legislature Secretariat. They should be approved by the Secretary/Joint Secretary concerned in Government and accompanied by the relevant files and other documents on the basis of which the notes have been prepared. Three copies of the draft notes should be sent to Audit. The draft notes should be vetted by Audit and two copies of the vetted notes along with the relevant files and other documents returned to the Administrative Department. On receipt of the vetted notes, final copies thereof signed in ink by the

Joint Secretary should be forwarded to the AG (ERSA), who will arrange to forward them to the Legislature Secretariat, with his comments, if any, under advice to the Secretary in the Administrative Department and the Finance Secretary.

[Item 40 of the Hand Book of Instructions]

In the case of notes and other details furnished by the Departments after the examination of the witness, advance copies thereof may be forwarded to the Legislature Secretariat simultaneously while sending such notes to Audit for vetting. In such cases, sufficient copies of the notes marked as *Advance copy not seen by Audit*, may be sent to the Legislature Secretariat.

It is not necessary for Audit to vet the notes furnished by the Departments of the Secretariat on the paragraphs of the AR prior to their examination by the COPU.

[Circular 81/73/PAC-13/Fin dated 13-8-1973 of Finance Department]

As a matter of convention, the draft reports on the examination of audit paragraphs by the Committee are also received from the Legislature Secretariat for vetting. Those are vetted and hence should be returned to it.

13.14.5. COPU meetings

The details of the COPU meetings held every month and other related issues should be furnished to Headquarters and Coordination (Au) Section periodically as stated in the succeeding paragraphs.

13.14.6. Reports of COPU

Copies of the reports of the COPU are given to the various sections in this office and despatched to other Audit Offices as per mailing list.

13.14.7. Audit Reports vis-à-vis Separate Audit Reports

The audit comments on the accounts of statutory corporations may be of two kinds as follows:

(i) Those arising out of the scrutiny of the accounts of the undertaking; and

(ii) Those made on considerations of propriety audit which are of a prominent financial character requiring the attention of the COPU. The Separate

Audit Report (SAR) will contain important points as a result of the financial audit and transactions audit of the undertaking. The SAR will be distinct from the conventional AR which will contain such material as a result of propriety audit as is considered necessary to bring to the notice of the Legislature. The irregularities included in the conventional AR need not necessarily relate to transactions/ accounts of the undertaking for a particular year.

There is no restriction on the points for the SAR but it is desirable that comments in SAR should be confined to a brief factual mention of accounting or other irregularities, the facts of which are beyond dispute and in regard to which, apart from giving any explanation, the Administration is not likely to raise a controversy over the views expressed by Audit. Any important matter in regard to which Audit considers it necessary to express a view which will amount to a criticism by the Administration should be reserved for conventional AR.

Audit is not precluded from including in the SAR any comments relating to accounts of previous year, if there is any important point on which adequate action has not been taken.

It is possible that there may be some overlapping in the audit comments appearing along with the annual accounts and those in the conventional AR, if the material is enough to be included in both places.

[Headquarters letter 2154-Rep/339-61 dated 9-10-196 - File CA/Insp/17-2/Vol.IV]

13.14.8. High Power Committee

The Comptroller and Auditor General of India had appointed a High Power Committee under the chairmanship of Shri S. L. Shakdhar, former Secretary General of Lok Sabha and Chief Election Commissioner of India to review the response of the State Governments to the ARs. The CAG had forwarded (May 1993) the recommendations of the Committee to the State Government for appropriate action. The main recommendations are:

(i) submission of explanation/action taken notes on paragraphs/reviews featured in the AR suo moto, by Government within a period of three months from the date of placing of the AR before State Legislature;

(ii) prescribing a time limit of six months for submission of Action Taken Notes by Government on the recommendations of the COPU;

(iii) printing of AR within a period of two months from the date of approval; and

(iv) establishment of an appropriate mechanism in Government to monitor Government response to Audit and COPU.

[Headquarters General Circular 1109 – Rep(S)/HPC/ 24-93 dated 8-12-1993]

As recommended by the Committee, Government has constituted an Apex Committee with Chief Secretary as Chairman, Finance Secretary as Member Secretary and Secretaries of Administrative Departments as Members.

Audit Monitoring Committee was also constituted in each Department consisting of the Secretary concerned, Head of Department and the Finance Secretary for regular review and follow action on the AR at higher level.

[GO (Ms) 786/93/Fin. dated 5.11.1993 and GO (Rt) 5486/93/Fin dated 19.11. 1993]

13.15. Calendar of Returns

Apart from the normal returns as applicable to other sections of Commercial Audit Wing, the following special returns should be finalised and submitted by the section in the prescribed proforma.

Sl. No.	Name of return	Authority of the return	Due date	Approving authority	To whom should be submitted
1	Bond copy of AR (Comml) for approval of the CAG	Headquarters letter CA II/Coordn/ Action Plan/05-06/1-2006 dated 8-2-2006	First week of October every year	AG (ERSA)	Headquarters
2	Information of presentation of AR (Comml) to the Legislature	As per the instruction of the Headquarters	Soon after the presentation of the AR in the Legislature	AG (ERSA)	Headquarters
3	Information on presentation/discussion of AR (Comml)	Headquarters DO letter 239/Rep (S)/32-91 dated 28-2-1992	First week of April and October every year	AG (ERSA)	ADAI demi officially

4	Quarterly statement on the COPU reports/audit paragraphs pending receipt of Action Taken Notes from the Government, COPU reports pending consideration by the Committee in form AUD 9 and AUD 10		5th of April, July, October and January every year.	Branch Officer/CA HQ	Co-ordination (Au) Section
5	Monthly report regarding the number of meetings held by COPU each month	Headquarters circular letter 1772-CA II/119-9311 dated 31-12-1993	Second week of every month	AG (ERSA)	Headquarters
6	Status Report regarding approval, printing and presentation of AR (Comml) to the Legislature	Headquarters letter 06-07/38 2005 dated 30.11.07	Last working day of every week till the AR is placed before the Legislature	AG (ERSA)	ADAI (covering letter in Hindi)
7	Material for Activity Report	Coordn (Au)/15/423/580 dated 4-9-1992	30th April every year	Sr. AO	Coordination (Au) Section
8	CD containing countersigned version of AR (Comml)	Headquarters letter 334/CA II/Coord/Misc/2003-04/32/2003 dated 11-4-2005	Soon after presentation of the AR in the Legislature	Sr. AO	EDP (Audit)
9	Cases of material for fraud and corruption	Note CA I/5/A/21-253/Vol I dated 21-8-2007	10th July and January every year	Sr. AO	Coordination (Au) Section
10	Quarterly Arrears Report regarding state of work	TM-11/185-86 dated 2-3-1956	April, July, October and January every year	Sr. AO	Coordination (Au) Section
11	Supplementary Report to the Quarterly Arrears Report	TM-11/185-86 dated 2-3-1956	April, July, October and January every year	Sr. AO	Coordination (Au) Section
12	Register for watching the settlement of internal Test Audit paragraphs	Circular ITA/27-1/CR/04-05 dated 17-8-2004	April, July, October and January every year/ monthly	Sr. AO	Group Officer/Sr AO (for monthly)
13	Progress Report on implementation of Perspective Plan of IA&AD for 2003-08	Letter CA HQ IV/A/21-310/Tr 5 dated 5-4-2006	April, July, October and January every year	Sr. AO	CA HQ IV Section
14	Progress Register of recommendation of	Appendix to the AAD	15th of every	Branch Officer/CA	Branch Officer/CA

	COPU	Manual	month	HQ	HQ
15	Register of AR of other States	Para 4.49 of Manual of General Procedure	7th of every month	Sr. AO	Sr. AO
16	Register of ARs issued by the Prl AG (Au)	Report I/88-89 dated 9-2-1989 of Report (Civil) Section	10th of every month	Sr. AO	Group Officer
17	Register for DPs for AR (Comml)	TM IV/11-61/39 dated 30-11-1973	10th of every month	Sr. AO	Sr. AO

13.16 Allotment of numbers to Audit Reports-States

Audit Report numbering regime is in vogue for Union Government Audit Reports. On a similar pattern the following numbering regime for State Audit Reports has been devised:

Number assigned to the Report	Name of the Audit Report	Remarks
Report No.1	Audit Report on State Finances	Being the first Report to be brought out for a year
Report No.2	Audit Report-Civil or Composite Audit Report containing Civil, Revenue and Commercial Chapters	In states where Audit Reports- Civil are brought out independently, separate serial numbers will be assigned to Reports on other subjects as indicated below.
Report No.3	Audit Report-Revenue	For States which prepare Revenue Reports separately
Report No.4	Audit Report-Commercial	For States which prepare Commercial Reports separately
Report No.3 onwards as and when finalised Or Report No.5 onwards as and when finalised	Stand alone Performance Audit Reports	Stand alone Performance Audit Reports would be numbered 3 onwards, if a Composite Audit Report is being issued for **Civil/Revenue/Commercial** Stand alone Performance Audit Reports would be numbered 5 onwards, only if Civil/Revenue/Commercial Audit Reports are prepared separately

Depending on the position in each State, serial numbers 1 to 2 or 1 to 4 will remain reserved for Audit Reports that are regularly brought out each year. Subsequent serial numbers will be assigned to stand-alone Performance Audit Reports in seriatim as indicated below.

In certain States, separate Local Body reports are being prepared. Local body reports are a combination of transaction audit and performance audit and the reporting is of permanent nature. Hence, wherever separate Local Body reports are brought out, they shall be allotted either number 3 (in the case of Composite civil, revenue and commercial reports), or number 5 (in the case of separate civil, revenue and commercial reports). Standalone Performance Audit Reports, in such States, may be numbered after the numbering of Local Body reports.

The new numbering system will be in force in respect of Audit Reports for the financial year 2009-10 and Stand-alone Performance Audit Reports to be issued w.e.f 1st April 2010.

(DG letter No.59/Audit (AP)/32-2008 dated 17.2.2010)

CHAPTER 14

INSTRUCTIONS ON FINANCIAL AUDIT

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CHAPTER 14

INSTRUCTIONS ON FINANCIAL AUDIT

14.1. Introduction

The mandate of CAG's (DPC Act, 1971) interalia provides for audit of:

- Trading, Manufacturing, Profit and loss accounts and Balance sheets, and other subsidiary accounts kept in any Government department.
- Accounts of stores and stock kept in Government offices or departments.
- Government companies as per the provisions of the Companies Act, 1956.
- Corporations established by or under laws made by Parliament in accordance with the provisions of the respective legislation.

The provisions contained in the Auditing Standards of CAG relating to the audit of financial statements of Companies are indicated below.

14.1.1 Field standards for analysis of Financial Statements

In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable Accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.

The following paragraphs explain analysis of financial statements as an Auditing standard:

Financial statement analysis aims at ascertaining the existence of the expected relationship within and between the various elements of the financial statements, identifying any unexpected relationships and any unusual trends. The auditor should therefore thoroughly analyze the financial statements and ascertain whether:

(a) Financial statements are prepared in accordance with acceptable accounting standards;

(b) Financial statements are presented with due consideration to the circumstances of the audited entity;

(c) Sufficient disclosures are presented about various elements of financial statements; and

(d) The various elements of financial statements are properly evaluated, measured and presented.

The methods and techniques of financial analysis depend to a large degree on the nature, scope and objective of the audit, and on the knowledge and judgment of the auditor.

14.1.2 Reporting Standards

The report on the financial statements should either (1) describe the scope of the auditors' testing of compliance with laws and regulations and internal control over financial report in and present the results of those tests or (2) refer to the separate report(s) containing that information. In presenting the results of those tests, auditors should report fraud, illegal acts, other material non-compliance, and reportable conditions in internal control over financial reporting. In some circumstances, auditors should report fraud and illegal acts promptly to the specified authority in the audited entity.

These responsibilities are in addition to and do not modify auditor's responsibilities to (1) address the effect of fraud or illegal acts may have on the report on the financial statements and (2) determine that the approximate authority are adequately informed about fraud, illegal acts, and reportable conditions.

Auditors may report on compliance with laws and regulations and internal control over financial reporting in the report on the financial statements or in separate reports.

When auditors report separately (including separate reports bound in the same document) on compliance with laws and regulations and internal control over financial reporting, the report on the financial statements should state that they are issuing those additional reports. The report on the financial statements should also state that in considering the results of the audit, these reports should be read along with the auditor's report on the financial statements.

Auditors should report the scope of their testing of compliance with laws and regulations and of internal control over financial reporting, including whether or not the tests they performed provided sufficient evidence to support an opinion on compliance or internal control over financial reporting and whether the auditors are providing such opinions.

The form and content of audit opinion and report

The form and content of all audit opinions and reports are formed on the following general principles:

(a) Title
(b) Signature and date
(c) Objectives and scope
(d) Completeness
(e) Addressee
(f) Identification of subject matter
(g) Legal basis
(h) Compliance with standards
(i) Timeliness

An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion.

An unqualified opinion is given when the auditor is satisfied in all material respects that:

(a) The financial statements have been prepared using acceptable accounting basis and policies which have been consistently applied;

(b) The statements comply with statutory requirements and relevant regulations;

(c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and

(d) There is adequate disclosure of all material matters relevant to the financial statements.

Emphasis of Matter. In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references that are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

Adverse Opinion. Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

Disclaimer of Opinion. Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction that is so fundamental that an opinion, which is qualified in certain respects, would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

It is customary to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

In addition, regularity audits often require that reports are made where weaknesses exist in systems of financial control or accounting (as distinct from performance audit aspects). This may occur not only where weaknesses affect the audited entity's own procedures but also where they relate to its control over the activities of others. The auditor should also report on significant irregularities, whether perceived or potential, on inconsistency of application of regulations or on fraud and corrupt practices.

In reporting on irregularities or instances of non-compliance with laws or regulations, the auditors should be careful to place their findings in the proper perspective. The extent of non-compliance can be related to the number of cases examined or quantified monetarily.

The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements. Where the nature of the audit allows this to be done in relation to specific areas of an entity's activities, the auditor should provide a report, which describes the circumstances and arrives at a specific conclusion rather than a standardised statement. Where the audit is confined to consideration of whether sufficient controls exist to secure economy, efficiency or effectiveness, the auditor may provide a more general opinion.

Auditors should recognize that their judgments are being applied to actions resulting from past management decisions. Care should therefore be exercised in making such judgments, and the report should indicate the nature and extent of information reasonably available (or which ought to have been available) to the audited entity at the time the decisions were taken. By stating clearly the scope, objectives and findings of the audit, the report demonstrates to the reader that the auditor is being fair. Fairness also implies the presentation of weaknesses or critical findings in such a way as to encourage correction, and to improve systems and guidance within the audited entity. Accordingly the facts are generally agreed with the audited entity in order to ensure that they are complete, accurate and fairly presented in the audit report. There may also be a need to include the audited entity's responses to the matters raised, either verbatim or in summary, especially where an auditor presents its own views or recommendations.

In formulating and following up recommendations, the auditor should maintain objectivity and independence and thus focus on whether identified weaknesses are corrected rather than on whether specific recommendations are adopted.

If the auditor concludes that, judged against the criteria most appropriate in the circumstances, the matter does not materially affect the view given by the financial statements, the opinion should not be qualified. Where the auditor decides that a matter is material the opinion should be qualified, having determined the type of qualification.

14.2 Financial attest audit manual

Financial attest audit is primarily concerned with expression of audit opinion on a set of financial statements. Financial attest audits are designed to reduce the possibility of a material misstatement in a financial statement and, therefore, assure credibility to such statements. The manual seeks to incorporate the international best practices in respect of financial attest audit with the objective of bringing the Indian practice at par with the international best practices, as far as applicable, in the context of the Indian Audit and Accounts Department. The manual goes a long way in further strengthening the audit quality management framework. The manual seeks guide and direct, and in no way substitutes for the initiative, judgement and professionalism of the officials entrusted with the responsibility of financial attest audit. There are twelve chapters included in the Financial Attest Audit Manual as indicated below:

i. Introduction
ii. Concepts and overview
iii. Planning
iv. Field of Audit
v. Audit Completion
vi. Documentation
vii. Reporting
viii. Supervision and Review
ix. Quality Assurance
x. Some issues of audit interest
xi. Financial attest audit in different auditee entities
xii. Organizational arrangements

xiii. Summary of issues

The provisions and procedures contained in the Financial Attest Audit Manual will be implemented from April 2010 in respect of financial statements for the year 2009-10 onwards.

14.3 Audit of Companies under section 619(4) of the Companies Act, 1956

As per Section 619(4) of the Companies Act, 1956, the Statutory Auditor of the Government Company should submit a copy of his Audit Report to the Comptroller &Auditor General of India who shall have the right to comment upon or supplement the audit report in such a manner as he may think fit.

14.3.1 Selection of Companies for Audit under 619(4)

The procedure for selection of Companies for audit is given in Chapter 3.13.2

14.3.2 Receipt of certified accounts and Audit Report and forwarding documents to HQ

Every Annual Accounts which are received in field office must be accepted only when it is accompanied by the Statutory Auditors Report whether the accounts are original or revised. A revised Annual Accounts must be accompanied by a revised Auditors Report. This has also been enjoined upon the Statutory Auditor that he is under obligation to the shareholders to report afresh in case the Company chooses to revise its accounts in terms of Guidance Note No.5 issued by the Institute of Chartered Accountants of India.

A full set of Annual Accounts must be sent to HQ as soon as they are received in the field office and they are taken up for supplementary audit. The draft comments and Aide Memoire on the accounts, if any, can be sent by e-mail to the State Commercial wing as soon as they are finalized to cut down on the time taken to issue the comments.

The procedure for submission of accounts to CA HQ on completion of financial audit and processing the same and finally sending it to CAG's office is indicated in Chapter 3.13.4.

As per provisions of AAS-28, a Statutory Auditor can while certifying the annual accounts of the Company give a qualified, unqualified, disclaimer or adverse certificate. Headquarter office has been asked for advice in a few instances, lately where the PSU accounts have attracted adverse certificates or disclaimers, as to the course of action to be adopted. Thus, it has been felt that there is a need to clarify and reiterate that the field offices must accept the accounts whatever be the kind of audit certificate the account may have attracted. The accounts may then be selected for supplementary audit as per extant standing orders issued from time to time.

(HQ letter No.71/CAII/Cord/Accounts instructions/30-2008 dated 5.02.2009)

14.3.3 Risk analysis and preparation of audit plan

The process of Audit Plan as contained in the Financial Attest Audit Manual is indicated below.

Steps	Purpose
Understanding the entity • Operations and Organisation • Financial reporting requirement • Regularity and legal framework • Parliamentary and legislative interest • Public interest • Accounting processes and formations (including Drawing and Disbursing Offices (DDOs), Pay and Accounts Officers (PAOs), Treasurers, Works and Forest Divisions in case of Government Accounts) • Computer involvement • Control environment • Analytical review • Accounts areas	To obtain sufficient understanding to inform determination of materiality, risk and audit approach

↓

Materiality • Materiality by value • Materiality by nature • Concerns of users of audit certificate	To determine the tolerable level of error or irregularity

↓

Risk Assessment • Entity risks • Account area risks • Mitigating controls including controls in the IT system	To identify those factors which lead to an increased risk of misstatement or irregularity and controls which mitigate these risks.

↓

Plan Finalisation • Audit approach to specific risk areas and specific risk factors • Audit approach to other areas	To prepare an approach which focuses on specific risk factors while providing an acceptable level of assurance across the financial statements as a whole

14.3.4 Issue of directions and sub-directions under 619 (3) (a)

The HQ has issued revised directions under 619(3) (a) of the Companies Act, 1956. As per the revised directions Statutory Auditors has to comply with the, list of indicative questions as per Annexure-I (general directions) and Annexure-II (company/sector specific directions). The various heads as per Annexure-I is given below.

i. Corporate Governance and Audit Committee

ii. Business Risk

iii. Disinvestment (if applicable)

iv. Productivity

v. System of Accounts and Financial Control

vi. Fraud/Risk

vii. Assets (including inventory)

viii. Investment

ix. Liabilities and Loans

x. Award and Execution of contracts

xi. Costing systems

xii. Internal Audit System

xiii. HRD

xiv. Legal/Arbitration cases

xv. EDP Audit

xvi. Environment management

xvii. General

The Annexure-II is company/sector specific directions to be finalized by the respective MABs/AGs and issued as sub-directions to Auditors along with general directions as in Annexure-I.

(HQ No.192/CA-II/Coordn/directions/90-2002 dated 21.02.2005)

The Statutory Auditors should submit their report under section 619 (3) (a) of the Companies Act, 1956 (report on directions and sub-directions) along with their Audit Report under Section 227 and 619 (4) of the Act. This has to be included in the list of directions issued to the Statutory Auditors under section 619 (3) (a).

(HQ No.44/CA-IV/42-2001/Vol-II dated 31.01.2006)

The Statutory Auditors should also forward a Compliance Certificate stating that the directions under 619 (3) (a) have been complied with.

(HQ letter dated 30.3.2007)

Sub-directions regarding confirmation of balances

Many PSUs make a disclosure in the Notes to the Accounts that 'the balance of accounts receivables, payables, loans and advances are subject to confirmation and reconciliation'. In such cases Statutory Auditors generally make an observation in their Audit Report that 'pending confirmation and reconciliation of balances, impact thereof on the profitability and financial position of the PSUs could not be ascertained'. Such a declaration may not lead to proper understanding of the financial statements to the users. To address this issue, additional sub-directions has to be issued to the Statutory Auditors to report on the followings:

i. Amount of the (a) bank balances, (b) account receivables, (c) account payables, (d) loans and advances for which third party confirmation was not received by the statutory auditors. Percentage of such unconfirmed amount to the total amount in the respective head in the balance sheet may also be reported.

ii. Where balance confirmed by the parties has wide variations and such variations might not have been reconciled till the finalization of financial statements, percentage of the amount of such variations to the total amount of the accounting head in the balance sheet may also be reported.

iii. High value individual cases (say representing more than one per cent of the respective accounting head) of non-confirmation of balances and wide variations individual cases pending reconciliation may also be reported.

iv. The statutory auditor may also be asked to express their opinion on the adequacy of the system of the management for confirmation and reconciliation of balances as well as to report the deficiencies, if any, on the above matters to the Audit Committee, if exists.

(HQ letter No. 131/CA-IV/35-2009 dated 10.06.2009)

Check list for verifying compliance to AS and AAS

A checklist for verifying the compliance to Accounting Standards and Auditing &Assurance Standards has been issued by HQ. The field audit parties are required to go through the check list and ensure the compliance to AS and AAS mentioned therein.

(HQ letter No.105-Audit (AP)/4-2007 dated 25.06.2007)

In majority of cases, the comments are qualified. It is sometimes observed that even when the qualifications together warrant an adverse certificate/comment, the same is neither issued by Statutory Auditors nor proposed by PAG/AG. Inorder to address this issue, the following directions are required to be complied with by the field offices.

i. Review the Statutory Auditor's qualifications and comments issued during past one year to identify comments/qualifications which may have material impact on the Profit and Loss account or the Balance Sheet of a Company. Thereafter, the matter may be taken up with the Secretary of the Administrative Department and the Company management stating that the issues raised in the comments/qualifications may be addressed and the deficiencies rectified during the subsequent year's accounts and in case that is not done, the office will be constrained to issue 'adverse' comments or a 'disclaimer' as the case may be.

ii. Before the commencement of audit, hold tripartite meetings with Statutory Auditors and the Management to bring to their notice the previous qualifications/comments and if repeated whether these would warrant adverse comments/ a disclaimer. The Statutory Auditors may be told that the provisions in the Companies Act pertaining to accounts have been complied with and the Accounting Standards including AS-15 are also being complied with. The Statutory Auditors should also comply with the CARO 2003 and the CAG's instructions issued under section 619. The Statutory Auditors may also be reminded about the compliance of Auditing and Assurance Standards.

Sub-directions to Auditors may be issued bringing to their notice the comments of CAG on the previous year's accounts and asking them to verify those matters during their audit.

(HQ Letter No.247/CA-II/Co-ord/instructions/2008-09/82/2005/vol. II dt 11.05.2009)

14.3.5 Materiality considerations for raising Comments

The details of materiality consideration while issuing comments are given in Chapter 3.21.

HQ had issued instructions in June 2007 regarding issuing negative comments on accounts. According to these instructions, (a) if the profit of the Company/Corporation is converted into loss or vice versa, irrespective of the monetary value or (b) if the aggregate value of our comments and Statutory Auditor's qualification is equal to or exceeds 20 *per cent* of net profit (loss) or (c) 10 *per cent* of total assets/liabilities, the Statutory Auditor's opinion is to be reviewed to consider the sustainability of a 'true and fair' view. It was noticed that though the comments satisfied these conditions and in certain cases warranted negative certificate, the same was not proposed. Therefore, this aspect may be carefully vetted before forwarding comments to HQ.

(No.214/CA-II/Co-ordn./Instructions/Accounts Audit/30-2008 dated 20.4.2009)

14.3.6 Format of comments

The Title sheet and format of issue of comments under Section 619 (4) of the Companies Act, 1956 has been revised with effect from the reporting cycle 2007-08. The revised Title Sheet contains check list for review of Statutory Auditors Report, Review of Financial Statements, Compliance with Accounting Standards and Compliance with requirements of Regulatory Authorities.

As per the revised format, the comments have to be included under the following heads after the Introduction para.

A. Comments on Profitability
B. Comments on Financial position
C. Comments on Disclosure
D. Comments on Auditor’s report
E. Other Comments

The comments may be arranged in the order of decreasing importance.

Separate format for issue of Comments, Nil Comments, Non-review Certificate, Nil comments after revision of accounts, Comments after revision of accounts has been prescribed as per the revised instructions.

The Comments certificate is issued under the signature of the AG (ERSA) on behalf of the Comptroller & Auditor General of India.

(CA-II/2006-07/82-2007 dated 30.3.2007)

14.3.7 Procedure for issue of draft comments and processing of draft comments

The powers to approve the CAG’s comments under section 619 (4) of the Companies Act, 1956 remain with HQ (except the delegation to PAGs/AGs in the case of Companies whose accounts are in arrears for more than 5 years or where comments are nil. Any alteration to the CAG’s comments (approved by HQ) and their issuance to management would amount to making a false representation on a legal document. Hence, the comments approved by HQ should be issued without any change.

(No.1173-CA-II/Coordn./A/Cs instructions/30-2008 dated 15.12.2008)

14.3.8 Time frame for completion of audit process

The prescribed maximum time limit of 60 days from the date of receipt of accounts for finalization of accounts has to be strictly adhered to. It has to be kept in mind that three weeks time has to be allowed to HQ for vetting and taking Competent Authority's approval.

(HQ No.240/CA-II/Co-ordn/Monthly Return/07-08/52-2007 dated 7.02.2008)

The time limit of 2 months prescribed for issue of comments has to be strictly adhered to. The field office should not wait for replies to provisional comments beyond the period of seven days.

(No.1846/CA-II/Misc/MIS/2003-04/32-2003 dated 24.12. 2008)

14.3.9 Sending Soft copy of draft comments

In order to minimize the time taken in processing, the draft comments/SARs and the *aide memoire* containing Management/Statutory Auditor's replies and AG's further comments thereon is required to be sent through E-mail and thereafter, the copy thereof along with the Accounts and the Auditor's Report may be sent by post.

(CA-II/Coord/MR-Comments/07-08/52-2007 dated 8.1. 2008)

14.3.10 Documents to be accompanied with draft comments

The documents to be accompanied with draft comments are indicated in Chapter 3.13.4

14.3.11 Criteria for assessment of performance of Auditors

In order to assess the performance of Auditors more closely, proforma for assessment of performance of auditors has been modified. Performance may be assessed and reported by Pr.AG in respect of all Statutory Auditors except in respect of Companies where Non-Review certificate is issued. In respect of Branch Auditors, performance of only those auditors may be reviewed who had audited the accounts of branches selected for supplementary audit.

Twelve parameters (compliance to Accounting Standards, Auditing and Assurance Standards, CARO 2003, provisions of Companies Act, 1956, requirements of Regulatory Authorities, submission of 619 (3) (a) report, attending of meetings convened by Pr.AG, stating the effect of individual qualification and total effect of qualification on profit or loss or state of affairs, avoidance of comments by CAG due to the adoption of appropriate audit checks exercised by the Statutory Auditors, submission of Audit Report without delay etc) has been prescribed by HQ office for assessing the performance of the Statutory Auditors. Failure by the auditor in any one of the above parameters should be interpreted as a serious lapse. Accordingly, if the reply is affirmative in any one of the above, the performance of the Statutory Auditor/Branch Auditor may be adjudged as unsatisfactory.

(No. 06-CA-V/30-2003 dated 29.01.2009)

14.3.12 Procedure for issue of unsatisfactory report on performance of auditors

A special memo should be issued to the Statutory Auditor if the performance is found unsatisfactory citing the lapses in audit for their remarks. If the performance of the auditors is assessed as unsatisfactory, then a copy of the special memo issued to the Auditors explaining the various reasons/lapses on account of which the performance of Auditors is proposed to be considered as 'unsatisfactory', a copy of Auditor's reply to the special memo (or the fact of his failure to reply within a reasonable time) and the findings of the DG/PAG/MAB/AG in the form of a speaking order may be forwarded as an annotated statement to Head quarters.

(No.463 CA-V/30-2003 dated 29-04-2008)

14.3.13 Approval and issue of draft comments

Audit enquiries on the accounts of a Government company (including a 619-B company) are issued to the Management by the Audit Officer for remarks during the course of financial audit. On the concluding day of audit, the draft Comments on the accounts should be finalized by the Audit Officer and issued to the Statutory/Branch

Auditors in the prescribed format endorsing a copy to the Management for their replies to the draft comments.

In the covering letter enclosing the draft Comments, the Auditors and the Management should be specifically required to furnish replies to the Branch Officer of the CA HQ Section concerned within a maximum period of five days from the date of issue of the draft Comments and in the absence of replies, the final draft Comments should be finalised ex-parte as if they have no remarks on the draft Comments. However, Auditors/Management may be addressed again at Group Officer level to furnish replies within a reasonable period in exceptional circumstances so as to consider their views. If extension of time has been required by them, the same may be considered with the approval of Group Officer. All these delays should be indicated in the proforma on the performance of Auditors of Government companies/corporations.

[Orders of the AG (Au) dated 21-2-1991 and 12-3-1991]

Major irregularities having substantial financial significance and violations of relevant provisions and requirements noticed during the course of transaction audit should be considered for Comments, if they are of special interest to the shareholders and not of tentative or unfinalised character.

[HQ circular letter 3670-Rep/222-59-Pt II dated 3-11-1959]

Draft comments should be processed and submitted to the Pr.AG for approval and forwarding to the HQ office immediately along with all relevant documents.

14.3.14 Management letter

The minor audit observations not included for comments but requires corrective action on the part of the management is brought to the notice of the management through a management letter along with the final comments.

14.3.15 Sending copy of comments with matrix to CAG's office

Before releasing the Comments, the facts and figures therein should be verified by the CA HQ Section concerned. After attending to Headquarters queries, if any, on the Comments, the approved Comments should be issued to the Management under the signature of the AG (ERSA) for placing before the AGM. A copy of the Comments as issued to the company should be forwarded to Headquarters along with an *Aide Memoire* (showing HQ queries and further remark), if any, and matrix. The format of matrix is given as Annexure-5 in Chapter 3.

The company may be required to submit six copies of the printed Annual Report incorporating the certified accounts, comments, etc. One copy of the printed Annual Report should be sent to HQ.

14.3.16 Incorporation of significant comments in Audit Report

The major omissions and errors noticed in the course of audit of annual accounts of the Companies and Corporations are incorporated in the Audit Report (Commercial) as a separate paragraph along with the impact of the comments on the accounts.

14.3.17 Circulation of compendium of comments to officials in CA group/CA wing of other Accountant General's offices

The major comments issued during a year are compiled and issued as compendium of comments to officials in CA group/CA wings of other Accountant General's office having commercial wing.

14.3.18 Audit of accounts of PSUs which are in arrears

In order to facilitate easy liquidation of arrears in accounts, the CAG has given the following directions.

i. Government Companies having arrears in accounts may be advised to prepare the accounts for all years to which such arrears pertain.

ii. While approaching the Head quarters for appointment of Statutory Auditors, the specific request should be made that the same Statutory Auditors is appointed for the audit of all the accounts for all the years for which accounts have been prepared as per (i) above

iii. The Statutory Auditors should be directed to undertake the audits as required under the Companies Act, 1956, chronologically, separately for each year. While doing so, they may be also directed to state (wherever applicable) that the previous years accounts have not been placed before the Annual General Meeting.

iv. Filed offices may take up supplementary audit of the accounts of such companies again in chronological order and issue the ‘Audit Certificate’/’Comments’ on the accounts for each year separately. Wherever necessary they may approach HQ (CA-II) for delegation of powers to do so without obtaining formal approval of HQ.

Companies may be advised that the audited accounts together with the comments of the CAG under section 619 can be considered in separate AGMs for each year as required under section 166 of the Companies Act, 1956. It may further be clarified to those companies that there is no objection for more than one AGM being held on the same day unless the Articles of Association/Memorandum of Association of a particular company prohibits this. Similarly in the case of all statutory corporations whose accounts are in arrears, the accounts of each year may be certified by Pr.AG on the above lines and wherever necessary delegation of powers to do so without formal approval of HQ may also be sought for wherever applicable.

(HQ letter No.36-CA-II/Co-ord/Actionable items/2008-09/7-2009 dated 27.01.2009)

The Companies having arrears in accounts may prepare accounts of previous years. The accounts so prepared should be audited by the Statutory Auditors as per the requirements of the Companies Act separately for each chronologically. The Statutory Auditor should state in their report relating to each year’s accounts that the previous year’s accounts have not been adopted in the AGM, if it is the case.

PAGs/AG may take up the supplementary audit of the Companies with the oldest accounts first. With their delegated powers, they may issue a non-review certificate or comments as the case may be. I f the comments falls outside their delegated powers, they shall send the comments to HQ for approval. While issuing comments, they should state that the pervious years accounts have not been adopted in the AGM, if it is the case. This process may be repeated by taking up the next years accounts for supplementary comments/non-review certificate. The audited accounts of each of previous year along with Audit Report/Board Report can be placed in the AGM duly complying with the requirement of Section 166 of the Companies Act, i.e each year’s accounts may be adopted in the separate AGM. If felt necessary, more than one AGM can be held on the same day provided the Articles of Association does not contain any provision contrary to this.

(HQ No.189-CA ii/Co-ord/Actionable items/2007-08/32-2009 dated 6.4.2009)

Inorder to clear the arrears, the matter would be pursued in three ways. The field offices are requested to take necessary action as stated below.

Government level

Field office may continue to write to company management/Government periodically bringing to their notice the extent of arrears and need to clear the arrears. The Finance Secretary/Chief Secretary may be addressed requesting them to set up a cell in the Finance Department for overseeing the clearance of arrears in accounts. They may also be requested to consider the possibility of outsourcing the work relating to the preparation of accounts in case of inadequate staff.

Ministry of Corporate Affairs level

Field offices may send a list of companies whose accounts are in arrears to the Registrar of Companies and his attention may be drawn to penal provisions and they may be requested to take a suitable action in the matter. A copy of the above communication with the Registrar may be endorsed to Principal Auditor (PDA-Central, PAG, AG etc) who audits Registrar's office with a request to raise a DP on central side, if no action is taken by the Registrar. In case of no action taken by the Registrar, the matter may be taken up with the Regional Director responsible for supervising the work of Registrar.

Preparing DP for Audit Report

A Draft Para on an individual Company as per the annexure given by the HQ office may be tried after exhausting the available avenues for addressing the issue for clearance of arrears of accounts.

(HQ letter No.298-CA-II/Cor-ordn/Q.Arrears/07-08/59-2007 dated 4.06.2009)

CHAPTER-15

INFORMATION TECHNOLOGY AUDIT

What is IT Audit

With increased dependence on computerized systems by auditees for their core activities and accounting / book keeping it has become imperative for audit to change the methodology and approach to audit to ensure adequate measures have been designed and implemented in the IT system to minimise exposure to various risks and to protect organizational assets.

Information Technology (IT) Audit according to Ron Weber is ‘the process of collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity, allows organizational goals to be achieved effectively and uses resources efficiently’.

Mandate for IT Audit

The mandate of SAI India for IT audit is derived from the Constitution of India and established under the Comptroller and Auditor General’s (Duties, Powers and Conditions of Services), Act 1971. The mandate of CAG of India for Systems Audit is governed under sections 13,14,16,17,18,19 and 20, as the case may be, read with section 23 of this Act.

IT Audit Manual- CAG of India

The concept of IT audit, process & methodology to be used, checklists to be used for obtaining information as to IT systems and audit programmes for specific applications are extensively depicted in IT Audit manual published by ICISA, NOIDA

1. IT Audit Process and Methodology

   http://www.icisa.cag.gov.in/Background Material-IT Environment/IT-Audit-Manual/Vol-1.pdf

2. Checklists for Field Audit Parties

   http://www.icisa.cag.gov.in/Background Material-IT Environment/IT-Audit-Manual/Vol-3.pdf

3. Audit Programmes for Specific Applications

http://www.icisa.cag.gov.in/Background Material-IT Environment/IT-Audit-Manual/Vol-2.pdf
More information can also be had from research report published by 6th ASOSAI titled

IT Audit Guidelines

http://www.icisa.cag.gov.in/images/ASOSAI%206th%20Research%20Project-Information%20Technology.pdf

IT Audit conducted by CAG of India

The mission of the IT Audit initiative was to create an enabling environment in Indian Audit and Accounts Department to conduct IT Audits effectively within the C&AG's mandate; to raise the level of competence of the staff and officers of the department so that they can undertake audit in a computerized environment in a most professional manner; and to adopt and evolve such standards and guidelines for auditing in a computerized environment so as to lend credibility to audit activities in a computerized environment.

The manpower in audit department was put through rigorous training to make it capable to meet the challenge of auditing IT systems of different kinds and on different platforms (Hardware/ software) and ranging from simple payroll to complicated ERP systems.

The number of IT Audits taken up so far has been 482 and out of these IT Audit exercises, 233 reports have already been approved for inclusion in the annual audit reports of the C&AG. 171 reports of IT Audit out of these 233 approved reports have already been placed before the Parliament / State Legislatures (As on January 2009). The number of IT Audits being conducted and being reported to Parliament / State Legislatures is consistently increasing. List of IT Audit reports published classified as per functional area audited and classified State / Union Reports can be accessed at http://www.icisa.cag.gov.in/itaudit.aspx

The IT Audit initiative of SAI India was awarded with the Prime Minister Award for excellence in public administration in the year 2008 by the Prime Minister of India Dr Manmohan Singh.

More can be had at http://www.icisa.cag.gov.in/

Common Audit Checks

Transaction Audit

(1) Examine whether the objectives for which the Company was incorporated has been achieved.

(2) Performance of the Company-Physical and Financial Progress.

(3) How frequent and effective are the meetings of the Board of Directors?

(4) Examine whether there was any expenditure without budget provision or over budget provision.

(5) Review Agenda papers/minutes of meeting of the Board of Directors.

(6) Examine purchase contracts/works contracts and service contracts with reference to tenders/quotations and recommendations thereon.

(7) Whether the duties and responsibilities including the delegation of powers at various levels of management have been adequately defined?

(8) Payment of production incentive and bonus to workers to ensure that the rules in vogue were applied.

(9) Efficiency and Effectiveness of IT system and system security.

(10) Efficiency in utilisation of manpower may be examined and commented upon.

(11) Cash/fund management.

(12) Violation of delegated financial powers.

(13) Reconciliation of cash/bank balances.

(14) Whether a system of disposal of old serviceable, surplus stores is properly devised?

(15) Whether the security of stores, action on shortages/pilferage/loss of inventory is adequate?

(16) Whether loans and advances are secured and adequacy thereof reviewed by a responsible official?

(17) High turnover rate of key personnel/understaffing of a particular department.

(18) Examine whether the Company has a system of monitoring the timely recovery of outstanding dues. Highlight the significant instances of failure of the system.

(19) Examine the system of effective utilization of loans and the system of obtaining statutory benefits.

(20) Examine records relating to various advances to employees and recovery thereof.

(21) Remittance of statutory dues.

(22) Review periodical physical verification reports and action taken thereon.

(23) Compliance with pollution control Acts.

(24) Whether the Corporate Governance in the Company is foolproof so as to direct and control the Management in the best interest of the shareholders.

(25) Effectiveness of Audit Committee meetings.

(26) Whether there is proper and sufficient care for better maintenance of accounting records and timely financial reporting.

(27) Whether the Company had entered in to any major contract agreements relating to projects, construction and supply of capital goods during the year.

(28) Whether the financial powers of various categories of officers have been clearly formulated.

(29) Whether there exists adequate internal control system commensurate with the size of the business.

(30) Whether the funds management in the Company is efficient and effective.

(31) The internal control system and the follow up on the internal audit report may be examined and suitably commented upon.

Financial Audit

1) Compliance with Accounting Standards/Auditing and Assurance Standards/Companies (Auditors) Report Order 2003/Companies Act, 1956.

2) Whether the company has complied with all the assurances given to audit in the previous years.

3) Whether the qualifications made by the Statutory Auditors during previous year was rectified by the Management.

4) Whether the financial statements comply with the requirements of Regulatory Authorities relating to preparation and presentation of financial statements.

5) Whether the Balance Sheet and Profit and Loss Account is drawn up in conformity with the requirements of the Act.

6) Check whether there is any understatement/overstatement of the financial position and working results.

7) Correct disclosure of accounting policies/correctness of the accounting policies followed.

8) Quantification of unconfirmed amounts to total amount of balances in bank, debtors, loans and advances etc. by the Auditors.

9) General Check of all heads under Profit and Loss Account and Balance Sheet.

10) Whether depreciation has been provided as per Sch.XIV of the Companies Act, 1956 whether depreciation is provided on fixed assets from the date of commissioning?

11) Disclosure of quantitative details of stock and purchases as required in Part II Schedule VI of the Act.

12) Separate exhibition of Rent, Rate and Taxes.

13) Correctness of classification between capital and revenue.

14) Correctness of classification between preliminary expenses/preoperative expenses.

15) Correctness in accounting of interest due on the deposits.

16) Accounting of Guarantee Commission payable to Government

17) Adequacy of provision made to Advance Income Tax/Income Tax/Agriculture Income Tax/Bad & Doubtful debts/Retirement benefits/DA arrears/Bonus.

18) Examine whether Prior period item is due to error or omission in earlier period.

19) Classification of items under Sch.VI of Companies Act, 1956.

20) Disclosure of all material facts/unusual/exceptional and non-recurring items having materiality.

21) Recognition of deferred tax asset.

22) Whether Auditor quantified all qualifications and impact on Profit and Loss Account wherever possible?

23) Whether dues to Micro, Small and Medium enterprises disclosed as required in MSMED Act?

Specific Audit Checks for the Companies in Cement, Ceramic and Mining Sector

1) Ensure that Mining license has been obtained
2) Ensure Mining lease agreements have been properly drawn up
3) Guidelines on extraction industries
4) Provisions of Mines Act 1952
5) Payment of Royalty
6) Compliance of various Pollution Control Acts and the impact thereof
7) Raw Material consumption with norms
8) Purchase procedure
9) Import policy/License
10) Method of costing adopted, reconciliation of cost accounts with financial accounts
11) Cost Audit Report
12) Ensure whether the Company has an effective system for identification of idle labour-hours and idle machine-hours
13) Production Incentive Schemes
14) Manpower utilization
15) Marketing strategy
16) Appointment of Liaison/Service agents and stockist, their contribution to total sales
17) Credit policy and effectiveness of realization of dues
18) System adopted for prevention and detection of fraud and other irregularities
19) Regulations made for the purpose of control over stores including valuation of stock
20) Measures taken to prevent Demurrage/Wharfage
21) Pending legal/arbitration cases indicating the age-wise analysis and reasons for their pendancy
22) Energy audit Report, if any
23) Securityaudit

Malabar Cements Limited

Walayar, Palakkad.
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2862228/33,2862117/18

Unit: Pallipuram, Cherthala
Ph. No: 0478-2552186,
Fax: 0478-2553417

FAX:0491-2862230 Email: ro@malabarcements.com
Website: www.malbarcements.com

1 Introduction

The Company was incorporated in April 1978 under the administrative control of Industries Department, Government of Kerala. The registered office of the Company is at Walayar, Palakkad and a unit is situated at Cherthala.

2 Objectives

The main objective of the Company is manufacturing and dealing in all grades and varieties of cement manufactured out of limestone mined from its own mines at Walayar and procured from outside sources.

3 Organization Structure

The number of members in the Board of Directors is not less than three and not more than twelve. Managing Director, the only functional Director of the Company is assisted by a General Manager and a Deputy General Manager each for Mines, Technical Service, Project, Production and Engineering.

4 Special Acts, Rules & Regulations applicable

The special Acts, Rules and Regulations applicable to the Company include the following.

(i) Mines Act, 1952.

(ii) Factories Act, 1948.

5 Management Information System

In order to integrate all the activities of various departments of the Company and to take care of the automation needs of all the activities including net enabled transfer of data from remote locations, a SAP-ERP system named as SATVA (Solution for Achieving Transparency and Value Addition) was introduced with effect from 2 August 2007. Data on raw materials, finished goods, expenses, turnover, profitability, fund position, capacity utilisation, production of semi-finished goods, finished goods, marketing etc, are readily available in the system.

6 Activities

Manufacture and sale of Portland cement started in April 1984 with an installed annual capacity of 4.2 lakh MT. The cement grinding unit set up in Cherthala in 2003-04 has got an installed grinding capacity of 2 lakh MT per annum enhancing the total capacity to 6.2 lakh MT per annum. The limestone required for manufacture of cement is mined from own mines at Walayar. Tamil Nadu Minerals Limited. is another source for supply of sweetner lime stone used to improve the quality of lime stone mined. Coal, laterite, Gypsum and fly ash are other raw materials for manufacture of cement. Coal is procured from Singareni Collieries Co. Limited. in addition to imports. The Kerala Clays and Ceramics Products Limited, Kannur is the main supplier of alumina laterite for the Company. For Gypsum, the Company mainly depends on the Fertilizer and Chemical Travancore Limited (FACT). Mettur thermal power station and Tuticorin Thermal power station are the main sources for fly Ash. BEML, Cummins and other equipment manufacturers and their agents are the suppliers of mining and earth removing equipments.

7 Manufacturing process

The raw materials such as limestone, sweetener lime stone, laterite etc. are mixed in the required proportion and burnt in kiln with coal for production of clinker. The clinker manufactured at the factory at Walayar is ground with gypsum, fly ash etc for production of Portland / Pozzlona cement. The process of grinding of clinker into cement is carried out at the Palakkad unit as well as Cherthala unit. For maintenance of the Plant and Machinery, the company has entered into annual maintenance contracts with service providers.

8. Financial Highlights

Particulars	**2007-08**	**2006-07**	**2005-06**	**2004-05**	**2003-04**
	(Rupees in lakh)				
Authorised Share Capital	2800	2800	2800	2800	2800
Paid up capital	2599.87	2599.87	2599.87	2599.87	2599.87
Borrowings	1921.48	2159.99	3634.54	3529.16	2107.1
Debt equity ratio	0.74	0.83	1.40	1.36	0.81
Total income for the year	25348.6	23969.71	22780.37	16752.83	16487.4
Net Profit before Tax and Dividend	**3994.27**	**2573.97**	**540.94**	**-250.48**	**177.35**
Accumulated Loss/Accumulated profit	9260.33	6576.19	4598.19	4057.96	4394.9
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**11860.2**	**9176.06**	**7198.06**	**6657.83**	**6994.77**

9 Marketing

The Company has been effecting sale of cement through stockists appointed and also directly to institutions and Government departments on ex-factory as well as FOR (railhead) basis. There are 15 sales outlets spread over the north, central and south zones in the State. The prices applicable to different classes of customers viz. stockist, institutions, Government departments, etc., are being fixed/ revised by the Market Review Committee in its meetings depending on the feedback received from stockist/dealers through sales officers of different sales offices.

10 Audit Checks

In addition to general checks prescribed:

i. Review the actual production in mines with reference to the targets.

ii. Examine whether the stock position of raw materials such as lime stone, coal, laterite, gypsum and fly ash are properly regulated by the materials management department with a view to avoid storage in excess of requirement as well as stoppage of production for want of materials etc.

iii. Review the long term supply contract entered into with the suppliers of raw materials with a view to prepare a report on whether they are in the best interest of the company or not.

iv. Examine the purchase order files to see that the quality parameters as per the purchase agreement and final payment to the suppliers for supplies made are in conformity with the order stipulations. If rate applicable to higher grade materials is made for supply of lower grade materials, the extra expenditure is to be quantified and commented upon.

v. In order to avoid health hazard due to fly ash waste produced by Newsprint factories in the State, Government. have extended Sales Tax exemption incentives to cement manufacturing units in the state which purchase fly ash from News Print Factories within the State. Non-availing of this incentive and procurement of fly ash from other States has to be quantified and commented upon.

vi. In order to encourage movement of cement through wagons, the company introduced wagon discount scheme fixing certain terms and conditions determined in the Marketing Review Meetings. Instances of extending undue benefits to stockist under the cover of wagon discount schemes diluting the terms and conditions are to be brought out and reported.

vii. Price fixation policy adopted by the company may be examined to see whether the costs of materials are adequately absorbed in the selling price fixed ensuring a reasonable margin to the Company.

viii. Instances of wastage, loss etc. noticed during the course of audit checks may be adequately commented upon.

ix. Internal control procedure and follow up action taken by the Company on the Internal Audit Reports may be examined and result suitably incorporated in the report.

x. Maintenance contracts entered into with service providers may be examined with reference to the performance of the machines, restoration of break downs, damages etc. with a view to ensure that there was no unnecessary hold up.

xi. Examine the schemes introduced for water supply and township linking the water available in the mines and make report on its implementation.

xii. Appointment of Transportation Contractor- the related records may be examined to ensure that the interest of the entity is adequately protected.

xiii. The Company has got a costing system as required under Cost Accounting Records (Cement) Rules.

The Travancore Cements Limited

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1 Introduction

The Travancore Cements Limited was incorporated in October 1946 as a private sector company with headquarters at Kottayam. It became a Government Company in 1989 when majority of shares was acquired by Government of Kerala. The company is under the administrative control of the Industries Department, Government of Kerala.

2 Objectives

The main objective of the company is manufacturing and sale of cement and cement products out of lime shells.

3 Organisation Structure

The Board of Directors of the Company shall have not less than three and not more than 15 members, all appointed by the Government. Managing Director is the Chief Executive of the Company.

4 Activities

The activity of the Company is confined to production and dealing of white cement in the name of "Vembanad Cement" and cement paint "Super Shelcem". The Company has got an annual capacity to produce 30,000 MT of white cement and 1050 MT of cement paint. White lime shell (own extraction), white clay (procured from Thiruvananthapuram district), white sand (procured from Alappuzha District) and white gypsum (procured from Tuticorin) are the main raw materials for manufacture of the white Cement. Orders for purchase of raw materials are placed annually on the suppliers.

5 Manufacturing Process

White cement

Lime shell, white sand and white clay are fed into the rotating ball mill and raw mill and is made into fine slurry with water. The slurry is stored in silos and transferred to slurry basin adjusting the percentage of calcium carbonate and is fed into the kiln where it is burnt into clinker. The discharged clinker is transferred to cement mill and ground with gypsum. The cement thus manufactured is automatically packed into bags and dispatched.

Cement paint

White cement and chemicals like hydrated lime, titanium dioxide, aluminium stearate, calcium chloride, fungicide and pigments like chromide, red oxide etc. are mixed and ground in ball mills and the fine powder is packed in bags and packets of various specified quantities.

6 Financial Highlights

Particulars	**2007-08**	**2006-07**	**2005-06**	**2004-05**	**2003-04**
	(Rupees in lakh)				
Authorised Share Capital	100	100	100	100	100
Paid up capital	50	50	50	50	50
Borrowings	126	126	126	0	0
Debt equity ratio	2.52	2.52	2.52	0.00	0.00
Total income for the year	2684.55	2374.09	1667.78	2450	2464.16
Net Profit before Tax and Dividend	**10.13**	**-84.27**	**-412.56**	**-275.1**	**300.13**
Accumulated Loss/Accumulated profit	-246.01	-256.14	-870.16	-480.15	-215.61
Accumulated loss as a percentage of paid up capital	-492.02	-512.28	-1740.32	-960.30	-431.22
Net worth	**-196.01**	**-206.14**	**-121.86**	**268.15**	**532.69**

7 Marketing

Sale of white cement (Vembanad Cement) and cement paint (Super Shelcem) are through stockist appointed by the company. Sale of cement is made against advance payments. Credit sale is resorted to in the case of cement paint only.

8 Audit checks

In addition to general checks prescribed:

i. The contracts entered into with the suppliers of raw materials may be examined to see whether agreements are executed keeping into account the best interest of the Company taking into account of the ISO manual provisions in the most economical and effective manner.

ii. Arrangements were made by the company for dredging operations with the approval of the Director of Mining and Geology for better extraction of white lime may be examined with a view to see that the output is commensurate with the expenditure including the royalty and ground rent.

iii. Standard norms fixed for consumption of raw material for manufacture of the products may be compared with actuals and differences if any may be analysed, quantified and commented.

iv. Standard norms for consumption of power per MT of finished products may be compared with actuals and differences may be analyzed, quantified and commented.

v. Records relating to repair and maintenance of the machines may be examined to see whether there was frequent stoppage of production due to improper repairs and maintenance. If so, the loss on account of the same may be quantified and reported.

vi. Utilisation of human resources may be examined and compared with the standards. Instances of improper redeployment of human resources may be analysed and consequent loss quantified and commented upon.

vii. Purchase of materials not immediately required for production and avoidable carrying cost incurred on the same may be quantified and commented upon.

viii. Files relating to purchase of packing materials may be examined to see whether the price, quantity and quality of the materials conform to the standards.

ix. Efficiency of marketing of the products by the Company may be examined to ensure that the finished products are not retained in the stores pending sale orders and there was no delay in sales, dispatch and realisation of dues.

x. Internal audit and internal check system may be examined to ensure that there is proper follow up on Internal Audit Report and that there is adequate internal control procedure commensurate with the size of the Company.

xi. Price fixation policy adopted by the Company may be examined to see whether the costs of materials are adequately absorbed in the selling price fixed ensuring a reasonable margin to the Company.

Kerala Ceramics Limited

Kundara, Kollam-691501,

Telephone: 0474-2522248, 2526158

Email – keralaceramics@sancharnet.in Fax No-0474 2522252

1. Introduction

The Company was incorporated in November, 1963 under the administrative control of Industries Department, Government of Kerala. The Registered office of the Company is at Kundara in Kollam district.

2. Objectives

The main objectives of the company were mining, processing, refining and selling of china clay, processing and selling of porcelain goods, acquisition of government ceramic concerns at Kundara etc.

3. Organisation Structure

The number of Directors in the Board of Directors shall not be less than two and not more than eleven. The Managing Director is the functional head. The Finance Manager, Manager (P&A), Commercial Manager, Manager (works), Manager (Engineering), Manager (Mines) etc. are reporting to the Managing Director.

4. Activities

Consequent on the closing down of the Sanitary Division (1990) and Porcelain Division (2002), the activities of the company are limited to production of spray dried Kaolin. The installed capacity is for production of 18000 MT of Kaolin.

For drying process of clay for production of Spray Dried Kaolin (SDK), the company was originally using HSD oil and kerosene. The company has recently switched over from fossil fuel to Biomass for thermal energy generation under Clean Development Mechanism (CDM) in order to avail Certified Emission Reductions (CER) as per Kyoto Protocol.

5. Financial Highlights

		(Rs in lakh)		
Sl.No	**Particulars**	**2004-05**	**2003-04**	**2002-03**
1	Authorised Share Capital	1400	1400	1400.00
2	Paid up capital	1120.61	1120.61	1120.61
3	Borrowings	1742.39	1659.78	1614.81
4	Debt equity ratio (debt for Rs 100 of equity)	1.55	1.48	1.44
5	Total income for the year	580.11	628.56	690.68
6	**Net Profit before Tax and Dividend**	**-284.5**	**-294.49**	**272.72**
7	Accumulated Loss/Accumulated profit	-3565.52	-3281.01	-2986.53
8	Accumulated loss as a percentage of paid up capital	-318.18	-292.79	-266.51
9	**Net worth**	**-2444.91**	**-2160.4**	**-1865.92**

6. Accounts and Audit

Significant accounting policies followed are as under:-

i. Finished goods of Porcelain division (old shale) are valued at selling prices less 15 per cent discount.

ii. Finished goods of Kaolin division are valued at sales value less royalty.

iii. Finished goods of sanitary ware division are valued at Re1 to show its existence.

iv. Work in progress is valued at selling price with weightage for degree of completion.

v. Shift depreciation on plant are provided at rates applicable to continuous process plant.

vi. Revenue from sale is recognized as and when incurred excluding taxes and duties. Excise duties accounted on the basis of both payments made in respect of goods cleared as also provision made for goods transferred to showroom.

vii. Gratuity liability has been computed on actual basis. No provision has been made for leave encashment. Leave encashment payable on retirement is accounted on payment basis.

Kerala Clays and Ceramic Products Limited

"Clay House", Pappinisseri

Kannur District -670 561.

Telephone : 0497-2787671

Email: Keralaclays@datacome.in Fax No-0497 2787281

1. Introduction

The Company was incorporated in June 1984 as a private company under the administrative control of the Industries Department, Government of Kerala. The Registered office of the Company is at Pappinisseri, Kannur district.

2. Objectives

The objectives of the company include (1) promoting, establishing, maintaining and managing the business relating to clay, mineral, metals and products based on such materials (2) manufacture, purchase, sell and to deal in wall/floor tiles, stone ware pipes sanitary wares and crockeries.

3. Organisation Structure

The Director Board of the Company shall have not less than two and not more than eleven Directors. The Managing Director is the functional Director and Chief Executive. The registered office of the company is at Pappinisseri. The Finance, Personnel and Mine departmental heads of the company report to the Managing Director.

4. Activities

Mining and purification of china clay, manufacturing and trading of china clay, aluminous laterite, refractory bricks, wire cut bricks, grinding ball and mortar etc. are the present activities of the company. The important raw materials include tile clay, firewood, filter cloth packing material etc. which are purchased from within or outside the state. The major customers of the company are Murdeshwar Ceramics, WS Industries Limited., Ultramarine Pigments, Malabar Cements etc.

5. Financial Highlights

Sl.No	Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)					
1	Authorised Share Capital	400	400	400	400	400
2	Paid up capital	131.82	131.82	131.82	131.82	131.82
3	Borrowings	0	0	0	0	0
4	Debt equity ratio	0.00	0.00	0.00	0.00	0.00
5	Total income for the year	714.63	556.79	492.5	441.72	411.3
6	**Net Profit before Tax and Dividend**	**202.14**	**120.03**	**94.7**	**83.83**	**115.4**
7	Accumulated Loss/Accumulated profit	540.15	426.58	373.85	330.32	291.54
8	Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
9	**Net worth**	**671.97**	**556.16**	**503.43**	**459.9**	**421.12**

6. Accounts and Audit

The significant accounting policies are as under:

i. The entire cost of removal of overburden is taken as cost of mining of clay. Cost does not include royalty payable to the Government. Cost of stores and packing materials are taken on specific identification method and cost of finished goods and work in progress are taken on average cost method.

ii. Accounting of royalty payable to Government of Kerala is based on sales.

iii. Company is a member of Group Gratuity and Life Assurance Scheme of Life Insurance Corporation of India (LIC) and paying contribution to the LIC for gratuity through Group Gratuity Trust.

iv. The Internal Audit of the company is outsourced to a Chartered Accountant firm.

7 Audit Checks

Transaction Audit

The following areas may be specifically covered in audit in addition to regular checks.

1. Mine-wise profitability.
2. Progress of expansion projects.
3. Mines safety measures and site restoration activities.

Kerala State Mineral Development Corporation Limited

T.C.14/563, Samadimadom, Nandavanam,
Palayam, Thiruvananthapuram-695033
Email: kemdel@sancharnet.in Ph No-0471 2324000

1 Introduction

The Company was incorporated as a private limited company in June 1992 under the administrative control of Industries Department, Government of Kerala. The Registered office of the Company is at Thiruvananthapuram.

2. Objectives

The main objectives of the company are exploration and exploitation of mineral wealth of the State viz. Silica, Sand, China Clay, Dimension Stone, Lignite, Mineral sand and Gems.

3. Organisation Structure

The Director Board of the Company shall consist of not less than two and not more than nine Directors including the Chairman and Managing Director. The Managing Director is the only functional director.

4. Activities

The Company has not yet started commercial activities. The company is maintaining a skeletal office with a part time Managing Director and five temporary employees.

5. Financial Highlights

The authorized capital of the company is Rs 500 lakh. The paid up capital is Rs 125.67 lakh fully subscribed by the State Government (31.3.09). The Company has not commenced commercial activities.

6. Accounts and Audit

The accounting policies adopted by the company are:-

- The net expenses have been transferred to pre-operative expenses.

- DPR/Feasibility expenses for Madayi Lignite and China Clay project are treated as Deferred Revenue Expenditure.

7. Audit Checks

Since the Company has not commenced commercial production, specific checks are not given.

Specific Audit Checks for companies in Construction Sector

1. Whether there exists a proper system for preparation of bid documents and bid amounts.
2. Ensure that feasibility study and proper estimates are prepared and approved before finalization of bid.
3. Check the acceptability of the basis of estimates for bidding.
4. Verify the reasons for rejections of bid participation, if any, and corrective action taken thereafter.
5. How is the work executed, direct or through sub contractor?
6. Evaluate the procedure followed in tender invitation/finalization.
7. Scrutinize the agreements executed with client Departments/ Sub-contractors.
8. Ensure whether hindrance free site was made available for construction before contract is finalized.
9. Whether required permission from Town Planning Authority/ Municipality/ Panchayat has been obtained.
10. Ensure timely receipt/release and subsequent adjustments of mobilization advance.
11. Scrutinize the Capital assets acquired/purchased for the work.
12. Verify the materials issued to the work.
13. Whether proper supervision of the work and quality check are ensured.
14. Whether time schedule of works are properly adhered to.
15. Whether measurements are taken periodically.
16. Whether check measurements are prescribed and adhered to.
17. Whether periodical physical verification of stock is done.
18. Ensure that the provisions of PWD Code and Manual are taken care of.
19. Ensure whether the part/final bills with client departments are submitted timely.

20. Ensure that sufficient security deposits/bank guarantee is collected from the Contractors.
21. Verify whether any claims have been disallowed by the Client Department.
22. Ensure whether the Company has settled all the issues such as Performance Guarantee, Liquidated Damages, final payments soon after the commissioning of the projects.
23. Check whether cost/expenditure incurred was same as per estimate/agreement. In case of excess, whether it is recoverable from the client and claim submitted in time.

Roads and Bridges Development Corporation of Kerala Limited

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Phone No. 0484 -2338205 , 2338206 FAX:0484-2533294
Email:mail@rbdck.com Website:www.rbdck.com

1 Introduction

The Company was incorporated in March 1999 under the administrative control of the Public Works Department. The headquarters of the Company is at Kochi.

2 Objectives

The main objective is construction of highways, bridges, bypasses, over-bridges, express ways on the property entrusted to and vested with the Company by the Government of Kerala or other agencies.

3 Organization Structure

The number of members in the Board of Directors of the Company shall not be less than three and not more than twelve. The Minister in charge of Public Works in the Government of Kerala is the Chairman. The Managing Director is the Chief Executive of the Company who is assisted by a General Manager, two Additional GMs, Finance Controller and the Company Secretary.

4 Activities

The Company at present is engaged in construction of Railway over bridges (ROB) on behalf of Railways. As at the end of March 2008, construction of 50 Railway Over Bridges was entrusted to the Company. Of these 13 ROBs were completed and commissioned. The Company has executed Direct Toll Collection Agreement (DTCA) with Kerala Road Fund Board and PWD in respect of the completed projects. Accordingly, the Company can collect toll for a period of 15 years from the date of execution. Collection of user fee as envisaged under Section 8 (2) of the Kerala Road Fund Act 2001 could be started only from three bridges so far.

5 Financial Highlights

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
	(Rupees in lakh)				
Authorised Share Capital	2500	2500	2500	2500	2500
Paid up capital	942.5	942.5	942.5	687.5	687.5
Borrowings	9949.63	9219.05	8349.94	7323.24	6091.99
Debt equity ratio	10.56	9.78	8.86	10.65	8.86
Turnover	308.1	138.87	197.61	226.78	59.62
Net Profit before Tax and Dividend	**-984.03**	**-712.3**	**42.18**	**36.48**	**40.77**
Accumulated Loss/Accumulated Profit	-1642.27	-657.65	0	45.97	27.96
Accumulated loss as a percentage of paid up capital	-174.25	-69.78	NA	NA	NA
Net worth	**-699.77**	**284.85**	**942.5**	**733.47**	**715.46**

6 Audit checks

i. The survival of the Company depends on its revenue earnings by way of collection of toll. However, the Company failed to collect user fee/ toll from most of the commissioned projects resulting in foregoing of anticipated revenue. Lacuna in the system of procedure of toll collection may be highlighted.

ii. Inordinate delay in completion of projects in view of the amount invested by the Company on the on-going projects may be critically reviewed and highlighted.

iii. The Company did not utilize commercial space available around the completed ROBs and River Bridges which could have generated additional revenue.

iv. Constraints faced by the Company due to lack of budgetary support was not taken up by the Directors with the Government which shows the failure of corporate governance.

v. Due to lack of budgetary control, the Company was not able to identify the source of funds for financing the work/ projects which in turn resulted in delay in acquisition of land and completion of work. This aspect has to be reviewed and commented upon.

vi. Failure on the part of the Company to work on reducing the financial cost by adopting better financing strategies like swapping, rescheduling, etc, of loans may be analysed and highlighted.

vii. Court cases pending in respect of land acquisition are to be reviewed and incorporated in the IR.

viii. The financial liability/loss on account of non-payment of KVAT/Service tax in time has to be brought out.

Kerala State Construction Corporation Limited
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Email: info@kscc.in Website: www.kscc.in

1 Introduction

Kerala State Construction Corporation Limited was incorporated as a private company in March 1975 under the administrative control of the Public Works Department (PWD). The registered office of the Company is at Thiruvananthapuram and administrative office is at Kochi. There are six Regional offices at Thiruvananthapuram, Kochi, Kottayam, Thrissur, Kozhikode and Kannur.

2 Objectives

The main objectives of the Company are:

(i) Execute works or conveniences whatsoever, for private and public.

(ii) To acquire any contracts and concessions in relation to construction.

(iii) To carry on the business of civil, mechanical & electrical engineers, sanitary engineers, tool makers etc.

3 Organisational Structure

The number of members in the Board of Directors of the Company shall not be less than two and not more than seven. The General Manager, Finance Manager, Secretary and Chief Internal Audit Officer report directly to the Managing Director.

4 Activities

The Company is engaged in Civil Construction Works mainly for public sector undertakings and autonomous bodies. It is also engaged in collection of toll on behalf of PWD. The company also participates in open tenders floated by different agencies. Certain works outside the country were also taken up by the Company. The Company engages contractors for execution of works entrusted to it by the clients. Selection of contractors for the work is by following tender formalities.

5 Financial Highlights

Particulars	2007-08	2006-07	2005-06	2004-05	2003-04
	(Rupees in lakh)				
Authorised Share Capital	200	200	200	200	200
Paid up capital	87.5	87.5	87.5	87.5	87.5
Borrowings	632.67	615.7	598.73	581.76	564.8
Debt equity ratio	7.23	7.04	6.84	6.65	6.45
Turnover	1490.56	2042.79	2687.36	1541.11	879.91
Net Profit before Tax and Dividend	**-236.9**	**-88.15**	**-29.65**	**-221.87**	**-402.57**
Accumulated Loss/Accumulated Profit	-2522.91	-2286	-2197.86	-2168.21	-1946.34
Accumulated loss as a percentage of paid up capital	-2883.33	-2612.57	-2511.84	-2477.95	-2224.39
Net worth	**-2435.41**	**-2525.07**	**-2110.36**	**-2080.71**	**-1858.84**

6 Significant accounting policies

i. Contract works - In the case of ongoing/completed works, part/final bills are accounted on realisation. Income will be recognised in the year to which the bills pertain.

ii. In respect of works given on subcontract, expenditure is recognised only when payments are made to the sub contractor.

iii. In respect of works on actual plus or on subvention/ consultancy basis, income will be recognised irrespective of the percentage of completion of the works.

7 Audit checks

The following areas may be specifically covered in audit in addition to regular checks.

i. Delay in execution of work and consequent extra cost/termination of work at risk and cost.

ii. Delay in preferring the bills for the work executed.

iii. Diversion of mobilization advance.

iv. Non-achievement of objective due to low participation in PWD works.

v. Part payment and final payment to contractors.

vi. Release of mobilization advance to contractors.

vii. Realisation of service tax from clients and its payment to Government

viii. Excess payment of VAT and delay in preferring refund claims.

ix. Timely renewal of lease rent agreements executed with contractors.

Kerala Police Housing and Construction Corporation Limited
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1 Introduction

Kerala Police Housing and Construction Corporation Limited was incorporated in July 1990 as a Government Company under the administrative control of the Home Department.

2 Objectives

The main objective of the Company include construction of houses, offices and other infrastructure facilities for the Departments of Police, Prison, Vigilance, Fire and Rescue services etc. of the Government of Kerala.

3 Organisation Structure

The Company has a Director Board of not more than six members. The Director General of Police is the Chairman and one of the Inspector General of Police is its Managing Director. He is assisted by the Chief Engineer in charge of the Technical wing and Finance Manager in charge of Finance and Accounts wing.

4 Activities

The present activities of the Company are confined to construction of various Police stations, quarters and other facilities. Estimates are prepared at PWD schedule of rates and works are awarded on tender basis. Government money as provided under budgets, loans from Government, HUDCO, LIC Housing Finance etc. provide sufficient working capital to the Company. The Company has obtained (17-06-2009) ISO 9001:2008 Certification with regard to design, construction and after sales service of public, residential and commercial buildings.

5 Financial Highlights

Particulars	2005-06	2004-05	2003-04	2002-03
	(Rupees in lakh)			
Authorised Share Capital	1000	1000	1000	1000
Paid up capital	603	603	603	603
Borrowings	3088.54	3000.74	5541.8	4499.89
Debt equity ratio	5.12	4.98	9.19	7.46
Turnover	1910.67	4098.78	22.85	6.81
Net Profit before Tax and Dividend	**-10.26**	**0**	**0**	**0**
Accumulated Loss/Accumulated Profit	-10.03	0	0	0
Accumulated loss as a percentage of paid up capital	-1.66	NA	NA	NA
Net worth	**592.97**	**603**	**603**	**603**

The paid up capital fully subscribed by the State Government was Rs.6.03 crore which included the cost of land valued at Rs.576 lakh originally kept at the disposal of the Company and subsequently transferred to Police Department (8/2001). Capital reduction on the basis of the transfer was allowed by the Registrar of Companies (11/2006) and thus paid up capital as on 31 March 2008 is Rs.27 lakh.

It was working on no profit no loss basis up to 31 March 2005 but switched over (April 2005) to a system of charging supervision charges at 12 per cent on the expenditure incurred on completed works during the year.

6 Significant Accounting Policies

Supervision charge at a stipulated percentage (12 per cent) of direct expenditure incurred during the year on contract works has been recognized as income based on the decision taken by the Board of Directors which is pending ratification by Government of Kerala. Supervision charges are not recognized in cases where total direct cost incurred on works completed during the year has exceeded the funds received from client department and where possibility of receipt of additional amounts is remote / uncertain. Such amounts will be taken to credit on cash basis due to uncertainty involved.

7 Audit checks

In addition to the general checks prescribed, the following items need to be reviewed in depth.

i. Non-utilisation of fund allotted for implementing projects.

ii. Undue delay in completion of work due to lack of co-ordination in planning and implementation of projects, viz, delay in acquisition of land, providing hindrance free site, providing timely plan and other assistance from the company, frequent change in plan and structure of work, etc.

iii. Cost over run due to delay in completion.

iv. Factors that led to termination of work at risk and cost.

v. Delay in preferring part and final bills on executed works.

vi. Diversion of mobilization advance allotted for the work.

vii. Delay in re-tendering of work, fixation of risk and cost on the original contractor, etc. leading to non-realisation of extra cost.

viii. Non-realisation of supervision charges from Client Departments on extra/excess work done.

ix. Availing of loans for project works in excess of requirements.

x. Each project has to be completed with in the fund allotted by the Government. Effectiveness of internal control system to regulate expenditure and to keep with in the limits of funds allotted to be examined.

xi. The Company has not taken registration with the Tax Department under the provisions of KVAT Act, 2003. The financial liability/loss on account of non-payment of KVAT/Service tax in time has to be brought out.

The Kerala Land Development Corporation Limited
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1 Introduction

The Kerala Land Development Corporation Limited (KLDC) was incorporated in December 1972 with registered office at Thiruvananthapuram under the administrative control of the Agriculture Department.

2 Objectives

The main objectives of the company include execution of land development schemes in the State for the development of agriculture and allied activities. As per the amendment in the Memorandum of Association in July 2007, it is envisaged to undertake consultancy, project preparation, design and execution of project/schemes of any type including construction activities.

3 Organisation Structure

The total number of members in the Board of Directors of the company shall not be less than two and not more than nine. The Accounts Officer holding the charge of Secretary and the Construction Engineer, in the head office, report directly to the Managing Director. The company has got three Construction Engineers offices at Thrissur, Alappuzha and Kayamkulam and two Project Engineers offices at Vaikom and North Paravur.

4 Activities

The present activities of the company include the following:-

i) Land development and agriculture infrastructure development projects under Rural Infrastructure Development Fund (RIDF) having NABARD assistance.

ii) Land development schemes for Vikasana agencies constituted by the Government.

iii) Schemes allotted by Agricultural Department.

iv) Development schemes allotted through District Collectors.

The works are being carried out through sub contractors selected by the Company after following tender formalities.

5 Financial Highlights

Particulars	2004-05	2003-04	2002-03	2001-02	2000-01
	(Rs in lakh)				
Authorised Share Capital	1000	1000	1000	1000	1000
Paid up capital	705.4	705.4	705.4	705.4	705.4
Borrowings	187.79	187.72	187.64	187.57	187.57
Debt equity ratio	0.27	0.27	0.27	0.27	0.27
Turnover	93.59	103.25	78.43	27.67	125.99
Net Profit before Tax and Dividend	**-100.88**	**-66.8**	**-64.2**	**-128.31**	**-1202.51**
Accumulated Loss/Accumulated Profit	-1493.23	-4769.47	-4674.63	-4610.43	-4482.12
Accumulated loss as a percentage of paid up capital	-211.69	-676.14	-662.69	-653.59	-635.40
Net worth	**-787.83**	**-4064.07**	**-3969.23**	**-3905.03**	**-3776.72**

Writing off of capital subsidy from Government, loans and interest realizable from cultivators are the reasons for the huge accumulation of loss. The NABARD loans availed by the State Government paying interest at rates ranging from 6.5 per cent to 10.5 per cent and assistance from RIDF are the sources of finances for the company. Supervision charge paid by Government at 10 per cent of the estimated cost of the work is the income for the company.

6 Audit Checks

(a) Transaction audit

In addition to the prescribed general checks, the following items need to be reviewed in depth.

i. Norms adopted for identification of contractors and measurement of the works while checking the contractor’s bills.

ii. Since measurement of the quantum of filling materials like sand and rubble to develop funds in waterlogged areas is not possible after filling, the same can be got assessed from the source of supply.

iii. Cash management – the company is getting cost bearing funds through Government sources. The entity is expected to manage the cash efficiently by retaining the same in short term deposits till utilisation for the intended purpose.

iv. The financial liability/loss on account of non-payment of KVAT/Service tax in time has to be brought out.

(b) Financial audit

Routine audit checks for construction and infrastructure development sector may be conducted.

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1 Introduction

Established in 1964 in the State of Kerala, Kerala Electrical and Allied Engineering Company Limited (KEL) is a multi faceted Company fully owned by the State Government. Though its five production facilities located in various districts of the State, this ISO-9001: 2000 Company provides basic Engineering Services/ Products besides executing projects of national significance for high profile clients like the various defence establishments.

2 Objectives

The main objectives of the Company are to carry on business of Electrical, Mechanical and Structural Engineering Equipments, Fittings and Electrical accessories. The Company has got four units at Kundara, Mamala, Olavakod and Kasaragod.

3 Capital structure

The authorised share capital of the Company as on March 2008 was Rs.70 crore. The paid up capital as on date was Rs.68.38 crore fully owned by the Government of Kerala.

4 Organisation structure

Administrative control of the Company rests with the Industries Department, Government of Kerala. The maximum number of Director Board members is 15. The Chairman, Managing Director and the Directors are nominated by the State Government.

5 Activities

The Company manufactures and markets products like general purpose brushless alternators, brushless alternators for lighting and air-conditioning of rail coaches, medium power and distribution transformers as well as structural steel fabrications.

The product categories for defence application include high frequency alternators, frequency convertors, special alternators and power packs for missile products. The power packs designed and supplied by the Company for missile products like Falcon, Prithvi, Trishul and Akash have been pioneering efforts. The Company has also supplied special alternators to the army (Military Power Cars) and Air Force (Radar Applications). The Company's all India Marketing Networks with Regional Offices in all metro cities cater to major institutional clients like the State Electricity Boards, Indian Railways and various Defence establishments besides the general market clients. General Purpose Alternator division at Kasargod unit is engaged in production of General purpose Alternators of various capacities ranging from 15 KVA to 1500 KVA. Train lighting, Alternator Division at Kundara unit manufactures Alternators of rating ranging from 3 KW to 25 KW. It also produces cast iron specials. Transformer Division and Structural Division at Mamala unit manufacture Distribution Transformers and Steel Structurals respectively. LT Switchgear division at Olavakkad unit is engaged in manufacturing LT switchgear items, HRC fuses, and fuse units of KSEB and miscellaneous items of captive consumption by other units of KEL. The Company is planning to set up a Distribution Transformers factory at Mamala with the help of Saudi Engineering Group International. The main raw materials required for the manufacture are CRGOI, CRNGO Silicon Steel, Copper, Aluminium, Steel, toroidal core, bearings, engines, transformer oil etc. They are purchased from specified vendors.

6 Financial Highlights

Particulars	2005-06	2004-05	2003-04	2002-03	2001-02
	(Rs. in lakh)				
Authorised Share Capital	7000	7000	5000	4000	4000
Paid up capital	7137.81	6837.81	4953.52	3405.94	3405.94
Borrowings	4536.42	4536.09	3795.92	2690.34	3039.24
Debt equity ratio	0.64	0.66	0.77	0.79	0.89
Total income for the year	5162.22	5063.26	5291.40	4963.26	3491.86
Net Profit before Tax and Dividend	**-1470.10**	**-491.71**	**-937.79**	**-184.46**	**-1120.37**
Accumulated Loss/Accumulated profit	-9077.77	-7607.66	-7115.96	-6178.16	-5993.70
Accumulated loss as a percentage of paid up capital	-132.76	-111.26	-143.65	-181.39	-175.98
Net worth	**-1939.96**	**-769.85**	**-2162.44**	**-2772.22**	**-2587.76**

7 Audit checks

i) CRGOI/CRNGO, silicon, steel, copper, aluminum, steel, toroidal core, bearing, engines, transformer oil etc are the important raw materials for the manufacture of the products of the Company. The procedure followed by the Company for procurement of these items is to be examined to ensure that the purchase process was followed taking into account of efficiency and economy.

ii) The Company is having a rate contract arrangement with suppliers for lamination and copper. The rate contract agreement terms and conditions are to be examined with a view to ensure that it was entered into taking into account of the best interest of the Company.

iii) Review consumption of raw materials with reference to raw material requirements as per standard and normal wastages allowed.

iv) Check whether the quantity of materials recorded as wastage have been accounted as scrap.

v) Review the records maintained for accounting of scrap and actual disposal of scrap.

vi) Liquidated damages due but not recovered from customers and liquidated damages paid to suppliers may be examined and commented.

vii) Expenditure on R&D and the benefit derived by the Company out of the same may be examined and commented upon.

viii) Expenditure incurred by the Company in connection with computerisation may be examined and suitably commented upon.

ix) Internal control system of the Company may be examined with a view to ensure that Fixed Assets registers are maintained, statutory dues are paid without default, limit on wastage norms are not exceeded, HO transactions do have sufficient internal control etc.

x) Internal Audit – Internal audit is entrusted to external agencies. Follow up action taken on the IA report may be examined and commented upon.

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1 Introduction

The Company locally known as Meter Company was incorporated as a public limited company in October 1950. UEIL an ISO 9001:2000 certified Company is the first factory in India to manufacture Electricity House Service Meters. The Company started its manufacturing activity in technical collaboration with the world renowned measuring instrument manufacturer, M/S Aron Reuters Limited, England. Major shares of the Company were taken over by the Government of Kerala in 1957 and reconstituted it as a Public Limited Company under the ownership of Government of Kerala. The major share holder of the Company is Government of Kerala with 97.20 per cent of the total share value. The company is under the administrative control of Industries Department.

2 Objectives

The main objectives of the Company are to manufacture single and polyphase house service meters, motor starters, electronic items such as plastic film capacitors and carbon film resistors etc.

3 Activities

The Company manufactures Electricity House Service Energy Meters of Electro- Mechanical and Static types, Motor starters, galvanized items, under the brand name ‘Unilec’. The products of the Company are ISI marked. It also conducts testing of meters (acceptance tests for lots), routine tests and type tests.

4 Organisation structure

The Company is having a Director Board of not less than three and not more than nine members. The Managing Director is the CEO of the Company.

5 Activities

The Company was manufacturing electro-mechanical meters till December 2002. Since the KSEB decided to switch over to electronic meters, the production of electro-mechanical meters was dispensed with since December 2002. The production/assembling of electronic meters were started in December 2003. Production and sale of static meters, motor control gear, AB switches, 2 line cross arm, V-cross Arm etc. are the main activities now. The main customers of the Company are KSEB, AP NPDCL, AP SPDCL, APE PDCL etc. The Company is having a dealer net work on national basis.

The important raw materials needed for production include electronic components and metallic items. The source of supplies of important raw materials, brought out items, inventories etc. are at National and International levels. The Company follows ISO prescribed procedures of tendering and comparing for purchase of raw materials.

The manufacturing process for electronic meters includes soldering, assembling, testing and finishing. For motor starters, the process includes sub-assembly, manufacturing assembling, testing, packing etc.

Diversification of activities to new products such as 11 KV AB switches, water meter, Transformer repair are in progress. A new production unit is established at Palakkad. The turnover of the Company during 2007-08 was around Rs.36 crore.

6 Special registers/ records maintained

i) Accounting manual.
ii) Monthly Production Reports.
iii) Machine Utilisation records.
iv) Material variation Reports.
v) Sales return register.
vi) Records/Rules relating to incentive payments.
vii) Cost Accounts.

7 Financial Highlights

Particulars	2007-08	2006-07	2005-06	2004-05
	(Rs. in lakh)			
Authorised Share Capital	400	400	400	400
Paid up capital	399.03	399.03	399.03	399.03
Borrowings	792.85	586.93	341.52	331.28
Debt equity ratio	1.99	1.47	0.86	0.83
Total income for the year	3941.12	3616.28	500.3	725.64
Net Profit before Tax and Dividend	**60.76**	**234.11**	**-312.39**	**-285.35**
Accumulated Loss/Accumulated profit	-174.56	-226.07	431.85	-116.39
Accumulated loss as a percentage of paid up capital	-43.75	-56.65	-108.22	-29.17
Net worth	**-1346.57**	**-1861.7**	**-32.82**	**282.64**

8 Audit Checks

i) Review actual production with reference to installed capacity and budgetary production in respect of all the products manufactured.

ii) Review machine utilisation with reference to job works directed to private parties.

iii) Review sales performance with reference to budget.

iv) The policy of quoting rates in respect of various products manufactured by the company may be reviewed with reference to marginal cost.

v) The long term agreements with clients for supply of meters and other products may be reviewed to see whether the sale orders are effected below cost of production.

vi) The quality control measures adopted by the company may be reviewed with reference to defective products returned by the customers.

vii) Review the production incentive scheme in vogue to see how far it contributed to increase productivity and profits.

viii) Ascertain the reasons for material quantity variance in the manufacture of various products.

ix) Review the position of self sufficiency in respect of components.

x) Review the delay in manufacture and supply of products, if any, and consequent loss.

xi) Examine the internal control system and follow up action on internal audit report with a view to form an opinion whether they are commensurate with the volume.

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1 Introduction

Transformers and Electricals Kerala Limited was incorporated in 1963 under an agreement with Government of Kerala, KSIDC and M/S Hitachi Limited, Japan to set up a full fledged unit for designing and manufacturing extra High Voltage electrical equipments. Starting of with Power Transformers, it later extended its product range to instrument transformer, SF6 Gas Circuit Breakers shunt and series reactors, isolated phone bus ducts etc.

The Company has bagged and executed many export contracts to customers like PLN of Indonesia, TNB of Malaysia, MEW of Oman, NEPA of Nigeria etc.

The Company's Project Engineering Division (PED) was set up in 1985 for tackling and testing instruments to carry out Electrical turnkey contracts.

2 Objectives

The main objective of the company is manufacture of heavy electrical equipments required by the power sector.

3 Capital structure

The authorised share capital of the Company is Rs.15 crore.

The shares are listed in Cochin, Mumbai and Chennai Stock Exchanges. For working capital requirements, the Company depends on cash credit, letters of credit etc. from banks and advances from customers.

The Company was referred to BIFR in 1997 and is at a recovery stage now. In June 2007, the Government of Kerala and the National Thermal Power

Corporation (NTPC) came to an understanding for the latter acquiring 44.6 per cent stake in the Company. Government and NTPC would subsequently fund the expansion plans at 50:50 ratio as a joint venture.

4 Organisation structure

The Company is under the administrative control of the Industries Department, Government of Kerala. The maximum number of Directors is 12. Managing Director is the only functional director.

5 Activities

The present activities of the Company are manufacture and sale of high power electrical equipments. The manufactured products include power transformers, potential transformers, current transformers, onload tap changing gear bushings, gas circuit breakers and isolated face bus ducts. The finished products are sold to the customers against specific orders. Railways, NTPC, KSEB, PGCIL, TATA and NPC are among the important customers of the company. For realizing the outstanding amount from the customers, the Company has appointed sales agents.

The manufacturing process include making of transformers tanks, core, coils, internal assembly, testing of transformers after filling with transformer oil, fitting of accessories etc.

The important raw materials, brought out items and inventories used include mild steel, CRGO, copper conductor, transformer oil, radiators etc. The materials are procured out of import and domestic markets on the basis of design requirements for confirmed orders. Contracts are entered into with suppliers decided on the basis of competitive tenders.

The turnover of the company during 2005-06 was Rs.110.01 crore. The employee strength as on 31.3.07 was around 950.

6 Financial Highlights

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
	(Rs. in lakh)				
Authorised Share Capital	1500	1500	1500	1500	1500
Paid up capital	4296.96	4296.96	1357.54	1357.54	1357.54
Borrowings	879.77	3304.53	4390.42	3826.48	4342.17
Debt equity ratio	0.20	0.77	3.23	2.82	3.20
Total income for the year	14555.1	11020.28	9435.18	9340.44	8432.43
Net Profit before Tax and Dividend	**1395.89**	**173.86**	**609.44**	**620.34**	***105.62***
Accumulated Loss/Accumulated profit	-3579.01	-4974.89	5148.76	-5758.19	-6378.53
Accumulated loss as a percentage of paid up capital	-83.29	-115.78	-379.27	-424.16	NA
Net worth	**717.95**	**-677.93**	**-3791.22**	**-4400.65**	**-5020.99**

7 Audit checks

i) The Company has a pricing policy of the products taking into account of cost plus “reasonable profit”. However, cost records as per Section 209 (1) (d) of the Companies Act are not maintained and profitability is not being properly assessed before finalizing sale orders. Thus, the “reasonable profit” concept based on improper records lead the management to wrong decision. The consequence of non maintenance of cost records have to be focused in audit with a view to avoid ambiguity and professionalize the functioning of the entity.

ii) Materials are purchased against design requirements of confirmed orders. Such practices after canvassing orders are time consuming and reduce the chances of obtaining more competitive offers. It is an important reason for delay in supply of finished products, adversely affecting the business prospects of the Company. This aspect is to be examined and commented suitably.

iii) Machine hour utilisation for manufacturing may be compared with standards and extra expenditure due to unfavorable deviations may be quantified and commented.

iv) Manpower utilisation for manufacturing activities may be compared with accepted standards and reasons for under utilisation may be analysed and commented with positive suggestions for improvement of efficiency.

v) Quality checking at various steps of production and corrective actions taken on the basis of quality test results may be analysed to examine whether the fall in quality was due to any avoidable error and if so adequate corrective actions were taken to avoid recurrences of such problems.

vi) Propriety of procurement planning may be examined to see whether the price fixed for purchase was in the best interest of the Company.

vii) The Company is expected to maintain reasonable market intelligence system so as to assess the trend in market price of the materials required for manufacture. Whether such professionalism has been inducted into the management is to be examined and commented.

viii) Instances of recovery of liquidated damages by contractors for delay in dispatch of finished products are to be examined and analysed with a view to fix responsibility and avoiding such recurrences.

ix) Instances of generation of more scrap than normal are to be examined and commented. Accumulation of scrap realisation from sale of scrap, maintenance of non-moving and slow moving items of stock etc. are to be examined and reported.

x) Performance of internal control system, follow up on internal audit reports etc. to be examined and commented upon.

xi) Follow up action taken to realise the dues from clients, expenditure incurred for sale agency arrangement, the benefits accrued out of the appointment of sales agents etc. are to be examined and reported.

Traco Cable Company Limited

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1 Introduction

The Traco Cable Company Limited., Ernakulam was incorporated in February 1960 with Headquarters at Ernakulam. The company is under the administrative control of the Industries Department, Government of Kerala.

2 Objectives

The objects of the company include *interalia* manufacture of electric wires, cables and flexibles using copper, aluminum and / or other materials as conductor, insulated with rubber, plastics, cotton, paper or other suitable materials for use in wiring, transmission and distribution networks and in utilisation of electric power, all types of cables, aluminum or any other metal conductor, fuse and winding wires, equipment and materials used in generation, transmission, distribution and utilisation of electric power.

3 Organisation structure

The Company is under the administrative control of the Industries Department. The number of directors including the ex-officio and technical director shall not be less than 7 and shall not exceed 15.

4 Activities

The activities of the company were confined to manufacture of conductors for electrical transmission and distribution till 1973 at the Factory at Irimpanam. Production of insulated lead sheathed and polythelene insulated Jelly Filled Telephone Cables (JFTC) were also started in 1974. A JFTC project was established at Thiruvalla and its capacity was enhanced to 15000 LKM in 1991.

Consequent on the entry of optical fibre cable in the telecommunication sector, the JFTC was pushed off the market and their production stopped by the Company. For utilizing of plant and machinery installed for JFTC, it was decided by the company to manufacture bare conductors and power cables. Production of ACSR was commenced at Thiruvalla in December 2006 and machines were installed at Irimpanam in February-April 2007.

5 Financial Highlights

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
	(Rs. in lakh)				
Authorised Share Capital	1500	1500	1500	1500	1500
Paid up capital (Ad Sh capital .Rs.1067.87)	2369.68	2369.68	2369.68	2369.68	1301.81
Borrowings	3010.17	3002.6	2295.71	1857.61	1809.47
Debt equity ratio	1.27	1.27	0.97	0.78	1.39
Total income for the year	5192.81	3749.74	4309.51	2512.81	3147.15
Net Profit before Tax and Dividend	**-218.77**	**-658.16**	**-717.6**	**-795.97**	**-886.53**
Accumulated Loss/Accumulated profit	-3773.10	-3554.33	-2896.17	2335.11	-1765.64
Accumulated loss as a percentage of paid up capital	-159.22	-149.99	-122.22	-98.54	-135.63
Net worth	**-1403.42**	**-1169.65**	**-511.49**	**-1857.61**	**-65.79**

6 Audit checks

i) Review the purchase files in respect of the major raw materials such as Aluminium, Copper, Steel, Lead, PVC etc. to ensure that the purchase formalities as laid down in the purchase manual were followed for finalization of orders.

ii) Review the contracts entered into with the suppliers to ensure that the contracts have been executed taking into account of the best interest of the company.

iii) Review actual production with reference to targeted production and also with reference to installed capacity and examine the reasons for the shortfall in utilisation, if any.

iv) Review policy of quoting rates in respect of tenders floated by KSEB and other large consumers to see whether the rates quoted by the company are competitive. Since the capacity utilisation has got a direct link with the market demand for the products, this item has got special significance.

v) Review machine utilisation and examine the cause wise analysis of reasons, if any, for low utilisation.

vi) Incidents of breakdowns in the cases of machineries and details of action taken to avoid such instances and consequent loss may be examined and commented upon.

vii) Review consumption of materials with reference to material requirements as per standards and normal wastages allowed. Reasons for excess utilisation of raw materials, excess wastage of raw materials may be examined and commented upon.

viii) Check whether the quantity of materials recorded as wastages were actually accounted as scrap.

ix) Examine whether action for disposal of scrap is regularly taken in the most economic manner and whether the scrap disposal has been accounted properly.

x) Examine the annual physical stock verification report and reconciliation of the book stock and physical stock.

xi) Examine the utilisation of manpower with a view to ensure that the norms for the same are not deviated in practice.

xii) Charging of liquidated damages by customers and reasons for the same may be examined and commented upon.

xiii) Examine the price variation claims placed on the customers as and when required and see that there is adequate follow up action for the realisation of the same.

xiv) Unwanted delay in disposal of court cases and disciplinary cases because of the failure for taking timely action by the company may be examined and commented upon.

xv) Examine the computerised accounting and information system to determine that internal controls are functioning properly to ensure integrity, reliability and completeness of data.

xvi) Study and evaluate the internal control system to see that it assist the management in conducting the business in economic, efficient and effective manner ensuring adherence to management policies and producing timely and reliable financial and management information.

Common Audit Checks for Electronics Sector

1. The main risk in the electronic industry is obsolescence of technology and lack of experts in the new technological area. Steps taken by the Company to overcome this risk.

2. Production planning should be reviewed to see whether the production against the firm orders have been given priority and only those products, the demand of which is regular, are manufactured.

3. R&D cost should be verified to see that expenditure incurred is reasonable and benefit acquired commensurate with future expected revenue.

4. The records relating to purchase of materials may be examined to see how far the purchase manual procedures have been followed while taking purchase decision.

5. Purchase of components, spare parts needs to be scrutinized to see that requirement as per the production requirements/orders and obsolescence is minimum.

6. It may be verified whether the quality of accepted materials conform to the supply order specifications.

7. It should be seen that inspection of goods received is carried out and rejected goods are replaced promptly by the suppliers.

8. Actual consumption of inventory should be verified with the standard consumption, if any, to ascertain wide variation thereof.

9. Man hour utilization for production of materials may be checked with the standards fixed and abnormal variations may be quantified and reported.

10. See that the directives issued by the Company to its agents/depots are followed by them in regard to prices, discounts, rebates etc.

11. The warrantees offered are reasonable with reference to the specification of product and matches with the standard practices in industry.

12. Pricing policy should be reviewed to see whether the prices which are fixed on the basis of standard cost plus other overheads are comparable with competitor's price.

13. Cases of advances given to suppliers pending adjustment/recovery are to be scrutinized. The position of short supplies and rejected materials to be examined.

14. Review the loans sanctioned by Government of Kerala and their repayment along with interest.

15. Whether review of slow moving and non-moving items of inventory is carried out periodically with a view to dispose of such items and to stop their further purchase.

16. Whether the physical balances of each item of stores is tallied with the book balances to find out shortage/excess, if any.

17. Review the records for sale and disposal of realizable scrap and by-products.

18. In case of electronic industries, the products may become obsolete with time. Hence, the position of obsolete stock should be reviewed to find out the loss caused to the Company on this account.

19. Review machine hours utilization to see that the percentage of idle machine hours for avoidable reasons is not high with reference to total machine hours.

20. Review the disposal of surplus/obsolete plant and machinery.

21. Review the percentage of scrap and defective production and examine whether it exceeds the norms.

22. Examine the cases where the Company has to pay liquidated damages for delayed delivery.

23. Sales returns, if any, may be examined, the reasons for sales returns may be analysed and the loss on account of the same may be quantified in the report.

Kerala State Electronics Development Corporation Limited

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1 Introduction

The Kerala State Electronics Development Corporation Limited (KELTRON) was incorporated as a Government company under the Companies Act 1956 in September 1972 with headquarters at Thiruvananthapuram. The Company is working under the administrative control of Industries Department, Government of Kerala.

2 Objectives

The main objectives of the Company are to promote, establish, manage, supervise, finance, advise, assist and collaborate with any entity for advancement and development of all branches of electronics and industries relating to electronics.

3 Organisation Structure

The company is under the administrative control of the Industries Department, Government of Kerala. The number of Directors in the Board of Directors shall not be less than 2 and shall not be more than 12. The Managing Director is the CEO of the Company.

KELTRON is a holding Company with eight subsidiary companies as shown below.

Name of subsidiary	Share capital contribution by KELTRON (Rs. in lakh)
1. Keltron Counters Limited. (under liquidation)	48.80
2. Keltron Power Devices Limited. (under liquidation)	41.02
3. Keltron Rectifiers Limited. (under liquidation)	27.44
4. Keltron Electro Ceramics Limited.	31.44

5. Keltron Component Complex Limited.	17.30
6. Keltron Resistors Limited.	15.98
7. Keltron Crystals Limited.	12.97
8. Keltron Magnetics Limited.	2.51

The Company has seven branches at New Delhi, Chennai, Mumbai, Bangalore, Calcutta and Ahmedabad.

The production/business units of the Company are shown below:

(i) Keltron Controls, Aroor (Pneumatic Group, Control & Instrumentation Group, Information Technology Group, Project for physically disabled).

(ii) Keltron Equipment Complex Karakulam (Power Electronics group, Special Products group, Mass communication & Information Technology, Data Entry & Information Technology).

(iii) Keltron Communication Complex Kulathur (Switching Equipment Unit, Transmission Equipment Unit, Traffic Signals Division, All India Service Network).

(iv) IT Business group, Vellayambalam (Information Technology project, Networking group, Software group, Web-service group, Information Technology Service).

(v) ID Card Project Group.

4 Activities, Products and services

The main products manufactured/traded by the Company include Processor based ground mine, echo sounder, EM log, underwater telephone, UPS with very high rating, Invertors, CCTV and surveillance system, attendance system, smart cards, election ID cards, computers and peripherals, Local area and Wide area networking products, networking software developments, pneumatic products etc.

The important raw materials and bought out items used are –

i. Transformer manufacture: active and passive electronic components, fabricated and machined mechanical items, Copper wire and aluminium foil;

ii. Computer manufacture: Hard Disc, Mother Board, RAM, CD Drive, Power supply

iii. Networking: manageable and unmanageable switches

5 Computerisation

The Company works in a computerised environment. All the operations are computerised. An ERP package comprising of planning, sales, QC, marketing, purchase, stores and accounts developed in-house by KELTRON's web services group is in vogue and various reports are generated with this package.

6 Financial highlights

Particulars	**2007-08**	**2006-07**	**2005-06**	**2004-05**
	(Rs in lakh)			
Authorised Share Capital	10500	10500	10500	10500
Paid up capital(paid up -10335.96 lakh + pending allotment - Rs. 1180)	11515.96	11515.96	10335.96	10335.96
Borrowings	25970.61	27394.19	34051.51	2302.51
Debt equity ratio	2.26	2.38	3.29	0.22
Turnover	12801.3	12233.85	10291.68	8251.03
Net Profit/Loss(-) before Tax and Dividend	**-605.38**	**-1634.08**	**-3816.41**	**-4899.67**
Accumulated Loss/Accumulated profit	-20240.13	-20756.19	-48563.02	-44702.31
Accumulated loss as a percentage of paid up capital	-175.76	-180.24	-469.85	-432.49
Net worth	**-8724.17**	**-9240.23**	**-38227.06**	**-34366.35**

7 Audit checks

(a) Transaction Audit

In addition to general audit checks, the following checks may be exercised.

(i) Effectiveness and economy of the purchase and procedure adopted for procurement may be examined. Market information regarding the source, quality and value of the materials are expected to be available with the Company based on which the purchase action is to be made.

(ii) The norms adopted in assembling of the products and their marketing may be studied to see whether there is any avoidable delay affecting the business flow and if so the same may be brought out in the Para with suggestions for improvement.

(iii) Action taken by the Company to improve the quality of finished products may be examined and reasons for rejection, excess wastage etc. of materials beyond the admissible level may be analysed and reported with suggestions for improvement.

(iv) Utilisation of equipments and manpower for assembling of the products may be compared with standards fixed and negative variations in the rates may be analysed and reported.

(v) The Company is getting contracts for various projects from Government and Government agencies. It may be examined whether these contracts are executed on back to back basis. The economy and efficiency of execution of such projects may be scrutinized.

(vi) The Company is having an R&D Department. The expenditure on R&D and the benefit derived out of it may be examined and result reported.

(b) Financial Audit

In addition to prescribed regular audit checks the following points may be examined inter alia.

i. Foreign Exchange transactions, deferred tax and impairment of assets need to be examined with reference to the Accounting Standards applicable.

ii. The expenditure on R&D should be properly amortised. Ensure proper accounting and allocation.

iii. Inventory obsolescence and necessary provision should be thoroughly scrutinized in audit.

Keltron Component Complex Limited

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Kannur 670 562

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1 Introduction

Keltron Component Complex Limited (KCCL), Kannur was incorporated in October 1974 as a Public Limited Company. The Company started commercial activities in August 1978 and it became a subsidiary of the Kerala State Electronics Development Corporation (KSEDC) with effect from August 1986. The shares of the Company are listed in Madras and Cochin Stock Exchanges.

2 Objectives

The main objectives of the Company are to promote, establish and manage with the assistance of KSEDC the business relating to manufacture/assembly, rendering services of all kind of electronic equipments and apparatus, buying, selling, hiring, improving, repairing and dealing in apparatus and equipments.

3 Organisation Structure

The Company is working under the administrative control of the Industries Department, Government of Kerala.

The Board of Directors of the Company shall have not less than three and shall not exceed than 12 members. The Company is managed by a Board of eight directors of which all except one are nominees of the holding Company, KSEDC. The Managing Director is the Chief Executive Officer of the Company who is assisted by GM (Production), GM (Personnel & Administration), GM (Plant Engineering), GM (Quality Assurance and Planning), GM (Materials) and Senior Accounts Officer.

4 Activities

The Company is at present engaged in manufacturing and trading of Aluminium Electrolytic Capacitors.

Aluminium foil, cans, bungs, paddles electrolytic paper, electrolytes etc. are the important raw materials and bought out items. Purchase contracts are entered with approved vendors as per purchase procedure.

The production process involve slitting, stitching, winding, impregnation, sealing, ageing and testing activities using fully automatic and semi automatic imported machines.

The Corporate Marketing wing of KSEDC acts as selling agent of the Company. In addition to the collection of sales proceeds, market research, product planning, advertisement etc are done by KSEDC.

The Company was declared as a sick industrial unit under Section 3(1) (o) of the Sick Industrial Companies (Special Provisions) Act, 1985 by the Board for Industrial and Financial reconstruction with effect from 22.11.2005 and Government of Kerala sanctioned (May 2008) merger of four subsidiary Companies of KSEDC at Kannur (Keltron Magnetic Limited, Keltron Resistors Limited, Keltron Crystals Limited) in one Company by the name and style as KCCL.

5 Modernisation proposal

A project for manufacture of elements of MPP capacitors and KVAR Power Factor Capacitors was implemented with the assistance of Government grants and the project was commissioned on 4th September 2008. The project is for producing MPP capacitor element to be supplied to KML as their raw material and also for the production of power factor improvement (KVAR) capacitors. The capacity of the winding/testing machines were fixed at 10500/10400 pieces per day.

6 Computerisation

The activities of the Company are partially computerised. The IT system of the Company covers the following areas.

1. Inventory/Stock management system
2. Personnel & Administration
3. Accounting and Financial Management System
4. Pay roll
5. Marketing and sales

7 R&D activities

The Company has got an R&D lab approved by the Department of Scientific and Industrial Research, Government of India.

8 Financial Highlights

Particulars	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)			
Authorised Share Capital(Equity - 900 lakh + Preference - 100 lakh)	1000	1000	1000	1000
Paid up capital	553.48	553.45	553.45	242.45
Borrowings	2108.16	1982.03	2054.22	2302.51
Debt equity ratio (debt for Rs 100 of equity)	3.81	3.58	3.71	9.50
Turnover	2159.42	2044.34	2455.2	2455.23
Net Profit before Tax and Dividend	**-49.42**	**-245.27**	**-304.64**	**-384.74**
Accumulated Loss/Accumulated profit	-1314.78	-1263.4	-1014.95	-706.12
Accumulated loss as a percentage of paid up capital	-237.55	-228.28	-183.39	-291.24
Net worth	**-761.3**	**-709.95**	**-461.5**	**-463.67**

9 Audit checks

(a) Transaction audit

In addition to the prescribed common/sector audit checks, the following items may be scrutinized in detail.

(i) Import of raw materials and components should be scrutinized with reference to the purchase orders, import documents and payments be scrutinized thoroughly.

(ii) The consumption of raw materials should be checked with reference to the standards fixed and ascertain whether any abnormal waste.

(iii) Energy consumption in the factories.

(b) Financial Audit

The following aspects may be examined, inter alia, during financial audit under Section 619 (4) of Companies Act, 1956.

(i) Check foreign exchange transactions and ensure the compliance to the relevant Accounting Standards.

(ii) The expenditure on R&D should be properly allocated. Ensure proper accounting and allocation.

(iii) Check whether guarantee commission payable to Government have been accurately worked out and accounted.

Keltron Electro Ceramics Limited

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1 Introduction

The Company (formerly Dielectro Magnetics Limited) was incorporated in April 1974 as a joint venture for manufacturing ceramic capacitors with the indigenous know how from National Physical laboratory. The Company became a subsidiary of Kerala State Electronics Development Corporation Limited in May 1977. The Company with registered office at Kuttipuram, Malappuram is under the administrative control of the Industries Department.

2 Objectives

The main objectives of the Company are to manufacture, process, assemble, purchase, sell, or otherwise deal in ceramic capacitors and electronic ceramics and ferrite components and products/to manufacture, market, or otherwise deal in electronic and electrical component and system products.

3 Organisation Structure

The minimum and maximum number of Directors as per Memorandum of Association is three and nine respectively. At present, the Company is having 5 Directors in the Board. The Company is having Finance and Accounts Department, Personnel and Administration Department, Materials Department, Marketing Department, Production Department, Quality Assurance Department and Plant and Service Department.

4 Activities

The Company is mainly engaged in the production of Ceramic Disc Capacitors. Other products are NTC Thermistors, Buzzers, Transducers and

Metal Oxide Varistors. Important raw materials used are ceramic dsisc dielectric, tinned copper wire, solder, phenolic and epoxy resin.

KSEDC is appointed as the sole selling agency of the Company. The Company has signed a MoU with Naval, Physical and Oceanographic Lab, Cochin for transducer projects.

5 Computerisation

Computerisation has been done in areas of finance and accounts, pay roll, purchase, stores and marketing.

6 Financial Highlights

Particulars	**2008-09**	**2007-08**	**2006-07**	**2005-06**	**2004-05**
	(Rs in lakh)				
Authorised Share Capital(equity -320; Prefer-5)	325	325	325	325	325
Paid up capital	318.28	318.28	318.28	318.28	318.28
Borrowings	334.66	179.57	197.40	148.31	129.79
Debt equity ratio	1.05	0.56	0.62	0.47	0.41
Turnover	662.75	341.65	485.97	362.77	410.71
Net Profit before Tax and Dividend	**3.12**	**-99.72**	**-17.63**	**-88.87**	**-29.06**
Accumulated Loss/Accumulated profit	-357.69	-359.89	-327.99	-276.46	-186.99
Accumulated loss as a percentage of paid up capital	112.38	-113.07	-103.05	-86.86	-58.75
Net worth	**-39.41**	**-41.61**	**-9.71**	**41.82**	**131.29**

7 Audit Checks

(a) Transaction Audit

i) Common audit checks prescribed for electronics sector may be carried out.

ii) Check whether the selling price is fixed in a systematic manner covering the cost elements.

iii) Inventory procurement system needs to be analysed to ensure that procurement is as per the norms in the industry and to avoid non-moving materials.

(b) Financial Audit

i) All routine audit checks including the compliance of Companies Act 1956/AS/AAS/CARO 2003.

ii) Check whether the company has made adequate provision for non-moving items of inventory/finished stock.

Kanjikode Electronics and Electricals Limited

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1 Introduction

Kanjikode Apparel Exports Limited incorporated in March 1996 was renamed as Kanjikode Electronics and Electricals Limited with effect from May 2008. The company with registered office at Kanjikode, Palakkad is under the administrative control of the Industries Department.

2 Objectives

The main objectives of Kanjikode Apparel Exports Limited initially was to buy, sell, import, export and deal in hosiery goods, garments, fabrics etc. The objectives were changed into manufacture, buy, sell, import, export and deal in all types of electronic and electrical items like UPS, Inverters, Transformers, Chokes, Compact Fluorescent Lamp(CFL) fitting, other household and industrial electrical items and to undertake research and development of the above related products.

3 Organisation Structure

The number of Directors in the director board of the company is seven. The District Collector is the Chairman and Manager, District Industries Centre is the Managing Director of the company. The company is organized for the benefit of unemployed youth belonging to SC/ST only.

4 Activities

Manufacturing of UPS, Invertors, Transformers etc. are the present activities of the company. The company works as a sub-contractor of M/s.Hykon India Pvt. Limited., Thrissur. Components and electronic spares are supplied by this single customer. The Company has two sections namely, factory (Assembling section) for Assembling various components and testing of inverters and UPS transformer section for winding, lamination and testing of transformers.

5 Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)				
Authorised Share Capital	25	25	25	25	25
Paid up capital(issued- 10.40 lakh; share application money- Rs. 243)	10.4	10.4	10.4	10.4	10.4
Borrowings	0.00	0.00	0.00	0.00	0
Debt equity ratio	0.00	0.00	0.00	0.00	0.00
Turnover	67.63	108.05	72.02	101.9	83.15
Net Profit before Tax and Dividend	**-6.96**	**7.9**	**1.62**	**4.3**	**3.04**
Accumulated Loss/Accumulated profit	7.30	15.04	9.1	8.59	5.76
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**17.7**	**25.44**	**19.5**	**18.99**	**16.16**

6 Accounts and Audit

The company has got a system of computerized accounting and billing. Books are maintained in computer. Internal audit is outsourced. The accounts are maintained on mercantile system.

7 Audit Checks

(a) Transaction Audit

In addition to general audit checks, the following checks are to be carried out.

i. Since the Company depends on a single customer, the risk involved is high. Diversification activities taken by the Company to overcome the risk may be verified.

ii. Amendment of articles in accordance with share structure.

iii. Purchase policy of the Company for procurement of raw material.

iv. Audit checks prescribed for electronics sector to the extent applicable may be carried out.

(b) Financial Audit

Routine audit may be conducted.

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1 Introduction

Indian Institute of Information Technology and Management, Kerala with registered office at Technopark, Thiruvananthapuram was incorporated as a Section 25 private company under the Companies Act, 1956 in September 2000. The fully owned Government Company is under the administrative control of Information Technology Department.

2 Objectives

The main objectives of the company include:

a) Conducting of various educational and training programmes in Information Technology & Management

b) Conducting of educational research and training programmes in IT Management.

c) Working as primary institution for setting up of standard for IT education in Kerala.

d) Offering consultancy and guidance to Government and PSUs in their drive for computerization.

e) Acting as an effective inter phase between industry, academic and scientific institutions.

3 Organisation Structure

The total number of members in the Board of Directors of the company shall be not less than three and not more than twelve. The Managing Director is the operational head of the company.

4 Activities

The Company conducts self financing post graduate programmes such as MS (IT) / PGDIT for graduates in Engineering and Computer Science. Programmes are also being arranged for officials of government departments. Various new projects such as Kissan Ekrishi, Education grid, Police portal project, etc. are also being undertaken by the company. There were 18 regular employees in the company as on 31.3.08.

5 Financial Highlights

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
	(Rupees in lakh)				
Authorised Share Capital	300	300	300	300	300
Paid up capital	0.002	0.002	0.002	0.002	0.002
Borrowings (Secured + Unsecured)	0	0	0	0	0
Debt equity ratio	0	0	0	0	0
Turnover	152.23	77.03	65.55	98.67	41.22
Net Profit before Tax and Dividend	**-65.8**	**-78.87**	**-65.55**	-38.74	**-81.12**
Accumulated Loss/Accumulated profit	-442.16	-376.36	-297.48	-209.69	-170.95
Balance in Capital Grant	**875.96**	**897.26**	**605.31**	**617.4**	**630.94**

The income of the company during 2007-08 (provisional) including the grant in aid of Rs.51 lakh amounted to Rs.130.92 lakh and the loss sustained amounted to Rs.127.29 lakh.

6 Accounts and Audit

The company is functioning in a computerized environment. Internal audit is outsourced.

7 Significant Accounting Policies

Income has been recognized on the following basis:

- Tuition fees and bus fees are recognized as income on the basis of total fees due from each student during the financial year.

- Project administration overhead is charged at 20 per cent of the project expenditure on each project and such recovery is treated as income.
- Other incomes are recognized on cash basis.
- Government grants are recognized on receipt basis. Grant received by the company for acquiring fixed assets is credited to reserve account and amount utilized during the year for purchase of fixed assets as reduced by a nominal value of Re.1 per asset is debited to reserve account.
- Grant received towards projects are credited to the respective project accounts and all the revenue expenditure incurred towards the projects are debited to the respective project account.
- Capital grants received from Government of Kerala for acquisition of fixed assets are deducted from the gross value of asset leaving only a nominal value of Re.1 per asset in the Balance Sheet.
- No depreciation on asset is being provided as these are financed by grants.

8 Audit Checks

(a) Transaction Audit

In addition to the prescribed checks, the following items may be scrutinized in detail:

(i) Conducting of feasibility study on executing IT related and other projects being implemented by the company for and on behalf of sponsoring entities and provision for reimbursement of cost overrun in such contracts.

(ii) Conducting of feasibility study based on realistic demand and cost of educational programmes proposed to be started and proper follow up to manage the course on break even basis.

(iii) Procedure for timely revision of fees based on increase in salaries/ faculties / overhead charges.

(iv) Creation of infrastructure/recruitment of qualified faculties /recognition from statutory institution for the courses offered and intake of good number of students.

(v) Proper planning before conducting seminars and the collection of requisite portion of cost as participant fees.

(vi) Curtailing of expenditure to sanctioned level for each project and periodic accounting/ billing of same to project sponsor of the specific project.

(vii) Optimal utilization of the space (owned as well as leased) by the company and proper utilisation of the services of the faculties.

(viii) Whether abnormal increase in salaries/perks noticed; whether it has proper approval of Government?

(b) Financial Audit

In addition to the prescribed checks, the following items may be checked/ commented in respect of financial audit:

(i) Proper accounting for and disclosure of revenue as well as capital grants from Government.

(ii) Accounting project specific direct cost to projects and periodic apportionment of specified overhead charges to the projects.

(iii) Accounting for revenue and expenditure on the basis of accounting policy consistently followed.

(iv) Specific accounting of revenue and expenditure of each sponsored project, seminar conducted and educational programmes conducted by the company.

(v) Disclosure as required by specific statutes governing the company which is involved in conducting programmes and awarding degrees, fellowships in IT and related technologies.

(vi) Provision for all employees related expenditure.

Kerala State Film Development Corporation Limited

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1 Introduction

The Kerala State Film Development Corporation Limited (KSFDC) was incorporated as a private company in July 1975. The company with headquarters at Vazhuthacaud, Thiruvananthapuram is under the administrative control of the Cultural Affairs Department.

2 Objectives

The main objectives of the company are:

i) to carry on the business of cinematograph, trade and industry and also its allied trades and business, particularly, construction and running of studios, laboratories, theatres and stages for the production of films; provision of technical and social amenities to the development of film industry on modern lines; giving of awards, subsidies and holding of film festivals for the improvement and encouragement of better quality films.

ii) to carry on the business of production of films for entertainment, amusement, television publicity, education and instruction.

3 Organisation Structure

The total number of Directors in the Director Board of the company shall be not less than two and not more than 20. The number of functional Directors is four, which include the Secretary, Cultural Affairs, Additional Secretary, Finance, Chairman and the Managing Director. The Studio Manager, two Film Officers, Silk Engineer/Asst. Maintenance Engineer and Finance Manager report directly to the Managing Director.

4 Activities

Production of video and feature film and running of the theatres etc. are the main activities of the company. The company has got a well equipped studio at Thiruvallom, Thiruvananthapuram. The company is also running 10 theatres spread over Thiruvananthapuram, North Paravur, Thrissur, Kozhikode and Chittoor.

Technical services and facilities for outdoor shooting, recording, editing and printing are provided for the film producers at agreed rates. The picture negative, picture positive and chemicals are the important raw materials procured from Kodak, Fuji, Sree Sakthi Chemicals, Chennai etc.

5 Financial Highlights

Paid up share capital as on 31.3.08 was Rs.14.92 crore fully subscribed (equity) by the State Government. An amount of Rs.4.60 crore contributed by the State Government towards share capital contribution is pending allotment.

The accounts of the company are in arrears since 2004-05. As per the provisional accounts for 2007-08, the turnover of the company during the year was Rs.664 lakh and the operating profit was Rs.25 lakh. The outstanding borrowings as on 31.3.08 was Rs.9.97 crore and the accrued interest on the same amounted to Rs.3.53 crore. The staff strength of the company is around 240.

Particulars	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	(Rupees in lakh)			
Authorised Share Capital	1500	1500	1500	1500
Paid up capital (incl. Cap Adv)	1784.94	1729.94	1689.94	1602.44
Borrowings (Secured + Unsecured)	872.99	1147.01	1079.85	989.95
Debt equity ratio	48.91	66.30	63.90	61.78
Turnover	453.93	396.17	412.35	534.96
Net Profit before Tax and Dividend	**-226.27**	**-331.77**	**-239.69**	-101.76
Accumulated Loss/Accumulated profit	-2235.57	-2087.33	-1767.37	-1527.26
Accumulated loss as a percentage of paid up capital	-125.25	-120.66	-104.58	-95.31
Net worth	**-450.63**	**-357.39**	**-77.43**	**75.18**

6 Accounts and Audit

The company is working in a fully computerized environment. The internal audit of the company is outsourced.

7 Audit Checks

(a) Transaction Audit

In addition to the prescribed common checks, the following items need to be reviewed in depth.

(i) Effective utilization of theatre & Studios for maximizing the revenue.

(ii) Diversion of Government funds.

(iii) Dues from film producers.

(iv) Damage/wastage of films.

(v) Consumption of chemicals/excess holding of inventory.

(vi) The Company's role in core activity of promoting good films.

(vii) Advance credit to producers in the form of subsidy and interest loss thereon.

(viii) Shortfall in income due to poor occupancy.

(ix) Obsolescence of equipments and disposal thereof.

(x) Collection of service charges.

(xi) Procurement of materials/the procedure followed for the same.

(xii) Contracts entered into with producers for providing services/collection of security, deposits etc.

(xiii) Collection of service tax and remittance of the same to government department.

(b) Financial Audit

Routine checks prescribed for accounts audit may be carried out.

Special Audit Checks for the companies in Financing Sector

1) Ensure that the loans and advances have been granted in accordance with the declared policy of Government/Corporation and after proper appraisal of project report, verification of title deeds (which should be clear in all respects) etc.

2) Ensure that the terms and conditions of the lease, hire purchase loan etc, are framed and implemented with adequate security/penal clauses to protect the interest of the Company.

3) Ensure that the financial assistance are sanctioned and disbursed strictly adhering to the terms and conditions of loan.

4) Ensure that the amounts of loan/financial assistance were arrived at after properly ascertaining the income and repaying capacity of the beneficiaries.

5) Evaluate whether the value of securities accepted by the Company against the financial assistances extended is sufficient to cover the realisation of entire dues, in case of default in payment of installments/ interest by the beneficiaries.

6) Check whether collateral securities are insisted to cover the amount of advance as per rules in vogue and ensure that such securities offered are valued properly by authorized persons. The utilization certificate is obtained as per the terms and conditions of disbursement.

7) Ensure that the security offered against the loans/advances is adequate after proper valuation.

8) Ensure that Title deeds (Clear), mortgage deeds etc., are kept under safe custody of the responsible official.

9) Ensure that assets tendered as security and accretions thereto have been properly mortgaged in favour of the Company and confirmation thereto

has been obtained from competent authority before disbursing the loan/advance.

10) Ensure that assets mortgaged to the Company as security for the loan sanctioned together with additions and accretions thereto have been properly insured, premiums in respect of such policies have been paid regularly and the policies are in the safe custody of the Corporation.

11) Cases in which the Company released the assets of loanees from mortgage, to ensure whether in the case of sale of such assets, the sale proceeds have been remitted in favour of the Corporation by the loanees without undue delay.

12) Periodical inspection reports of the loanee industries by the inspection wing of the Corporation, to ensure whether there are any cases of diversion of loan funds or other violation of the terms and conditions of the loan and if so, whether the loanee has been proceeded against.

13) Action taken by the Company (including Revenue Recovery action) in the case of defaults and in cases where the loans became irrecoverable, to analyze the reasons for such loss.

14) Periodical cash flow statements, to evaluate the actuals with the projected figures.

15) Investment of surplus funds to ensure that there are no huge balances in the current accounts.

16) Analysis of the working results of assisted industries done by the Company to ensure whether a proper analysis of the reasons for the loss of such industries has been made.

17) Borrowings from Public, commercial banks, etc., and the liquidation of such borrowings.

18) Liquidation of SLR bonds with surplus funds to ensure that effective action has been taken in this regard.

19) Settlement of dues under the OTS scheme to ensure that no cash loss has been incurred.

20) Evaluate the justification and authority for allowing concessional settlement of dues under amnesty schemes, including any One Time Settlement (OTS) on delayed recovery cases, if any. All instances of dilution of conditions of approved OTS at the time of execution by way of undue favour to the loanees shall be brought out in the Inspection Reports.

21) Ensure that interest charged on loans is as per the approved loan policy so as to bring out any unauthorized and unwanted deviations in rates permitted.

22) Waiver of interest/penal interest on individual loans shall be critically reviewed to unveil all instances where any managerial failure/undue favour to the loanees could be attributed as the basic reason for such incidents.

23) Evaluate the recovery efficiency in respect of repayments of principal amounts and interest and bring out the weaknesses in the recovery system that may lead to lower efficiency levels.

24) Ensure proper and timely follow up action for realization of the dues in case of default in repayments.

25) Willful negligence, if any, on the part of the Company's officials for delay in taking action for realisation of over due amounts shall be brought out in the Inspection Reports and the Management may be advised to fix responsibility in all such cases.

26) The cash management system of the Company is to be examined with a view to ensure that the interest income is sufficient to meet the cost and establishment expenditure.

27) Review action taken by the Company and its present status in all reported cases of manipulations, malpractices, embezzlement of money etc. by the employees.

28) Check whether service charges on Hire Purchase loans are demanded and collected in time.

29) Instances of sanctioning advances, interpreting the rules and norms favourable to the beneficiaries at the expense of the Company are to be analyzed, quantified and bought out in the report fixing the responsibility as far as possible.

30) Check whether there is any overstatement of market value of investment in other entities.

31) Examine whether the Company seeks proper advice on choosing the entities for quoted investments so as to ensure the maximum return on the money invested with minimum risks involved. The policy adopted for quoted investments have to be examined and deficiencies, if any, are to be commented up on.

32) If the Company is bound to follow the prudential norms of RBI regulations as applicable for NBFCs for asset classification and income recognition, effectiveness of actions taken in line with RBI directions to realise the dues from the defaulted beneficiaries may be critically examined and the results brought out in the IR.

33) The circumstances that lead to mounting up of NPAs and negligence on the part of any officer of the entity to realise the dues from the defaulted beneficiaries, if any, may be brought out in the IRs fixing the responsibility.

Kerala State Industrial Development Corporation Limited

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1 Introduction

The Kerala State Industrial Development Corporation Limited (KSIDC) was incorporated in July 1961 as wholly owned private company by the Government of Kerala with headquarters at Thiruvananthapuram, for the promotion and development of medium/large scale units in the States. As the nodal agency for foreign and domestic investment in Kerala, the Company is expected to provide comprehensive support for investors, besides processing various incentives schemes and facilitating constant interactions between the Government and industrial sector

2 Objectives

The main objects of the Company are:

i) Promote industrial projects including infrastructural projects

ii) Aid and finance industrial and social projects coming up in the State.

iii) Help the Government in formulating suitable industrial policies and incentives

iv) Act as agent/ nodal agency of the Government in achieving the above objects.

3 Organisation structure

The Company is under the administrative control of Industries Department. The maximum number of Directors in the Board of Directors is 16. Managing Director, the CEO is the only functional Director. He is assisted by the Company secretary, General Managers/Deputy General Managers, who are functional heads of the four important departments namely Secretariat and Legal, Industrial Promotion, Industrial Growth Centers and Project Financing. They in turn are assisted by Assistant General Managers, Managers, Deputy and Assistant Managers.

The Company has got a regional office at Ernakulam. It is also managing a subsidiary company viz. Astral Watches Limited. which is not functioning now. The Company has invested an amount of Rs.95.38 lakh in Astral Watches Limited.

4 Special Acts/Rules applicable

RBI NBFC norms/regulations on asset classification and State Financial Corporations (SFC) Act are applicable to the Company. Appraisal manual is in place.

5 Activities

The main activities of the Company are promotion of Industrial Projects, financing of projects, establishing of growth centers etc.

i) Share investments are restricted to large scale units with a buy back clause. The sales of shares are expected to be done at times when prices are favourable.

ii) Loans and advances are sanctioned based on strict appraisal norms and subject to Board clearance. Old unsettled loans are recovered through RR route, take over and sale method, change of management and OTS with a view to reduce Non-performing assets etc. OTS for loans/shares is sanctioned on a case to case basis.

iii) The Company has been designated as the single contact point and the convenor of the State Board for aiding medium and large industries, in connection with the Single window clearance system. The Key areas of focus include:

   a. Identification of investment areas

   b. Translating ideas into concrete proposals

c. Feasibility Study, Project evaluation

d. Financial structuring Loan syndication

e. Assisting in Central/State Government clearance

f. Development/Administration of growth centers

g. Industrial and Infrastructure developments

iv) The Company also offers Project Lending services - financial assistance and support to medium/large scale industries (with specific norms) in service sectors like tourism, hospitals, etc and where the constitution of the assisted unit is in the nature of Private/Public Limited Company.

v) Under the Equipment Purchase Scheme, loan will be given to purchase items of plant and machinery required for improving the capacity utilisation, production efficiency etc, of an industrial establishment. Financing will be provided up to 77.5 per cent of the invoice value of the equipment, the balance 22.5 per cent required to be invested by the promoter. The security is the exclusive charge of the fixed assets of the Company. Repayment up to six years is allowed. The applicant firm should have a continuous net profit for the last 3 years to be eligible for seeking the loan.

vi) The Company has a Consultancy Division to offer project consultancy across various sectors. The total project management services include identifying opportunities for new business expansion and diversification, Project Report Preparation, Market Survey, Technology Tie ups, Turn key Management Services and Project Escort Service.

vii) The Company has also taken up key role in the development of PDP Projects such as the proposed Life Science Park in Thiruvananthapuram, Electronic Hub in Kochi and Titanium Sponge Plant at Kollam etc.

viii) The Company along with KFC and SIDBI has floated a Venture Capital Fund, Kerala Venture Capital Fund in 2000.An investment of Rs.183 lakh has been made in the Fund.

6. Financial Highlights

Particulars	2007-08	2006-07	2005-06	2004-05	2003-04
	(Rupees in lakh)				
Authorised Share Capital	32500	32500	32500	32500	32500
Paid up capital	29924.35	29924.35	29474.35	29474.35	31038.88
Borrowings	876.36	1110.23	1192.73	1267.73	3964.53
Debt equity ratio	0.03	0.04	0.04	0.04	0.13
Total income for the year	3183.8	4792.72	2753.7	2325.51	2648.14
Net Profit before Tax and Dividend	**2183.13**	**3671.43**	**2188.01**	**1329.36**	**849.49**
Accumulated Loss/Accumulated profit	5792.54	4338.88	854.00	-916.26	-1674.57
Accumulated loss as a percentage of paid up capital	NA	NA	NA	-0.03	-0.05
Net worth	**35716.89**	**34263.23**	**29474.35**	**28558.09**	**29364.31**

7. Significant Accounting Policies

a. Corporation maintains two types of investments – long term and trade investments. Long term investments are carried at acquisition cost, less provision for diminution other than temporary, in value, if any. Preference shares are treated as long term investments from this year onwards, since a) they are not subject to any trading, b) Corporation has not claimed any depreciation in value like any other trade investments and they are usually redeemable over 5-7 year period. Trade investments are valued at the lower of the cost and fair value. Diminution or decrease in value of such investments is being worked out based on the latest available audited balance sheet of the company. In the case of listed shares, difference is reckoned between cost and market value, if the latter is found to be less than book value.

b. Loan recoveries, after the approval of (i) One Time Settlement cases by the Board (ii) after the initiation of RR proceedings and (iii) from sale proceeds of companies taken over u/s 29 of the SFC's Act, are accounted as principal receipts. Once the principal is recovered in full, the excess, if any is accounted as interest receipts. If the realisation is not sufficient to cover the principal, the shortfall is treated as bad, even though coercive action against the loan guarantors is in force.

c. Corporation is providing for Non-Performing Assets based on RBI guidelines.

8. Audit checks

All checks applicable to Companies in the Financing Sector.

KERALA STATE FINANCIAL ENTERPRISES LIMITED

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Website: ksfe.com

1 Introduction

The Kerala State Financial Enterprises Limited, popularly known as KSFE was incorporated as a public company under Government sector in November 1969 with headquarters at Thrissur. The Company is under the administrative control of the Taxes Department, Government of Kerala.

2 Objectives

The Company incorporated by the Government of Kerala with the objective of providing an alternative to the fly by the night private chit promoters and with the intention of bringing in social control over the chit fund business. The main objectives of the Company are to start promote, operate, manage and carry on the business of Chitties and kuries, hire purchase, providing financial assistances, advance money on security of gold or other valuable securities etc.

3 Organisation structure

The Managing Director is assisted by 10 Heads of Department viz: Central Accounts, Business, Administration, Internal Audit, Legal, IT, General Administration, Secretariat, Default and RR.

4 Activities

The Company is a Miscellaneous Non-Banking Financial Institution (MNBFC) having a network of 269 branches situated throughout Kerala. In addition to running of Chitties, the activities undertaken by the Company include Chitty loan, Gold loan, Flexi Trade Loan, Housing Finance, Trade finance, Hire purchase, Fixed deposits, Sugama deposits, Consumer Vehicle Loan, Reliable Consumer Loan, Pass Book Loan, Sugama security Scheme, deposit in Trust

Scheme, Safe Deposit Locker ,Tax Planning Loan schemes and Western Union Money Transfer.

A re-organisation proposal named 'vision 2010' targeting a monthly chitty sala of Rs.500 crore, envisaging further spread of the organization has been approved by Government vide GO (MS) No. 95/08/TD dated 08-05-08.

5 Financial highlights

The Company is one of the most profit making PSUs of the State and has been registering profits since inception

Particulars	2007-08	2006-07	2005-06	2004-05	2003-04
	(Rupees in lakh)				
Authorised Share Capital	250	250	250	250	250
Paid up capital	100	100	100	100	100
Borrowings	187596.86	160493.06	119052.3	112407	120373.2
Debt equity ratio	1875.97	1604.93	1190.52	1124.07	1203.73
Total income for the year	34840.3	29461.96	26832.69	26488.65	26787.1
Net Profit before Tax and Dividend	**1507.45**	**3918.67**	**4404.29**	**4392.68**	**4209.19**
Accumulated Loss/Accumulated profit	10429.48	10113.69	9028.33	6871.24	5154.54
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**10529.48**	**10213.69**	**9128.33**	**6971.24**	**5254.54**

6 Significant Accounting Policies

a. The Company has followed the prudential norms for income recognition prescribed by Reserve Bank of India for Non Banking Financial Companies except for Hire Purchase Advances.

b. As per the Company, the provisioning norms prescribed by RBI to non-banking financial companies are not applicable to the Company. Provision for RR debts, except for landed property is made at 100 per cent. Provision for NPA & NCL and other advances are made only at 40 per cent of NPA.

7 Audit Checks

(a) Transaction Audit

i) Instances of the Company itself subscribing to Chitties in respect of the defaulted subscribers and availing foreman's commission on all of them (only in paper) thereby inflating the income and profit from the business are numerous. In order to keep such manipulations concealed, the Balance Sheet is not prepared by the Company in respect of such Chitties.

ii) Without indicating the nature and value of security the company has declared that its' fully secured dues. It has to be ensured that the dues actually exist.

iii) The reasons for accumulation of the NPA and action taken for realisation of the amount have to be examined.

iv) Payment of service charges to Government on account of foreman's commission.

v) The Company is liable to pay service tax on cash management services on foreman's commission received from chitty subscribers (Cl.12 of Sr. 65 of Finance Act 1994 amended in 2007). Collection and remittance of the same is to be examined.

vi) Release of Security Deposit on terminated Chitties.

vii) Registration of Chitties without realising even the first installment.

viii) Availing of Chitties/loans and standing sureties in various branches by the same person and subsequent default.

ix) Instances of disbursement of gold loan without verifying the purity of gold.

x) Unwarranted waiver of default interest after substitution.

xi) Safety of gold and other pledged documents.

(b) Financial Audit

KSFE, being a non banking finance company, is required to follow the prudential norms for asset classification as prescribed by the RBI. Examine whether the norms have been applied while classifying the assets and whether the statutory auditors have commented on the same.

Internal control system in the Company was reviewed and incorporated in the Audit Report for the year 2005-06. IT audit was conducted and report incorporated in the Audit Report for the year 2006-07.

Kerala State Power and Infrastructure Finance Corporation Limited
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Website: www.kspifc.com

1 Introduction

Kerala Power Finance Corporation Limited (KPFC) was promoted jointly by the Government of Kerala and Kerala State Electricity Board (KSEB) to provide funds for the speedy development of Power Infrastructure in the State of Kerala and was incorporated on 20th March 1998. Commercial activities commenced in March 1999. The Company is certified by Reserve Bank of India as a category 'A' Non Banking Finance Company.

Considering the huge potential arising in the infrastructure development in the state, the Board of Directors of the Company decided to diversify the activities of the Company to infrastructure area also with approval of Government. The Memorandum and Articles of Association of the Company was amended and the Company was renamed as Kerala State Power and Infrastructure Finance Corporation Limited (KSPIFC) (January 2007).

The Company is a profit making entity since its commencement of business. It has also paid dividend consecutively for the last 9 years.

2 Objectives

The main objectives of the Company are:

(i) To finance development and operations of KSEB, engaged in the generation, transmission and distribution of Electricity within the State of Kerala.

(ii) To finance for development and operations of the Power Sector Projects, units and stations involved in the generation, transmission and distribution of electricity within the State of Kerala and to institutions who are suppliers of raw materials, equipments, plant and machinery etc to various power projects and for financing infrastructure activities within the State of Kerala.

(iii) To assist KSEB with long, medium and short term loans or subscribes to their bonds or assists in other ways within the restrictions imposed by the RBI from time to time.

3 Organisation set up

The Company is under the administrative control of Power Department, Government of Kerala. The Director Board of the Company shall have not more than 12 Directors. Managing Director is the only functional Director. The Company has engaged the services of a Company Secretary as consultant in company affairs and a Chartered Accountant Firm as internal auditor.

4 Special Rules and Acts applicable

All RBI directions and regulations applicable for NBFCs are applicable to the company. The Company was accorded the status of a public financial institution as per Section 4A of the Companies Act, 1956, by Government of India in November 2007. The Company maintains all statutory registers applicable as per Companies Act and RBI regulations. Being an ISO 9001: 2000 Organisation, Quality Systems Manual as per ISO Standards is being maintained.

5 Activities

The present activities of the Company are financing for power projects/ power related activities undertaken by KSEB/SSIs, Firms and Companies engaged in manufacturing and supply of Electrical Components and for financing infrastructure projects in the State. Funds are raised for its lending performance by issuing bonds and collecting FD from Public and Term Loans from Banks/ Financial Institutions. The FD Scheme has been temporarily closed with effect from 01-10-2004.

6. Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06
	Rs in lakh			
Authorised Share Capital	10000	10000	10000	10000
Paid up capital	2665.01	2665.01	2665.01	2665.01
Borrowings	33000	85927.28	87072.82	88897.35
Debt equity ratio	12.38	32.24	32.67	33.36
Total income for the year	6377.19	9434.32	9460.9	10017.91
Net Profit before Tax and Dividend	**290.53**	**446.73**	**347.6**	**254.23**
Accumulated Loss/Accumulated profit	590.51	396.65	247.22	165.57
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA
Net worth	**3255.52**	**3061.66**	**2912.23**	**2830.58**

6 Audit checks

i Evaluate the debt servicing efficiency level and bring out avoidable instances leading to financial loss to the company, if any.

ii Examine whether the company is holding any excess/unutilized fund or is facing fund shortage and analyze the reasons thereof.

iii Evaluate the recovery efficiency of the loans distributed and interest thereon, compare the efficiency level with that of other NBFCs and bring out deficiencies, if any.

Kerala School Teachers & Non teaching Staff Welfare Corporation Limited.
Directorate of Public Instruction
Jagathy, Trivandrum – 696014

1 Introduction

The Company with its headquarters within the premises of the Director of Public Instruction (DPI), Thiruvananthapuram was incorporated as a private limited company as defined in Section 3 (i) (iii) of the Companies Act 1956 on 16.08.1984.

2 Objectives

The main objectives of the Company are:

(i) to formulate and implement schemes to enable teachers and non teaching staff employees in aided private schools, teachers of Government schools and non teaching staff of General Education Department under the control of the DPI, Kerala to build their own house and to give financial assistance to them.

(ii) construction of houses on behalf of the members for leasing, letting or sale on hire purchase basis on land acquired by the company.

3 Organisation structure

The Director Board of the Company consists of five members. Secretary to Government, General Education Department, is the chairman and the Director of Public Instruction is the Managing Director of the Company. The other three directors include one nominated by Government from Finance Department and the two others represent the teaching and non teaching staff of the General Education Department, Government of Kerala.

4 Activities

The Company is authorised to avail House Building Advance from Housing and Urban Development Corporation (HUDCO) and disburse the same to the beneficiaries at special concessional rates. The difference between the rate of interest payable to HUDCO and realizable from the beneficiaries would be compensated by Government in the form of interest subsidy. This subsidy is to be sanctioned every year subject to a ceiling of Rs.36 lakh per year.

The present activities of the Company are limited to realisation of dues from beneficiaries.

5 Financial Highlights

Particulars	**2005-06**	**2004-05**	**2003-04**	**2002-03**	**2001-02**
	Rs in Crores				
Authorised Share Capital	50	50	50	50	50
Paid up capital	50	50	50	50	50
Borrowings	Nil	30.65	92.89	156.87	208.6
Debt equity ratio	NA	0.61	1.86	3.14	4.17
Total income for the year	35.39	14.9	14.16	21.79	29.35
Net Profit before Tax and Dividend	**22.69**	**2.94**	**-5.64**	**-2.82**	**-8.11**
Accumulated Loss/Accumulated profit	-90.79	-113.48	-116.12	-106.31	-103.49
Accumulated loss as a percentage of paid up capital	182	227	232	213	207
Net worth	**-40.79**	**-63.48**	**-66.12**	**-56.31**	**-53.49**

6 List of special books maintained

Beneficiaries Loan accounts register, Register of Loan from HUDCO, fixed deposit register etc.

7 Audit checks

i) The loan received from HUDCO and the repayment of principal and interest are to be examined and suitably commented upon.

ii) Ensure that the sanction, disbursement and realisation of monthly instalments from the beneficiaries are as per the applicable terms and conditions of loans.

iii) Examine whether the defaults in repayment of loan by the beneficiaries are properly followed up. Ensure that the dues, if any, from the beneficiaries at the time of retirement are made good from their retirement benefits and if not, quantify and bring out in the report.

iv) Instances of non recovery of the dues from the retiring beneficiaries (Loanees) are to be examined and commented upon with a view to fix responsibilities.

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Vazhuthacaud, Trivandrum 695014.
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Website: www.ktdfc.com

1 Introduction

The Company was incorporated in February 1991 as a private limited company under Government sector with the registered office at Thiruvananthapuram. The Company is an NBFC registered under the RBI.

2 Main Objectives.

i) To finance through lease, hire purchase, hypothecation of transport vehicles required or used by a person, firm and companies particularly by Kerala state Road Transport Corporation (KSRTC) and for building up commercially viable infrastructure facilities of KSRTC like setting up spare parts shops, Diesel pumps, Bus Stations and commercial complexes and also other transport vehicles used in air, road or water like aircrafts, lorries, boats and ships.

ii) To undertake financial arrangements for the purpose of the acquisition or leasing or hiring or hypothecation of buses, lorries ,tractors, aircrafts ships, machinery, equipment and buildings required for operations, maintenance and repairs of the transport undertakings as well as units involved in the manufacture, processing or storage of the spare parts connected with these units.

iii) To assist transport undertakings situated within the state of Kerala with long , medium or short term loans or subscribe to their share capital, equity or preference debentures or assist in other ways within the restrictions imposed by Reserve Bank of India from time to time.

iv) To raise or borrow funds by issue of debentures, stock bonds or other securities in such manner as the company may think fit, either unsecured or secured on the property and assets, both present and future, including its uncalled capital and to redeem or to pay off any such securities, subject to the approval of sanction of the Reserve Bank of India or the Central or State Government.

v) To accept or receive money or deposits from the public, the repayment of which is fully guaranteed by the Government of Kerala.

3 Organisation structure

Administrative control of the Company rests with the Transport Department, Government of Kerala. The Director Board of the Company shall have not less than two and not more than 12 Directors, all appointed by the State Government. Managing Director is the only functional Director. The Company has branch offices in Ernakulam, Kozhikode, Thiruvananthapuram, Thiruvalla and Thrissur.

4 Activities

In addition to providing finances through hypothecation of vehicles, the company is also granting housing and personal loans. The company also mobilizes funds from public through fixed deposits and bonds. Deposits are accepted from the Public under two Schemes, Periodic Interest Payment Schemes and Money Multiplier Scheme. Loans are granted to Government employees, IT assesses, general public etc. on the strength of salary certificate and recovery undertaking by the employers. Salary recovery and legal action are the measures adopted for realisation of dues.

5 Financial Highlights

Particulars	**2006-07**	**2005-06**	**2004-05**	**2003-04**	**2002-03**
	(Rupees in Lakh)				
Authorised Share Capital	5000	5000	5000	5000	5000
Paid up capital	4383	4383	4383	4383	4383
Borrowings	41851.83	39128.14	30989.68	24071.12	11619.63
Debt equity ratio	9.55	8.93	7.07	5.49	2.65
Total income for the year	34840.3	29461.96	3699.63	2946.2	1887.13

Net Profit before Tax and Dividend	**28.87**	**231.62**	**411.53**	**373.18**	**438.16**
Accumulated Loss/ Accumulated profit	1799.11	1825.75	1715.79	1527.71	1358.24
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**6182.11**	**6208.75**	**6098.79**	**5910.71**	**5741.24**

6 Significant Accounting Policies

The RBI norms on income recognition, asset classification and provisioning stipulated in NBFC's prudential norms (Reserve Bank) Direction 1998 are applicable to all non banking financial companies. However, the Company obtained exemption from applying these norms for asset classification vide Notification No. DNBs/135/CGM/(VSNM)2000 dated 13.01.2000.

Accordingly, interest is shown as receivable from all disbursed loans which are to be classified as non performing assets (NPA). No provision has been made for doubtful loans. Though defaults in repayment of interest and instalments even beyond 3 years are mounting up, follow up action for realisation of defaulted interest and instalment are very poor.

7 Audit Checks:

All checks applicable for Companies in the financing sector.

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1 Introduction

The Kerala Urban Development Finance Corporation Limited (KUDFC) was incorporated as a private limited company in January 1970 and subsequently converted into a Public Limited Company under the administrative control of the Department of Local Self Government, Government of Kerala. Consequent on the winding up of Rural Development Board in July 2004, the Company's activities were extended to three tier Panchayaths also and the Company was renamed as Kerala Urban and Rural Development Finance Corporation (KURDFC) Limited. The headquarters of the Company was shifted from Kozhikode to Thiruvananthapuram in October 2006.

2 Objectives

i) To provide financial assistance by way of loans and advances to Local Self Government Institutions (LSGI) in the State for their development Schemes.

ii) To provide technical or any other assistance and guidance to LSGIs in the matter of their development schemes including the master plans prepared for LSGIs.

iii) To provide assistance and guidance to LSGIs for improving their administrative machinery and procedure.

iv) To undertake schemes in collaboration with LSGIs or with public undertakings in such terms and conditions as the Company deems fit.

3 Organisation structure

The number of directors in the Board of Directors shall not be less than three and shall not exceed eleven. The Managing Director is the Chief Executive of the Company. The Company Secretary cum Finance Manager who is appointed as per Section 383A of the Companies Act, 1956 is the executive officer directly reporting to the MD. Accounts Officer in charge of the Regional Office at Kozhikode is reporting to the Secretary cum Finance Manager.

4 Activities

i) The main activity of the Company is to provide loan assistance to various LSGIs in Kerala for their developmental activities. For the purpose of extending financial assistance, the development activities are classified into remunerative schemes and non remunerative schemes. Remunerative schemes include construction of commercial complexes, bus stands, lodges, purchase of road roller etc. Non remunerative schemes include construction of roads, improvement of roads, area development schemes, construction of small bridges, foot bridges, facilities of providing park, stadium etc.

ii) The Company is acting as a nodal agency for implementing various Central Government Schemes such as Scheme for Housing and Shelter Up gradation under NRY, low cost sanitation etc. The Schemes are financed through Central and State Government subsidies and loans from HUDCO. The Company will be getting administration and supervision charges for acting as the nodal agency.

iii) The Company has also been appointed as State Pooled Finance Entity for implementation of the Pooled Finance Development Fund (PFDF) Scheme of the Ministry of Urban Affairs, Government of India. The objectives of the Scheme include improving infrastructure facilities and help in the creation of durable public assets in cities, decentralizing economic growth and employment opportunities, promoting disbursed urbanization, integrating spatial and socio economic planning as envisaged in the Constitution and promoting resource generating Schemes for LSGIs to improve their overall financial position.

5. Financial Highlights

Particulars	2007-08	2006-07	2005-06	2004-05	2003-04
	(Rupees in lakh)				
Authorised Share Capital	1200	1200	1200	1200	1200
Paid up capital	96.04	96.04	96.04	96.04	96.04
Borrowings	7372.7	7223.62	7284.47	6771.13	6974.02
Debt equity ratio	76.77	75.21	75.85	70.50	72.62
Total income for the year	1180.36	1069.59	790.97	895.96	983.56
Net Profit before Tax and Dividend	**234.66**	**231.32**	**-185.82**	**48.22**	**61.88**
Accumulated Loss/Accumulated profit	215.57	131.41	5.36	191.18	170.67
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**422.71**	**327.45**	**201.4**	**387.22**	**366.71**

6 Significant Accounting Policies

Loans and advances to local bodies were classified and provisions were made for non-performing loans and advances as per the guidelines issued by the Reserve Bank of India to Non-Banking financial Companies till 31.3.2000 on prudential norms for income recognition/accounting standards, assets classifications and provisions for bad and doubtful debts. The Company was exempted from the operation of the above guidelines by Reserve bank of India vide letter No.DMBS (PD) CC No.12/02.01/99-2000 dated 03.1.2000. But these relaxations are made applicable to defunct development authorities as well as TRIDA and Neyyattinkara municipality.

7 Audit checks

i) Timely utilisation of the seed capital received from Government for disbursement to local bodies.

ii) The advantage availed by the Company by overstating the profit based on the relaxation allowed by RBI on asset classification for NPA may be worked out and an opinion formed on the same.

iii) Performance of the Company with reference to payment of loans and advances and realisation of dues from the local bodies.

iv) Proper monitoring of utilisation of loans to ULBs.

v) Reconciliation of loan accounts with HUDCO.

Special Audit Checks for Industrial Infrastructure Sector

(i) Acquisition of land – Feasibility study of the project – Suitability of land for the industrial estate/park - Advance payment with the Revenue authorities, etc. – Payment of final compensation (including the amount fixed by Court) to landowners and recovery thereof from the industries.

(ii) Utilisation of the acquired land – Whether infrastructure facilities were created in time or the land was kept idle without achieving the desired objective.

(iii) Examination of contracts for the creation of various infrastructure facilities such as buildings, roads, electricity (including deposit work), water supply, etc.

(iv) Whether allotment has been made for the entire land for which infrastructure facilities were created.

(v) Review the feasibility report and ensure that the progress of the work is in conformity with the report.

(vi) Review the consultancy agreements for the projects and payments made to consultants to ensure conformity with settled terms and conditions.

(vii) Delay in execution of license agreement/lease deed.

(viii) Delay in execution of supplementary agreement on expiry of license agreement.

(ix) Fixation/recovery of lease premium (taking into account the administrative overhead/project expenses) and lease rent, etc. and revision in accordance with the policy.

(x) Review the system to monitor the delay in realization of lease rent/executing lease deed/recovery of penal charges for belated payment.

(xi) Whether any additional land allotments were made to the allottees who were defaulted?

(xii) Maintenance of land registers with details of addition and disposals from time to time.

(xiii) Timely completion of the projects, abandoned/discontinued projects and wasteful expenditure thereof.

(xiv) It may be verified whether there is effective mechanism to assess the correctness of demand raised by revenue department for the land acquisition cases. Reconciliation of amount outstanding with land acquisition authorities and land accounts of the Company.

(xv) Whether grants received are utilized for the intended purpose?

(xvi) System for monitoring and evaluating the performance of units in various parks.

(xvii) Whether the price fixation committee considers the future escalation while finalizing the utility charges?

(xviii) See that the surplus funds/government grants of the Company which are not immediately required are kept in short-term deposit and the Company does not suffer loss on account of premature encashment of fixed deposits.

Kinfra Export Promotion Industrial Park Limited
IX/159 A, Kussumagiri P.O.,
Kakkanad, Kochi 30
Phone: 0484 2415796,2415798,2415614,2415888
Fax: 0484 2415877
Email: kepip@vsnl.com

1 Introduction

Kinfra Export Promotion Industrial Park Limited, with registered office at Thiruvananthapuram is incorporated as an associate Company of KINFRA in October 1994. The Company is functioning under the administrative control of Industries Department, Government of Kerala.

2 Objectives

To provide all infrastructural services of any kind including power stations, water systems, telecommunication network, roads and transport net work etc. with a view to promote speedy industrialization with specific emphasis on export promotion. Provide integrated assistance and financial services to industrialists for identification of new projects and their speedy implementation.

3 Organisation Structure

The number of Directors in the Director Board of the company shall not be less than three and more than twelve. The total number of employees in the company is only five.

4 Activities

The park is developed in 180 acres of land leased out by Government of Kerala at Kakkanad, Ernakulam under the Government of India sponsored EPIP scheme. The park caters specifically to the needs of export oriented industrial units. The Company is operating with infrastructure facilities like internal roads, 110 KVA (10 MVA) sub station and 3 MLD Water supply system. The Company has augmented the substation to a capacity of 25 MVA and the water supply system 6.50 MLD which is in progress.

The park houses 14 industrial units (General Industries) and info park in an area of 99 acres. The park is further extended with an additional area of 100 acres of which 75 acres is allotted to Millennia Realtors Pvt. Limited (RMZ) for the establishment of eco friendly non polluting Industrial Park.

The Company as a power distribution licensee is providing power to the units in KEPIP park and INFOPARK with 99 consumers. The Company as part of its licenses operation expansion has obtained permission from KSERC to distribute power in its additional 100 acres in Kakkanad, 240 acres in Hi-Tech Park, Kalamassery and 340 acres in Industrial area in Palakkad. Licence fees and common facilities charges collected from the licenses in addition to the margin on sale of power forms the major income of the company.

Government of India has sanctioned an assistance of Rs. 7.52 crore to the Government of Kerala under the scheme viz. Assistance to States for Developing Export Infrastructure and other Activities (ASIDE) which is to be implemented by the Company.

5 Financial Highlights

Particulars	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)			
Authorised Share Capital	300	300	10500	10500
Paid up capital	25.01	25.01	25.01	25.01
Borrowings	607.60	638.62	3628.31	3722.11
Debt equity ratio	24.29	25.53	145.07	148.82
Turnover	1242.36	1350.48	1241.96	650.99
Net Profit before Tax and Dividend	**256.15**	**221.58**	**101.86**	**-46.93**
Accumulated Loss/Accumulated profit	525.49	263.75	51.61	-64.26
Accumulated loss as a percentage of paid up capital	NA	NA	NA	-256.94
Net worth	**550.5**	**288.76**	**76.62**	**-39.25**

6 Audit Checks

(a) Financial Audit

The following may be verified in addition to routine checks.

i. Accounting treatment of ASIDE grants. Whether it is in line with AS 12?

ii. Accounting of service charges/common facility charges/supervision charges recoverable.

iii. See the allocation of expenditure between the capital and revenue has been made in accordance with the accepted principles of commercial accounting.

(b)Transaction Audit

In addition to the common audit checks/audit checks prescribed for this sector, the following may be verified.

(i) Electricity charges pending collection.

(ii) Non revision of common facility charges in line with license agreements.

(iii) Norms fixed for distribution loss/ loss of power due to T&D losses.

(iv) Delay in realization of supervision charges.

(v) Short billing of power due to incorrect tariff classification of consumers in the park.

Kinfra Film and Video Park
B-14, Sainik School, Kazhakuttom,
Thiruvananthapuram 695 585
Phone: 0471-2418599,2412277
Fax: 0471- 2417832
Email: fvpark@vsnl.com

1 Introduction

Kinfra Film and Video Park Limited with registered office at Thiruvananthapuram was incorporated in June 2000 as an associate Company of Kerala Industrial Infrastructure Development Corporation (KINFRA) under Section 25 of the Companies Act 1956. The company is under the administrative control of Industries Department, Government of Kerala and it started commercial operation with effect from April 2005.

2 Objectives

The main objectives of the company include promoting and providing for all infrastructure facilities for film, video, electronic, multi media and other cultural entertainment industries, providing financial assistance for such industries and encouraging technological and economic research and development for improving quality and value addition for industrial venture in the field of mass media etc.

3 Organisation Structure

The Company is managed by a Board of Directors of 8 members. Managing Director of KINFRA is holding the post of Managing Director of the Company. He is assisted by General Manager (Projects), Manager (Finance) of the holding Company, KINFRA (having additional charge of the Company) and Assistant Manager (Technical).

4 Activities

The company is providing basic infrastructure facilities for development of film and video industry. The company is housed in an area of 75 acres of land where required infrastructure is provided. Shooting facilities, commercial complex, preview theatre, animation building etc. are already housed in the compound. Land or building/land and building are leased out by the company on the basis of mutually accepted terms and conditions. One third of the freehold land is developed as a special economic zone to boost up development of film and video industry. Construction of new animation building has been completed and further work is being completed. Out of the balance area of 46.64 acres available for allotment, an area of 28 acres was allotted to 14 entrepreneurs.

For setting up animation zone, the Company is getting grants from GoI. For setting up an international animation school in the park on PPP basis, Ministry of Commerce has sanctioned a grant of Rs. 6.86 crore. KINFRA makes the allotment of land to prospective entrepreneurs and the cost of land including development cost is collected by KINFRA and development cost on pro rata basis being passed on to the credit of the company.

5 Financial Highlights

Particulars	2007-08	2006-07	2005-06	2004-05
	(Rupees in lakh)			
Authorised Share Capital	200	200	200	200
Paid up capital	150	150	150	150
Borrowings	1977.95	1751.77	1524.32	1138.79
Debt equity ratio	13.19	11.68	10.16	7.59
Turnover	19.61	25.19	4.01	0
Net Profit before Tax and Dividend	**0.01**	**-2.9**	**10.63**	**NA**
Accumulated Loss/Accumulated profit	-16.08	-16.18	-13.28	0
Accumulated loss as a percentage of paid up capital	-10.72	-10.79	-8.85	NA
Net worth	**133.92**	**133.82**	**136.72**	

6 Accounts and Audit

The accounts of the company are computerized. The Company is utilizing the service of a firm of Chartered Accountants as internal auditor.

7 Audit Checks

(a) Financial audit

The following may be verified in addition to routine checks.

i. Accounting treatment of Government grants. Whether it is in line with AS 12?

ii. Accounting of land development expenses and capitalization thereof.

iii. Correctness regarding write off of preliminary expenses.

iv. See the allocation of expenditure between the capital and revenue has been made in accordance with the accepted principles of commercial accounting.

(b) Transaction audit

In addition to routine/sector audit checks, the following may be verified.

i. Major source of operational revenue of the Company is the service charge it collects from the allottees of different plots and renting out of common facilities like preview theatre, commercial complex etc. Hence short recovery of service charge/non levy of service charge/non revision of service charge may be examined.

ii. Steps taken to bring the business development expenses in line with income.

iii. Delay in allotment of land/built up space and consequent loss.

Kinfra International Apparel Parks Limited
Thumba, St. Xaviers' College P.O.,
Thiruvananthapuram 695586
Phone 0471- 2706005, 2706006, 2706007
Fax: 0471-2706003
Email:kiap@vsnl.com
Website:www.apparelpark.com

1 Introduction

Kinfra International Apparel Parks Limited, Thiruvananthapuram incorporated in August 1995, as a associate Company of KINFRA. The company is under the administrative control of Industries Department, Government of Kerala.

2 Objectives

The main objects of the entity include development of all integrated infrastructure schemes for manufacture and export of textiles, clothes and garments with a view to develop textiles industry in the state.

3 Organisation Structure

The number of Directors in the Board of Directors of the company shall not be less than three and more than twelve. Managing Director is the Chief Executive of the company.

4 Activities

The park was developed in 45 acres of land at Trivandrum. The land is developed in all respects with easy road accessibility, LT/HT supply, water connection and communication facilities. An Apparel Training and Designing Centre was set up in the Park, which will conduct courses planned by the training section of the Apparel Export Promotion Council of the Ministry of Textiles, Government of India. A working women's Hostel with 161 rooms has been constructed in the park.

Lease rent realizable from allottees is fixed by the allotment committee with a view to realize the cost incurred on the infrastructure facilities. User fees for common facilities are fixed separately. 10 units signed license agreement with the park. The Company is receiving Government of India grants under centrally sponsored schemes viz. Apparel Parks for Export Schemes (APES) and Textile Centre Infrastructure Development Scheme (TCIDS)

5 Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rupees in lakh)				
Authorised Share Capital	300	300	300	300	300
Paid up capital	25.01	25.01	25.01	25.01	25.01
Borrowings	2255.07	1924.69	1421.95	1221.41	528.6
Debt equity ratio	90.17	76.96	56.86	48.84	21.14
Turnover	143.23	102.54	57.79	25.9	
Net Profit before Tax and Dividend	**36.34**	**-3.52**	**-21.1**	**10.63**	Commercial activities not commenced
Accumulated Loss/Accumulated profit	-40.51	-64.26	-56.1	-33.71	0
Accumulated loss as a percentage of paid up capital	161.98	256.94	224.31	134.79	NA
Net worth	**-15.5**	**-39.25**	**-31.09**	**-8.7**	

6 Audit Checks

(a) Financial Audit

The following may be verified in addition to routine checks.

i. Accounting treatment of Government grants. Whether it is in line with AS 12?

ii. Accounting of rental income/common facility charges/water charges recoverable.

iii. See the allocation of expenditure between the capital and revenue has been made in accordance with the accepted principles of commercial accounting.

(b) Transaction Audit

In addition to regular checks/checks prescribed for this sector the following points may be verified.

Short recovery of user charges for common facilities & reimbursement of project expenses from Government of Kerala.

Marine Products Infrastructure Development Corporation Limited
MPEDA House, Panampilly Avenue,
Cochin 682 036
Phone: 0484- 2311979,2321720
Fax: 0484- 2313361

1 Introduction

Marine Products Infrastructure Development Corporation Limited with registered office at Kochi was incorporated in March 1999 as a joint venture company of Marine Products Export Development Authority (MPEDA) and Kerala Industrial Infrastructure Development Corporation (KINFRA). The company is under the administrative control of Industries Department, Government of Kerala.

2 Objectives

The main objectives of the company are to provide financial and technical assistance to Marine and Sea Food Industrial units for developing infrastructure facilities.

3 Organization Structure

The company shall have not less than three Directors. The Company is managed by a Board consisting of 6 Directors. The Director (Marketing) of MPEDA is the Managing Director of the Company who is assisted by a General Manager.

The Company is functioning only as an agency to provide the assistance and is managed by the officers of MPEDA on a working arrangement and therefore there is no separate staff for the Company.

4 Performance

The company has invested Rs.86.94 lakh in Sea Food Park with 26 per cent share holding to MIDCON. A loan of Rs.461.79 lakh has been paid to the Sea Food Park which is at present treated as NPA. Besides, ASIDE grants and other grants from Government of India are also siphoned to Sea Food Park through MIDCON.

5 Financial Highlights

The main income of the company is interest from Sea Food Park for the loan disbursed.

The authorized capital and paid up share capital of the company is Rs.5 crore shared equally by KIN FRA and MPEDA (equity).

Particulars	**2008-09**	**2007-08**	**2006-07**	**2005-06**	**2004-05**
	(Rupees in lakh)				
Authorised Share Capital	500	500	500	500	500
Paid up capital	500	500	500	500	500
Borrowings	0.00	0.00	0.00	0.00	0
Debt equity ratio	0.00	0.00	0.00	0.00	0.00
Turnover	47.36	53.66	3.9	2.5	1.54
Net Profit before Tax and Dividend	**46.14**	**52.67**	**2.68**	**1.68**	**0.67**
Accumulated Loss/Accumulated profit	186.95	145.36	109.1	107.52	106.39
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**686.95**	**645.36**	**609.1**	**607.52**	**606.39**

6 Audit Checks

(a) Transaction Audit

i. Central grants under ASIDE are being released on the condition that the expenditure out of the same shall be audited by CAG of India. Such central grants given to private entities through MIDCON are also to be subjected to audit while auditing the accounts of MIDCON. (Ref. CAG's letter No.336-Audit (AB)/25-2006 dated 31.20.2008).

ii. Whether the Company ascertains the utilization of ASIDE grants for the intended purposes.

iii. Whether the Company has adequate arrangement to follow up the utilization of grants/loans to societies.

iv. In SPIL a joint venture promoted by MIDCON, out of 10 units, only 2 units are actively operating. Loan repayment by SPIL is in default. Steps taken to realize the dues and make SPIL financially viable.

(b) Financial Audit

All Audit checks applicable to Infrastructure Development Companies may be conducted.

KINESCO Power and Utilities Private Limited

TC 32/2312, KINFRA House, Sasthamangalam P.O., Thiruvananthapuram.

1 Introduction

KINESCO Power and Utilities Private Limited is incorporated as a deemed Government Company on 17th September 2008. The Company is a joint venture of NTPC Electric Supply Company Limited and Kinfra. The headquarters of the Company is at Thiruvananthapuram.

2 Objectives

The objectives of the Company is to carry on all or any of the business of generation, transmission, supply and distribution of electricity in Industrial parks, Special Economic Zones, Industrial Infrastructure Projects and any other project as a Licensee under the Electricity Act 2003.

3 Capital structure

The authorized share capital of the Company is Rs.15 crore and paid up capital as on 31.3.09 was Nil. Share Money advance pending allotment to Kinfra and NTPC Electric Supply Company Limited is Rs 10 lakh (Rs. 5 lakh each).

The Company has finalized its first accounts for the period ended 31 March 2009.

Particulars	2008-09 Rs in lakh
Authorised Share Capital	1500
Paid up capital	0
Borrowings	0
Debt equity ratio	0
Turnover	0
Net Profit before Tax and Dividend	**-9.02**
Accumulated Loss/Accumulated profit	-6.81
Accumulated loss as a percentage of paid up capital	NA
Net worth	**NA**

The Company is yet to commence its activities.

Kerala State Information Technology Infrastructure Limited

Regd. Office: TC 3/83 Park Centre, Technopark Campus,
Trivandrum 695 581.
Phone: 0471-2700222; Fax: 0471 – 2700171
www.keralaitparks.org

1 Introduction

Kerala State Information Technology Infrastructure Limited was incorporated as a Public Limited Company on 31st January 2008. The State Government either singly or together with Technopark, IT Mission and /or other State Government undertakings, shall hold a minimum of 51 per cent of the paid up capital of the Company. The Company is under the administrative control of IT Department, Government of Kerala. The headquarters of the Company is at Thiruvananthapuram.

2 Objectives

The objectives of the Company is to develop infrastructure and establish IT Parks, techno parks, techno cities, hi-tech parks, knowledge based centers and industries either alone or in joint venture with other entrepreneurs, Companies, local bodies, individuals etc.

3 Capital structure

The authorized share capital of the Company is Rs. 30 crore and the paid up capital as on 31.3.08 was Rs. 5 lakh of which Rs. 4, 99,940 is held by Governor of Kerala.

The Company is yet to commence its activities.

The Kerala Minerals and Metals Limited
Shankaramangalam, Chavara-691583, Kollam
Ph No.0476-2686722 to 733 (12 lines)
Email- kmml@md3vsnl net in.

1 Introduction

The Company with registered office at Sankaramangalam, Chavara, Kollam was incorporated in February 1972 as a private limited company to take over and run FXP Minerals, Chavara, an undertaking purchased by the Government of Kerala in April 1971. It is a fully owned Government Company under the administrative control of the Industries Department.

2 Objectives

The main objectives of the company is to carry on the business of mining minerals and metals of any nature, producing, dressing, processing, refining, beneficiating, using and dealing in Ilmenite, Rutile, Leucoxena, Sillimanite, Zircon, Monazite, Silica Titanium, Zirconium, Silicon, Iron or their compounds, derivatives, alloys and allied chemicals.

3 Organization Structure

As per the Articles of Association, the number of directors in the Board shall not be less than two and more than fifteen Directors. The present Board consists of 9 Directors. The Managing Director is assisted by HODs in 5 (Finance, Personnel, Marketing, Production and Purchase) Departments.

4 Activities

The Company is engaged in separation of heavy minerals such as Ilmenite, zircon and Rutile from sea sand in its Minerals Separation Plant at Kovilthottam and production of Titanium dioxide pigments (Rutile grade) in Titanium Dioxide Plant at Chavara. The production of final product TDP involves the following process:

- beneficiation of raw Ilmenite.
- chlorination of beneficiated Ilmenite to Titanium tetrachloride.

- oxidation of Titanium Tetrachloride to raw pigment.
- raw pigment to finished pigment.

The present production capacity of Titanium dioxide pigment is 40,000 TPA. Raw ilmenite mined by the Company is the main raw material for manufacture of the products. If own production is insufficient, the Company depend on Indian Rare Earths for raw ilmenite. Furnace oil, LPG etc. required for the company are purchased from Public Sector oil companies. Chemicals such as caustic soda lye, HCL, etc. are procured from TCC.

The Titanium dioxide is used as a raw material input in manufacture of paints. The Company is the sole producer of rutile grade Titanium dioxide pigment in India and selling its products in domestic market and foreign market. Domestic sales are mainly through stockists.

5 Financial Highlights

Particulars	**(Rs in lakh)**				
	2007-08	**2006-07**	**2005-06**	**2004-05**	**2003-04**
Authorised Share Capital	3500	3500	3500	3500	3500
Paid up capital	3093.27	3093.27	3093.27	3093.27	3093.27
Borrowings	0	0	0	0	0
Debt equity ratio	0.00	0.00	0.00	0.00	0.00
Total income for the year	31792.15	31351.37	30472.55	30875.66	29025.52
Net Profit before Tax and Dividend	**1043.63**	**2243.24**	**1782.05**	**3919.9**	***4964.53***
Accumulated Loss/Accumulated profit	40826.56	40575.71	39700.46	38837.86	37132.49
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**43917.69**	**43666.84**	**42791.59**	**41883.62**	**40178.26**

6 Special Acts and Rules

(i) Atomic Energy Act, 1948.

(ii) Mining Act, 1952.

(iii) Atomic Energy (Control or production and use) Order 1953.

(iv) Mines and Minerals (Regulation & Development) Act 1957.

7 Special Records/Accounts maintained

- Monthly statement of Royalty.
- Monthly returns to Atomic Energy/Mining and Geology/Indian Bureau of Mines.
- Accounts manual.

8 Accounts and Audit

The Company is preparing separate Accounts for MS Plant and TDP and consolidating the same in Head Office.

Specific significant accounting policies which merit attention are indicated below:

i) Accounts are prepared on accrual basis, except in the following cases which are accounted on cash basis.

   a. Ex-gratia payment to employees.

   b. Insurance claims.

   c. Income Tax Refunds/ Interest on Income Tax Refunds.

   d. Dividends from shares.

ii) Machinery spares/ insurance spares that can be issued only in connection with an item of fixed assets and their issue is expected to be irregular are capitalized. Replacement of such spares is charged to revenue. Other spares are charged as revenue expenditure as and when consumed.

iii) Stock of raw materials, chemicals, fuel, stores and spares are valued at weighted average cost. However, freight in respect of stores and spares is not absorbed in the cost.

iv) Costs for valuation of finished goods for this purpose is arrived at on the basis of FIFO method in TP unit where as in MS unit cost of minerals are arrived by LIFO. Finished goods in transit for export are valued at subsequently realisable price, if they are lower than the cost.

v) Sales are accounted on despatch of products. Export sales are accounted on the basis of date of bill of lading.

vi) The Company had identified two segments viz. Titanium Dioxide plant and Mineral Separation unit.

9 Audit checks

Transaction Audit

In addition to the prescribed checks the following need to be reviewed in depth.

(i) The mining activities and stock position based on requirements and demands.

(ii) Procurement of raw materials, components and spares and its consumption.

(iii) Mining labour contract with the receipt of mineral sands in the factory for processing.

(iv) Export contracts and contracts for transportation of materials.

(v) Payment of production incentive, overtime etc. to workers to ensure that the rules in vogue were applied.

(vi) Diversion of Company's funds to other PSUs.

(vii) Efficiency of internal control in inventory management, employees benefit, cash and sales and follow up on the internal audit report.

(viii) Effectiveness of IT system.

(ix) Major contract agreement relating to project construction works, supply of machinery, equipment, stores and services.

10 General

A review on KMML was included in the Report of Comptroller and Auditor General of India for the year ended 31 March 2004. The major audit findings were:

i) Loss due to short recovery of ilmenite, rutile and zircon from raw sand with reference to actual content amounted to Rs.142.15 crore.

ii) Loss of production of Titanium dioxide pigment due to lower efficiency of the Titanium Dioxide pigment plant was Rs.358.59 crore.

iii) The Company suffered production loss of Rs.40.80 crore as a result of premature failure of critical equipment and non-adherence to output norms of finished pigment.

iv) The Company lost the benefit of savings in cost of Rs.18.86 crore due to non-implementation of recommendations of Central Power Research Institute on energy savings.

The Travancore Cochin Chemicals Limited
Udyogmandal P.O., Kochi-685 501
Tel: 0484-2545011 to 21(11 lines)
Email-tccudi@vsnl.com

1. Introduction

The Company was incorporated as a public limited company in November 1951 with headquarters at Udyogamandal, Kochi under the administrative control of the Industries department, Government of Kerala.

2. Objectives

The main objectives of the Company were (1) To acquire and take over the business, assets, liabilities and goodwill of the then Travancore and Mettur Chemicals, a partnership firm by the Fertilizers and Chemicals Travancore Limited and Mettur Chemical and Industrial Corporation Limited and (2) to carry on the business of manufacture and marketing of caustic soda and other chemicals and by-products and all kinds of chemical and mineral substances.

3. Organisation structure

The Director Board of the Company shall have not less than nine and not more than 18 members. The Executive Director (Finance and Administration) and the Executive Director (Technical) are the functional Directors and report to the Managing Director.

4. Activities

The Company is engaged in manufacturing and trading of the products such as liquefied chlorine, caustic soda (lye and flakes) hydrochloric acid, sodium hypochloride, Eko clean (consumer product containing low concentration sodium hypo chloride) etc. The major raw materials for manufacture of the products are common salt (sodium chloride) and electrical energy. In addition to common salt, barium carbonate, soda ash etc. are among other raw materials.

5. Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)				
Authorised Share Capital	5000	5000	5000	5000	5000
Paid up capital	2131.19	2131.19	2131.19	2131.19	2131.19
Borrowings	4148	5208.51	6225.7	5387.47	5092.81
Debt equity ratio	1.95	2.44	2.92	2.53	2.39
Total income for the year	12063	11064.5	12539.43	*11035.73*	*9318.5*
Net Profit before Tax and Dividend	**-281**	**43.69**	**61.87**	**581.08**	**-829.24**
Accumulated Loss/Accumulated profit	-1066.33	-785.33	-813	-861.51	-1384.53
Accumulated loss as a percentage of paid up capital	50.03	36.85	38.15	40.42	64.97
Net worth	**1064.86**	**1345.86**	**1318.19**	**1269.68**	**746.66**

6. Audit checks

(a) Transaction Audit

i) The bulk item purchased by the Company is common salt for which agreements are executed with salt manufacturers located in the States of Tamil Nadu and Gujarat. The purchase files may be examined to see whether the procedures for purchase were in the interest of the Company.

ii) Annual transportation contracts entered into with the contractors may be examined to see whether there had been any violation of the guidelines, necessitating extra expenditure from the part of the Company.

iii) The quantum of consumption of purification chemicals for purification of the brine before electrolysis may be examined to see whether there was excess consumption. Need for excess consumption of the chemicals arise if there are more impurities in the salt purchased and if the impurity level of magnesium, potassium, sulphate etc. is more in the salt. Quality cut on the raw material is to be properly made before making payments for supplies.

iv) Examine the material management and plant maintenance with a view to avoid excess holding of materials or stoppage of production.

v) Electricity constitutes 55 per cent of production cost. The consumption of power per MT of the product is to be compared with the standards fixed. The Company is operating in three shifts. It may be examined whether company has regulated production to avail lower tariff applicable during off peak hours as per KSEB tariff.

vi) During certain periods of load shedding, the KSEB issues guidelines to be followed by EHT/HT consumers. Examine whether these guidelines are followed so as to safeguard the economic interest of the Company.

vii) Fixation of selling price may be reviewed to bring out any differential pricing system favouring private contractors, if any. Agreements with important clients for sale of company's products may be examined in depth.

viii) Instances of non supply of finished products to PSUs in violation to the terms and conditions of the agreements may be examined.

ix) For conversion of caustic soda lye into flakes, additional expenditure on power and human resources are to be incurred. Additional price realisation from flake has to be equal to or more than the cost on conversion of lye into flakes. These aspects are to be examined.

x) Instances of payments made to the staff before finalizing the formalities required for the same (eg-sanction from Government) may be examined and reported upon quantifying the amount as far as possible.

xi) The State Government has directed the Companies to approach the State Insurance Department for insurance needs of Fire and General Business. Whether the Company has approached the insurance department for the purpose with a view to ensure that its installations are adequately protected by insurance coverage may be examined and reported.

Travancore Titanium Products Limited
Kochuveli,
Trivandrum-695121
Email : travancoretitanium@sancharnet.in Phone : 0471-2500221, 2502748

1 Introduction

The Company established in December 1946 in collaboration with British Titan Products was taken over by the State Government in 1960. It is working under the administrative control of Industries Department, Government of Kerala.

2 Objectives

The company was established for manufacture of anatase titanium dioxide utilizing raw materials such as limonite sulphuric acid, kerosene/furnace oil etc. through sulphate process.

3 Organisation Structure

The Board shall consist of minimum of 4 and maximum of 5 directors. The Chairman-cum-Managing Director (CMD) is the Chief Executive of the company. The GM (Tech & Works), Technical Advisor to CMD and the Executive Director assist the CMD in day to day affairs. The Chief Manager (Production), Chief Manager (Projects), Chief Manager (R&D), Chief Engineer, Financial Advisor, Manager (P&A) are among the higher division officers of the company.

4 Activities

Titanium dioxide which is the main product of the company is required in manufacture of paints, plastics, paper, rubber products, garments etc. Ilminite for production of TiO2 is also procured from Indian Rare Earths. Sulphuric acid is produced in house. Kerosene oil/furnace oil is purchased from Bharat Petroleum Corporation /Indian Oil Corporation. Yellow sulphur for manufacture of sulphuric acid is procured on predetermined allotment basis from PSUs as well as from private parties. The effluent treatment project of the company is under implementation.. Marketing of the products of the company which was being done through Kerala State Industrial Products Trading Corporation is now directly done by the company.

5 Financial Highlights

Particulars	2005-06	2004-05	2003-04
	Rs. in lakh		
Authorised Share Capital	2500	2500	2500
Paid up capital	176.75	176.75	176.75
Borrowings	38.92	0	0
Debt equity ratio (debt for Rs 100 of equity)	0.22	0.00	0.00
Total income for the year	13904.2	12143.25	13224.51
Net Profit before Tax and Dividend	**-1552.91**	**239.16**	**118.29**
Accumulated Loss/Accumulated profit	4196.52	5731.76	5724.79
Accumulated loss as a percentage of paid up capital	NA	NA	NA
Net worth	**4372.55**	**5907.79**	**5900.81**

6 Audit Checks -Transaction Audit

i) Stock position of raw materials and intermediary product (sulphuric acid) based on production requirements and demand.

ii) Procurement of raw materials, components, spares and their consumption.

iii) Contract with IRE for procurement of ilmenite and contract with supplies for purchase of yellow sulphur.

iv) Export contract and contract for transportation of materials.

v) Payment of production incentive and overtime etc. to workers to ensure that the rules in vogue are applied.

vi) Effectiveness of the marketing strategy followed by the Company.

vii) Agreement entered into with stockists and their performance.

Kerala State Drugs and Pharmaceuticals Limited.
Kalavoor, Alappuzha-688522
Tel-0477-2258161
Email-ksdp@satyam.net.in

1 Introduction

The Company was incorporated as a public limited company in December 1971 with headquarters at Kalavoor, Alapuzha. The Company started commercial production in 1974.

2 Objectives

The main objectives of the Company are manufacturing and sale of drugs and pharmaceuticals so as to provide common and essential drugs of standard quality at a moderate price to State Hospitals.

3 Organisation structure

The Company is under the administrative control of Industries Department, Government of Kerala. The number of members in the Director Board of the Company shall be not more than eight. The Managing Director is the functional Director.

4 Financial Highlights

The authorized capital of the company is Rs 8.00 crore. Paid up capital as on 31.03.08 was Rs.7.58 crore fully subscribed by the State Government.

Particulars	**1999-2000**
	Rs. in lakh
Authorised Share Capital	800
Paid up capital	758
Borrowings	4552
Debt equity ratio	6.01
Total income for the year	616
Net Profit before Tax and Dividend	**-688**
Accumulated Loss/Accumulated profit	-3369
Accumulated loss as a percentage of paid up capital	444.46
Net worth	**-2611**

5 Activities

The Company which started with only a Formulation Division expanded its activities by setting up of a Vitamin A Division in 1983 which was closed down in 2006.

KSDP became sick over the years and normal production activities were almost stopped by 2003-04. A revival package was introduced in 2006-07 by downsizing through VRS and the company resumed production in Formulation Division. In September 2007, the Company was declared as a relief undertaking under the Kerala Relief Undertaking (Special Provisions) Act, 1961.

Production of tablets, powder, capsules, liquids, parenterals etc. are being undertaken now. The raw materials for manufacture of bulk drugs are procured from bulk drugs manufacturers after following the approved purchase policy of the Company. The production is monitored as per official pharmacopoeia. The price of products is fixed on the basis of the drugs price control order issued by Government. The entire products are sold to Government and quasi Government medical institutions only. A scheme for modernisation of the Company is pending with the Government.

6 Audit checks

Transaction Audit

i) The records relating to purchase of bulk drugs may be examined to see whether the purchase procedures have been followed.

ii) The stock verification statements may be examined to see whether shelf life expired raw materials and finished products are available in stock and if so, the cases may be reported fixing the responsibility for the same.

iii) Utilisation of manpower and machines may be examined to see whether the actuals match with the standards.

iv) Examine Sales records to see whether the sales were effected within the time limit on the basis of orders already received. Delay in dispatch of materials resulting in payment of liquidated damages, if any, may be commented.

v) Action taken by the Company for complying with the requirements of Good Manufacturing Practices (GMP) which came to effect from July 2005 may be examined.

vi) Instances of ineligible payments made to the employees without complying with the Government directions and ignoring the COPU recommendations may be brought out.

vii) The internal control system and the follow up action on internal audit reports may be examined.

viii) The utilization of grants/subsidy received from the Central Government/Department of Science & Technology needs to be verified.

Kerala Feeds Limited

Feeds Nagar, Kallettumkara,
Irinjalakuda, Kerala – 680683

Ph.No: 0480 2720179, 192
Fax: 0480 2720194
Website: www. Keralafeeds.com
E-mail: kfl@satyam.net.in

Southern Regional Office:
1st Floor, TC 25/3215(VRA–D35),
Thoppil Lane,
Vanchiyoor Post,
Thiruvananthapuram.
Ph.No: 0471 2463047

1 Introduction

The Company with its headquarters at Kallettumkara, Thrissur District was incorporated in October 1995 as a Government company. The plant was commissioned late in 1998 and commercial production started in January 1999. The design of the plant is based on European Standards. Only dumping of raw materials and stocking of finished feed is manual, while all other processes are automated. The entity is under the administrative control of Animal Husbandry Department, Government of Kerala. The Company is ISO 9001-2000 certified and also an ISO Certificate holder.

2 Objectives

The main objectives of the Company are manufacturing and dealing in all kinds of livestock, poultry and fish feeds, feed concentrates, feed additives, mineral mixture vitamins and allied products for use in livestock development.

3 Organization Structure

The number of Directors in the Company shall be not less than three and more than 12. The Managing Director is the only functional Director. The Company has 10 separate departments for Purchase, Marketing, Production, Personnel and Administration, Materials Management, Quality Control, Finance and Accounts, EDP and Project.

4 Activities

Manufacture and sale of compounded cattle feed and mineral mixture is the important activity of the Company with the technology imported from M/s.

Heem Horst, Netherlands. The Company has a production capacity of 650 TPD of feeds. A mineral mixture plant with 100 TPD was commissioned in March 2004 at Nedumpuzha, Thrissur.

Deoiled items such as rice bran, coconut oil cake, sunflower extractions, groundnut extractions, cotton seed extractions, rape seed extractions, etc. are the important raw materials for manufacture of the products. The decisions for purchase of raw materials are taken by the purchase committee taking into account of the requirements and seasonal availability.

The quality control department prepares recipe for proportion of raw materials to be powdered in the automatic machine for manufacture of cattle feed. The well powdered mix is palletized and bagged after adding molasses. Cattle feed in the brand name Kerala feeds ordinary and special and mineral mixture, "Keramin" are manufactured at present. Marketing of the finished products is through private dealers, co-operative societies, institutional customers and Government supplies.

The Bhaba Atomic Research Centre (BARC) has agreed to extend financial assistance to the company for collaborative research in "use of radiation technology to improve feeding value of agricultural waste". The Company expects to improve the feeding value of identified agricultural waste and to include the same as an ingredient in cattle feed production.

The Company has developed lower cost portable conveyors compared to costly imported conveyors.

5 Financial Highlights

Particulars	**2008-09**	**2007-08**	**2006-07**	**2005-06**	**2004-05**
	(Rupees in lakh)				
Authorised Share Capital	3000	3000	3000	3000	3000
Paid up capital	2740.5	2740.5	2740.5	2740.5	2740.5
Borrowings	0	0	0	0	0
Debt equity ratio	0.00	0.00	0.00	0.00	0.00
Total income for the year	19415.93	14581.85	11552.29	10175.13	9206.72
Net Profit before Tax	**24.36**	**-338.72**	**-258.86**	**661.2**	**792.28**
Accumulated	240.70	230.04	547.19	743.1	401.47

Loss/Accumulated profit					
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**2981.2**	**2970.54**	**3287.69**	**3483.6**	**3141.97**

6 Audit Checks

In addition to routine checks, the following may be examined in depth.

i) Examine whether the raw materials required for production are purchased taking into account of the requirements in correct proportion during the most economical season, on spot purchase basis in the spirit of purchase policy based on the GO (MS) No. 2/2002/AD/ dt.4.1.2002.

ii) The quality of raw material procured may be examined with the quality specifications.

iii) Ensure that for manufacture of cattle feed, the proportion of raw materials agree with the prescribed standard with reference to quality and quantity.

iv) Examine the production reports to see that there is optimum utilisation of machine and manpower in production process.

v) As the biological products are prone to deterioration, examine whether the manufactured products are stored properly in conducive conditions and despatched to the consumers at the earliest so that there was no scope for any deterioration.

vi) Arrangements made by the Company for outsourcing of production of cattle feed may be examined.

vii) Timeliness and economy of price revision of feed.

The Pharmaceutical Corporation (I.M) Kerala Limited - Oushadhi
Kuttanallur, Thrissur-680014.
Tel. 0487-2334518, 2334818.
Email- oushadi @sancharnet.in

1 Introduction

The Company was incorporated in September 1975 as a private company under the Health and Family Welfare Department, Government of Kerala. The Company is having its registered office at Thrissur.

2 Objectives

The main objects of the Company include (i) manufacture of indigenous medicines of high quality under expert supervision and direction (ii) undertake cultivation of medicinal plants (iii) acquire and take over SKVA Co-operative Pharmacy Stores Limited. and other similar units.

3 Organisation structure

The Director Board of the Company shall have not less than two and not more than thirteen directors including the Chairman and the Managing Director. The Financial Controller, Administrative Officer, Production Manager, Marketing Manager, Manager (Works) are sectional heads reporting to the Managing Director.

4 Activities

The present activities of the Company are cultivation and propagation of medicinal plants, production and distribution of Ayurvedic medicines etc. The Company is also running a Panchakarma treatment and research centre. The Company produces 450 classical medicines in accordance with the process prescribed in Ashtanga Hridaya, Bhyshadya Ratnavali etc. and 17 patented products in accordance with Pharma copia of the Company. The ISM Department of the State Government, other Government Departments and Ayurvedic medicine agencies are the customers of the Company. The Company has got a quality control and R&D Department. A redistribution centre is also being constructed at Pariyaram.

5 Financial Highlights

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
	(Rs in lakh)				
Authorised Share Capital	500	500	500	500	500
Paid up capital	611.6	523.6	476.6	427.6	417.6
Borrowings	0	0	0	0	0
Debt equity ratio	0.00	0.00	0.00	0.00	0.00
Total income for the year	2214.03	1953.4	1460.97	1299.04	1182.71
Net Profit before Tax and Dividend	**215.62**	**308.98**	**133.55**	**100.46**	**132.62**
Accumulated Loss/Accumulated profit	611.34	517.07	341.15	271.3	240.1
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**1222.94**	**1040.67**	**817.75**	**698.9**	**657.7**

6 Accounts and Audit

Significant accounting policies

- Raw materials are valued at purchase price reduced by 25 per cent towards estimated loss due to driage and storage.
- Finished Goods are valued at Government selling price reduced by 20 per cent as estimated margin.
- Work -in-progress is valued at cost of raw materials less 25 per cent.

The company has not complied with the provisions of Accounting Standard-2 in respect of valuation of stock.

7 Audit checks

Transaction Audit

In addition to the prescribed checks, the following need to be reviewed in depth.

i) Procurement of raw materials for manufacture of medicines depending on production requirements.

ii) Standard requirements of the raw medicines/ medicinal plants etc. for manufacture of the medicines may be compared with the actuals.

iii) Annual contracts with suppliers of raw materials for manufacture of medicines.

iv) Manpower management and machine hour management for manufacture of medicines.

v) Marketing records/ fixation of prices, realisation of prices from sale of medicines.

vi) R&D functioning – assessment of requirement of new medicines, action taken to maintain the quality of finished products etc.

vii) Utilisation of grants received from the Government of India.

The Travancore Sugars and Chemicals Limited
Valanjavattom, Thiruvalla -689104
Tel- 0489-2610711, 2610712
Email: travancoresugars@yahoo.co.in.

1 Introduction

The Company incorporated in June 1937 by M/s.Parry and Company was taken over by the State Government in 1974. The company with registered office at Thiruvalla is under the administrative control of the Industries Department.

2 Objectives

The main objectives of the company are manufacturing and sale of IMFL, spirit, sugar etc.

3 Organisation Structure

The number of Directors in the Board of Directors of the company shall be not less than two and not more than seven. The Company is presently managed by the Kerala State Beverages Corporation. The heads of Engineering & Manufacturing Department, Personnel and Administration Department, Finance & Secretarial Department etc. report to the MD.

4 Activities

The company was initially engaged in production of sugar, spirit and arrack. Sugar production was stopped in 1995 for want of sugar cane. At present, the entity is engaged in manufacture and sale of IMFL to Kerala State Beverages Corporation Limited. (KSBC) and spirits to Government institutions and personal customers as per permits issued by Excise Department.

Extra Neutral Alcohol (ENA) for blending and bottling of IMFL (Indian Made Foreign Liquor) is procured from distilleries outside Kerala. Jai Jawan Rum and Major Premium Brandy are the main products sold to KSBC.

5 Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)				
Authorised Share Capital	150	150	150	150	150
Paid up capital	131.57	131.57	131.57	131.57	131.57
Borrowings	24.07	34.07	34.55	42.4	159.92
Debt equity ratio	0.18	0.26	0.26	0.32	1.22
Total income for the year	986.01	978.21	742.99	700.15	715
Net Profit before Tax and Dividend	**23.54**	**54.97**	**71.37**	**67.48**	**14.1**
Accumulated Loss/Accumulated profit	-315.59	-338.88	-393.48	-464.20	-530.95
Accumulated loss as a percentage of paid up capital	239.86	257.57	299.07	352.82	403.55
Net worth	**-184.02**	**-207.31**	**-261.91**	**-332.63**	**-399.38**

6 Audit Checks

Transaction Audit

In addition to the prescribed checks, the following items need to be reviewed in depth.

i) The agreements for purchase of ENA executed with suppliers.

ii) The agreements with KSBC for sale of IMFL to them.

iii) Capacity utilization and order canvassing and profitability.

iv) Consumption of ENA for manufacture of IMFL. The wastage during the process is to be checked with the standards.

v) Manpower management in the production units.

vi) Payment of production incentive, overtime wages etc.

vii) Whether the Company, which was declared as a sick Company by BIFR, is paying employer’s contribution to EPF at the lower rate applicable to sick Companies.

Malabar Distilleries Limited.
Chittur, Pallakkad

1 Introduction

Malabar Distilleries was incorporated in June 2009 as a Private Government Company with Head quarters at Chittur, Palakkad. The Company is under the administrative control of the Taxes Department.

2 Objectives.

The main objective of the Company is to manufacture and sale of liquor and dealing in all kinds of beverages.

3 Share capital.

Authorised share capital of the Company is Rs one crore divided into 10000 shares of Rs 1000 each.

The company is yet to commence its operations.

Common Audit Checks for Plantation Sector

1. Productivity of plantations may be compared with standards.
2. The actual expenditure on development of plantations may be compared with projected outlay.
3. Possession of lease deed/title deed for the entire area. It may be verified whether absence of proper lease agreement and failure in providing boundary demarcation at the time of taking possession resulted in any loss of compensation/encroachment.
4. Loss on planting operations in area prone to wild life attack.
5. Maintenance of plantation journal, crop register and adherence to Plantation Labour Act.
6. The yield per hectare of the plantations may be reviewed and the reasons for non-achievements, if any, may be investigated.
7. It may be verified whether proper study has been conducted before going for new plantations/monitoring has been done to ensure the growth so as to avoid further loss by way of maintenance.
8. Records relating to sale of plant produces/other products may be examined with a view to ensure that the contracts are entered into safeguarding the interest of the entity.
9. Whether financial results of plantations felled/extracted are separately determined and analysed by the management? Whether the success or failure of the different plantations are being subjected to cost benefit analysis with a view to decide upon viable planting programmes.
10. Check and estimate the loss due to delay in extraction/tapping of matured areas.
11. Delayed replanting/non allotment of matured plantations may be reviewed to bring out extra cost by way of maintenance/yield loss.
12. Whether fertilizer application is made in any unweeded areas/unproductive areas? If so, the loss suffered may be examined.
13. Procurement of fertilizer at competitive rates may be ensured. Expenditure on purchase of manure, cultivation and upkeeps etc.

14. Efficiency in establishment of nurseries may be examined and commented.
15. Actions taken to protect the estate land and evict the encroachments.
16. Working of Civil Engineering wing /tendering and contracts may be reviewed.
17. Expenditure on modernization/expansion schemes and the benefits accrued as a result may be examined and commented.

Rubber plantations

18. Tapping method adopted for rubber plantations. Check the rate of generation of scrap. Poor tapping may result in high rate of generation of scrap.
19. Percentage of dry rubber content.
20. Shortage in quantities of latex dispatched from estate to factory and resultant loss thereof and shortfall in exercising effective control by the management may be reviewed.
21. Efficiency in utilization of manpower may be examined. Deployment of manpower and fleet for collection of latex and instances of pre-coagulation of latex due to delay in collection may be examined.
22. It may be verified whether blocks with higher productivity were duly prioritized for tapping performance.
23. Loss due to non tapping of potential areas. The shortfall in yield with reference to tappable task, actual tasks tapped and steps taken to prevent shortfall in tappable task.
24. Whether scrap formation is within the norms fixed?
25. Classifications of tapping fields are in accordance with the norms fixed by Plantation Labour Committee.
26. Efficiency of centrifuging factories/underutilization of capacity which resulted in shortfall in revenue may be commented upon.
27. Production of crumb rubber – whether conversion of scrap rubber into crumb rubber has adequate margin.
28. Prolonged storage of latex and quality deterioration.

29. Consumption of rain guard adhesive and LPDE Polythene Film may be reviewed to ascertain excess consumption, if any.
30. Price fixation of cenex.
31. Accumulation of scrap.
32. It may be verified whether the Company suspended production due to non-receipt of latex from estates.
33. Cases of higher cost of power due to non-segregation of power connection for domestic/factory purposes.

Financial Audit

1 Segregation of development expenses into mature and immature plantations.

2 Amortization policy adopted.

3 Accounting treatment of wind fallen trees.

4 Creation of replantation reserve/adequacy thereof.

5 Disclosure of amortization policy.

6 Disclosure of basis adopted for replantation reserve.

7 Provision for AIT/CIT/plantation tax.

8 Correctness of replantation allowance claimed for AIT purpose.

9 Valuation of inventories viz. Agriculture produce/other products manufactured.

Rehabilitation Plantations Limited
Punalur 691 305.
Phone: 0475 2222971, 2222972, 2222973
Fax: 0475 2223866
Email: mdrpl@sancharnet.in

1 Introduction

The company was incorporated as a private sector joint venture company of the Central Government and the State Government in May 1976 under the administrative control of Labour and Rehabilitation Department, Government of Kerala. The Head office of the company is at Punalur.

2 Objectives

The main objective of the company is to acquire land from forest department or private land and develop plantations thereon for settlement of Tamil repatriates from Sri Lanka under Sastri-Sirimao Agreement 1964.

3 Organisational structure

The Board of Directors shall not be less than two and more than nine. Two directors are appointed by GOI and other directors are appointed by the State Government Administrative Control of the Company rests with Labour and Rehabilitation Department, Government of Kerala.

4 Activities

The Company has two estates at Kulathupuzha and Ayiranallur and the total area of Rubber Plantation is 2030 hectares.

Production of natural rubber and manufacture of Industrial Rubber Sheetings are the main activities being undertaken. For this purpose the company has set up three factories, at Kulathupuzha, **a cenex factory** (Installed capacity-3000 M.T) to convert the field latex into cenex, **a crumb rubber factory** (Installed capacity 1800 M.T) to convert scrap into crumb rubber and **Rubber sheet Factory** (Installed Capacity 450 MT) for manufacturing Rubber sheets.

The Company has been marketing the products through agency arrangements. Direct sale is also made to the Hindustan Latex Limited, Thiruvananthapuram. Most of the customers of the company are located in North India. The company has decided to go ahead with implementation of ERP system.

5 Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)				
Authorised Share Capital	350	350	350	350	350
Paid up capital	339.27	339.27	339.27	339.27	339.27
Borrowings	0	0	0	0	0
Debt equity ratio	0.00	0.00	0.00	0.00	0.00
Turnover	1459	1899.59	2133.26	1754.78	1408.23
Net Profit before Tax and Dividend	**674**	**873.36**	**1521.24**	**602.21**	**526.62**
Accumulated Loss/Accumulated profit	6341	5753.98	5095.64	4227	3759.45
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**6670.27**	**6093.25**	**5434.91**	**4566.27**	**4098.72**

6 Audit Checks

(a) Transaction Audit

In addition to the common checks/sector checks the following may be looked into:

(i) Examine the quantity and quality of the rubber sheets produced to see whether they are in accordance with the norms fixed by the company.

(ii) Pricing of its agriculture products and timing of sale to fetch maximum price.

(iii) Price fixation of foot wear quality sheetings.

(iv) Claiming full expenditure on replantation as replantation allowance for AIT demands, non provision thereof.

(v) Inventory control measures for raw materials, chemicals and ammonia.

(vi) Yield improvement and replantation policy.

(b) Financial Audit

In addition to regular checks, common/sector checks prescribed may be exercised.

The Plantation Corporation of Kerala Limited
Kottayam 4
Phone: 0481 -2578301,302,304,306
Email:gmfa@pcklimited.com
plantcoktm@sancharnet.in

1 Introduction

The Plantation Corporation of Kerala Limited was incorporated as a private Company under Public Sector in November 1962. The Company with registered Office at Kottayam is under the administrative control of Agriculture Department, Government of Kerala.

2 Objectives

The main objectives of the Company include:

(i) Acquisition on lease, from Government of Kerala, rubber plantations established under Government auspices as a scheme of 3rd five year plan in an area of 2000 acres situated in the Kodumon Reserve Forest of Kollam District, reserve forest of Thrissur and Ernakulam Districts and to cultivate, develop and carry on the business of planters, sellers and dealers in rubber.

(ii) Establishing, acquiring and carrying on the business of farmers, grazers, cultivators, storekeepers, cattle breeders, stockmen, timber merchants, lumbermen, saw mill proprietors, merchants and general traders.

3 Organisation Structure

The number of Directors in the Board of Directors of the Company shall not be less than two and more than eleven. Except the Managing Director, the other Directors are non functional. The internal divisions of the company include Finance and Accounting, Personnel, Production and sales headed by General Managers, Purchase headed by Manager and Internal audit headed by the Secretary. The 15 estates and factories spread over various Districts are under the control of General Manager, Personnel.

4 Activities

The present activities of the company include cultivation and development of plantation crops mainly rubber, cashew, oil palm etc. The Company has total area of 13463 hectares (Rubber – 6293.5 Ha; Cashew – 6402.93 Ha; Oil Palm – 704.73 Ha; Miscellaneous Crops – 61.91 Ha).

Rubber estates

There are seven rubber estates under the management of the Corporation which are located in the districts of Pathanamthitta (Kodumon, Chandanappally and Thannithode Estates), Ernakulam (Kallala & Athirappally estates), Malappuram (Nilambur estates) and Kozhikode (Perambra estate).

Cashew estates

There are four cashew estates viz., Kasargod, Rajapuram and Cheemeni in Kasargod District and Mannarghat estate in Palakkad District.

Factories

The company is also involved in processing of rubber. The main items manufactured by the company include 60 per cent centrifuged latex (cenex), skim crepe, and crumb rubber. The company has three major rubber processing factories and one rubber wood factory.

(a) Kodumon cenex factory situated in Pathanamthitta

(b) Kallala Cenex factory situated in Ernakulam District.

(c) Vettilappara Crumb Rubber factory situated in Ernakulam.

(d) Rubber wood factory – Kodumon situated in Pathanamthitta District.

The field latex is processed in centrifuging machine into 60 per cent concentration. The skim carrying out of the machine is sheathed into skim crepe. The scrap rubber is milled and passed through drier to get crump rubber. As part of diversification activities, Company constructed a Tourist Resort at Athirappally.

5 Financial highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rupees in lakh)				
Authorised Share Capital	750	750	750	750	750
Paid up capital	556.88	556.88	556.88	556.88	556.88
Borrowings	48.21	48.21	42.73	122.45	441.45
Debt equity ratio	0.09	0.09	0.08	0.22	0.79
Turnover	7022.88	5257.91	5030.88	4470.53	3111.84
Net Profit before Tax and Dividend	**2078.09**	**1387.31**	**1140.96**	**2615.74**	**573.13**
Accumulated Loss/Accumulated profit	3140.13	1703.98	667.87	-517.89	-681.68
Accumulated loss as a percentage of paid up capital	NA	NA	NA	0.93	1.22
Net worth	**3697.01**	**2260.86**	**1224.75**	**39.01**	**-124.8**

6. Significant Accounting Policies:

Significant accounting policies for some specific items are given hereunder:

- Sales are accounted at the time of preparation of invoices in the case of Cenex and Oil Palm. The right of collection of cashew nuts from most of the company estates has been awarded under the tender-cum-auction system. As the crop season is from February to June, 40 per cent of the auction price has been recognized as income of the current year and the balance as deferred income.
- Agricultural produces are valued at market value. Nurseries comprising of saplings held for planting or sale have been valued at cost.
- Expenditure incurred for the development of plantation is capitalized and is shown in the Balance Sheet as Fixed Assets-Plantation. At the time of disposal of the plantation, the proceeds are treated as profit or loss or after setting off the related development expenditure less subsidy, if any, received.

- Subsidy received is shown as a separate liability and is disclosed as a separate item under Reserves & Surplus. The obligation to Rubber Board with respect to subsidy is fulfilled only on disposal of the related property.

7 Audit Checks

a) Transaction audit.

The following areas may be specifically covered in audit in addition to regular checks/sector checks.

(i) Areas earmarked for felling and replantation to ascertain whether there is under exploitation of revenue potential.

(ii) Production of crumb rubber from scrap - Examine the cost of conversion. It may be verified whether direct sale is more economical.

(iii) Reasons for variation between field and factory DRC especially at Kalady group of estates.

(iv) Progress in realizing dues from slaughter tapping contractors.

(v) Commercial operations at Plantation Valley.

b) Financial audit

In addition to regular checks, common/sector checks prescribed may be exercised.

The State Farming Corporation of Kerala Limited
Vettithitta P.O., Punalur 689 696.
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Fax – 0475 2222532
Email: sfckpnlr@sancharnet.in

1 Introduction

The State Farming Corporation of Kerala Limited (SFCK), Punalur was incorporated in October 1972 as a private company under public sector. The company is under the administrative control of the Agriculture Department, Government of Kerala.

2 Objectives

The main objectives of the company at the time of incorporation, interalia, were cultivation of sugarcane in forest land, leased out by Forest Department. On account of recurring loss, the sugar cane cultivation was dispensed with in 1979. Following instructions from State Government, the Company raised rubber and cashew plantations in the cleared areas.

3 Organisation Structure

The number of Directors in the Board of Directors of the company shall not be less than two and more than nine. The Managing Director is the Chief Executive. The four estates at Chithalvetty, Kumaramkudy, Mullumala and Cherippittakavu are under the supervision of Estate Managers and the Latex Centrifuging factory at Chithalvetty is controlled by a Sr.Manager/Production.

4. Activities

Out of the five estates developed, the estate at Nilakkal having an area of 110.52 hectares was transferred (June 2005) to Travancore Devaswom Board as per directions from Government. The area particulars of other four estates of the Company are as indicated below:

Sl.No	Particulars	Area in Hectares
1	Rubber Plantation	1830.930
2	Cashew Plantation	229.840
3	Pepper	50.000
4	Coconut and Other crops	42.000
5	Roads, Bldgs., Factory and Rocky Patches	208.016
	Total	**2360.768**

Estate-wise distribution of Rubber and Cashew Plantation

Name of Estate	Area under Rubber	Area under cashew	Total Area
Chithalvetty	605.95 Ha	120.35	726.30
Kumaramkudy	397.01 Ha	20.00	417.01
Mullumala	420.99 Ha	79.57	500.56
Cheripittakavu	406.98 Ha	09.92	416.90
Total	**1830.93**	**229.84**	**2060.77**

The latex is centrifuged in the centrifuging factory at Chithalvetty and Cenex (60 per cent centrifugal latex) is marketed through out India through service sales agents. The sales are only on cash basis. Field coagulum and skim crepe are sold as scrap. Overall average annual production during 2007-08 was 1395 kg per ha. Average yield from cashew nut was valued around Rs.13500 per ha.

Products

The main products of the Company are natural rubber, 60 per cent centrifuged latex and skim crepe. The main rubber raw products of the company are Centrifuged latex, Crepe Rubber, Scrap rubber and byproducts of centrifuging process. The centrifuging factory has capacity to process 10 tons of centrifuged latex DRC per day.

The price of cenex is fixed by the price revising committee of the Board considering the market price prevailing from time to time. The sale of scrap rubber and by-products of factory such as skim crepe, coagulated skim, cenex overcoat and pit recovery are being made by open tender. While revising the price of cenex the Company is consulting with other PSUs such as RPL and PCK.

5. Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)				
Authorised Share Capital	1000	1000	1000	1000	1000
Paid up capital	903.57	903.57	903.57	903.57	903.57
Borrowings	22	140.99	137.74	134.49	203.08
Debt equity ratio	0.02	0.16	0.15	0.15	0.22
Turnover	2285	2509.65	1892.62	2106.53	1521.7
Net Profit before Tax and Dividend	**278.59**	**1277.22**	**1297.26**	**863.95**	**541.84**
Accumulated Loss/Accumulated profit	2315	2413.49	1879.34	2462.1	3195.02
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**3218.57**	**3317.06**	**2782.91**	**3365.67**	**4098.59**

6. Accounting Policies

Accounting policies adopted for some specific items are indicated below:

Replantation reserve: Replantation reserve has been created during the year at the rate of 2.5 per cent of income from rubber crops and 1.5 per cent of income from other crops.

Development expenditure: The expenditure incurred for the raising and maintenance of rubber plantation till the commencement of yield is debited to development expenditure. The sale proceeds of firewood obtained out of wind fall rubber trees and amount recoverable on sale of trees at the time of replantation is set off against development expenditure and the balance will be recognized as revenue.

7. Audit Checks

a. Transaction Audit

The following areas may be specifically covered in audit in addition to regular checks/sector checks.

i) Construction of labour lines and its utilization.

ii) The dry rubber content (DRC) in unprocessed rubber products varied substantially while in storage, the prices at which they are marketed should necessarily have a linkage with the DRC at the time of sale. Though the factory at Chithalvetty was attached with testing laboratory, facilitating determination of DRC, internally the Company followed the irrational method of selling unprocessed rubber viz., scrap rubber, coagulated skim, Cenex Overcoat, Pit recovery etc. in as is where is condition, without ensuring the reasonableness of the prices obtained with reference to the actual DRC of the lot offered for sale.

iii) Poor productivity of cashew plantations.

iv) Optimum utilization of installed capacity of latex centrifuging factory.

v) Price determination and timing of sale.

b. Financial Audit

In addition to regular checks, sector-specific checks prescribed may be done.

Oil Palm India Limited
XIII-354, Old Star Theatre Road,
P.B. No. 1715,
Kottayam South P.O., 695 004.
Phone 0481- 2566882, 2567103, 2567104
Fax: 0481 2561442
Email: opilktm@dataone.in

1 Introduction

The company with its headquarters at Kottayam was incorporated in November 1977 as a private company jointly owned by the State Government and the Central Government.

2 Objectives

The objectives of the company are to take over and run oil palm plantations established by the Plantation Corporation of Kerala Limited or by any other entity for the purpose of carrying on:

(i) the business of planters, growers and cultivators of oil palm or any other agricultural/industrial crop or produce.

(ii) to carry on the business of processing, manufacturing and dealing in palm oil and other oils and any other products in which oil or any produce of the company is used.

3 Organisation structure

The Company is under the administrative control of the Agriculture Department, Government of Kerala. The number of Directors shall not be less than two and more than 11.

4 Activities

The present activities of the Company are cultivation of oil palm, extraction of crude palm oil, work as nodal agency for oil palm development programme in the State to popularize cultivation of oil palm among small farmers, production of hybrid varieties of oil palm seeds etc. The products manufactured and traded by the company are crude palm oil and palm kernel.

The Company has got three plantations at Kollam District viz. Yeroor (2030 ha), Chithara (1226 ha) and Kulathupuzha (390 ha) and Oil Palm mill in Yeroor estate. There is an oil palm research station at Thodupuzha producing high quality tenera seeds. The modern oil palm unit at Yeroor has a capacity to crush 20 MT Fresh Fruit Bunch/hr for extracting palm oil from FFB.

The Company is implementing Oil Palm Development Programme sponsored jointly by the Central and State Government at a cost sharing ratio of 3:1 to promote oil palm cultivation among the small holders in the State. The objective of the scheme is to raise the production of oil seeds within the country by providing assistance to farmers.

5 Processing

Fresh fruit bunches harvested in the estate as well as procured from outside are transported to the factory for processing. The fruit bunches are cooked in pressurized steam. This process called sterilization destroys acid splitting enzymes. The sterilized fruits are processed in specially designed screw press to squeeze out the oil from the digested mash of palm fruit.

The oil seed is separated from entrained impurities by a process called clarification. Through auto catalytic hydrolysis, the oil is dried so as to prevent increasing FFA. The oil is sold through open tender. The highest bidder has to make advance payment of price before removing the material.

6 Financial Highlights

Particulars	**2008-09**	**2007-08**	**2006-07**	**2005-06**	**2004-05**
	(Rs in lakh)				
Authorised Share Capital	1200	1200	1200	1200	1200
Paid up capital	1178.76	1178.76	1178.76	1178.76	1178.76
Borrowings	0	0	0	0.4	0.57
Debt equity ratio	0.00	0.00	0.00	0.00	0.00
Turnover	3190	2406.59	2701.98	2438.25	2095.25
Net Profit before Tax and Dividend	**566**	**1139.39**	**1213.89**	**1309.05**	**1102.62**
Accumulated Loss/Accumulated profit	2248	2291.51	1973.59	1769.08	1471.88

Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**3426.76**	**3470.27**	**3152.35**	**2947.84**	**2650.64**

7 Audit checks

(a) Transaction Audit

(i) The Company has got a total plantation area of 3605.64 ha. The yield per tree stabilizes by 10th year and declines by 25th year. The progress in replantation taking into account the economic interest of the company is to be examined and reported upon.

(ii) The quantity of fruits harvested and the quantity of oil extracted may be compared with standards and variations may be analysed and commented upon.

(iii) The fruit bunches harvested in the estate are to be sterilized so as to avoid hycholysis and auto-oxidation. Delay in sterilization lead to deterioration. The data regarding harvested fruits, oil yields etc. are to be compared with the accepted standards and fall in percentage yield is to be examined and analysed. Deterioration, if any, due to delay in processing is to be commented upon.

(iv) The empty fruit bunches contain 8 per cent Nitrogen, 6 per cent Phosphate, 1.8 per cent Magnesium sulphate and 24.1 per cent potash. The annual bunch waste generated work out to above 8000 MT. The extent of utilisation of the empty fruit bunch may be examined and commented upon.

(v) Records relating to sale of products may be examined with a view to ensure that the contracts are entered into safeguarding the interest of the entity.

(b) Financial Audit

In addition to regular checks, sector specific checks prescribed may be exercised.

Kerala Forest Development Corporation Limited

Aaranyakom, Karapuzha, Kottayam 686 003.
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1. Introduction

Kerala Forest Development Corporation Limited was incorporated as a private company under public sector in January 1975.

The company under the administrative control of Forest and Wild Life Department, Government of Kerala is having the headquarters at Kottayam.

2. Objectives

The objectives of the company, interalia, include the following.

i) To acquire, purchase or take over reserved forests, unreserved vested forests and other land from Kerala Government and others and to develop such areas to raise plantations of industrial use.

ii) To cultivate plantation of rubber, pepper, cashew, cocoa, cardamom etc. and to buy, sell, export, import, distribute, deal in all kinds of forest plants, trees, agricultural crops etc.

iii) To acquire, purchase or take over and manage forests to maximize production of timber and other produce and carrying out its business.

iv) To carry on tourism related activities including ecotourism.

3. Organisation Structure

The total number of Directors in the Board shall not be less than two and more than eleven. The Managing Director is the only functional Director. The company has got 7 divisional offices at Thiruvananthapuram, Punalur, Thrissur, Munnar, Gavi and Mananthavady. The divisions are managed by Divisional Managers reporting to Asst. General Manager who in turn are reporting to the General Manager.

4. Activities

The present activities of the company include raising of plantations, more than 23 species of cash crops and plantations in addition to Vanilla, Cardamom, Tea and Coffee. Out of total area of 9976 ha 7757 hectares under pulp wood plantation, 1089 hectares under cardamom, 693 hectares under coffee, 327 Ha under cashew 100 Ha under tea plantations and 10 Ha under miscellaneous plantations.

The products manufactured and traded are pulp wood, teak and miscellaneous trees, cash crops like cardamom, tea, coffee, pepper etc. The pulp wood is sold mainly to Hindustan Newsprint Limited based on annual allotments.

5. List of records maintained:

Plantation Journal, Marking and Felling Register, Plantation Field Book, Measurement Book, Stock Registers, Monthly Progress Report on various activities such as planting, felling/disposal of pulpwood, timber, statement of collection and sales of cash crop items viz. cardamom, coffee, tea etc.

6. Special Acts, Rules, Regulations etc. applicable

Various Forest Acts, Rules and Notifications issued by Government are applicable to the company.

7. Financial Highlights

The company does not maintain any separate division wise accounts.

Particulars	**2007-08**	**2006-07**	**2005-06**	**2004-05**	**2003-04**
	(Rs in lakh)				
Authorised Share Capital	1000	1000	1000	1000	1000
Paid up capital	794.54	788.44	788.44	788.44	788.44
Borrowings	662.07	891.24	971.85	739.83	610.84
Debt equity ratio (debt for Rs 100 of equity)	0.83	1.13	1.23	0.94	0.77
Turnover	1388.07	755.4	763.08	602.24	503.72
Net Profit before Tax and Dividend	**47.29**	**54.59**	**38.94**	**3.96**	**19.93**

Accumulated Loss/Accumulated profit	719.06	685.1	642.48	603.54	619
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**1513.6**	**1473.54**	**1430.92**	**1391.98**	**1407.44**

8. Accounting policies

(i) The cost of raising wood plantations have been accumulated and shown under the head 'Work in Progress – Wood Plantations'. The cost of plantations sold/transferred during the year are reduced from the value of closing work in progress, while the cost of new plantations raised as well as the maintenance cost of existing plantations are added to it.

(ii) The cost of raising cardamom plantation till the commercially yielding stage has been capitalized and shown under the head 'Development of Property Account'. Every year 1/15th of this capitalized amount is being written off in the profit and loss account on the basis that the commercial life of the cardamom plant is 15 years.

(iii) The cost of raising tea, coffee and cashew plantations till the commercially yielding stage has been capitalized and shown under the head 'Development of Property'. Every year 2 per cent of this capitalized amount of tea and coffee and 1/30th of such cost of cashew plantation are being written off in the Profit and Loss Account on the basis that commercial yielding period of tea and coffee plants is 50 years and that of cashew 30 years.

9. Audit Checks

a. Transaction Audit

In addition to the prescribed checks, the following items needs to be reviewed in depth.

(i) Proper application of Forest codes for felling of trees.

(ii) Project files of WGDP.

(iii) Measurement books, Monthly Progress Reports on various activities such as planting, felling/disposal of pulpwood, timber, Statement of collection and sales of cash crop items viz., cardamom, coffee, and tea.

(iv) Contracts for sale of pulp wood to HNL and timber to other parties.

(v) Field works are arranged through convenors. Whether competitive offers are obtained/negotiations held to ensure lesser rates.

(vi) Performance of eco-tourism wing/internal control related thereon.

(vii) Whether the difference between the management plan and for which lease rent paid is reconciled?

(viii) Examine the work estimates sanctioned by field officers as per powers delegated to them.

(ix) Operation loss of estates and auction sale of produces.

(x) Wasteful expenditure on augmentation of failed plantations.

(xi) Whether cost benefit analysis of continued maintenance of areas identified for surrender/unproductive areas has been done and corrective measures taken?

b. Financial Audit

The following items have to be scrutinized and commented in addition to other general checks.

(i) Compliance to specific accounting policies disclosed/ correctness of accounting development of plantations and amortization policy adopted.

(ii) Valuation of work in progress taking into account of new plantations and felled plantations.

(iii) Cost of raising of plantations under development of property.

(iv) Cost of development of vanilla plantations classified under work in progress.

(v) Provision for plantation tax.

(vi) Replantation expenses allowed for AIT purposes.

Special Audit Checks for Companies related to Veterinary

1. Efforts taken by the Company to reduce the mortality rate.
2. Steps taken by the Company to dispose unproductive stock and loss due to delay in sales may be analysed.
3. Review the plant capacity, actual production, underutilization of the plant in case of meat processing plants/other plants.
4. Performance of dairy farm/hatchery farm.
5. Procurement of livestock/poultry in excess of requirements.
6. Raw material procurement for feed production/quantity of feed produced/requirement thereon may be analysed with a view to ensure that the Company is gaining sufficient margin.
7. Adherence to rules and guidelines for purchase of materials.
8. Progress in realisation of dues from commission agencies.
9. Since the Company is getting various Central/State grants, the implementation of scheme, utilization of funds and achievement of targets may be analysed and reported on.
10. In case of civil works, examine the tendering procedure and tender conditions
11. Outsourcing of civil works/civil works undertaken by the Company's civil wing may be analysed to ascertain the effective decision making.
12. Whether estimates are prepared and sanctioned by the competent authority?
13. Whether rates quoted for various items of purchases in accepted tenders are competitive?
14. Review progress of work files for various jobs undertaken and compare the actual expenditure with the tendered rates/estimates.
15. Review the pricing policy of the Company to see whether selling prices of the products (such as frozen semen, fodder seed, eggs, broiler chicks, layer chicks) are fixed with reference to market conditions and prices of competitors.

Kerala Livestock Development Board Limited
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Thiruvananthapuram 695 004.
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1 Introduction

The Kerala Livestock Development and Milk Marketing (KLDMM) Board was formed in November 1976, integrating the Indo Swiss Project Kerala (ISPK), milk chilling plants, dairies, bull station of dairy development department (Dhoni) and cattle feed factory, Malampuzha of the Animal Husbandry Department. The KLDMM Board was bifurcated into (1) Kerala Co-operative Milk Marketing Federation (KCMMF) and (2) Kerala Livestock Development Board (KLDB) in 1983. KLDB is a private company with its headquarters at Thiruvananthapuram. The Company is implementing various State/Central Schemes relating to livestock development. It is the state implementing agency of the National Project for Cattle and Buffalo Breeding (NPC & BB).

2 Objectives

To promote and develop animal husbandry for increased production of milk, meat and egg through improving productivity of livestock by cross breeding, artificial and natural breeding services, irrigation and other facilities for fodder production, milling plants for production of mineral mixture, supply of improved fodder seeds and cuttings, establishment of disease control and veterinary aid centres, investigation laboratories, animal rearing centres and to act as agents of the State Government in all matters relating to livestock as may be authorised by the State Government.

3 Organisation set-up

The Company is under the administrative control of Agriculture (AHF) Department, Government of Kerala. The maximum number of Directors is 15. The Managing Director is the Chief Executive of the Company. There is a whole time Company Secretary appointed u/s 383 A of the Companies Act 1956.

4 Activities

The major responsibilities of the Board include managing cattle in cattle breeding farms, enhancing milk production, controlling quality of semen by using frozen semen technology, promoting fodder production and conducting training courses in animal husbandry and fodder production. The company has got cattle farms and laboratories at Mattuppatti, Dhoni and Kulathupuzha for collection of semen from bulls and conversion of the same into required dozes for distribution to artificial insemination centres. There are seven Regional Semen banks located at Mavelikara, Kulathupuzha, Muvattupuzha, Kannur, Chalakudy, Puduppady and Dhoni. The Company has big breeding centre at Puthur, Goat breeding centre at Dhoni, Seed production units at Dhoni and Idukki.

5 Pricing policy

The State Government fixes the sale price of Frozen Semen sold inside Kerala. Fodder Seeds are sold at the price fixed by the Company from time to time based on cost. The sale prices of LN Containers are based on cost plus pricing.

6 Financial highlights

Particulars	**2005-06**	**2004-05**	**2003-04**	**2002-03**
	(Rs in lakh)			
Authorised Share Capital	1100	1100	1100	1100
Paid up capital	732.57	732.57	732.57	732.57
Borrowings	0.00	0.00	0.00	0
Debt equity ratio	0.00	0.00	0.00	0.00
Turnover	980.95	760.46	746.06	768.42
Net Profit before Tax and Dividend	**115.52**	**129.54**	**60.72**	**109.45**
Accumulated Loss/Accumulated profit	329.89	236.74	110.1	49.29
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA
Net worth	**1126.48**	**1033.33**	**906.69**	**845.87**

7 Audit checks to be exercised

In addition to the prescribed general/sector-wise audit checks, the following additional checks may be exercised.

(i) In addition to the annual state plan funds from Government of Kerala, the Company use to obtain a lot of central and state assistances every year for specified purposes. The grants thus received during 1990 to 2007 amounted to over Rs.67 crore. The amount of grants received and the utilisation of the same for achievement of the specified purposes is to be examined and suitably commented upon.

(ii) The details of action taken by the company for improvement of cattle productivity has to be linked to the cost and results and commented upon.

(iii)The number of bulls maintained at the Mattupatty, Kulathupuzha and Dhoni farms of the Company have to be linked with the availability, requirement, semen collected, dozes prepared etc. Extra expenditure on account of unwanted maintenance of bull and storage of semen are to be commented upon.

(iv) The Company promotes production of fodder seed by registered seed growers and the seeds are sold to farmers at reasonable rates. The records relating to this activity are to be examined with a view to make a reasonable comment on the same.

(v) Maintenance of records regarding the land and building, vigilance against encroachment of the Company land by outsiders, maintenance of proper electric fencing for protection of land, billing for power by the agencies who are authorised to distribute power by KSEB, agreements and execution of the same in connection with collection of electricity charges by the company from BSNL and cable operators etc. are to be examined and commented upon.

Financial Audit

In addition to routine audit checks, the following may be examined.

(a) Examine the treatment of Government grants in accounts as required in AS 12.

(b) Valuation of inventories such as frozen semen, fodder seed etc.

Kerala State Poultry Development Corporation Limited
TC 30/697, Pettah Junction, Pettah,
Thiruvananthapuram
Phone: 0471- 2478585, 2468585
Fax: 0471-2468585

1 Introduction

The Kerala State Poultry Development Corporation Limited was incorporated as a private company in December 1989 with headquarters at Thiruvananthapuram. The Company is under the administrative control of the Department of Animal Husbandry, Government of Kerala.

2 Objectives

(i) To carry on, promote, establish, administer, own and run, improve, develop, aid, counsel, finance, directly or indirectly engage in production, processing, storage and sale of all or any of the business of poultry, duck, quail, rabbits and other weighing birds, their products, by products, their feed, equipments etc.

(ii) To establish, maintain and operate farms to rear poultry, duck, quail, rabbit and other game birds, to produce eggs, egg products and meat from poultry duck, quail, rabbit and other game birds, to produce products derived or made from them by any process with or without other ingredients and by-products and transport of products and by products.

3 Organisation structure

The number of Directors in the Board of Directors of the Company shall be not less than two and not more than twelve. The Board of the Company consists of ten members including the Chairperson and Managing Director. The Managing Director is the Chief Executive Officer of the Company. The departmental heads viz. Finance, Technical, Marketing and Personnel report to the Managing Director.

4 Activities

Production and distribution of poultry and poultry products including broiler chicks, layer chicks, commercial eggs, hatching eggs, meat and cut of parts, poultry feeds etc. are the main activities at present. The Company has got two hatcheries (at Kudappanakunnu and Kottiyam), a meat processing plant and a feed mill (both at Pettah, Thiruvananthapuram). The chick production capacity of the broiler farm and hatchery at Kudappanakunnu and Kottiyam is 24 lakh per year and 7 lakh per year respectively

The feed mill at Pettah has a capacity to produce 2 MT/day and the product is used in the integrated farms of the Company. The main raw materials required for production of feed are maize, groundnut cake, dressed unsalted fish, wheat bran, rice bran, mineral mixture etc. The raw materials for the feeds are purchased from Meat Products of India Limited.

The Company has been serving as a nodal agency for the State Government for Centrally Sponsored Schemes/Projects such as Support to Training and Employment Programme (STEP I and STEP II), Swarna Jayanthi Gram Swarozgar Yojana (SGSY) for which Government grants are released.

Against the sanctioned strength of 55, the Company is working with manpower of 34. In addition to the above, based on the daily requirements workers are engaged on daily wages and around 60 to 75 workers are engaged in various farms and Meat Processing Plant and Head Office.

5 Financial highlights

Particulars	**2004-05**	**2003-04**	**2002-03**	**2001-02**
	(Rs in lakh)			
Authorised Share Capital	1000	1000	1000	1000
Paid up capital & Adv. Against share capital	196.72	196.72	196.72	196.72
Borrowings	13.75	13.75	13.75	13.75
Debt equity ratio (debt for Rs 100 of equity)	0.07	0.07	0.07	0.07
Turnover	222.12	248.01	222.12	248.01

Net Profit before Tax and Dividend	**-12.48**	**-12.6**	**-12.48**	**-12.6**
Accumulated Loss/Accumulated profit	-369.14	-359.12	-369.14	-359.12
Accumulated loss as a percentage of paid up capital	-187.65	-182.55	-187.65	-182.55
Net worth	**-172.42**	**-162.4**	**-172.42**	**-162.4**

6 Audit checks

(a) Transaction Audit

i) Procurement of raw materials for manufacture of feed, poultry medicines etc.

ii) Physical performance of the hatcheries compared to the installed capacity.

iii) Performance of the meat processing plants compared to the installed capacity.

Meat Products of India Limited

Edayar,Koothattukulam, Ernakulam –686 662
Emal- mpiindiaLimited@vsnl.net Ph No-0485-2252365

1. Introduction

Meat Products of India Limited was incorporated as a subsidiary of Kerala Agro Industries Corporation Limited for implementing the export oriented meat processing project. The project did not materialize and the company took over the Bacon Factory from Animal Husbandry Department in March 1974. MPI became an independent company in April 1986. The company with registered office at Koothatukulam (Ernakulam District) is under the administrative control of Animal Husbandry Department, Government of Kerala.

2. Objectives

The main objectives of the company include production and supply of hygienic meat and animal feed.

3. Organisation Structure

The number of Directors in the Board of Directors of the company shall not be less than two and more than eleven. The managing director is the chief executive.

4. Activities

The company is engaged in production of meat like pork, beef, chicken, mutton, rabbit and value added products. Pig, cattle, goat, carcass etc. are procured from local markets and neighbouring states. Slaughtering, sausage making, curing, smoking, canning etc. are the processes involved in converting the raw materials into finished products. The finished products are sold through distributors, dealers and district outlets. Meat cum bone meal and lard are the byproducts processed into organic manure.

5. Financial highlights

Particulars	2004-05	2003-04	2002-03	2001-02	2000-01
	(Rs in lakh)				
Authorised Share Capital	300	300	300	300	300
Paid up capital	181.1	181.1	181.1	181.1	181.1
Borrowings (Secured + Unsecured	105.48	97.66	89.84	82.38	74.23
Debt equity ratio (debt for Rs 100 of equity)	0.58	0.54	0.50	0.45	0.41
Total turnover for the year	410.88	411.82	320.73	348.88	349.08
Net Profit before Tax and Dividend	**-8.08**	**-103.44**	**-45.03**	**2.54**	**-45.58**
Accumulated Loss/Accumulated profit	-745.47	-737.1	-633.7	-588.95	-591.49
Accumulated loss as a percentage of paid up capital	-411.63	-407.01	-349.92	-325.21	-326.61
Net worth	-564.37	-556.00	-452.60	-407.85	-410.39

6. Significant Accounting Policies.

- Livestock being rolling stock are shown under current assets and valued at estimated realizable value.
- Government grant received towards capital outlay i.e. for setting up new project/modernization/improvement scheme are treated as capital reserve and grant received as financial support to the company are treated as revenue income of the year of the receipt.

7. Audit Checks

In addition to the checks prescribed for the sector, the following items need to be reviewed in depth.

i) Procurement of animals, carcass, transportation of carcass, storage of carcass and carcass consumption for production of finished products.

ii) Storage of carcass, storage loss, medical examination of meat.

iii) Comparison of the test result with standard contracts for transportation of finished products.

iv) Preparation of product mix.

v) Capacity utilisation of Feed Milling Plant.

vi) Compliance with the standard specified in HACCP certificate.

vii) Market development activities undertaken by the Company including export of meat.

Kerala State Maritime Development Corporation Limited
43/2428, Muttathil Lane,
Kadavanthara, Kochi- 682020
Phone No: 0484-2353737 FAX:0484-2382103
Email:ksmcLimited@sancharnet.in

1 Introduction

Kerala State Maritime Development Corporation Limited, Kochi was incorporated in December 1994. The company is under the administrative control of Ports Department, Government of Kerala.

2 Objectives

The main objectives of the company are promoting, establishing, financing etc. for development of ports, operation of minor ports, hiring or acquiring of ships for coastal trade and trade in passenger and general cargo, developing terminals and engaging transportation of all types of cargo through national water ways etc.

3 Organisation Structure

The number of members in the Board of Directors of the company shall be not less than four and not more than eleven. Minister (Law & Port), Government of Kerala is the Chairman. The Managing Director, Chief Executive Officer of the Company is assisted by the Marine Engineer (ADP), Technical Manager, Manager (P&A) and the Finance Manager. The total employee strength of the company is around thirty two.

4 Activities

The present activity of the company is confined to dredging.

5 Financial Highlights

Particulars	2004-05	2003-04	2002-03	2001-02
	(Rupees in lakh)			
Authorised Share Capital	1000	1000	1000	1000
Paid up capital	916	916	916	828.99
Borrowings	0	0	0	0
Debt equity ratio	0.00	0.00	0.00	0.00

Turnover	28.81	170.08	8.87	11.43
Net Profit before Tax and Dividend	**-112.21**	**4.63**	**-69.52**	**-71.5**
Accumulated Loss/Accumulated profit	-394.33	-297.18	-532.68	-463.16
Accumulated loss as a percentage of paid up capital	-43.05	-0.32	-0.58	-0.56
Net worth	**521.67**	**618.82**	**383.32**	**365.83**

6 Audit Checks

The company is working in a computerized environment.

The income from dredging has been accounted on percentage of completion method.

i) Maintenance of Canal worthiness of dredgers.

ii) Availability of License for operation.

iii) Report of survey of soil, sand, mud, etc.

iv) Measurements of quantity dredged

v) Control on dredging.

vi) Log book, diesel consumption and norms.

vii) Repairs and maintenance.

viii) Off shore, dock and dry dock repairs.

Kerala Shipping and Inland Navigation Corporation Limited
39/924-A, Udaya Nagar Road,
Gandhi Nagar, Kochi-682020.
Phone No: 0484-2203614, 2206232 FAX: 0484-2206848
Email: ksinc@vsnl.com Website: www.keralashipping.com

1 Introduction

Kerala Shipping and Inland Navigation Corporation Limited (KSINC) was formed by the amalgamation of Kerala Inland Navigation Corporation Limited established in 1975 and the Kerala Shipping Corporation Limited established in 1974. The Company with Registered office at Kochi is under the administrative control of Transport Department, Government of Kerala.

2 Objectives

The main objectives of the Company are:

(ii) To establish, maintain and operate shipping services and to purchase, charter, hire, bulk ships, tankers and other vessels.

(iii) To establish, maintain and operate transportation services for the transport of goods and passengers in inland waters in the state of Kerala or elsewhere.

3 Organisation Structure

The number of members in the Board of Directors shall not be less than two and more than eleven. The Managing Director is the functional Director of the Company. The Finance Manager, Company Secretary, Commercial Officer, Administrative Officer and the Mechanical Engineer report to the Managing Director.

4 Activities

The Company has got a ferry terminal at High Court jetty, Boat yard at Thevara and a slip way at Thoppumpady all in Kochi. The present activities of the

Company include operating cargo barges and tourist vessels, construction and repair of marine vessels, training of personnel to operate boats and barges etc.

5 Financial Highlights

Particulars	2005-06	2004-05	2003-04	2002-03	2001-02
	(Rupees in lakh)				
Authorised Share Capital	1700	1700	1700	1700	1700
Paid up capital	1473.96	1423.99	1373.96	1333.96	1293.96
Borrowings	2.93	10.28	32.01	3	3
Debt equity ratio	0.00	0.01	0.02	0.00	0.00
Turnover	777.62	947.59	632.22	491.13	497.6
Net Profit before Tax and Dividend	**-192.29**	**-2.94**	**18.27**	**49.43**	**34.95**
Accumulated Loss/Accumulated profit	40.45	218.01	219.8	208.04	176.73
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**1514.41**	**1642**	**1593.76**	**1542**	**1470.69**

6 Audit checks in Transaction audit

Capital Expenditure:

Procurement of materials for maintenance of the vessels and their utilisation.

Revenue Heads- Income

i. Rate contracts and tender participation on Cargo Transportation.

ii. Viability and functioning of Jhankar operation and Tourism operation.

iii. Agreements for Job works and Civil Works.

iv. Revenue realization from hiring of boat/barges/Jhankar, passenger service and job works contracts.

Expenditure

(i) Spillway rent to Cochin Port.

(ii) Dredging expenses.

(iii) Running expenses and Maintenance of Boats and Barges.

Financial Audit

Accounting policies

i. The amounts recovered from Builders/Suppliers of fixed assets for delay in construction/delivery in terms of the agreement are reduced from the cost of the assets.

ii. Expenditure incurred for reconstruction of vessels, which in the opinion of management is likely to increase the life of the assets substantially is capitalized.

iii. Revenue from Job work contracts are recognized under percentage of completion method as per the revised Accounting Standard-7 issued by Institute of Chartered Accountants of India.

Vizhinjam International Sea Port Limited
Third Floor, Trans Towers,
Vazhuthacaud, Thiruvananthapuram – 695014
Phone No and FAX: 0471-2328616
Email: ceo@vizport.org Wbsite: www.vizport.org

1 Introduction

Vizhinjam International Sea Port Limited was incorporated in December 2004. The company with headquarters at Thiruvananthapuram is under the administrative control of Department of Ports, Government of Kerala.

2 Objectives

The main objectives of the company are to address all supporting infrastructure requirements for the Vizhinjam Port Project as well as other developmental needs such as logistic centre, free trade zone, warehousing zone etc. for the port project and to carry on the functions of planning and development of external infrastructure for the port by formations of subsidiaries with public/private partnership, wherever feasible, for all port related works.

3 Organisation Structure

The number of members in the Board of Directors of the company shall be not less than three and not more than twelve. Managing Director is the functional Director. The company has got a Senior Manager on deputation, reporting to the MD. All other works are outsourced.

4 Activities

The company is engaged in various activities relating to the implementation of the port project through public private partnership. Steps are taken to draw up plans to provide necessary external support, infrastructure to the port and other port based development plans.

5. Financial Highlights

Particulars	2007-08	2006-07	2005-06	2004-05
	(Rupees in lakh)			
Authorised Share Capital	1200	500	500	500
Paid up capital	850	50	50	50
Borrowings	0	0	0	0
Debt equity ratio	0.00	0.00	0.00	0.00
Turnover	0	0	0	0
Net Profit before Tax and Dividend	**-0.08**	**-4.52**	**-3.03**	**-2.26**
Accumulated Loss/Accumulated profit	-9.89	-9.81	-5.3	-2.26
Accumulated loss as a percentage of paid up capital	1.16	19.62	0.11	0.05
Net worth	**840.11**	**40.19**	**44.7**	**47.74**

6. Audit Checks

The company is a ***Special Purpose Vehicle***, one entrusted with the main object of providing all external support infrastructure like road, rail connectivity, power supply, water supply etc. for the Vizhinjam Port project as well as other development needs like Warehousing Zone, Logistic centre, Free Trade Zone, Special Economic Zone etc. The company will also facilitate and oversee the development of the container transshipment terminal with private sector participation. Project operational capability has not yet been reached.

7. Financial Audit

i. Project related direct expenses have been fully capitalized.

ii. Expenses of general and administrative nature and non-project related statutory expenses are written off in the Revenue account.

iii. Expenditure which could not be directly identified with the project and that could not be apportioned but the benefits of which are yet to come/to be enjoyed over a period of years have been treated as deferred revenue expenditure.

The Kerala State Civil Supplies Corporation Limited
PB No-2030,Maveli Bhavan,
Maveli Road,Gandhi Nagar, Kochi-682020
Email-info@supplycomml.com, Ph No-0471 2724970, 2724913

1 Introduction

The Kerala State Civil Supplies Corporation Limited., incorporated in June 1974 is a private company with head quarters at Kochi. The authorised and paid up share capital as on 31.3.2008 was Rs.15 crore and Rs.8.56 crore respectively, fully subscribed by the Government of Kerala. The Company is under the control of Food and Civil Supplies Department.

2 Objectives

The main objectives of the Company are to engage, promote, improve, develop, counsel and finance production, purchase, storage, processing, movement, transport, distribution and sale of food grains, food stuffs and any other commodities which the Government may consider as essential and to provide services advice and assistance of all kinds- including capital, credit means, resources, technical and managerial for the aforesaid business. The incidental objects of the company include carrying out of any profitable trade or business, acquisition of any trademark, patent etc. useful for the Company.

3 Organization structure

The management of the Company is vested with Board of Directors consisting of Chairman and the Managing Director and five Directors. The Head Office Management Committee, Project Implementation Committee, Pricing Committee and Audit Committee monitor the activities of the Company. The Chairman and Managing Director of the Company is assisted by a General Manager, six Asst. General Managers and five Regional Managers stationed at the five Regional Offices of the Company. The core activities of the company are carried out by Head Office and 56 unit depots. Manpower strength as on January 2009 was around 3500.

4 Activities

The Company has a sales network consisting of super markets, maveli stores, people's bazaar etc. Besides, Company is operating petrol pumps, medical stores and LPG distribution.

The activities of the company include:

a) Procurement of rice, essential commodities, groceries, consumables, medicines, petrol, stationeries etc. and storage of the same for distribution through the network of retail outlets at reasonable price, below the market price. The Government through grants under market intervention scheme compensates the loss of such sales.

b) Acting as an authorized agent of the State Government for lifting, transportation and distribution of paddy, rice, levy sugar and wheat under various welfare schemes.

5 Financial highlights

Particulars	**2005-06**	**2004-05**	**2003-04**	**2002-03**
	(Rs in lakh)			
Authorised Share Capital	1500	1500	1500	1500
Paid up capital	856	856	856	856
Borrowings (Secured + Unsecured)	67569.78	68627.98	60407.85	53635.41
Debt equity ratio	78.94	80.17	70.57	62.66
Total turnover for the year	70800.79	57458.69	45885.09	38255.77
Net Profit before Tax and Dividend	**-3930.67**	**-7404.32**	**-7428.58**	**-4675.89**
Accumulated Loss/Accumulated profit	-57862.29	-53931.62	-46287.78	-38443.18
Accumulated loss as a percentage of paid up capital	6759.61	6300.42	5407.45	4491.03
Net worth	-57006.29	-53075.62	-45431.78	-37587.18

6. Audit checks

a) Transaction Audit

(i) The procurement, quality assurance, transportation, storage, distribution etc. of commodities with reference to the procedure and formalities prescribed in the Purchase Manual and inter unit reconciliation of stock transferred and cash transfer.

(ii) Economy and efficiency in utilization of the godown space for storage of materials are to be examined and commented upon.

(iii) Agreements between the KSWC and KSCSC in utilization of the godowns for the intended purpose may be examined and commented upon.

(iv) Efficiency in utilization of the distribution network for making available the stored commodities to the retail outlets as and when required.

(v) Damages, deterioration, loss due to unscientific storage/long storage, differences between book stock and physical stock etc.

(vi) Impact on the system of value based accounting of medicines adopted by the company for stock valuation instead of item wise accounting. Exercises followed by the company for stock accounting of free sale sugar and levy sugar and frequent conversions vice versa.

(vii) The records relating to procurement of paddy, arranging of contracts for custom milling and the rice retained by Miller etc.

(viii) Levy sugar –details of price difference in sugar realizable from the sugar price equalization fund (SPEF) maintained by FCI.

(ix) Tea Division – Auction purchase of unblended tea, blending, pricing, packing distribution etc. of Sabari tea may be examined and commented upon.

(x) The necessity of borrowing funds when the company is retaining large cash balances in multiple bank accounts.

(xi) Details of market intervention subsidy availed from the State Government to the extent of selling the commodities at prices less than the prevailing market price.

(xii) Disciplinary cases, theft, fraud, progress of vigilance cases, court cases etc., may be examined.

b) Financial Audit

In addition to the prescribed audit checks, following checks may also be exercised.

(i) Reconciliation of bank balances with ledger balances at unit level.

(ii) Accounting and reconciliation of stock transfer in the HO books and in the unit books.

(iii) Reconciliation of remittances from the unit with the books of HO.

(iv) Amounts receivable from the State / Central Government towards subsidy for sales/supply made under various welfare schemes.

(v) Amounts receivable from Authorized Ration Dealers towards value of goods supplied.

(vi) Liability towards payments to creditors including transporting Agents.

(vii) Valuation of stock with outside parties.

(viii) Details of theft and fraud of material importance.

Kerala State Beverages (Manufacturing and Marketing) Corporation Limited

PB No-2253, Sasthakripa Office Complex , Sasthamangalam,TVM-697010
Email-ksbc@satyamnet.in Ph No- 0471 2724970,913

1 Introduction

The Company was incorporated in April 1984 as a fully owned Government company (private company) under the administrative control of Taxes Department, Government of Kerala. The registered office of the company is at Thiruvananthapuram.

2 Objectives

The main objectives of the company are to carry on the business of procuring, manufacturing, processing, packing, stocking, selling, importing from and exporting to other states in India of toddy, wine, arrack, Indian made foreign liquor, rectified spirit, denatured spirit and all other kinds of alcoholic and non alcoholic beverages.

3 Organisation structure

The company is under the administrative control of the Taxes Department, Government of Kerala. The Board of Directors of the company consists of not less than 3 and more than nine directors.

4 Financial highlights

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
	(Rs in lakh)				
Authorised Share Capital	500	500	500	500	500
Paid up capital	102.5	102.5	102.5	102.5	102.5
Advance towards Share Capital	0	0	0	0	0
Borrowings (Secured + Unsecured)	0	7006.43	11063.55	13681.95	17500
Debt equity ratio	0.00	68.36	107.94	133.48	170.73
Total turnover for the year	122037.33	100757.88	87343.62	77667.02	68180.13
Net Profit before Tax and Dividend	**6417.78**	**5158.43**	**2267.89**	**1993.06**	**1445.61**
Accumulated Loss/Accumulated profit	10447.11	6776.04	**3977.49**	**3263.67**	3010.69
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	10549.61	6878.54	4079.99	3366.17	3113.19

5 Activities

The present activities of the company are monopoly purchase and distribution of Indian Made Foreign Liquor and Beer in the State of Kerala. For purchase of liquor, the company maintains a list of suppliers. Payment to the suppliers are made after 45 days from the date of delivery or after the goods are sold out whichever is later or 100 percent of the value of sales in a fortnight after deducting two percent discount or any other conditions the Board of Directors of the company decides from time to time. As on 31.3.08 the company has 15 warehouses to store the IMFL and 327 FL.1 shops for retail purposes. In addition to that, invoice sales are made to the Bars and Consumerfed who are licenced to purchase from the Corporation under Kerala Abkari Act. The price of the liquor is fixed as – Basic price + Excise duty (around 100 per cent) + profit margin + sales tax.

6 Audit Checks.

a. Transaction Audit

i) Default in reasonably assessing the income and paying advance tax and consequent payment of avoidable interest on tax. Such instances in violation of COPU recommendations (Jan 2004) may be examined and reported upon fixing the responsibility for the same.

ii) The total staff strength of the company includes more than 37 per cent Abkari staff. The norms adopted by the company for deployment of these staff and the Government guidelines in this regard may be examined and commented upon.

iii) While placing requests for starting retail shops, the kist payable to Government has to be reasonably fixed and agreed to. Excess payment of kist and want of proper action to get refund of kist paid in excess may be examined and commented upon.

iv) Payment to liquor suppliers is made after supply and marking deductions for breakages. Accordingly figures on sundry debtors on account of purchase are unlikely. Instances of dues realizable from suppliers, if any, have to be examined and commented upon.

v) Files relating to payment of Excise duties, Sales tax, Service tax, Income tax etc. are to be examined to see whether there was any delay in effecting the payment necessitating consequent payment of penalty by the company.

vi) Instances of accumulation of non-moving stock at warehouses and shops have to be examined and commented.

vii) The system followed by the company for regularly remitting the collection in banks and for management of the money may be examined with a view to comment upon the efficiency of the system in vogue.

viii) Follow up actions taken by the company on short remittances, embezzlement etc. may be examined.

ix) Payment of labeling charges for the labour engaged for the work may be examined to ensure that the same is as per the terms and conditions.

x) The company has been opening new shops in the middle of the year and has been paying full kist to the State Excise Dept for the whole year but the sales for the remaining period of the year will not be sufficient to meet the kist amount resulting in net loss of operation for that year. Such cases need to be looked into.

xi) The company does not maintain / furnish details of old stock destroyed to ST authorities and they treat the destroyed stock as sales and levy sales tax. The extra payments made in this connection need to be looked into.

xii) The company is having duty paid dead stock in the godown /warehouses which were not supported by adequate EMD /guarantee which is a loss to the Company.

xiii) As per the standing orders, the sale proceeds from the warehouse/shops are to be transferred to HO the next day so as to invest in short term deposits to get interest. The non -compliance in this regard by the units and the consequent loss of interest, if any, can be looked into.

xiv) The company has evolved a policy/procedure for purchase of liquor and the compliance in this regard needs to be verified.

xv) The staff strength at warehouses and showrooms may be critically analysed to ascertain the excess staff and consequent excess expenditure, if any.

xvi) The Company used to borrow huge amounts from banks at the fag end of the year to make advance payments of kist to the Government of Kerala for the subsequent year. With proper fund planning, the borrowing of loans and consequent payment of interest could have been avoided. The company may be directed to take the matter with the Government for allowing instalment facility for the payment of kist.

xvii) The leasing of shops, advance towards rent and monthly rent payments may be critically examined.

(b) Financial Audit

The following items may, inter alia, be scrutinized and commented upon.

i) Inventory Valuation including dead stock.

ii) Kist amount payable to the Government

iii) Calculation of damage charges from suppliers.

iv) Statutory dues and disputes thereon have to be examined.

Kerala Small Industries Development Corporation Limited

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Thiruvananthapuram-695 001
Phone- 0471 2330613, 2330614
Email –kersidco-tvm @dataone.in
sidcoho@yahoo.com
Website: keralasidco.com

1 Introduction

The Kerala Small Industries Development Corporation Limited (SIDCO) was incorporated in November 1975 as a private company in Government sector with its corporate office at Thiruvananthapuram, by taking over the assets and liabilities of the erstwhile Kerala State Small Industries Corporation Limited. and Kerala Employment Promotion Corporation Limited.

2 Objectives

The Company is a promotional agency for Small Scale Industries (SSIs) rendering assistance by providing infrastructure facilities, distribution of essential raw materials, marketing of finished products, undertaking of civil and electrical works etc. The Company's present activities are the following:

a) Construction and maintenance work of factory sheds in Industrial Estates, Industrial Development Plots, providing infrastructure facilities for Industrial Growth Centers, setting up of industrial parks etc.

b) Sale of industrial raw materials through district depots.

c) Marketing assistance through district level sales emporia.

d) Production of non ferrous die cast components, precious machine parts and various types of furniture through production units.

In addition, it also undertakes civil works entrusted by the Industries Department, PSUs and other autonomous bodies and Grama Panchayaths on centage basis.

3 Organisation Structure

The Company is under the administrative control of Industries Department, Government of Kerala. The number of Directors in the Board of

Directors shall not be less than two and more than eleven. The Managing Director is the only functional Director. The major functional divisions under the Company are:

1) Raw Material Division
2) Production Division
3) Marketing Division
4) Construction Division
5) Industrial Estate Division
6) Information Technology and Telecommunication Division.

4 Activities

The Company has got eleven production units viz. three wood workshops at Pappanamcode, Kollakkadavu and Kozhikode, one Pressure Die Casting Unit at Pappanamcode, one instrument work shop at Pappanamcode, one tool shop at Udayamperoor, a Straw Board Factory at Parumala, a service workshop at Ollur, a tiles factory at Amaravilla, an Auto Engineering workshop at Pachalam and SIDCO tools at Umayanallur.

The manufacturing activities include production of steel and wooden furniture, survey equipments, service works of ISRO, KAL, KAMCO etc. The manufacturing activities are undertaken against Government Departmental orders and orders received from PSUs. Trading of Iron & Steel, wax, etc. also is undertaken by the Company. Wood, pipes, sheet, zinc, aluminium, iron and steel, paraffin, wax, Titanium dioxide, Bitumen etc. are among the important raw materials procured for own use as well as for distribution to SSIs. The domestic suppliers of the raw materials include Travancore Titanium Products, Kochin Refineries Limited. (KRL), Madras Refineries Limited (MRL), Steel Authority of India Limited (SAIL), Forest Department etc.

As part of the modernisation scheme, the Company has proposed to start a Telecom city, construction of Commercial Complex at Kadavanthara, Kochi on

BOT basis, Joint venture activities with private participation etc.

The Company owns 17 conventional Industrial Estates (IEs) and 36 Mini Industrial Estates. There are 920 factory sheds in which more than 750 SSI units are functioning. The factory sheds were allotted on lease basis, hire purchase basis and out right purchase basis.

5 Financial Highlights

Particulars	2005-06	2004-05	2003-04	2002-03	2001-02
	(Rupees in lakh)				
Authorised Share Capital	1300	1300	1300	1300	1300
Paid up capital	2213.81	2163.81	2061.64	2000.53	1965.53
Borrowings	1087.19	1062.25	2061.64	933.1	908.09
Debt equity ratio	0.49	0.49	1.00	0.47	0.46
Total income for the year	5522.92	8164.76	4167.9	3078.91	3997.39
Net Profit before Tax and Dividend	**-160.13**	**-27.39**	**-206.88**	**-447.34**	**-379.74**
Accumulated Loss/Accumulated profit	-4460.94	-4298.33	-4259.3	-4095.54	-3648.19
Accumulated loss as a percentage of paid up capital	201.51	198.65	206.60	204.72	**185.61**
Net worth	**-2247.13**	**-2134.52**	**-2197.66**	**-2095.01**	**-1682.66**

6 Audit checks

i) Utilisation of the funds received from Central/State Governments for specified schemes.

ii) Instances of non passing of the benefits with respect to exemption of duty on certain imported items to the SSIs, if any.

iii) Under realisation of the lease rent, water charges and consequent loss due to improper adoption of Government orders.

iv) Valuation of plots sold on outright sale basis, in the light of the concerned Government orders.

v) Realisation of dues from the Sales emporia.

vi) Records relating to distribution of the materials to SSI units and realisation of the price due from them.

vii) Delay in execution of development works in Industrial Estates and consequent loss, if any.

viii) Loss, if any, in the supply of steel furniture due to non absorption of fixed/variable cost.

ix) Transactions pertaining to purchase and sale of empty cartridges of ammunition.

Kerala State Industrial Enterprises Limited
St. Joseph Press Building, Cotton Hill,Tvm-698 014
E-mail: info@ksie.net Ph No- 0471 2326913,947

1 Introduction

Kerala State Industrial Enterprises Limited. with registered office at Thiruvananthapuram was incorporated in January 1973 as a private company. The company is under the administrative control of Industries Department, Government of Kerala.

2 Objectives

The main objectives of the company include operation of air cargo complexes, industrial consultancy, trading in goods and services, business in the field of Information Technology including E-Commerce.

3 Organisation Structure

The number of Directors in the Board of Directors of the company shall not be less than three and more than 15. Managing Director is the chief executive of the company. The company has got two air cargo units at Thiruvananthapuram and Kozhikode and three emporia at Thiruvananthapuram, Ernakulam and Kozhikode. The major five departments of the entity headed by general managers are Air Cargo Department, Marketing Department, HR Department, Development Department and Finance and Industrial Department.

4 Activities

Operation of air cargo complexes, trading in goods and services including E-commerce etc. are the main activities of the company. Books, glassware, textiles, coir products, electrical fittings, medical equipments etc. are included among the items traded. Supply of items to various Government departments and PSUs are also undertaken by the company.

5 Financial highlights.

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)				
Authorised Share Capital	2100	2100	2100	2100	2100
Paid up capital	120	120	120	120	120
Advance towards Share Capital	0	0	0	0	0
Borrowings (Secured + Unsecured)	0	0	1468.59	1199.2	184.75
Debt equity ratio	0	0	12.24	9.99	1.54
Total turnover for the year	1697.24	1264.00	1161.93	974.45	1059.07
Net Profit before Tax and Dividend	561.48	573.96	501.36	388.43	398.63
Accumulated Loss/ Accumulated profit	1913.65	1585.73	1264	987.88	755.01
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	2033.65	1705.73	1384.00	1107.88	875.01

6 Accounts and Audit

The company has finalized its accounts upto 2007-08.

The company has computerized its activities. Internal audit has been outsourced. Significant accounting policies are as under:

- Cost of fixed assets include consultation fee, installation fee, architectural fee and other costs incurred in connection with acquisition of the assets.
- Investments are valued at cost.
- In compliance with the AS 15, the company makes provision for gratuity on actuarial valuation provided by LIC (Projected Unit Credit Method) so as to disclose the company's actual liability which is not covered under the LIC plan.

7 Audit Checks

a) Transaction Audit

In addition to the general checks, following audit checks may be conducted.

(i) Agreement with Airport Authority of India for profit sharing may be examined to see that the terms of the contract are in the best interest of the company.

(ii) Revision of cargo handling charges is to be seen so as to ascertain whether they were revised frequently having regard to the cost of operation.

(iii) Remittances and reconciliation of cash by sales emporiums with the books of HO.

(iv) Feasibility study reports and progress reports of capital projects of Greenfield Airport, Calicut Airport air cargo complex etc may be examined.

b) Financial Audit.

Routine audit checks applicable to other companies have to be applied.

Forest Industries (Travancore) Limited

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Website: www. Fitkerala.com

1 Introduction

The Forest Industries (Travancore) Limited was incorporated as a Public Company under Travancore Companies Act in August 1946 with headquarters at Thikkattukara, Aluva. The Company is under the administrative control of Industries Department, Government of Kerala. It is the only Company engaged in the manufacture of wooden furniture and joineries.

2 Objectives

The main objects of the Company include exploitation and sale of timber and other forest products from Malayathur Division and elsewhere, organizing and undertaking handling of timber of any species, carrying on the business of timber merchants, manufacturing pressed wood, pulp, chemicals etc. required for the Company.

3 Organisation structure

The number of Directors in the Director Board shall not be less than 2 and more than 11. The Managing Director is the Chief Executive. The Company has 6 separate divisions for wooden products, Modular Work Stations, Interior Decorations, Aluminum Partition, Civil contracts and Electrical contracts.

4 Activities

a. Manufacturing and supply of wooden furniture and joineries.

b. Interior decoration.

c. Civil works etc.

The important raw materials for manufacture of the products are teakwood, anjili, rosewood, pincoda, sal etc. Plywood, formica, rubber foam, iron rods flats, nails polish etc. are also included among the inevitable raw materials.

Government forest depots, private suppliers selected through competitive tender etc. are the sources of raw materials.

Big logs of wood are sawn at Band saw machine, sized to small on resaw machine and processed at various machineries for plaining and grooving and are finally assembled into the required products.

Government departments form the important customers for the Company. Local bodies, private parties etc. are also placing orders with the Company for its products.

Government has issued an order, directing Government departments, institutions, local bodies etc. to purchase its requirements of wooden items from the Company without tender formalities.

The Company has developed a full package of front office for local bodies, based on the parameters specified by KILA.

5 Financial Highlights

Particulars	2005-06	2004-05	2003-04	2002-03	2001-02
	(Rupees in lakh)				
Authorised Share Capital	50	50	50	50	50
Paid up capital	37.71	37.71	37.71	37.71	37.71
Borrowings	356.53	345.38	352.91	276.68	258.61
Debt equity ratio (debt for Rs 100 of equity)	9.45	9.16	9.36	7.34	6.86
Total income for the year	808.26	538.21	602.08	352.84	342.13
Net Profit before Tax and Dividend	**38.4**	**32.18**	**21.34**	**5.4**	**-12.14**
Accumulated Loss/Accumulated profit	65.2	36	15.34	1.95	1.04
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**102.91**	**73.71**	**53.05**	**39.66**	**38.75**

6 Audit checks

a) Transaction Audit

i) Purchase of logs and stock position based on manufacturing requirements as per orders in hand.

ii) Supply contract for logs entered into with private suppliers.

iii) Percentage of wastage admissible vis-à-vis actuals during processing of wood.

b) Financial Audit

Routine audit checks applicable to other companies have to be applied.

Kerala State Horticultural Products Development Corporation Limited

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1 Introduction

Kerala State Horticultural Products Development Corporation, Thiruvananthapuram was incorporated in March 1989 as a fully owned State Government company. The company is under the administrative control of Agriculture Department, Government of Kerala.

2 Objectives

The objectives of the company, interalia, include procurement, processing, storage and marketing of horticultural commodities, providing bee keeping training, marketing of seeds, seedlings, honey and planting materials.

3 Organisation Structure

The number of members in the Board of Directors of the company shall be not less than three and not more than twelve. The Managing Director is the Chief executive. The company has seven Regional Procurement Centres (RPCs) (Trivandrum, Kollam, Kottayam, Ernakulam, Thrissur, Kozhikode and Kannur) under Regional Managers for procurement and distribution of vegetables through own and licensed retail outlets. A beekeeping consortium training centre for promoting honey production is also being maintained.

4 Activities

The company procures vegetables and distributes the same to vegetable stalls for sale. For this purpose own transportation facilities and hired facilities are made use of by the company. The Company was appointed (November 1996) as State Designated Agency (SDA) for implementing the Central scheme 'Development of bee keeping for improving crop productivity'.

5 Financial Highlights

The Company's accounts are in arrears. The turnover of the company during 2007-08 was around Rs.990 lakh and the profit worked out to Rs.17.59 lakh (Provisional).

Particulars	2006-07	2005-06
	(Rupees in lakh)	
Authorised Share Capital	1200	1200
Paid up capital	577.66	527.66
Borrowings	350.00	350.00
Debt equity ratio (debt for Rs 100 of equity)	0.61	0.66
Turnover	735.66	656.93
Net Profit before Tax and Dividend	**9.13**	**8.66**
Accumulated Loss/Accumulated profit	-283.64	-292.77
Accumulated loss as a percentage of paid up capital	-49.10	-55.48
Net worth	**294.02**	**234.89**

6 Audit Checks

(a) Transaction audit

The Company is engaged in the business of vegetable which is perishable commodity. Audit should examine the following:

i. Procurement system and related internal controls. Whether procurement policy conforms to the constituent functions of the Company? Whether direct procurement is done at lowest rates from farmers in sufficient quantities, economic transportation, profitable but competitive sales price in local market will be beneficial and conform to constituent functions of the Company?

ii. Effectiveness in implementation of Centralized Purchase/Co-ordination among the RPCs and effectiveness in avoiding commission agents may be ascertained.

iii. Efficiency of distribution to the sales outlets.

iv. Cash collections and remittance and controls related to it.

v. Proper utilization of grants/subsidies from Government /Government agencies.

vi. Continuance of Loss making units without revival.

vii. Implementation of beekeeping scheme.

(a) Achievement of objectives.

(b) Monitoring system.

(c) Selection procedure adopted for breeders under ‘bee keeping scheme’.

(b) Financial Audit

Common audit checks may be conducted.

Kerala Medical Service Corporation Limited
Kerala State Institute for Health &Family welfare Campus
Thycaud, Trivandrum Phone No-0471-2337353

1 Introduction

Kerala Medical service corporation Limited was incorporated in December 2007 as a private company with Hqrs at Trivandrum. The Company is under the administrative control of the Health and Family Welfare department.

2 Objectives

The main objective of the Company is procurement, storage and distribution of medicines, surgical items, medicinal equipments etc for the health care institutions of the State.

3 Financial Highlights

The authorized share capital of the Company is Rs 10 crore divided into ten lakh equity share of Rs 100 each. The company has not finalized any accounts so far (Sept 2009).

4 Audit Checks

Audit checks applicable to trading companies may be applied.

Audit Checks for Steel, Engineering & Automobile Sector

i) Purchase of equipments/spares are made having due regard to the relevant pollution/emission norms (Euro II, Bharat Stage II, as the case may be).

ii) In case of Companies engaged in export of automobiles, the efficiency of availing various export incentives may be examined. As per foreign trade policy of the Government of India, exporters are entitled to Duty Entitlement Pass Book (DEPB) on the FOB value of goods exported. Similarly, under Export Promotion Capital Goods (EPCG) Scheme, exporters are eligible for concessional import duty on the import of capital goods, subject to fulfillment of specific conditions. This aspect may be examined.

iii) In case of purchase/ adoption of new technology, it must be ensured that there is no plagiarism and infringement of Patent Act.

iv) Examine excise duty payments and claims pending with excise authorities with special references to excise duty payments on rejected items.

v) Examine Technical collaboration agreements with outside agencies for manufacture of various components/ spares.

vi) Water (Prevention and Control of Pollution) Cess Act, 1977 provides, inter alia, for a rebate of 25 per cent of cess payable, if the industry fails to install a plant for the treatment of sewage or trade effluent. Failure to do so would attract, besides disallowance of rebate of 25 per cent of the cess payable, payment of higher amount of water cess under section 25 of water (Prevention and Control of Pollutions) Act 1974.

vii) Section 10 of Water (Prevention and Control of Pollution) Cess Act, 1977 provides for levy of interest @ 2 per cent per month, if the amount of cess is not paid within the stipulated period. Instances of violation of this may be probed.

viii) Provisions relating to Hazardous Waste (Management and Handling) Rules 1989 may be examined to bring out instances of its violation.

ix) According to GOI Notification (No 563 dated 14.09. 1999), 20 per cent of total ash produced was to be utilized within 3 years in agricultural activities, road construction, cement and brick manufacturing etc.

x) It should be ensured that for bidding purposes, Companies works out a realistic prime cost.

xi) Sub-tendering of works is resorted to only when the Company is not in a position to take up the work and sub-contracting is done in a most open and public manner.

xii) Section 293 (e) of the Companies Act 1956 provides that a Public Company shall not, except with the consent in general meeting, contribute to charitable and other funds not directly related to the business of the Company of the welfare of its employees, any amount the aggregate of which would in any financial year exceed Rs. 50,000 or five per cent of its average net profits as determined in accordance with provisions of Section 349 and 350 of Companies Act 1956.

xiii) The Employees Provident Fund and Miscellaneous Provisions Act 1952 requires that every employer should deposit the CPF deducted from the salary and wages of employees including employer's share along with administrative charges to the Provident Fund Commissioner within 15 days of the close of every month. In case of failure to do so, the Central Provident Fund Commissioner or such other officer as may be authorized by the Central Government, may recover penalty/ damages at the prescribed rates from the employer.

xiv) Section 239 (2) © of the Income Tax Act 1961, stipulates that time limit for claiming of refund of tax is one year from the last day of the assessment year in respect of which income is assessable for tax. Similarly, as per Section 238 (i) of the Act ibid, TDS is allowable only when the corresponding income has been included in the total income of the assessee. Cases of non-compliance with these provisions may be scrutinized.

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1 Introduction

The Company was incorporated in May 1984 as a private limited company with headquarters at Cherthala, Alapuzha District. Autokast was a subsidiary company of Steel Industrials Kerala Limited. under the administrative control of Industries Department. Government of Kerala ordered delinking the company from SILK in June 2008.

2 Objectives

The main objectives of the Company are (i) to promote, undertake, finance, execute and develop ferrous and non-ferrous casting industries and units in Kerala or elsewhere (ii) to do business of designers, manufacturers, buyers, sellers, dealers, importers, exporters of all types of ingots, castings, plant/machineries/equipments and deal in purchase/sell, process scrap-ferrous and non ferrous items.

3 Organisation structure

The Company which was a subsidiary company under SILK was delinked in June 2008 and made an independent company under Industries Department. The Director Board of the Company consists of not less than 3 and not more than 12 members. Except the Managing Director, all the members are non-functional.

4 Activities

From the year of inception, the Company could not make any profit and in September 2004, BIFR ordered its winding up. To settle the dues under OTS, Rs.12.52 crore was paid to the consortium of banks during March 2007 to July 2008 and the order for winding up was set aside in February 2008. The present activities of the company include manufacturing and marketing of ferrous castings. The main products manufactured and traded are windmill components, vehicle bodies, pump housings, gear boxes etc. The main raw materials for the manufacture are iron/steel scrap, ferrous alloys, gases, moulding sand etc. Raw materials, as and when required are purchased after following the generally accepted purchase procedures.

The products are directly sold to the customers and no agency arrangements are made for marketing.

The installed capacity of the plants is 23000 MT per annum. However, the utilisation of the capacity is below 15 per cent. The Company is now planning to go ahead with the proposal for formation of a joint venture with Indian Railways for fabrication of bogie frames for the Integral Coach Factory.

5 Financial Highlights

Particulars	**2008-09**	**2007-08**	**2006-07**	**2005-06**	**2004-05**
		(Rs. in lakh)			
Authorised Share Capital	2000	2000	2000	2000	2000
Paid up capital	1997	1997	1997	1997	1897
Borrowings	4956.42	4795.11	4794.82	8472.17	8574.18
Debt equity ratio	2.48	2.40	2.40	4.24	4.52
Total income for the year	1410.55	1271.68	1149.31	1356.75	1335.93
Net Profit before Tax and Dividend	**-483.14**	**-348.59**	**19.84**	**-193.66**	**-323.68**
Accumulated Loss/Accumulated profit	-10138.96	-9652.34	-9256.12	-12974.52	-12733.3
Accumulated loss as a percentage of paid up capital	507.71	483.34	463.50	649.70	671.23
Net worth	**-8141.96**	**-7640.34**	**-7244.12**	**-10962.5**	**-10821.3**

6 Performance review of the Company

The Company was last reviewed in 2001-02 and the audit findings included in Audit Report (Commercial) 2001-02. COPU discussed the Report and their recommendations are available in the thirty sixth report (2006-08).

7 Audit checks

i) Purchase records of the company may be examined to verify whether the annual purchases were made on the basis of the provisions of the Store purchase manual taking into account of the budgeted requirements, safeguarding the best interest of the company.

ii) The actual production and the budgeted production may be compared with a view to analyse the reasons for poor performances compared to budgets.

iii) The customer rejections of the products may be compared with the approved industrial norms of 1 per cent and the reasons for excess rejections may be analysed and commented upon.

iv) The production and dispatch of castings, planned and actuals, may be compared and the variations commented upon.

v) The company has got fetting capacity of 250 MTS. Under utilisation of the capacity and outsourcing of the work may be examined with a view to form an opinion on extra expenditure due to outsourcing.

vi) The standard power consumption per MT of the castings is 1850 KW. Against this, the actual may be examined and the excess consumption commented upon.

vii) The Company is an EHT consumer of KSEB. The monthly minimum/ billing demand as per KSEB is 75 per cent of the maximum demand even if the actual demand is much below 75 per cent. The consumption range of power and the monthly demand billed by the KSEB for unconsumed power because of the management failure to properly reduce the contract demand may be quantified and commented.

viii) The Annual physical verification report of stores and stock may be examined and commented upon.

ix) The deployment of human resources may be examined with a view to quantify under utilisation. Substantial amount of statutory dues over Rs.6.20 crore as on 31.3.08 are payable to Employees Provident Fund, ESI, Income Tax, Dept. of Sales tax, Dept. of Education etc. The position may be updated and commented upon.

x) Reasons for not taking action to recover the dues from the employers/employees etc. may be examined and commented upon fixing responsibility for the same.

xi) The internal control system in vogue and the follow up on the internal audit report (outsourced) may be examined and commented upon.

xii) Action taken by the company to realise the accumulated outstanding dues may be examined and commented upon.

xiii) The Government of Kerala entered into a MOU with Indian Railways for formation of a Joint Venture Company for fabrication of bogie frames for Integral Coach Factory. In the proposed JV, 51 per cent of the share would be held by the Ministry of Railways while the remaining 49 per cent of shares by Government of Kerala. Latest position may be examined.

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1 Introduction

The Company was incorporated in January 1975 as a private company under the administrative control of the Industries Department, Government of Kerala.

2 Objectives

The Company was formed to act as a holding company to establish steel and steel based industries in the state.

3 Organisation structure

The company is under the administrative control of the Industries Department, Government of Kerala. The number of Directors (all appointed by Government) shall not be less than 3 and more than 12. The Managing Director is the only functional Director.

4 Activities

The existing units of the Company are the following.

i. Steel Fabrication Unit, Cherthala.

ii. General Engineering works, Thuravoor.

iii. Foundry Unit, Ottapalam.

iv. Ship Breaking Unit, Beypore.

v. Ship Building Unit, Azhikkal.

Divisions (i) Project Engineering and Export

(ii) Trading Division.

The Company was referred to BIFR in 2005 and declared a sick unit. Revival package for SILK is under consideration. The Autokast Limited. and SIFL were to be delinked and privatized and a VRS scheme announced for SILK.

The various Units/ Divisions of the Company engage in manufacture of cast iron products viz. fabrication and structurals, ship breaking, ship building etc. The important raw materials for production are cast iron scrap, channels, steel etc.

5 Financial Position and Working Results

Particulars	**2007-08**	**2006-07**	**2005-06**	**2004-05**	**2003-04**
	(Rs. in lakh)				
Authorised Share Capital	4000	4000	4000	4000	4000
Paid up capital	3655.86	3655.86	3655.86	3655.86	3655.86
Borrowings	5028.32	6178.7	5762.04	5255.74	4603.2
Debt equity ratio	1.38	1.69	1.58	1.44	1.26
Total income for the year	1580.2	1167.53	1401.72	1549.7	1322
Net Profit before Tax and Dividend	**9.64**	**-139.51**	**-393.32**	**-622.35**	***-683.19***
Accumulated Loss/Accumulated profit	-5184.25	-5366.98	5199.56	-4673.99	4045.57
Accumulated loss as a percentage of paid up capital	-141.81	-146.80	-142.23	-127.85	NA
Net worth	**-1508.14**	**-1690.87**	**-1523.44**	**-997.88**	**-369.46**

6 Audit checks

i) Files relating to purchase of raw materials such as cast iron, channels, steel etc. may be examined to see that the procedures followed for the decisions agree with manual provisions, in the best interest of the entity.

ii) The production records and log sheets of the machines may be examined to verify whether there was any avoidable hold up affecting the output.

iii) Verify and report on the fact that manufacturing activities were undertaken on the basis of confirmed orders.

iv) Examine the records to confirm that there was no unwanted retention of finished products with the company, resulting in delayed delivery and delayed realisation of price.

v) Examine and report whether there was any failure on the part of the company for realisation of timely dues from customers.

vi) Examine and comment upon the follow up action taken by the Company for realisation of dues from the clients.

vii) Instances of charging of liquidated damages, if any, by the customers may be examined with reference to its reasons and commented upon.

viii) Delays in taking legal action to realise the dues from the contractors, making the claim time barred under Negotiable Instruments Act may be examined.

ix) Accounting of scrap and the disposal of the same may be examined and commented upon.

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1 Introduction

The Company was incorporated as a subsidiary of the Steel Industrials Kerala Limited. (SILK) in June 1983, with headquarters at Thrissur.

2 Objectives

The main objectives of the Company are to promote, manufacture, finance, execute and develop steel forging units in Kerala or elsewhere.

3 Organisation structure

The Company was a subsidiary of SILK under the administrative control of the Industries Department, Government of Kerala. In September 2007 it was delinked from SILK. The number of directors in the Board of Directors shall not be less than three or more than 12.

4 Activities

The Company has an installed capacity of 7500 MT of industrial forgings per annum, which after a realistic assessment was estimated at 5040 MT per annum. It is engaged in manufacturing of forgings out of Carbon steels, Alloy Steels, Aluminum Alloys, Titanium Alloys and Nickel Alloys. The Company caters to the heavy steel and capital goods segments like Automobiles, Railways and Earth moving equipment manufacturers. Defence and Space Research institutions are also in the list of clients of the Company.

The products being manufactured by the company include Connecting rods, crank shafts, gear blanks, pinions, levers, discs, valve bodies, hubs, housings etc. The production departments include Forge shop, Die Shop, Heat Treatment Shop, Production Planning and Control Department, Maintenance Department, Finishing and Despatch Department etc. The Quality Control and Material Management departments are also professionally managed.

Marketing and Sales are executed by the Company directly. Liaison agents are engaged at outstations for supplementary support.

Various categories of steel scrap such as end cuts, flashes, turnings and borings, rejected forgings etc. are produced during the course of manufacture. These materials are sold to steel re-rolling mills where they are recycled.

5 Financial highlights

Particulars	2007-08	2006-07	2005-06	2004-05	2003-04
	(Rs. in lakh)				
Authorised Share Capital	1100	1100	1100	1100	1100
Paid up capital	1040.06	1040.06	1147.02	1040.06	1040.06
Borrowings	521.70	614.39	782.2	794.56	675.61
Debt equity ratio	0.50	0.59	0.68	0.76	0.65
Total income for the year	5181.79	4174.72	3453.21	2790.59	2081.58
Net Profit before Tax and Dividend	**732.18**	**342.74**	**266.76**	**130.55**	**110.95**
Accumulated Loss (-)/Accumulated profit	797.74	419.76	197.85	23.03	-63.57
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	-6.11
Net worth	**1837.8**	**1471.78**	**1356.82**	**1075.04**	**988.43**

6 Audit checks

i) Actual utilisation of machines for the work may be compared with the standard machine hours fixed for job works and instances of variation in utilisation may be examined, analysed and reported.

ii) Instances of utilisation of heavier machines for forging of materials in place of lighter machines thereby resulting in avoidable expenditure may be examined, analysed and reported.

iii) Manpower utilisation, under utilisation of man power etc. may be examined and compared with the standards required for the works and extra expenditure on manpower may be analysed and reported.

iv) Standards set for consumption of consumables may be compared with the actuals and excess consumption of such items during the manufacturing process may be quantified and reported.

v) Instances of defective manufacturing of forgings over and above the admissible level may be examined and extra expenditure incurred on account of the same may be quantified and reported.

vi) Instances of holding of heavy inventory/slow moving/ non moving items in stock thereby increasing the inventory holding cost may be quantified and reported.

vii) Instances of requirements of payment of liquidated damages on account of delayed delivery of finished products to the customers may be quantified and brought out in the report.

viii) Instances of non delivery of raw materials by the suppliers and non-realisation of liquidated damages from such supplies, thereby allowing them undue benefits outside the purview of purchase contracts may be examined and the extra expenditure on account of the same quantified in the report.

ix) Quantum of the raw materials absorbed in the finished products, the raw materials unabsorbed in the finished products and the quantum of scrap generated during the manufacturing process may be worked out and the quantum of unaccounted material lost in process may be analysed and discrepancy in accounting, if any, may be reported.

x) Internal control system prevailing in the Company and follow up action on the internal audit report may be examined with a view to express an opinion on the same.

xi) Details of action taken by the company to make timely disposal of the scrap generated during the manufacturing process at the most competitive price may be examined and reported upon.

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1 Introduction

Steel Complex Limited Kozhikode was incorporated as a public company in December 1969. Besides, KSIDC and Government of Kerala, the public and financial institutions hold 12.40 per cent of share capital. The Company started commercial production in August 1973 with two 10/12 Ton Electric Arc Furnaces. The installed capacity was 37000 MT of billets per annum which was subsequently increased to 55000 MT. The net worth became negative and the activities came to standstill in March 1993. BIFR sanctioned a scheme for rehabilitation of the Company in May 1995 and production restarted in October 1995. A modified revival package with the proposal for formation of a joint venture company with 50:50 shareholdings by SAIL and SCL is under implementation.

2 Objectives

The main objectives of the Company are to produce, manufacture, purchase, refine, smelt, prepare, import, export, sell and generally to deal in iron, steel and by products, metal scrap iron ore and minerals in all form thereof.

3 Organisation structure

The Company is a subsidiary of the Kerala State Industrial Development Corporation Limited. (KSIDC). Administrative control vests with Industries Department, Government of Kerala. The number of Directors in the Director Board of the Company shall not be less than three and more than 15.

4 Activities

The Company is engaged in manufacture of 100 mm sq. MS Billets through 10/12 Arc Furnace by continuous casting machine. It is also engaged in trading of 6-28 mm TMT Bar/Rounds. The important raw materials for manufacture of the products are scrap, refractories, electrodes, ferro alloys etc. The scrap is procured by import as well as from other PSUs. The other raw materials are either purchased from the manufacturers or through agents. The procurement is made after assessing the requirements and following the procedural formalities. Production is targeted at 2000 MT per month. 100m.sq. billets are converted into 6-12 mm TMT Bars/rounds.

The finished products are sold mainly to Government Departments (80 per cent) and the balance to public (20 per cent). Sales to public are against payment through the depot only.

5 Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rs. in lakh)				
Authorised Share Capital	1625	1625	1625	1625	1625
Paid up capital	700	700	700	700	700
Borrowings	5986.39	5986.39	5562.79	5355.46	5368.9
Debt equity ratio	8.55	8.55	7.95	7.65	7.67
Total income for the year	3290.98	2582.3	1466.28	1196.77	1017.42
Net Profit before Tax and Dividend	**-109.27**	**687.38**	**-128.13**	**-56.67**	**-67.67**
Accumulated Loss/Accumulated profit	-5480.49	-5371.21	-6058.59	5083.69	-5027.03
Accumulated loss as a percentage of paid up capital	782.93	767.32	865.51	726.24	718.15
Net worth	**-4780.49**	**-4671.21**	**-5358.59**	**-4383.69**	**-4327.03**

6 Audit Checks

i) The Purchase documents of the company may be examined to see whether the purchase formalities were followed as per rule, taking into account of the best interest of the entity. The requisition, tendering of negotiation, final decision to issue orders etc. may be examined and the result brought out in IR.

ii) Production records of the Company may be examined and compared with the standards fixed and variations in the actuals with the standards may be analysed quantified and reported.

iii) Machine hour availability, utilisation, power consumption, fuel consumption, manpower utilisation etc. may be compared with the standards and variations, if any, may be quantified and brought out.

iv) While fixing the selling price of the products, the Company resorts to maintain a break even level. How far this policy is adopted in practice may be analysed and reported.

v) The company resorts to carry out conversion of scrap into billets on job work basis on behalf of the clients at mutually accepted rates. The related records may be examined to see the relationship between the agreed rates and actual expenditure incurred on the conversion works and the difference between the actual cost and realisation as per agreement may be quantified in reports.

vi) For want of captive re-rolling facilities, the Company engages re-rollers for rolling or conversion of billets into finished steel on job work basis or entering into long term contract rates. Agreements/contracts may be verified to ensure that the Company's interests were protected.

vii) The Company is an HT/EHT consumer of the KSEB and as per the Board's rule, 75 per cent of the contract demand or the utilised maximum demand is taken for billing. The demand charges form a very huge amount and if the actual demand is below 75 per cent of the contract demand, the Company has to get the contract demand reduced so as to avoid unnecessary expenditure on power. These aspects may be examined and results brought out in the IR. Power consumption during peak period and off-peak period may also be analysed in audit to see whether there is any avoidable loss of incentive.

viii) Energy conservation initiatives of the Company need to be examined.

ix) The physical stock verification reports may be examined and action taken for disposal of non moving/slow moving items may be investigated and the results brought out in the IR.

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1 Introduction

The Metal Industries Limited, Shoranur incorporated as a public limited company in March 1928 became a Government company in 1980. The administrative control of the company is vested with Industries Department, Government of Kerala.

2 Objectives

The main objectives of the company include manufacture of engineering tools, agricultural implements, carpenter tools, artisans' tools, cutlery, machine tools, appliances made partly or wholly of steel in addition to gold smithy, silversmithy etc.

3 Organisation Structure

The number of Directors in the Director Board shall be not less than three and not more than nine. The Assistant Manager (Commercial) and Assistant manager (Accounts) directly report to the Managing Director.

4 Activities

At present the company is engaged in manufacture of agricultural implements and tools. Fabrication and trading of various agricultural implements are also being undertaken by the company.

5 Financial Highlights

Particulars	**2008-09**	**2007-08**	**2006-07**	**2005-06**
	(Rs. in lakh)			
Authorised Share Capital	200	200	200	200
Paid up capital	193.95	193.95	147.96	147.96
Borrowings	59.81	71.43	72.19	79.34
Debt equity ratio	0.31	0.37	0.49	0.54

Total income for the year	398.82	273.01	191.22	120.32
Net Profit before Tax and Dividend	**64.78**	**81.91**	**-2.79**	**-27.81**
Accumulated Loss/Accumulated profit	-163.50	-200.92	-251.76	-248.88
Accumulated loss as a percentage of paid up capital	84.3	103.59	-170.15	-168.21
Net worth	**30.45**	**-6.97**	**-103.8**	**-100.92**

6 Audit Checks

Routine/regular items may be checked during transactions audit as well as financial audit.

Kerala Agro Machinery Corporation Limited
Athani 683 585, Ernakulam, Kerala
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Website: www.kamocindia.com

1 Introduction

The Kerala Agro Machinery Corporation Limited. was incorporated in March 1973 as a subsidiary of Kerala Agro Industries Corporation Limited and became an independent entity in December 1986. It is a public company under the administrative control of the Agriculture Department. The registered office of the Company is at Athani, Aluva, Ernakulam-683585. The Company has got three units at Kanjikode (Palakkad), Kalamassery (Ernakulam) and Naithakkudy (Thrissur).

2 Objectives

The main objectives of the Company are production and sale of agricultural machineries such as power tillers, power reapers, sale of accessories and spare parts of the above machines.

3 Organisation structure

The company has a Director Board of not more than 12 members appointed by the Government. The Chairman and Managing Director are appointed by the Government.

4 Activities

The main activities of the company are production and sale of power tiller and power reaper. The production units of the company at Athani and Kanjikode engage in assembling of power tillers. Power reapers are assembled at Naithakudy unit. Diesel engines for production of power tillers are assembled at Kalamassery unit. The raw materials for the manufacture are aluminium castings, steel forgings, grey iron castings, fabricated and sheet metal items, machined items, bearings, fastners, rubber components etc. Most of them are procured from inside and outside Kerala. Contract for materials are entered into with suppliers based on the material requirements for the financial year.

The company has got a dealership network of 40 dealers. The company's market is mainly concentrated in North India. With a view to diversify the product range, the company is seriously thinking of manufacture of Rotary Tractors below 25 HP, sprayers, food processor etc.

5 Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rs. in lakh)				
Authorised Share Capital	200	200	200	200	200
Paid up capital	161.46	161.46	161.46	161.46	161.46
Borrowings	0	0	0	0	0
Debt equity ratio	0.00	0.00	0.00	0.00	0.00
Total income for the year	12323.48	10396.84	9372.73	8193.53	8128.27
Net Profit before Tax and Dividend	**1169.40**	**933.15**	**875.83**	**801.82**	**730.91**
Accumulated Loss/Accumulated profit	8109.18	7401.33	6832.46	6316.52	5848.93
Accumulated loss as a percentage of paid up **capital**	NA	NA	NA	NA	NA
Net worth	**8270.64**	**7562.79**	**6993.92**	**6477.98**	**6010.39**

6 Audit checks

Performance of the company relating to manufacturing as well as marketing with reference to the budgets may be examined and suitably commented.

(i) Review the purchase files in respect of purchase of raw materials with a view to ensure that the formalities have been complied with ensuring economy and efficiency in purchases.

(ii) Review the consumption of raw materials with reference to material requirements as per standards and normal wastages allowed.

(iii) Check whether the materials recorded as wastage has been accounted as scrap.

(iv) Review records maintained for scrap and actual disposal of scrap.

(v) Review records relating to fixation of selling price for the products with reference to cost accounting records which the company is required to maintain as prescribed under clause (d) of subsection (1) of section 209 of Companies Act, 1956.

(vi) The expenditure on R & D activities of the company may be examined and suitably commented upon.

(vii) Examine whether the expenditure incurred on expansion and diversification is with a view to achieve any future progress in the functioning of the Company.

(viii) The system of manpower management followed by the Company may be examined and commented upon. Regarding the trainings given by the Company to motivate the employees, it may be seen whether any cost effective study has been made in this connection.

(ix) Matters relating to CST in respect of inter-state sales may be examined and commented upon.

(x) The system followed by the Company for managing EPF, gratuity etc. for the employees may be examined and commented.

(xi) Examine the policy of fixation of agency's commission, discounts/ rebates and warranties.

(xii) Progress in respect of disciplinary action, court cases etc. may be examined to see whether there is avoidable delay/ expenditure due to negligence on the part of management in dealing with them.

Kerala Agro Industries Corporation Limited
Kissan Jyothi, Fort,
Thiruvananthapuram 695023

1 Introduction

Kerala Agro Industries Corporation Limited, Thiruvananthapuram was incorporated in March 1968.

2 Objectives

The main objectives of the Company are:

(i) Manufacture and distribution of agricultural machinery and implements.

(ii) Making available necessary custom services for modernization of agricultural operations.

(iii) Undertaking and assigning efficient distribution of inputs for agriculture.

(iv) Promotion and execution of industries having a bearing on production, preservation and supply of food.

(v) Providing technical guidance to farmers and persons concerned with agro industries.

3 Organisation Structure

The number of members in the Board of Directors of the Company shall be not less than three and not more than twelve including one nominee of the Government of India. The Company has got 14 district offices, production unit called Kerala Agro Fruit Products at Punalur and a centre for Research, Development and Training at Malampuzha.

4 Activities

Purchase and sale of tractors, power tillers, pump sets and their spares, fabrication of crushers, winnower, sales bunk and green houses etc, running of workshops for repair of agricultural implements, imparting training in operation of agricultural machinery and trading in natural rubber and allied products.

As the traditional activities were found to be not as remunerative as before, the Company has undertaken works of diverse nature such as civil works, commodity trading, setting up of solid waste treatment plants etc.

A new product by the name 'Coco Crispy', made from tender coconut was launched by the Company during 2007-08.

A unit of the Company, Agro Fruit Products, Punalur remains closed since May 2004.

The Company is one of the designated agencies of the Government of Kerala for distribution of fertilizers under subsidy scheme.

5 Financial Highlights

Particulars	**2003-04**	**2002-03**	**2001-02**	**2000-01**	**1999-00**
	(Rs. in lakh)				
Authorised Share Capital	500	500	500	500	500
Paid up capital	474.11	474.11	474.11	474.11	474.11
Borrowings	648.25	589.95	493.49	444.28	389.3
Debt equity ratio	1.37	1.24	1.04	0.94	0.82
Total income for the year	1752.82	1466.61	1124.79	1838.13	2797.59
Net Profit before Tax and Dividend	**-191.36**	**-93.27**	**-257.57**	**-235.85**	***-220.31***
Accumulated Loss/Accumulated profit	-1647.08	-1455.72	-1362.44	-1090.33	170.67
Accumulated loss as a percentage of paid up capital	-347.40	-307.04	-287.37	-229.97	NA
Net worth	**-505.57**	**-314.21**	**-220.94**	**51.18**	**287.03**

6. Audit Checks

Implementation of subsidy scheme of Government of Kerala may be examined in addition to regular audit checks applicable to the Sector.

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Web site: www.keralaautomobilesLimited.com

1 Introduction

The Company was incorporated in March 1978 as a private company under Government Sector with headquarters at Thiruvananthapuram.

2 Objectives

The main objective of the company is manufacturing and selling of three wheeled motor vehicles.

3 Organisation structure

The number of Directors shall not be less than three and more than nine. Except the Managing Director, all directors are non-functional. The administrative control of the company rests with the Industries Department, Government of Kerala.

4 Activities

The Company started commercial activities in 1984 with the production of three wheelers with petrol engine in collaboration with M/s. Automobile Products of India Limited (API). Production with diesel engine was started in 1988 in collaboration with M/s. Greaves Limited. The Company suffered heavy loss due to teething troubles and competition. It was declared as a sick company and referred to BIFR in February 1993.The position improved and the company was discharged from the purview of BIFR by December 2002. The entire accumulated loss was written off by the end of 2004-05.

There are four production departments in the Company.

- The manufacture of chassis, fabrication and welding are done in the fabrication and process shop.

- The components used in three wheelers are machined in the machine shop.
- The assembling of main assembly up to vehicle and the various sub assemblies are done in the assembly shop.
- The vehicles and components are painted in the paint shop.

There are service departments to provide necessary services to the production departments.

The important raw materials for manufacture of three wheelers are Steel sheets, steel tubes, Diesel Engines, Tyres, Master Cylinder etc. The main supplier of steel items is SAIL. The other brought out inventories are made available by suppliers from outside Kerala. The purchase policy of the Company is mentioned in the manual and periodical purchase contracts are being entered into with the suppliers.

Sale of three wheelers is through dealers. The major dealers are Navin Agro, Delhi, Mela Sing and Sons, Vikas Automobiles, Kothari Automobiles, Teotia Automobiles and Federal Automobiles.

For inward movement of materials and also for transportation of finished goods to sales points, the company enters into transportation contract with transporters once in two years, after inviting quotations.

The turnover of the company during 2005-06 was Rs.31.75 crore.

5 Research & Development

R&D of new variants and also correction of field complaints through re-engineering of existing products, components and assemblies of existing variants of three wheelers are being undertaken.

6 Computerisation

Inventory accounting and invoicing activities, Pay roll & labour utilisation records etc. are computerized. Computerised MIS is in vogue. The company is maintaining cost accounting records as per Sec.209 (d) of Companies Act 1956.

7 Performance Review

The performance of the Company was last reviewed in 1997-98 and audit findings incorporated in the Audit Report (Comml) 1997-98. The review was discussed in COPU and recommendation included in the 18th Report of COPU (2001-2004).

8 Financial Highlights

Particulars	2005-06	2004-05	2003-04	2002-03	2001-02
	(Rs. in lakh)				
Authorised Share Capital	1110	1000	1000	1000	800
Paid up capital	1022.81	1022.82	915.86	915.86	875.49
Borrowings	569.71	299.1	350.53	402.35	691.84
Debt equity ratio	0.56	0.29	0.38	0.44	0.79
Total income for the year	3225.12	4213.37	4461.51	4607.71	4429.51
Net Profit before Tax and Dividend	**-242.66**	**21.7**	**204.65**	**269.99**	***247.89***
Accumulated Loss/Accumulated profit	-221.04	0.00	-8.37	-140.19	-406.6
Accumulated loss as a percentage of paid up capital	-21.61	0.00	-0.91	-15.31	NA
Net worth	**801.77**	**1042.82**	**907.49**	**775.67**	**468.89**

9 Audit checks

(i) Purchase of raw material based on the requirements received from the Production/Stores departments may be verified to examine that the manual provisions regarding quality etc. have been followed before finalizing orders for purchase.

(ii) Examine and report on the quality of the materials purchased conforms to the purchase order specifications. In case materials not conforming to the order quality specifications were accepted, the extra expenditure/ loss on account of the same is to be commented.

(iii) Consumption of materials for production may be compared with the standard consumption. Variations, if any, in consumption may be quantified and reported upon.

(iv) Rejection of products on account of non-confirmation to the required quality may be quantified and the same analysed and reported upon.

(v) Machine hour utilisation in the manufacturing unit may be checked with standard and low productivity, if any, may be quantified and commented.

(vi) Manpower utilisation may be compared with the standards and underutilization, if any, may be quantified and commented.

(vii) Generation of waste during manufacturing may be compared with admissible standards and excess generation, if any, may be reported.

(viii) Terms regarding appointment of dealers may be verified and any undue advantage extended to the dealers may be quantified and commented.

(ix) Examine supply contracts entered into with customers for sale/export of the products with a view to ensure that the entity interest was safeguarded.

(x) Reasons for holding up of finished stock, if any, may be examined and commented.

(xi) Physical stock verification report may be examined to see whether the differences between the book stock and physical stock were reconciled and if not, may be qualified and reported upon.

(xii) Examine the files relating to transportation contracts for movement of raw materials and finished products.

(xiii) The internal check system prevailing in the Company and the follow up action on the internal audit report may be examined and reported.

(xiv) The Company is reported to be facing shortage of working capital and also heavy competition in the market from giant private sector units. The action taken by the Company to tide over the situation by inducting the required professionalism for a successful competition in the market may be examined with a view to give positive advice to the entity.

(xv) Sale of vehicles are made having due regard to the relevant pollution/emission norms (Euro II, Bharat Stage II, as the case may be).

(xvi) Deficiency of the Company in availing CENVAT credit may be examined.

(xvii) Since the Company is engaged in export of automobiles, the efficiency of availing various export incentives may be examined. As per foreign trade policy of the Government of India, exporters are entitled to Duty Entitlement Pass Book (DEPB) on the FOB value of goods exported. Similarly, under Export Promotion Capital Goods (EPCG) Scheme, exporters are eligible for concessional import duty on the import of capital goods, subject to fulfillment of specific conditions. This aspect may be examined.

Specific Audit Checks for Textile Sector

(i) (a) Whether seasonal purchase of cotton is made so as to ensure quality and economic prices. If not, loss due to defective procurement system may be quantified with system lapses on the part of the Company.

(b) Procurement of cotton may be examined to see whether the purchase manual provisions were adequately taken care of in the interest of the Company and if not, the avoidable expenditure may be quantified in the report.

(ii) The production planning in line with optimal financial performance may be verified.

(iii) Standard norms for production of yarn per quantity of cotton may be compared with actuals and reasons for any fall in production, if any, may be analysed, quantified and brought out in report.

(iv) Review the norms for consumption of material vis-à-vis actuals. Labour idle time reports etc. may be reviewed.

(v) Review the percentage of defective and sub-standard production and examine the effectiveness of system to dispose of the same. Reasons for excessive production of sub-standard/defective products should be examined in detail.

(vi) The material management in respect of raw materials and stores with a view to improve the efficiency of the system in the Company.

(vii) Standard norms relating to manpower utilisation, machine hour utilisation, electricity consumption etc. may be compared with the actuals to see whether there is any adverse variation, if so, the same may be quantified and reported.

(viii) Steps taken to avoid idle time due to absenteeism/shortage of back stuff.

(ix) Product mix optimization.

(x) Review the expenditure relating to replacement of rejections by customers.

(xi) Proper agreements have been entered into with parties before supplying them the goods.

(xii) Calculations of commission paid.

(xiii) Realization position in respect of parties should be seen to see that the funds are not unnecessarily blocked for long period with debtors.

(xiv) Examine whether:

(a) Pricing is done on realistic basis/norms adopted by the Company for fixation of selling price of the finished products may be examined to see whether the same absorb all the direct and indirect costs and includes an element of profit.

(b) Abnormal discounts/rebates have been allowed in any case.

(c) In case of discount sales, the prices have been fixed after keeping in view the stock and market position.

(xv) Examine whether:

(a) terms and conditions of credit sales are prejudicial to the interest of Company and undue favour is extended to any party.

(b) there is delay in obtaining funds and consequently there is loss of production.

(c) funds remain idle and are not promptly utilized.

(d) the credit period allowed to debtors is unduly long.

(xvi) Records relating to quality of yarn manufactured may be examined to see whether the intended quality is obtained and if not, the loss may be quantified and reported.

(xvii) Records relating to generation of waste (saleable & non-saleable) in the spinning mills may be examined to study whether the percentage generation is in conformity to the standards fixed and if so, the reasons may be investigated and reported.

(xviii) Records on non-moving/slow moving items and remarks on non disposal of waste may be incorporated in the IR.

(xix) The physical stock verification report and the reconciliation statement regarding the physical stock and book stock may be examined to ensure that the difference is reconciled.

(xx) Steps taken to conserve energy in the mills as per energy audit recommendations and leakages/fault in motors, non use of energy efficient equipments for power saving, improper maintenance, inefficient usage, non maintenance of power factor and overloading of machines may be examined and brought out in the IR.

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1 Introduction

The Kerala State Textile Corporation Limited (KSTC) was incorporated as a private Company in March 1972 with headquarters at Thiruvananthapuram. The Company is under the administrative control of Industries Department, Government of Kerala. The Company has four mills and one Research and Testing Centre. The administrative control of the two other Companies, (Sitaram Textiles Limited and Trivandrum Spinning Mills Limited under closure from 1988) is now vested with the Company.

2 Objectives

The main objectives of the Company are to set up and run textile mills in the State/to manage the business of textile mills/to acquire & undertake the business of an undertaking carrying on textile business/to take over and run as a matter any textile mill in Kerala which is likely to be closed/to carry on the business of spinners, dyers/printers, weavers and to act as a general consultant in textile business.

3 Units of the Company

(i) Prabhuram Mills

(ii) Kottayam Textiles

(iii) Edarikkode Textiles

(iv) Malabar spinning and weaving mills

(v) Centre for Applied Research and Development in Textiles (CARDT)

Prabhuram Mills, Kottayam Textiles and Malabar Spinning and Weaving Mills were acquired by the Corporation under Kerala Sick Textiles Undertakings (Acquisition & Transfer of Undertakings) Act 1985 freed from all liabilities and vested with the Corporation with effect from 1.9.83. The Company on its own started Edarikkode Textiles in the year 1987. Of the Hosiery processing unit and Kelnit Division set up by the Company in 1980, the former was sold to Hantex in 1989 and the latter closed down in 1995. Merger of Trivandrum Spinning Mills which was under closure from 1988 and Sitaram Textiles Limited was entrusted (Jan 2008) to the Company by Government of Kerala. Meanwhile the KSTC was referred to BIFR (4/2003) and SBT was appointed as the operating agency. The revival scheme at a total cost of Rs. 22.11 crores has been sanctioned by the Government. The scheme is under implementation.

In addition to the above, Corporation has under its fold a research and testing division (CARDT) which is rendering service to testing of fibres, cotton and yarn to the textile units in Kerala.

Praburam Mills: .The mill has 17968 spindles capacity. The unit presently produces 90s and 100s Combed yarn.

Kottayam Textiles: The unit has 25000 spindle capacity. The unit presently produces 90s and 100s Combed cotton yarn.

Edarikkode Textiles: The mill has 25000 spindle capacity. The unit presently produces 80s carded, 90s and 100s Combed yarn.

Malabar spinning and weaving mills: The mill which was under lay off from August 2003 was reopened and started production with effect from 17.12.2006. It is a century old mill in the Malabar region at Calicut. A modernization programme of the mill is under implementation.

4 Capital and borrowings

The authorised share capital of the Company is Rs.20 crore (20 lakh equity shares of Rs. 100 each). The paid up capital as on 31.3.2008 was Rs.18.63 crore. Besides this an amount of Rs 31.45 crore being advance against share capital was pending allotment. The shares were fully subscribed by the State Government. The grant in aid sanctioned by State Government as on 31.3.08 amounted to Rs.175 lakh.

The Borrowings of the Company as on 31.3.08 was Rs.10.61 crore and interest accrued & due thereon was Rs 5.20 crore. Of the above, Rs.3.71 crore was from Banks, Rs 10.55 crore from KIRFB and Rs.1.55 crore from Government of Kerala. Government had ordered conversion of loans with interest accrued thereon upto 31.03.2007 amounting to Rs 23.94 crore into equity (GO (MS) No.41/2008/10 dt. 31.03.08).

5 Organisation Structure

The number of Directors in the Director Board shall not be less than two and more than 9. The Managing Director is functional Director. Each mill has separate Technical, Personnel and Finance Departments and are headed by General Managers.

6 Activities

The main activity of the Company is production of yarn and its sales. Cotton for yarn production is procured from sources at Tamil Nadu, Karnataka, Andhra Pradesh, Maharashtra etc. The cotton purchase committee decides on the centralized purchase of Cotton. Stores required for the mills are purchased by the mills themselves following ABC analysis. The purchase decisions are taken on the basis of Cotton Purchase guidelines and Stores purchase manual provisions as the case may be. The season for purchase of cotton is generally during September to December. The Company has got two Sales Depots (Bombay & Ichalkaranji) for marketing the products.

7 Manufacture

The cotton of different varieties are mixed according to count and fed into blow room machinery. The materials are individualized and parallelized by processing in carding, draw frame and spinning. The spun yarn is wound and packed in bags for marketing.

Cost audit: The Company has cost records and cost audit is done for all the 4 units and The Company has separate branch auditors for the units and the branch accounts are consolidated by the statutory auditor. The Company is also having a good management information system.

Training: The centre for applied Research & Development in Textiles, the Company's testing centre, impart training to the employees in addition to testing cotton, yarn and process samples.

Computerisation: The accounts department, stores, production, sales and cotton department etc. of the Company are computerized.

8 Financial highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)				
Authorised Share Capital	2000	2000	2000	2000	2000
Paid up capital (incl. Cap Adv)	5797.21	5008.92	2314.75	1863.19	1863.19
Borrowings (Secured + Unsecured)	1660.42	1582.28	4044.16	4001.23	3912.87
Debt equity ratio	0.29	0.32	1.75	2.15	2.10
Turnover	3161.69	3723.08	3694.92	3545.55	3532.55
Net Profit before Tax and Dividend	**-483.19**	**-370.53**	**83.04**	**-191.37**	**-324.94**
Accumulated Loss/Accumulated profit	-5520.58	-5045.34	-4676.67	-4758.45	-4564.99
Accumulated loss as a percentage of paid up capital	95.23	100.73	202.04	255.39	245.01
Net worth	**276.63**	**-36.42**	**-2361.92**	**-2895.26**	**-2701.8**

9 Audit Checks

(a) Transaction audit

In addition to common audit checks/checks prescribed for textiles sector, the following may be examined in detail.

(i) Files relating to purchase of cotton may be examined to see whether the purchase manual provisions were adequately taken care of in the interest of the Company and if not the avoidable expenditure may be quantified in the report.

(ii) The quality specifications of the raw materials (cotton) ordered to be supplied and actual quality of the materials taken to stock may be compared to see whether any adverse variation in quality of the material supplied was adequately compensated by the supplier and if not, the same may be reported in IR. South Indian Textile Research Association (SITRA) norms may be referred for this purpose.

(iii) Delay in getting deliveries from suppliers is noticed. Reasons may be analysed/reported.

(iv) The Company entered into contracts with the suppliers on the same day for same variety at varied prices. This should be examined and reported in the IR.

(v) The reasons for poor performance may be analysed and suggestions for turnaround incorporated in the IR para.

(vi) The company has set up a yarn bank for distribution of hank yarns at fair price to Handloom Sector. Records relating to the transactions may be examined and result reported to audit.

(vii) Implementation of revival scheme and contracts entered into for the purchase of textile machineries and work files may be reviewed.

(viii) The Company has proposed to start a new business activity (trading) by giving certified textile products as per the requirement of the customers. Diversification activities taken up by the Company.

(ix) Modernization project for Malabar Spinning and Weaving Mills.

(x) Review the position of Yarn Bank dues – HANTEX – huge amount is due from Kerala State Handloom Weavers Co-operative Society Limited (HANTEX) towards yarn supplied to them from yarn bank.

(xi) Government vide GO(Rt)No. 54/08/ID dated 18.1.08 have ordered for the merger of Trivandrum Spinning Mills Limited and Sitaram Textiles Limited with Kerala State Textile Corporation Limited. Present status of amalgamation may be reviewed.

(b) Financial Audit

All routine/common audit checks may be carried out.

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1 Introduction

Sitaram Textiles Limited, with registered office at Thrissur is a Private Company incorporated in February 1975 to take over the management of Sitaram Spinning and weaving mills, Thrissur. The mill was modernized in 1978 by establishing a spinning unit with 12064 spindles. The Company is under the administrative control of Industries Department, Government of Kerala.

2 Objectives

The main objectives of the Company are trading / processing/ manufacture of yarn from cotton, cellulosic fibre, non cellulosic fibre, man made fibre, silk, wool or a mixture of these materials and all types of clothing and other fabrics made of such yarn.

3 Organisation structure

The number of members in the Director Board of the Company shall not be less than two and more than eleven. One Director is a nominee of the National Textiles Corporation (NTC). Except the Managing Director all Directors are nonfunctional.

4 Activities

The main activity of the Company, at present, is manufacturing of cotton yarn. The total installed capacity as on 31/3/2008 is 14800 spindles (single shift) including 2736 spindles imported from China during 2006-07. Cotton, the raw material for production of yarn is procured during February and November seasons from Tamil Nadu, Andhra Pradesh etc. Supply contract is generally entered with the suppliers generally for a period of three months. Products of the company are sold from depots at Mumbai and sales realisation within 7 days of sale.

5 Financial highlights

The turnover of the Company for 2007-08 was Rs.8.52 crore and the loss Rs.2.09 crore which has resultant accumulated loss of Rs.43.50 crore (as on 31.3.08). As on 31.03.2008 the total outstanding borrowing was Rs 14.93 crore and interest accrued & due thereon was Rs 20.03 crore.

Particulars	2007-08	2006-07	2005-06	2004-05
	(Rs in lakh)			
Authorised Share Capital	600	600	600	600
Paid up capital (incl. Cap Adv)	594	594	594	420
Borrowings (Secured + Unsecured)	3495.92	3127.59	3133.09	3000.83
Debt equity ratio	588.54	526.53	527.46	714.48
Turnover	795.32	672.53	636.71	674.14
Net Profit before Tax and Dividend	**-208.57**	**-92.1**	**-170.51**	**-301.19**
Accumulated Loss/Accumulated profit	-4349.56	-4114.11	-4021.08	-3849.15
Accumulated loss as a percentage of paid up capital	-732.25	-692.61	-676.95	-916.46
Net worth	**-3755.56**	**-3520.11**	**-3427.08**	**-3429.15**

As a part of expansion and modernisation of the company, the Government of Kerala sanctioned merger proposal of the Company with Kerala State Textile Corporation Limited together with M/s. Trivandrum Spinning Mills Limited.

6 Accounts and Audit

Internal audit is entrusted to outside agencies. All departments except the Production Department are computerised. However, there is no properly integrated IT system.

7 Audit checks

(a) Transaction Audit

Common audit checks/audit Checks prescribed for textile sector may be carried out.

(b) Financial Audit

Routine/common audit checks may be exercised.

Specific Audit checks for companies in the traditional sector

Most of these Companies were started by the Government to uplift the traditional employees by providing maximum days of employment, fair wages and also to give financial assistance and to market their products. The business of these Companies is always linked with the social objectives of the Government. Socio political factors are likely to have a bearing on the business activities of these companies. Audit checks primarily aimed at ensuring that the company could work as a commercial undertaking while meeting its social objectives. Following audit checks are prescribed in this connection.

1) Whether various welfare schemes of the Government were identified and implemented efficiently?
2) Whether the system of identifying beneficiaries for various welfare schemes was adequate?
3) Whether there exist purchase policy and procedure and whether raw materials were procured efficiently and economically and on a reasonal basis?
4) Whether stock levels been fixed and purchases made accordingly?
5) Whether standard input –output norms was fixed and the production regulated accordingly?
6) Whether processing was done efficiently and whether the capacity available in the factories was utilized to the optimum level?
7) Whether the system of storage and transportation of goods was adequate?
8) Whether maximum days of employment could be provided to the employees in a cost effective manner?
9) Whether the company is prompt in payment of EPF, Gratuity & ESI contributions?
10) Whether requirement of funds for operation was estimated in advance and mobilized in an economic manner?
11) Whether the Company is prompt in claiming rebate and subsidy from the Government by furnishing audited statements/utilization certificates?
12) Whether targets fixed for showrooms were achieved?

Kerala State Handloom Development Corporation Limited

PM 32/249,Thilleri Road,Cannore-670001
Tele No – 0497 2767976, 2701804, 2701998

1 Introduction

Kerala State Handloom Development Corporation Limited was incorporated as a public company in June 1968. The company with headquarters at Kannur is under the administrative control of Industries (C) Department, Government of Kerala. The Company has a subsidiary called Kerala Garments Limited.

2 Objectives

The objectives of the company are to promote and uplift traditional weavers in handloom sector in the state and to market handloom fabrics manufactured by the weavers.

3 Organisation Structure

The Director Board of the company shall have not less than two members and not more than nine. The Company has Production, Finance, Marketing, Company Secretarial & Legal, Administration and R&D departments. There are three regional offices (Thiruvananthapuram, Kochi and Kannur), one processing house (Kannur), three Dye houses (Thiruvananthapuram, Kannur and Palakkad) and seventy three sales outlets in the State.

4 Activities

The present activities of the company include production and marketing of handloom products for upliftment of traditional weavers in the State.

Bleaching and drying work of yarn and fabrics, printing and finishing work of fabrics etc. are being carried out at processing houses. Raw yarn, grey fabrics, dyes and chemicals etc. are the main inventories. Dyes and chemicals are procured from National Handloom Development Corporation (NHDC). Yarn and clothes are produced by weaver of the company and also supplied by co-operative societies and handloom exporters. Direct sales are also made to Government departments, PSUs etc.

5 Financial Highlights

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
	(Rs. in lakh)				
Authorised Share Capital	1500	1500	1500	1500	1500
Paid up capital	1410.28	1390.29	1355.48	1331.48	1315.48
Advance towards Share Cap	0	0	0	0	0
Borrowings (Secured + Unsecured)	3267.45	3060.19	2856.13	2654.62	2456.28
Debt equity ratio	2.32	2.20	2.11	1.99	1.87
Total turnover for the year	1336.65	2032	18880.07	1534.51	1357.98
Net Profit before Tax and Dividend	**-408.5**	**-403.33**	**-286.35**	**-685.01**	**-405.29**
Accumulated Loss/Accumulated profit	-3212.42	-2769.18	-2376.33	-2085.63	-1400.62
Accumulated loss as a percentage of paid up capital	-43.90	-50.21	-57.04	-63.84	-93.92
Net worth	-1802.14	-1378.89	-1020.85	-754.15	-85.14

6 Accounts & Audit

The company has computerized most of the functions. However, the activities at the HQ and the ROs are not integrated.

The important accounting policies are as given hereunder:

- Consumable stores are written off fully in the year of purchase and only the stationery and printed forms are accounted for stock purposes.
- The gratuity liability is covered by Group Gratuity cum Life Assurance Scheme with the Life Insurance Corporation of India. Any shortfall on account of difference between the amount settled and reimbursement received from LIC is absorbed in the relevant year on cash basis. Provision for surrendering of leave encashment is not made in the accounts since the amount involved is immaterial.

- Finished goods are valued at selling price less a certain profit margin or net realizable value whichever is lower. Raw materials, weaving accessories, stationery and printed forms etc. are valued at cost.

7 Audit Checks

(a) Transaction Audit

In addition to the prescribed checks, the following items need to be reviewed in audit.

i) Procurement of yarn and comparing the price with reference to purchase procedures, Govt directions etc.

ii) Implementation of Handloom development scheme introduced by Central/State Government and the benefits granted to weavers.

iii) The activities of R&D wing and introduction of new designs in tune with marketing designs. Details of non moving stock due to design defect.

iv) Adequacy of the system of identifying beneficiaries under various welfare schemes.

v) Pricing of the products of the company vis-à-vis the norms adopted.

vi) Marketing of materials and realization of price.

vii) Discount sales of the materials and reimbursement claims for the same to the Government.

viii) Profit sharing agreements made with the District Panchayat, Kannur for operating the CFS Centre, Kannur.

ix) Marketing incentive receivable from Central Govt under IHDS scheme.

(b) Financial Audit

Routine audit checks applicable for manufacturing and trading companies may be applied.

Kerala State Bamboo Corporation Limited
PB No.20, Angamaly south, Ernakulam 683 573
Email-bamboo@md5vsnlnet.in Ph No-0484 2452275,2452248

1 Introduction

Kerala State Bamboo Corporation Limited, Angamaly was incorporated as a Government company in March 1971. The company is under the administrative control of Industries Department, Government of Kerala.

2 Objectives

The company was incorporated for the welfare and social upliftment of traditional bamboo workers engaged in reed cutting, mat weaving and making handicraft items. The main objectives are:

(i) Developing and promoting industries based on bamboo, reed, cane and rattan and for undertaking manufacture of their products and trading of the same.

(ii) Providing financial and technical guidance for development of cottage industries based on bamboo.

(iii) Promoting, establishing and operating sales offices and also improving the market of bamboo and the products thereon, within and outside the country.

3 Organisation Structure

The number of Directors in the Board of Directors of the company shall not be less than two and more than twelve. Managing Director is the Chief Executive of the company.

The registered office of the company is at Angamaly, Ernakulam District. There is a regional office at Thiruvananthapuram and four divisional offices at Chalakudy, Pathanamthitta, Kothamangalam and Kalikare. There are 10 reed collection centers (RCC) and 23 mat procurement centers which include two community weaving centers (CWC) at Angamaly and Nettinampilly. A bamboo board manufacturing factory (Bamboo ply) was set up at Angamaly.

4 Activities

The main activities of the company are collection of reeds from the forest, distribution of the same to registered mat weavers and sale of reeds to other traditional workers, procurement of bamboo mats from registered weavers, manufacturing of bamboo ply etc. Marketing of mats and ply boards manufactured utilizing selected mats etc. are also undertaken by the company. A new product viz. Flattened Bamboo Board was launched in February 2008. Full scale commercial production of flattened bamboo board is yet to take up. The State Government has permitted the company to collect reeds from Government forests for distribution to traditional workers in the State. Exemption from payment of seigniorage on reeds also continues.

The company had been giving supply incentive to reed cutters, mat weavers and other category of workers attached to it.

5 Financial Highlights.

Particulars	2005-06	2004-05	2003-04	2002-03
	(Rs. in lakh)			
Authorised Share Capital	700	700	700	700
Paid up capital	675.38	659.38	645.38	641.38
Advance towards Share Capital	0	0	0	0
Borrowings (Secured + Unsecured)	539.66	528.89	518.09	415.69
Debt equity ratio	0.80	0.80	0.80	0.65
Total turnover for the year	922.68	966.28	897.14	1004.41
Net Profit before Tax and Dividend	**-220.58**	**-300.29**	**-263.77**	**-98.15**
Accumulated Loss/Accumulated profit	-965.98	-740.01	-437.99	-173.57
Accumulated loss as a percentage of paid up capital	-143.03	-112.23	-67.87	-27.06
Net worth	**-290.60**	**-80.63**	**207.39**	**467.81**

6 Accounts and Audit

The Company has finalized its accounts upto 2005-06.

The company is functioning in a computerized environment. Internal audit is done by the company's own staff. The internal audit officer is reporting to the Chief Executive.

Significant Accounting policies are indicated below:

- Amount payable to retiring employees on account of gratuity in excess of the amount under Group Gratuity scheme is accounted on ascertaining the liability or on payment basis.
- The stock of reeds at distribution centres are valued at cost or net realizable value whichever is less, but the stock of reeds at collection centres are valued at cost. The cost is being worked out at weighted average cost on yearly basis.
- All expenditure incurred on research activities being revenue in nature has been charged to Profit and Loss Account of the year in which it has been incurred.
- Government grant is being utilized for the related expenditure for which it is granted. Unutilized amount of grant received in respect of capital expenditure at the year end is taken as reserve for utilizing in succeeding years.
- Liability for unutilized and encashable earned leave is not provided in the accounts and will be accounted at the time of actual payment.

7 Audit Checks

(a) Transaction Audit

In addition to the prescribed checks, the following items need to be reviewed in depth.

(i) Grant/subsidies from Government under various schemes may be reviewed to ensure its effective utilization.

(ii) Adequacy of the system of collection of bamboo reeds from forests and distribution of the same to workers/societies.

(iii) The adequacy of system of transportation for distribution of reeds and bamboo products .Whether they were arranged through competitive tendering?

(iv) Purchase of chemicals, fuel like coconut shell, raw materials like veneer for manufacture of bamboo ply may be examined. Contract with railways and sugar manufacturers for sale of mats.

(v) Physical verification of stock of handicrafts materials and excess percentage of damaged stocks has to be examined and the reasons analyzed.

(vi) Scrutiny of feasibility report of capital projects like Flattened Bamboo ply project to see whether the project is financially viable.

(b) Financial Audit

In addition to routine audit checks of manufacturing and trading concerns, the following audit aspects may be scrutinized.

(i) Provision for damaged /nonmoving mats and plys.

(ii) Valuation of finished goods with particular reference to its realisability/discount offered.

The Kerala State Cashew Development Corporation Limited
Cashew House, PB No.13, Kollam
Email – cadco@sanchrnet.in Ph No- 0474 2742271 to 73

1 Introduction

The Kerala State Cashew Development Corporation Limited was incorporated as a private company under Government sector in July 1969 with Registered Office at Kollam.

2 Objectives

The main objectives of the Company are:

i) To purchase cashew nuts from India and outside and sell processed cashew nuts, cashew shell liquid and other by products of cashew within and outside India.

ii) To establish, maintain and operate factories in any part of the State of Kerala for processing cashew nuts and extraction of oil from the kernel.

iii) To distribute cashew nuts and cashew apples to processing factories established in Kerala and purchase cashew kernel, cashew shell liquid and other products and by products from the processing factories in Kerala.

iv) To purchase and process cashew apple and sell the products and by products of cashew apple.

v) To extract and process cashew shell liquid and sell the products and byproducts within and outside India.

3 Organisation structure

The Company is under the administrative control of Industries Department, Government of Kerala. There shall be not less than two and not more than eleven Directors in the Director Board of the Company. Managing Director is the only functional Director.

The Company has got 31 factories spread over the districts of Thiruvananthapuram (1), Kollam (25), Alapuzha (3) Thrissur (1) and Kannur (1).

4 Activities

The present activities of the Company are confined to manufacture and marketing of cashew kernels.

Raw cashew nuts are imported from Africa as well as procured from domestic markets. Contracts are entered into with suppliers specifying rates, quantity, delivery terms, quality specifications, payment terms etc. The availability of the raw material is more during March to May in domestic market. It is available through out the year in African market.

The raw cashew nuts are roasted and shelled and the cashew kernels with skin are sent to borma for heating. Heated kernels are subjected to peeling for removal of skin. The peeled kernels are graded according to size and quality and packed for sale.

5 Financial Highlights

Particulars	2005-06	2004-05	2003-04	2002-03	2001-02
	(Rs. in lakh)				
Authorised Share Capital	500	500	500	500	500
Paid up capital	11679.01	11679.01	11679.01	11679.01	11679.01
Advance towards Share Capital	8385.19	6564.69	6564.69	6564.69	6564.69
Borrowings (Secured + Unsecured)	32949.3	29082.67	24497.94	21869.74	21033.36
Debt equity ratio (debt for Rs 100 of equity)	2.82	2.49	2.10	1.87	1.80
Total turnover for the year	9307.74	3346.89	1222.78	164.93	5083.69
Net Profit before Tax and Dividend	**-12541.94**	**-4098.09**	**-3404.58**	**-3025.89**	**-3406.24**
Accumulated Loss/Accumulated profit	-61411.94	-48870.32	**-44767.64**	**-41374.87**	-38341.34
Accumulated loss as a percentage of paid up capital	-525.83	-418.45	-383.32	-354.27	-328.29
Net worth	**-41347.74**	**-30626.62**	**-26523.94**	**-23131.17**	**20097.64**

6 Accounts and Audit

Significant accounting policies of the Company are:

(i) Sales are recognized when goods are supplied and are recorded net of returns, trade discount, rebates and sales tax.

(ii) Interest income is recognized on a time proportion basis.

(iii) The liability for Gratuity is provided based on estimated calculations of the Corporation and is not based on actuarial valuation. Leave encashment is made on cash basis to the employees.

(iv) Foreign currency transactions are recorded at the exchange rate at which the bank makes the debits/credits and not at the rates prevailing on the date on which such transactions take place as specified in AS 11. As such exchange differences arising out of Foreign Currency transactions in respect of purchases and sales are not recognized as income or expense in the period in which they arise.

7 Audit checks

(a) Transaction Audit

Following areas need to be looked into in addition to the usual audit checks.

(i) Purchase of raw nuts from foreign and indigenous sources with reference to the terms of the purchase manual, Government Policy, processing requirement etc.

(ii) Comparison of rate of purchase with the prevailing market price of the raw cashew nuts as available in cashew bulletins published by Cashew Export Council of India or any other reputed organization in India.

(iii) Inter comparison of performance of factories with reference to output.

(iv) Justification for continued investments in leased factories, the ownership of which are under dispute.

(v) Comparison of actual realization of kernels with the standard and industry norms.

(vi) Export of kernels, cancellation of export orders/ penalty for breach of exports orders, etc.

(vii) Delay in realization of sales dues from foreign buyers and consequent loss of interest.

(viii) Delay in presenting export bills with Banks and consequent loss of interest.

(ix) Prompt availing of export benefits such as DEPB announced by the Central Government

(x) Agreements with State Trading Corporation for financing purchase of raw nuts.

(xi) Progress of action taken by the company for direct import of raw nuts from Africa by eliminating middlemen/agents.

(xii) Check damaged stock /non moving items and loss on account of it.

(b) Financial Audit

Following aspects may be examined inter alia.

(i) Calculation of gratuity.

(ii) Accounting of exchange difference on foreign sales.

(iii) Accounting of interest charged by Banks on discounting of export bills.

(iv) Sales commission to foreign agents.

(v) Accounting of DEPB benefits.

(vi) Provision for damaged stock/non moving finished goods.

(vii) Valuation of finished stock with reference to its cost and realisability.

Kerala State Coir Corporation Limited
P.B No.191,Factory Ward,Alappuzha-683001
Email-ho@keracoir.com.Ph No-0477 2243651 to 54

1 Introduction

Kerala State Coir Corporation was incorporated in July 1969 as a public sector company with registered office at Alappuzha. The company is under the administrative control of the Industries Department, Government of Kerala.

2 Objectives

The main objectives of the company are carrying on the business of developing, promoting and stabilizing the coir industry in Kerala and working as an expert house for coir and coir products.

3 Organisation Structure

The number of Directors in the Board of Directors of the company shall not be less than two and more than eleven. Managing Director is the functional Director. The various internal divisions of the company include Personnel, Purchase, Stores, Finance, Factory and Sales. The company is also having a division at Beypore and eleven show rooms in the country.

4 Activities

The present activities of the company include procurement of coir and semi finished coir products and processing them for sale, dyeing and bleaching of coir yarn by conventional methods which is done in the Dye house for captive consumption. Production of fibre, curled fibre (at Beypore division), coir mats etc. are also undertaken.

Coir yarn, fibre, dyes and chemicals etc. are the main raw materials purchased from small scale manufacturers and co-operative societies. Marketing of the products are through show rooms, direct sales, department sales as well as export sales.

The company has a proposal to set up a blended yarn project. For promotion of coir geo textiles, the company has got an R&D Department.

5 Financial highlights

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
	(Rs. in lakh)				
Authorised Share Capital	1000	1000	1000	1000	1000
Paid up capital	804.55	804.55	804.55	804.55	804.55
Advance towards Share Capital	0	0	0	0	0
Borrowings (Secured + Unsecured)	465.93	411.55	460.86	314.11	352.98
Debt equity ratio (debt for Rs 100 of equity)	0.58	0.51	0.57	0.39	0.44
Total turnover for the year	294.03	341.26	367.5	239.83	438.61
Net Profit before Tax and Dividend	**-129.98**	**-89.96**	**-97.26**	**-97.26**	**-97.26**
Accumulated Loss/Accumulated profit	-1238.9	-1108.02	-1018.97	-921.7	-913.47
Accumulated loss as a percentage of paid up capital	-153.99	-137.72	-126.65	-114.56	-113.54
Net worth	**-434.35**	**-303.47**	**-214.42**	**-117.15**	**-108.92**

6 Accounts and Audit

Financial accounting of the company is computerized, though there is no integration.

Significant accounting policies of the company are as given under:-

- Exports are accounted at the exchange rates prevailing on the date of transactions and gains/loss arising on account of exchange rate changes recognized in the Profit & Loss Account in the period on which they arise.
- Provision of gratuity to employees has been determined on the basis of payment of Gratuity Act 1972.
- Bonus to workers is paid at the rates determined by the Coir Industrial Relations Committee.
- Geo-textile development and Distress Purchase Scheme expenditure have been incurred out of and charged to the respective funds.

7 Audit Checks

(a) Transaction Audit

The following areas may be specifically covered in audit, in addition to regular checks.

i) The adequacy of system of purchase of coir and other raw materials with reference to Government guidelines may be examined.

ii) Check the schemes like Purchase Price Stabilization scheme and Distress Purchase Scheme to see that schemes were implemented properly.

iii) Efficient utilization of plant and machinery and payment of idle wages need to be examined.

iv) Strategy adopted by the company to curtail cost of Modern Coir Factory and Modern Dye House.

v) Reconciliation of production statements with wage sheets for ensuring accuracy of payments.

vi) Performance of show rooms with sales/expenditure targets fixed and material deviations to be commented upon.

vii) Pricing policy of each product, discounts and rebates may be checked.

(b) Financial Audit

Routine Audit checks may be exercised, besides all audit checks applicable to manufacturing and trading Companies may be conducted.

Kerala Artisans Development Corporation Limited
'Swagath',TC 12/755,GovernmentLaw College Road, Vanchiyoor P.O,TVM
email-Kadco@dataone.in

1 Introduction

Kerala Artisans Development Corporation Limited (KADCO) was incorporated in October 1981 as a public company. The company with the registered office at Thiruvananthapuram is under the administrative control of the Industries Department, Government of Kerala.

2 Objectives

The main objectives of company are to provide assistance to artisans belonging to carpentry, black smithy, gold smithy, masonry, bronze/copper smithy, poultry, shoe making etc and to organize and develop industrial production units so as to promote economic well being of the artisans.

3 Organisation Structure

The Board of Directors of the company shall have not less than two and more than eleven Directors. In addition to the head office at Thiruvananthapuram, there are three regional offices at Kollam, Ernakulam and Kozhikode.

4 Activities

The company is trading in products manufactured by artisans. They are procured mainly against orders canvassed from Government departments, judicial offices, PSUs, private parties etc. The company also makes available self employment loans to artisans utilizing the nominal cost bearing assistance of National Backward Class Finance Development Corporation (NBCFDC) and National Minority Community Development and Finance Corporation (NMCDFC).

In 2007-08, the State Government sanctioned an amount of Rs.100 lakhs to the company to establish a modern mechanical common facility service centre for handicraft products which is yet to be established.

5 Financial highlights

Particulars	2002-03	2001-02	2000-01	1999-2000
	(Rs in lakh)			
Authorised Share Capital	200	200	200	200
Paid up capital	195.31	195.31	195.31	195.31
Advance towards Share Capital	27.5	0	0	0
Borrowings (Secured + Unsecured)	158.49	194.48	190.47	206.82
Debt equity ratio (debt for Rs 100 of equity)	0.81	1.00	0.98	1.06
Total turnover for the year	84.64	106	60.26	38.8
Net Profit before Tax and Dividend	**-10.47**	**-22.76**	**-21.32**	**-18.53**
Accumulated Loss/Accumulated profit	-227.87	-217.4	-194.63	-173.3
Accumulated loss as a percentage of paid up capital	-116.67	-111.31	-99.65	-88.73
Net worth	**-5.06**	**-22.09**	**0.68**	**22.01**

6 Accounts and Audit

The Accounting function of the company was partially computerized. Accounts audit for the years upto 2001-02 have been completed. The significant accounting policies are as given here under:

- Amount advanced to primary production units (PPU) is treated as unsecured loans and classified under current assets.
- The corporation has joined in a Group Gratuity Policy with the Life Insurance Corporation of India, for its permanent employees, and liability has been accrued based on LIC's actuarial valuation. Gratuity payable includes Rs.1, 07,005/- as gratuity premium payable to LIC.
- No provision has been made in the accounts for Employees State Insurance, as the relative provisions of the said Act do not apply.

7 Audit Checks

(a) Transaction Audit

The following key areas have to be reviewed in audit.

(i) Sales through Trade Fairs/ festival bazaars/ melas should be scrutinized thoroughly with reference to bills/collection and remittances.

(ii) Purchase of furniture from artisans under service supply scheme.

(iii) Identification of beneficiaries for NBCDFC loans scheme.

(iv) Security against loans sanctioned to beneficiaries.

(v) Absence of verification of salary certificates produced as sureties.

(vi) Government grants for specific schemes and its effective utilisation.

(vii) Unviable loan schemes and slow recovery of loans.

(viii) NPAs against loans.

(ix) Incentives to staff based on performance.

(x) Contracts for procurement and supply of artisans products.

(b) Financial Audit

Routine audit checks of trading companies may be adopted.

Foam Mattings (India) Limited
P.B. No-4619,Beach Road,Alappuzha-686 012
Email-fomil@bsnlin.sancharnet.in
Ph No-0477-2251172,2254081,2264216

1 Introduction

The Foam Mattings (India) Limited, with registered office at Alapuzha, was incorporated in November 1978. The Company is under the administrative control of the Industries Department, Government of Kerala.

2 Objectives

The main objectives of the Company are to manufacture, sell, export, import and deal in all sorts of coir products and foam backed coir mattings.

3 Organisation structure

The number of Directors in the Company shall not be less than two and more than 12. Managing Director is the only functional Director. The Company has got separate Departments for Purchase, Personnel, Finance, Production, Stores and Sales. The heads of Departments are reporting to the Managing Director.

4 Activities

The activities of the entity, *inter alia*, include manufacture of floor covering materials such as mattings, mats, rugs made of coir, jute, sisal and other fine yarns, geo textiles etc. The important raw materials for production include coir yarn, latex jute yarn, sisal and chemical dyes used for dyeing and bleaching. Latex is procured from the State Farming Corporation Limited. Coir yarn is purchased mainly from Coir Fed. Chemicals are processed by inviting annual quotations. Mats and mattings are purchased from small scale producers and approved suppliers. The Coir Board fixes the procurement rates.

The Company is having a matting plant, latex backing plant, dyeing plant and a power loom plant for manufacture of the products.

5 Financial highlights

Particulars	2005-06	2004-05	2003-04	2002-03
	(Rs. in lakh)			
Authorised Share Capital	550	550	550	550
Paid up capital	515.23	515.23	515.23	515.23
Advance towards Share Capital	0	0	0	0
Borrowings (Secured + Unsecured)	0	0	0	0
Debt equity ratio	0.00	0.00	0.00	0.00
Total turnover for the year(including services)	461.92	573.5	523.91	526.32
Net Profit before Tax and Dividend	**-41.05**	**16.54**	**2.15**	**-6.32**
Accumulated Loss/Accumulated profit	357.26	398.32	381.78	379.63
Accumulated loss as a percentage of paid up capital	69.34	77.31	74.10	73.68
Net worth	**872.49**	**913.55**	**897.01**	**894.86**

In the matting plant, the yarn is made into spools which are converted into bobbins for filling to the looms where mattings are woven as per the required size and design.

The finished mattings are fed into the latex backing machine. After pumping centrifugal latex into the mattings, they are passed through infrared heater and vulcanizing chamber and the coated mattings are re-rolled.

Coir and jute yarns are dyed in the dye vat and moved to hydro extractor for removal of excess water.

In power loom plants, bobbins are filled to power loom bobbin stand and mattings are weaved in convenient sizes and designs.

The plants of the company also provide services for meeting the requirements of small and large-scale manufacturers in the industry.

6 Accounts and Audit

The Accounts of the Company is partially computerized. Introduction of an ERP system is not in the agenda of the Company.

7 Significant accounting policies

- Purchases are recognized on the basis of acceptance of goods by the Company. Revenue in the case of Latex backing & Dyeing & Bleaching is recognized whenever the work is finished.
- The provision for gratuity is made on accrual basis on each financial year's total wages & salary.
- Leave encashment has been provided on cash basis.
- The dealings in foreign currency are recorded at the exchange rate prevailing at the time of transaction. Monitory items denominated in foreign currency at the year end are stated at year end rate.

8 Audit checks

(a) Transaction audit

The following areas may be specifically covered in audit in addition to regular checks.

i) Purchase of coir with reference to Govt guidelines, purchase manual etc.
ii) Agreement with SFCK for the purchase of latex.
iii) Comparison of input yarn and latex with output mats.
iv) Contracts with outside agencies for services rendered by the Company.
v) Expenditure incurred on expansion and diversification.
vi) Accumulation of nonmoving stock due to design defects.
vii) Inter unit transactions and adjustments of stock and remittances.
viii) Damage to goods due to defective storage.
ix) Export Commitments and its compliance, job works executed for other parties with reference to the cost and its realization.
x) Export orders, its execution and ECGC coverages.

(b) Financial audit

In addition to routine audit checks, checks applicable to manufacturing and trading Companies may be done.

Handicrafts Development Corporation of Kerala Limited
S.M.S.M. Institute Compund,Puthenchanthai,TVM-695 001
Telephone No: 0471-2331358,2330755,2331668

1 Introduction

The Handicrafts Development Corporation of Kerala Limited was incorporated in November 1968 as a Government Company (jointly owned by the Central and State Governments) with head office at Thiruvananthapuram. The Company is under the administrative control of Industries Department, Government of Kerala.

2 Objectives

The main objectives of the Company are (i) To develop and promote handicrafts within the State of Kerala (ii) to provide financial, technical, marketing development or any other assistance and guidance to any establishment which is likely to facilitate development of Handicrafts in the State (iii) Promote, establish and operate sales emporia, showrooms etc. for improving marketability of the products, anywhere in the world.

3 Organisational structure

The number of Directors in the Board of Directors shall be not less than two and not more than twelve. The Managing Director is the CEO.

The Company has got 3 departments viz. Personnel & Administration, Commercial & Finance and Accounts.

Apart from a Common Facility Service Centre (CFSC) at Thiruvananthapuram, there are 18 show rooms within the country.

4 Activities

The company purchases rose wood, sandal wood, other wood etc. from the Forest Department, GOK, and the craftsmen working at CFSC are supplied wood and sketches approved by Master Craftsmen based on which they are to carve the required products. Finished products are also purchased from other artisans for sale through the outlets of the Company.

Sale of products is directly made through the outlets of the Company. Loans are made available to deserving Self Help Groups (SHGs) of artisans under micro credit scheme of National Backward Classes Finance and Development Corporation (NBCFDC).

The Company also used to participate in exhibitions and fairs inside and outside the country.

5 Financial highlights.

Particulars	2003-04	2002-03	2001-02	2000-01	1999-2000
	(Rs. in lakh)				
Authorised Share Capital	300	300	300	300	300
Paid up capital	276.77	276.77	273.52	266.52	256.52
Advance towards Share Capital	0	0	0	0	0
Borrowings (Secured + Unsecured)	586.15	508.71	505.97	430.65	360.66
Debt equity ratio	2.12	1.84	1.85	1.62	1.41
Total turnover for the year	461.15	505.82	492.06	591.33	616.78
Net Profit before Tax and Dividend	**-184.24**	**-152.6**	**-121.38**	**-104.01**	**-91.48**
Accumulated Loss/Accumulated profit	-895.80	-711.56	-558.96	-437.58	-333.56
Accumulated loss as a percentage of paid up capital	323.66	257.09	204.36	164.18	130.03
Net worth	-619.03	-434.79	-285.44	-171.06	-77.04

6 Accounts and Audit

The Company has partly computerized its activities.

Significant accounting policies

The following are the significant accounting policies followed by the Company:-

- No depreciation has been charged on grant received for acquiring of assets and the same has been disclosed at gross value in Schedule under appropriate head of account.

- Inventory valuation – Valued at cost or marketable price whichever is lower except for ivory items.
- Retirement Benefits

  Encashment of earned leave – Encashment of earned leave is based on earned leave actually accrued at the time of retirement and can be ascertained at the time of retirement.

7 Audit checks

(a) Transaction Audit

The following areas may be specifically covered in audit in addition to regular checks.

i) Accumulation of non moving handicraft items purchased from artisans/ SHGs.
ii) Accumulation of non moving handicraft items produced at CFSC and the reasons thereof.
iii) Implementation of micro finance schemes sponsored by NBCFDC.
iv) Policy of fixation of selling price, discounts, incentives etc. with reference to cost.
v) Inter unit transactions and adjustments of stock and cash remittances.
vi) Nonmoving of stock due to design defects.
vii) Recovery of loans given to artisans/SHGS.
viii) Income from exhibitions and trade fairs.
ix) Prompt realization of subsidy/rebate from the Government

(b) Financial Audit

In addition to routine audit checks, specific points applicable to trading Companies may be verified.

Specific Audit Checks for Tourism Services and Infrastructure

(i) Acquisition of land – Feasibility study of the project – Suitability of land for the project - Advance payment with the Revenue authorities, etc. – Payment of final compensation (including the amount fixed by Court) to landowners and recovery thereof.

(ii) Utilisation of the acquired land.

(iii) Review the feasibility report and ensure that the progress of the work is in conformity with the report.

(iv) Review the payments made to consultants and ensure that these are in conformity with settled terms and conditions.

(v) Examination of contracts for the creation of various infrastructure facilities.

(vi) Examine purchase contracts, works contracts and service contracts with reference to tenders/quotations.

(vii) Delay in execution of license agreement/lease deed.

(viii) Whether lease rent is fixed in accordance with market value and development cost incurred.

(ix) Delay in execution of supplementary agreement on expiry of license agreement

(x) Fixation/recovery of lease premium, lease rent, etc.

(xi) Whether grants received are utilized for the intended purpose.

(xii) Examine the variations in Revenue per Available Room (RevPAR) for each hotels/ each season.

(xiii) Review the food cost, staff cost and other service cost with respect to industry standards.

Kerala Tourism Development Corporation Limited
Mascot square, Trivandrum 695 033
Phone: 0471- 2727522
Fax: 0471-2727521
Email: ktdc@vsnl.com
Website: ktdc.com

1 Introduction

The Kerala Tourism Development Corporation Limited was originally incorporated in December 1965 by the name 'Kerala Tourist and Handicrafts Corporation Private Limited' with headquarters at Thiruvananthapuram. The name was changed to the present name of 'Kerala Tourism Development Corporation Limited' in July 1970. The Company is under the administrative control of the Tourism Dept., Government of Kerala. The Government has accorded sanction (Jan 2009) to amend the name clause of Memorandum of Association to change the name of the company to 'KTDC Hotels and Resorts Limited'.

2 Objectives

The main objectives of the Company are starting, operating and promoting establishments, undertakings and enterprises which are likely to accelerate the development of tourism and handicrafts in the State.

The grants in aid from the State and Central Governments were received occasionally which were adjusted against cost of respective assets. The company had received grant of Rs 23.72 crore from Government of Kerala upto 31.03.2009 for investment in Tourist Resorts Kerala Limited (TRKL) and the company has invested Rs 27.74 crore in the subsidiary company.

3 Organisation structure

The number of directors including the Chairman and Managing Director shall not be less than two and more than 15. The Managing Director is the only functional Director of the Company. There are three Regional Offices located at Thiruvananthapuram, Ernakulam and Kozhikode.

4 Activities

The Company started commercial operation in March 1966. Hoteleering, Boating, tour operations, need based travel assistance, support services etc. are being provided to tourists. As on date, it is running eight premium hotels, seven budget hotels, eleven yathri nivases, 14 motels, 26 restaurants and beer parlours, three Sabala Restaurants etc. The Company has also got a restaurant in Delhi viz. the Anantha Restaurant.

There are four boat clubs for operating boat trips in lakes and backwaters. The Company is also conducting sight seeing tours to various places in India through tourist reception centres located at places inside and outside the State. Two pilgrim amenity centres at Erumeli and Kulanada are also being run by the Company.

New projects under implementation include, interalia, the following.

(i) Heritage block at Mascot hotel (estimate-Rs.150 lakh).

(ii) Renovation of Hotel Chaithram (Rs.150 lakh).

(iii) Kerala House Project at Chennai (Rs.2200 lakh).

(iv) Marina Project at Bolgatty, Kochi (Rs.821 lakh).

(v) Branding of Yatri Nivases and Motel Arams.

(vi) Take over of Government building at Ponmudi and conversion into 3 star resorts etc.

5 Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rupees in lakh)				
Authorised Share Capital	5000	5000	5000	5000	4500
Paid up capital (incl. Cap Adv)	7070.5	5945.48	4859.5	4859.5	4858.49
Borrowings (Secured + Unsecured)	786.98	1316.48	1593.89	1961.63	2277.45
Debt equity ratio	11.13	22.14	32.80	40.37	46.88
Turnover	6087.94	5775.97	5442.18	4659.5	3927.86

Net Profit before Tax and Dividend	**55**	**-45.5**	**54.96**	**-306.49**	**-519.05**
Accumulated Loss/Accumulated profit	-2232.48	-2278.16	-2324.53	-2362.97	-2079.81
Accumulated loss as a percentage of paid up capital	-31.57	-38.32	-47.83	-48.63	-42.81
Net worth	**4838.02**	**3667.32**	**2534.97**	**2496.53**	**2778.68**

An amount of Rs.21 crore contributed by the State Government towards share capital contribution is pending allotment (as on 31.03.2009). In June 2009, the Government has accorded sanction to increase the authorised capital to Rs 75 crore.

6 Manuals & Technical term used

Hotel Operation Manual, Procurement Manual, Accounting Manual (part I & II), Administrative Manual, Works Manual and Recipe Manual are available in the company. Annual Budgets are prepared after deliberation at various levels.

ARR- Average Room Rate, RPAR- Revenue per Available Room, ARO-Average Room Occupancy are some of the technical term used in the business.

7 Computerisation & Internal Audit

Hotel Management Software which includes 15 modules is being installed in 6 premium properties, 3 Regional offices, Head Office and 10 beer parlours. Computerization process in all major units is being done. Internal Audit is conducted by engaging professional firms for Corporate/ Divisional and unit offices and reports are submitted on quarterly basis.

8 Audit checks

(a) Transaction Audit

i) The Company has taken up projects for expansion/ modernisation of business. The progress of action taken for execution of the projects may be compared and examined.

ii) Follow up action taken by the Company on the basis of the suggestions of the guests with a view to improve the quality of services may be examined and result brought out in the report.

iii) The system adopted for procurement of food/commodity items in the restaurants for providing quality services to the guests/customers of the company may be examined and the result brought out in the report, with suggestions if any, for improvements.

iv) The Company is maintaining a fleet of boats to be made available for boating in the lakes for the intending customers. Records regarding purchase of the boats and their maintenance, repairs etc. to keep them in good condition may be examined with a view to bring out a report on the same.

v) The Company is maintaining a fleet of luxury buses for tourist activities. The files relating to purchase of the vehicles and maintenance may be reviewed in audit and reported suitably.

vi) The effectiveness of professionalism, manpower management etc. of the company in dealing with the clients may be examined and reported.

vii) Examine whether cost effectiveness was adequately taken care of while fixing the rates for various services including concessions/discounts etc.

viii) Examine whether unintended benefits/undue concessions at the expense of the Company were provided to customers stating the interest of the Company.

ix) Files relating to appointment of consultants, lease agreements with premises providers, manpower suppliers etc. may be examined and instances of avoidable, unwanted expenditure drifting away from the interest of the entity noticed during audit may be quantified and reported.

x) Utilization of grants made available by Central/State Govts. for the intended purposes may be watched and results reported in audit.

xi) In addition to the above, the following heads may be verified to bring out deficiencies, if any.

- Consumption of provisions, stores and beverages.

- Kitchen and bar expenses.

- Upkeep and service cost.

- Expenses on power and fuel.

- Remuneration for contract employees.

- Expenditure on advertisement and sales promotion.

-Entertainment expenses.

- Repairs, renewals and replacements.

- Staff training expenses..

(b) Financial Audit

In addition to the prescribed audit checks the following aspects may be looked into with specific reference to the Accounting Standards involved.

i. Foreign currency transactions.

ii. Lease.

iii. Grants.

iv. Valuation of inventories.

v. Impairment of assets.

vi. Revenue recognition.

vii. Allocation of expenditure between capital and revenue/work in progress.

Tourist Resorts (Kerala) Limited
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Vikas Bhavan P.O., Trivandrum 695 033
Phone: 0471 2336233
Fax: 0471 2336433
Email: office@trkl.co.in
www.trkl.co.in

1 Introduction

Tourist Resorts (Kerala) Limited with registered office at Thiruvananthapuram, a subsidiary of Kerala Tourism Development Corporation Limited was incorporated as a private Company in August 1989. The company is under the administrative control of Department of Tourism, Government of Kerala.

2 Objectives

The main objectives of the company, interalia, envisage:

i) Operation and promotion of establishments/undertakings for accelerating development of tourism in the State.

ii) Purchase/take over from time to time, any of the assets of the holding company/Tourism department or any other company owned by Government of Kerala.

3 Organisation Structure

The number of Directors in the Board of Directors shall not be less than two and more than nine of which not less than five directors shall be appointed by the KTDC. Managing Director is the functional Director. The company has got only two employees on deputation and three on contract appointment.

4 Activities

The company had taken up 18 projects since inception and out of this 15 was abandoned after incurring Rs.41.11 lakh. The three line projects are Sarovaram Project, Thalassery Project and Ponmudi Guest House renovation project.

Under Public Private Participation Projects, the company has promoted two joint ventures companies ie., Taj Kerala Hotels & Resorts Limited (TKHRL) and Oberoi Kerala Hotels & Resorts Limited (OKHRL) investing Rs 1667 lakh and Rs 54.40 lakh respectively entitling the Company to 33.33 per cent and 20 per cent equity participation in these joint venture companies. The accumulated losses as on 31.03.2008 in joint venture were Rs 420.32 lakh in TKHRL and Rs 50.48 lakh in OKHRL.

These projects have not been taken up so far. The only income of the company at present is the lease rent on the lands at Kumarakom (12 acres), Varkala (1.56 acres) and Kochi (93 cents) where Taj group is running existing hotels.

5 .Financial Highlights

Particulars	2007-08	2006-07	2005-06	2004-05	2003-04
	(Rupees in lakh)				
Authorised Share Capital	4000	4000	4000	3000	3000
Paid up capital (incl. Cap Adv)	3818.79	3743.79	3693.79	3493.79	3223.79
Borrowings (Secured + Unsecured)	0	0	0	0	0
Debt equity ratio	NA	NA	NA	NA	NA
Turnover*	212.03	186.69	168.88	148.41	142.51
Net Profit before Tax and Dividend	**159.1**	**150.98**	**127.61**	**123.17**	127.18
Accumulated Loss/Accumulated profit	377.68	335.3	321.62	293.88	280.16
Accumulated loss as a percentage of paid up capital	(NA as it accumulated Profit)				
Net worth	**4196.47**	**4079.09**	**4015.41**	**3787.67**	**3503.95**
*Lease Rental is only Rs. 59.28 lakh upto 2006-07 and Rs 60.80 lakh for 2007-08 and balance represents interest on FD from Banks.					

6 Audit Checks

(i) The Company is taking up various projects under PPP mode. The progress in achievement of objectives may be verified.

(ii) Tourism Department appointed the Company as a nodal agency for various projects such as Thalassery project, Sarovaram Project, Ente Naadu – NRK meet. Slow progress/non utilization of funds may be critically examined.

(iii) Whether the Company exercises adequate control over the functioning of the JV Companies?

(iv) Whether there was reasonable return on investment?

(v) Fund management.

Other regular items of audit checks/common checks may be followed during transaction audit and financial audit.

Bekal Resorts Development Corporation Limited
2nd Floor, KVS Hyper Market,
Palakkunnu, Bekal P.O.,
Kasaragod 671 318
Fax: 0467 2236580
E mail: Bekal@vsnl.com

1 Introduction

The Bekal Resorts Development Corporation Limited with the corporate office at Thiruvananthapuram under the control of the General Administration Department, Government of Kerala was incorporated on 3rd July 1995. The Corporate office is shifted to Kasargod with effect from 1.8.2009.

2 Objectives

The main objectives of the company include carrying on business of planning, development, implementation and management of infrastructure facilities at Bekal, Kasaragod for promotion of tourism in all its aspects.

Acquisition of land and properties, building of Roads and bridges, airport, sea port and other structures, construction of Hotels, Motels, Tourism and leisure facilities, transportation and communication facilities, promotion of infrastructure facilities for tourism, setting up of power generating stations, distribution of power, running of health clubs, gardens, farms parks, amusement and theme parks, common facilities such as water supply sanitation and effluent treatment are included among the objectives.

3 Organisational set up

The Director Board of the Company has 3 to12 Directors appointed by the Government. The Chairman of the Company is nominated either by the Government of Kerala or by the Bekal Development Authority and in the absence of the above two, by the Directors themselves.

4 Activities

The Company has acquired around 220 acres of land at Kasargod and after improving the infrastructure facilities within the area, the land is leased out to private parties for developing 6 resort sites with a view to promote tourism.

To meet the water demand of the resorts and the adjacent public, a 7 MLD water supply scheme at a cost of Rs.17.52 crore was set up but kept idle so far. The income of the company is nominal lease rent from the lessees who are irregular in payment of lease rent and the company is also not capable of realizing the defaulted payments.

5 Financial highlights

The main revenue of the Company is lease rent and other non-operating income by way of interest etc. State assistances other than grant are treated as share capital contributions. The Central Government has sanctioned a grant of Rs.390 lakh to the company and the State Government grant as of date amounted to Rs.334 lakh.

Particulars	**2007-08**	**2006-07**	**2005-06**	**2004-05**	**2003-04**
	(Rupees in lakh)				
Authorised Share Capital	5000	5000	5000	5000	5000
Paid up capital (incl. Cap Adv)	4494.01	4444.01	4099.01	3899.01	3699.01
Borrowings (Secured + Unsecured)	0	0	0	0	0
Debt equity ratio	0.00	0.00	0.00	0.00	0.00
Turnover	141.46	119.63	21.15	7.27	3.51
Net Profit before Tax and Dividend	**19.42**	**49.12**	**-24.34**	**-42.96**	-49.15
Accumulated Loss/Accumulated profit	-166.24	-200.27	-74.62	-53.14	-23.35
Accumulated loss as a percentage of paid up capital	3.70	4.51	1.82	1.36	0.63
Net worth	**4327.77**	**4243.74**	**4024.39**	**3845.87**	**3675.66**

6 Audit checks

(a) Transaction Audit

(i) Around 220 acres of land acquired by the Company at a cost of Rs.28.50 crore have been leased out to 6 holders and the maximum lease realizable is around Rs.2.13 crore. Thus the maximum realizable rent is less than 7.5 per cent p.a. The reasons for this nominal realisation from huge investment are to be examined with a view to suggest measures for better returns from investment.

(ii) Records relating to all capital works/ development expenditure have to be scrutinized.

(iii) Examine whether all the expenditure incurred on infrastructure development have been included in the land cost.

(iv) The circumstances under which market value of the land is not taken for calculation of lease rent are to be examined and commented upon.

(v) Outstanding lease rent from lease holders have to be scrutinized with reference to the terms of lease. Remedial action taken with reference to the terms to safeguard the interest of the Company have to be watched.

(vi) The bank guarantees provided, collateral security furnished etc. by the Company are to be examined to ensure that there are provisions to safeguard the interest of the entity.

(vii) The water supply scheme established by the Company is going to be transferred to KWA. In this respect, the details of action taken by the management to safeguard the interest of the Company are to be examined and commented upon.

(viii) The Bekal Fort, Kasargod is a protected monument maintained by the Archaeological Survey of India and the PWD Rest house within the premises was handed over by the State Government to the Company without consulting the Archaeological Survey and the Company has spent substantial amount on its renovation. Compliance to related Acts, Rules and regulations have to be examined in audit.

(b) Financial Audit

In addition to the prescribed audit checks, the following items have to be scrutinized.

(i) Capital cost incurred for various development works.

(ii) Calculation of lease rent realizable from the lessees.

(iii) Calculation and accounting of interest and penal interest realizable from the lessees.

(iv) Accounting policies adopted by the Company.

(v) Accounting of Grant in aid may be verified with particular reference to AS 12.

(vi) Allocation between capital and revenue.

Specific Audit Checks for Companies in Social Welfare Sector

a. Transaction Audit

i. Identification and selection of beneficiaries.

ii. Viability of individual loan schemes.

iii. Adequacy and genuineness of securities.

iv. Mechanism for watching utilization.

v. Repaying capacity and recovery of loans.

vi. Overall promotion of schemes.

vii. One time settlements.

viii. Receipt and utilization of funds and refund of loans in respect of National Agency Schemes.

b. Financial Audit

i. Recognition of income from interest on loans.

ii. Asset classification and provisioning of Non Performing Assets.

iii. Provision for doubtful debts as per age/realisability of debts.

Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited

P.B.No. 523, Town Hall Road, Thrissur - 680020
Ph.No.0487-2331064 FAX: 0487-2334131
Email: ksdcho@bsnl.in

1 Introduction

Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited was incorporated in December 1972. The Company with headquarters at Thrissur is under the administrative control of S C and S T Development Department.

2 Objectives

The main objectives of the Company include socio-economic advancement and empowerment of people belonging to Scheduled Castes and Scheduled Tribes by extending loans to them at concessional rates of interest for undertaking various income generating activities in different segments viz agriculture, small industry, trade and services etc.

3 Organization Structure

The company shall have not less than two and not more than thirteen members in the Board of Directors. MD is assisted by the Project Officer, the Manager (E&R) and the Secretary cum Finance Manager at the head office of the company. There are twelve regional offices in districts other than Alappuzha and Kozhikode headed by District Managers.

4 Activities

The activities of the Company include financing different projects promoted by SC/ST entrepreneurs at concessional rates of interest. The financing/welfare schemes formulated by the Company are loans for housing, education, marriage and foreign employment. The schemes implemented through the Company by the National agencies (NSFDC, NSKFDC, NSTFDC, NBCFDC) are Self Employment Loan Scheme, Agricultural Land Purchase Scheme, Micro Credit Loan Scheme and Transport Scheme.

5 Financial Highlights

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
	(Rupees in lakh)				
Authorised Share Capital	7500	7500	7500	5000	5000
Paid up capital	6764.76	5879.98	5580.51	4846.42	4693.42
Borrowings	901.23	951.9	1100.47	1100.47	1128.75
Debt equity ratio	0.13	0.16	0.20	0.23	0.24
Turnover	452.44	414.88	426.02	400.64	379.29
Net Profit before Tax and Dividend	**64.17**	**-26.35**	**20.17**	**-1.02**	**1.88**
Accumulated Loss/Accumulated profit	7.45	-55.71	-27.76	-47.93	-46.9
Accumulated loss as a percentage of paid up capital	NA	-0.01	0.00	-0.01	-0.01
Net worth	**7095.21**	**6147.27**	**5875.75**	**5121.49**	**4969.52**

6 Audit Checks

(a) Transaction Audit

i. The Company initiated computerization of accounting in 2003, but the same is not yet functioning in a full fledged manner.

ii. The Company is required to take registration u/s 45 IA of the RBI Act, 1934. Under the provisions of this Act, the Company is required to follow the prudential norms of asset classification and provisioning. The Company had neither taken a certificate of registration u/s 45 IA nor followed the prudential norms.

General audit checks applicable to companies under Social Welfare and Financial Sectors.

(b) Financial Audit

General audit checks applicable to companies under Social Welfare and Financial Sectors may be conducted.

Kerala State Backward Classes
Development Corporation Limited
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Thiruvananthapuram -650 035.
Phone No. 0471- 2577539, 2317550 FAX: 0471-2577539
Email:ksbcdc@vsnl.net Website:www.ksbcdc.com

1 Introduction

Kerala State Backward Classes Development Corporation Limited was incorporated in February 1995. The company having its registered office at Thiruvananthapuram is under the administrative control of the S C and S T Development Department.

2 Objectives

The main objective of the company is to promote the comprehensive development of backward classes of Kerala by rendering assistance to their members to set up cottage, small scale and medium industries, trade and service centres, organize and develop fisheries, poultry, dairy farming, sericulture, rabbitry, intensive agricultural operations and self employment programmes etc.

3 Organization Structure

The company shall have not less than two and not more than eleven members in the Board of Directors. The heads of the departments of the company such as Administration Personnel, Projects and Scheme Implementation, Finance and Accounts, Secretarial, Recovery etc. are reporting to the Managing Director. The company has set up district offices in the entire district in the State.

4 Activities

The company has set up district offices in all the districts in the State. The activities of the Company involve financing different projects promoted by entrepreneurs from SC/ST and Backward class communities at concessional rates of interest. The schemes formulated by the company are loans for housing, education, marriage and foreign employment. The schemes implemented through the company by the National agencies (NSFDC, NSKFDC, NSTFDC, NBCFDC) are Self Employment Loan Scheme, Agricultural Land Purchase Scheme, Micro Credit Loan Scheme and Transport Scheme.

5 Financial Highlights

Particulars	2003-04	2002-03	2001-02	2000-01	1999-2000
	(Rupees in lakh)				
Authorised Share Capital	5000	4000	4000	4000	4000
Paid up capital	4176	4176	3826	3694	3319
Borrowings	10997	9190.65	6695.27	5498.41	3573.32
Debt equity ratio	2.63	2.20	1.75	1.49	1.08
Turnover	1229.44	1177.83	1035.24	773.28	476.57
Net Profit before Tax and Dividend	**610.6**	**662.58**	**502.16**	**344.75**	**156.25**
Accumulated Loss/Accumulated profit	2382.73	1772.12	1109.54	607.38	262.63
Accumulated loss as a percentage of paid up capital	NA	NA	NA	NA	NA
Net worth	**6558.73**	**5948.12**	**4935.54**	**4301.38**	**3581.63**

6 Audit Checks

(a) Transaction Audit

All operational and accounting areas of the company are computerized.

The income of the company is exempted from tax under section 10(26) (b) and 10(26) (BB) of the Income Tax Act, 1961.

General audit checks applicable to companies under Social Welfare and Financial Sector may be conducted.

(b) Financial Audit

General audit checks applicable to companies under Social Welfare and Financial Sector may be conducted.

Kerala State Development Corporation for Christian Converts from Scheduled Castes and the Recommended Communities Limited
Near Railway Station, Nagambadam,
Kottayam.
Phone No. 0481-2563786, 2564304

1 Introduction

Kerala State Development Corporation for Christian Converts from Scheduled Castes and the recommended Communities Limited was incorporated in December 1980. The company with headquarters at Kottayam is under the administrative control of the S C and S T Development Department.

2 Objectives

The main objectives of the company include promotion of social, educational, cultural and economic upliftment and other living conditions of the Christian converts from Scheduled Castes and other Recommended Communities.

3 Organization Structure

The Board of Directors of the company shall have not less than two and not more than 15 members. The company has regional offices at Thiruvananthapuram and Kozhikode headed by Regional Managers.

4 Capital Structure

The authorized capital of the company is Rs.15 crore. The paid up capital as on 31.3.2008 was Rs.23.769 crore (including advance) which was fully subscribed by the State Government. The Company has finalized its accounts only up to 1996-97.

5 Activities

The activities of the Company involve financing different projects and schemes promoted by SC/ST entrepreneurs at concessional rates of interest. The schemes formulated by the company are loans for housing, education, marriage and foreign employment. The schemes implemented through the company by the National agencies (NSFDC, NSKFDC, NSTFDC, NBCFDC and NMDFC) are

Self Employment Loan Scheme, Agricultural Land Purchase Scheme, Micro Credit Loan Scheme and Transport Scheme.

6 Audit Checks

a. Transaction Audit

General audit checks applicable to companies under Social Welfare and Financial Sectors may be conducted.

b. Financial Audit

General audit checks applicable to companies under Social Welfare and Financial Sectors may be conducted.

Kerala State Ex-Servicemen Development and Rehabilitation Corporation Limited
T.C. 14/1024, Rosscote Lane, Vazhuthacaud,
Thiruvananthapuram- 695010
Phone No. 0471 – 2320772, 2332557 FAX: 0471-2320003
Email: kex_con@yahoo.co.in

1 Introduction

Kerala State Ex-Servicemen Development and Rehabilitation Corporation, with the registered office at Thiruvananthapuram, was incorporated in December 2001.The Company is under the administrative control of General Administration (Sainik Welfare) Department.

2 Objectives

The main objectives of the Company are:

(i) To formulate, promote and implement schemes for the welfare of ex-servicemen and their dependents belonging to Kerala.

(ii) To promote entrepreneurship among ex-servicemen and their dependents.

(iii) To provide financial, technical assistance and managerial services to ex-servicemen, their dependents, groups of such individuals etc.

3 Organization Structure

The Director Board of the Company shall consist of not less than two and not more than eleven members.

4 Activities

Deployment of security guards, skilled and semi skilled manpower in various organizations are taken up by the company. 14 per cent service charges were collected from Central Sector and 5 per centfrom State Sector organizations.

5 Financial Highlights

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05
	(Rupees in lakh)				
Authorized Share Capital	50	50	50	50	50
Paid up capital	50	50	50	50	50
Borrowings	0	0	0	0	0
Debt equity ratio	0.00	0.00	0.00	0.00	0.00
Turnover	82.69	66.63	35.28	11.92	0
Net Profit before Tax and Dividend	**56.55**	**46.89**	**17.04**	**-1.28**	**-10.49**
Accumulated Loss/Accumulated profit	94.44	37.89	-9.00	-26.04	-14.28
Accumulated loss as a percentage of paid up capital	NA	NA	-0.18	-0.52	-0.29
Net worth	**144.44**	**87.89**	**41**	**23.96**	**35.72**

6 Audit checks

(a) Transaction Audit

i. Procedure adopted for selection of ex-servicemen from among the registered aspirants. Deviation from the norms adopted for selection may be examined and commented.

ii. Revenue realization from the services.

iii. Service Tax and other related matters.

iv. General audit checks applicable to companies under Social Welfare and Financial Sectors may be conducted.

(b) Financial Audit

General audit checks applicable to companies under Social Welfare and Financial Sectors may be conducted.

Kerala State Handicapped Persons' Welfare Corporation Limited

Poojappura, Thiruvananthapuram – 695012.
Phone No. 0471 – 2347768, 2342225 FAX:0471-2340568
Website: www.handicapped.kerala.gov.in

1 Introduction

Kerala State Handicapped Persons' Welfare Corporation Limited, Thiruvananthapuram was incorporated in September 1979. The company is under the administrative control of Social Welfare Department.

2 Objectives

The objectives of the company include formulation, promotion and implementation of welfare schemes for the benefit of handicapped persons in the State of Kerala. Clause 2 (h) of the Articles of Association of the Company defines the term handicapped as – "***The term 'handicapped' will broadly include the visually handicapped, the deaf, mutes, the speech handicapped, the orthopaedically handicapped and the developmentally handicapped as they are classified in the definitions adopted by the Government of India, Department of Social Welfare subject to such variations that may be made from time to time in respect thereof."***

3 Organization Structure

The number of members in the Director Board of the company shall not be less than two and more than eleven. A regional office of the company has started functioning at Kochi in March 2005.

4 Capital Structure

The authorized capital of the company is Rs.2.00 crore. Paid up capital (equity) as on 31.3.2008 was Rs.147.27 lakh fully held by Government of Kerala. Advance to share capital amounted to Rs.13.34 lakh. Accounts are in arrears since 1997-98.

5 Activities

The Company is running two departmental stores (Thiruvananthapuram and Kozhikode), a mobile sales van, offset printing press, a unit for imparting training, manufacturing, repairing and servicing of appliances for physically handicapped persons and a Photostat unit at MLA quarters, Thiruvananthapuram.

The National Handicapped Finance and Development Corporation (NHFDC) has approved the company as a channelising agency for providing financial assistance to disabled persons at concessional rates of interest.

The company is receiving funds under the GOI scheme of extending financial assistance to disabled persons.

6 Audit Checks

(a) Transaction Audit

Financial Activities

General audit checks applicable to companies under Social Welfare and Trading Sectors needs to be conducted.

(b) Financial Audit

General audit checks applicable to companies under Social Welfare and Trading Sectors may be conducted.

Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited
Kelpalm House No. XXIV/42, Near Government Hospital, Neyyattinkara , Thiruvananthapuram – 695121.
Phone No. 0471-2225005 FAX: 0471-2225006
Email: mdkelpalm@gmail.com

1 Introduction

Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited was incorporated in November 1985. The Company with headquarters at Thiruvananthapuram is under the administrative control of the Industries Department, Government of Kerala.

2 Objectives

The main objectives of the company are:

(i) Execution of schemes for the economic well being of palmyrah workers.

(ii) Establishing of production centres, industrial and marketing units of palmyrah products.

(iii) Palmyrah palm cultivation.

3 Organization Structure

The company shall have not less than two and more than seven members in the Director Board. The registered office and head office at Thiruvananthapuram has got administration, finance and marketing divisions. The company has also established two facility centres at Kottamom and Thiruvananthapuram.

4 Activities

Production and sale of soft drinks, squash, other edible and non-edible palmyrah products like leaf articles, palmyrah cultivation etc. Palm sugar, cane sugar, essence, corks, fruits etc. are procured from local and Tamilnadu markets and the finished products are sold through taluk wise distributors. The company has a soft drink unit at the Kottamom facility centre.

5 Financial Highlights

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
	(Rupees in lakh)				
Authorized Share Capital	150	150	150	150	150
Paid up capital	87	87	87	87	87
Borrowings	26.44	12.88	14.38	3.95	0
Debt equity ratio	0.30	0.15	0.17	0.05	0.00
Turnover	7.8	5.47	6.68	2.92	7.48
Net Profit before Tax and Dividend	**6.02**	**5.7**	**-24.38**	**2.92**	**-25**
Accumulated Loss/Accumulated profit	-48.15	-42.24	-45.25	-20.87	-23.79
Accumulated loss as a percentage of paid up capital	-55.34	-0.49	-0.52	-0.24	-0.27
Net worth	**38.85**	**44.76**	**41.75**	**66.13**	**63.21**

6 Audit Checks

a. Transaction Audit

All general and specific audit checks related to social welfare and trading companies may be conducted.

b. Financial Audit

All general and specific audit checks related to social welfare and trading companies may be conducted

Kerala State Women's Development Corporation Limited
T.C.20/2170, Opp. Manmohan Bungalow, Kowdiar P.O.
Thiruvananthapuram - 695003.
Phone No. 0471- 2727668, 2727669 FAX: 0471-2316006
Email: head.@kswdc.org Website: www.kswdc.org

1 Introduction

Kerala State Women's Development Corporation Limited was incorporated in February 1988 with headquarters at Thiruvananthapuram. The Company is under the administrative control of the Social Welfare Department.

2 Objectives

The main objectives of the Company are to formulate, promote and implement any scheme aimed at the welfare of women in Kerala and to enable them to earn a better living.

3 Organization Structure

The number of members in the Board of Directors shall not be less than two and more than 12. The Company has got three Regional offices at Thiruvananthapuram, Ernakulam and Kozhikode. The Finance Officer, Manager (Projects), Manager (Recovery), Company Secretary and the Regional Managers are directly reporting to the Managing Director.

4 Capital Structure

The authorized capital of the Company is Rs.7.50 crore. Paid up share capital as on 31.3.2008 was Rs.706.61 lakh (Rs.657.61 State Government, Rs.49 lakh Central Government). Finalization of Accounts is heavily in arrears since 1995-96.

5 Activities

The Company is a channelising agency for National Minorities Development and Finance Corporation (NMDFC), National Backward Classes and Finance Development Corporation (NBCFDC), National Scheduled Caste

Finance and Development Corporation (NSFDC), National Scheduled Tribe Finance and Development Corporation etc.

The Company also works as nodal agency for Support for Training & Employment Program (STEP)/ SWADHR/ Working women's Hostel Schemes of Government of India. Implementation of the State Government Schemes for welfare of women, vocational training centres, working women's hostels etc. are also undertaken by the Company.

6 Audit checks

(a) Transaction audit

General audit checks applicable to companies under Social Welfare and Trading Sector may be conducted.

(b) Financial audit

General audit checks applicable to companies under Social Welfare and Trading Sector may be conducted.

Overseas Development and Employment Promotion Consultants Limited
Vaikund, T.C. 26/832(1), Ambalathumukku,
Vanchiyoor P.O., Thiruvananthapuram -695035.
Phone No. 0471 - 2576314, 2576315 FAX:0471-2576318
Email: odepc@sify.com Website: www.odepc.org

1 Introduction

Overseas Development and Employment Promotion Consultants Limited incorporated in October 1977 with registered office at Thiruvananthapuram. The Company is under the administrative control of Labour and Rehabilitation Department.

2 Objectives

The main objectives of the Company are:

i. To promote foreign and domestic employment by introducing the aspirants to global job markets.

ii. To give guidance to need based education to meet the manpower requirements of the organizations.

iii. To provide suitable guidance in Visa formalities and Travel regulations.

iv. To undertake air ticket booking in domestic and international flights to the best satisfaction of the customers.

3 Organization structure

The number of members in the Board of Directors shall be not less than two and more than fifteen. The Company has got a manpower Division and a Travel Division under the supervision of the General Manager.

4 Activities

The present activities of the Company include overseas manpower recruitment and air travel ticket services. The major air ticketing business comes from Government Sector viz., Ministers, Government officials, PSU officials, officials of State Autonomous bodies etc.

5 Financial Highlights

Particulars	2007-08	2006-07	2005-06	2004-05	2003-04
	(Rs in lakh)				
Authorized Share Capital	100	100	100	100	100
Paid up capital	65.79	65.79	65.79	65.79	65.79
Borrowings	8.81	8.26	7.72	7.2	13.19
Debt equity ratio	0.13	0.13	0.12	0.11	0.20
Turnover	35.33	29.54	341.75	265.02	220.68
Net Profit before Tax and Dividend	**44.24**	**15.99**	**-2.85**	**51.06**	**7.11**
Accumulated Loss/Accumulated profit	33.64	7.97	-0.91	19.37	0.2
Accumulated loss as a percentage of paid up capital	NA	NA	-0.01	NA	NA
Net worth	**119.01**	**93.34**	**84.45**	**85.37**	**65.99**

6 Audit checks

Sale of airline tickets includes duties and other levies applicable and inclusive of commission allowed by the airline companies.

(a) Transaction Audit

i. Regulatory requirements in manpower recruitment and its compliance may be examined.

ii. The criteria adopted for selection of aspirants to global job markets.

iii. The placement agreements entered into with inducting organizations in need of Indian technical/ non-technical manpower. Only less than 20 per cent of the registered aspirants are placed for international employment. The reasons for poor performance may be examined and commented.

iv. Air ticket is booked for Government / Government related personnel only. However, dues are pending realization from the beneficiaries, the reasons for which are to be analyzed in depth and commented upon.

v. Transactions with Airline Companies may be examined.

vi. Revenue realization from Recruitments and commission on ticketing may be examined.

(b) Financial Audit

Revenue recognition from air ticketing and services on recruitment may be examined.