



FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)**

NINETEENTH REPORT

(Presented on 9th March, 2017)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2017

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)**

NINETEENTH REPORT

On

**Kerala State Wood Industries Limited
(Based on the Report of the Comptroller
and Auditor General of India for
the year ended 31 March, 2011)**

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COMMITTEE ON PUBLIC UNDERTAKINGS
(2016-2019)

COMPOSITION OF THE COMMITTEE

Chairman:

Shri C. Divakaran.

Members:

Shri T. A. Ahammed Kabeer

Shri K. B. Ganesh Kumar

Shri C. Krishnan

Shri S. Rajendran

Shri Thiruvanchoor Radhakrishnan

Shri P. T. A. Rahim

Shri Raju Abraham

Shri Sunny Joseph

Shri C. F. Thomas

Shri P. Unni.

Legislature Secretariat:

Shri V. K. Babu Prakash, Secretary

Smt. P. K. Girija, Additional Secretary

Shri P. B. Suresh Kumar, Deputy Secretary

Smt. Deepa. V, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the report on its behalf, present this Nineteenth Report on Kerala State Wood Industries Limited, based on the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011 relating to the Public Sector Undertakings of the State of Kerala.

The report of the Comptroller and Auditor General of India for the year ended on 31st March 2011 was laid on the Table of the House on 23-3-2012. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings constituted for the years 2014-2016.

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 2-3-2017.

The Committee places on record its appreciation for the assistance rendered by the Accountant General (Audit) Kerala, in the examination of the Audit Paragraphs included in this report.

The Committee wishes to express thanks to the officials of the Forest and Wild Life Department of the Government Secretariat and the Kerala State Wood Industries Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government-Forest and Wild Life and Finance Departments-and the officials of the Kerala State Wood Industries Limited who appeared for evidence and assisted the Committee by placing their views before it.

Thiruvananthapuram,
9th March, 2017.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

REPORT
ON
KERALA STATE WOOD INDUSTRIES LIMITED

AUDIT PARAGRAPH

Inadequate arrangements for safeguarding movable and immovable Assets

Inadequate maintenance of Assets records and delay in disposal of idle Assets were noticed and physical verification of Assets was not carried out.

The company was incorporated in September 1981 with the main objective of production of decorative veneers, plywood, furniture etc. The Company was put under lockout from June 1993. Though the company reopened in May 2002, it could not perform on account of continuous/huge Accumulated Loss and ultimately became completely non-functional since 2006. The Accounts of the Company were finalised and audited up to the year 1991-1992 which were adopted in the Annual General Meeting held on 18th November, 2008. The Accounts of the Company were in arrears from the year 1992-1993 onwards. Latest certified Accounts for the year ended 31st March, 1992 depicted that the Company had total Assets of ₹ 388.83 lakh (including Fixed Assets: ₹ 276.35 lakh and Current Assets, Loans and Advances: ₹ 112.48 lakh).

Even though the Company was non-functional, it still had to ensure that accounts were maintained and the permanent Assets were safeguarded through periodical physical verification, arrangements for watch and ward of the Assets and adequate insurance cover. The deficiencies noticed (July 2011) in this regard were summarised as under:

Inadequate maintenance of Assets records

The Company had the necessity to maintain "Assets Records" for each of the Assets with details of the Assets showing their location, original cost, Accumulated Depreciation, technical and engineering specification of machinery, identification number, etc. We noticed that the Company did not maintain adequate and up to date records depicting this vital information. The original Asset Register

was not made available to Audit. Even though the equipments and spares available in the Company were valued through an external agency, KITCO Limited, in 2005 to assess the market value, the loss of Assets, if any, could not be assessed in the absence of proper records.

Physical Verification of Assets

The system of physical verification of Assets at regular time intervals was an essential tool of internal control as it helped in ensuring the availability of Assets in the possession of the Company at stated location. An effective system of periodic physical verification of Assets minimised the risks of loss/theft of movable Assets and enabled the management to take remedial action against the detected cases of theft of Assets. As per the valuation report of KITCO Limited the total market value of Company's Assets was ₹ 6.84 crore (which included ₹ 95.84 lakh worth furniture and wood items). We noticed (June 2011) that the Company did not carryout the physical verification of Assets thereafter.

Inadequate security arrangements

Proper arrangement for security and watch and ward of the movable and immovable properties was very essential to protect the movable as well as immovable property. The factory and residential quarters of the Company were situated on forest land on lease. We noticed that, after the complete withdrawal (February 2009) of even the skeleton security staff deployed, no proper security was arranged for the protection of the machinery and Current Assets of the Company. Occurrence of fire (February 2009)/theft of wooden inventory (December 2009), theft of machinery parts (November 2010) were reported; in the absence of proper records even the extent of loss could not be ascertained or quantified.

Disuse of Assets

The Company had an obligation to make adequate arrangements for proper maintenance and upkeep of the Assets (eg. plant and machinery etc.) not in use or not in use to their full capacity. As the Company was non-functional since 2006,

periodical review of the position of these Assets taking into account the reports of the physical verification was essential so as to avoid the chances of the Assets becoming obsolete due to their disuse. The Assets not in use for long also needed to be considered for sale. We observed the following:

- Eighty eight staff quarters and one Guest house constructed by the Company on forest land became uninhabitable due to non maintenance and deterioration. Though Board of Directors of the Company had decided (September 1997) to lease out the vacant quarters to Forest Department no further action was taken in this regard.
- Efforts of the Company to dispose of inventory of logs and other semifinished products worth ₹ 94 lakh in 2007, through auction did not materialise as this was stalled by Revenue Department citing pending Revenue Recovery action against the Company. Even though the matter was taken up with the Government, it has not yet been resolved (November 2011). No measures were also taken for safeguarding the inventory from further deterioration/theft.

Insurance cover

Insurance for the properties was a cover that guards the Assets of the Company against probable losses due to natural calamities and other reasons such as floods, riots, theft etc. Regular and adequate coverage of insurance minimised the risks against these losses at a nominal cost of insurance premium. We noticed that the insurance policy taken by the Company with Kerala State Insurance Department extended only up to May 1994.

Delay in winding up

Even though a Government appointed Committee recommended (December 2005) for closure of the Company and orders were issued in this regard (January 2009) so as to avoid further financial commitment to Government, the Company could not avail the Easy Exit Scheme (EES) due to the unwillingness of the holding Company (Kerala Forest Development Corporation Limited), to take over the Assets and Liabilities of the Company. Further orders to wind up the

Company under the normal procedure (October 2010) did not materialise so far (November 2011) due to pending Sales Tax recovery claim, EPF recovery claim and other issues.

Government replied (August 2011) that the Company had maintained a record of Assets and in the absence of regular staff, physical verification of Assets was not feasible. Regarding disuse of staff quarters and guest house, it was stated that there was no demand from Forest Department or any other agency. Efforts were being made to protect the materials and provide insurance coverage and to settle Sales Tax dues.

The reply of the Government reinforced the need for immediate winding up of the Company. We recommend that, the Management/Government should take necessary action to clear the arrears in accounts, settle the statutory dues and expedite the winding up of the Company.

[Audit Paragraph 4.13 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March 2011].

Note furnished by Government on Audit Paragraph is given in Appendix II.

1. The Committee enquired about the winding up of the Company and its present position. The Witness replied that the Company is locked out completely and Voluntary Retirement Scheme to the employees has been implemented and an amount of ₹ 72 lakh was disbursed among 135 employees. He also added that as there was no financial support from the Government in this regard, the amount required for providing VRS was mobilised by disposing off the assets of the Company. He revealed that there was no pending liability in the case of retrenched employees.

2. The witness admitted that due to shortage of staff, all records including Asset Records was not updated and maintained and physical verification of assets could not be carried out. The witness also informed that there was some dispute over the calculation of liabilities such as Sales Tax etc. To a question regarding

land and machinery, the witness replied that the land belonged to the Forest Department and there was no encroachment of the land. The assessment of building cost was pending before the Chief Engineer and the matter would be finalised soon. The witness added that the machinery was disposed of by means of e-auction.

Conclusions/Recommendations

3. Considering the explanation given by the Company with regard to the arrangements made in connection with the lockout of the company, the Committee decides to drop the matter.

Thiruvananthapuram,
9th March, 2017.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

| Sl. No. | Para. No. | Department Concerned | Conclusions/Recommendations |
|---------|-----------|----------------------|--|
| 1 | 3 | Forest and Wild Life | Considering the explanation given by the Company with regard to the arrangements made in connection with the lockout of the company, the Committee decides to drop the matter. |

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPH

| Sl. No. | Audit Paragraph | Reply Furnished by Government |
|---------|---------------------|--|
| 1 | 4.13 (2010-2011) | <p>Government vide Order No. G.O. (Ms.) 5/09/F&WLD dated 31-1-2009 decided to wind up the Kerala State Wood Industries Limited and implement VRS to employees and the process of winding up is in progress. Due to insufficiency of staff, all records including Asset Records could not be updated and maintained and physical verification of assets could not be carried out. The Forest Department has been requested to provide a temporary power and water connection to the company and action is progressing to provide round the clock watch and ward in the company. Auction sale of stock of materials available in the company is under consideration. Amount received is decided to be adjusted towards the arrears of Commercial Taxes Department. Company has requested M/s United India Insurance Company to provide, Insurance coverage to the employees of KESWIL but they have informed their inability because of the fact that the industry is not in good condition. The preparation of service records of the employees were also out sourced to M/s Guide consultants, Thiruvananthapuram and they have submitted their report to the previous Chairman and Managing Director. On receipt of the same the actual benefits eligible to employees can be ascertained and disbursed subject to availability of funds from Government.</p> |

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