Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Kerala had 95 working PSUs (90 companies and 5 Statutory corporations) and 28 non-working PSUs (all companies), which employed 1.17 lakh employees. The working PSUs registered a turnover of Rs. 10,877.80 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 6.03 per cent of State GDP indicating an important role played by State PSUs in the economy. The PSUs had accumulated loss of Rs. 1,738.46 crore as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 123 PSUs was Rs. 7,731.81 crore. Power Sector accounted for nearly 34.66 per cent of total investment in 2008-09. The Government contributed Rs. 771.89 crore towards equity, loans and grants / subsidies during 2008-09.

Performance of PSUs

As per the latest finalised accounts, out of 95 working PSUs, 46 PSUs earned profit of Rs. 420.12 crore and 43 PSUs incurred loss of Rs. 526.84 crore. The major contributors to profit were Kerala State Electricity Board (Rs. 217.42 crore), Kerala State Beverages (Manufacturing & Marketing) Corporation Limited (Rs. 41.93 crore), Malabar Cements Limited (Rs. 28.20 crore) and The Plantation Corporation of Kerala Limited (Rs. 20.78 crore). The heavy losses were incurred by Kerala State Road Transport Corporation (Rs. 191.90 crore), The Kerala State Cashew Development Corporation Limited (Rs. 125.41 crore), Kerala Financial Corporation (Rs. 76.36 crore) and The Kerala State Civil Supplies Corporation Limited (Rs. 36.06 crore).

Audit noticed various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of Rs. 589 crore and infructuous investments of Rs. 31.98 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profits. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for greater professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. During the year, out of 96 accounts finalised the statutory auditors had given unqualified certificates for five accounts, qualified certificates for 71 accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for three accounts and disclaimers (meaning the auditors are unable to form an opinion on accounts) for 25 accounts. Additionally, CAG gave adverse comments on 15 accounts and disclaimer comments on one account during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 30 instances of non-compliance in 81 accounts during the year.

Arrears in accounts and winding up

71 working PSUs had arrears of accounts of 198 accounts as of 30 September 2009. The extent of arrears was one to thirteen years. There were twenty eight non-working PSUs including six under liquidation.

Discussion of Audit Reports by COPU

The Audit Reports (Commercial) for 2002-03 onwards are yet to be discussed fully by COPU. These six Audit Reports contained 23 reviews and 131 paragraphs of which 3 reviews and 57 paragraphs have been discussed.

2. Performance reviews relating to Government companies

Performance reviews relating to ***Resources Management by three Plantation Sector Companies, Information Systems Audit Review on Computerisation in The Kerala Minerals and Metals Limited.*** Executive summary of audit findings is given below:

Resources Management by three Plantation Sector Companies

The performance Audit was conducted to assess the utilisation of resources by the three companies on the basis of well defined objectives and methodology which focused on the working of the Company during the period 2004-05 to 2008-09. Norms/ Standards fixed by Rubber Board and bench marks set on the basis of inter-company comparison of performance standards were adopted for evaluating the efficiency and economy of operations of the Companies.

Land Utilisation

The land holdings of the three Companies were not properly surveyed and demarcated and their possession was not adequately legalised to safeguard them from encroachments and to enable formulation of long term investment plans.

Plantation Management

The productivity of rubber plantations of these Companies was substantially lesser than the state average productivity reported by Rubber Board. The major reason for the shortfall was the low stock of rubber yielding trees in the different estates. PCK and SFCK failed in extracting the yield to the full potential owing to shortages in the strength of tappers as well as under utilisation of available strength. RPL fared better in the matter of yield exploitation though the productivity of its labour force was not up to the mark.

Manpower Management

Supervision and controls over field operations were relatively better in RPL and it was inadequate in both PCK and SFCK. PCK suffered from shortage of manpower for field supervision, inadequate controls over cost of operation and vastness of areas.

Replanting Projects

PCK took advantage of the attractive rubber prices prevailing during 2007-08 by giving away areas earmarked for replanting for contract tapping realising substantial revenue. RPL did not make use of the opportunity to reap the commercial gains.

RPL undertook replanting operations in a planned manner although low yielding areas were not given due priority for early replanting. PCK, however, refrained from implementing replanting programme, in spite of the very low yield potential of its older plantations that crossed the economical period of retention.

Processing and Marketing of Natural Rubber

Processing efficiency of centrifuging factories of PCK and RPL was below the industry standards due to non-modernisation of machinery. The two Companies also undertook manufacture of value added products incurring additional costs substantially higher than the marginal price advantage. Price realisation for natural rubber marketed by the Companies in both processed and unprocessed condition was not always matching with the optimum price levels recorded in the market.

Fund Management

Attractive market prices prevailed during the period covered in the performance audit helped the Company Managements in maintaining consistent profitability and fairly good reserves and surplus position. However, the fund management was not found to be as efficient as it should be, since optimum financial advantages of investments and tax benefit schemes were not being derived by them.

Relative strengths and weaknesses

The strengths of the companies as assessed by Audit were consistent profitability and sound financial position (for all the three Companies), easily manageable and compact areas (SFCK and RPL), predominantly high yielding rubber trees (SFCK), better infrastructure facilities (PCK and RPL) and time tested systems and practices (PCK). The weaknesses were distantly located planted areas, degradation of plantations due to clonal mixing and improper maintenance and upkeep during formative years (PCK), plantations that crossed the prime years of productivity (SFCK and RPL), failed expansion/diversification schemes (PCK and RPL) and inadequate internal controls over stock transfers of field crop (PCK and SFCK)

(Chapter 2.1)

Information System Audit Review on Computerisation in The Kerala Minerals and Metals Limited

The Kerala Minerals and Metals Limited was incorporated in February 1972 with the objective of carrying on the business of mining, processing of minerals and metals. Production facilities installed were fully integrated with the two units viz., Mineral Separation Unit (MS unit) and Titanium Dioxide Plant (TP unit).

IT initiative

The Company had developed several need based Applications by using Application Development tools, Power Builders and Oracle database from 1999-2000 onwards. It had computerised purchase, stores, production, marketing (domestic/ export sale), finance, attendance/ HR management, payroll management and Management Information System Modules.

Absence of strategic IT Plan

The Company did not have any approved and documented IT Policy and IT plan upto April 2009. Since initiation of computerisation project, lack of planning resulted in indefinite continuation of system development process even after completion of ten years.

System development

No documentation in respect of user requirement specification was made in respect of sales, purchase, stores and finance modules developed in-house by the Company. This led to an ad hoc system development approach.

System maintenance

No documented and approved Version Control Procedure was in existence with the result that different departments were using different versions as indicated from the fact that CENVAT statement generated from the accounts department were different from the one generated from the version supplied to auditors.

Purchase Module

Purchase Module did not provide for computing freight charges and facility for reporting the appropriate time for purchase. Information like stock level, quantities pending, quality checks and unreconciled quantities were manually filled in exposing the system to the risk of unintended human errors or deliberate manipulations.

Stores Module

Fast, slow/ non-moving categorisation was not subjected to review during the last several years which resulted in classification of non-moving items as fast moving items and non-moving items as slow moving items

Sales Module

Export invoices were prepared outside the system defeating the very purpose of computerisation. The duplication of invoice took place on account of system control. The system is exposed to the risk of changing the rate master by the end users.

Pay roll Module

The pay roll module was yet to be implemented despite its being ready for use since October 2006.

Finance Module

The programme for drawing up Profit and Loss Account and Balance Sheet on any date could not be utilised by the Company so far (September 2009) on account of deficiency in implementation.

Conclusion

The Company did not have an IT policy, strategy and long term plan which had resulted in ad hoc and disintegrated management of the system. None of the module is complete and self-supporting requiring human intervention at various stages of modules defeating the very purpose of computerisation. The Company should draw up and document IT Policy and ensure that all modules comply with the business tools and accounting standards wherever required.

(Chapter 2.2)

3. Performance reviews relating to Statutory Corporation

Performance review relating to 'Functioning of **Kerala State Road Transport Corporation**' was conducted. Executive summary of audit findings is given below:

Functioning of Kerala State Road Transport Corporation

The Kerala State Road Transport Corporation (KSRTC) provides public transport in Kerala through its 87 Depots, Sub-Depots and Operating Centres. The Corporation had a fleet strength of 5,115 buses as on 31 March 2009 and carried an average of 32.28 lakh passengers per day during the review period. It accounted for a share of 12.86 per cent in public transport with the rest coming from private operators. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporation's books of accounts are in arrears since 2006-07. Based on provisional figures, it suffered loss of Rs. 148.28 crore in 2008-09. The accumulated losses and borrowings of the Corporation stood at Rs. 2,085.98 crore and 831.75 crore respectively as at 31 March 2009 (Provisional). The Corporation earned Rs. 22.44 per kilometre and expended Rs. 25.57 per kilometre in 2008-09. Audit noticed that with a right kind of policy measures and better management of its affairs, it is possible to increase revenue and reduce costs, so as to limit losses and serve its cause better.

Share in Public Transport

Out of 39,763 stage carriage buses licensed for public transport in 2008-09, about 12.86 per cent belonged to the Corporation. The percentage share decreased from 13.77 per cent in 2004-05 to 12.86 in 2008-09. The decline in share was mainly due to its operational inefficiency and lack of effective monitoring by top management. Vehicle density (including private operators) per one lakh population increased from 102 in 2004-05 to 117 in 2008-09 indicating improvement in the level of public transport in the State. However, the Corporation's vehicle density remained almost constant at 14 buses per one lakh population, which was due to the inability of the Corporation to expand its operations.

Vehicle profile and utilisation

The Corporation added 2,098 buses during 2004-09 at a total cost of Rs. 197.94 crore. However, the overage fleet increased from 15.91 per cent in 2004-05 to 26.26 per cent in 2008-09. The acquisition was primarily funded through commercial borrowings. The overall fleet utilisation of the Corporation marginally increased from 79.31 per cent in 2004-05 to79.60 per cent in 2008-09, which was less than All India Average (AIA) of 92 per cent. The overall vehicle productivity at 259 kilometres per day per bus in 2008-09 was less than the AIA of 313 kilometres. The passenger load factor stood at 66 per cent during 2008-09, which was higher than the AIA of 63 per cent. 84 per cent schedules were unprofitable and two per cent schedules were not even earning enough to meet variable cost of operations. The Corporation had not carried out preventive maintenance in up to 22 per cent cases in 2008-09.

Economy in operations

Manpower and fuel constitute 74.68 per cent of total cost. Interest, depreciation and taxes account for 16.18 per cent and are not controllable in the short-term. Thus, the major cost saving has to come from manpower and fuel. Manpower cost of the Corporation was Rs. 10.02 per effective KM which was higher than the AIA mainly due to implementation of pension scheme to the employees without creating separate fund. However, the expenditure on repairs and maintenance was Rs. 118.09 crore (Rs. 2.31 lakh per bus) in 2008-09, of which nearly 41.95 per cent was on manpower. The Corporation did not attain AIA in respect of fuel efficiency. Consumption of fuel in excess of AIA resulted in excess consumption of 10.58 crore litres of fuel valued at Rs.339.55 crore during 2004-09.

Revenue Maximisation

The Corporation has about 15.76 lakh square metres of land. As it mainly utilises ground floor/ land for their operations, the space above can be developed on public private partnership (PPP)/ Build Operate and Transfer (BOT) basis to earn steady income, which can be used to cross-subsidise its operations. Even though the Corporation identified 63 sites upto August 2008 for such projects since November 1998, not even a single project was completed so far (September 2009) due to delay in decision making.

Need for a regulator

The fare policy in Kerala is decided by the State Government which is same for both the Corporation as well as Private Operators. The fare policy adopted by the State Government is based on 'Price Index for Stage Carriage Operations' (PISCO) brought out by National Transportation Planning and Research Centre (NATPAC), an autonomous body under the Government of Kerala. Despite the request from the Government to update PISCO on quarterly basis, the updation was done in an ad hoc manner since the quarterly cost data was not furnished. In the absence of norms, the adequacy of services on uneconomical routes cannot be ascertained in Audit. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address grievances of commuters.

Inadequate Monitoring

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. Though internal targets are fixed by the Management, it is deprived of authentic data with respect to unit level operations since the required registers/ records were not maintained properly. This had a detrimental effect on decision making. The Board of Directors did not evaluate the operational performance on a regular basis. The top Management of the Corporation has not demonstrated managerial capability to set realistic and progressive targets, address areas of weakness and take remedial action wherever the things are not moving on expected lines.

Conclusion and Recommendations

Though the Corporation is incurring losses, it is mainly due to their high cost of operations. The Corporation can control the losses by improving operational efficiency and resorting to tapping non-conventional sources of revenue. This review contains 13 recommendations to improve the Corporation's performance. Creating a regulator to regulate fares and services and tapping non-conventional sources of revenue by avoiding delay in implementation of projects for constructing commercial complexes on BOT basis are some of these recommendations.

4. Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of Rs. 43.14 crore in four cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 4.4, 4.10, 4.14 and 4.19)

Loss of Rs. 12.43 crore in twelve cases due to non-safeguarding of the financial interests of organisation.

(Paragraphs 4.2, 4.3, 4.5, 4.6, 4.9, 4.12, 4.13, 4.15, 4.18, 4 20, 4.21 and 4.23)

Loss of Rs. 65.40 crore in three cases due to defective / deficient planning.

(Paragraphs 4.1, 4.7 and 4.11)

Loss of Rs. 6.42 crore in one case due to inadequate/ deficient monitoring.

(Paragraph 4.8)

Loss of Rs.0.21 crore in one case due to non realisation / partial realisation of objectives.

(Paragraph 4.22)

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

Failure of **The Kerala Minerals and Metals Limited** to ensure source of finance, assess market situation and lack of due professional care resulted in issue of purchase orders for machinery/ erection, its subsequent cancellation and wasteful expenditure of Rs. 58.57 crore.

(Paragraph 4.1)

Failure of **The Kerala Minerals and Metals Limited** to purchase balancing equipment for production of Synthetic Routile at an appropriate time resulted in cash loss of Rs. 18.55 crore on consequent purchase of the material from outside sources and interest loss of Rs. 56.16 lakh on idle investment in digesters

(Paragraph 4.2)

Decision of **Kerala Agro Machinery Corporation Limited** to collect sales tax at concessional rate on inter state sales, contrary to the provisions of Kerala Value Added Tax Act, 2003 and Government clarification thereon, resulted in a committed liability of Rs. 3.72 crore.

(Paragraph 4.4)

Decision of **Bekal Resorts Development Corporation Limited** to waive interest on defaulted lease rent resulted in a loss of income of Rs. 4.20 crore and undue favour to licensees.

(Paragraph 4.5)

Failure of **Kerala State Electricity Board** to maintain security deposit account of individual consumers resulted in non-payment of interest on security deposit and consequent committed additional liability of Rs. 38.19 crore.

(Paragraph 4.14)

Failure of **Kerala State Electricity Board** to negotiate with the contractor to reduce the rates for galvanization of line materials, while extending the delivery period for the convenience of the contractor, resulted in extra expenditure and undue benefit to the contractor amounting to Rs. 0.96 crore.

(Paragraph 4.15)

Kerala State Electricity Board did not either seize the opportunity to recover its money or pursue the matters to their logical end, as a result, recovery of money amounting to Rs. 7.63 crore remained doubtful.

(Paragraph 4.16)