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 2010, the State of Kerala had 96 working PSUs (91 companies and 5 Statutory corporations) and 27 non-working PSUs (all companies), which employed 1.10 lakh employees. The working PSUs registered a turnover of ` 12,349.97 crore for 2009-10 as per their latest finalised accounts. This turnover was equal to 5.76 per cent of State GDP indicating an important role played by State PSUs in the economy. The PSUs had accumulated loss of Rs. 1,212.70 crore as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2010, the investment (Capital and long term loans) in 123 PSUs was ` 8,080.69 crore. Power Sector accounted for nearly 36.20 per cent of total investment in 2009-10. The Government contributed ` 726.40 crore towards equity, loans and grants / subsidies during 2009-10.

Performance of PSUs

As per the latest finalised accounts, out of 96 working PSUs, 45 PSUs earned profit of ` 728.61 crore and 46 PSUs incurred loss of ` 377.44 crore. The major contributors to profit were Kerala State Electricity Board (` 217.42 crore), Kerala State Beverages (Manufacturing & Marketing) Corporation Limited (` 109.67 crore), Steel Complex Limited (` 49.83 crore), The Kerala Minerals and Metals Limited (` 60.63 crore) and The Plantation Corporation of Kerala Limited (` 33.66 crore). Heavy losses were incurred by Kerala State Road Transport Corporation (` 136.39 crore), The Kerala State Cashew Development Corporation Limited (` 125.41 crore), Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited (` 31.52 crore) and The Kerala State Civil Supplies Corporation Limited (` 19.57 crore).

Quality of accounts

The quality of accounts of PSUs needs improvement. During the year, out of 87 accounts of companies finalised, the statutory auditors had given unqualified certificates for 8 accounts, qualified certificates for 74 accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for two accounts and disclaimers (meaning the auditors are unable to form an opinion on accounts) for three accounts. Additionally, CAG gave adverse comments on 12 accounts and disclaimer comments on no account during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 125 instances of non-compliance in 52 accounts during the year.

Arrears in accounts and winding up

73 working PSUs had arrears of accounts of 197 accounts as of 30 September 2010. The extent of arrears was one to twelve years. There were twenty seven non-working PSUs including five under liquidation.

2. Performance reviews relating to Government companies

Performance review relating to ***Working of Kerala Electrical and Allied Engineering Company Limited (KEL).*** Executive summary of audit findings is given below:

Working of Kerala Electrical and Allied Engineering Company Limited

KEL is a PSU under the administrative control of Industries Department, Government of Kerala with a business objective of maximizing profit growth by carrying on the business of Electrical, Mechanical and Structural Engineering and Manufacturing Engineering equipments, fittings and electrical accessories. The Company with different ranges of products has five manufacturing units and 867

employees catering to the vital sectors of Railways, Electricity Boards and Electrical consumers.

Financial position and working results

The finalisation of accounts from 2007-08 onwards has been delayed. The accumulated loss which stood at ` 90.78 crore in 2005-06 decreased marginally to ` 86.02 crore in 2009-10. As per the provisional accounts, Mamala, Kundara and Kasaragod units had shown profits during 2007- 08 and 2008-09.

Production performance

The company suffered from poor capacity utilization. It did not have adequate work orders. There was no substantial upgradation of plant and machinery during the last five years. Shortcomings in plant facilities like non synchronisation of activities of the operating units contributed to poor production performance.

Purchase policy

The Company had not evolved a centralized purchase policy though the value of consumption of raw material and components was around ` 60 crore annually.

Consumption of raw materials

Excess consumption of major raw materials compared to the norms fixed was noticed in different units.

Absence of costing system

There was no scientific costing system to compute the cost of production, resulting in Company accepting orders below cost at Kundara, Kasaragod and Mamala units to keep them working.

Absence of credit policy

The Company had not formulated a centralized credit policy specifying maximum credit limits. As a result, there was huge accumulation of sundry debtors.

Manpower management

Management failed to determine the staff requirement at various units in a scientific manner based on the turnover and the work requirement. Instances of low employee productivity were also noticed.

3. Performance reviews relating to Statutory Corporation

Performance review relating to '***Generation activities of Kerala State Electricity Board'***. Executive summary of audit findings is given below:

Generation activities of Kerala State Electricity Board

Introduction

One of the core objectives of 11th Five Year Plan (2007-12) has been "Supply of power to all" by the end of the plan period. The National Electricity Policy (NEP) 2005 declared by Central Government, also envisaged development of power sector based on optimal utilisation of resources like coal, gas, nuclear material, hydro and renewable sources of energy. This performance audit covering the period 2005-06 to 2009-10 was conducted to examine as to what extent the State of Kerala has equipped itself to achieve the stated plan objective. Overall efficiency of the State Power undertaking namely, Kerala State Electricity Board (Board), in utilising the existing resources, and planning for the sustained development of power sector in the State was also evaluated as a part of this audit study.

Salient features of power sector in Kerala

Kerala is a power deficient State, where the requirement and available capacity were in the order of 2998 MW and 2563.25 MW (Board-2126.48, Others-436.77 MW) respectively, as at the end of the year 2009-10. The growth in demand in the State during the review period was 546 MW whereas capacity addition was only 124.30 MW. The energy sources in the State were predominantly hydel. During the review period, actual generation of power in the State was only 70 to 82 per cent of average demand and 62 to 77 per cent of peak demand.

Status of capacity additions

Capacity addition plans of Board were not realistic. Assessment in audit disclosed that the likely capacity addition during 11th plan will be about 21 per cent of targets (610.15 MW) As against five projects of Board included in National Electricity Plan for capacity addition during 11th plan viz Kuttiady Additional Extension (100 MW), Athirappally (163MW), Pallivasal Extension (60 MW), Thottiyar (40 MW) and Mankulam (40 MW) only the first one, which spilled over from 10th plan, is commissioned (May 2010) during the plan-period.

Project Implementation

Though the State was having identified but untapped hydel generation potential, new project proposals of Board in hydel sector were either getting abandoned due to non receipt of Forest/Environmental clearances or their implementation made difficult on account of problems connected with land acquisition. Delay in land acquisition has already affected the implementation schedules of all projects executed/under execution during plan period. The project implementation processes were also quite slow paced. The investigation and preparation of Draft Project Reports often took time in excess of five years, as against the normal period of two years reckoned in the National Electricity Plan. Inadequacies in investigation had led to design changes during course of construction and consequent time and cost overrun. Deficiencies in Project Management had resulted in time/cost overrun. Delay in decision making at different stages of construction caused further slippages in time schedules.

Renovation and Modernisation of existing stations

As on 31.3.2010 Renovation and Modernisation works of power plants at Poringalkuthu, Sholayar and Kuttiady were overdue, but got postponed for different reasons. High incidence of machine outages was noticed in all these stations. Generation losses to the tune of ` 12.60 crore occurred due to outages of machines, when the dams were spilling. Post RMU performance of machines of Pallivasal and Sabarigiri Stations was not successful. The re-conditioned machines developed serious technical problems at both the stations. The runner buckets of three of the machines of Pallivasal were developing frequent pitting and cracks, resulting in generation losses, due to machine outages for runner-repairs. Machine no.4 of Sabarigiri station commissioned after RMU works in February 2007 exploded in May 2008, causing damages and losses. The explosion was attributed to manufacturing defects.

Plant Availability

As against CERC norm of 80 per cent plant availability during 2004-09, the average plant availability in KSEB was 76.36 per cent for major Hydel stations, 37.16 per cent for small HEPs and 46.47 per cent for Thermal stations. High rate of breakdowns as a result of inadequate maintenance operations lowered the plant availability.

Poor performance of Small HEPs

None of the 10 independent SHEPs have been giving satisfactory performance. The actual output for all the five years was lower than potential output. The overall short generation was 195.42 MU.

Input efficiency

Diesel power stations of the Board at Brahmapuram and Kozhikode were mainly operated as peak load stations due to high operational costs. Timely maintenance operations were also not undertaken due to delay in decision making on the basis of cost-benefit considerations. Generation losses due to inadequate fuel stock and consumption of fuel in excess of norms were also noticed at these stations. Owing to curtailed operations on considerations of cost, the plant load factor of diesel stations was only in the range of 5.97 per cent to 38.98 per cent during the review period

Financial Management

As observed in audit, decisions on project financing were being taken without active involvement of Finance Wing and the system lapse caused drawal of high interest bearing loans without genuine requirement and resultant cost overrun.

Project Accounts were being closed years after their completion and no effective system of post implementation evaluation of projects was in place.

Instances of drawal of excess payments by project contractors against LCs, resulted out of deficiencies in contract payment terms as well as bill passing systems were also noticed

Conclusions and recommendations

Power potential from non conventional energy sources was not adequately developed by the state despite liberal financial assistance

from Central Government. Forest/ environmental clearances were the major hurdles faced by the Board in implementing new projects.

Capacity constraints and financial problems too prevented the Board from undertaking R & M activities of the existing HEPs and those carried out were also not fully successful. PLF of thermal plants of the Board were very low due to curtailed operation.

The review contains nine recommendations: The Board should evolve an action plan on priority basis to expedite the implementation of 11th Plan projects and avoid slippages. Policy guidelines from Government in matters of forest clearances, land acquisition and rehabilitation of people affected by projects would be helpful to the Board in its efforts to meet the targets for capacity addition. Project investigation-systems have to be strengthened by incorporating collective decision making in the initial stages itself to avoid inadequacies in designs at later stages. The Board should establish proper system for project monitoring enabling the flow of management information to the top management on time to take decisions on project management. The performance standards of contract agencies engaged by the Board were wanting in many respects. This highlighted the need for more stringent pre-qualification norms while short listing the contract agencies. Preventive maintenance schedules of the power stations have to be adhered to with more regularity and consistency. Cost benefit aspects of operation of Thermal Stations have to be examined more closely with updated and accurate cost data and possibility to optimise the utilisation examined with a view to contain the operational cost. System of maintenance of project accounts should be strengthened to avoid undue delay in closure of accounts.

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 ` 23.46 crore in three cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(*Paragraphs 4.1, 4.3 and 4.7*)

Loss of ` 5.17 crore in seven cases due to non-safeguarding of the financial interests of organisation.

(*Paragraphs 4.5, 4.6, 4.8, 4.9, 4.10 and 4.11*)

Loss of ` 13.31 crore in one case due to defective / deficient planning.

(*Paragraph 4.2*)

Loss of ` 1.19 crore in one case due to inadequate/ deficient monitoring.

(*Paragraph 4.4*)

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

Deficiencies in planning, execution and management of **Roads and Bridges Development Corporation of Kerala Limited** in contracts for construction of Railway Over Bridges resulted in blocking of funds (` 31.42 crore) besides payment of unproductive interest of ` 13.31 crore and cost overrun of ` 16.17 crore.

(*Paragraph 4.2*)

Decision of **Kerala State Civil Supplies Corporation Limited** to allot OMSS wheat to bulk roller flour mills in contravention of GOI directives deprived the targeted population availability of wheat at ` 14.95 per kg which resulted in undue benefit of ` 6.02 crore to private mills**.**

(Paragraph 4.3)

Failure of **Malabar Cements Limited** to accept dry fly ash supplied by a contractor led to stoppage of supply, subsequent encashment of bank guarantee and consequent loss of ` 14.49 crore.

(Paragraph 4.7)

Providing incorrect estimated figures of consumptions instead of actuals in respect of EHT / HT / LT consumers by **Kerala State Electricity Board** for fixation of tariff to KSERC resulted in avoidable loss of revenue of ` 2.52 crore during July 2008-September 008 and also earned unintended revenue of ` 12.67 crore during October 2008-April 2009**.**

(Paragraph 4.9)

Lack of system in **Kerala State Electricity Board** for ascertaining prevailing market prices and non-synchronisation of fresh tender during the delivery period of additional quantity resulted in loss of savings of ` 1.10 crore.

(Paragraph 4.10)