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 Comptroller and Auditor General of India. These accounts are also subject to supplementary audit conducted by Comptroller and Auditor General of India. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2011, the State of Kerala had 96 working PSUs (91 companies and 5 Statutory corporations) and 24 non-working PSUs (all companies), which employed 1.21 lakh employees. The working PSUs registered a Turnover of ₹14579.38 crore for 2010-11, as per their latest finalised accounts. This Turnover was equal to 5.49 per cent of State GDP indicating the important role played by State PSUs in the economy. The PSUs had Accumulated Losses of ₹369.96 crore as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2011, the Investment (Capital and Long Term Loans) in 120 PSUs was ₹8222.80 crore. Power sector accounted for nearly 32.19 per cent of total Investment in 2010-11. The Government contributed ₹1046.22 crore towards Equity, Loans and Grants / Subsidies during 2010-11.

Performance of PSUs

As per the latest finalised accounts, out of 96 working PSUs, 52 PSUs earned Profit of ₹788.89 crore and 38 PSUs incurred Loss of ₹249.60 crore. The major contributors to profit were Kerala State Electricity Board (₹240.72 crore), Kerala State Beverages (Manufacturing & Marketing) Corporation Limited (₹171.52 crore), The Plantation Corporation of Kerala Limited (₹52.73 crore), Kerala Financial Corporation (₹50.59 crore), Kerala State Financial Enterprises Limited (₹38.11crore). Heavy losses were incurred by Kerala State Road Transport Corporation (₹117.12 crore), The Kerala State Cashew Development Corporation Limited (₹52.56 crore), Kerala State Electronics Development Corporation Limited (₹22.85 crore), Steel Complex Limited (₹8.38 crore), Kerala State Drugs and Pharmaceuticals Limited (₹6.52 crore).

Quality of accounts

The quality of accounts of PSUs needs improvement. During the year, out of 81 Accounts of companies finalised, the Statutory Auditors had given Unqualified Certificates for 13 Accounts, Qualified Certificates for 64 Accounts, Adverse Certificates (which means that accounts do not reflect a true and fair position) for three Accounts and disclaimer (meaning the Auditors are unable to form an opinion on Accounts) for one Account. Additionally, CAG gave comments on 23 Accounts during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 106 instances of non-compliance in 47 Accounts during the year.

Arrears in accounts and winding up

76 working PSUs had arrears of 209 accounts as of 30 September 2011. The extent of arrears was one to thirteen years. There were twenty four non-working PSUs including six under liquidation.

2. Performance audit relating to Government companies

Performance audit relating to ***Working of KTDC Hotels & Resorts Limited.*** Executive summary of audit findings is given below:

KTDC Hotels & Resorts Limited was incorporated in the year 1965 as Kerala Tourist and Handicrafts Corporation Private Ltd. The company is engaged in providing hotel and restaurant services, boating operations, need based travel assistance, support services etc.

Financial position and working results

The Company showed operating Profits during 2006-07 to 2010-11. The Accumulated Loss could not be wiped out and as on 31 March 2011 stood at ₹21.54 crore.

Operational performance

Most of the properties of the Company were located in prime tourist locations in the State. During 2006-07 to 2009-10 the State witnessed spurt in tourist inflow but the Company failed to capitalise on the flow indicating poor marketing strategy.

Out of the 70 business units 35 units made losses during the audit period.

Out of eight budget hotels three were running on continuous Losses. The re-branding and modernisation of Yatri Nivases as Tamarind Easy Hotels did not improve their performance.

Star classification

Obtaining Star Classification improves brand value by ensuring that the standards are maintained and helps in attracting more high spending tourists. Though the Company was operating nine premium and eight budget properties none of its units, except Hotel Aranya Nivas Thekkady, had Star Classification.

Poor Occupancy

Average occupancy of Company's hotels ranged from 27 per cent to 42 per cent as against the State average of 59.85 per cent to 68.90 per cent. The business potential through channels other than Segment I operators was not being fully tapped.

Performance of boat operations

Company failed to fully exploit the revenue earning potential from boating operations at Thanneermukkom, Kochi and Kumarakom.

Conclusions and Recommendations

We observed (1) steadily falling occupancy in Company's properties despite the State witnessing an upswing in tourists traffic (2) Company failed to obtain star classification for the properties barring one (3) they failed to control food cost within the prescribed norms and (4) boat operations which had high revenue generation potential were not tapped. The Performance audit report contains six recommendations to improve the working and revenue generating potential of the Company.

3. Performance audit relating to Statutory corporation

Performance audit relating to ***Power distribution activities of Kerala State Electricity Board***. Executive summary of audit findings is given below:

Introduction

A performance audit covering the period 2006-2011 was conducted to assess network planning and execution, implementation of Centrally Sponsored Schemes, sub-transmission and distribution losses, billing and revenue collection efficiency, financial management, tariff fixation and consumer satisfaction and redressal of grievances in Kerala State Electricity Board (KSEB).

KSEB performed well in areas of attainment of objectives of - 100 per cent metering, curtailment of failure of DTRs within norms and lower AT&C Losses. At the same time, there were shortfalls in achievement of ideal HT/LT ratio, implementation of Centrally Sponsored Schemes etc.

Distribution network planning

Against the planned addition of 166 sub-stations during 2006-2011, only 94 sub-stations were actually added. There was no plan to implement a LT less system.

Implementation of Centrally Sponsored Schemes

Implementation of Centrally Sponsored Schemes by KSEB suffered from delays, consequently resulting in loss of Grants of ₹58.08 crore.

Purchase of power

Absence of adequate in-house power generating capacity resulted in purchase of power at expensive rates from outside parties.

Sub-transmission and distribution losses

The AT&C Losses decreased from 21.47 per cent in 2006-07 to 16.09 per cent in 2010-11.The AT&C Losses were more than the target of 15 per cent and 15.31 per cent set by MoP and Kerala State Electricity Regulatory Commission (KSERC) respectively.

Billing and revenue collection efficiency

The percentage of energy billed to energy available for sale ranged between 99.94 per cent to 99.98 per cent during 2006-2011. Instances of under collection of revenue due to incorrect application of tariff, non-levy of penalty, etc, were noticed during test check of Electrical Divisions. Non-collection of additional security deposit of ₹66.65 crore from consumers leading to increased borrowings for Working Capital needs were noticed.

Dues outstanding had increased from ₹1778.76 crore in 2006-07 to ₹1943.45 crore in 2010-11 of which dues outstanding for more than three years were ₹550.81 crore (2009-10).

Financial management

The Long Term Borrowings of KSEB had come down during 2006-2010. KSEB was able to repay the Loans as its Capacity Addition plans were getting postponed.

Subsidy

As per National Tariff Policy, tariff difference between categories of consumers is governed by a norm of plus or minus 20 per cent of average cost of supply. Neither the tariff proposal submitted by KSEB nor the tariff approved by KSERC conformed to this requirement.

Tariff fixation

KSEB had an amount of ₹3393.86 crore outstanding as Regulatory Asset as on 31 March 2011. As per provisions it has to be recouped within three years through Tariff or written off thereafter which was not complied with.

Consumer satisfaction & redressal of grievances

KSEB has standardised and simplified procedures for effecting service connections besides notification of 75 model sections aimed at improving consumer satisfaction. KSERC has also promulgated Standard of Performance with stipulation for payment of compensation on non-adherence.

Recommendations

The Performance Audit Report contains five recommendations, viz, Capacity addition plans to be prepared in a realistic manner to avoid mismatch and under achievement; Centrally Sponsored Schemes to be implemented effectively to obviate Loss of Grants; KSEB should tie up for purchase of power on long term basis to obviate the need for purchasing expensive short term power; billing and revenue collection mechanism to be further streamlined; and the Tariff adopted to be brought to the norm of +/- 20 per cent of Average Cost of Supply for various categories of consumers.

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:

Lack of fairness/ transparency/ financial propriety in three cases.

(Paragraphs 4.1, 4.3 and 4. 10)

Loss of ₹ 74.22. crore in three cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 4.6, 4.11 and 4.12)

Loss / extra expenditure of ₹ 36.63 crore in four cases due to non-safeguarding of the financial interests of organisation.

(Paragraphs 4.4, 4.9,4.14 and 4.18)

Loss/ extra/ improper expenditure of ₹ 10.43 crore in five cases due to defective / deficient planning.

(Paragraphs 4.5, 4.7, 4.8, 4.16 and 4.17)

Loss/ extra expenditure of ₹ 10.30 crore in two cases due to inadequate/ deficient monitoring.

(Paragraphs 4.2 and 4. 15)

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

Lack of fairness and transparency in selection of the advertising agency by **Kerala State Electronics Development Corporation Limited** and deficiencies in contract with the agency led to loss of revenue of ₹ 8.02 crore.

(Paragraph 4.1)

Roads and Bridges Development Corporation of Kerala Limited deployed unutilised funds in speculative investments through brokers in violation of existing Government guidelines.

(Paragraph 4.3)

Incorrect firming up of quantity for centralised procurement by **Kerala Medical Services Corporation Limited** led to balance quantity being procured at higher rate resulting in extra expenditure of ₹ 2.09 crore.

(Paragraph 4.5)

An expenditure of ₹ 3.68 crore was incurred by **Kerala State Electricity Board** and **21 other State PSUs** during 2008-09 to 2010-11 on advertisements which violated canons of financial propriety

(Paragraph 4.10)

Deficiencies in procurement of power by **Kerala State Electricity Board** resulted in extra expenditure of ₹ 15.95 crore and undue favour to traders.

(Paragraph 4.14)

Adoption of defective methodology by **Kerala State Road Transport Corporation** in procurement of tyres, tubes etc. resulted in extra expenditure of ₹ 6.67 crore to the Corporation.

(Paragraph 4.16)