Overview

1. Overview of State Public Sector Undertakings

The State Public Sector Undertakings (PSUs), consisting of State Government companies and Statutory corporations, are established to carry out activities of a commercial nature, while keeping in view the welfare of the people. Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of the State Government Companies are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG, as per the provisions of Section 619 of the Companies Act, 1956. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2013, the State of Kerala had 101 working PSUs (96 companies and 5 Statutory corporations) and 16 non-working PSUs (including four under liquidation), which employed 1.27 lakh employees. The working PSUs registered a turnover of ₹18486.21 crore as per their latest finalised accounts. This turnover was equal to 5.09 per cent of State GDP indicating the important role played by State PSUs in the economy. The PSUs had accumulated profit of ₹289.81 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2013, the total investment (capital and long term loans) in 117 PSUs was ₹10863.25 crore.

Performance of PSUs

Of the 78 PSUs which had finalised their accounts during 2012-13, 45 PSUs earned profit of ₹666.86 crore and 31 PSUs incurred loss of ₹607.34 crore. The major profit making PSUs were; Kerala State Beverages(Manufacturing and Marketing) Corporation Limited (₹ 149.79 crore), Kerala Financial Corporation (₹67.73 crore), The Kerala Minerals and Metals Limited (₹35.89 crore) Malabar Cements Limited (₹34.59 crore) and Kerala State Industrial Development Corporation Limited (₹18.97 crore).

Though Kerala State Electricity Board showed a profit of ₹240.72 crore in compliance with the requirements of Central Electricity Regulatory Commission, its operations actually resulted in a loss of ₹3758.17 crore.

Quality of accounts

During the year, out of 114 accounts of companies finalised, the Statutory Auditors had given unqualified certificates for 25 accounts, qualified certificates for 82 accounts, adverse certificate (which means that accounts do not reflect a true and fair position) for one account and disclaimer (meaning the Auditors are unable to form an opinion on accounts) for six accounts. Additionally, CAG gave comments on 28 accounts during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 105 instances of non-compliance in 38 companies during the year.

Arrears in accounts

75 working PSUs had arrears of 194 accounts as of 30 September 2013. The extent of arrears was one to twelve years.

2. Performance Audit relating to Government company

The Report includes observations emanating from the Performance Audit on the **Working of The Kerala Minerals and Metals Limited**

Introduction

The Kerala Minerals and Metals Limited is a PSU under the administrative control of Industries Department, Government of Kerala, engaged in the business of mining and processing of minerals and metals. The main product of the Company is Titanium Dioxide Pigment (TDP).

A Performance Audit covering the period 2008-13 was conducted to assess the economy, efficiency and effectiveness in production, procurement, marketing and financing activities of the Company.

Operational Performance

The profit of the Company decreased from ₹92.45 crore in 2009-10 to ₹62.59 crore in 2010-11 and from ₹154.08 crore in 2011-12 to ₹75.94 crore in 2012-13. The sales in quantity terms were steadily declining during the review period.

Cost of production

The cost of production showed an increasing trend during the five years ended March 2013. The cost of production per MT of TDP increased by 90 per cent from 2008-09 to 2012-13.

Production performance

Under-utilisation of the available capacity of the plants led to increased cost of production, declining market share, and accumulation of stock.

Procurement

The Company violated its own purchase procedure and procured materials of high value on limited tender basis, instead of inviting competitive open tenders and failed to ensure supply of ordered quantity at quoted price by the suppliers.

Marketing

The Company failed to take timely decision for determining prices with reference to available cost data and market trends. Retaining a higher price over a prolonged period led to reduction in sales and accumulation of stock.

Human Resources

Total production decreased during 2011-12 and 2012-13 compared to 2008-09 to 2010-11. However, the man hours utilised were 33 and 32 hours per MT during 2011-12 and 2012-13 as against 27 hours per MT of earlier years. The unproductive wages paid by the Company on account of lower labour productivity worked out to ₹18.71 crore.

Financial Management

The Company was extending loans and contributing equity to other loss making PSUs which were not recoverable.

3. Performance Audits relating to Statutory corporation

The Report includes observations emanating from the Performance Audits of **Kerala State Electricity Board.**

3.1 Performance Audit on Power Purchase transactions of Kerala State Electricity Board

Introduction

Kerala State Electricity Board (KSEB) is the distribution licensee for power for the State of Kerala.

Planning

The peak demand of power of the State ranged from 2765 Mega Watts (MW) to 3348 MW during 2008-13. Deficit ranged from 222 MW to 528 MW during 2008-13. KSEB planned to meet the deficit in demand and energy requirement mainly by commissioning Hydel schemes which was a cheaper source of energy. However, as against the required capacity addition of 1380.39 MW, actual addition in generation capacity was only 214.20 MW from 2008-09 to 2012-13. Considering the uncertainties in Hydel projects and price fluctuation in the international crude oil market for the fuel used by Independent Power Producers (IPPs), KSEB envisaged the necessity for purchasing sufficient power from Coal based Inter-State Projects on medium/long term. However, due to failure in implementing medium/long term power purchase plans (Case I), KSEB had to purchase costly power from short term market at extra cost of ₹244.07 crore.

Power Swap Agreement

KSEB resorts to swap mechanism to supply power when there is a comfortable position of power and arrange for return of power during deficit period. KSEB entered into swap arrangement though they had no surplus power to offer on swap which led to purchase of power (₹43.29 crore) to fulfill the commitment. Traders did not supply the entire agreed swap quantity forcing KSEB to purchase power on Short Term basis thereby incurring extra expenditure of ₹30.95 crore.

Monitoring Mechanism

Ministry of Power decides the entitlement of energy from Central Generating Stations (CGS) to each State. Failure to initiate action in getting compensation for shortfall in energy supplied from CGS resulted in extra expenditure of ₹163.96 crore.

The approval of Aggregate Revenue Requirement and Expected Revenue from Charges (ARR) for each year was based on norms for Transmission & Distribution(T&D) loss fixed by Kerala State Electricity Regulatory Commission (KSERC). KSEB failed to achieve T&D loss norms fixed by KSERC and had to make up excess loss by procuring additional power at higher cost on short term basis at a cost of ₹172 crore.

Recommendations

Audit has made seven recommendations which include need for setting up of a separate Trading Wing to arrange SWAP transactions and purchase from Traders and Power Exchanges through Short Term basis, adherence to regulations and guidelines while floating tenders, review of purchase from costly IPPs, monitoring in receipt of allocated power from CGS, etc.

3.2 Performance Audit on Implementation of Rajiv Gandhi Grameen Vidyutikaran Yojana

Introduction

The Government of India (GoI) notified (March 2005) Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), a Scheme for rural electricity infrastructure development and household electrification in the country within a period of five years. As per the Scheme, 90 per cent of the total implementation cost was to be financed by GoI as capital subsidy through Rural Electrification Corporation Limited (REC) and the remaining 10 per cent was to be contributed by the respective State Governments. Kerala State Electricity Board (KSEB) was designated as Project Implementing Agency (PIA) of the Scheme in the State.

Planning

KSEB did not conduct detailed survey which resulted in revision of Detailed Project Reports (DPRs) and consequent delay in implementing the Scheme. Electrification of public places as envisaged in the Scheme was not taken up and they were deprived of the benefits of the Scheme.

Out of the DPRs for the total 14 districts submitted by KSEB at the commencement of the Scheme, REC sanctioned (August 2005) DPRs for only seven districts and rejected (October 2005) DPRs of the remaining seven districts due to deviations from REC guidelines. In respect of the seven districts, revised proposals were submitted after a gap of five years from the original proposal.

Financial Management

Government of Kerala (GoK) did not contribute 10 per cent of the total implementation cost of the projects as required under the Scheme. Hence KSEB had to arrange the same by way of loan from REC which resulted in financial burden of ₹7.56 crore.

Execution

Out of the 14 projects taken for implementation, only one project (Idukki district) had been completed so far (March 2013) as against scheduled completion date of March 2010 for the whole State. There were abnormal delays in the implementation of the Scheme due to defective DPRs, incorrect estimation of project quantity and consequent revision of DPRs. Though electrification of 1274 villages was targeted, 37 villages in Idukki district alone were completed so far.

Project Monitoring

The State and District Level Co-ordination Committees were set up by the State Government for reviewing rural electrification. The State level Committee held only three meetings during entire period of the Scheme and District level Committees held meetings which ranged from one to eleven in the Northern districts.

Impact

Deficient DPRs and delays in implementation at various stages reduced the coverage and benefits of the Scheme by providing electricity connection only to 0.55 lakh Rural Households (RHHs) as against 4.68 lakh RHHs proposed. Further, there was a loss of capital subsidy of ₹46.30 crore due to departmental execution of work, exclusion of substations in the DPRs and rejection of increase in cost due to additional quantities.

Recommendations

KSEB should fix responsibility for the deficiencies in the DPRs and delay in

various stages of implementation. KSEB should take steps to avoid delay in completion of the Scheme to provide access to electricity for all RHHs as envisaged in the Scheme. The meetings of the Committees should be regularly conducted to resolve bottlenecks and constraints. The State Government may reimburse loans taken by KSEB from REC as required under the Scheme.

4. Compliance Audit observations

Compliance 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 ₹134.70 crore due to non-complaince with rules, directives, procedures, terms and conditions of Acts/contracts.

(Paragraphs 4.2, 4.3 ,4.5, 4.6, 4.7, 4.9 and 4.10)

Loss/extra expenditure ₹128.53 crore due to non-safeguarding the financial interests of the organization.

(Paragraphs 4.1 and 4.8)

Unproductive investment of ₹115.57 crore due to deficient planning and implementation.

(Paragraph 4.4)

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

- Procurement of Raw Cashew Nuts by **The Kerala State Cashew Development Corporation Limited** in an adhoc and arbitrary manner disregarding directions of COPU and Expert Committee and without ensuring transparency, fairness and competitiveness resulted in loss/extra expenditure of ₹93.93 crore.

  (Paragraph 4.1)

- The Government entered into Chitty business in 1969 by establishing **The Kerala State Financial Enterprises Limited** to bring in social control over the Chitty business and to protect the public from the clutches of unscrupulous private chit fund operators, through adhering to applicable rules and regulations. However, unscrupulous subscribers were found to be still taking away prize money through dubious methods such as submitting bogus salary certificates towards security, substituting their defaulted chitties by spouse/relatives, not honouring cheques submitted towards monthly instalments, etc. The Company also violated the rules and regulations governing the conduct of Chitty business and enrolled defaulters/subscribers without realising first instalment, allowed defaulters to participate in auction and get prize money. It also failed to refund the instalments of the subscribers who were removed from the chitty.

  Thus, the Company by running the Chitty business suffered a loss of ₹114.72 crore and by violating all rules and regulations also defeated the very purpose that they were supposed to achieve.

  (Paragraph 4.2)

- The e-tendering and LCS techniques adopted by **Kerala State Civil Supplies Corporation Limited** envisaged objectivity, transparency and fair play in the procurement of essential commodities, but the Company resorted to extensive negotiations leading to unhealthy competition, collusion and cartel formation thereby defeating the ostensible gains of the e-tendering system.

(Paragraph 4.3)

- The investment of ₹115.57 crore by **Kerala State Textile Corporation Limited** in Green Field Projects became unproductive due to poor implementation of the projects, violation of procedures and fixation of unrealistic milestones.

(Paragraph 4.4)

- **Kerala State Industrial Development Corporation Limited** suffered a loss of ₹2.00 crore due to one time settlement of outstanding loan in violation of laid down OTS Policy.

(Paragraph 4.5)

- Short remittance of advance income tax due to wrong estimation of current income by **Transformers and Electricals Kerala Limited** resulted in avoidable payment of interest of ₹1.17 crore.

(Paragraph 4.6)

- OTS policy of **Kerala State Electricity Board** did not yield the envisaged result, as it could settle only ₹85.98 crore (32 consumers) out of the total arrears of ₹1383 crore (1094 consumers) as on March 2013. In two cases settled, KSEB suffered a loss of ₹34.60 crore due to extension of concession over and above OTS scheme and waiver of dues without ensuring reimbursement from Government.

(Paragraph 4.8)