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 and Sections 139 and 143 of the Companies Act, 2013. The accounts of the State Government companies are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 139 (5) or (7) of the Companies Act, 2013. These accounts are also subject to supplementary audit conducted by CAG, as per the provisions of Section 143(6) of the Companies Act, 2013. Audit of Statutory corporations is governed by their respective legislations.

As on 31 March 2015, the State of Kerala had 111 working PSUs (107 companies and 4 Statutory corporations) and 15 non-working PSUs (including five under liquidation), which employed 1.28 lakh employees. The working PSUs registered a turnover of ₹19194.06 crore as per their latest finalised accounts. This turnover was equal to 4.25 per cent of State GDP indicating the important role played by State PSUs in the economy. The working PSUs had accumulated loss of ₹198.94 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2015, the total investment (capital and long term loans) in 126 PSUs was ₹19933.20 crore.

Arrears in accounts

94 working PSUs had arrears of 239 accounts as of 30 September 2015. The extent of arrears was 1 to 19 years.

Performance of PSUs

An analysis of the latest finalised accounts of all working PSUs in the State revealed that 50 PSUs earned profit of ₹498.47 crore, 53 PSUs incurred loss of ₹889.89 crore and four working PSUs had no profit or loss. Five working PSUs have not yet (September 2015) finalised any of their accounts. The major contributors to profit were Kerala State Electricity Board (₹140.42 crore), Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹123.54 crore), The Kerala State Financial Enterprises Limited (₹69.90 crore) and Kerala State Industrial Development Corporation Limited (₹30.49 crore). The major PSUs which incurred loss are Kerala State Road Transport Corporation (₹508.22 crore), The Kerala State Cashew Development Corporation Limited (₹127.95 crore) and The Kerala State Civil Supplies Corporation Limited (₹89.11 crore).

Quality of accounts

During the year, out of 92 accounts of companies finalised, the Statutory Auditors had given unqualified certificates for 20 accounts, qualified certificates for 70 accounts and adverse certificate for two accounts. Additionally, CAG gave comments on 38 accounts during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 134 instances of non-compliance in 45 accounts of 39 companies during the year.

2 Performance Audits relating to Government companies

The report includes observations emanating from the Performance Audits on:

2.1 Raising forest plantations and implementation of ecotourism projects by Kerala Forest Development Corporation Limited

Introduction

Kerala Forest Development Corporation Limited (Company) is a joint undertaking of Government of India (GoI) and Government of Kerala (GoK) engaged in raising of forest plantations, cultivation of cash crops and ecotourism activities.

Replantation activities

The Company could not achieve the target fixed for replantation in any year. Replanting was not carried out in the immediate replanting seasons in eight plantations with delay up to six years. The resultant potential loss of yield of pulpwood was 2318.05 MT valuing ₹0.80 crore.

Harvesting activities

Due to dependence on two user companies, deficient marketing strategy, failure to dispose of plantations with poor growth and exclusion of matured plantations in the schedule of harvesting, wood billets worth ₹9.65 crore (28219 MT) were not harvested from an area of 1073 hectares.

Failure of plantations

Due to improper weeding and selection of wrong species, six plantations had failed resulting in wasteful expenditure of ₹2.96 crore.

Thinning activities

The Company failed to carry out thinning in 69 per cent of the area which were due.

Cultivation of cash crops

Due to failure of the Company to carry out intensive management in the entire area available, timely replanting and standard agronomic practices, there was significant shortfall in the productivity of the cash crops leading to loss of revenue amounting to ₹45.70 crore.

Ecotourism activities

Absence of safari vehicles, drinking water facilities, publicity, flexi- tariff and online booking facilities contributed to low occupancy in the ecotourism centres. Failure to get prior approval from Government of India (GoI) resulted in stoppage of two projects midway, resulting in wasteful expenditure of ₹0.59 crore. Third project was stopped as the land required was not available. Due to delay in implementing eight projects, there was potential loss of revenue of ₹10.72 crore.

2.2 Material Management by Kerala State Electricity Board Limited

Introduction

Kerala State Electricity Board Limited (KSEBL) is engaged in generation, transmission and distribution of electricity in the State. During 2010-15, KSEBL issued 610 Purchase Orders (PO) valuing ₹1741.33 crore. Audit examined 152 POs (₹664.99 crore) to check whether procurement and utilisation of material was effective and economic.

Planning for procurement of material

The process of material procurement begins with preparation of Annual Plan by Corporate Planning Wing and thereafter Purchase Plan (PP) by Chief Engineer, Supply Chain Management (CE, SCM). There was delay in issue of guidelines for preparation of Annual Plan. No prescribed time frame was fixed for preparation and approval of PP which resulted in delay in their preparations.

Lack of co-ordination in material procurement

Co-ordination between Corporate Planning Wing and CE, SCM was important to ensure procurement of adequate material. Lack of co-ordination resulted in short procurement of energy meters and delay in procurement of material.

Tendering process

There was no prescribed time frame for each stage of tendering process. Out of 113 tenders, 48 were invited after delays ranging from 31 to 269 days. Similarly, 36 out of 113 tenders were not finalised within the validity period of bids.

Delay in execution of work due to non-availability of material

Failure to assess the requirement with reference to available stock and average consumption led to shortage of material for up to nine months which affected the execution of various works.

Extra expenditure due to delay in finalisation of tender

Delay in finalisation of tender and subsequent cancellation and retendering resulted in extra cost of ₹16.32 crore in procurement of single phase meters at higher rate.

Procurement of additional quantity from existing suppliers

Due to delay in invitation and finalisation of fresh tender, KSEBL could not invoke price re-fixation clause which led to extra cost of ₹2.87 crore.

Absence of monitoring

There was no system to monitor the consolidated payment against a PO. Due to absence of Management Information System, utilisation of material procured by SCM Wing could not be monitored by KSEBL. Material transferred to end user sections was not linked on the basis of PO.

2.3 Implementation of Restructured Accelerated Power Development and Reforms Programme by Kerala State Electricity Board Limited

Introduction

Government of India (GoI), Ministry of Power (MoP) approved (September 2008) 'Restructured Accelerated Power Development and Reforms Programme' (RAPDRP) with the aim of restoring commercial viability of power distribution sector by putting in place appropriate mechanism so as to substantially reduce Aggregate Technical and Commercial (AT&C) loss.

Physical progress of projects

MoP sanctioned 43 projects each under Part A and Part B and three Supervisory Control and Data Acquisition (SCADA) projects for implementation in the State. As per the original guidelines, Part A and Part B projects were to be completed within three years. GoI extended the completion period to five years. However, the projects could not be completed within five years and was further extended by one more year.

Project formulation and planning

Implementation of RAPDRP was to be preceded by policy initiatives like undertaking measures for prevention of theft of power, constitution of special courts to deal with cases of power theft, etc. Action taken by KSEBL was, however, inadequate to supplement efforts under RAPDRP to bring down AT&C loss to 15 per cent.

Fund Management

The non-opening of project-wise bank account and non-maintenance of project-wise separate accounts led to diversion of funds and ineffective monitoring of the projects. KSEBL made irregular interest free advance payment of ₹14.50 crore to the turnkey contractor.

Implementation of the projects

Delay in appointment of IT Implementing Agency, problems in implementation of Meter Data Acquisition System, slow progress of Geographic Information System and partial accomplishment of Customer Care Service Centre led to time overrun for more than three *years. Erroneous price loading resulted in extra expenditure in implementation of Part A project to the extent of ₹27 crore.*

Delay in submission of DPRs and financial tie-up, delay in completion of work due to non-procurement of material like ABC, UG cables, deviation from DPR, delay and extra expenditure incurred in awarding and implementation of turnkey contract, constituted time overrun for more than three years and cost overrun to the extent of ₹129 crore. None of the SCADA projects could be completed due to delay in completion of Part B projects.

Undue delay in completion of RAPDRP projects led to non-realisation of envisaged benefit of ₹202.70 crore by way of reduction in AT&C loss.

3. 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 ₹106.34 crore due to non-compliance with rules, directives, procedures, terms and conditions of Acts/ contracts.

(Paragraphs 3.1, 3.2, 3.3, 3.6 and 3.12)

Loss/ extra expenditure of ₹28.03 crore due to non-safeguarding the financial interests of the organisation.

(Paragraphs 3.4, 3.5, 3.7, 3.8, 3.9, 3.10 and 3.11)

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

- *Implementation of Greenfield Projects by five PSUs was beset with poor planning and execution of projects. The DPRs were prepared without actual feasibility study. Despite poor track record of TRACO, SIDCO and KELTRON, the decision of GoK to divert funds from MCL resulted in high probability of the loans advanced by MCL remaining irrecoverable. There were failures to avail of Central Government assistance and CENVAT credit. Envisaged funding was also not ensured leading to curtailment of investment in machinery and equipment. All these factors led to the Greenfield Projects clocking losses of ₹11.59 crore in their operations.*

  (Paragraph 3.1)

- *Failure of **Kerala Agro Machinery Corporation Limited** to ensure procurement of material at competitive rate by following mandatory provisions of Stores Purchase Manual on competitive bidding resulted in extra expenditure of ₹61.28 crore.*

  (Paragraph 3.2)

- *Non-compliance to the provisions of the Income Tax Act, 1961 by PSUs revealed instances of delay in submission of tax returns, non-payment of required amount of advance tax and consequent payment of interest, etc., to the tune of ₹24.57 crore.*

(Paragraph 3.3)

- *Failure of* ***Kerala State Mineral Development Corporation Limited*** *to provide adequate security and storage for excavated sand resulted in loss of sand worth ₹6.42 crore and consequent loss of revenue to Government.*

(Paragraph 3.7)

- *Failure of* ***Kerala State Electricity Board Limited*** *to execute agreement with Asianet and other cable TV operators resulted in loss of ₹14.70 crore and short collection of service tax of ₹ 1.75 crore.*

(Paragraph 3.8)

- *Failure of* ***Kerala State Beverages (Manufacturing & Marketing) Corporation Limited*** *in timely passing on the incidence of additional tax (i.e. medical cess) to consumers resulted in payment of tax ₹2.10 crore. Besides, delay in payment of medical cess resulted in avoidable payment of interest of ₹0.42 crore.*

(Paragraph 3.11)

- ***Kerala State Road Transport Corporation*** *made irregular payment of performance allowance of ₹3.24 crore in violation of Government Order.*

(Paragraph 3.12)