OVERVIEW

Chapter I Functioning 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. 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 the Comptroller and Auditor General of India (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 2017, State of Kerala had 115 working PSUs (111 companies and 4 Statutory corporations) and 15 non-working PSUs (including four under liquidation), which employed 1.19 lakh employees. The working PSUs registered a turnover of ₹26,463.28 crore as per their latest finalised accounts. This turnover was equal to 4.04 *per cent* of Gross State Domestic Product indicating the important role played by State PSUs in the State's economy. The working PSUs accumulated loss of ₹6,348.10 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2017, the total investment (capital and long term loans) in 130 PSUs was ₹27,106.88 crore.

Arrears in accounts

There were 265 accounts in arrears in respect of 101 working PSUs as of 30 September 2017. The extent of arrears ranged from 1 to 14 years.

Performance of PSUs

The Return on Capital Employed of working PSUs as per their latest finalised accounts as of September 2017 worked out to 6.05 *per cent* and the Return on Equity, however, was (-) 49.94 *per cent*.

An analysis of the latest finalised accounts of all working PSUs in the State revealed that 45 PSUs earned profit of ₹382.84 crore, 64 PSUs incurred loss of ₹2,216.01 crore and two PSUs had no profit or loss. Four working PSUs did not (September 2017) finalise any of their accounts. The major contributors to profit were Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹151.06 crore in 2014-15), The Kerala State Financial Enterprises Limited (₹35.87 crore in 2015-16) and Kerala State Industrial Development Corporation Limited (₹25.66 crore in 2016-17). The major PSUs, which incurred loss are Kerala State Road Transport Corporation (₹1,431.29 crore in 2014-15), Kerala State Electricity Board Limited (₹313.29

crore in 2015-16) and The Kerala State Civil Supplies Corporation Limited (₹107.43 crore in 2014-15).

Quality of accounts

During the year, out of 97 accounts of companies finalised, the Statutory Auditors gave unqualified certificates for 25 accounts, qualified certificates for 49 accounts, disclaimer certificate for 21 accounts and adverse certificates (which mean that accounts do not reflect a true and fair view) for two accounts. Additionally, CAG gave comments on 40 accounts during the supplementary audit. The compliance of companies with the Accounting Standards (AS) remained poor. There were 119 instances of non-compliance of AS in 41 accounts of 35 companies during the year.

Chapter II Performance Audits relating to Government companies

The report includes observations emanating from the Performance Audits on the following subjects/ issues:

2.1 Promotion and Development of coir and handloom sectors in Kerala

Introduction

In Kerala, as of March 2017, there were 1.89 lakh workers and 0.19 lakh weavers in coir and handloom sectors respectively under the co-operative fold. There were 564 working societies in coir sector and 409 working societies in handloom sector. Similarly, there were six PSUs/ organisations, engaged in the promotion and development of the respective sectors.

Implementation of schemes and monitoring by Government of Kerala (GoK)

Measures outlined and suggested in the report of Coir Commission (2008) were not implemented. The mechanisations and modernisation of working units, liquidation /revival/reorganization of dormant societies and welfare measures contemplated were not progressing at the expected pace in both sectors. Absence of reliable data prevented formulation of strategic approach for the coir and handloom sectors.

Promotion and Development programmes

Raw material support

Husk collection scheme and revival of defibering units initiated by Directorate of Coir Development could not resolve the issue of non-availability of raw material in coir sector, which in turn made them dependent on other States and their products less competitive.

Financial Support

Financial support extended by GoK in the form of Working capital assistance scheme for coir sector and Revival, Reform and Restructuring package for handloom sector was deficient in respect of absence of monitoring and deviation from scheme guidelines.

Marketing Support

Societies could not avail the full benefit of market assistance schemes and programmes due to the delays in processing of claims and release of assistance by Directorates. Failure to register under handloom mark scheme, and non-conduct of expos resulted in loss of opportunity to showcase the handloom products.

Infrastructure Development and modernisation

The infrastructure development and modernisation schemes and programmes implemented for the development of both coir and handloom sectors were partially effective because of inadequate coverage, delay in implementation, absence of/deviation from guidelines, *etc*.

Welfare of workers and weavers

Welfare measures initiated by GoK though ensured standard of living through minimum wages, pension and insurance, did not cover the entire sector. The implementation was also marred by delays in payments and deviation from guidelines.

Chapter III Performance Audits relating to statutory corporations

3.1 Development and Maintenance of Industrial Infrastructure in the State of Kerala by Kerala Industrial Infrastructure Development Corporation

Introduction

Kerala Industrial Infrastructure Development Corporation (Corporation) was set up under the Kerala Industrial Infrastructure Development Act, 1993 for establishing industrial estates equipped with infrastructure facilities. The Corporation acquired 3,151.44 acres of land and developed 22 industrial parks in the land so acquired including 12 Standard Design Factories till December 2017.

Identification of land for Industrial Development Zone

During the five-year period ending 31 March 2017, the Corporation obtained Administrative Sanctions from Government of Kerala (GoK) for acquisition of 4,087 acres of land. Acquisition, however, did not commence as the land identified was either not in conformity with the Corporation’s selection criteria or with the Kerala Conservation of Paddy Land and Wetland Act, 2008 in respect of 1,320 acres of land.

Development of land and infrastructure

Comprehensive Rehabilitation and Resettlement Policy of GoK for land acquisition stipulates utilisation of land within three years. Development activities in 233.62 acres of land acquired during 2010-11 to 2013-14 were not completed.

GoK placed (2009 to 2017) 173.57 acres of land belonging to seven Companies/Societies at the disposal of the Corporation for industrial development. The Corporation was yet to utilise the industrial land on account of encroachment, delay in applying for exemption under various Acts, Rules, Notifications, *etc*.

Infrastructure development works

The Corporation undertakes infrastructure development works on the land acquired for allotment to entrepreneurs. Audit of 23 contracts out of 104 contracts under execution during 2012-13 to 2016-17 in respect of development works revealed that work was awarded on single bid basis without valid justification in three cases (₹2.08 crore).

Engagement of Project Management Consultants

The Corporation engaged Project Management Consultants (PMC) for infrastructure development works from a panel constituted in June 2012. Audit observed that the Corporation appointed three PMCs from the panel after its expiry in June 2016. The Corporation did not invite competitive offers from other members in the panel to ensure competition in violation of GoK guidelines.

The Corporation also engaged three PMCs from the GoK accredited panel for five projects. In one project, the Corporation awarded PMC work to INKEL, a member in the GoK accredited panel, disregarding the technical and financial advantage from the offer of a member from its own panel leading to commitment of extra expenditure of ₹3.46 crore.

Allotment and post allotment monitoring

Details of availability of plot/space along with site location and applicable rate within a particular park were not available in public domain. This deprived prospective entrepreneurs of the required information to apply for allotment.

As per conditions of allotment, the allottee will have to commence the commercial production within two years after allotment. Out of 1,779.18 acres of land allotted, an area of 215.66 acres remained unutilised without commencement of production.

Fixation of price for allotment of land

The Corporation approved pricing policy stipulating basis and guidelines for fixing lease premium. Audit noticed instances of imbalance in pricing.

Sharing of accumulated expenditure of the Industrial Park as a whole to future allotments alone led to increase in lease premium per acre ranging from ₹0.11 lakh to ₹32.26 lakh in eight parks.

Implementation of Infrastructure projects with assistance of GoI

The Corporation was the nodal agency for implementation of scheme under 'Assistance to States for Developing Export Infrastructure and Other Allied Activities (ASIDE)'. The Corporation met administrative expenses of ₹96 lakh from ASIDE fund in violation of the scheme guidelines. Even after release/sanction of funds of ₹46.18 crore under ASIDE scheme for four projects, necessary infrastructure was not created resulting in non-achievement of scheme objectives.

Chapter IV 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/irregular expenditure of ₹70.58 crore due to non-compliance with rules, directives, procedures, terms and conditions of Acts/contracts/agreements.

  (Paragraphs 4.1, 4.2, 4.3 and 4.8)

- Loss/extra expenditure/avoidable liability of ₹5.70 crore due to non-safeguarding the financial interests of the organisation.

  (Paragraphs 4.4, 4.6, 4.7 and 4.10)

- Idling/Blocking up of fund of ₹0.82 crore.

  (Paragraphs 4.5 and 4.9)

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

➢ Malabar Cements Limited (Company) did not update its purchase policy and procedures in tune with revised Stores Purchase Manual (SPM)/Government Orders and did not fix any time frame for procurement process. The Company did not comply with SPM provisions relating to e-tender, fixation of validity of tender, splitting of purchase orders and collection of Earnest Money Deposit. The Company failed to collect security deposit, levy liquidated damages as per SPM. Procurement of coal without exercising quality checks resulted in extra expenditure and non-compliance to BIS Standards in production resulted in production loss.

(Paragraph 4.1)

- E-tendering was envisaged as a mechanism to ensure complete transparency in the procurement process in The Kerala State Civil Supplies Corporation Limited (Company), avoiding human intervention. But, the system of negotiation followed by the Company exposed it to the risk of manipulation by bidders by holding back their best rates, capturing major share of purchase orders after knowing the competitors' rates. Non-diversification of supply sources resulted in excessive dependence on intermediaries and consequent purchases at higher costs. The Company was not able to maintain optimum stock levels in depots due to restriction of purchase quantities, which even resulted in stock-out situations during times of price rise. Quality assurance mechanism of the Company also called for stronger monitoring and control.

  (Paragraph 4.2)

- The e-Governance initiatives implemented in the State enabled it to be ranked among the leading States in the Country in terms of volume of transactions. However, inadequacies in co-ordination of e-Governance initiatives of various departments/agencies by Electronics and Information Technology Department resulted in duplication of expensive infrastructure. There were deficiencies in ensuring security of data hosted by State Data Centre due to non-formulation of disaster recovery and business continuity plans and absence of independent security audit of State Data Centre 1. Aim of electronic service delivery through a single gateway remained unachieved as only 34 services were available through the State Portal.

  (Paragraph 4.3)

- The Kerala Minerals and Metals Limited incurred extra expenditure of ₹41.20 lakh in procurement of paper packing bags due to limiting the order quantity of the lowest bidder while simultaneously procuring at higher rates from other bidders.

  (Paragraph 4.6)

- Kerala Feeds Limited incurred avoidable loss due to non-adherence to instructions of Reserve Bank of India on e-payments.

  (Paragraph 4.7)