Audit of Government Companies is governed by Sections 139 and 143 of the Companies Act, 2013. The financial statements of Government Companies are audited by the Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG). These financial statements are also subject to supplementary audit by the CAG.

As on 31 March 2018, Kerala had 136 State Public Sector Undertakings (PSUs) consisting of four Statutory Corporations and 132 Government Companies (including 15 non-working Government Companies) under the audit jurisdiction of the CAG. The working PSUs registered a turnover of ₹28,917.68 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to 4.21 per cent of the Gross State Domestic Product (GSDP) of Kerala. As on 31 March 2018, the investment (capital and long term loans) in 136 PSUs was ₹39,494.84 crore. The power sector received 59.51 per cent out of the total investment (₹25,597.24 crore) made during the period from 2013-14 to 2017-18.

1. Functioning of Power Sector Undertakings

Formation of Power Sector Undertakings

Kerala State Electricity Board (KSEB) was constituted (March 1957) for carrying out the business of Generation, Transmission and Distribution of electricity in the State of Kerala. KSEB continued as Transmission utility and Distribution licensee till 24 September 2008. Government of Kerala (GoK) vested (September 2008) all the functions, properties, interests, rights, obligations and liabilities of KSEB with the State Government till the same was re-vested (31 October 2013) to the successor entity, i.e., Kerala State Electricity Board Limited (KSEBL). The KSEBL was incorporated (14 January 2011) under the Companies Act, 1956 and started operations as independent company with effect from 1 November 2013. The KSEBL functions through three strategic business units; one each for Generation, Transmission and Distribution. The KSEBL had one joint venture1 and two associate companies2 in which it had an investment of ₹20 crore.

The State Government incorporated Kerala State Power and Infrastructure Finance Corporation Limited in 1998. Kerala Industrial Infrastructure Development Corporation, a Statutory Corporation, incorporated another power sector company, i.e., KINESCO Power and Utilities Private Limited in 2008. Thus, there were three Power Sector companies in the State as on 31 March 2018. The financial statements of these companies are also audited by the Statutory Auditors appointed by the CAG subject to supplementary audit by the CAG.

The Power Sector Undertakings registered a turnover of ₹12,382.68 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to

1 Baitarani West Coal Company Limited.
1.80 per cent of the GSDP of Kerala indicating the role played by the Power Sector Undertakings in the economy of the State.

**Stake of Government of Kerala**

As on 31 March 2018, the total investment (equity and long term loans) in the three power sector undertakings was ₹19,469.84 crore. The investment consisted of 18.11 per cent towards equity and 81.89 per cent in long term loans. Government of Kerala did not advance any long term loans to the power sector PSUs. The entire long term loan of ₹15,943.82 crore was availed by the power sector PSUs from banks and financial institutions.

**Performance of Power Sector Undertakings**

The overall loss incurred by the three power sector companies was ₹1,852.91 crore in 2017-18 against profit of ₹147.57 crore earned in 2013-14. According to the latest finalised accounts of these three PSUs, Kerala State Power and Infrastructure Finance Corporation Limited (₹5.97 crore) and KINESCO Power and Utilities Private Limited (₹1.54 crore) earned profit while Kerala State Electricity Board Limited incurred loss (₹1,860.42 crore).

Out of three PSUs, GoK infused funds in two PSUs only. The overall accumulated losses of these two power sector companies were ₹4,933.31 crore as against the capital investment of ₹3,525.70 crore as on 31 March 2018. The net worth was eroded in Kerala State Electricity Board Limited to ₹(-)1,472.08 crore.

**Financial Turnaround of KSEBL under Ujwal DISCOM Assurance Yojana (UDAY)**

A tripartite Memorandum of Understanding (MoU) amongst Ministry of Power, Government of India, Government of Kerala (GoK) and Kerala State Electricity Board Limited (KSEBL) in order to achieve higher operational efficiency was entered into on 2 March 2017. The MoU envisaged reduction in Aggregate Technical & Commercial losses of its electricity distribution business to 11 per cent by 2018-19. The MoU did not envisage takeover of any debt by GoK.

**Quality of accounts**

The quality of accounts of power sector companies needs to be improved substantially. During the year 2017-18, the Statutory Auditors issued qualified audit reports on three accounts. The Statutory Auditors pointed out 19 instances of non-compliance to the Accounting Standards in two accounts.

2. **Compliance Audit Observations relating to Power Sector Undertakings**

Compliance Audit observations included in this Report highlight non-compliances in the planning and execution of Small Hydro Electric Projects (SHEPs) by Kerala State Electricity Board Limited.

Against the envisaged capacity addition of 148 MW through commissioning of 22 SHEPs during the twelfth five-year plan period (2012-17), actual capacity
addition was 39.35 MW by commissioning seven SHEPs as of March 2018. Detailed Project Reports were prepared without considering water availability based on 90 per cent dependable year and realistic financial viability indicators. Delay in diversion of forest land and acquisition of private land, defective DPR and non-synchronisation of civil and electrical & mechanical works led to extension of completion time and resultant loss of generation of 608.93 MUs of energy valuing ₹313.59 crore. Further, KSEBL sustained avoidable liability to purchase 6.09 lakh Renewable Energy Certificates to meet Renewable Purchase Obligation. Performance of the commissioned units did not match the projections due to failure of equipment, obstructions in the free flow of water to the water conductor system etc.

### 3. Functioning of State Public Sector Undertakings (other than power sector)

As on 31 March 2018, Kerala had 133 State Public Sector Undertakings (other than Power Sector) consisting of 114 working companies, 4 working Statutory Corporations and 15 non-working PSUs. The working PSUs registered a turnover of ₹16,535 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to 2.41 per cent of the Gross State Domestic Product indicating the role played by these State PSUs in the economy of the State.

#### Stake of Government of Kerala

As on 31 March 2018, the total investment (equity and long term loans) in these 133 PSUs was ₹20,025 crore. The investment consisted of 29.77 per cent towards equity and 70.23 per cent in long term loans. The long term loans consisted of 29.17 per cent (₹4,102.16 crore) from the State Government, 0.24 per cent (₹33.90 crore) from the Central Government and 70.59 per cent (₹9,928.19 crore) from financial institutions.

#### Performance of State PSUs (other than Power Sector)

The loss of ₹325.58 crore incurred by working PSUs in 2013-14 increased to ₹1,589.51 crore in 2017-18 due to substantial increase in losses of Kerala State Road Transport Corporation. According to the latest finalised accounts of the 118 working State PSUs, 45 PSUs earned profit of ₹383.91 crore, 64 PSUs incurred loss of ₹1,973.42 crore and one PSU had no profit or loss. Eight working PSUs did not finalise (September 2018) their first accounts.

The major contributors to profit were The Kerala State Financial Enterprises Limited (₹144.41 crore in 2017-18), Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹35.13 crore in 2015-16) and The Travancore-Cochin Chemicals Limited (₹27.47 crore in 2017-18). The major PSUs, which incurred loss were Kerala State Road Transport Corporation (₹1,431.29 crore in 2014-15), The Kerala State Civil Supplies Corporation Limited (₹107.43 crore in 2014-15) and The Kerala State Cashew Development Corporation Limited (₹88.77 crore in 2012-13).
Quality of accounts

The quality of accounts of State PSUs (other than Power Sector) needs to be improved substantially. During the year 2017-18, the Statutory Auditors issued qualified audit reports on 63 accounts. Compliance to the Accounting Standards by the PSUs remained poor as the Statutory Auditors pointed out 84 instances of non-compliance to the Accounting Standards in 42 accounts.

Timeliness in preparation of accounts by the working State PSUs

Out of 118 working PSUs, 107 PSUs had arrears of 281 accounts as on 30 September 2018. The 15 non-working State PSUs had 161 accounts in arrears.

4. Performance Audit relating to State Public Sector Undertakings (other than power sector)

Management of non-subsidised commodities in The Kerala State Civil Supplies Corporation Limited

The Kerala State Civil Supplies Corporation Limited was setup with the main objective to purchase, store, process, transport, distribute and sell food grains and any other essential commodities for distribution at subsidised rates. The Company is also empowered to deal in non-subsidised commodities in order to enhance profitability. During 2013-14 to 2017-18, the Company procured FMCG, Sabari (Company’s own brand) products and medicines for ₹4,698.11 crore.

This Performance Audit covered the performance of the non-subsidised segment comprising FMCG, Sabari products and medicines during 2013-14 to 2017-18.

Assessment of requirement

Absence of integrated software at outlets, depots and head office has resulted in improper assessment of requirement, accumulation of stock in outlets and issuance of multiple purchase orders in each month for same commodities at different rates resulting in extra expenditure of ₹7.94 crore.

Procurement in violation of the Stores Purchase Manual

All the 15 depots resorted to limited tenders for procurement above ₹5 lakh instead of e-tender. The procurement cost of rice and pulses through limited tender in 10 out of 15 depots were higher by ₹3.83 crore than the centralised e-tender procurement cost of same items for subsidised sale.

Procurement through negotiation

Negotiations were conducted with all the bidders in 2,749 out of 8,172 cases (33.60 per cent) instead of lowest bidder and purchase orders were issued to bidders other than the original lowest bidder in 1,108 cases.
Short supply of commodities by the suppliers

Short supply of commodities and delay in transferring commodities from the depots to the outlets resulted in potential loss of margin of ₹22.98 crore and loss of interest of ₹2.43 crore respectively.

Wrong fixation of selling price

The pricing policy of the Company was not reviewed periodically (last two revisions were in July 2008 and April 2015). The selling price for branded rice was fixed wrongly, resulting in loss of revenue of ₹11.26 crore. Incorrect implementation of the pricing circulars resulted in loss of ₹39.53 crore.

Fixation of higher selling price

Discounts (minimum five per cent) were not provided to the customers in line with the policy of the Company. There were instances of selling price offered by the Company being higher than the open market price.

Extension of unauthorised credit facility

Unauthorised credit facility of ₹5.74 crore was extended to customers, despite the non-clearance of previous bills in 39 out of 100 outlets resulting in loss of interest of ₹0.40 crore.

Irregular collection of quantity discount from suppliers

There was no proper system for collecting discounts and incentives from suppliers resulting in loss of ₹4.02 crore.

Multiple GST registrations resulting in blocking up of input tax credit

Instead of taking only one GSTIN, the Company took 62 GSTINs for its depots, Regional Offices and Head Office. So, the input tax credit accumulated in the GSTINs of 56 depots and five Regional Offices amounting to ₹7.55 crore could not be utilised due to accounting of all sales in the Head Office GSTIN.

Violation of the Food Safety and Standards Act, 2006

Out of the 4,412 samples sent for testing, 383 were found unfit for human consumption. In 369 samples, there were delays in removal of these commodities.

Procurement of medicines for Supplyco Medical Stores

Neither monthly report in order to monitor the purchase, sales and stock holding of medical stores nor medicine-wise details were prepared. In the absence of this information, it was not possible to assess the efficiency of inventory management.

Performance of Supplyco Medical Stores

Performance of Medical Stores with turnover below the break-even sales (16 out of 106) were not periodically monitored.
5. Compliance Audit Observations relating to PSUs (other than Power Sector)

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 ₹12.79 crore due to non-compliance with rules, directives, terms and conditions of Acts/contracts/agreements.

- Idling/blocking up of fund of ₹4.54 crore.

Gist of some important audit observations is given below:

- The Kerala State Financial Enterprises Limited accepted public deposits in excess of Government guarantee ranging from ₹208.50 crore to ₹2,991.82 crore. Loans were sanctioned without following norms applicable to the different categories of loan. Gold loans were sanctioned to private money lenders in violation of the objectives of the Company. There were delays in auction of gold to recover dues in default cases. Default loans were not referred for recovery of dues through revenue recovery action. As of March 2018, percentage of NPA on loans outstanding of the Company stood at 22.25, whereas the NPA of NBFCs as per report of Reserve Bank of India was only 5.86 per cent. (Paragraph 5.1)

- Failure of Kerala Feeds Limited to identify 7,204 women beneficiaries for free distribution of goats resulted in loss of Government of India assistance amounting to ₹3.03 crore, besides non-achievement of the objective of the scheme, namely, equipping women to become self-employed/entrepreneurs. (Paragraph 5.2)

- Due to non-adherence to the directions of Government of Kerala in payment of annuity by the Build, Operate and Transfer (BOT) operator, Kerala State Road Transport Corporation incurred an avoidable loss of interest of ₹0.40 crore. Further, the share of revenue amounting to ₹4.54 crore from the use of interest free security deposit remained to be claimed from the BOT operator. (Paragraph 5.3)