

**REPORT OF THE
COMPTROLLER AND AUDITOR
GENERAL OF INDIA**

**on
PUBLIC SECTOR UNDERTAKINGS**

for the year ended March 2012

**Government of Kerala
Report No. 3 of the year 2012**

TABLE OF CONTENTS		
Particulars	Reference to	
	Paragraph	Page(s)
PREFACE	...	ix
OVERVIEW	...	xi-xv
Chapter I		
1. OVERVIEW OF STATE PUBLIC SECTOR UNDERTAKINGS		
Introduction	1.1-1.4	1-2
Accountability framework	1.5-1.10	2-3
Stake of Government of Kerala	1.11-1.15	3-5
Special support to PSUs and returns during the year	1.16-1.20	5-7
Failure to ensure proper accountability of the Government stake in PSUs	1.21	7
Absence of accurate figure for the investment in PSUs	1.22-1.23	7-8
Arrears in finalisation of accounts	1.24-1.28	8-9
Arrears in respect of Statutory corporations	1.29-1.31	9-10
Failure of the administrative department	1.32-1.34	10
Impact of non-finalisation of accounts	1.35-1.38	10
Performance of PSUs	1.39-1.47	11-14
Non-working PSUs	1.48-1.51	14
Adverse Comments on the Accounts and Internal Audit of PSUs	1.52-1.57	15-17
Recoveries at the instance of audit	1.58	17
Disinvestment, Privatisation and Restructuring of PSUs	1.59	18
Reforms in Power Sector	1.60-1.61	18-19
Chapter II		
2. AUDIT OBSERVATIONS ON KERALA STATE ELECTRICITY BOARD		
Introduction	...	21
2.1 PERFORMANCE AUDIT ON POWER TRANSMISSION ACTIVITIES		
Executive Summary	...	21-22
Introduction	2.1.1-2.1.2	23
Scope of Audit	2.1.3	23-24

Particulars	Reference to	
	Paragraph	Page(s)
Audit Objectives	2.1.4	24
Audit Criteria	2.1.5	24-25
Audit Methodology	2.1.6	25
Brief description of transmission process	2.1.7	25
Audit Findings	2.1.8-2.1.44	25-54
Planning and Development	2.1.9-2.1.12	26-30
Project Management of transmission system	2.1.13-2.1.19	30-36
Performance of transmission system	2.1.20-2.1.22	36-39
Maintenance	2.1.23-2.1.27	39-43
Transmission losses	2.1.28	44-45
Grid Management	2.1.29-2.1.31	45-47
Energy Accounting and Audit	2.1.32	47-48
Financial Management	2.1.33-2.1.35	48-50
Material Management	2.1.36-2.1.39	50-52
Monitoring and Control	2.1.40-2.1.43	52-54
Internal Controls and Internal Audit	2.1.44	54
Conclusions	...	54-55
Recommendations	...	55-56
2.2 THEMATIC AUDIT		
Procurement of Pre-Stressed Concrete poles	2.2.1	
Introduction		57
Improper assessment of requirement		57-58
Undue favour to few firms		58-59
Non-compliance with contract conditions		59-62
Post contract modification of the terms and conditions		62-63
Role of Chief Engineer (TC&M)		63
Storage and Accounting		63-64
Award of contract before expiry of the existing contract		64-65
Litigation Management	2.2.2	
Introduction		65-66
Avoidable Litigation		66-69
Defective handling of cases		69

Particulars	Reference to	
	Paragraph	Page(s)
Lack of follow up action		70-71
2.3 TRANSACTION AUDIT OBSERVATIONS		
Loss of revenue	2.3.1	72-73
Irregular Payment	2.3.2	73-74
Chapter III		
PERFORMANCE AUDIT RELATING TO STATUTORY CORPORATION		
3 WORKING OF KERALA FINANCIAL CORPORATION		
Executive Summary	...	75
Introduction	3.1	75
Organisational set up	3.2	76
Scope of Audit	3.3	76
Audit Objectives	3.4	76
Audit Criteria	3.5	76-77
Audit Methodology	3.6	77
Financial Position	3.7	77
Working Results	3.8	78
Audit Findings	3.9-3.53	78-97
Functioning of the Corporation	3.10-3.11	78-79
Business Performance	3.12-3.14	79-80
Role of the Corporation in financing MSME sector	3.15-3.16	80
Financial Planning	3.17	80
Rescheduling of loan accounts and financial restructuring	3.18-3.22	81
Borrowings	3.23-3.27	82-83
Temporary parking of surplus funds	3.28-3.29	83
Sanction and disbursement of loans	3.30-3.44	84-91
Recovery Performance	3.45-3.51	91-96
Internal/Concurrent Audit	3.52-3.53	97
Conclusions	...	97
Recommendations	...	98

Chapter IV		
4 TRANSACTION AUDIT OBSERVATIONS		
Government Companies		
Loss making Public Sector Undertakings – reasons for losses	4.1	
Kerala State Warehousing Corporation	4.1.1	99-103
Kerala State Handloom Development Corporation Limited	4.1.2	103-105
Autokast Limited	4.1.3	105-108
The Kerala State Cashew Development Corporation Limited	4.1.4	108-111
Transformers and Electricals Kerala Limited	4.2	111-112
Avoidable loss		
Kerala Minerals and Metals Limited	4.3	112-114
Avoidable extra expenditure		
Role of Kerala SIDCO as a facilitator of Small Scale Industries in Kerala	4.4	114-121
Sanction and Disbursement of Loans by Kerala Transport Development Finance Corporation Limited	4.5	122-128
Kerala State Electronics Development Corporation Limited	4.6	128-129
Avoidable expenditure on penal charges		
The State Farming Corporation of Kerala Limited	4.7	129-130
Avoidable expenditure on interest		
Statutory Corporation		
Kerala State Road Transport Corporation	4.8	130-131
Avoidable expenditure		
General		
Follow-up action on Audit Reports	4.9-4.11	132-133

ANNEXURES			
	Particulars	Reference to Paragraph	Page(s)
1	Statement showing particulars of up-to-date capital, loans outstanding and manpower as on 31 March 2012 in respect of Government companies and Statutory corporations	1.12	135-145
2	Summarised financial results of Government companies and Statutory Corporations for the latest year for which accounts were finalised	1.40	146-156
3	Statement showing grants and subsidy received/receivable, guarantee received, waiver of dues, loans written off and loans converted into equity during the year and guarantee commitment at the end of March 2012	1.16 & 1.19	157-167
4	Statement showing financial assistance by State Government to companies whose accounts are in arrear	1.28	168-171
5	Statement showing financial position of Statutory corporations	1.40	172-176
6	Statement showing working results of Statutory corporations	1.40	177-181
7	Statement showing Transmission Network of Kerala State Electricity Board and its growth	2.1.10	182
8	Statement showing transformer failures in Kerala State Electricity Board	2.1.24	183
9	Details of expenditure and cost per unit of transmission wing in Kerala State Electricity Board	2.1.34	184
10	Statement showing additional transportation cost incurred due to diversion of poles from other circles by Kerala State Electricity Board	2.2.1	185
11	Statement showing additional transportation charges paid to the same contractor for diversion of poles from one EC to another by Kerala State Electricity Board	2.2.1	186
12	Statement showing short recovery of risk and cost amount due to reduction in security deposit by Kerala State Electricity Board	2.2.1	187
13	Statement showing payment of ineligible price escalation by Kerala State Electricity Board	2.2.1	188
14	Statement showing break-up details of pending cases and appeals as on 31 March 2012 in Kerala State Electricity Board	2.2.2	189
15	Statement showing financial position and liquidity ratios in respect of Kerala Financial Corporation from 2007-08 to 2011-12	3.7	190
16	Statement showing working results and profitability ratios in respect of Kerala Financial Corporation from 2007-08 to 2011-12	3.8	191
17	Statement showing summarised position of cash flow in respect of Kerala Financial Corporation for the five years up to 2011-12	3.23	192

18	Statement showing applications received and loans sanctioned in respect of Kerala Financial Corporation for the five years up to 2011-12	3.31	193
19	Statement showing sector-wise disbursement of loans in Kerala Financial Corporation during the five years up to 2011-12	3.32	194
20	Statement showing operating losses of Kerala State Warehousing Corporation for the five years up to 2010-11	4.1.1	195
21	Statement showing expenditure incurred for every rupee of revenue earned in respect of Kerala State Warehousing Corporation for the five years up to 2010-11	4.1.1	196
22	Statement showing actual revenue earned and staff cost in the warehouses of Kerala State Warehousing Corporation	4.1.1	197-198
23	Statement showing viability of warehouses in respect of Kerala State Warehousing Corporation	4.1.1	199-200
24	Statement showing performance of warehouses excluding income from bulk reservation in respect of Kerala State Warehousing Corporation	4.1.1	201-202
25	Statement showing operating loss in respect of Kerala State Handloom Development Corporation Limited for the five years up to 2010-11	4.1.2	203
26	Statement showing expenditure incurred on every rupee of sales revenue in respect of Kerala State Handloom Development Corporation Limited for the five years up to 2010-11	4.1.2	204
27	Statement showing mismatch in capacity in respect of Autokast Limited	4.1.3	205
28	Statement showing labour productivity in respect of Autokast Limited	4.1.3	206
29	Statement showing power consumption in respect of Autokast Limited	4.1.3	207
30	Statement showing value addition in respect of Autokast Limited	4.1.3	208
31	Statement showing details of loans disbursed by Kerala Transport Development Finance Corporation Limited during 2007-08 to 2011-12	4.5	209
32	Statement showing details of loans where eligibility criteria and margin money requirements were flouted in respect of Kerala Transport Development Finance Corporation Limited	4.5	210

33	Statement showing loss due to sanctioning of loans at interest rate below cost of funds by Kerala Transport Development Finance Corporation Limited	4.5	211
34	Statement showing cases involving post disbursement lapses in Kerala Transport Development Finance Corporation Limited	4.5	212
35	Statement showing avoidable penal charges incurred by Kerala State Electronics Development Corporation Limited	4.6	213
36	Statement showing department-wise outstanding Inspection Reports (IRs) as on 30 September 2012	4.11	214
37	Statement showing department-wise Draft Paragraphs and Performance Audit Reports replies to which are awaited	4.11	215