

## Overview

### 1. Overview of State Public Sector Undertakings

*Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by Comptroller and Auditor General of India. These accounts are also subject to supplementary audit conducted by Comptroller and Auditor General of India. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2012, the State of Kerala had 99 working PSUs (94 companies and 5 Statutory corporations) and 17 non-working PSUs (all companies), which employed 1.25 lakh employees. The working PSUs registered a Turnover of ₹16171.31 crore as per their latest finalised accounts. This Turnover was equal to 4.95 per cent of State GDP indicating the important role played by State PSUs in the economy. The PSUs had Accumulated Profit of ₹36.59 crore as per their latest finalised accounts.*

#### *Stake of Government*

*As on 31 March 2012, the Investment (Capital and Long Term Loans) by the State Government in 116 PSUs was ₹5880.68 crore. This has eroded over the years due to sustained losses and the present net worth of the PSUs as per their latest finalised accounts is only (-) ₹906.40 crore. The Government contributed ₹1022.46 crore towards Equity, Loans and Grants / Subsidies during 2011-12.*

#### *Performance of PSUs*

*Of the 76 PSUs which had finalised their accounts during 2011-12, 44 PSUs earned profit of ₹645.36 crore and 29 PSUs incurred loss of ₹477.88 crore. The major chunk of profit was*

*contributed by The Kerala Minerals and Metals Limited (₹115.45 crore), Kerala Financial Corporation (₹50.46 crore), Malabar Cements Limited (₹30.81 crore), Kerala State Financial Enterprises Limited (₹27.94 crore) and Kerala State Industrial Development Corporation Limited (₹26.15 crore). Heavy loss makers were Kerala State Road Transport Corporation (₹376.89 crore) and The Kerala State Cashew Development Corporation Limited (₹68.50 crore).*

*Though Kerala State Electricity Board showed a profit of ₹240.71 crore in compliance with the requirements of Central Electricity Regulatory Commission, its operations actually resulted in a loss of ₹1693.42 crore.*

#### *Quality of accounts*

*The quality of accounts of PSUs needs improvement. During the year, out of 88 Accounts of companies finalised, the Statutory Auditors had given Unqualified Certificates for 16 Accounts, Qualified Certificates for 69 Accounts, Adverse Certificates (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 two Accounts. Additionally, CAG gave comments on 19 Accounts during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 106 instances of non-compliance in 42 Accounts during the year.*

#### *Arrears in accounts and winding up*

*77 working PSUs had arrears of 207 accounts as of 30 September 2012. The extent of arrears was one to 14 years. There were 17 non-working PSUs including four under liquidation.*

## 2 Audit Observations on Kerala State Electricity Board

### 2.1 Performance Audit on Power Transmission Activities

Performance audit relating to *Power transmission activities of Kerala State Electricity Board*. Executive summary of audit findings is given below:

#### *Introduction*

*Transmission of electricity and Grid operations in Kerala are managed and controlled by Kerala State Electricity Board (KSEB). As on 31 March 2007, KSEB had a transmission network of 9652 CKM and 270 Sub-Stations(SS) which rose to 10459 CKM and 350 SS with an installed capacity of 16326 MVA, by 31 March 2012. The quantity of energy transmitted increased from 15223.93 MUs in 2007-08 to 19086.93 MUs in 2011-12. The performance audit of KSEB for the period from 2007-08 to 2011-12 was conducted to assess the economy, efficiency and effectiveness of its transmission activities.*

#### *Transmission constraints*

*The Transmission infrastructure within the state and inter-state transmission lines developed were inadequate in the Northern part of the state resulting in transmission constraints and consequent shortage of power/supply of power with poor quality. There were delays in executing intra-state projects and lapses in pursuing inter-state projects. While the failure to increase transmission capacity in a major SS caused losses of ₹9.87 crore, the failure to develop an inter-state line from Puthur in Karnataka to Mylatty in Kerala is causing loss of ₹4.80 crore per annum.*

#### *Capacity Additions*

*The capacity creation of SS and lines did not meet the targets, as only 80*

*SS and 806 CKM of EHT lines were constructed during the five year period against the target of 225 SS and 3900 CKM of EHT lines. The shortfall was due to time overrun. The planning activities for capacity creation/ enhancement were deficient on account of non-preparation of long term plan and deficiencies in the five year and annual plans. KSEB has not been unbundled into separate utilities on a functional basis, as envisaged in the Electricity Act, 2003.*

#### *Project Management*

*KSEB could not complete its projects as per schedule. We noticed instances of time overrun ranging from three to 123 months and cost overrun of ₹24.64 crore during the period from 2007-2012. Many projects were delayed/ interrupted after substantial progress due to disputes over land/ right of way which were not ensured before commencing the projects.*

#### *Operation and Maintenance*

*The existing infrastructure for transmission was not managed properly as the maintenance and monitoring wings functioned with insufficient staff and lack of modern equipments. We noticed instances of failure of transformers and other SS equipment/power failure due to non-adherence to recommendations of the testing wings/deficiencies in maintenance. Out of seventeen 220 kV SSs, four did not have double buses resulting in lack of flexibility*

in operations. Bus Bar Protection Panel was not installed in eight 220 kV SSs. Deficiencies affecting safety were noticed in several SSs.

#### *Grid management*

We noticed, on a test check, instances of fall in the lower voltages below the minimum norms fixed at all the SSs. 35 per cent of the capacitors installed were non-working during the last three years, which resulted in loss of annual energy saving of 2.2 million units. The present SCADA system for grid management has become outdated.

#### *Financial management*

We noticed avoidable payment of excess transmission charges of ₹41.24 lakh and payment of transmission charges on idly charged line and SS amounting to ₹6.10 crore.

#### *Transmission losses*

Transmission losses are not accurately measured but estimated based on simulation techniques. The annual transmission loss of five percent exceeded the CEA norm (four per cent) which resulted in an excess loss of ₹299.34 crore during the review period.

#### *Monitoring and control*

MIS implemented for monitoring the operations of SSs was incomplete.

Internal audit in the Transmission wing was inadequate compared to the size and volume of operations.

#### *Conclusions and Recommendations*

KSEB had not prepared a long term plan and a State Electricity Plan. The transmission infrastructure developed in the State was insufficient to meet the power needs of northern part of the State. The inter-state connectivity with Karnataka was not adequately developed. Project execution was delayed in most cases as KSEB did not ensure possession of land/ROW for the entire area involved in projects. Maintenance activities were not given adequate priority. BBPP was not installed in eight out of seventeen 220 kV SSs. SCADA system used for grid management was outdated. The monitoring of field activities including internal audit was inadequate. The audit made eight recommendations which included streamlining of planning procedures, initiating urgent steps to improve transmission infrastructure in Northern Kerala and inter-state connectivity with Karnataka, installing BBPP in all 220 kV SSs, strengthening maintenance wings and monitoring activities including internal audit and expediting the process of unbundling KSEB.

## 2.2&2.3 Thematic/Transaction Audit Observations

Thematic audit observations on ‘Procurement of Pre Stressed Concrete Poles’ and ‘Litigation Management’ and transaction audit observations relating to Kerala State Electricity Board highlight deficiencies in its management involving serious financial implications. The deficiencies pointed out are of the following nature:

*Procurement of Pre Stressed Concrete Poles - Lack of fairness/ financial propriety.*

**(Paragraph 2.2.1)**

*Litigation Management - Non-compliance with rules/deficient monitoring of cases.*

**(Paragraph 2.2.2)**

*Loss/extra expenditure of ₹7.96 crore due to non-safeguarding of the financial interest.*

**(Paragraphs 2.3.1 and 2.3.2)**

## 3 Performance audit relating to Statutory corporation

Performance audit relating to *Working of Kerala Financial Corporation*. Executive summary of audit findings is given below:

*1. Disbursements were made without ensuring that the IRR of the project to be financed was significantly higher than the interest chargeable on the loan.*

*2. The professional competence/ commitment to success, of the promoter to run the business was not properly assessed before sanctioning loans.*

*3. Disbursement of funds was not synchronised with the progress of projects being financed.*

*4. While rescheduling the loans, the viability of the projects under revised repayment obligation was not assessed. Consequently, the immediate impact of faulty*

*rescheduling was inflated income / profit shown in accounts.*

*5. The Corporation had to forgo amounts to the tune of ₹297.73 crore due to faulty disbursements. Government and financial institutions also had to suffer financial loss of ₹105 crore towards write off of accumulated losses against their equity contribution.*

*6. Delayed action under section 29 of SFC Act led to non-disposal of 57 units. There were no takers for the assets taken over, indicating that the assets financed did not have business potential.*

*7. Recovery under RR Act suffered due to intervention of Corporation/Government/Hon'ble Ministers.*

*8. Non-conformity with legal requirements resulted in the borrowers exploiting the situation*

*to thwart recovery proceedings by seeking legal redressal.*

*9. Internal audit was ineffective. It failed to point out serious lapses in the disbursement and recovery stage*

#### **4 Thematic/Transaction Audit Observations**

*Loss Making Public Sector Undertakings- reasons for losses - Deficient procurement & sales policy/marketing/high cost of operations in four selected PSUs.*

**(Paragraph 4.1)**

*Role of Kerala SIDCO as a facilitator of Small Scale Industries in Kerala - Non-achievement of the objective of formation of PSU.*

**(Paragraph 4.4)**

*Sanction and Disbursement of loans by Kerala Transport Development Finance Corporation Limited - Non-compliance with rules, procedures and terms and conditions/deficient monitoring.*

**(Paragraph 4.5)**

*Loss of ₹ 9.20 crore in two cases due to non-safeguarding of the financial interests.*

**(Paragraphs 4.2 and 4.8)**

*Loss of ₹ 3.72 crore in three cases due to non-compliance with rules, terms and conditions of contracts.*

**(Paragraphs 4.3, 4.6 and 4.7)**