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. The accounts of the State Government Companies are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG, as per the provisions of Section 619 of the Companies Act, 1956. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2014, the State of Kerala had 109 working PSUs (104 companies and 5 Statutory corporations) and 16 non-working PSUs (including five under liquidation), which employed 1.25 lakh employees. The working PSUs registered a turnover of ₹17586.85 crore as per their latest finalised accounts. This turnover was equal to 4.36 per cent of State GDP indicating the important role played by State PSUs in the economy. The working PSUs had accumulated loss of ₹284.62 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2014, the total investment (capital and long term loans) in 125 PSUs was ₹13897.60 crore.

Performance of PSUs

Of the 78 PSUs which had finalised their accounts during 2013-14, 43 PSUs earned profit of ₹545.32 crore and 34 PSUs incurred loss of ₹740.92 crore. The major profit making PSUs were; Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹144.28 crore), Kerala State Financial Enterprise Limited (₹72.75 crore) Kerala Financial Corporation (₹50.16 crore), Malabar Cements Limited (₹21.37crore), The Kerala Minerals and Metals Limited (₹14.11 crore) and Kerala State Industrial Development Corporation Limited (₹18.97 crore).

Though Kerala State Electricity Board showed a profit of ₹140.42 crore in compliance with the requirements of Central Electricity Regulatory Commission, its operations actually resulted in a loss of ₹707.87 crore.

Quality of accounts

During the year, out of 97 accounts of companies finalised, the Statutory Auditors had given unqualified certificates for 21 accounts, qualified certificates for 65 accounts, adverse certificate (which means that accounts do not reflect a true and fair position) for five accounts and disclaimer (meaning the Auditors are unable to form an opinion on accounts) for 6 accounts. Additionally, CAG gave comments on 32 accounts during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 108 instances of non-compliance in 41 companies during the year.

Arrears in accounts

83 working PSUs had arrears of 198 accounts as of 30 September 2014. The extent of arrears was one to 11 years.

2 Performance Audits relating to Government Companies

The Report includes observations emanating from the Performance Audits on:

2.1 Operational Performance of Travancore Titanium Products Limited

Introduction

Travancore Titanium Products Limited is a PSU under the administrative control of Industries Department, Government of Kerala, engaged in the business of manufacturing Titanium Dioxide through sulphate process.

A Performance Audit covering the period 2009-14 was conducted to assess the efficiency, economy and effectiveness in marketing, production, procurement and financing activities of the Company.

Operational Performance

The profit of the Company increased from ₹5.95 crore in 2009-10 to ₹14.74 crore in 2010-11, to ₹30.75 crore in 2011-12 and decreased to ₹1.24 crore in 2012-13. In 2013-14, the Company incurred a loss of ₹0.34 crore.

Cost of production

The cost of production per MT increased from ₹81,063 to ₹1,48,513 over the period due to deficiencies in production, procurement, marketing and utilisation of man power.

Production performance

Production below breakeven point, lower recovery-efficiency, non-achievement of specified quality and excessive consumption of raw materials led to increase in cost of production.

Procurement of raw materials

Failure to ensure maximum procurement of ilmenite from IRE, excess procurement of low quality ilmenite from private sources and system lapses in procurement led to higher cost of raw materials.

Marketing

Absence of market research, defective pricing and discount policy, ineffective stockist network led to decline in sales and accumulation of finished stock.

Human Resource management

The average annual production during the years 2011-2014 decreased by 25 per cent, as compared to that of 2009-2011. Correspondingly, the average man hours utilised per MT of TiO2 produced increased from 81.94 hours during 2010-11 to 109.94 hours during 2013-14 resulting in payment of unproductive wages of ₹4.66 crore.

Financial Management

Inefficient management of accounts receivable, accounts payable and inventory led to increase in working capital cycle from 40 days to 112 days during the five-year period. Improper system of monitoring receivables /payables and deficient conceptualisation and implementation of Effluent Treatment Project adversely affected the working capital.

2.2 Computerised Low Tension Billing System of Kerala State Electricity Board Limited

Introduction

Kerala State Electricity Board Limited (Company) distributes electricity to 1.08 crore Low Tension (LT) consumers in the State of Kerala. The Company uses application software called Open Resource Utility Management Application (ORUMA) for the billing of sale of electricity to LT consumers which was developed by the IT wing of the Company.

Registration of Consumers

Audit pointed out deficiencies in registration of consumers like Ineligible consumers were classified as Non Paying Group and supplied electricity at free of cost. Audit also noticed absence of inbuilt control to map each consumer with correct transformers.

Billing of Consumers

Audit noticed deficiencies in the System due to non mapping of business rules. Initial security deposits from new consumers were not collected in prescribed rate resulting in short collection of ₹1.76 crore. The first bill in respect of 68341 consumers was issued with delay upto 54 months. Audit also noticed that bills were not issued to 1.61 lakh consumers since the installation of ORUMA. Audit pointed out wrong mapping of purposes with lower tariffs resulting in short collection of ₹1.69 crore.

The Company did not collect interest at twice the bank rate for instalments allowed to the consumers resulting in loss of ₹ 0.50 crore. The System also did not produce MIS reports to inform the management about unauthorised additional load of consumers.

The Company collected Electricity Duty from exempted category of consumers amounting to ₹2.39 crore. Interest payable on security deposit was worked out at rate lesser than Bank rate resulting in short payment of ₹12.54 crore in respect of 52.88 lakh consumers for the year 2012-13. Similarly, higher rate of interest was not applied for delayed credit of interest on security deposit resulting in short payment of ₹1.77 crore to 5.75 lakh consumers.

Recommendations

Audit recommended that the Company may streamline the process of mapping the business rules in the LT billing system effectively so as to plug the leakage of revenue and shall initiate steps to utilise the data in ORUMA, optimally, to help effective planning and decision making.

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 ₹279.30 crore due to non-complaince with rules, directives, procedures, terms and conditions of Acts/contracts.

(Paragraphs 3.1, 3.3, 3.7 and 3.8)

Loss/extra expenditure ₹7.57 crore due to non-safeguarding the financial interests of the organization.

(Paragraphs 3.2, 3.4, 3.5, 3.6 and 3.9)

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

- The cost of production of transformers manufactured by **Transformers and Electricals Kerala Limited** has increased from ₹3.21 lakh in 2009-10 to ₹3.89 lakh in 2013-14 due to defective procurement policy and payment of unproductive wages of ₹40.87 crore.

  (Paragraph 3.1)

- Failure of **Malabar Cements Limited** to remit the deferred tax on due date despite having surplus funds resulted in avoidable payment of interest amounting to ₹ 2.84 crore

  (Paragraph 3.2)

- Engagement of the head load workers by **Kerala Mineral Development Corporation Limited** and payment of *nokkukooli* to them in violation of Kerala Financial code and Kerala Loading and Unloading (Regulation of Wages and Restriction of Unlawful Practices) Act, 2002, resulted in illegal and irregular payment of ₹1.09 crore.

  (Paragraph 3.3)

- Non-execution of agreement by **Kerala State Electricity Board Limited** absolved the supplier from the liabilities and resulted in non-recovery of extra expenditure of ₹3.36 crore from the said firm by invoking risk and cost Clause.

  (Paragraph 3.6)

- **Kerala State Road Transport Corporation** entrusted the BOT Operator 16.09 acres of land to construct Shopping complexes at 4 bus stations to augment its non-operational revenue. The projects were to be completed during the period June 2010 to February 2012 at an estimated cost of ₹112.18 crore. The BOT Operator could complete only one project (Ankamaly) and has incurred ₹179.33 crore on the four BOT projects so far (July 2014). The implementation of the projects was beset with many deficiencies due to non-compliance with orders of GoK.

  (Paragraph 3.8)

- Failure of **Kerala State Road Transport Corporation** to implement the provisions in the lease agreement and the BoD's decision in totality resulted in loss of revenue to the extent of ₹78.28 lakh.

  (Paragraph 3.9)