

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 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 2016, the State of Kerala had 113 working PSUs (109 companies and 4 Statutory corporations) and 15 non-working PSUs (including four under liquidation), which employed 1.27 lakh employees. The working PSUs registered a turnover of ₹19,878.35 crore as per their latest finalised accounts. This turnover was equal to 3.40 *per cent* of Gross State Domestic Product indicating the important role played by State PSUs in the economy. The working PSUs had accumulated loss of ₹3,136.82 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2016, the total investment (capital and long term loans) in 128 PSUs was ₹19,786.89 crore.

Arrears in accounts

96 working PSUs had arrears of 252 accounts as of 30 September 2016. The extent of arrears was 1 to 20 years.

Performance of PSUs

An analysis of the latest finalised accounts of all working PSUs in the State revealed that 50 PSUs earned profit of ₹395.55 crore, 56 PSUs incurred loss of ₹1,019.33 crore and three working PSUs had no profit or loss. Four working PSUs have not yet (September 2016) finalised 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 (₹70.72 crore in 2014-15) and Kerala State Industrial Development Corporation Limited (₹21.32 crore in 2014-15). The major PSUs which incurred loss are Kerala State Road Transport Corporation (₹583.90 crore in 2013-14), The Kerala State Civil Supplies Corporation Limited (₹89.11 crore in 2013-14) and The Kerala State Cashew Development Corporation Limited (₹88.77 crore in 2012-13).

Quality of accounts

During the year, out of 99 accounts of companies finalised, the Statutory Auditors had given unqualified certificates for 21 accounts, qualified certificates for 71 accounts, disclaimer certificate for one account and adverse certificates (which mean that accounts do not reflect a true and fair view) for six accounts. Additionally, CAG gave comments on 44 accounts during the supplementary audit and one account was revised based on supplementary audit observations. The compliance of companies with the Accounting Standards (AS) remained poor as there were 130 instances of non-compliance of AS in 53 accounts of 41 companies during the year.

2 Performance Audits relating to Government companies

The report includes observations emanating from the Performance Audits on:

2.1 Promotion and Development of Micro, Small and Medium Enterprises in Kerala

Introduction

In Kerala, there were 2.57 lakh registered Micro, Small and Medium Enterprises (MSMEs) as of September 2015, with total investment of ₹17,986.46 crore and during 2014-15, MSMEs produced goods and services worth ₹7,119.75 crore, which accounted for 1.37 *per cent* of the Gross State Domestic Product. The total employment generated up to September 2015 was 13.19 lakh.

Implementation of policies and plans by Government of Kerala (GoK)

Measures outlined in the Industrial Policy, 2007 though not implemented were not included in the amended Policy (2015). Average utilisation of amounts allocated in the budgets of Directorate of Industries and Commerce (DI&C) for MSME development programmes was 70.43 *per cent*. Rehabilitation package as recommended by Government of India (GoI) was not implemented.

Promotion and Development programmes

Financial support

Kerala Financial Corporation and Kerala State Industrial Development Corporation Limited (KSIDC) could provide finance to a very low number of MSMEs only. Rate of interest charged by Kerala Financial Corporation on loans to MSME sector was high when compared to other State Financial Corporations and commercial banks. Schemes for providing financial support to MSMEs such as Interest Subvention Scheme, Receivable Finance Scheme and Kerala State Entrepreneur Development Mission could not be implemented successfully. Only 6.48 *per cent* of new MSMEs availed of the Entrepreneur Support Scheme (ESS) of the DI&C due to exclusion of service sector and complex documentation required. There were irregularities in the implementation of the ESS as well.

Infrastructure Development

Delay in completion of multi-storeyed industrial estates deprived MSMEs of much needed infrastructure. Progress achieved in establishing Common Facility Centres under Micro and Small Enterprises-Cluster Development Programme was negligible. Parks established by Kerala Industrial Infrastructure Development Corporation (KINFRA) remained unutilised. Actual utilisation of developed land in the Industrial Growth Centres established by KSIDC was only 41.25 *per cent*. Scheme for modernisation of infrastructure in Development Areas/ Development Plots under DI&C with assistance of GoI remained unimplemented. The quality of infrastructure provided in the industrial estates/ parks under Kerala Small Industries Development Corporation Limited was not satisfactory.

Facilitation Services

The Single Window Clearance scheme instituted for ensuring speedy issue of clearances required for establishing industrial units was not effective.

Marketing Support

Statutory provision regarding purchase of 20 *per cent* of requirement of goods/ services from MSMEs was not being complied with by the State PSUs/ Departments/ Government agencies, etc. Effectiveness of the expenditure incurred out of Government funds for conducting/participating in fairs/exhibitions for marketing MSME products was not assessed.

Findings of beneficiary survey

Majority of MSMEs who participated in a beneficiary survey conducted by Audit reported that they were not aided by the Single Window mechanism for obtaining necessary clearances. They also responded that they were not provided technical assistance such as assistance in preparing project reports, training in skill development/entrepreneurship, help in tiding over financial crisis, quality raw material or marketing assistance. The quality of infrastructure, especially roads and security in Industrial Parks/Estates, etc., was also reported to be inadequate.

2.2 Procurement and marketing of vegetables and fruits in the State by Kerala State Horticultural Products Development Corporation Limited

Introduction

Kerala State Horticultural Products Development Corporation Limited (Company) was incorporated in March 1989 as a fully owned State Government company with the main objective to organise vegetable, fruit and flower growers and to provide them with all supplies and services to augment their income base by increased productivity and value addition through an integrated system of production, procurement, grading, storage, processing, marketing and exporting of horticultural products.

Procurement activities

During 2011-12 to 2015-16, the Company procured vegetables and fruits ranging between 4,000 metric tonne (MT) and 18,000 MT from within the State. This accounted for around two *per cent* of the total vegetables produced in Kerala during 2011-12 to 2015-16.

Instead of procuring directly from farmers, world markets under the control of Department of Agriculture, etc., as envisaged, the Company made 75.47 *per cent* purchases valuing ₹53.74 crore from traders/middlemen during 2014-15 to 2015-16. Selection of traders was not through transparent process. Though the Company had empanelled nine suppliers, purchases amounting to ₹30.86 crore and ₹22.88 crore in 2014-15 and 2015-16 respectively were made from the non-empanelled suppliers in the five District Procurement Centres selected by Audit.

Non-procurement of vegetables from three districts

The Company did not have centres for procurement of vegetables in Malappuram, Wayanad and Kasargod districts. As a result, vegetables produced by farmers in these three districts were not procured by the Company. During the period from 2012-13 to 2014-15, these districts had produced 3.11 lakh MT of vegetables which accounted for 18.23 *per cent* of the total vegetable production in the State.

Remunerative prices to farmers

Farmers did not receive remunerative prices for their produce. There was undue delay in settlement of farmers' bills.

Quality of vegetables and fruits

Even though a major chunk of the procurement of vegetables and fruits was from the neighbouring States, the Company failed to ensure quality of vegetables purchased.

The lab test conducted by the Food Safety Commissioner of GoK on the samples selected from the Company revealed that some of the vegetables supplied by the Company were unsafe to eat. Quality checking conducted at the instance of Audit also revealed presence of pesticide residues in vegetables beyond permissible limits.

Absence of consistent marketing policy

The Company did not have a consistent procurement/ marketing policy. The purchase and selling prices were fixed arbitrarily.

Subsidy sale during festive seasons

The Company did not comply with the directions of the Government of Kerala (GoK) with regard to the fixation of selling price during subsidy period and made incorrect subsidy claim with the GoK.

Regional imbalances in sales outlets

Sales outlets of the Company were established without considering the regional balances and 79 *per cent* of the sales outlets were in seven districts in southern part of the State, thereby majority of the people were deprived of the benefits of low or subsidised price offered by the Company.

2.3 Information System Audit of HT and EHT Billing and Accounting software used by Kerala State Electricity Board Limited

Introduction

Kerala State Electricity Board Limited (Company), incorporated in January 2011, is engaged in generation, transmission and distribution of electricity in Kerala. The electricity consumers of the Company are divided into Low Tension (LT), High Tension (HT) and Extra High Tension (EHT) categories.

HT/EHT Billing Process

The electricity consumption of HT/EHT consumers was assessed for billing by the Assistant Engineers at Electrical Section offices through meter reading. Meter reading data along with other details were thereafter sent to Special Officer-Revenue (SOR) at the Corporate Office. The authorised staff at SOR uploaded the data into the billing software and bills were generated.

Software development and implementation

Tata Consultancy Services Limited (TCS) was awarded the work of providing and implementing HT/EHT billing system and web enabled services (Phase 1) and providing and implementing Automated Meter Reading System for HT/EHT consumers (Phase 2).

We observed delay in framing of System Requirement Specification, incomplete development of software, lack of planning in implementation and non-implementation of Automated Meter Reading System.

Mapping of business rules

All business processes relating to billing, collection and accounting of HT/EHT consumption had to be mapped correctly in the application software. Further, the business processes mapped in the software had to be compliant with the applicable laws, rules and regulations with all the necessary controls to ensure that the amount billed and collected conformed to the prescribed rules and regulations.

We observed that relevant business rules had not been fully and correctly mapped into the application, which had an impact on the revenue realisation.

General IT controls

General controls are concerned with the organisation's IT infrastructure, IT related policies and working practices. We observed issues in Data migration, password policy, etc.

Application controls

Application controls include input control and validation control. Application controls are used in a computer system to provide assurance that all transactions are valid, authorised and complete. We noticed lack of proper input controls and validation controls.

Generation of reports

The application software must be capable of generation of quality reports on various data coming under its purview. Further, the

application should be designed to generate reports on regular basis as and when required by the stakeholders.

We noticed that incorrect and incomplete data were stored and processed in the billing software and consequently inaccurate and unreliable reports were generated.

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/ irregular expenditure of ₹31.08 crore due to non-compliance with rules, directives, procedures, terms and conditions of Acts/ contracts.

(Paragraphs 3.2, 3.3, 3.4, 3.5, and 3.6)

- Loss/ extra expenditure of ₹438.21 crore due to non-safeguarding the financial interests of the organisation.

(Paragraphs 3.1, 3.7 and 3.11)

- Idling/ Blocking up of fund of ₹11.15 crore.

(Paragraphs 3.8, 3.9 and 3.10)

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

- For the Implementation of Vizhinjam International Deepwater Multipurpose Seaport Project, the technical and financial estimates prepared by external consultants were not scrutinised with due diligence resulting in inflation of cost estimates. The interests of the GoK were not protected adequately while drawing up the Concession Agreement because there were many conditions which were not favourable to the State.

(Paragraph 3.1)

- Kerala Electronics Development Corporation Limited (KELTRON) and Kerala Small Industries Development Corporation Limited (SIDCO) awarded work orders to their business partners on nomination basis and through tendering tailor-made to suit their business partners. Thus, a few firms viz., Mediatronix, RP Tech, Net-X Technologies and SIPL managed to obtain major orders of GoK through KELTRON and SIDCO without complying with provisions of Kerala Financial Code (KFC), Stores Purchase Manual (SPM) and Central Vigilance Commission (CVC) guidelines. Besides, due to involvement of PSUs in the execution of works of GoK through private parties, GoK had to incur extra expenditure. In execution of civil works also, there was non-compliance with provisions of KFC, SPM and CVC guidelines.

(Paragraph 3.2)

- System of realisation of cheques against monthly subscription of chitty in Kerala State Financial Enterprises Limited was marred by undue delays and possible collusion between officials and subscribers leading to payment of ineligible auction discount besides ineligible subscribers being allowed to participate in auction for prize money. Cheques issued against chitty instalments were dishonoured, but no action was initiated against such dishonour of cheques.

(Paragraph 3.6)