

Chapter I

1. Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Kerala the State PSUs occupy an important place in the state economy. The State PSUs registered a turnover of ` 12,358.76 crore for 2009-10 as *per* their latest finalised accounts as of September 2010. This turnover was equal to 5.76 *per cent* of State Gross Domestic Product (GDP) for 2009-10. Major activities of Kerala State PSUs are concentrated in power sector. The State PSUs registered a profit of ` 331.78 crore in the aggregate for 2009-10 as per their latest finalised accounts. They had employed 1.10 lakh¹ employees as of 31 March 2010. The State PSUs do not include three Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments. Audit findings on these DUs are incorporated in the Civil Audit Report for the State.

1.2 As on 31 March 2010, there were 123 PSUs as per the details given below. Of these, three companies² were listed on the stock exchange(s).

| Type of PSUs | Working PSUs | Non-working PSUs ³ | Total |
|-----------------------------------|--------------|-------------------------------|------------|
| Government companies ⁴ | 91 | 27 | 118 |
| Statutory corporations | 05 | ... | 05 |
| Total | 96 | 27 | 123 |

1.3 During the year 2009-10, two PSUs⁵ were established and two PSUs⁶ were closed down.

Audit Mandate

1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and corporations controlled by Government(s) is treated as if it

¹ As per the details provided by 78 PSUs.

² Keltron Component Complex Limited, The Travancore Cements Limited and The Travancore Sugars and Chemicals Limited

³ Non-working PSUs are those which have ceased to carry on their operations.

⁴ Includes 619-B companies.

⁵ Malabar Distilleries Limited and Kerala State Coastal Area Development Corporation Limited.

⁶ The Kerala Fisheries Corporation Limited and Kerala Fishermen's Welfare Corporation Limited.

were a Government company (deemed Government company) as per Section 619-B of the Companies Act.

1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) 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.

1.6 Audit of Statutory corporations is governed by their respective legislations. Out of five Statutory corporations, CAG is the sole auditor for Kerala State Electricity Board, Kerala State Road Transport Corporation and Kerala Industrial Infrastructure Development Corporation (KINFRA). In respect of Kerala State Warehousing Corporation and Kerala Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

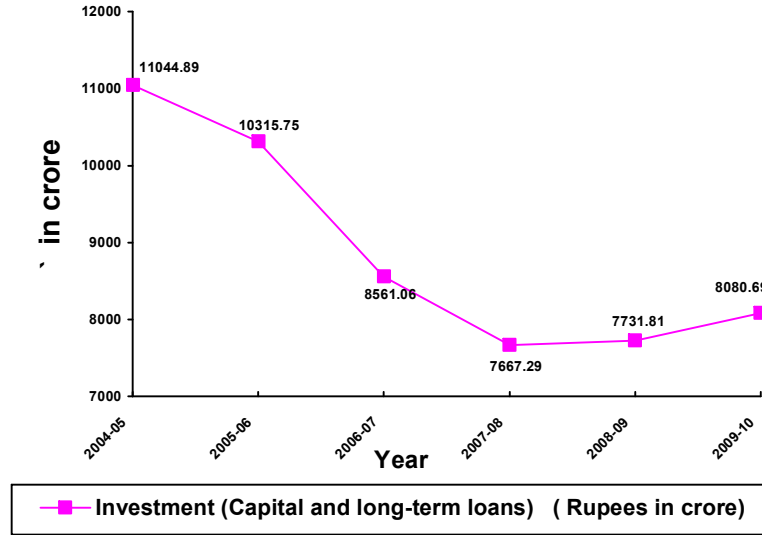
Investment in State PSUs

1.7 As on 31 March 2010, the investment (capital and long-term loans) in 123 PSUs (including 619-B companies) was ` 8,080.69 crore as per details given below.

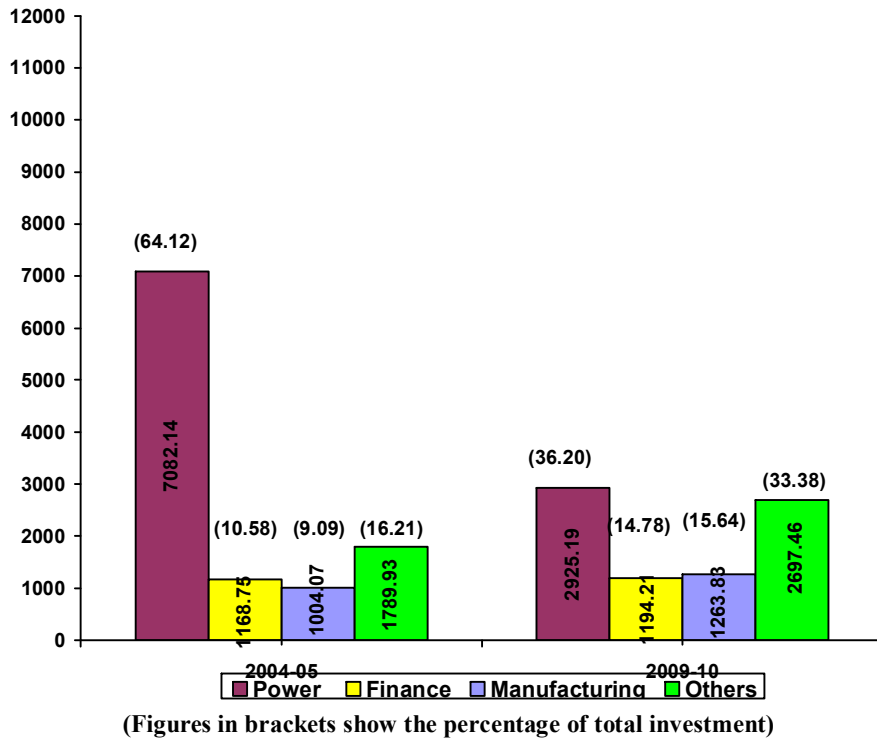
| Type of PSUs | Government Companies | | | Statutory Corporations | | | Grand Total |
|------------------|----------------------|-----------------|-----------------|------------------------|-----------------|-----------------|-----------------|
| | Capital | Long Term Loans | Total | Capital | Long Term Loans | Total | |
| Working PSUs | 1,908.05 | 933.03 | 2,841.08 | 2,213.09 | 2,848.90 | 5,061.99 | 7,903.07 |
| Non-working PSUs | 58.60 | 119.02 | 177.62 | ... | ... | ... | 177.62 |
| Total | 1,966.65 | 1,052.05 | 3,018.70 | 2,213.09 | 2,848.90 | 5,061.99 | 8,080.69 |

A summarised position of Government investment in State PSUs is detailed in *Annexure 1*.

1.8 As on 31 March 2010, of the total investment in State PSUs, 97.80 *per cent* was in working PSUs and the remaining 2.20 *per cent* in non-working PSUs. This total investment consisted of 51.73 *per cent* towards capital and 48.27 *per cent* in long-term loans. The investment has declined by 26.84 *per cent* from `11,044.89 crore in 2004-05 to ` 8,080.69 crore in 2009-10 as shown in the graph below.



1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2005 and 31 March 2010 are indicated below in the bar chart. The major chunk of PSU investment was mainly in power sector during the five years which has seen its percentage share declining from 64.12 per cent in 2004-05 to 36.20 per cent in 2009-10. The capital investment increased by ` 743.20 crore during 2005-10 and long term loan reduced by ` 3,707.40 crore. There is overall net reduction of investment by ` 2,964.20 crore during the period.



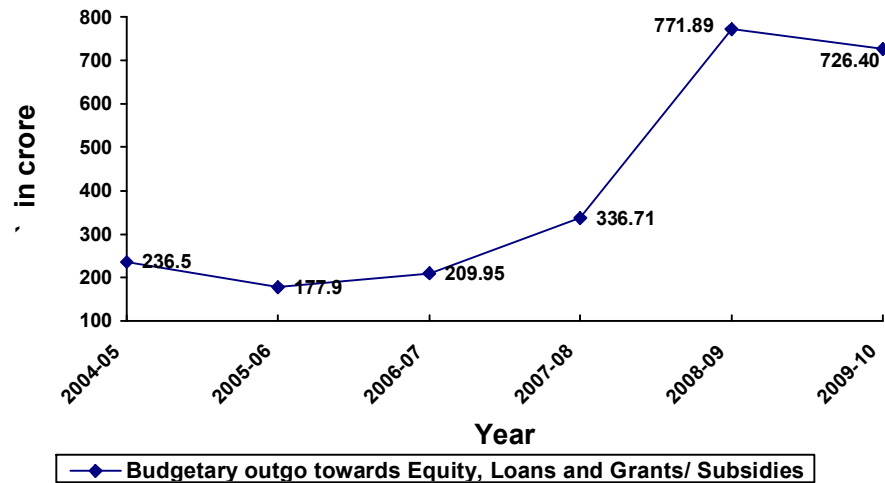
Budgetary outgo, grants/subsidies, guarantees and loans

1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in *Annexure 3*. The summarised details are given below for three years ended 2009-10.

(Amount: ` in crore)

| Sl. No. | Particulars | 2007-08 | | 2008-09 | | 2009-10 | |
|---------|---------------------------------------|-------------|----------|-------------|----------|-------------|----------|
| | | No. of PSUs | Amount | No. of PSUs | Amount | No. of PSUs | Amount |
| 1. | Equity Capital outgo from budget | 17 | 56.81 | 21 | 279.18 | 25 | 114.95 |
| 2. | Loans given from budget | 11 | 147.11 | 13 | 148.11 | 16 | 322.73 |
| 3. | Grants / Subsidy received | 23 | 132.79 | 29 | 344.60 | 24 | 288.72 |
| 4. | Total Outgo (1+2+3) | | 336.71 | | 771.89 | | 726.40 |
| 5. | Loans converted into equity | 1 | 23.94 | 1 | 22.22 | 1 | 12.38 |
| 6. | Loans written off | 1 | 0.04 | 2 | 16.21 | 3 | 41.24 |
| 7. | Interest / Penal interest written off | 2 | 18.10 | 3 | 18.56 | 5 | 572.33 |
| 8. | Total Waiver (6+7) | | 18.14 | | 34.77 | | 613.57 |
| 9. | Guarantees issued | 11 | 1,809.26 | 11 | 2,593.10 | 11 | 2,673.59 |
| 10. | Guarantee Commitment | 27 | 4,985.48 | 26 | 3,998.65 | 20 | 3,728.63 |

1.11 The details regarding budgetary outgo towards equity, loans and grants / subsidies for past six years are given in a graph below.



The above chart indicates that the budgetary assistance in the form of equity, loan and grant/ subsidy by the State Government to PSUs has increased from ` 236.50 crore in 2004-05 to ` 771.89 crore in 2008-09 and the same has marginally decreased to ` 726.40 crore in 2009-10. During 2009-10, the State Government had waived loans and interest / penal interest of ` 613.57 crore due from eight PSUs as against ` 34.77 crore waived during the previous year.

During the year 2009-10, the Government had guaranteed loans aggregating ` 2,673.59 crore obtained by nine working Government companies (` 2,348.59 crore) and two Statutory corporations (` 325.00 crore). At the end of the year, guarantees of ` 3,728.63 crore against 16 working Government companies (` 3,238.21 crore) and four Statutory corporations (` 490.42 crore) were outstanding. As per the provisions of the Kerala Ceiling on Government Guarantee Act 2003, the Government shall guarantee only loan taken by PSUs. The guarantee commission payable shall not be less than 0.75 per cent and payable on the actual balance, outstanding interest / penal interest etc., as on 31 March of previous year. The amount due shall be paid in two equal instalments on 1st April and October of every financial year. The guarantee commission paid/payable to the Government by Government companies (` 38.39 crore) and Statutory corporations (` 3.57 crore) during 2009-10 was ` 41.96 crore out of which ` 22.07 crore had been paid and a balance of ` 19.89 crore was outstanding as on 31 March 2010. The PSUs which had major arrears were The Kerala State Cashew Development Corporation Limited (` 3.92 crore, Kerala State Electronics Development Corporation Limited (` 5.86 crore) and Kerala State Power and Infrastructure Finance Corporation Limited (` 4.04 crore) and Kerala Industrial Infrastructure Development Corporation (` 1.41 crore).

Reconciliation with Finance Accounts

1.12 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2010 is stated below.

(` in crore)

| Outstanding in respect of | Amount as per Finance Accounts | Amount as per records of PSUs | Difference |
|---------------------------|--------------------------------|-------------------------------|------------|
| Equity | 2,534.67 | 3,999.87 | 1,465.20 |
| Loans | 4,200.84 | 1,000.54 | 3,200.30 |
| Guarantees | 4,847.24 | 3,728.63 | 1,118.61 |

1.13 Audit observed that the differences occurred in respect of 88 PSUs and Audit has also written (March 2010) to the Chief Secretary and Principal Secretary (Finance) to the Government of Kerala to initiate steps to reconcile the difference as on 31 March 2009. Individual PSUs have also been appraised of the difference in May 2010. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

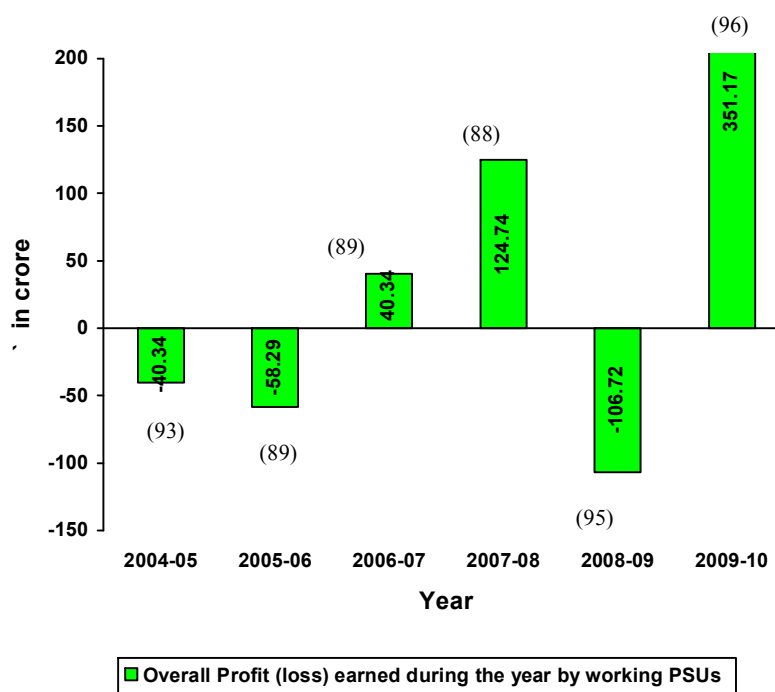
1.14 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in *Annexures 2, 5 and 6* respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUs' turnover and State GDP for the period 2004-05 to 2009-10.

(` in crore)

| Particulars | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|-------------------------------------|----------|----------|----------|-----------|-----------|--------------------------|
| Turnover ⁷ | 7,614.42 | 8,222.23 | 8,846.01 | 10,082.22 | 10,877.80 | 12,349.97 |
| State GDP | 1,07,054 | 1,18,998 | 1,32,739 | 1,48,485 | 1,80,281 | 2,14,580.00 ⁸ |
| Percentage of Turnover to State GDP | 7.11 | 6.91 | 6.66 | 6.79 | 6.03 | 5.76 |

The percentage of turnover of PSUs to the State GDP has been declining steadily.

1.15 Profit / (loss) earned (incurred) by State working PSUs during 2004-05 to 2009-10 are given below in a bar chart.



(Figures in brackets show the number of working PSUs in respective years)

As evident from the above chart, profit (loss) earned (incurred) by working PSUs had been fluctuating widely.

⁷ Turnover as per the latest finalised accounts as of 30 September.

⁸ GDP figures are provisional based on quick estimates.

During the year 2009-10, out of 96 working PSUs, 45 PSUs earned profit of ` 728.61 crore and 46 PSUs incurred loss of ` 377.44 crore as per their latest finalised accounts, while two⁹ PSUs had neither profit nor loss. Remaining three¹⁰ PSUs had not either commenced commercial activities or prepared their first accounts. The major contributors to profit were Kerala State Electricity Board (` 217.42 crore), Kerala State Beverages (Manufacturing & Marketing) Corporation Limited (` 109.67 crore), Steel Complex Limited (` 49.83 crore), The Kerala Minerals and Metals Limited (` 60.63 crore) and The Plantation Corporation of Kerala Limited (` 33.66 crore). Heavy losses were incurred by Kerala State Road Transport Corporation (` 136.39 crore), The Kerala State Cashew Development Corporation Limited (` 125.41 crore), Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited (` 31.52 crore) and The Kerala State Civil Supplies Corporation Limited (` 19.57 crore).

1.16 Some other key parameters pertaining to State PSUs are given below.
(` in crore)

| Particulars | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---------------------------------------|------------|------------|------------|------------|------------|------------|
| Return on Capital Employed (Per cent) | 7.90 | 7.73 | 9.84 | 7.87 | 4.89 | 8.95 |
| Debt | 7,608.35 | 6,850.33 | 5,052.48 | 4,085.37 | 3,925.13 | 3,900.95 |
| Turnover ¹¹ | 7,614.42 | 8,222.23 | 8,846.01 | 10,082.22 | 10,877.80 | 12,349.97 |
| Debt / Turnover Ratio | 1:1 | 0.83:1 | 0.57:1 | 0.41:1 | 0.36:1 | 0.32:1 |
| Interest Payments | 316.19 | 472.03 | 460.86 | 407.33 | 733.76 | 767.41 |
| Accumulated Profits (losses) | (2,343.09) | (2,445.52) | (2,447.73) | (2,026.74) | (2,055.58) | (1,212.70) |

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

1.17 Return on capital employed which was 7.90 per cent in 2004-05 increased to 9.84 per cent during 2006-07 reduced to 4.89 per cent in 2008-09. The same increased to 8.95 per cent in 2009-10. At the same time accumulated losses of PSUs increased from ` 2,343.09 crore in 2004-05 to ` 2,447.73 crore in 2006-07 and thereafter reduced to ` 1,212.70 crore in 2009-10. The debt / turnover ratio also steadily declined from 1:1 in 2004-05 to 0.32:1 in 2009-10.

1.18 The State Government had formulated (December 1998) a dividend policy under which all PSUs are required to pay a minimum return of twenty per cent on the paid up share capital contributed by the State Government. As per their latest finalised accounts, 45 PSUs earned an aggregate profit of ` 728.61 crore and 14 PSUs declared a dividend of ` 33.92 crore. The State

⁹ Serial no 30 and 76 in Annexure 2.

¹⁰ Serial No 58, 81 and 91 in Annexure 2.

¹¹ Turnover of working PSUs as per the latest finalised accounts as of 30 September.

Government policy on dividend payment was, however, complied with by only six¹² companies.

Arrears in finalisation of accounts

1.19 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

| Sl. No. | Particulars | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---------|---|---------|---------|-------------------|-------------------|-------------------|
| 1. | Number of Working PSUs | 89 | 89 | 88 | 95 | 96 |
| 2. | Number of accounts finalised during the year | 74 | 84 | 74 | 99 | 93 ¹³ |
| 3. | Number of accounts in arrears | 186 | 191 | 203 ¹⁴ | 198 ¹⁵ | 197 ¹⁶ |
| 4. | Average arrears per PSU (3/1) | 2.20 | 2.15 | 2.31 | 2.08 | 2.05 |
| 5. | Number of Working PSUs with arrears in accounts | 68 | 70 | 71 | 71 | 73 |
| 6. | Extent of arrears (in years) | 1 to 12 | 1 to 13 | 1 to 13 | 1 to 13 | 1 to 12 |

1.20 The performance of finalisation of accounts during the year 2009-10 was marginally lesser compared to previous year. Average arrears per PSU has been on the decline since 2007-08 and reached 2.14 during 2009-10. During 2009-10, twenty one¹⁷ working PSUs did not finalise even a single account which contributed to the accumulation of arrears in accounts.

1.21 In addition to above, there were also arrears in finalisation of accounts by non-working PSUs. Out of 27 non-working PSUs liquidation process was in progress in five PSUs. The remaining 22 non-working PSUs, had arrears of accounts for one to 25 years.

¹² Rehabilitation Plantations Limited, Kerala Agro Machinery Corporation Limited, Malabar Cements Limited, The Kerala Minerals and Metals Limited, Kerala State Beverages (Manufacturing & Marketing) Corporation Limited and Kerala State Financial Enterprises Limited.

¹³ Kerala State Information Technology Infrastructure Limited has prepared accounts from 31 January 2008 to 31 March 2008 and from 1 April 2008 to 31 March 2009 as one single account.

¹⁴ Excluding two accounts of Kerala Hi-Tech Industries Limited which was handed over to BrahMos Aerospace Thiruvananthapuram Limited.

¹⁵ Including eight arrear accounts of 619-B companies which were added to the list of companies but excluding nine arrear accounts of two companies which have become non-working during the year.

¹⁶ Excluding four arrear accounts of Kerala Irrigation Infrastructure Limited which has become non-working during the year but inclusive of two accounts of Kerala State Coastal Area Development Corporation Limited.

¹⁷ Kerala Livestock Development Board, Kerala State Horticultural Products Developments Corporation Limited, Kerala State Cashew Development Corporation Limited, Kerala School Teachers and Non-teaching staff Welfare Corporation Limited, Kerala Small Industries Development Corporation Limited, Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited, Kinfra International Apparel Parks Limited, Autokast Limited, Kanjikode Electronics and Electricals Limited, Keltron Component Complex Limited, Keltron Crystals Limited, Keltron Magnetics Limited, Keltron Rectifiers Limited, Kerala State Bamboo Corporation Limited, Kerala State Textile Corporation Limited, Metal Industries Limited, The Travancore Sugars and Chemicals Limited, Kerala Medical Services Corporation Limited, Kerala State Industrial Enterprises Limited, Vizhinjam International Seaports Limited and Kerala State Coastal Area Development Corporation Limited.

1.22 The State Government had invested ` 1,070.98 crore (Equity: ` 157.88 crore, Loans: ` 332.86 crore, and Grants: ` 580.24 crore) in 49 PSUs during the years for which accounts have not been finalised as detailed in *Annexure 4*. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

1.23 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every half year by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the Chief Secretary / Finance Secretary in April 2010 to expedite the backlog of arrears in accounts in a time bound manner. Principal Secretary to Government of Kerala (Department of Industries and Bureau of Public Enterprises) had earlier instructed in October 2008 to include finalisation of accounts as an agenda in Board meetings, specified the dead line for clearance of arrears of accounts by December 2010 and to engage external agencies for preparing the accounts wherever necessary.

1.24 In view of above state of arrears, it is reemphasised that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

Winding up of non-working PSUs

1.25 There were 27 non-working PSUs (all companies) as on 31 March 2010. Liquidation process had commenced in five PSUs. The number of non-working companies at the end of each year during past five years are given below.

| Particulars | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|------------------------------|---------|---------|---------|---------|---------|
| No. of non-working companies | 25 | 25 | 25 | 28 | 27 |

The non-working PSUs are required to be closed down as their continued existence is not going to serve any purpose.

1.26 The stages of closure in respect of non-working PSUs are given below.

| Sl. No. | Particulars | Companies | Statutory Corporations | Total |
|---------|---|------------------|------------------------|-------|
| 1. | Total No. of non-working PSUs | 27 | ... | 27 |
| 2. | Of (1) above, the No. under | | ... | |
| (a) | Liquidation by Court (liquidator appointed) | 04 ¹⁸ | ... | 04 |
| (b) | Voluntary winding up (liquidator appointed) | 01 ¹⁹ | ... | 01 |
| (c) | Closure, i.e. closing orders / instructions issued but liquidation process not yet started. | 22 | ... | 22 |

1.27 During the year 2009-10, two²⁰ companies were wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from three to eight years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted / pursued vigorously. The Government may make an early decision regarding winding up of 22 non-working PSUs where closing orders / instructions have been issued but liquidation process has not yet started. The Government may consider setting up a cell to expedite closing down its non-working companies.

Accounts Comments and Internal Audit

1.28 Seventy working companies forwarded their 87 audited accounts to PAG during the year 2009-10. Of these, 67 accounts of 57 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount: ` in crore)

| Sl. No. | Particulars | 2007-08 | | 2008-09 | | 2009-10 | |
|---------|----------------------------------|-----------------|--------|-----------------|--------|-----------------|--------|
| | | No. of accounts | Amount | No. of accounts | Amount | No. of accounts | Amount |
| 1. | Decrease in profit | 14 | 33.67 | 14 | 33.88 | 21 | 102.96 |
| 2. | Increase in loss | 14 | 31.68 | 31 | 28.72 | 23 | 175.85 |
| 3. | Non-disclosure of material facts | 4 | 5.61 | 8 | 11.33 | 7 | 405.12 |
| 4. | Errors of classification | 1 | 128.03 | ... | ... | 4 | 7.92 |

The comments on decrease in profit and increase in loss were on the increasing trend during the three years ended 2009-10.

¹⁸ Keltron Power Devices Limited, Keltron Counters Limited, Keltron Rectifiers Limited and Kunnathara Textiles Limited.

¹⁹ SIDECO Mohan Kerala Limited.

²⁰ The Kerala Fisheries Corporation Limited and Kerala Fishermen's Welfare Corporation Limited.

1.29 During the year 2009-10, the statutory auditors had given unqualified certificates for eight accounts, qualified certificates for 74 accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for two accounts and disclaimers (meaning the auditors are unable to form an opinion on accounts) for three accounts. Additionally, CAG gave adverse comments on 12 accounts during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 125 instances of non-compliance in 52 accounts during the year.

1.30 Some of the important comments in respect of accounts of companies are stated below.

Kerala Agro Machinery Corporation Limited (2009-10)

- Profit for the year 2009-10 (₹ 13.33 crore) had been overstated by ₹ 4.50 crore due to non-creation of provision for the differential amount of applicable central Sales tax and concessional sales tax and interest thereon.

Kerala State Beverages (Manufacturing & Marketing) Corporation Limited (2007-08)

- Net profit for the year 2007-08 (₹ 166.77 crore) had been overstated by ₹ 54.04 lakh due to non-provision against time barred debts recoverable from liquor manufacturers.

Kerala State Civil Supplies Corporation Limited (2006-07)

- Loss for the year 2006-07 (₹ 18.44 crore) was understated by ₹ 57.01 lakh (net) due to over/ under valuation of closing stock, short provision towards gratuity and service tax and excess provision for depreciation.

Kerala Ceramics Limited (2006-07)

- Net loss for the year 2006-07 (₹ 69.08 lakh) was understated by ₹ 18.01 lakh due to non-provision of interest on cash credit, medium term loan and working capital loan availed from State Bank of Travancore.

Kerala State Electronics Development Corporation Limited (2008-09)

- Net profit for the year 2008-09 (₹ 6.31 crore) was arrived at after erroneous adjustment, as prior period items, waiver of interest accrued on loans to subsidiary company, disputed sales tax settled under OTS and write back of excess interest charged on Government loans.

Kerala State Industrial Development Corporation Limited (2008-09)

- Operating profit for the year ended 2008-09 (` 19.62 crore) had been overstated by ` 0.54 crore due to erroneous accounting of provision for bad and doubtful debts as an appropriation of profit instead of as a charge against profit.

Transformers and Electricals Kerala Limited (2007-08)

- Net profit for the year 2007-08 (` 24.27 crore) stood overstated by ` 0.43 crore (net) on account of undervaluation of closing stock of finished goods, short provision of expenses towards repairs and non-accounting of interest payable on letters of credit.

Kerala State Backward Classes Development Corporation Limited (2005-06)

- Profit for the year 2005-06 (` 6.07 crore) was overstated by ` 4.41 crore due to non-writing off differential principal outstanding consequent to change in method of apportioning repayment made by beneficiaries.

1.31 Similarly, the five working Statutory corporations had forwarded their six accounts to PAG during the year 2009-10 upto 30 September 2010. Of these, four accounts pertained to Corporations where CAG was the sole auditor. Sole audit of three²¹ accounts was completed while one²² was in progress. The remaining two accounts²³ were selected for supplementary audit and Separate Audit Reports issued. The audit reports of statutory auditors and the sole / supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount: ` in crore)

| Sl. No. | Particulars | 2007-08 | | 2008-09 | | 2009-10 | |
|---------|----------------------------------|-----------------|--------|-----------------|--------|-----------------|----------|
| | | No. of accounts | Amount | No. of accounts | Amount | No. of accounts | Amount |
| 1 | Decrease in profit | 1 | 247.91 | ... | ... | 2 | 1,555.79 |
| 2 | Increase in profit | 2 | 385.00 | ... | ... | | |
| 3 | Decrease in loss | 1 | 57.92 | ... | ... | | |
| 4 | Increase in loss | ... | ... | 2 | 6.73 | 1 | 0.22 |
| 5 | Non-disclosure of material facts | 2 | 246.46 | 2 | 18.41 | 1 | 0.07 |
| 6 | Errors of classification | 2 | 115.99 | 2 | 21.91 | 1 | 1.18 |

²¹ Kerala State Electricity Board (2008-09), Kerala State Road Transport Corporation (2006-07) and Kerala Industrial Infrastructure Development Corporation (2008-09).

²² Kerala State Road Transport Corporation (2007-08).

²³ Kerala State Warehousing Corporation (2006-07) and Kerala Financial Corporation (2009-10).

1.32 During the year 2009-10, the five Statutory Corporations furnished their six accounts and five²⁴ of them were issued qualified certificates while the remaining one account was under finalisation.

1.33 Some of the important comments in respect of accounts of Statutory corporations are stated below.

Kerala State Electricity Board

- The revised claim of power purchased from Rajiv Gandhi Combined Cycle Power Plant of NTPC amounting to ` 5.82 crore was not provided for during 2007-08.

Kerala State Road Transport Corporation

- Loss for the year 2006-07 (` 155.64 crore) was understated by ` 0.22 crore due to non-provision of liability towards value of stationery, tickets and other consumables received during the year.

1.34 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control / internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit / internal control system in respect of 51 companies²⁵ for the year 2008-09 and 55 for the year 2009-10 are given below.

| Sl. No. | Nature of comments made by Statutory Auditors | Number of companies where recommendations were made | | Reference to serial number of the companies as per Annexure 2 | |
|---------|---|---|---------|---|---|
| | | 2008-09 | 2009-10 | 2008-09 | 2009-10 |
| 1. | Non-fixation of minimum / maximum limits of store and spares | 5 | 02 | A-01,17,65,82,85 | A-10, 66 |
| 2. | Absence of internal audit system commensurate with the nature and size of business of the company | 17 | 22 | A-3,6,7,11,17,18,20,21,22,33,41,47,59,80,84, 85,86 | A-2,5,8,14,15,20,22,23,26,28,34,35,45,36,52,55,62,64,74,82: C-20,23 |
| 3. | Non-maintenance of cost record | 9 | 5 | A-3,6,7,11,20,22,62,82,85 | A-7,61,66: C-20,23) |

²⁴ Kerala State Road Transport Corporation (2006-07), Kerala State Warehousing Corporation (2006-07), Kerala Industrial Infrastructure Development Corporation (2008-09), Kerala Financial Corporation (2009-10) and Kerala State Electricity Board (2008-09).

²⁵ Sr No. A-76,22,14,43,59,52,66,67,72,75,57,11,71,11,12,7,57,3,5,58,48,46,50,45,62,41,86,80,20,21,83,87,18,19,70,33,35, 61,82,85,65,76,74,8,62,77,34,26,28,17,44 in Annexure – 2.

| | | | | | |
|----|---|-----|----|--|---|
| 4. | Non-maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations | 15 | 18 | A-1,3,5,6,18,19,20,21,22,50,57,62,65,80,85 | A-2,7,8,12,15,20,25,28,55,56,58,61,64,65,66,74,80 B-1, |
| 5 | Lack of internal control over sale of power | ... | 7 | ... | A-2,5,20,25,40,75; C-5 |

Recoveries at the instance of audit

1.35 During the course of propriety audit in 2009-10, recoveries of ` 34.45 crore were pointed out to the Management of various PSUs, of which, recoveries of ` 4.85 crore were admitted by PSUs. An amount of ` 4.85 crore was recovered during the year 2009-10.

Status of placement of Separate Audit Reports

1.36 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

| Sl. No. | Name of Statutory corporation | Year up to which SARs placed in Legislature | Year for which SARs not placed in Legislature | | |
|---------|--|---|---|---------------------------------|---|
| | | | Year of SAR | Date of issue to the Government | Reasons for delay in placement in Legislature |
| 1. | Kerala State Electricity Board | 2007-08 | 2008-09 | 12.11.2010 | Yet to be placed in the Legislature |
| 2. | Kerala State Road Transport Corporation | 2005-06 | 2006-07 | 28.05.2010 | Yet to be placed in the Legislature |
| 3 | Kerala Financial Corporation | 2008-09 | 2009-10 | 27.10.2010 | Yet to be placed in the Legislature |
| 4 | Kerala State Warehousing Corporation | 2005-06 | 2006-07 | 28.06.2010 | Yet to be placed in the Legislature |
| 5 | Kerala Industrial Infrastructure Development Corporation | 2008-09 | 2009-10 | Accounts not finalised | |

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature(s).

Disinvestment, Privatisation and Restructuring of PSUs

1.37 The Government had not laid down any policy in regard to disinvestment, privatisation and restructuring of PSUs so far (September 2010).

Reforms in Power Sector

1.38 The State has Kerala State Electricity Regulatory Commission (KSERC) formed in November 2002 under Section 17 (1) of the Electricity Regulatory Commissions Act 1998²⁶ with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2009-10, KSERC has approved (December 2009) the tariff rationalisation of HT / EHT consumers of the Board.

1.39 Memorandum of Understanding (MoU) was signed (August 2001) between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below.

| | | Milestone | Achievement as at March 2010 |
|----------|---|--|---|
| I | By the State Government: | | |
| | Reduction in Transmission and Distribution losses | Reduction of loss to 17 <i>per cent</i> by December 2004 | T&D loss has been reduced from 30.84 <i>per cent</i> in 2001-02 to 19.65 <i>per cent</i> in March 2010 |
| | Electrification of all villages | 100 <i>per cent</i> | All Villages electrified |
| | Metering of all distribution feeders | 100 <i>per cent</i> by October 2001 | Metering of all feeders completed |
| | Metering of all consumers | 100 <i>per cent</i> by December 2001 | Metering of all consumers completed |
| | Securitising outstanding dues of Central PSUs | Securitisation limit not to cross two months billing | An amount of ` 1158.25 crore outstanding as on 30.09.2001 has been securitised by Government of Kerala by issuing bonds to CPSUs |
| | Establishment of State Electricity Regulatory Commission (SERC) | October 2001 | KSERC has started functioning on 29/11/2002 |
| | Implementation of tariff orders issued by SERC during the year | | KSERC has approved (December 2009) the tariff rationalisation of HT / EHT consumers of the Board, which has been implemented by the latter with effect from 01/01/2010. |
| | Energy Audit of 11 KV metering | March 2002 | Metering of all 11 KV feeders completed |
| | Energy Audit above 11 KV metering | October 2001 | Metering of all feeders above 11 KV completed |
| | Computerisation of accounting and billing in towns | Computerised billing & customer service centre - Town Schemes (target 66 nos) Billing collection & Accounting in towns (target 619 nos as on 31.03.07) | LT Billing Computerisation completed in all 641 sections of KSEB. |

²⁶ Since replaced with Section 82 (1) of the Electricity Act, 2003.