

Chapter I

1. OVERVIEW OF STATE PUBLIC SECTOR UNDERTAKINGS

Introduction

1.1 Government of Kerala (GoK) undertakes commercial activities through its business undertakings referred to as State Public Sector Undertakings (PSUs). These are owned, managed and controlled by the State on behalf of public at large. They are basically categorised into Statutory corporations and Government companies. Statutory corporations are public enterprises that came into existence by special Acts of the Legislature. The Act defines the powers and functions, rules and regulations governing the employees and the relationship of the Corporation with the Government. Government companies refer to companies in which not less than 51 *per cent* of the paid up capital is held by Government(s). It 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 is treated as if it were a Government company (deemed Government company as per Section 619 B of the Companies Act, 1956).

1.2 The PSUs operate in six major sectors of the economy viz., Power, Finance, Manufacturing, Infrastructure, Agriculture & allied and Services. In Kerala, the PSUs occupy an important place in the State economy and provide employment to about 1.25 lakh¹ persons as of 31 March 2012. As on 31 March 2012 there were 116 PSUs of which 99 were working and 17 were non-working. Of these, three companies² were listed on the stock exchange(s). During the year 2011-12, five PSUs³ were established and nine PSUs⁴ were closed.

1.3 A sector-wise summary of the PSUs is given below:

Name of sector	Government companies ⁵		Statutory corporations		Total	Investment (₹ in crore)
	Working	Non-working ⁶	Working	Non-working		
Power	03	...	01	...	04	2939.65
Finance	15	...	01	...	16	1945.47

¹As per the details provided by 102 PSUs.

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

³Kerala State Electricity Board Limited, Kochi Metro Rail Corporation Limited, Kerala High Speed Rail Corporation Limited, Road Infrastructure Company Kerala Limited and Norka Roots.

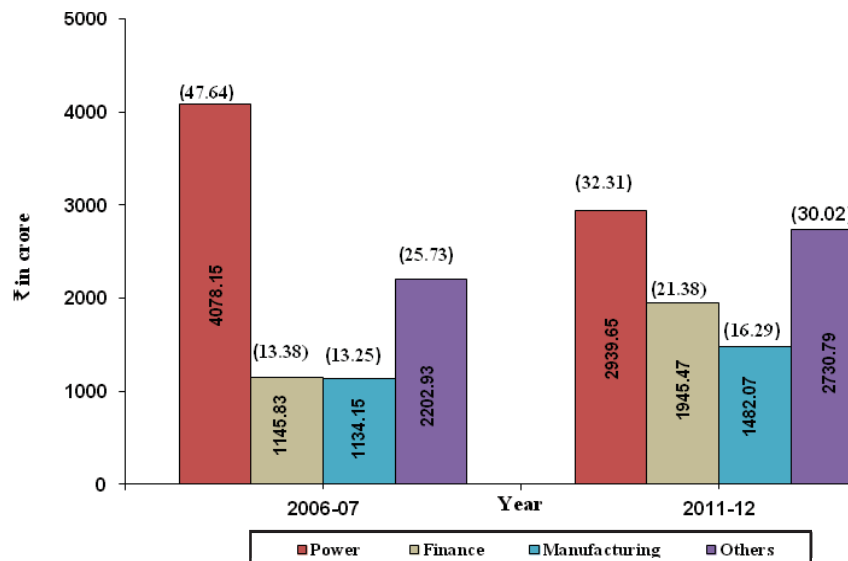
⁴Kerala Venture Capital Fund Private Limited, Kerala Venture Capital Trustee Private Limited, The Chalakudy Refractories Limited, Kerala Construction Components Limited, Scooters Kerala Limited, Kerala State Engineering Works Limited, Travancore Plywood Industries Limited, Kerala Soaps and Oils Limited and Kerala State Salicylates and Chemicals Limited.

⁵Includes 619 B companies.

⁶Non-working PSUs are those which have ceased to carry on their operations.

Manufacturing	34	15	...	...	49	1482.07
Infrastructure	12	01	01	...	14	908.15
Agriculture & allied	14	01	01	...	16	513.26
Services	16	...	01	...	17	1309.38
Total	94	17	05⁷	...	116	9097.98

1.4 The investment in PSUs in various important sectors and percentage thereof at the end of 31 March 2007 and 31 March 2012 are indicated below in the bar chart. The major chunk of investment was in power sector but the sector saw its share decline from 47.64 per cent in 2006-07 to 32.31 per cent in 2011-12 due to repayment of long term loans.



(Figures in brackets show the sector percentage to total investment)

Accountability framework

1.5 The accounts of the Government companies/Statutory corporations for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by 30 September.

Statutory audit

1.6 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 Comptroller and Auditor General of India (CAG) as per the provisions of Section 619 (2) of the Companies Act, 1956. The Statutory Auditors submit their Audit Report to the various stakeholders.

⁷ Kerala State Electricity Board has been shown as Statutory corporation as the vesting of assets and liabilities with the newly formed company, Kerala State Electricity Board Limited has not yet been done.

1.7 The audit of Statutory corporations follow different pattern as provided by their respective legislations. Thus,

- CAG is the sole auditor for Kerala State Electricity Board, Kerala State Road Transport Corporation and Kerala Industrial Infrastructure Development Corporation.
- Chartered Accountants appointed by the Government in consultation with CAG is the auditor for Kerala State Warehousing Corporation, and
- Chartered Accountants appointed by the Corporation out of the panel approved by RBI is the auditor in the case of Kerala Financial Corporation.

Supplementary audit of CAG

1.8 The accounts of State Government companies are also subject to supplementary audit conducted by CAG as per provisions of Section 619 of the Companies Act, 1956. In respect of the two Statutory corporations viz., Kerala State Warehousing Corporation and Kerala Financial Corporation also CAG conducts supplementary audit.

Role of Legislature and Government

1.9 State Government exercises control over the affairs of these PSUs as the owner through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government. The accounts of these PSUs are also subjected to scrutiny by the Finance department of the State Government.

1.10 The State legislature also monitors the accounting and utilisation of Government investment in PSUs. For this, the Annual Report together with the Statutory Auditors' Report and Comments of CAG, in respect of State Government companies and Separate Audit Report in the case of Statutory corporations are to be placed before the legislature within three months of its finalisation/as stipulated in the respective Acts. The audit reports of CAG are submitted to the Government under Section 19 A of the CAG's (DPC) Act, 1971.

Stake of Government of Kerala

1.11 As owners, GoK has huge financial stake in these PSUs. This stake is of mainly three types:

- Share capital and loans – In addition to the share capital contribution, GoK also provide financial assistance by way of loans to PSUs from time to time.
- Special financial support – GoK provide budgetary support by way of grants and subsidies to PSUs as and when required.
- Guarantees – GoK also guarantees the repayment of loans with interest availed by PSUs from financial institutions.

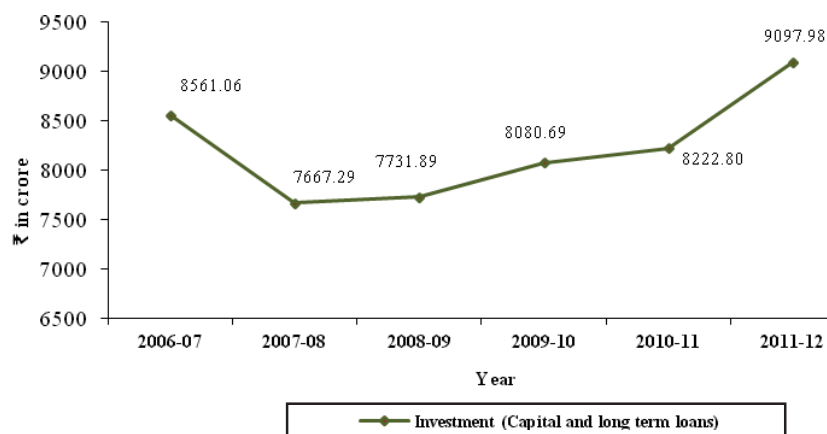
1.12 As on 31 March 2012, the total investment (capital and long term loans) in 116 PSUs (including 619-B companies) was ₹9097.98 crore as shown below:

(₹ in crore)

Type of PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working	2333.94	1392.55	3726.49	2352.47	2913.50	5265.97	8992.46
Non-working	47.93	57.59	105.52	...	...	...	105.52
Total	2381.87	1450.14	3832.01	2352.47	2913.50	5265.97	9097.98

The details of Government investment in PSUs is detailed in *Annexure 1*.

1.13 The total investment in working PSUs consisted of 52.11 per cent towards capital and 47.89 per cent in long term loans. The total investment in PSUs had increased by 6.27 per cent from ₹8561.06 crore in 2006-07 to ₹9097.98 crore in 2011-12 as shown in the graph below:

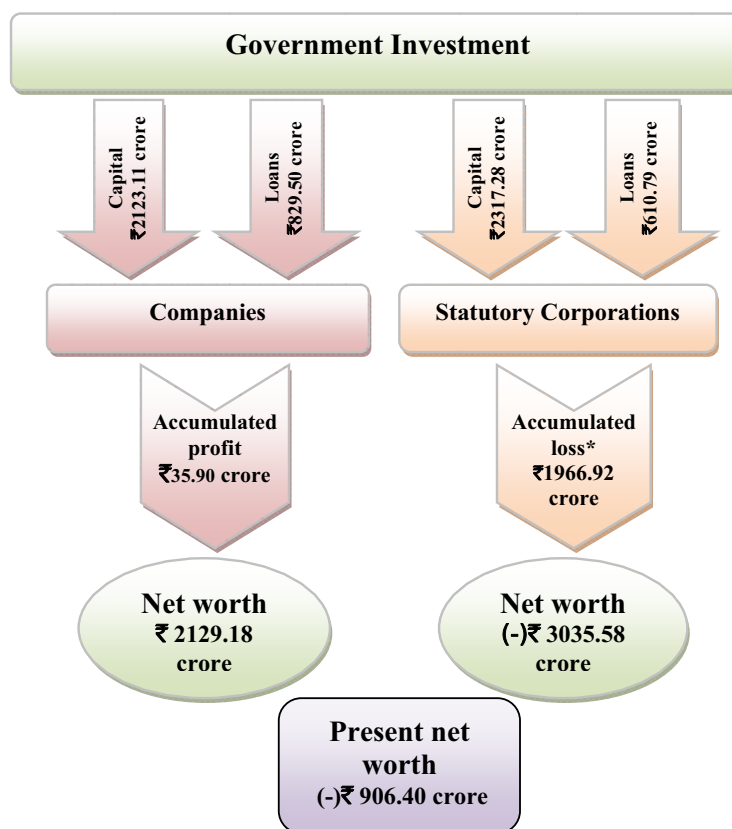


1.14 The capital investment increased by ₹1225.76 crore during 2007-2012 but long term loans reduced by ₹688.84 crore. There was overall net increase in investment by ₹536.92 crore during the period.

Present net worth of the investment- ₹5880.68 crore eroded to (-) ₹906.40 crore

1.15 The investment of ₹5880.68 crore by State Government has eroded over the years due to sustained losses. The present net worth⁸ of the PSUs as per their latest finalised accounts is only (-) ₹906.40 crore as depicted below:

⁸ Net worth represents paid up capital plus free reserves less accumulated losses and intangible assets.



*excluding the accumulated profit shown by KSEB

Special support to PSUs and returns during the year

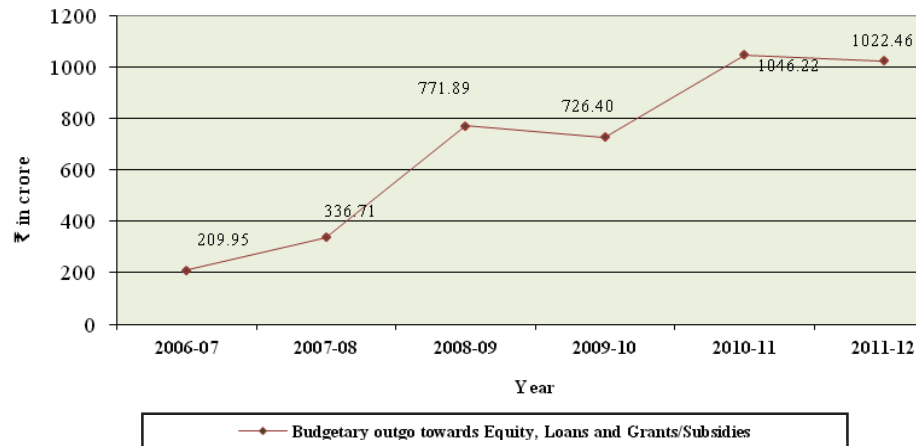
1.16 Each year, GoK provides additional investment and support to PSUs in various forms through annual budget. During the year 2011-12, GoK extended budgetary support of ₹1022.46 crore to 54 PSUs. The details of budgetary outgo towards equity, loans and grants/ subsidies as well as support by way of loans written off, loans converted into equity and interest waived in respect of PSUs are given in *Annexure 3*. The summarised details for the three years ended 2011-12 are given below:

(Amount ₹ in crore)

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	25	114.95	27	257.95	19	68.66
2.	Loans given from budget	16	322.73	16	322.56	18	258.81
3.	Grants / Subsidy given	24	288.72	28	465.71	28	694.99
4.	Total outgo (1+2+3)		726.40		1046.22		1022.46

5.	Loans converted into equity	1	12.38	4	66.87	2	2.25
6.	Loans written off	3	41.24	4	38.67	1	0.08
7.	Interest/Penal interest written off	5	572.33	4	34.65	3	2.06
8.	Total waiver (6+7)		613.57		73.32		2.14

1.17 The details regarding budgetary outgo towards equity, loans and grants/subsidies for the six years ending 2011-12 are given in a graph below:



1.18 The above chart indicates that the budgetary assistance in the form of equity, loan and grant/subsidy by GoK to PSUs had increased from ₹209.95 crore in 2006-07 to ₹1046.22 crore in 2010-11 and then reduced to ₹1022.46 crore in 2011-12. During 2011-12, GoK had waived loans and interest/penal interest of ₹2.14 crore due from three PSUs as against ₹73.32 crore waived during the previous year.

Guarantees for loans and outstanding guarantee commission

1.19 Guarantee for loans availed by PSUs is the third form of support to PSUs. As per the provisions of the Kerala Ceiling on Government Guarantee Act 2003, the Government shall guarantee only loans taken by PSUs. During the year, GoK had guaranteed ₹3612.91 crore and commitment stood at ₹3315.37 crore at the end of the year (*Annexure 3*).

Particulars	Government companies		Statutory corporations		Total
	Number	Amount	Number	Amount	
Guarantees issued	10	3162.91	2	450.00	3612.91
Commitment as on 31 March 2012	12	2744.25	4	571.12	3315.37

1.20 In return for the guarantees provided by GoK, PSUs shall pay guarantee commission not 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 installments on 1 April and October of every financial year. The guarantee commission payable to GoK by Government companies (₹269.28 crore) and Statutory corporations (₹82.54 crore) during 2011-12 was ₹351.82 crore out of which ₹174.37 crore was paid and balance ₹177.45 crore was outstanding as on 31 March 2012. The PSUs which had major arrears were Kerala Small Industries Development Corporation Limited (₹85.20 crore), Kerala State Electricity Board (₹73.22 crore), Kerala State Electronics Development Corporation Limited (₹5.86 crore), The Kerala State Cashew Development Corporation Limited (₹3.92 crore) and Kerala State Road Transport Corporation (₹3.43 crore).

Failure to ensure proper accountability of the Government stake in PSUs

1.21 As stated above, GoK has huge financial stake in PSUs. We, however, found that the PSUs/Government did not ensure proper accountability of this investment. The lapses were mainly in three areas:

- To provide an accurate figure for investment;
- To prepare annual accounts and get them audited;
- To submit the separate audit reports to the legislature in respect of Statutory corporations.

These lapses have wide ranging implications including adverse impact on legislative financial control.

Absence of accurate figure for the investment in PSUs

1.22 The Finance Accounts of GoK prepared by Principal Accountant General (A&E) and certified by CAG depicts the Government stake in PSUs in respect of equity, loan and guarantees. These figures as per records of PSUs should agree with that appearing in the Finance Accounts. In case of difference, it should be reconciled immediately by the PSU concerned and the Finance department. This, however, was not done. As a result, there was wide variation in the figures. The position in this regard as at 31 March 2012 is stated below.

<i>(₹ in crore)</i>			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	2984.03	4440.39	1456.36
Loans	4728.61	1440.29	3288.32
Guarantees	4839.92	3315.37	1524.55

1.23 These differences were mainly in respect of 93 PSUs. The Accountant General (AG) addressed (June 2012) the concerns to the Chief Secretary, Principal Secretary (Finance), Secretaries of departments concerned of GoK and individual

PSUs so as to reconcile the differences in a time-bound manner. However the PSUs/ Finance department is yet to take action.

Arrears in finalisation of accounts

1.24 The accounts of the companies/Statutory corporations for every financial year are required⁹ to be finalised within six months from the end of the relevant financial year. Thus accounts for 2011-12 were to be finalised by 30 September 2012. However, only 21 PSUs had finalised their accounts by this date. The table below indicates the details of progress made by working PSUs in finalisation of accounts as of 30 September 2012.

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1.	Number of Working PSUs	88	95	96	96	99
2.	Number of PSUs finalised accounts for the current year	17	24	23	20	21
3.	No of PSUs having arrears	71	71	73	76	77 ¹⁰

1.25 In respect of remaining PSUs, accounts were in arrears starting from 1998-99 onwards. The progress in finalisation of the accounts which were in arrears was poor. For example 22¹¹ working PSUs did not finalise even a single account during 2011-12.

1.26 55 PSUs finalised the arrear accounts for at least one year. The finalisation of arrear accounts during the year 2011-12 was slightly better compared to the previous year. Hence the average arrears per PSU decreased from 2.75 during 2010-11 to 2.69 during 2011-12.

1.27 The progress made by PSUs in finalisation of accounts by 30 September is shown below:

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1.	Number of PSUs with arrears in accounts	71	71	73	76	77
2.	Number of arrear accounts finalised during the current year	57	75	70	66	76

⁹ Sections 166, 210, 230, 619 and 619-B of the Companies Act in case of companies and provisions of respective Act in case of Statutory corporations.

¹⁰ Excluding Road Infrastructure Company Kerala Limited for which the first accounts are not due.

¹¹ Kerala Livestock Development Board Limited, Aralam Farming Corporation (Kerala) Limited, Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited, Kerala State Film Development Corporation Limited, Kerala State Women's Development Corporation Limited, Kerala State Information Technology Infrastructure Limited, Marine Products Infrastructure Development Corporation Limited, Foam Mattings (India) Limited, Kerala Automobiles Limited, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, Kerala State Textile Corporation Limited, The Metal Industries Limited, The Travancore Cements Limited, The Travancore Sugars and Chemicals Limited, Travancore Titanium Products Limited, Trivandrum Spinning Mills Limited, Bekal Resorts Development Corporation Limited, Kerala Medical Services Corporation Limited, Kerala State Ex-servicemen Development and Rehabilitation Corporation Limited, The Kerala State Civil Supplies Corporation Limited, Tourist Resorts (Kerala) Limited, Kerala High Speed Rail Corporation Limited.

3.	Number of accounts in arrears	203	198	197	209	207 ¹²
4.	Average arrears per PSU (3/1)	2.86	2.79	2.70	2.75	2.69
5.	Extent of arrears (in years)	1 to 13	1 to 13	1 to 12	1 to 13	1 to 14

1.28 Of the 77 PSUs with arrears of accounts, GoK had extended support to 50 PSUs having arrears ranging from 1 to 12 years. The support extended was ₹1677.91 crore (equity: ₹163.28 crore, loans: ₹294.29 crore, and grants: ₹1220.34 crore) during the years for which accounts have not been finalised as detailed in *Annexure 4*.

Arrears in respect of Statutory corporations

1.29 Of the five Statutory corporations, only Kerala Financial Corporation and Kerala State Electricity Board had finalised their accounts for the year 2011-12. The accounts of the remaining three Statutory corporations viz., Kerala State Warehousing Corporation, Kerala State Road Transport Corporation and Kerala Industrial Infrastructure Development Corporation were in arrears.

1.30 During the year 2011-12, Kerala State Warehousing Corporation finalised its accounts for three years upto 2010-11, Kerala State Road Transport Corporation for two years upto 2010-11 and Kerala Industrial Infrastructure Development Corporation finalised its accounts for the year 2010-11.

1.31 Separate Audit Reports (SARs) are audit reports of CAG on the accounts of Statutory corporations. These reports are to be laid before the Legislature as per the provisions of the respective Acts. The Statutory corporations, however, did not submit the SARs on time to the Legislature as shown below:

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in the Legislature	SAR issued by CAG but not placed in the Legislature	Remarks
1.	Kerala State Electricity Board	2008-09	2009-10	Not placed even after 15 months
			2010-11	Not placed even after 5 months
2.	Kerala State Road Transport Corporation	2008-09	2009-10	Not placed even after 5 months
3.	Kerala Financial Corporation	2010-11	2011-12	SAR issued in November 2012
4.	Kerala State Warehousing Corporation	2007-08	2008-09	Not placed even after 5 months
			2009-10	
			2010-11	SAR issued in October 2012
5.	Kerala Industrial Infrastructure Development Corporation	2010-11	...	...

¹² Including one arrear account of Norka Roots and excluding two arrear accounts each of Kerala Venture Capital Fund Private Limited and Kerala Venture Capital Trustee Private Limited which were closed.

Delay in placing the SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt laying of SARs in the Legislature.

Failure of the administrative department

1.32 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.

1.33 As the position of arrears in finalisation of accounts was alarming, CAG took up the matter (September 2011) with the Ministry of Corporate Affairs (MCA) and suggested to devise special arrangements along with actionable issues to ensure enforcement of accountability. The MCA in turn devised (November 2011) a scheme which allowed the PSUs with arrears in accounts to finalise the latest two years' accounts and clear the backlog within five years.

1.34 The AG also addressed (October 2012) the Administrative Departments and the Managements of the PSUs whose accounts were in arrears for more than three years. The persisting huge arrears of accounts revealed that the PSUs did not avail this concession to make their accounts up to date.

Impact of non-finalisation of accounts

1.35 Non-finalisation of accounts by 30 September is a violation of the provisions of the Companies Act, 1956.

1.36 In the absence of accounts and their subsequent audit, there is no assurance that the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature.

1.37 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. In view of the above state of arrears, the actual contribution of PSUs to the State Gross Domestic Product (GDP) for the year 2011-12 could not be ascertained. Further, the result of operation of these PSUs for the year 2011-12 and their contribution to State exchequer was also not reported to the State legislature.

1.38 Hence it is recommended that the Government should monitor and ensure timely finalisation of accounts with special focus on liquidation of arrears and comply with the provisions of the Companies Act, 1956.

Performance of PSUs

Problems in assessing performance

1.39 In view of the heavy backlog in finalisation of accounts, the actual performance of PSUs could not be ascertained. Hence the performance of PSUs was assessed on the basis of their latest finalised accounts. However, the performance of major PSUs like Kerala State Beverages (Manufacturing & Marketing) Corporation Limited, The Kerala State Civil Supplies Corporation Limited, Travancore Titanium Products Limited and Travancore Cements Limited could not be commented due to non-finalisation of even a single account during the year.

Performance based on finalised accounts

1.40 The financial results of PSUs, financial position and working results of Statutory corporations are detailed in *Annexures 2, 5 and 6* respectively. The ratio of PSUs' turnover to State GDP shows the extent of PSU activities in the State economy. The table below provides the details of working PSUs' turnover and State GDP for the period 2006-07 to 2011-12.

(₹ in crore)

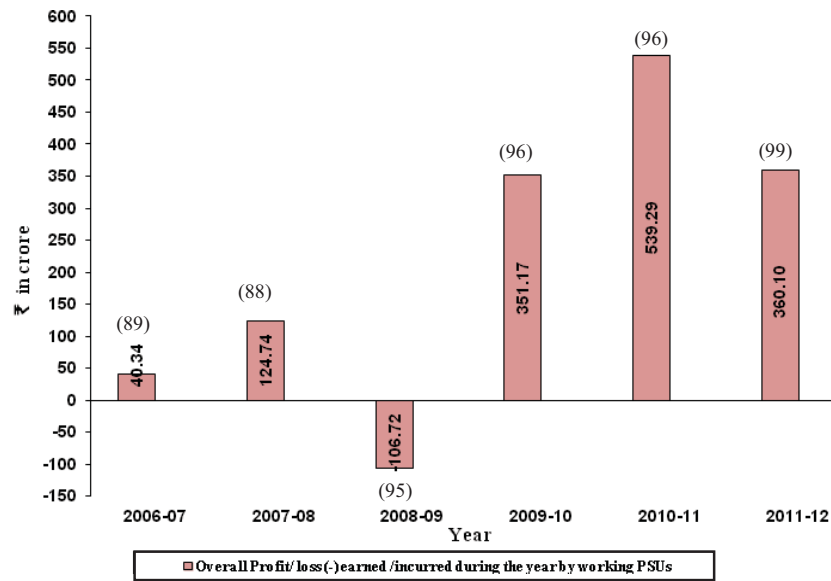
Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover ¹³	8846.01	10082.22	10877.80	12349.97	14579.38	16171.31
State GDP ¹⁴	153785	175141	202783	232381	276997	326693
Percentage of Turnover to State GDP	5.75	5.76	5.36	5.31	5.26	4.95

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

1.41 Profits earned/ losses incurred by State working PSUs during 2006-07 to 2011-12 are given below in a bar chart.

¹³ Turnover as per the latest finalised accounts as of 30 September of every year.

¹⁴ State GDP at current prices from 2006-07 to 2008-09, 2009-10 (provisional), 2010-11 (quick), 2011-12 (figure from Budget in brief, Government of Kerala 2012-13).



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

As evident from the above chart, profit earned by working PSUs showed a decreasing trend in 2011-12 over the year 2010-11.

1.42 As mentioned in *paragraphs 1.24* and *1.25*, 76 PSUs had finalised their accounts during 2011-12 for periods ranging from one to four years. Of these, 44 PSUs earned profit of ₹645.36 crore and 29 PSUs incurred loss of ₹477.88 crore as per their latest finalised accounts, while remaining three¹⁵ PSUs had not commenced commercial activities.

The PSUs that contributed a major chunk of the profit were:

- The Kerala Minerals and Metals Limited (₹115.45 crore – 2011-12),
- Kerala Financial Corporation (₹50.46 crore – 2011-12),
- Malabar Cements Limited (₹30.81 crore – 2010-11),
- Kerala State Financial Enterprises Limited (₹27.94 crore – 2010-11), and
- Kerala State Industrial Development Corporation Limited (₹26.15 crore – 2011-12).

Heavy loss makers were:

- Kerala State Road Transport Corporation (₹376.89 crore – 2010-11), and
- The Kerala State Cashew Development Corporation Limited (₹68.50 crore – 2007-08).

¹⁵ Serial Nos A 40, 78 and 92 in Annexure 2.

KSEB- Concealing the losses

1.43 As per the notification issued by Central Electricity Regulatory Commission, electricity utility of every state has to show a return of 15.5 *per cent* on equity. In compliance with this, the accounts of KSEB for the year 2011-12 showed a profit of ₹240.71 crore whereas the operations actually resulted in a loss of ₹1693.42 crore. The differential amount (₹1934.13 crore) was shown as revenue gap/regulatory asset. As on 31 March 2012, the regulatory asset thus created over the years amounted to ₹5327.99 crore. This is not an asset, but only an accounting adjustment. Due to this adjustment, the real losses made by KSEB are concealed.

Reasons for the losses

1.44 A test check of records of PSUs revealed that their losses are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. An analysis of the reasons contributing to loss in respect of four major loss making PSUs are discussed in **paragraph 4.1**. A review of latest Audit Reports of CAG for the period 2009 to 2012 had indicated that the PSUs incurred losses to the tune of ₹1337.37 crore and infructuous investment of ₹123.38 crore which were controllable with better management. The actual controllable losses would be much more. Year-wise details of such losses pointed out in the Audit Reports are stated below:

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	Total
Net Profit	331.78	521.47	348.33	1201.58
Controllable Losses as per CAG's Audit Report	300.86	484.89	551.62	1337.37
Infructuous Investment	65.92	48.87	8.59	123.38

1.45 The above table shows that with better management, the losses can be minimised or the profits can be enhanced. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

1.46 Some other key parameters pertaining to the 21 working PSUs which finalised their accounts for the year 2011-12 are given below:

Particulars	2011-12
Return on Capital Employed (<i>per cent</i>)	7.07
Debt (₹ in crore)	2401.19
Turnover (₹ in crore)	7737.85
Debt / Turnover Ratio	0.31:1
Interest Payments (₹ in crore)	407.64
Accumulated profit/loss(-) (₹ in crore)	3053.84

1.47 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 accounts finalised during 2011-12, 44 working PSUs earned an aggregate profit of

₹645.36 crore and 16 PSUs declared a dividend of ₹55.51 crore. The State Government Policy on dividend payment was, however, complied with only by six¹⁶ companies.

Non-working PSUs

1.48 There were 17 non-working PSUs (all companies) as on 31 March 2012 having a total investment of ₹105.52 crore towards capital (₹47.93 crore) and long term loans (₹57.59 crore). There were also arrears in finalisation of accounts by non-working PSUs. During 2011-12, two non-working PSUs¹⁷ had finalised two accounts. All the 17 non-working PSUs had arrears of accounts for one to 27 years.

1.49 The number of non-working companies at the end of each year during the past five years is given below:

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
No. of non-working companies	25	28	27	24	17

1.50 Liquidation process had commenced in four PSUs. The stages of closure, total investment and accumulated loss in respect of the 17 non-working PSUs are given below:

(Amount ₹in crore)

Sl. No.	Particulars	No. of Companies	Investment	Accumulated loss
1.	Liquidation by Court/ Voluntary winding up (Liquidator appointed)	04 ¹⁸	52.68	76.76
2.	Closure, i.e. closing orders / instructions issued but liquidation process not yet started.	10	46.13	90.72
3.	Others	3	6.71	10.23

1.51 During the year 2011-12, nine 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 ten 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 10 non-working PSUs where closing orders/ instructions have been issued but liquidation process has not yet started. The Government may consider expediting closing down of its non-working companies.

¹⁶ The Kerala Minerals and Metals Limited, Kerala State Industrial Enterprises Limited, Kerala Agro Machinery Corporation Limited, Kerala State Financial Enterprises Limited, Oil Palm India Limited and Rehabilitation Plantations Limited.

¹⁷ SIDECO Mohan Kerala Limited (2007-08), Astral Watches Limited (2010-11).

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

Adverse Comments on the Accounts and Internal Audit of PSUs

1.52 Seventy one working companies forwarded their 88 audited accounts to AG upto September 2012. Of these, 50 accounts of 43 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	2009-10		2010-11		2011-12	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	21	102.96	24	29.05	26	152.30
2.	Increase in loss	23	175.85	20	21.15	18	47.00
3.	Non-disclosure of material facts	7	405.12	11	82.33	1	0.06
4.	Errors of classification	4	7.92	5	7.09	1	...

1.53 During the year 2011-12, 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 (AS) remained poor. There were 106 instances of non-compliance of AS in 42 accounts during the year.

1.54 Some of the important comments in respect of accounts of companies are stated below:

Kerala State Coastal Area Development Corporation Limited (2010-11)

- Profit before tax for the year, ₹1.20 crore, was overstated by ₹1.36 crore due to recognition of interest received/accrued on Government grants deposited as income with corresponding understatement of Grant.

United Electrical Industries Limited (2010-11)

- Loss for the year, ₹6.77 crore, was understated by ₹1.65 crore due to non-provision of interest due on guarantee commission payable, interest accrued/payable on loans and pay revision arrears of officers.

Kerala State Backward Classes Development Corporation Limited (2007-08)

- Profit for the year, ₹6.32 crore, was understated by ₹0.57 crore due to non-accounting of rebate for 2007-08 received during the year.

Kerala Electrical and Allied Engineering Company Limited (2007-08)

- Reserves and Surplus for the year, ₹3.66 crore, stood overstated by ₹3.50 crore due to treatment of grant received during 2006-07 for working capital requirement as Capital Reserve instead of as extraordinary income with corresponding overstatement of accumulated loss.

1.55 Similarly, the five working Statutory corporations had forwarded their nine accounts to AG upto 30 September 2012. Of these, five accounts¹⁹ pertained to corporations where CAG was the sole auditor, of which the audit of three were completed and Separate Audit Reports (SARs) issued. The audit of balance two accounts was in progress. The remaining four accounts²⁰ were selected for supplementary audit and SARs issued in respect of three accounts. The balance one SAR is being issued. Of the six SARs issued, three²¹ were issued qualified certificates while three²² certificates were issued without qualification. 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	2009-10		2010-11		2011-12	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	2	1555.79	2	2580.81	2	1355.18
2.	Increase in loss	1	0.22	1	3.98	1	1.07
3.	Non-disclosure of material facts	1	0.07	3	251.45	2	51.28
4.	Errors of classification	1	1.18	1	126.37	2	133.13

1.56 Some of the important comments in respect of accounts of Statutory corporations are stated below:

Kerala State Electricity Board (2010-11)

- Interest on Electricity Duty, Inspection Fee and Surcharge payable to the State Government under Section 8 of the Kerala Electricity Duty Act, 1963 for the period from 2002-03 to 2009-10 amounting to ₹1204.64 crore was not provided for during the year.
- Subsidy amounting to ₹54 crore received from Government of Kerala was accounted twice.

¹⁹ Kerala Industrial Infrastructure Development Corporation (2010-11), Kerala State Electricity Board (2010-11 and 2011-12) and Kerala State Road Transport Corporation (2009-10 and 2010-11).

²⁰ Kerala State Warehousing Corporation (2008-09, 2009-10 and 2010-11) and Kerala Financial Corporation (2011-12).

²¹ Kerala Industrial Infrastructure Development Corporation (2010-11), Kerala State Electricity Board (2010-11) and Kerala State Road Transport Corporation (2009-10).

²² Kerala State Warehousing Corporation (2008-09, 2009-10 and 2010-11).

Kerala State Road Transport Corporation (2009-10)

- Loss for the year, ₹237.95 crore, was understated by ₹1.07 crore due to non-write off of unabsorbed depreciation (₹0.63 crore) on disposed vehicles and non-provision of penal interest (₹0.44 crore) on loans.

1.57 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by 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 41 companies for the year 2010-11 and 42 companies²³ for the year 2011-12 are given below:

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies		Reference to serial number of the companies as per Annexure 2	
		2010-11	2011-12	2010-11	2011-12
1.	Non-fixation of minimum/maximum limits of stores and spares	2	3	A-34,65	A-37,50,73
2.	Absence of internal audit system commensurate with the nature and size of business of the company	29	22	A-2,3,4,13, 15, 19,20,24,26,28 33,36,47,53,54 56,63,65,66,67 69,71,74,82,85 86,88,C- 21,22	A-1,2,9,13,15, 18,19,22,24, 26,29,31,34, 50,58,63,66, 70,73,82,90, 91
3.	Non-maintenance of cost records	5	5	A-24,47,58, 62, C-21	A-18, 24, 46,54,61
4.	Non-maintenance of proper records showing full particulars including quantitative details, identity number, date of acquisition, depreciated value of fixed assets and their locations	23	31	A-3,4,8,13,17, 19,23,36,44, 54,55,62,63, 66,79,86,88, C-6,8, 9,13, 21,22	A-4,5,8,9,16, 17,18,19,22, 23,24,26,29, 30,31,34,42, 46,50,52,54, 55,56,61,62, 63,66,84,85, 86,93
5.	Lack of internal control over sale of power	8	...	A-2,4,13,19, 47,82,85,C-13	...

Recoveries at the instance of audit

1.58 During the course of propriety audit in 2011-12, recoveries to be made amounting to ₹40.85 crore were pointed out to the Managements of various PSUs, of which an amount of ₹5.43 crore was admitted and recovered.

²³ A-1,2,4,5,8,9,13,15,16,17,18,19,22,23,24,26,29,30,31,34,37,42,46,50,52,54,55,56,58,61,62,63,66,70,73, 82,84,85,86,90,91,93.

Disinvestment, Privatisation and Restructuring of PSUs

1.59 With a view to restructuring Kerala State Electricity Board, all interests, rights in properties, all rights and liabilities were vested with GoK. These properties and liabilities are administered by GoK through a Special Officer and a managing committee in the name as Kerala State Electricity Board. A new company viz., Kerala State Electricity Board Limited was incorporated on 14 January 2011. The re-vesting of all assets, rights and obligations with the new company is yet (October 2012) to take place.

Reforms in Power Sector

1.60 The State has Kerala State Electricity Regulatory Commission (KSERC) formed (November 2002) under Section 17 (1) of the Electricity Regulatory Commissions Act, 1998²⁴, 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.

1.61 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 31 March 2012
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 15.65 <i>per cent</i> in March 2012.
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 November 2002.

²⁴ Since replaced with Section 82 (1) of the Electricity Act, 2003.

	Milestone	Achievement as at 31 March 2012
Implementation of tariff orders issued by SERC during the year		<p>KSERC approved (December 2010) revision of tariff for Railway Traction in February 2012 which was implemented by KSEB from February 2012.</p> <p>KSERC approved revision of tariff applicable to all consumers in July 2012 and the tariff orders were implemented by KSEB with effect from July 2012.</p>
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 numbers as on 31 March 2007)	LT Billing Computerisation completed in all 641 sections of KSEB.