

CHAPTER I

OVERVIEW OF PSU_s

Chapter I

1.1 Overview of State Public Sector Undertakings

Introduction

1.1.1 Government of Kerala (GoK) undertakes commercial activities through its business undertakings referred to as State Public Sector Undertakings (PSUs) which are owned, managed and controlled by the State. 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. Government companies refer to companies in which not less than 51 *per cent* of the paid up capital is held by Government(s). 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 619B of the Companies Act 1956.

1.1.2 The PSUs operate in six major sectors of the economy viz., Power, Finance, Manufacturing, Infrastructure, Services and Agriculture & allied. In Kerala, the PSUs occupy an important place in the State economy and provide employment to about 1.27 lakh¹ persons as of 31 March 2013. There were 117 PSUs of which 101 were working and 16 non-working² as on 31 March 2013. Of these, three companies³ were listed on the stock exchange(s). During the year 2012-13, two PSUs⁴ were established. A sector-wise summary of the PSUs is given below:

Table 1.1.1: Sector-wise summary of the investment in the PSUs

Name of sector	Government companies ⁵		Statutory corporations		Total	Investment (₹ in crore)
	Working	Non working	Working	Non working		
Power	03	...	01	...	04	3717.53
Finance	15	...	01	...	16	1965.98
Manufacturing	34	15	...	...	49	1587.90
Infrastructure	14	...	01	...	15	1247.57
Agriculture & allied	14	01	01	...	16	514.01
Services	16	...	01	...	17	1830.26
Total	96	16	05⁶	...	117	10863.25

¹ As per the details provided by 103 PSUs.

² Non-working PSUs are those which have ceased to carry on their operations.

³ Keltron Component Complex Limited, The Travancore Cements Limited and The Travancore Sugars and Chemicals Limited.

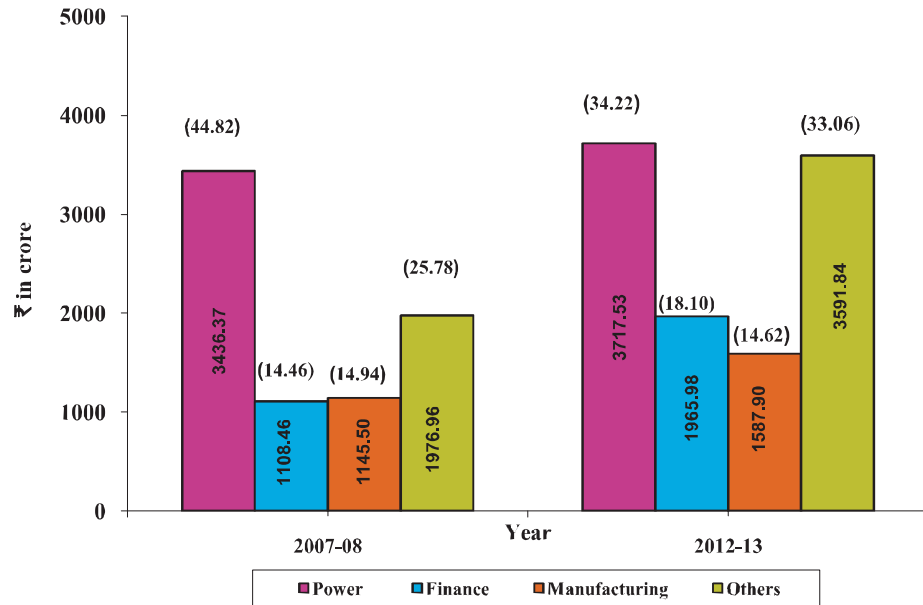
⁴ Vision Varkala Infrastructure Development Corporation Limited, Kerala Monorail Corporation Limited.

⁵ Includes 619 B companies.

⁶ 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 was done only on 31 October 2013.

1.1.3 The investment in PSUs in various important sectors and percentage thereof at the end of 31 March 2008 and 31 March 2013 are indicated below in the bar chart.

Chart 1.1.1: Sector-wise investment in PSUs



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

Accountability framework

1.1.4 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

1.1.5 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 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.

1.1.6 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 Accountant appointed by the Government in consultation with CAG is the auditor for Kerala State Warehousing Corporation, and
- Chartered Accountant appointed by the Corporation out of the panel approved by the Reserve Bank of India is the auditor in the case of Kerala Financial Corporation.

Supplementary audit of CAG

1.1.7 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

1.1.8 State Government exercises control over the affairs of these PSUs 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.

1.1.9 The State legislature also monitors the accounting and utilisation of Government investment in the 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 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 the CAG are submitted to the Government under Section 19 A of the CAG's (DPC) Act, 1971.

Investment in PSUs

1.1.10 GoK has huge financial stake in the 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 the PSUs from time to time.
- Special financial support – GoK provide budgetary support by way of grants and subsidies to the PSUs as and when required.
- Guarantees – GoK also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

1.1.11 As on 31 March 2013, the total investment (capital and long term loans) in 117 PSUs (including 619-B companies) was ₹10863.25 crore as shown below:

Table 1.1.2: Investment (capital and long-term loans) in PSUs

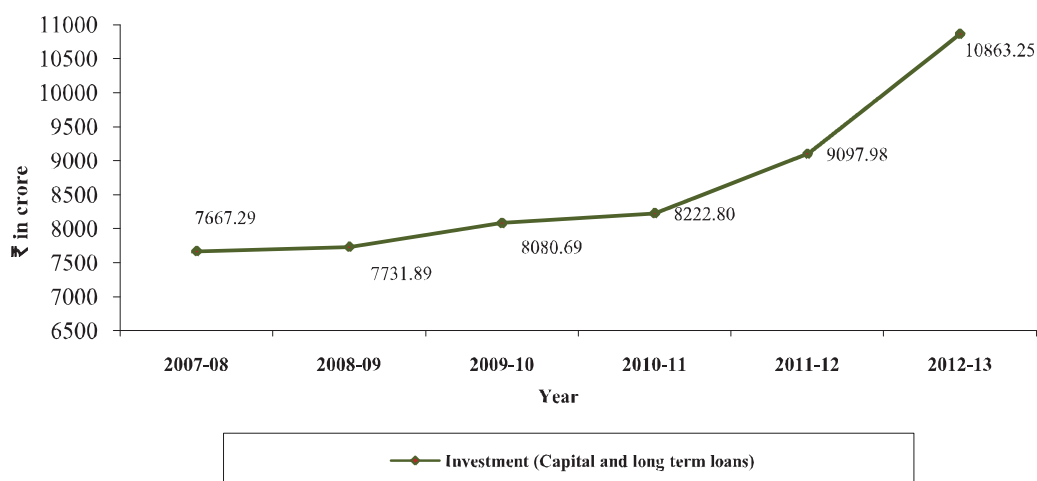
(₹ in crore)

Type of PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working	2763.49	1479.65	4243.14	2373.96	4140.79	6514.75	10757.89
Non-working	47.72	57.64	105.36	...	...	...	105.36
Total	2811.21	1537.29	4348.50	2373.96	4140.79	6514.75	10863.25

The details of Government investment in State PSUs is given in *Annexure I*.

1.1.12 The total investment in working PSUs consisted of 47.76 per cent towards capital and 52.24 per cent in long term loans. The total investment in PSUs had increased by 41.68 per cent from ₹7667.29 crore in 2007-08 to ₹10863.25 crore in 2012-13 as shown in the graph below:

Chart 1.1.2: Total investment in PSUs



1.1.13 The capital investment and long term loans increased by ₹1603.25 crore and ₹1592.71 crore respectively during 2008-2013. There was overall increase in investment and long term loans by ₹3195.96 crore during the period.

Special support to PSUs and returns during the year

1.1.14 Each year, GoK provides additional investment and support to PSUs in various forms through annual budget. During the year 2012-13, the GoK extended budgetary support of ₹1526.71 crore to 53 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 2012-13 are given below:

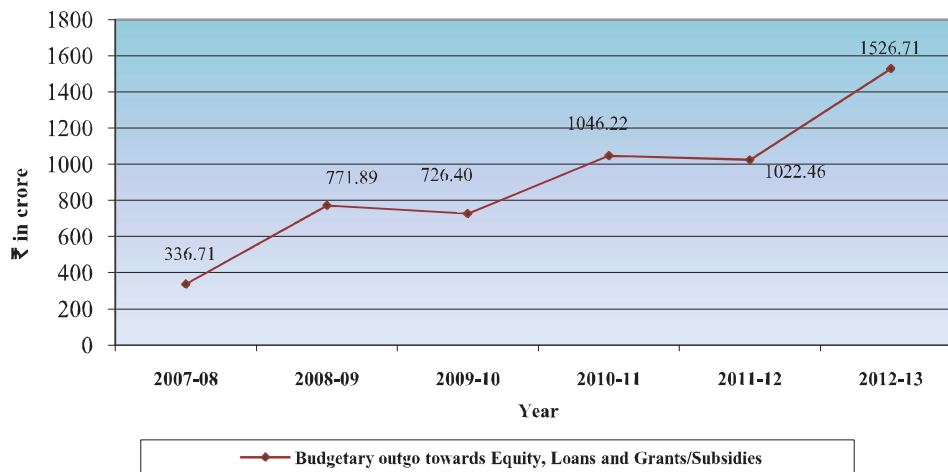
Table 1.1.3: Details regarding budgetary support to PSUs

(Amount ₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	27	257.95	19	68.66	22	388.24
2.	Loans given from budget	16	322.56	18	258.81	17	333.00
3.	Grants/Subsidy given	28	465.71	28	694.99	29	805.47
4.	Total outgo (1+2+3)		1046.22		1022.46		1526.71
5.	Loans converted into equity	4	66.87	2	2.25	...	...
6.	Loans written off	4	38.67	1	0.08	2	2.92
7.	Interest/Penal interest written off	4	34.65	3	2.06	2	1.62
8.	Total waiver (6+7)		73.32		2.14		4.54

1.1.15 The details regarding budgetary outgo towards equity, loans and grants/subsidies for the six years ending 2012-13 are given in the graph below:

Chart 1.1.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies



1.1.16 The above chart indicates that the budgetary assistance in the form of equity, loan and grant/subsidy by the GoK to PSUs had increased from ₹336.71 crore in 2007-08 to ₹1526.71 crore in 2012-13. During 2012-13, the GoK had

waived loans and interest/penal interest of ₹4.54 crore due from three PSUs⁷ as against ₹2.14 crore waived during the previous year.

Guarantees for loans and outstanding guarantee commission

1.1.17 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 ₹3767.26 crore and commitment stood at ₹3699.40 crore at the end of the year (*Annexure 3*).

Table 1.1.4: Guarantees issued and committed by GoK

(₹ in crore)

Particulars	Government companies		Statutory corporations		Total
	Number	Amount	Number	Amount	
Guarantees issued	9	3117.26	2	650.00	3767.26
Commitment as on 31 March 2013	10	3136.99	5	562.41	3699.40

1.1.18 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 instalments on 1 April and October of every financial year. The guarantee commission payable to GoK by Government companies and Statutory corporations during 2012-13 was ₹122.92 crore, out of which ₹33.80 crore was paid and balance ₹89.12 crore was outstanding as on 31 March 2013. The PSUs which had major arrears were Kerala State Electricity Board (₹75.41 crore), Kerala State Electronics Development Corporation Limited (₹5.37 crore), The Kerala State Cashew Development Corporation Limited (₹3.92 crore), United Electrical Industries Limited (₹1.56 crore) and Kerala State Road Transport Corporation (₹1.18 crore).

Failure to ensure proper accountability of the Government stake in PSUs

1.1.19 As stated above GoK has huge financial stake in PSUs. Audit, 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 of investment;
- To prepare annual accounts and get them audited;
- To submit the separate audit reports to the legislature in respect of Statutory corporations.

⁷ Kerala State Development Corporation for Christian Converts from Scheduled Castes and Scheduled Tribes Limited, The Kerala State Backward Classes Development Corporation Limited, SAIL-SCL Kerala Limited.

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

Absence of accurate figure of investment in PSUs

1.1.20 The Finance Accounts of GoK prepared by the Principal Accountant General (Accounts & Entitlement) and certified by CAG depicts the Government stake in PSUs in respect of equity, loans 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 2013 is stated below.

Table 1.1.5: Equity, loans and guarantee outstanding as per Finance Accounts and records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	3113.23	4822.33	1709.10
Loans	5099.44	1747.45	3351.99
Guarantees	5457.30	3699.40	1757.90

1.1.21 These differences were in respect of 91 PSUs. The Accountant General-Economic & Revenue Sector Audit (AG) had taken up this matter from time to time with the Chief Secretary, Principal Secretary (Finance), Secretaries of concerned departments of GoK and individual PSUs so as to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

1.1.22 The accounts of the Companies/Statutory corporations for every financial year are required⁸ to be finalised within six months from the end of the relevant financial year. Thus, accounts for 2012-13 were to be finalised by 30 September 2013. However, only 24 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 2013.

⁸ Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 in case of companies and provisions of respective Act in case of Statutory corporations.

Table 1.1.6: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Number of Working PSUs	95	96	96	99	101
2.	Number of PSUs finalised accounts for the current year	24	23	20	21	24
3.	Number of PSUs having arrears	71	73	76	77	75 ⁹
4.	Number of arrear accounts finalised during the current year	75	70	66	76	94
5.	Number of accounts in arrears	198	197	209	207 ¹⁰	194
6.	Average arrears per PSU (5/3)	2.79	2.70	2.75	2.69	2.59
7.	Extent of arrears (in years)	1 to 13	1 to 12	1 to 13	1 to 14	1 to 12

1.1.23 In respect of PSUs where accounts were in arrears starting from 2000-01 onwards, the progress in finalisation of the accounts was poor. For example, 21¹¹ working PSUs did not finalise even a single account during 2012-13.

1.1.24 Of the 75 PSUs with arrears of accounts, GoK had extended financial support to 46 PSUs having arrears ranging from 1 to 12 years. The support extended was ₹2368.31 crore (equity: ₹280.76 crore, loans: ₹296.80 crore, and grants: ₹1790.75 crore) during the years for which accounts have not been finalised as detailed in *Annexure 4*.

Arrears in respect of Statutory corporations

1.1.25 Of the five Statutory corporations, Kerala Financial Corporation, Kerala State Electricity Board and Kerala Industrial Infrastructure Development Corporation had finalised their accounts for the year 2012-13. The accounts of the remaining two Statutory corporations viz. Kerala State Warehousing Corporation and Kerala State Road Transport Corporation were in arrears from 2011-12 and 2012-13 respectively.

1.1.26 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:

⁹ Excluding Kerala Monorail Corporation Limited, Vision Varkala Infrastructure Development Corporation Limited for which the first accounts are not due.

¹⁰ 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.

¹¹ Kerala State Horticultural Products Development Corporation Limited, Oil Palm India Limited, The State Farming Corporation of Kerala Limited, Kerala School Teachers and Non-teaching Staff Welfare Corporation Limited, Kerala State Development Corporation for Christian Converts from Scheduled Castes & the Recommended Communities Limited, Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited, Kerala Transport Development Finance Corporation Limited, The Kerala State Financial Enterprises Limited, Kerala Police Housing and Construction Corporation Limited, Roads and Bridges Development Corporation of Kerala Limited, The Kerala Land Development Corporation Limited, Kanjikode Electronics and Electricals Limited, Keltron Component Complex Limited, Malabar Distilleries Limited, Trivandrum Spinning Mills Limited, Kerala State Electricity Board Limited, Kerala Medical Services Corporation Limited, KTDC Hotels & Resorts Limited, Kerala State Coastal Area Development Corporation Limited, Road Infrastructure Company Kerala Limited and Kerala State Warehousing Corporation.

Table 1.1.7: Position relating to submission of SARs to the Legislature

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	SAR issued by CAG but not placed in the Legislature	Remarks
1.	Kerala State Electricity Board	2010-11	2011-12	SAR issued in August 2013. Not yet placed.
2.	Kerala State Road Transport Corporation	2009-10	2010-11	SAR issued in April 2013. Not yet placed.
3.	Kerala Financial Corporation	2010-11	2011-12	SAR issued in November 2012. Not yet placed.
4.	Kerala State Warehousing Corporation	2009-10	2010-11	SAR issued in October 2012. Not yet placed.
5.	Kerala Industrial Infrastructure Development Corporation	2010-11	2011-12	SAR issued in February 2013. Not yet placed.

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 administrative departments

1.1.27 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.

1.1.28 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. The persisting huge arrears of accounts revealed that the PSUs did not avail of this concession to make their accounts up to date.

1.1.29 The AG also addressed (May 2013, August 2013) the Administrative departments and the Managements of the PSUs whose accounts were in arrears for more than three years.

Impact of non-finalisation of accounts

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

1.1.31 In the absence of timely finalisation 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. Thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature.

1.1.32 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 2012-13 could not be ascertained. Further, the result of operation of these PSUs for the year 2012-13 and their contribution to State exchequer was also not reported to the State Legislature.

1.1.33 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

1.1.34 In view of the heavy backlog in finalisation of accounts, the actual performance of the PSUs could not be ascertained. Hence the performance of PSUs was assessed on the basis of their latest finalised accounts.

Performance based on finalised accounts

1.1.35 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 2007-08 to 2012-13.

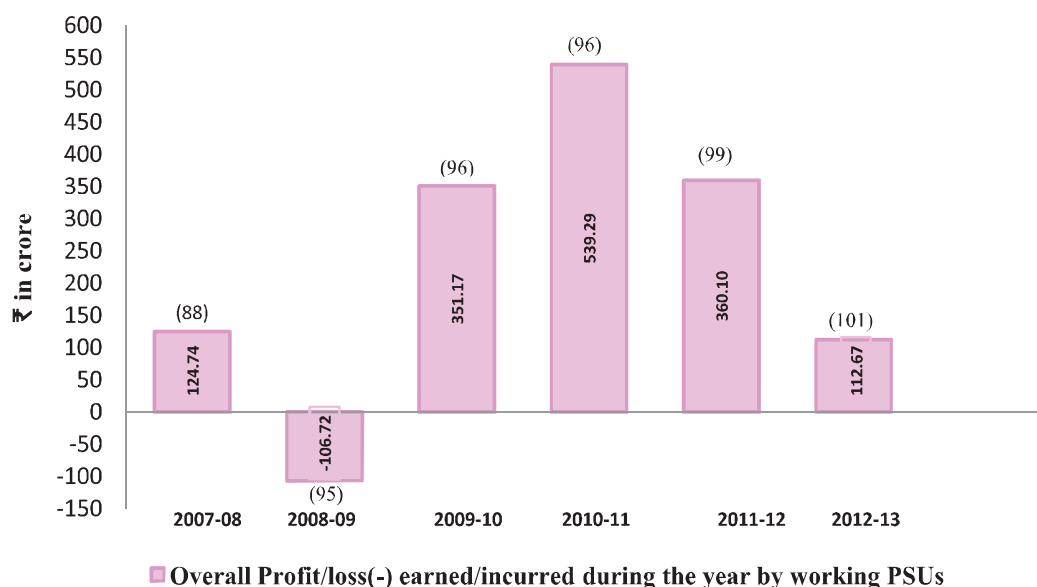
Table 1.1.8: Details of working PSUs' turnover vis-à-vis State GDP

Particulars	(₹ in crore)					
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Turnover ¹²	10082.22	10877.80	12349.97	14579.38	16171.31	18486.21
State GDP ¹³	175141	202783	231999	269474	315206	363305
Percentage of Turnover to State GDP	5.76	5.36	5.32	5.41	5.13	5.09

The percentage of turnover of PSUs to the State GDP had been declining steadily excepting marginal increase during 2010-11.

1.1.36 Profits earned/losses incurred by working PSUs during 2007-08 to 2012-13 are given below in a bar chart.

Chart 1.1.4: Profit/loss of working PSUs



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

As evident from the above chart, profit earned by working PSUs is showing a decreasing trend from the year 2011-12.

1.1.37 Out of 78 PSUs which finalised their accounts during 2012-13 for periods ranging from one to seven years, 45 PSUs earned profit of ₹666.86 crore and 31

¹² Turnover as per the latest finalised accounts as of 30 September of every year.

¹³ Figures furnished by Directorate of Economics & Statistics, Kerala.

PSUs incurred loss of ₹607.34 crore as per their latest finalised accounts. Remaining two¹⁴ PSUs had not commenced commercial activities.

The major profit making PSUs were:

- Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹ 149.79 crore – 2010-11),
- Kerala Financial Corporation (₹67.73 crore – 2012-13),
- The Kerala Minerals and Metals Limited (₹35.89 crore – 2012-13),
- Malabar Cements Limited (₹34.59 crore – 2011-12) and
- Kerala State Industrial Development Corporation Limited (₹18.97 crore – 2012-13).

Heavy loss incurring PSUs were:

- Kerala State Road Transport Corporation (₹412.78 crore – 2011-12),
- The Kerala State Cashew Development Corporation Limited (₹77.74 crore – 2008-09).

KSEB- Concealing the losses

1.1.38 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 2012-13 showed a profit of ₹240.72 crore whereas the operations resulted actually in a loss of ₹3758.17 crore. The differential amount (₹3998.89 crore) was shown as revenue gap/regulatory asset. As on 31 March 2013, the regulatory asset thus created over the years amounted to ₹9326.88 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

1.1.39 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. A review of latest Audit Reports of CAG for the period 2010 to 2013 had indicated that the State PSUs incurred losses to the tune of ₹2652.21 crore and infructuous investment of ₹174 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:

¹⁴ Kannur International Airport Limited and Kerala Irrigation Infrastructure Development Corporation Limited

Table 1.1.9: Controllable losses and infructuous investment commented in Audit Reports*(₹ in crore)*

Particulars	2010-11	2011-12	2012-13	Total
Net Profit	521.47	348.33	100.74	970.54
Controllable Losses as per CAG's Audit Report	484.89	551.62	1615.70	2652.21
Infructuous Investment	48.87	8.59	116.54	174.00

1.1.40 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.

1.1.41 Some other key parameters pertaining to the 24 working PSUs which finalised their accounts for the year 2012-13 are given below:

Table 1.1.10: Key parameters of working PSUs which finalised accounts for the year 2012-13

Particulars	2012-13
Return on Capital Employed (<i>per cent</i>)	6.06
Debt (₹ in crore)	3435.89
Turnover (₹ in crore)	9302.37
Debt/Turnover Ratio	0.37:1
Interest Payments (₹ in crore)	580.73
Accumulated profit/loss(-) (₹ in crore)	3283.42

1.1.42 GoK 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 it. As per the latest accounts finalised during 2012-13, 45 working PSUs earned an aggregate profit of ₹666.86 crore and 16 PSUs declared a dividend of ₹44.58 crore. The State Government Policy on dividend payment was, however, complied with only by seven¹⁵ companies.

Non-working PSUs

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

¹⁵ The Kerala Minerals and Metals Limited, Kerala State Industrial Enterprises Limited, Kerala Agro Machinery Corporation Limited, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, Kerala Urban & Rural Development Finance Corporation Limited, Malabar Cements Limited and Rehabilitation Plantations Limited.

Table 1.1.11: Number of non-working companies

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
No. of non-working companies	28	27	24	17	16

1.1.44 There were 16 non-working companies as on 31 March 2013 having a total investment of ₹105.36 crore towards capital (₹47.72 crore) and long term loans (₹57.64 crore). There were also arrears in finalisation of accounts by non-working PSUs. During 2012-13, two non-working PSUs¹⁶ had finalised four accounts. Out of 16 non-working PSUs, 15 non-working PSUs had arrears of accounts for one to 28 years.

1.1.45 Liquidation process had commenced in four PSUs. The stages of closure, total investment and accumulated loss in respect of the 16 non-working PSUs are given below:

Table 1.1.12: Stages of closure of non-working PSUs

(Amount ₹ in crore)

Sl. No.	Particulars	No. of Companies	Investment	Accumulated loss
1.	Liquidation by Court/Voluntary winding up (Liquidator appointed)	4 ¹⁷	52.68	76.76
2.	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	9	45.97	93.66
3.	Others	3	6.71	12.67

1.1.46 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 nine 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.

Comments on the Accounts and Internal Audit of PSUs

1.1.47 Seventy four working companies forwarded their 114 audited accounts to AG up to September 2013. Of these, 65 accounts of 53 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:

¹⁶ Kerala State Detergents and Chemicals Limited (2011-12,2012-13),Kerala Special Refractories Limited (2010-11, 2011-12).

¹⁷Keltron Power Devices Limited, Keltron Counters Limited, Keltron Rectifiers Limited, Kunnathara Textiles Limited.

Table 1.1.13: Details of aggregate money value of comments

(Amount ₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	24	29.05	26	152.30	17	141.98
2.	Increase in loss	20	21.15	18	47.00	10	39.79
3.	Non-disclosure of material facts	11	82.33	1	0.06	8	26.38
4.	Errors of classification	5	7.09	1	...	9	27.60

1.1.48 During the year 2012-13, the Statutory Auditors had given unqualified certificates for 25 accounts, qualified certificates for 82 accounts, adverse certificate (which means that accounts do not reflect a true and fair position) for one account and disclaimer (where the Auditors are unable to form an opinion on accounts) for six accounts. Additionally, CAG gave comments on 28 accounts during the supplementary audit and four¹⁸ accounts were revised based on supplementary audit observations. The compliance of companies with the Accounting Standards (AS) remained poor. There were 105 instances of non-compliance of AS in accounts of 38 companies during the year.

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

Kerala State Backward Classes Development Corporation Limited (2011-12)

- Profit for the year, ₹14.94 crore was overstated by ₹15.40 crore (Prior period ₹14.70 crore and current year ₹0.70 crore) due to non-accounting of interest on accrual basis on NBCFDC/NMDFC loans.

Transformers and Electricals Kerala Limited (2012-13)

- Profit for the year, ₹1.59 crore would turn out to be a loss of ₹1.11 crore due to recognition and accounting of income in violation of Accounting Standards 9 (₹1.67 crore) and 10 (₹0.11 crore), non-provision of Liquidated Damages (₹0.46 crore), treating unrealised Liquidated Damages written off during previous year as income (₹0.66 crore) and overstatement of prior period income (₹0.20 crore).

Kerala Shipping and Inland Navigation Corporation Limited (2010-11)

- Profit for the year, ₹0.97 crore was overstated by ₹0.86 crore due to non recognition of estimated loss (₹0.79 crore) in the construction of 600 HP 6

¹⁸ Kerala Small Industries Development Corporation Limited, Kerala State Handloom Development Corporation Limited, The Kerala State Civil Supplies Corporation Limited, Kerala State Women's Development Corporation Limited.

Ton Bollard Pull Tug, by non-complying with the provisions of para 35 of Accounting Standard 7 and due to the short provision (₹0.07 crore) of Earned Leave Salary of employees as a result of reckoning of lower dearness allowance rates.

Steel and Industrial Forgings Limited (2012-13)

- Profit for the year, ₹0.85 crore was overstated by ₹0.19 crore on account of recognition of sales amounting to ₹0.92 crore against the provisions of Accounting Standard 9 - Revenue Recognition.

Kerala State Information Technology Infrastructure Limited (2009-10)

- Profit before tax for the year, ₹1.24 crore was overstated by ₹0.89 crore due to recognition of interest earned on the unutilised Government grants as income of the Company.

1.1.50 Similarly, the four working Statutory corporations had forwarded their five accounts to AG up to 30 September 2013. Of these, four accounts¹⁹ pertained to corporations where CAG was the sole auditor, of which the audit of two accounts were completed and Separate Audit Reports (SARs) issued. The audit of two accounts was in progress. The remaining one account²⁰ was selected for supplementary audit and SAR was issued. Of the three²¹ SARs issued, all were qualified certificates. 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:

Table 1.1.14: Details of aggregate money value of Comments

(Amount ₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	2	2580.81	2	1355.18	....	....
2.	Increase in loss	1	3.98	1	1.07	....	....
3.	Non-disclosure of material facts	3	251.45	2	51.28	3	111.97
4.	Errors of classification	1	126.37	2	133.13	1	32.04

¹⁹ Kerala Industrial Infrastructure Development Corporation (2011-12,2012-13), Kerala State Electricity Board (2012-13) and Kerala State Road Transport Corporation (2011-12).

²⁰ Kerala Financial Corporation (2012-13).

²¹ Kerala Industrial Infrastructure Development Corporation (2011-12,2012-13), Kerala Financial Corporation (2012-13)

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

Kerala Industrial Infrastructure Development Corporation (2012-13)

- Fixed Assets (₹145.43 crore) were understated by ₹7.89 crore due to non-accounting of cost incurred for acquisition of land for external infrastructure development.
- Current Assets-Land Development and Other Contract Works (₹81.99 crore) were overstated by ₹23.32 crore being cost incurred for construction of 110 KV Substation, installation of Compact Substation and laying of 11 KV UG cable, originally met from grant received from Government of India under ASIDE Scheme.

1.1.52 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 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 42 companies for the year 2011-12 and 42 companies²² for the year 2012-13 are given below:

Table 1.1.15: Major comments of Statutory Auditors on the internal audit/internal control systems of companies

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies	
		2011-12	2012-13
1.	Non-fixation of minimum/ maximum limits of stores and spares	3	19
2.	Absence of internal audit system commensurate with the nature and size of business of the company	22	23
3.	Non-maintenance of cost records	5	4
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	31	33

Recoveries at the instance of audit

1.1.53 During the course of propriety audit in 2012-13, recoveries to be made amounting to ₹32.99 crore were pointed out to the Managements of various PSUs, of which an amount of ₹10.04 crore was admitted and recovered.

²² A-1,2,3,5,6,8,9,11,15,16,18,21,22,23,24,25,31,35,45,49,50,52,54,55,56,58,62,63,64,65,66,67,68,70,71,72, 74,75,84,87,90,92.

Disinvestment, Privatisation and Restructuring of PSUs

1.1.54 With a view to restructuring Kerala State Electricity Board, all interests, rights in properties, all rights and liabilities were vested with the GoK. These properties and liabilities are administered by GoK through a Special Officer and a managing committee. A new company viz., Kerala State Electricity Board Limited was incorporated on 14 January 2011. Government of Kerala has re-vested (31 October 2013) all assets, rights and liabilities of KSEB in the newly formed Company and further process is on.

1.2 Governance of Public Sector Undertakings in Kerala

1.2.1 Introduction

Good Corporate Governance practices ensure accountability of companies to all the stakeholders. The absence of good governance and lack of adherence to the governing laws, rules and regulations increases the risk of corruption and misuse of entrusted power by the management. Corporate Governance in listed companies is regulated through mandatory compliance of the provisions of clause 49 of the listing agreement issued by Securities and Exchange Board of India (SEBI). The Corporate Governance initiatives for State PSUs has been dictated mainly by the Companies Act, 1956 and the various orders issued by the State Government from time to time. The Companies Act, 1956 (Act) through various provisions viz. Section 166 (Annual General Meeting - AGM), Section 217(2AA) (Directors' Responsibility Statement), Section 285 (meeting of Board of Directors) and Section 292A (constitution of Audit Committee by companies having paid up share capital not less than ₹5 crore), etc., prescribes practices that go to building a robust Corporate Governance structure in companies.

1.2.2 Audit Scope

As on March 2012, there were 116 State Public Sector Undertakings including 17 non-working companies and three Companies listed on Stock Exchange(s). Out of 94 working companies registered under the Companies Act, 1956, Audit selected 53²³ companies (*Annexure 7*) having a paid up capital of ₹ five crore or more; or turnover of ₹25 crore or more as per their latest finalised accounts as on 30 September 2012. Of these, 36 PSUs earned profit of ₹486.84 crore and 17 PSUs had incurred loss of ₹93.56 crore as on 31 March 2012. These 53 companies were under the administrative control of 18 different departments of Government of Kerala (GoK). With a view to assess the effectiveness of the system of governance of these PSUs, Audit reviewed the composition of Board of Directors (BoD), their participation in Board meetings, functioning of various sub committees, etc.

1.2.3 Audit Findings

Good governance involves commitment of a company to run its business in a legal, ethical and transparent manner- a dedication that must come from the highest level of management i.e, Board of Directors. Audit noticed various deficiencies in the composition and functioning of the Board as discussed in succeeding paragraphs.

²³ 59 companies fall under this category. Of these, 53 companies were selected as per details made available by the companies.

1.2.4 Composition of Board of Directors

The Board being the apex decision making body is the most significant instrument of Corporate Governance. The BoD of a PSU shall have an optimum combination of functional, nominee (including Government officials nominated as Directors) and independent Directors. The presence of independent and professional representatives on the Board, with a variety of experience and core competence, capable of challenging the decisions of the management, is widely considered as a means of protecting the interests of shareholders and other stakeholders.

A review of the composition of the BoD of the selected companies, however, revealed that more than 50 *per cent* of the total number of Directors were Government officials nominated by the concerned administrative departments (in 19 Companies number of official Directors were more than non-official Directors and out of a total of 495 Directors 248 were Government officials).

1.2.5 Meetings of the Board of Directors

Section 285 of the Companies Act, 1956 provides that in the case of every company, a meeting of its BoD shall be held at least once in every three months and at least four such meetings shall be held in every year. Audit noticed that BoD of 21 out of the 53 selected companies failed to meet at least once in a quarter in compliance with this provision during the three years ending March 2013 as below.

Table 1.2.1: List of companies failed to conduct required number of meetings of BoD

SI No.	Name of the Companies	Quarter ²⁴ of the financial year in which no meetings were held		
		2010-11	2011-12	2012-13
1	KLDB		II	II
2	KAICO		II	
3	KSCCL	II	II,III	III
4	PCKL		III	
5	SIDCO		II,III	I
6	KSDCCCSCRCL			IV
7	KSFDCL		I,II	
8	KPHCCL	III	I,IV	
9	KLDCCL		I,II	
10	KSITIL		III	
11	FOMIL		II,III	II
12	KSDPL	II	II	
13	KSTCL		II	
14	STL		I,II	I
15	KMML	IV		
16	TCL		I,II	II

²⁴ I Quarter - April to June, II Quarter - July to September, III Quarter - October to December, IV Quarter - January to March

17	TRACO	II		
18	TTPL		I	II
19	BRDCL		IV	
20	KSMDCL	I,III	I,III	I
21	KTIL		II	I

1.2.6 Participation of Directors in the Board meetings

Secretaries/Experts in various fields are/were appointed/nominated to the BoD of the company so that the enterprise would be benefited by way of their active participation in the decision making process. GoK directed (1998) that the nominees of Government in the BoD of PSUs should effectively exercise their duties and responsibilities as Directors.

Audit noticed that participation of the Directors in the Board meetings of various companies was poor as 26 Directors of 16 companies did not attend any of the meetings conducted during the year 2010-11 while 18 Directors of 10 companies failed to attend any meetings during the year 2011-12. Similarly 18 Directors of 13 companies absented themselves from all the meetings conducted during the year 2012-13. This indicated lack of commitment on the part of the Directors towards governance of the PSUs.

1.2.7 Tenure of Managing Director

Managing Director (MD) being the chief executive is responsible to the BoD as well as to the shareholders for the executive actions of the management. Stability of tenure of the chief executive is of utmost importance for ensuring accountability and continuity of the management policies. Audit noticed that in respect of 19 companies²⁵, MDs were changed frequently, as much as 4 to 8 times, within a period of five years ending March 2013.

1.2.8 Appointment of Company Secretary

As per Section 383 A (1) of the Act, every company having a paid up capital of not less than ₹ five crore shall have a whole time Company Secretary. However, if a company had taken all reasonable efforts to comply with this proviso but failed or financial position of the company was such that it was beyond its capacity to engage a whole time secretary, it was not compulsory to appoint a secretary.

As per the above provisions, 44 companies were required to appoint a Company Secretary. Of these 20 companies²⁶ did not appoint Company Secretaries. The common reason cited by these companies was that they had tried to appoint a

²⁵ KLDB, PCKL, KSFDC, KSFE, KPHCC, KCCL, KAL, KMML, TCL, KSITIL, KSBCL, KSDPL, SIFL, SCL Autokast, TRACO, TTPL, KSIFCL, KSINCL

²⁶ KFDC, KLDB, KSCDCL, KSCCL, PCKL, SIDCO, KSDCCSCRCL, KSFDC, KLDCL, Autokast, KCCL, KAL, KEL, KSDPL, KSTCL, STL, SILK, BRDCL, KSMDCL, KTIL

Company Secretary but could not find a suitable candidate. Many of the companies were resorting to hire the services of Practicing Company Secretaries as consultants for secretarial work.

Board Committees

1.2.9 Constitution and functioning of Audit Committee

Section 292A of the Companies Act, 1956 stipulates that every public company having paid-up capital of not less than ₹ five crore shall constitute an 'Audit Committee' which shall consist of not less than three Directors and such number of other Directors as the Board may determine and two-thirds of the total number of members shall be Directors other than managing or whole-time Directors. Further, the Chairman of the Audit Committee is required to attend the AGM of the company and provide any clarification on matters relating to audit.

As part of strengthening the Corporate Governance in State PSUs, GoK issued (November 2008) circular directing all PSUs to set up independent and qualified Audit Committee. It was further directed that the Committee shall meet at least three times in a year out of which one meeting shall be before finalisation of Annual Accounts and another one to review half yearly accounts.

On scrutiny of the data furnished by the 53 selected companies the following deficiencies were noticed:

- Audit Committees were not constituted in nine²⁷ companies.
- Though Audit Committees were constituted, the Committee did not meet even once during 2012-13 in respect of five²⁸ companies.
- The committee failed to conduct the stipulated minimum three meetings during 2012-13 in respect of 29 companies.
- The Audit Committee did not review the annual financial statements before submission to the BoD in respect of four companies.
- The Audit Committee did not review the adequacy of internal control system in respect of 11 companies.
- In two companies there was no mechanism for follow up of the recommendations of the Audit Committee.
- In 42 companies there was no system of preparation of annual report on the working of Audit Committee.
- In 26 companies Chairpersons of the Audit Committees did not attend the Annual General Meetings held in 2011-12.

²⁷ KAMCO, KLDB, OPIL, KAICO, KSCDCL, KSCCL, KSDCSCSTL, TCL, KTEL

²⁸ KFDC, KLDCL, KSITIL, KSDPL, KTDC

These highlight the need for strengthening the functioning of the Audit Committees to the desired level to ensure good governance in the State PSUs.

Transparency and Disclosure Compliances

1.2.10 Whistle Blower Policy

A whistle blower mechanism provides a channel to the employees to report to the management concerns about unethical behavior, actual or suspected fraud or violation of the company's code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimisation of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit Committee in exceptional cases.

Among the 53 companies except KTDFC and OUSHADHI, no other company reported to have established a formal whistle blowing mechanism.

1.2.11 Adoption of Integrity Pact

To improve the integrity, transparency, equity and competitiveness of transactions in PSUs, the Central Vigilance Commission has brought out the concept of 'Integrity Pact'. The Integrity Pact essentially envisages an agreement between the prospective vendors/bidders and the PSUs, committing the persons/officials of both sides, not to resort to any corrupt practices in any aspect/stage of the contract. The signing of such an agreement shall form part of the prequalification criteria of the tenders floated.

Industries Department, Government of Kerala directed (November 2011) all the PSUs under their administrative control, which makes capital purchases, to implement Integrity Pact.

Among 53 companies selected, 25 companies were under the administrative control of Industries Department, of which only four companies (Autokast, SILK, KMML, Traco) reported to have signed Integrity Pact with prospective vendors/bidders. The Industries Department failed to monitor or pursue the companies under its administrative control to ensure compliance with the above directions.

1.2.12 Corporate Social Responsibility and other aspects

Corporate Social Responsibility (CSR) is an evolving concept whereby companies not only consider their profitability and growth, but also the interests of the society and the environment by taking responsibility for the impact of their activities on stakeholders, environment, consumers, employees, communities and all other members of the public sphere. Corporate Social Responsibility Voluntary Guidelines, 2009 was also issued by the Ministry of Corporate Affairs, Government of India.

It was reported that majority of the companies did not have a policy nor spent any amount on CSR activities. Thirteen²⁹ companies reported that they had framed a policy on CSR; of which six³⁰ companies had reported that they had spent/had a budget on CSR activities, which was a welcome move.

Finance Department, GoK convened (November 2012) a meeting of the representatives of the important administrative departments and decided to issue comprehensive guidelines covering all the recommendations of Audit taking into consideration the guidelines on corporate governance issued by Department of Public Enterprises, Government of India and to ensure its strict compliance.

²⁹ KFDC, KTDFC, OPIL, KSBCDC, KPHCCL, KSIDC, FOMIL, KCCL, BEVCO, KSDPL, KMML, OUSHADHI TRACO

³⁰ OPIL, KFDC, KTDFC, KSBCDC, BEVCO and KMML