

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 619 B of the Companies Act, 1956.

1.1.2 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 1.25¹ lakh persons as of 31 March 2014. There were 125 PSUs of which 109 were working and 16 non-working² as on 31 March 2014. Of these, three companies³ were listed on the stock exchange(s). During the year 2013-14, eight PSUs⁴ were established. A sector-wise summary of the PSUs is given below:

Table 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	4237.90
Finance	18	...	01	...	19	2378.35
Manufacturing	34	15	...	...	49	1750.67
Infrastructure	16	...	01	...	17	1497.17
Agriculture & allied	15	01	01	...	17	531.03
Services	18	...	01	...	19	3502.48
Total	104	16	05⁶	...	125	13897.60

¹ 103 PSUs have furnished information on manpower during 2013-14. In respect of 3 working PSUs and 9 non-working PSUs previous year's figures have been adopted.

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

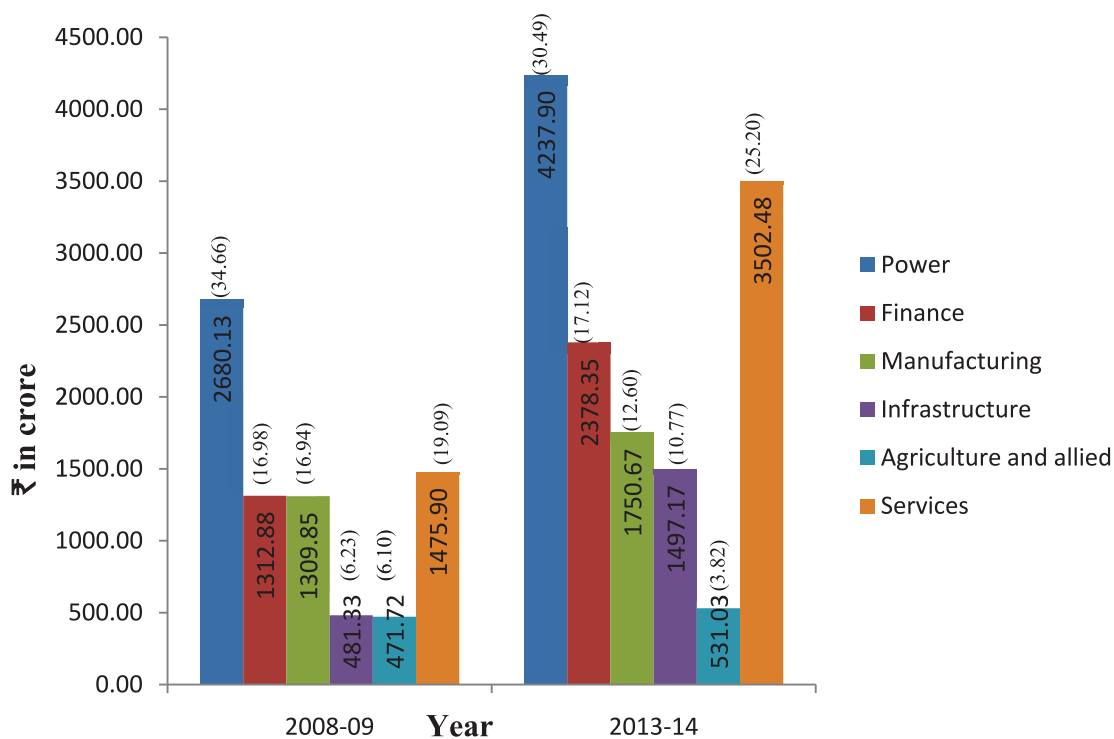
³ Keltron Component Complex Limited, The Travancore Cements Limited and The Travancore Sugars and Chemicals Limited.

⁴ Pratheeksha Bus Shelters Kerala Limited, Vazhakulam Agro and Fruit Processing Company Limited, Ashwas Public Amenities Kerala Limited, Clean Kerala Company Limited, Kerala Academy for Skills Excellence, Kerala State Minorities Development Finance Corporation, Kerala State Housing Development Finance Corporation Limited and Kerala State Welfare Corporation for Forward Communities.

⁵ Includes 619 B companies.

1.1.3 The investment in PSUs in various important sectors and percentage thereof at the end of 31 March 2009 and 31 March 2014 are indicated below in the bar chart.

Chart 1.1: Sector-wise investment in PSUs



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

Investment in Service sector had increased substantially from ₹1475.90 crore in 2008-09 to ₹3502.48 crore in 2013-14, thus, registering an increase of 137.31 per cent.

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.

⁶ Kerala State Electricity Board has been shown as Statutory corporation as the newly formed (31 October 2013) Company, Kerala State Electricity Board Limited had not finalised accounts for 2013-14.

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, CAG also 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 2014, the total investment (capital and long term loans) in 125 PSUs (including 619-B companies) was ₹13897.60 crore as shown below:

Table 1.2: Investment (capital and long-term loans) in PSUs

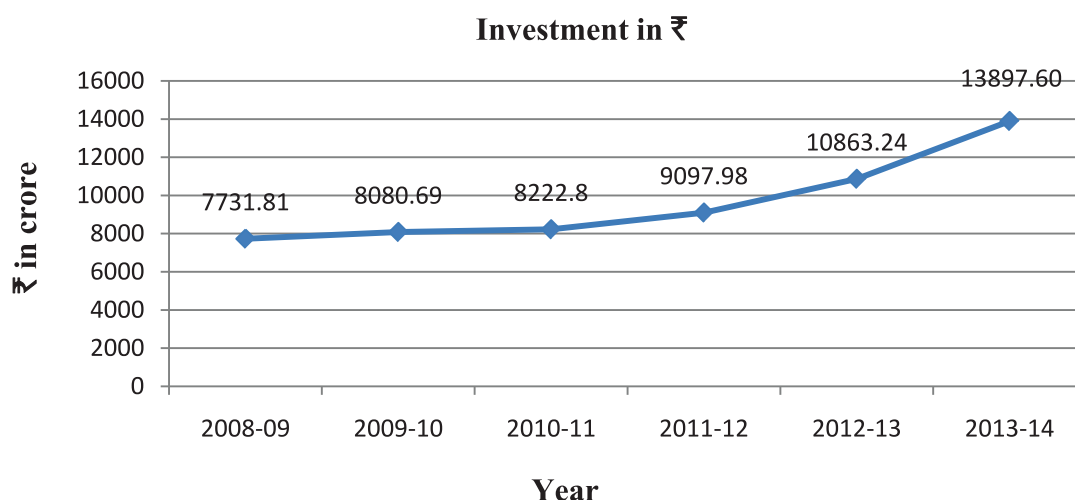
(₹ in crore)

Type of PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working	2964.77	1815.09	4779.86	2435.17	6576.54	9011.71	13791.57
Non-working	47.72	58.31	106.03	...	...	...	106.03
Total	3012.49	1873.40	4885.89	2435.17	6576.54	9011.71	13897.60

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

1.1.12 The total investment in working PSUs consisted of 39.15 *per cent* towards capital and 60.85 *per cent* in long term loans. The total investment in PSUs had increased by 79.75 *per cent* from ₹7731.81 crore in 2008-09 to ₹13897.60 crore in 2013-14 as shown in the graph below:

Chart 1.2: Total investment in PSUs



1.1.13 The capital investment and long term loans increased by ₹1640.98 crore and ₹4524.81 crore respectively during 2009-2014. There was overall increase in investment and long term loans by ₹6165.79 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 2013-14, the GoK extended budgetary support of ₹1685.98 crore to 55 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 2*. The summarised details for the three years ended 2013-14 are given below:

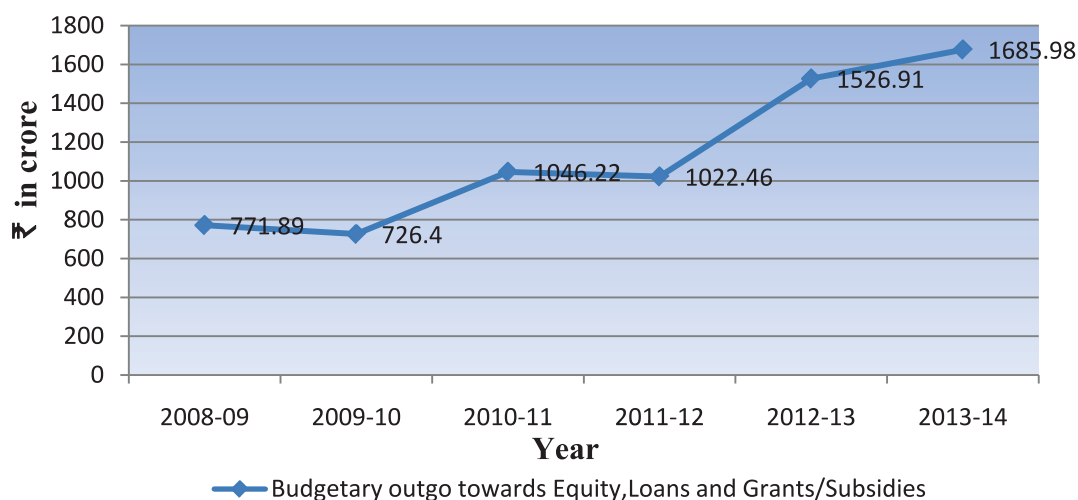
Table 1.3: Details regarding budgetary support to PSUs

(Amount ₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	19	68.66	22	388.24	24	456.36
2.	Loans given from budget	18	258.81	17	333.00	18	658.86
3.	Grants/Subsidy given	28	694.99	29	805.47	28	570.76
4.	Total outgo (1+2+3)		1022.46		1526.71		1685.98
5.	Loans converted into equity	2	2.25	...	...	2	19.64
6.	Loans written off	1	0.08	2	2.92		...
7.	Interest/Penal interest written off	3	2.06	2	1.62	2	2.24
8.	Total waiver (6+7)		2.14		4.54		2.24

1.1.15 The details regarding budgetary outgo towards equity, loans and grants/subsidies for the six years ending 2013-14 are given in the graph below:

Chart 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 ₹771.89 crore in 2008-09 to ₹1685.98 crore in 2013-14. During 2013-14, the GoK had waived loans and interest/penal interest of ₹2.24 crore due from two PSUs⁷ as against ₹4.54 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 ₹3466.64 crore and commitment stood at ₹4669.98 crore at the end of the year (*Annexure 2*).

⁷ Kerala State Power and Infrastructure Finance Corporation Limited and The Kerala State Backward Classes Development Corporation Limited.

Table 1.4: Guarantees issued and committed by GoK

(₹ in crore)

Particulars	Government companies		Statutory corporations		Total
	Number	Amount	Number	Amount	
Guarantees issued	9	3156.64	1	310.00	3466.64
Commitment as on 31 March 2014	11	4472.69	2	197.29	4669.98

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 2013-14 was ₹135.02 crore, out of which ₹40.06 crore was paid and balance ₹94.96 crore was outstanding as on 31 March 2014. The PSUs which had major arrears were Kerala State Electricity Board (₹76.07 crore), Kerala State Electronics Development Corporation Limited (₹5.36 crore), The Kerala State Cashew Development Corporation Limited (₹3.92 crore), United Electrical Industries Limited (₹1.56) and Kerala State Road Transport Corporation (₹6.88 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.

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 2014 is stated below.

Table 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	3893.26	5047.79	1154.53
Loans	5557.48	2446.79	3110.69
Guarantees	5891.16	4669.98	1221.18

1.1.21 These differences were in respect of 99 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 departments of GoK concerned 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 2013-14 were to be finalised by 30 September 2014. 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 2014.

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 1.6: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Number of Working PSUs	96	96	99	101	109
2.	Number of PSUs which finalised accounts for the current year	23	20	21	24	21
3.	Number of PSUs having arrears	73	76	77	75 ⁹	83 ¹⁰
4.	Number of arrear accounts finalised during the current year	70	66	76	94	80
5.	Number of accounts in arrears	197	209	207 ¹¹	194	198 ¹²
6.	Average arrears per PSU (5/3)	2.70	2.75	2.69	2.59	2.39
7.	Extent of arrears (in years)	1 to 12	1 to 13	1 to 14	1 to 12	1 to 11

1.1.23 In respect of PSUs where accounts were in arrears starting from 2003-04 onwards, the progress in finalisation of the accounts was poor. For example, 26¹³ working PSUs did not finalise even a single account during 2013-14.

1.1.24 Of the 83 PSUs with arrears of accounts, GoK had extended financial support to 50 PSUs having arrears ranging from 1 to 10 years. The support extended was ₹3146.19 crore (equity: ₹573.48 crore, loans: ₹865.68 crore, and grants: ₹1707.03 crore) during the years for which accounts have not been finalised as detailed in *Annexure 3*.

Arrears in respect of Statutory corporations

1.1.25 Of the five Statutory corporations, Kerala Financial Corporation and Kerala State Electricity Board had finalised their accounts for the year 2013-14. The accounts of the remaining three Statutory corporations viz., Kerala State Warehousing Corporation, Kerala Industrial Infrastructure Development

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

¹⁰ Excluding Pratheeksha Bus Shelters Kerala Limited, Vazhakulam Agro and Fruit Processing Company Limited, Clean Kerala Company Limited, Kerala State Minorities Development Finance Corporation, Kerala State Housing Development Finance Corporation Limited for which the first accounts are not due.

¹¹ 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.

¹² In respect of Kerala State Welfare Corporation for Forward Communities, incorporated in November 2012 and included in this year's Audit Report, two accounts have become due as of March 2014.

¹³ Kerala State Horticultural Products Development Corporation Limited, The Plantation 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 Industrial Development Corporation Limited, The Kerala Land Development Corporation Limited, Kinfra International Apparel Parks Limited, Road Infrastructure Company Kerala Limited, Vision Varkala Infrastructure Development Corporation Limited, Kerala Irrigation Infrastructure Development Corporation Limited, Autokast Limited, Foam Mattings (India) Limited, Forest Industries (Travancore) Limited, Kanjikode Electronics and Electricals Limited, Kerala Automobiles Limited, Kerala Feeds Limited, Kerala State Bamboo Corporation Limited, The Pharmaceutical Corporation (Indian Medicines) Kerala Limited, Trivandrum Spinning Mills Limited, Bekal Resorts Development Corporation Limited, Kerala State Industrial Enterprises Limited, KTDC Hotels & Resorts Limited, Norka Roots, Kerala Monorail Corporation Limited, Kerala Industrial Infrastructure Development Corporation, Kerala State Welfare Corporation for Forward Communities.

Corporation and Kerala State Road Transport Corporation were in arrears from 2012-13, 2013-14 and 2013-14 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:

Table 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	2011-12	2012-13	SAR issued in November 2014. Not yet placed.
2.	Kerala State Road Transport Corporation	2010-11	2011-12	SAR issued in June 2014. Not yet placed.
3.	Kerala Financial Corporation	2012-13	...	...
4.	Kerala State Warehousing Corporation	2010-11	...	...
5.	Kerala Industrial Infrastructure Development Corporation	2012-13	...	...

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 (June 2014, October 2014) the Chief Secretary to Government and Administrative departments 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 remains 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 2013-14 could not be ascertained. Further, the result of operation of these PSUs for the year 2013-14 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 4, 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 2008-09 to 2013-14.

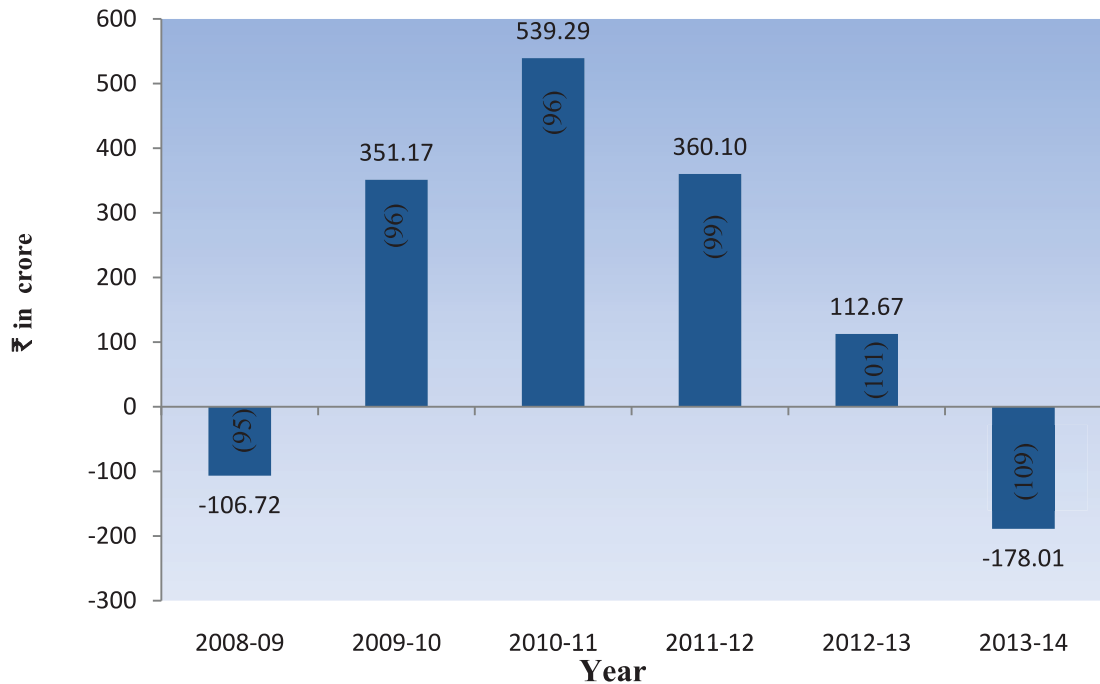
Table 1.8: Details of working PSUs' turnover vis-à-vis State GDP

Particulars	(₹ in crore)					
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Turnover ¹⁴	10877.80	12349.97	14579.38	16171.31	18486.21	17586.85
State GDP ¹⁵	202783	231999	263773	307906	349338	402972
Percentage of Turnover to State GDP	5.36	5.32	5.53	5.25	5.29	4.36

The percentage of turnover of PSUs to the State GDP had marked a sharp decline in 2013-14 compared to 2012-13.

1.1.36 Profits earned/losses incurred by working PSUs during 2008-09 to 2013-14 are given below in a bar chart.

Chart 1.4: Profit/loss of working PSUs



■ Overall Profit/loss(-) earned/incurred during the year by working PSUs

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

¹⁴ Turnover as per the latest finalised accounts as of 30 September of every year.

¹⁵ Figures furnished by Directorate of Economics & Statistics, Kerala.

As evident from the above chart, profit earned by working PSUs is showing a decreasing trend from the year 2011-12 and in 2013-14 working PSUs recorded an aggregate loss of ₹178.01 crore.

1.1.37 Out of 78 PSUs which finalised their accounts during 2013-14 for periods ranging from one to seven years, 43 PSUs earned profit of ₹545.32 crore and 34 PSUs incurred loss of ₹740.92 crore as per their latest finalised accounts. Remaining one¹⁶ PSU had not commenced commercial activities.

The major profit making PSUs were:

- Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹ 144.28 crore – 2011-12),
- The Kerala State Financial Enterprises Limited (₹72.75 crore – 2011-12),
- Kerala Financial Corporation (₹50.16 crore – 2013-14),
- Malabar Cements Limited (₹21.37 crore – 2012-13),
- Kerala State Industrial Development Corporation Limited (₹18.97 crore – 2012-13) and
- The Kerala Minerals and Metals Limited (₹14.11 crore – 2013-14).

Heavy loss incurring PSUs were:

- Kerala State Road Transport Corporation (₹518.67 crore – 2012-13),
- The Kerala State Cashew Development Corporation Limited (₹89.79 crore – 2010-11).

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 15.50 *per cent* on equity. In compliance with this, the accounts of KSEB for the year 2013-14 (up to 31 October 2013) showed a profit of ₹140.42 crore whereas the operations resulted actually in a loss of ₹707.87 crore. The differential amount (₹848.29 crore) was shown as revenue gap/regulatory asset. As on 31 March 2014, the regulatory asset thus created over the years amounted to ₹10175.17 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

¹⁶ Kannur International Airport Limited.

project, running their operations and monitoring. A review of latest Audit Reports of CAG for the period 2011 to 2014 had indicated that the State PSUs incurred losses to the tune of ₹2315.02 crore and infructuous investment of ₹413.22 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:

Table 1.9: Controllable losses and infructuous investment commented in Audit Reports

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	Total
Net Profit	348.33	100.74	-189.03	260.04
Controllable Losses as per CAG's Audit Report	551.62	1615.70	147.70	2315.02
Infructuous Investment	8.59	116.54	288.09	413.22

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 21 working PSUs which finalised their accounts for the year 2013-14 are given below:

Table 1.10: Key parameters of working PSUs which finalised accounts for the year 2013-14

Particulars	2013-14
Return on Capital Employed (<i>per cent</i>)	5.00
Debt (₹ in crore)	4027.06
Turnover (₹ in crore)	6730.85
Debt/Turnover Ratio	0.60:1
Interest Payments (₹ in crore)	573.91
Accumulated profit/loss(-) (₹ in crore)	3213.14

1.1.42 GoK had formulated (December 1998) a Dividend Policy under which all PSUs are required to pay minimum return of twenty *per cent* on the paid up share capital contributed by it. As per the latest accounts finalised during 2013-14, 43 working PSUs earned an aggregate profit of ₹545.32 crore and 18 PSUs declared a dividend of ₹34.74 crore. The State Government Policy on dividend payment was, however, complied with only by seven¹⁷ companies.

¹⁷ Kerala Agro Machinery Corporation Limited, Oil Palm India Limited, The Kerala State Financial Enterprises Limited, The Kerala Minerals and Metals Limited, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, Rehabilitation Plantations Limited and Malabar Cements Limited.

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 :

Table 1.11: Number of non-working companies

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Number of non-working companies	27	24	17	16	16

1.1.44 There were 16 non-working companies as on 31 March 2014 having a total investment of ₹106.03 crore towards capital (₹47.72 crore) and long term loans (₹58.31 crore). One¹⁸ non-working PSU has finalised its accounts for the year 2013-14 while remaining 15 non-working PSUs had arrears of accounts for one to 29 years. During 2013-14, two non-working PSUs¹⁹ had finalised eleven arrear accounts.

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

Table 1.12: Stages of closure of non-working PSUs

(Amount ₹ in crore)

Sl. No.	Particulars	Number of Companies	Investment	Accumulated loss
1.	Liquidation by Court/Voluntary winding up (Liquidator appointed)	5 ²⁰	53.05	76.76
2.	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	9	44.41	94.00
3.	Others	2	8.57	12.76

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.

¹⁸ Kerala State Detergents and Chemicals Limited.

¹⁹ Kerala Special Refractories Limited (2012-13) and Kerala State Wood Industries Limited (1992-93 to 2001-02).

²⁰ Keltron Power Devices Limited, Keltron Counters Limited, Keltron Rectifiers Limited, Kunnathara Textiles Limited and Vanchinad Leathers Limited.

Comments on the Accounts and Internal Audit of PSUs

1.1.47 Seventy four working companies forwarded their 97 audited accounts to AG up to September 2014. Of these, 62 accounts of 48 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:

Table 1.13: Details of aggregate money value of comments

(Amount ₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	26	152.30	17	141.98	15	143.40
2.	Increase in loss	18	47.00	10	39.79	16	61.62
3.	Non-disclosure of material facts	1	0.06	8	26.38	7	7.67
4.	Errors of classification	1	...	9	27.60	8	28.82

1.1.48 During the year 2013-14, the Statutory Auditors had given unqualified certificates for 21 accounts, qualified certificates for 65 accounts, adverse certificate (which means that accounts do not reflect a true and fair position) for five accounts and disclaimer (where the Auditors are unable to form an opinion on accounts) for 6 accounts. Additionally, CAG gave comments on 32 accounts during the supplementary audit and two accounts were revised based on supplementary audit observations. The compliance of companies with the Accounting Standards (AS) remained poor. There were 108 instances of non-compliance of AS in accounts of 41 companies during the year.

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

The Kerala State Financial Enterprises Limited (2011-12)

- Profit for the year, ₹72.75 crore was overstated by ₹26.13 crore due to reversal of guarantee commission and failure to adopt liability on leave encashment assessed by LIC.

Travancore Titanium Products Limited (2009-10)

- Profit for the year was overstated by ₹1.05 crore due to omission to account interest on loan and employer's contribution towards EPF.

The Kerala State Cashew Development Corporation Limited (2010-11)

- Net loss for the year, ₹89.79 crore was understated by ₹12.39 crore due to non creation of provision for long pending doubtful debt/advance and non recognition of amount payable in foreign exchange.

Transformers and Electricals Kerala Limited (2013-14)

- Profit for the year, ₹0.82 crore was overstated by ₹1.93 crore due to incorrect recognition of income and non creation of provision for doubtful debt.

1.1.50 Similarly, the four working Statutory corporations had forwarded their four accounts to AG up to 30 September 2014. Of these, two accounts²¹ pertained to corporations where CAG was the sole auditor, audit of these two accounts was in progress. Remaining two accounts²² were selected for supplementary audit and audit of these accounts, was completed; Separate Audit Reports (SAR) are yet to be 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:

Table 1.14: Details of aggregate money value of Comments

(Amount ₹in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	2	1355.18	....	....	1	0.09
2.	Increase in loss	1	1.07	....	....	1	0.05
3.	Non-disclosure of material facts	2	51.28	3	111.97	...	...
4.	Errors of classification	2	133.13	1	32.04	1	4.00

1.1.51 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 2012-13 and 33 companies for the year 2013-14 are given below:

²¹ Kerala State Electricity Board (2013-14) and Kerala State Road Transport Corporation (2012-13).

²² Kerala Financial Corporation (2013-14) and Kerala State Warehousing Corporation (2011-12).

Table 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	
		2012-13	2013-14
1.	Non-fixation of minimum/ maximum limits of stores and spares	19	17
2.	Absence of internal audit system commensurate with the nature and size of business of the company	23	21
3.	Non-maintenance of cost records	4	7
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	33	28

Recoveries at the instance of audit

1.1.52 During the course of propriety audit in 2013-14, recoveries to be made amounting to ₹19.10 crore were pointed out to the Managements of various PSUs, out of which recoveries to the extent of ₹7.20 crore were accepted by the Management. Recoveries to the extent of ₹4.06 crore were effected.

Disinvestment, Privatisation and Restructuring of PSUs

1.1.53 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. The new company has not yet prepared the accounts for 2013-14.