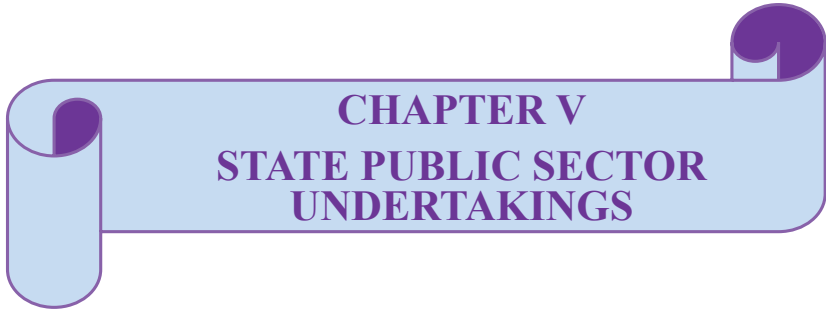




CHAPTER V
STATE PUBLIC SECTOR
UNDERTAKINGS



CHAPTER V STATE PUBLIC SECTOR UNDERTAKINGS

This Chapter discusses the financial performance of Government Companies, Statutory Corporations and Government controlled other companies as revealed from their accounts. Impact of significant comments issued as a result of supplementary audit of the financial statements of these State Public Sector Undertakings (PSU) conducted by the C&AG of India for the year 2022-23 (or of earlier years which were finalised during the current year) has also been discussed.

5.1 Definition of Government companies

A Government company is defined in Section 2(45) of the Companies Act, 2013 as a company in which not less than 51 *per cent* of the paid-up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government company.

Besides, any other company³⁵ owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred to in this Report as Government controlled other companies.

5.2 Mandate of Audit

Audit of Government companies and Government controlled other companies is conducted by the C&AG of India under the provisions of Section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971 and the Regulations made thereunder. Under the Companies Act, 2013, the C&AG appoints the Chartered Accountants as statutory auditors for Companies and gives directions on the manner in which the accounts are to be audited. In addition, C&AG has the right to conduct a supplementary audit. The statutes governing some Statutory Corporations require their accounts to be audited only by the C&AG.

5.3 PSUs and their contribution to the GSDP of the State

PSUs consist of State Government companies and Statutory Corporations. PSUs are established to carry out activities of commercial nature keeping in view the

³⁵ Companies (Removal of Difficulties) Seventh Order, 2014 issued by Ministry of Corporate Affairs vide Gazette Notification dated 4 September 2014.

welfare of people and occupy an important place in the State economy. As on 31 March 2023, there were 149 PSUs in Kerala, including 130 Government companies (including nine non-working Government companies), 15 Government controlled other companies (including nine non-working companies) and four Statutory Corporations³⁶ under the audit jurisdiction of the C&AG.

No PSUs were listed in the Stock Exchange. The inactive PSUs³⁷ have investment of ₹147.71 crore towards capital (₹95.92 crore) and long-term loans (₹51.79 crore) as per their latest finalised accounts. This is a critical area as the investments in inactive PSUs do not contribute to the economic growth of the State.

This Chapter deals with the analysis of financial performance of 131 working PSUs³⁸. A ratio of turnover of the PSUs to the GSDP shows the extent of activities of the PSUs in the State economy. The details of turnover of PSUs and GSDP for a period of three years ending 31 March 2023 are given in **Table 5.1** below:

Table 5.1: Details of turnover of PSUs vis-à-vis GSDP of Kerala

(₹ in crore)

Particulars	2020-21	2021-22	2022-23
Turnover	34,769.57	35,767.90	38,781.41
GSDP	7,71,724	9,34,542	10,46,188
Percentage of Turnover to GSDP	4.51	3.83	3.71

Source: Latest finalised accounts of PSUs

It may be seen from the table above, that the turnover of PSUs recorded increase of 8.43 *per cent* during the period 2021-22 to 2022-23 and growth rate of GSDP showed an increase of 11.95 *per cent* during 2022-23 as compared to 2021-22. However, turnover as a percentage of GSDP is in a declining trend.

5.4 Investment in PSUs and Budgetary support

5.4.1 Equity holding and Loans in PSUs

The sector-wise total equity, equity contribution by State Government and long term loans including the loans given by State Government as on 31 March 2023 for 131 working PSUs are given below in **Table 5.2**.

36 Kerala State Road Transport Corporation, Kerala Industrial Infrastructure Development Corporation, Kerala Financial Corporation and Kerala State Warehousing Corporation.

37 Keltron Power Devices Limited, Keltron Rectifiers Limited, Kunnathara Textiles Limited, Vanjinad Leathers Limited, The Kerala Premo Pipe Factory Limited, The Kerala Asbestos Cement Pipe Factory Limited, Kerala State Wood Industries Limited, Kanjikode Electronics and Electricals Limited, Kerala School Teachers and Non-teaching Staff Welfare Corporation Limited, Pratheeksha Bus Shelters Kerala Limited, Ashwas Public Amenities Kerala Limited, Kerala Garments Limited, Kerala Special Refractories Limited, SIDCO Mohan Kerala Limited, SIDKEL Televisions Limited, Kerala High Speed Rail Corporation Limited, Kerala State Housing Development Finance Corporation Limited and Keltron Counters Limited..

38 131 includes 121 Government companies, six Government controlled other companies and four Statutory Corporations..

Table 5.2: Sector-wise investment in PSUs*(₹ in crore)*

Name of Sector	Total Equity	State Government Equity	Total Long Term Loans	State Government Loans	Total Equity and Long Term Loans
Agriculture and Allied	88.43	69.71	102.88	24.29	191.31
Finance	1,409.32	1,326.22	6,926.17	9.08	8,335.49
Infrastructure	1,726.19	1,024.15	4,340.87	583.99	6,067.06
Manufacturing	2,268.73	2,140.34	1,708.89	1,536.25	3,977.62
Power	3,499.37	3,499.05	7,336.90	65.91	10,836.27
Service	2,173.95	1,955.99	24,288.43	10,083.11	26,462.38
Total	11,165.99	10,015.46	44,704.14	12,302.63	55,870.13

Source: Details received from PSUs; including provisional figures

The thrust of investment was mainly in service and power sectors. These sectors have received 47.36 per cent (₹26,462.38 crore) and 19.40 per cent (₹10,836.27 crore) of total investment of ₹55,870.13 crore.

The details of budgetary support to PSUs by State Government towards equity, loans and grants/subsidies for the period from 2020-21 to 2022-23 are shown in **Table 5.3**.

Table 5.3: Details regarding budgetary support to PSUs by State Government*(₹ in crore)*

Sl.No	Particulars	2020-21		2021-22		2022-23	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity Capital	20	215.52	16	119.54	17	728.35
2	Loans given	32	2,362.18	30	2,202.65	21	1,553.24
3	Grants/subsidy provided	37	13,514.25	32	7,471.87	32	11,422.72
4	Total	89	16,091.95	78	9,794.06	70	13,704.31
5	Waiver of loans and interest	0	0	0	0	0	0
6	Guarantees issued	18	22,244.31	17	5,270.36	19	32,604.93
7	Guarantee commitment	20	19,099.32	18	5,009.78	18	29,654.51

Source: Compiled based on information received from PSUs

5.4.2 Market Capitalisation of equity investment in PSUs

No PSU had its shares listed on the Stock Exchanges.

5.4.3 Disinvestment, Restructuring and Privatisation

During the year 2022-23 there was no case of privatisation of PSUs.

5.4.4 Power Distribution Companies

As on 31 March 2023, there was only one Power Sector PSU namely Kerala State Electricity Board Limited. The State Government has been providing financial support to KSEBL. During 2022-23 the budgetary outgo towards loans and grants/subsidies amounted to ₹20.19 crore and ₹30.61 crore respectively.

5.4.5 Reconciliation with Finance Accounts of Government of Kerala

The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of Kerala. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of the differences. In this regard, the position of 105 PSUs as on 31 March 2023 is stated in **Table 5.4**.

Table 5.4: Equity, loans and guarantees as per Finance Accounts of GoK vis-a-vis records of State PSUs

(₹ in crore)

Sl. No.	Particulars	Amount as per Finance Accounts	Amount as per records of PSUs	Amount (Numbers)* - PSU accounts figures exceed the figures of Finance Accounts	Amount (Numbers)* - Finance Accounts figures exceed the figures of PSU Accounts
1	Equity	7,153.56	9,879.22	4,503.66 (51)	1,778 (34)
2	Loans	16,208.17	12,225.20	36.37 (13)	4,019.34 (42)
3	Guarantees Outstanding	24,847.41	32,683.02	10,983.95 (15)	3,148.34 (8)

Source: Compiled based on information received from PSUs and Finance Accounts

*Number of PSUs are mentioned in brackets

The above differences are persisting for many years. Major difference was observed in Kerala State Electricity Board Limited. The details of difference (PSU wise) were brought to the notice (December 2022) of Chief Secretary as well as Additional Chief Secretary, Finance Department, Government of Kerala. The Government should take steps for time bound reconciliation to avoid inaccurate financial reporting which will undermine the financial accountability and transparency of both the Government Accounts and the records of PSUs in terms of equity, loans and guarantee.

5.5 Returns from PSUs

5.5.1 Profit earned by PSUs

As per the latest finalised accounts submitted till 30 September 2023, 58 PSUs earned a total profit of ₹1,368.72 crore. Whereas for the period ended 30 September 2022, there were 55 PSUs which earned a profit of ₹654.99 crore. The Return on Equity (RoE) of these 58 PSUs mentioned above (including the three Statutory Corporations) was 32.37 per cent as compared to 10.32 per cent in 55 PSUs during 2021-22. The increase in the ROE was due to increase in the profit of PSUs from ₹654.99 crore to ₹1,368.72 crore.

The overall Return on Equity of all the 128 working PSUs (excluding three working PSUs which have not submitted their first accounts) i.e., including 58 profit earning, 66 loss making and four zero profit/loss companies was negative as the overall net income and shareholders' fund of these PSUs were negative during 2022-23.

The list of PSUs which earned profit of more than ₹100 crore is given in **Table 5.5**.

Table 5.5: Top two PSUs which contributed maximum profit

Sector	Name of PSU	Period of Accounts	Net profit after Interest and Tax (₹ in crore)	Percentage of profit to total profit of profit earning PSUs
Power	Kerala State Electricity Board Limited	2021-22	736.27	53.79
Finance	The Kerala State Financial Enterprises Limited	2021-22	105.49	7.71
Total			841.76	61.50

Source: As per the latest finalised accounts of PSUs

Net profit of ₹841.76 crore constituting 61.50 per cent of total profit (₹1,368.72 crore) of PSUs was contributed by these two PSUs.

5.5.2 Dividend paid by PSUs

The details of profit earned and dividend declared by Government companies and Statutory Corporation are given in the **Table 5.6**.

Table 5.6: Profit earned and dividend declared

(₹ in crore)

Particulars	No. of PSUs	Paid up capital	Net profit	Dividend declared
Government company ³⁹	6	293.58	206.47	14.50
Statutory Corporation ⁴⁰	1	626.50	50.19	21.33
Total	7	920.08	256.66	35.83

Source: As per latest finalised accounts of PSUs

Out of 131 working PSUs, seven PSUs (including one Statutory Corporation) declared a dividend of ₹35.83 crore as per their latest finalised accounts as against ₹3.23 crore by three PSUs in 2021-22. The dividend declared as a percentage of net profit of these PSUs decreased from 22.11 per cent in 2021-22 to 13.96 per cent in 2022-23.

5.6 Debt Servicing

5.6.1 Interest Coverage Ratio

Interest Coverage Ratio (ICR) is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's Earnings Before Interest and Taxes (EBIT) by interest expenses of the same

39 The Pharmaceutical Corporation (Indian Medicines) Kerala Limited (2021-22), Oil Palm India Limited (2021-22), Kerala Tourism Infrastructure Limited (2020-21), The Kerala State Women's Development Corporation (2021-22), The Kerala State Backward Classes Development Corporation Limited (2021-22) and The Kerala Minerals and Metals Limited (2022-23)

40 Kerala Financial Corporation (2022-23).

period. The lower the ratio, the lesser is the ability of the company to pay interest on debt. An interest coverage ratio of below one indicates that the company was not generating sufficient revenues to meet its expenses on interest. The details of positive and negative interest coverage ratio of 67 PSUs, which had interest expenses for long term/ short term loans/ cash credit/ overdraft *etc.*, for the period 2022-23 are given in **Table 5.7**.

Table 5.7: Interest Coverage Ratio

Particulars	PSUs having Interest Coverage Ratio <1			PSUs having Interest Coverage Ratio ≥1		
	No of PSUs	Interest	EBIT	No of PSUs	Interest	EBIT
		(₹ in crore)			(₹ in crore)	
Government companies	34	356.19	(-)307.57	30	3,349.96	4,836.30
Statutory corporations	1	495.73	(-)511.45	2	372.38	460.49
Total	35	851.92	(-)819.02	32	3,722.34	5,296.79

Source: As per the latest finalised accounts of PSUs wherein finance cost was incurred

It was observed that 32 PSUs (including two Statutory Corporations) having interest liability had ICR equal to or more than one indicating that sufficient revenues were available to meet the interest liability. Similarly, 35 PSUs (including one Statutory Corporation) had ICR less than one indicating that these PSUs could not generate adequate revenue to pay off their interest liability.

5.7 Performance of PSUs

5.7.1 Return on Capital Employed

Return on Capital Employed (RoCE) is a ratio that measures a company's profitability and the efficiency with which its capital is employed. RoCE is calculated by dividing a company's Earnings Before Interest and Taxes (EBIT) by the Capital Employed⁴¹. The consolidated RoCE of PSUs during the period from 2020-21 to 2022-23 is given in **Table 5.8**.

Table-5.8: Return on Capital Employed

Year	Number of PSUs	EBIT	Capital Employed	(₹ in crore)
				RoCE (in percentage)
2020-21	126	(-)862.32	26,411.34	(-)3.26
2021-22	131 ⁴²	(-)14.98	29,336.30	(-)0.05
2022-23	131 ⁴³	4,487.81	51,601.96	8.70

Source: As per latest finalised accounts of PSUs

41 Capital employed= Paid up capital+Free reserves and surplus+ Long Term loans-Accumulated losses-Deferred Revenue Expenditure

42 Excluding nine PSUs which had not finalised their first accounts.

43 Excluding three PSUs which had not finalised their first accounts.

- It was observed that the overall EBIT and RoCE of 126 PSUs and 122 PSUs was negative during 2020-21 and 2021-22 respectively which became positive for 128 PSUs in 2022-23. The overall EBIT improved in 2022-23 as compared to 2021-22.
- There was overall increase in capital employed by ₹22,265.60 crore due to inclusion of public deposit payable as long term loan in the case of Kerala State Financial Enterprises.
- The overall negative EBIT improved by ₹4,502.79 crore in 2022-23 mainly due to improved revenue from operations of KSEBL. However, KSEBL incurred losses amounting to ₹ 1,023.62 crore (2022-23) due to increase in finance cost, employee benefit expenses, depreciation & amortization expenditure.

5.7.2 Return on Equity of PSUs

Return on Equity (RoE) is a measure of financial performance to assess how effectively a company's assets are being used to create profits. ROE is calculated by dividing net income (i.e. net profit after taxes) by shareholders' fund. It is expressed as a percentage and can be calculated for any company if both net income and shareholders' fund are positive numbers.

Shareholders' fund is calculated by adding paid up capital and free reserves minus net of accumulated losses and deferred revenue expenditure and reveals how much would be left for a company's stakeholders if all assets were sold and all debts paid. A positive shareholders' fund reveals that the company has enough assets to cover its liabilities while negative shareholders' equity means liabilities exceed assets.

The consolidated ROE of PSUs during the period from 2020-21 to 2022-23 shows that both the Net Profit after Tax and Shareholders' Equity were negative, thus no return was available for the last 3 years.

5.8 PSUs incurring losses

5.8.1 Losses incurred by PSUs

As per the latest finalised accounts submitted till 30 September 2023, 66 PSUs (including one Statutory Corporation) incurred loss of ₹1,873.89 crore when compared to ₹4,065.38 crore incurred by 63 PSUs which submitted the accounts till 30 September 2022 as given in **Table 5.9**.

Table 5.9: Number of PSUs that incurred losses during the three year period ending 31 March 2023*(₹ in crore)*

Year ⁴⁴	No. of loss making PSUs	Net Loss for the year	Accumulated loss	Net worth ⁴⁵
2020-21	68	4,496.12	16,651.62	(-) 9,058.15
2021-22	63	4,065.38	18,047.00	(-)10,412.90
2022-23	66	1,873.89	10,834.15	(-)6,378.68

Source: As per latest finalised accounts of PSUs

- Out of a total loss of ₹1,873.89 crore incurred by 66 PSUs, a significant loss of ₹1,113.99 crore was incurred by two PSUs (including one Statutory corporation) as shown in Table 5.10.
- The State Government had invested ₹3,546.30 crore as on 31 March 2023 in the form of equity in 54 out of these 66 loss making PSUs.

Table 5.10: PSUs that incurred loss of more than ₹ 100 crore*(₹ in crore)*

Sl. No	Name of Company/Corporation	Period of Accounts	Net Loss after tax and interest
1	Kerala State Road Transport Corporation	2015-16	1,007.18
2	The Kerala State Civil Supplies Corporation Limited	2017-18	106.81

Source: As per latest finalised accounts of respective PSUs

- Out of 66 PSUs, 40 PSUs reported loss of ₹1,684.48 crore with erosion of net worth (₹ 9,347.25 crore) thus vitiating the going concern concept.

Out of 66 PSUs the net worth of 45 PSUs was just half of the paid-up capital which indicated the potential sickness of the PSUs. 29 PSUs were having interest coverage ratio less than one which indicated the PSUs were not generating sufficient revenue to meet its expenses on interest. Similarly, nine PSUs had debt asset ratio more than one which indicates the potential difficulty to meet financial obligations as the value of total assets of these PSUs was less than the loans outstanding.

5.8.2 Erosion of Capital in PSUs

As per their latest finalised accounts submitted till 30 September 2023, out of the 131 working PSUs, 77 had accumulated losses aggregating to ₹18,026.49 crore.

44 The figures from the latest available accounts have been considered in this Report for the purpose of arriving at working results.

45 Net worth= Paid up capital+Free reserve+Accumulated profit/(loss)-Deferred revenue expenditure.

Net worth of 44 out of these 77 PSUs had been completely eroded⁴⁶ by accumulated losses and their net worth was negative. The net worth of these 44 PSUs was (-) ₹11,227.04 crore against equity investment of ₹5,954.33 crore. Out of 44 PSUs, whose capital had been eroded, 40 PSUs reported loss of ₹1,684.48 crore and three PSUs reported a profit of ₹ 736.97 crore and one PSU (Vizhinjam International Sea Port Limited) reported no-profit-no loss as per their latest accounts as mentioned in Para 5.8.1.

In the overall, net worth of all the 131 (including three companies yet to finalise their first accounts) working PSUs was negative at ₹2,098.34 crore against their paid up capital of ₹10,889.88 crore.

As per the latest finalised accounts, the actual expenses and receipts of the 44 PSUs which had erosion of net worth was ₹24,465.48 crore and ₹24,641.65 crore respectively. Despite the erosion of net worth in the 44 PSUs, it's noteworthy that the actual receipts slightly exceeded the expenses, indicating potential avenues for financial stability and recovery within these entities.

A review of financial statements received during 2017-18 to 2022-23 from 44 PSUs with negative net worth revealed that 19 PSUs sustained negative net worth for periods ranging from one to 13 years. Two recently formed PSUs reported negative net worth right from the commencement of their operations. The remaining 23 PSUs had continuous negative net worth throughout the review period. The detailed list of PSUs having negative net worth as per their latest finalised accounts is shown in **Appendix 5.1**. The age analysis of accounts in arrears of PSUs whose Net worth has eroded are shown in **Table 5.11**.

Table 5.11 : Age-wise pendency of 44 PSUs with negative net worth

Particulars	Number of PSUs	Number of accounts in arrears
up to date accounts submitted for 2022-23	4	
one to three year	32	59
four to six years	5	23
seven to eight years	3	22
Total	44	104

5.9 Audit of PSUs

C&AG appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. C&AG has a right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the statutory auditor. Statutes governing some Corporations require that their accounts be audited by the C&AG and a report be submitted to the Legislature.

⁴⁶ The funding of liabilities and establishment expenditures of PSUs, experiencing continuous erosion in net worth, mainly comprised working capital loans, term loans from the Government of Kerala, as well as grants and subsidies from both state and central government.

5.10 Appointment of statutory auditors of PSUs by C&AG

Sections 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the C&AG within a period of 180 days from the commencement of the financial year.

The statutory auditors of such PSUs for the year 2022-23 were appointed by CAG from September 2022 onwards.

5.11 Submission of accounts by PSUs

5.11.1 Need for timely submission

According to Section 394 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting⁴⁷ (AGM). As soon as may be after such preparation, the Annual Report must be laid before the State Legislature, together with a copy of the Audit Report and comments of the C&AG upon or as supplement to the Audit Report. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the Companies from the Consolidated Fund of State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited financial statements for the financial year have to be placed in the said AGM for their consideration.

Section 129(7) of the Companies Act, 2013 also provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non - compliance with the provisions of Section 129 of the Companies Act, 2013.

The annual accounts of several PSUs were pending as on 30 September 2023⁴⁸, as detailed in the following paragraph.

5.11.2 Timeliness in preparation of accounts by PSUs

As of 31 March 2023, there were 131 working PSUs comprising 121 Government companies and six Government controlled other companies and four Statutory corporations under the purview of CAG's audit. A total of 16 PSUs (including one Statutory Corporation as discussed below) submitted their accounts for the financial year 2022-23 for audit within the stipulated period. It is noticed

47 In case of the first AGM, it shall be held within a period of nine months from the date of closing of the first financial year of the company and in any other case within a period of six months, from the date of closing of the financial year *i.e.* 30 September

48 Due date of holding AGM of Companies for the financial year 2022-23 is 30 September 2023 as per the Companies Act 2013.

that accounts up to the financial year 2022-23 were due from 115 Government Companies. 197 accounts (including accounts of previous years) were submitted by 112 PSUs for audit by C&AG during October 2022 to September 2023. Details of arrears in submission of accounts of Government companies and Government controlled other companies for the year 2022-23 are given in **Table 5.12** below:

Table: 5.12: Details showing the arrears in submission of accounts

Particulars		Government companies	Government controlled other companies	Statutory Corporations	Total
Total number of PSUs under the purview of CAG's audit as on 31.03.2023		130	15	4	149
Working PSUs- Unlisted		121	6	4	131
Listed Companies		0	0	0	0
Number of PSUs which presented the accounts for 2022-23 for CAG's audit		14	1	1	16
Number of PSUs from which accounts till 2022-23 were due (Total Number of accounts due)		107 (256)	5 (5)	3 (9)	115 (270)
Age wise analysis of arrears of working PSUs	One year (2022-23)	40 (40)	5 (5)	2 (2)	47 (47)
	Two years (2021-22 and 2022-23)	32 (64)	0 (0)	0 (0)	32 (64)
	Three years to five years (2018-19 to 2022-23)	29 (108)	0 (0)	0 (0)	29(108)
	Six years and above (beyond 2017-18)	6 (44)	0 (0)	1 (7)	7 (51)

Source: As per latest finalised accounts of PSUs

It could be seen from the above table that:

- Out of the total of 131 working PSUs, only 16 submitted their accounts for the year 2022-23 to the CAG for audit, thus representing merely 12.21 *per cent* of the total companies under its audit jurisdiction. A total of 270 accounts were due from 115 companies for the year 2022-23.
- Age-wise analysis revealed that for six years and above (i.e., beyond 2017-18), 51 accounts were pending from seven companies; for three years to five years (i.e., 2018-19 to 2022-23), 108 accounts were pending from 29 companies, for 2 years (i.e., 2021-22 and 2022-23), 64 accounts were pending from 32 companies.

Though the matter regarding arrear in finalisation of accounts of PSUs is being taken up regularly (July 2023) and also order (August 2023) has been issued by Planning & Economic Affairs (BPE) Department, GoK to all the Chief Executive Officers to finalise the accounts within the stipulated time, the pendency in finalisation of accounts is a matter of concern.

5.12 C&AG's oversight - Audit of accounts and supplementary audit

5.12.1 Financial reporting framework

Companies are required to prepare their financial statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with the National Advisory Committee on Accounting Standards. The Statutory Corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the C&AG and any other specific provision relating to accounts in the Act governing such Corporations.

5.12.2 Audit of accounts of Government companies by statutory auditors

The statutory auditors appointed by the C&AG under Section 139 of the Companies Act, 2013, conduct audit of accounts of the Government companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

The C&AG plays an oversight role by monitoring the performance of the statutory auditors in audit of PSUs with the overall objective that the statutory auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power to:

- issue directions to the statutory auditors under Section 143 (5) of the Companies Act, 2013; and
- supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

5.12.3 Supplementary Audit of accounts of Government companies

The prime responsibility for preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is vested with the management of an entity. The statutory auditors appointed by the C&AG under Section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the financial statements under Section 143 of the Companies Act, 2013 based on an independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India and directions given by the C&AG. The statutory auditors are required to submit the Audit Report to the C&AG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government companies along with the report of the statutory auditors are reviewed by C&AG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the AGM.

5.13 Result of C&AG's oversight role

5.13.1 Audit of accounts of Government companies under Section 143 of the Companies Act, 2013

Out of the 131 working PSUs, 112 PSUs (103 Government companies, six Government controlled other companies and three Statutory Corporations) forwarded 197 audited accounts to Principal Accountants General, Kerala during the period from October 2022 to September 2023. These included financial statements from the year 2011-12 to 2022-23. Out of the 197 accounts, 16 accounts were for the year 2022-23. Out of 197, 109 financial statements of PSUs were reviewed in audit by the C&AG, and issued 24 Comment certificates for 21 PSUs. 88 Non-Review Certificates were issued for 58 PSUs. The results of the review are detailed below:

5.13.2 Amendment of financial statements

Four Government companies amended their financial statements as a result of supplementary audit conducted by the C&AG before laying the same in the AGM. The financial impact of amendments was ₹35.17 crore on profitability and ₹35.72 crore on assets and liabilities.

5.13.3 Revision of Auditors Report

The statutory auditors reports on 19 financial statements were revised as a result of supplementary audit of the financial statements conducted by the C&AG.

The significant comments of the C&AG issued as supplement to the Statutory auditors report on PSUs and where CAG is sole auditor in case of Statutory Corporations is separately compiled in the Separate Commercial Audit Report of PSUs for the year ended 31 March 2023.

5.14 Management letters

One of the objectives of financial audit is to establish communication, on audit matters arising from the audit of financial statements, between the auditor and those charged with the responsibility of governance of the corporate entity.

The material observations on the financial statements of Public Sector Undertakings were reported as comments by the C&AG under Section 143 (5) of the Companies Act, 2013. Besides these comments, irregularities or deficiencies observed by C&AG in the financial reports or in the reporting process, were also communicated to the management through 'Management Letter' for taking corrective action. During the year, C&AG issued 24 Management Letters to 21 PSUs (for which comments were issued) regarding the deficiencies related to accounting treatment and policies, non-compliance to accounting standards on disclosures and non-compliance to assurances to audit on rectification of errors, *etc.*

5.15 Conclusion

This Chapter presents the financial performance of Public Sector Undertakings measured by ratios indicating their operating efficiency and return on investment. This Chapter also deals with oversight role of CAG by monitoring the performance of the statutory auditors with the overall objective that the statutory auditors discharge the functions assigned to them properly and effectively.

- Analysis revealed that 77 out of 131 working PSUs had an aggregate accumulated losses of ₹18,026.49 crore and of these 77 PSUs, the net worth of 44 PSUs had been completely eroded by accumulated loss and their net worth was negative. The net worth of these 44 PSUs was (-)₹11,227.04 crore against equity investment of ₹5,954.33 crore.
- A review of financial statements received during 2017-18 to 2022-23 from 44 PSUs with negative net worth revealed that nineteen PSUs sustained negative net worth for periods ranging from one to 13 years and two recently formed PSUs reported negative net worth right from the commencement of their operations. The remaining 23 PSUs had continuous negative net worth throughout the review period.
- The overall Return on Equity in all PSUs was negative as the overall net income and shareholders' fund of these PSUs were negative during 2022-23.
- A total of 16 PSUs (including one Statutory Corporation) submitted their accounts for the financial year 2022-23 for audit within the stipulated period representing 12.21 *per cent* of the total number of working PSUs. Age-wise analysis of the PSUs from which accounts were pending showed that in 115 PSUs 270 accounts were pending up to the financial year 2022-23.

5.16 Recommendations

1. *The State Government needs to decide on the business models of the loss-making PSUs in order to address the root cause of the losses. Government may further consider setting up a committee to assess the viability of the loss making PSUs, especially those whose net worth have been completely eroded, so that further straining of the public exchequer can be avoided.*
2. *The State Government and the respective PSUs should reconcile the differences relating to equity, loan and guarantees in a time-bound manner.*

3. *Government should establish a robust monitoring and accountability mechanism to ensure that all PSUs comply with the statutory time limit for finalisation and submission of accounts, thereby promoting transparency and financial discipline within these organizations.*

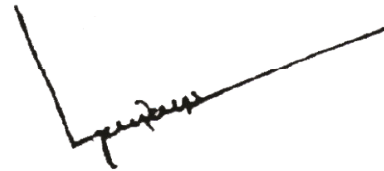


(S. SUNIL RAJ)

Principal Accountant General
(Audit II), Kerala

Thiruvananthapuram,
The 01 JULY 2024

Countersigned



(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

New Delhi,
The 03 JULY 2024