

Chapter I

1. Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Kerala the State PSUs occupy an important place in the state economy. The State PSUs registered a turnover of Rs. 10,889.65 crore for 2008-09 as *per* their latest finalised accounts as of September 2009. This turnover was equal to 6.04 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Kerala State PSUs are concentrated in power sector. The State PSUs incurred a loss of Rs. 129.89 crore in the aggregate for 2008-09 as *per* their latest finalised accounts. They had employed 1.17 lakh* employees as of 31 March 2009. The State PSUs do not include three Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in the Civil Audit Report for the State.

1.2 As on 31 March 2009, there were 123 PSUs as *per* the details given below. Of these, four companies[§] were listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs [¶]	Total
Government companies [♦]	90	28	118
Statutory corporations	05	...	05
Total	95	28	123

1.3 During the year 2008-09, three PSUs[€] were established and one PSU^{**} was closed down.

Audit Mandate

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

* As per the details provided by 98 PSUs.

§ Keltron Component Complex Limited, The Travancore Cements Limited, The Travancore Sugars and Chemicals Limited and Transformers and Electricals Kerala Limited.

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

♦ includes 619-B companies.

€ Kerala State Information Technology Infrastructure Limited, Kerala Medical Services Corporation Limited and KINESCO Power and Utilities Private Limited.

** Kerala Inland Fisheries Development Corporation Limited.

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

1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as *per* the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

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

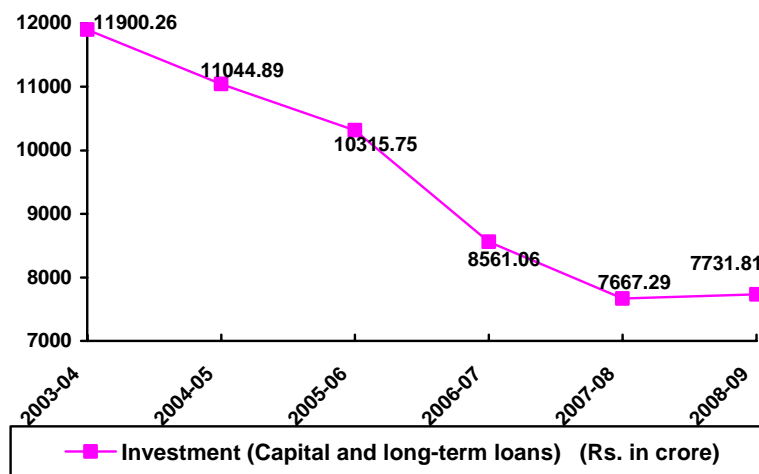
Investment in State PSUs

1.7 As on 31 March 2009, the investment (capital and long-term loans) in 123 PSUs (including 619-B companies) was Rs. 7,731.81 crore as *per* details given below.

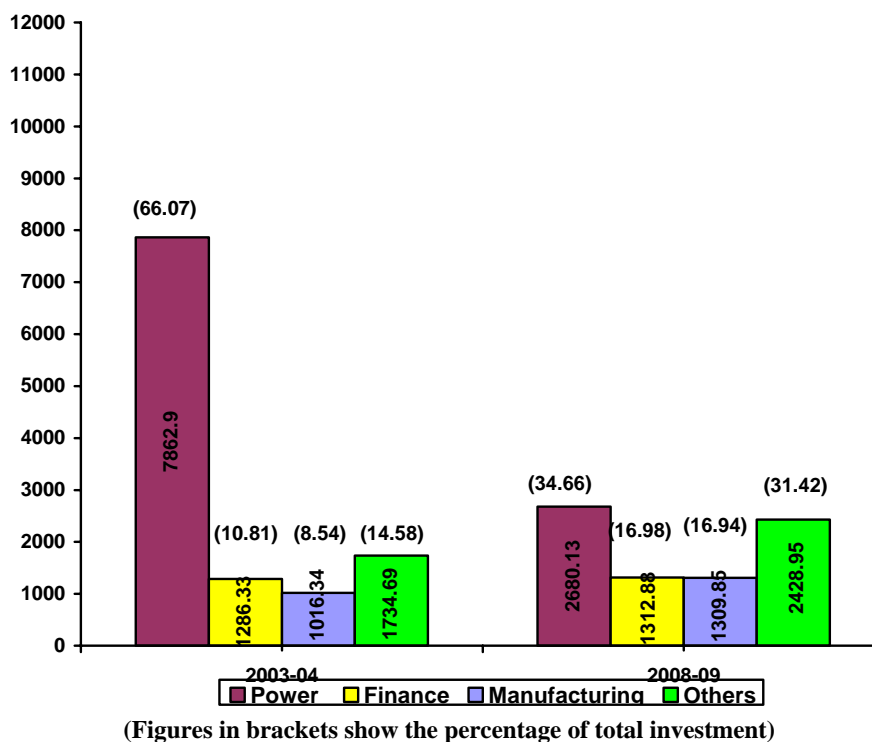
Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	1,773.94	1,223.72	2,997.66	1,962.20	2,528.37	4,490.57	7,488.23
Non-working PSUs	70.54	173.04	243.58	...	...	...	243.58
Total	1,844.48	1,396.76	3,241.24	1,962.20	2,528.37	4,490.57	7,731.81

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

1.8 As on 31 March 2009, of the total investment in State PSUs, 96.85 *per cent* was in working PSUs and the remaining 3.15 *per cent* in non-working PSUs. This total investment consisted of 49.23 *per cent* towards capital and 50.77 *per cent* in long-term loans. The investment has declined by 35.03 *per cent* from Rs. 11,900.26 crore in 2003-04 to Rs. 7,731.81 crore in 2008-09 as shown in the graph below.



1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart. The major chunk of PSU investment was mainly in power sector during the five years which has seen its percentage share declining from 66.07 per cent in 2003-04 to 34.66 per cent in 2008-09 due to repayment of long term loans of Rs. 4575.55 crore during 2003-09.



Budgetary outgo, grants/subsidies, guarantees and loans

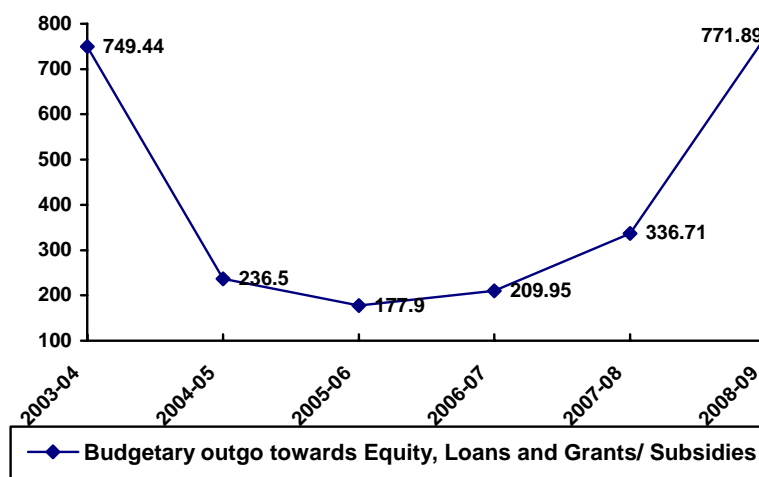
1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and

interest waived in respect of State PSUs are given in *Annexure 3*. The summarised details are given below for three years ended 2008-09.

(Amount: Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	14	31.69	17	56.81	21	279.18
2.	Loans given from budget	10	145.98	11	147.11	13	148.11
3.	Grants/Subsidy received	19	32.28	23	132.79	29	344.60
4.	Total Outgo (1+2+3)		209.95		336.71		771.89
5.	Loans converted into equity	...	...	1	23.94	01	22.22
6.	Loans written off	...	...	1	0.04	02	16.21
7.	Interest/Penal interest written off	...	...	2	18.10	03	18.56
8.	Total Waiver (6+7)	...	...		18.14		34.77
9.	Guarantees issued	11	363.68	11	1,809.26	11	2,593.10
10.	Guarantee Commitment	23	4,541.42	27	4,985.48	26	3,998.65

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



The above chart indicates that the budgetary assistance in the form of equity, loan and grant/ subsidy by the State Government to PSUs decreased from Rs. 749.44 crore in 2003-04 to Rs. 177.90 crore in 2005-06. Thereafter, budgetary assistances by the State Government increased and it had reached Rs. 771.89 crore by 2008-09. During 2008-09, the State Government had

waived loans and interest/ penal interest of Rs. 34.77 crore due from PSUs as against Rs. 18.14 crore waived during the previous year.

During the year 2008-09, the Government had guaranteed loans aggregating Rs. 2,593.10 crore obtained by eight working Government companies (Rs. 2,122.57 crore) and three Statutory corporations (Rs. 470.53 crore). At the end of the year, guarantees of Rs. 3,998.65 crore against 22 working Government companies (Rs. 2,995.85 crore) and four Statutory corporations (Rs. 1,002.80 crore) were outstanding. As per the provisions of the Kerala Ceiling on Government Guarantee Act 2003, the Government shall guarantee only loan taken by PSUs. The guarantee commission payable shall not be less than 0.75 *per cent* and payable on the actual balance, outstanding interest/ penal interest etc., as on 31 March of previous year. The amount due shall be paid in two equal instalments on 1st April and October of every financial year. The guarantee commission paid/payable to the Government by Government companies (Rs. 39.67 crore) and Statutory corporations (Rs. 6.58 crore) during 2008-09 was Rs. 46.25 crore out of which Rs. 24.44 crore had been paid and a balance of Rs. 21.81 crore was outstanding as on 31 March 2009. The PSUs which had major arrears were The Kerala State Cashew Development Corporation Limited (Rs. 3.92 crore), Roads and Bridges Development Corporation of Kerala Limited (Rs. 4.50 crore), Kerala State Electronics Development Corporation Limited (Rs. 5.86 crore) and Kerala State Power and Infrastructure Finance Corporation Limited (Rs. 3.82 crore).

Reconciliation with Finance Accounts

1.12 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Rs. in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	2,020.40	3,640.18	1,619.78
Loans	4,145.20	1,101.63	3,043.57
Guarantees	3,365.07	3,998.65	633.58

1.13 Audit observed that the differences occurred in respect of 88 PSUs and Audit has also written (April and August 2009) to the Chief Secretary and Principal Secretary (Finance) to the Government of Kerala to initiate steps to reconcile the difference as on 31 March 2008. The Finance Department, Government of Kerala has in turn taken up the matter with the respective PSUs. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

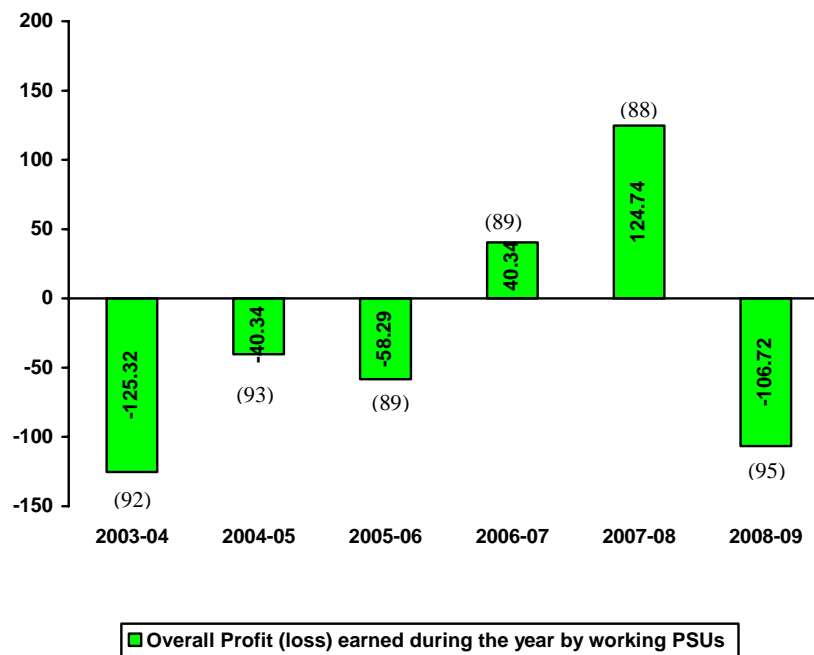
Performance of PSUs

1.14 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in *Annexures 2, 5 and 6* respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUs' turnover and State GDP for the period 2003-04 to 2008-09.

(Rs. in crore)						
Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover [∞]	7,608.00	7,614.42	8,222.23	8,846.01	10,082.22	10,877.80
State GDP	96,012	1,07,054	1,18,998	1,32,739	1,48,485	1,80,281
Percentage of Turnover to State GDP	7.92	7.11	6.91	6.66	6.79	6.03

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

1.15 Profit (losses) earned (incurred) by State working PSUs during 2003-04 to 2008-09 are given below in a bar chart.



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

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

[∞] Turnover as per the latest finalised accounts as of 30 September.

During the year 2008-09, out of 95 working PSUs, 46 PSUs earned profit of Rs. 420.12 crore and 43 PSUs incurred loss of Rs. 526.84 crore as per their latest finalised accounts, while two companies had neither profit nor loss. Remaining four companies had not commenced commercial activities. The major contributors to profit were Kerala State Electricity Board (Rs. 217.42 crore), Kerala State Beverages (Manufacturing & Marketing) Corporation Limited (Rs. 41.93 crore), Malabar Cements Limited (Rs. 28.20 crore) and The Plantation Corporation of Kerala Limited (Rs. 20.78 crore). Heavy losses were incurred by Kerala State Road Transport Corporation (Rs. 191.90 crore), The Kerala State Cashew Development Corporation Limited (Rs. 125.41 crore), Kerala Financial Corporation (Rs. 76.36 crore) and The Kerala State Civil Supplies Corporation Limited (Rs. 36.06 crore).

1.16 The losses of PSUs 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 shows that the State PSUs incurred losses to the tune of Rs. 589 crore and infructuous investment of Rs. 31.98 crore which were controllable with better management. Year-wise details from Audit Reports are stated below.

(Rs. in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Profit (loss)	19.91	102.98	(129.89)	(7.00)
Controllable losses as per CAG's Audit Report	144.13	181.29	263.58	589.00
Infructuous Investment	20.19	9.49	2.30	31.98

1.17 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised (or eliminated or the profits can be enhanced substantially). 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.

1.18 Some other key parameters pertaining to State PSUs are given below.

(Rs. in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (<i>Per cent</i>)	7.82	7.90	7.73	9.84	7.87	4.89
Debt	8,500.68	7,608.35	6,850.33	5,052.48	4,085.37	3,925.13
Turnover ^Y	7,608.00	7,614.42	8,222.23	8,846.01	10,082.22	10,877.80
Debt/ Turnover Ratio	1.12:1	1:1	0.83:1	0.57:1	0.41:1	0.36:1
Interest Payments	49.98	316.19	472.03	460.86	407.33	733.76
Accumulated Profits (losses)	(2,134.46)	(2,343.09)	(2,445.52)	(2,447.73)	(2,026.74)	(2,055.58)

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

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

1.19 Return on capital employed which was 7.82 *per cent* in 2003-04 though gradually increased to 9.84 *per cent* during 2006-07 has shown a declining trend since 2007-08 and reduced to 4.89 *per cent* in 2008-09. At the same time accumulated loss of PSUs has increased from Rs. 2134.46 crore in 2003-04 to Rs. 2445.52 crore in 2005-06 and thereafter it reduced to Rs. 2055.58 crore in 2008-09. Similarly debt/ turnover ratio also steadily declined from 1.12:1 in 2003-04 to 0.36:1 in 2008-09.

1.20 The State Government had formulated (December 1998) a dividend policy under which all PSUs are required to pay a minimum return of twenty *per cent* on the paid up share capital contributed by the State Government. As per their latest finalised accounts, 46 PSUs earned an aggregate profit of Rs. 420.12 crore and 16 PSUs declared a dividend of Rs. 16.81 crore. The State Government policy on dividend payment was, however, complied with by only six companies.

Performance of major PSUs

1.21 The investment in working PSUs and their turnover together aggregated to Rs. 18,366.03 crore during 2008-09. Out of 95 working PSUs, the following three PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These three PSUs together accounted for 59.55 *per cent* of aggregate investment *plus* turnover.

(Rs. in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
Kerala State Electricity Board	2,653.37	5,135.85	7,789.22	42.41
Kerala State Road Transport Corporation	1,094.54	831.90	1,926.44	10.49
Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	1.03	1,220.37	1,221.40	6.65
Total	3,748.94	7,188.12	10,937.06	59.55

Some of the major audit findings of previous years for above PSUs are stated in the succeeding paragraphs.

Kerala State Electricity Board

1.22 The Board had finalised the accounts upto 2007-08 as of September 2009. The profit of the Board increased from Rs. 101.26 crore in 2005-06 to Rs. 217.42 crore in 2007-08. Similarly, the turnover too has risen from Rs. 3,734.70 crore in 2005-06 to Rs. 5,135.85 crore in 2007-08. However, the percentage of return on capital employed has declined from 7.48 to 7.30 in the same period.

1.23 The major audit findings from the past five years' Audit Reports are given below.

1.24 Deficiencies in Planning

- Lack of planning and co-ordination of work of 114 sub stations and allied works resulted in cost overrun of Rs. 31.61 crore (*paragraph 3.13 of Audit Report 2006-07*).
- Delay in completion of line due to revision of design work and estimate resulted in blocking up of funds invested in 12 substations amounting to Rs. 6.06 crore for 21 months (*paragraph 3.30 of Audit Report 2006-07*).

1.25 Deficiencies in implementation

- Inferior design and resultant frequent failure of equipments resulted in a generation loss of Rs. 4.12 crore in Malampuzha project (*paragraph 3.27 of Audit Report 2007-08*).
- Inept handling of a court case with a construction contractor resulted in idling of a sub station, constructed at a cost of Rs. 3.28 crore, for nine years (*paragraph 3.23 of Audit Report 2006-07*).

1.26 Deficiencies in monitoring

- Non-synchronisation of work of 4 sub-stations resulted in idling of substations valuing Rs. 91.72 crore and loss of envisaged benefits of Rs. 34 crore (*paragraph 3.14 of Audit Report 2006-07*).

1.27 Non-achievement of objectives

- Delay/ non-completion of 25 substations and lines by turnkey contractors resulted in loss of envisaged savings in transmission and distribution loss valuing Rs. 23.95 crore (*paragraph 3.16 of Audit Report 2006-07*).
- Delay/ non-implementation of two sub stations, executed departmentally, resulted in loss of envisaged benefits of Rs. 403.82 crore (*paragraph 3.21 of Audit Report 2006-07*).

1.28 Deficiencies in financial management

- The Board lost subsidy claim of Rs. 15.50 crore due to laxity in preferring subsidy claim in respect of seven small hydel projects (SHEPs) allowed by Ministry of Non-conventional Energy Sources (*paragraph 3.10 of Audit Report 2007-08*).

Kerala State Road Transport Corporation

1.29 The Corporation had arrears of accounts of three years as of September 2009. The arrears had remained as three years as of September 2006 as well. The arrears remained the same due to non-deployment of personnel.

1.30 The losses of the Corporation have risen continuously from Rs. 106.53 crore in 2002-03 to Rs. 191.90 crore in 2005-06. At the same time the turnover also rose from Rs. 669.75 crore in 2002-03 to Rs. 831.90 crore in 2005-06.

1.31 The major audit findings from the past five years' Audit Reports are given below:

1.32 Deficiencies in Planning

- Injudicious decision to outsource annual maintenance contract of mini buses despite availability of own facility resulted in avoidable expenditure of Rs. 1.23 crore (*paragraph 4.18 of Audit Report 2004-05*).

1.33 Deficiencies in implementation

- Decision to ignore a valid lowest offer and subsequent procurement of tyres and flaps at higher rates resulted in avoidable extra expenditure of Rs. 2.13 crore (*paragraph 4.18 of Audit Report 2007-08*).

1.34 Deficiencies in monitoring

- Failure to take follow-up action for display of advertisements on its Volvo buses resulted in revenue loss and interest expenditure of Rs. 1.38 crore (*paragraph 4.17 of Audit Report 2004-05*).

Kerala State Beverages (Manufacturing and Marketing) Corporation Limited

1.35 The Company had arrears of accounts for two years as of September 2009 which were for three years as of September 2006.

1.36 The profits of the Company have risen from Rs. 14.46 crore in 2002-03 to Rs. 51.58 crore in 2005-06 and decreased to Rs. 41.93 crore in 2006-07. Similarly, the turnover of the Company had risen from Rs. 985.20 crore in 2002-03 to Rs. 1,220.37 crore in 2006-07. The return on capital employed had also risen from 7.22 *per cent* to 39.87 *per cent*.

Conclusion

1.37 The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

1.38 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year

under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as *per* the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	93	89	89	88	95
2.	Number of accounts finalised during the year	111	74	83	74	99
3.	Number of accounts in arrears	172	186	191	203	198
4.	Average arrears per PSU (3/1)	1.85	2.20	2.15	2.31	2.08
5.	Number of Working PSUs with arrears in accounts	71	68	70	71	71
6.	Extent of arrears (in years)	1 to 12	1 to 12	1 to 13	1 to 13	1 to 13

1.39 The performance of finalisation of accounts during the year 2008-09 has considerably improved compared to previous year. Average arrears per PSU ranged between 1.85 (2004-05) and 2.31 (2007-08). During 2008-09, thirteen^o working PSUs did not finalise even a single account which contributed to the accumulation of arrears in accounts. Further out of three newly established PSUs (2008-09), two^ψ PSUs have also not finalised their accounts till 30 September 2009.

1.40 In addition to above, there were also arrears in finalisation of accounts by non-working PSUs. Out of 28 non-working PSUs liquidation process was in progress in six PSUs. All the remaining 22 non-working PSUs, had arrears of accounts for one to 24 years.

1.41 The State Government had invested Rs. 948.79 crore (Equity: Rs. 111.44 crore, loans: Rs. 367.72 crore, and grants: Rs. 469.63 crore) in 41 PSUs during the years for which accounts have not been finalised as detailed in *Annexure 4*. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

1.42 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned

^o Kerala State Poultry Development Corporation Limited, Meat Products of India Limited, Kerala Transport Development Finance Corporation Limited, The Kerala State Backward Classes Development Corporation Limited, Kerala Irrigation Infrastructure Development Corporation Limited, Kerala Police Housing and Construction Corporation Limited, Foam Mattings (India) Limited, Keltron Component Complex Limited, Kerala Automobiles Limited, The Kerala Ceramics Limited, Travancore Titanium Products Limited, Kerala Industrial Infrastructure Development Corporation and Kerala State Electricity Board.

^ψ Kerala State Information Technology Infrastructure Limited and Kerala Medical Services Corporation Limited.

administrative departments and officials of the Government were informed every half year by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the Chief Secretary/ Finance Secretary in August 2008 and June 2009 to expedite the backlog of arrears in accounts in a time bound manner. Principal Secretary to Government of Kerala (Department of Industries and Bureau of Public Enterprises) instructed in October 2008 to include finalisation of accounts as an agenda in Board meetings, specified the dead line for clearance of arrears of accounts by December 2010 and to engage external agencies for preparing the accounts wherever necessary.

1.43 In view of above state of arrears, it is recommended that:

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

Winding up of non-working PSUs

1.44 There were 28 non-working PSUs (all companies) as on 31 March 2009. Liquidation process had commenced in six PSUs. The numbers of non-working companies at the end of each year during past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working companies	21	25	25	25	28

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

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

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working PSUs	28	...	28
2.	Of (1) above, the No. under		...	
(a)	Liquidation by Court (liquidator appointed)	03 ^φ	...	03
(b)	Voluntary winding up (liquidator appointed)	03 [♥]	...	03
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	22	...	22

^φ Keltron Power Devices Limited, Keltron Counters Limited and Keltron Rectifiers Limited.

[♥] Kerala Fishermens' Welfare Corporation Limited, Kerala Fisheries Corporation Limited and SIDECO Mohan Kerala Limited.

1.46 During the year 2008-09, one^o company was wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from three years to four years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously. The Government may make an early decision regarding winding up of 22 non-working PSUs where closing orders/ instructions have been issued but liquidation process has not yet started. The Government may consider setting up a cell to expedite closing down its non-working companies.

Accounts Comments and Internal Audit

1.47 Seventy seven working companies forwarded their 96 audited accounts to PAG during the year 2008-09. Of these, 78 accounts of 67 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount: Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	6	33.38	14	33.67	14	33.88
2.	Increase in loss	7	21.42	14	31.68	31	28.72
3.	Non-disclosure of material facts	5	43.29	4	5.61	8	11.33
4.	Errors of classification	4	9.41	1	128.03	...	...

The comments on decrease in profit and increase in loss were on the increasing trend during the three years ended 2008-09.

1.48 During the year 2008-09, the statutory auditors had given unqualified certificates for five accounts, qualified certificates for 71 accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for three accounts and disclaimers (meaning the auditors are unable to form an opinion on accounts) for 25 accounts. Additionally, CAG gave adverse comments on 15 accounts and disclaimer comments on one account during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 30 instances of non-compliance in 81 accounts during the year.

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

^o Kerala Inland Fisheries Development Corporation Limited.

The Travancore Cements Limited (2007-08)

- Net fund deficit of Rs. 1.57 crore in LIC gratuity fund as per actuarial valuation as on 31 March 2008 was not provided for. Consequently the profit for the year was overstated.

Roads and Bridges Development Corporation of Kerala Limited (2007-08)

- Loss carried to Balance Sheet as on 31 March 2008 (Rs. 16.42 crore) was understated by Rs. 1.60 crore due to capitalisation of ineligible borrowing cost violating Accounting Standard 16 and accounting of capital expenditure on projects in profit and loss account.

Keltron Crystals Limited (2007-08)

- Loss for the year 2007-08 (Rs. 51.46 lakh) was understated by Rs. 43.60 lakh due to non-provision of liabilities towards leave salary and non-provision of DA arrears for the period January 2005- February 2008.

The Kerala Minerals and Metals Limited (2007-08)

- Profit for the year 2007-08 (Rs. 6.13 crore) was overstated by Rs. 23.30 crore due to non-provision of loss on expansion projects which were abandoned.

The Kerala Minerals and Metals Limited (2006-07)

- The Company had not made any provision for doubtful advances to the extent of Rs. 22.11 crore.

The Plantation Corporation of Kerala Limited (2007-08)

- The Company had not charged depreciation of Rs. 43.32 crore on the development of property for various cultivation, viz, Rubber plantation, cashew, Oil Palm and other heads.

The Kerala State Financial Enterprises Limited (2006-07)

- There was a shortfall in the provision by Rs. 7.94 crore with respect to liability towards gratuity.

The Kerala State Financial Enterprises Limited (2006-07)

- Profit was overstated by Rs. 67.71 lakh due to non-provision of promotional expenses incurred in connection with Golden Jubilee Chitties Campaign during 1 September 2006 to 5 February 2007.

Kerala Police Housing and Construction Corporation Limited (2005-06)

- Loss for the year was understated by Rs. 97.88 lakh due to non-writing off debts, overstatement of supervision charges recoverable and recognition of supervisory charges in excess of the funds sanctioned by Government.

1.50 Similarly, out of five working Statutory corporations, three corporations forwarded their three accounts to PAG during the year 2008-09 upto 30 September 2009 and two Statutory corporations^o did not forward their accounts. Of these three, one account pertained to a Corporation where CAG was the sole auditor, which was completed. The remaining two accounts were selected for supplementary audit and Separate Audit Reports issued. The audit reports of statutory auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount: Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	1	296.53	1	247.91	...	...
2	Increase in profit	...	...	2	385.00	...	...
3	Decrease in loss	...	...	1	57.92	...	...
4	Increase in loss	...	...	...	...	2	6.73
5	Non-disclosure of material facts	1	4.54	2	246.46	2	18.41
6	Errors of classification	1	2.17	2	115.99	2	21.91

1.51 During the year 2008-09, three corporations furnished their accounts and all of them were issued qualified certificates.

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

Kerala State Electricity Board

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

Kerala State Road Transport Corporation

- Loss for the year 2004-05 (Rs. 151.04 crore) was understated by Rs. 28.91 crore due to short/ non-provision of liability towards compensation for accident cases payable as per orders of MACT.

^o Kerala State Electricity Board and Kerala Industrial Infrastructure Development Corporation.

1.53 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of 63 companies[£] for the year 2007-08 and 51 companies^μ for the year 2008-09 are given below.

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made		Reference to serial number of the companies as per Annexure 2	
		2007-08	2008-09	2007-08	2008-09
1.	Non-fixation of minimum/maximum limits of store and spares	3	5	A-1,53,74	A-01,17,65,82,85
2.	Absence of internal audit system commensurate with the nature and size of business of the company	10	17	A-3,14,24,33,43,47,50,71,81,89	A-3,6,7,11,17,18,20,21,22,33,41,47,59,80,84,85,86
3.	Non-maintenance of cost record	6	9	A-3,7,16,33,53,66	A-3,6,7,11,20,22,62,82,85
4.	Non-maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	1	15	A-03	A-1,3,5,6,18,19,20,21,22,50,57,62,65,80,85
5.	Lack of internal control over sale of power	...	...

Recoveries at the instance of audit

1.54 During the course of propriety audit in 2008-09, recoveries of Rs. 15.33 crore were pointed out to the Management of various PSUs, of which, recoveries of Rs. 0.53 crore were admitted by PSUs. An amount of Rs. 1.92 crore was recovered during the year 2008-09 including those pointed out previously.

Status of placement of Separate Audit Reports

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

[£] Sr. No.A-6,88,84,6,10,9,14,14,15,55,12,59,67,66,75,57,11,13,12,7,4,3,5,2,58,48,47,46,50,45,C-29,7,18,7, A-60,62,38,39,80,20,40,71,14,90,61,70,33,83,87,01,64,69,73,53,34,25,77,34,16,29,28,34,25 in Annexure – 2.
^μ Sr No. A-76,22,14,43,59,52,66,67,72,75,57,11,71,11,12,7,57,3,5,58,48,46,50,45,62,41,86,80,20,21,83,87,18,19, 70,33,35, 61,82,85,65,76,74,8,62,77,34,26,28,17,44 in Annexure – 2.

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Kerala State Electricity Board	2006-07	2007-08	31.08.2009	Yet to be placed in the Legislature
2.	Kerala State Road Transport Corporation	2004-05	2005-06	17.09.2009	Yet to be placed in the Legislature
3	Kerala Financial Corporation	2007-08	2008-09	28.10.2009	Yet to be placed in the Legislature
4	Kerala State Warehousing Corporation	2004-05	2005-06	25.05.2009	Yet to be placed in the Legislature
5	Kerala Industrial Infrastructure Development Corporation	2007-08	2008-09	Accounts not finalised	

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

Disinvestment, Privatisation and Restructuring of PSUs

1.56 The Government had not laid down any policy in regard to disinvestment, privatisation and restructuring of PSUs so far (September 2009).

Reforms in Power Sector

1.57 The State has Kerala State Electricity Regulatory Commission (KSERC) formed in November 2002 under Section 17 (1) of the Electricity Regulatory Commissions Act 1998^π with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2008-09, KSERC, however, issued no orders on annual revenue requirements and on others.

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

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

		Milestone	Achievement as at March 2009
I	By the State Government:		
	Reduction in Transmission and Distribution losses	Reduction of loss to 17 per cent by December 2004	KSEB has targeted to reduce the loss by 2 per cent every year. T&D loss has been brought down to 20.98 per cent as on 31.03.2009.
	Electrification of all villages	100 per cent	All villages have been electrified as per previous census 2001.
	Metering of all distribution feeders	100 per cent by October 2001	Completed
	Metering of all consumers	100 per cent by December 2001	Completed
	Securitising outstanding dues of Central PSUs	Securitisation limit not to cross two months billing	An amount of Rs. 1158.25 crore outstanding as dues to CPSU as on 30.09.2001 has been securitised.
	Establishment of State Electricity Regulatory Commission (SERC)	October 2001	KSERC was constituted vide Government of Kerala Order (MS) No 14/2002/PD dated 14.11.2002
	Implementation of tariff orders issued by SERC during the year		No tariff orders have been issued during the year.
	Energy Audit of 11 KV metering	March 2002	Completed
	Energy Audit above 11 KV metering	October 2001	Completed
	Computerisation of accounting and billing in towns	Computerised billing & customer service centre - Town Schemes (target 66 nos) Billing collection & Accounting in towns (target 619 nos as on 31.03.07)	All Sections (640) have been computerised with ORUMA (Software developed by KSEB in Open Source Platform)
	Break even of distribution of power	To be achieved upto March 2002	Work in progress.
	Asian Development Bank loans for power sector reforms	Nil	

Discussion of Audit Reports by COPU

1.59 The status as on 30 September 2009 of reviews and paragraphs that appeared in Audit Reports (Commercial) and discussed by the Committee on Public Undertakings (COPU) is as under.

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2002-03	3	17	0	14
2003-04	2	21	1	16
2004-05	4	23	2	10
2005-06	5	29	0	09
2006-07	5	21	0	08
2007-08	4	20	0	0
Total	23	131	3	57