

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 working PSUs registered a Turnover of ₹14579.38 crore for 2010-11 as per their latest finalised accounts as of September 2011. This Turnover was equal to 5.49 *per cent* of State Gross Domestic Product (GDP) for 2010-11. The State PSUs registered a Profit of ₹ 521.47 crore in the aggregate for 2010-11 as per their latest finalised accounts. They had 1.21 lakh¹ employees as of 31 March 2011. The State PSUs do not include three Departmental Undertakings (DUs)², which carry out commercial operations but are a part of Government departments. Audit findings on these DUs are incorporated in the Audit Report (Civil) for the State.

1.2 As on 31 March 2011, there were 120 PSUs as per the details given below. Of these, three companies³ were listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs ⁴	Total
Government companies ⁵	91 ⁶	24	115
Statutory corporations	05	...	05
Total	96	24	120

1.3 During the year 2010-11, two PSUs⁷ were established, two PSUs⁸ were closed and three PSUs⁹ were merged with another Company.

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

¹ As per the details provided by 92 PSUs.

² State Water Transport Department, Kerala State Insurance Department and Text Book Office.

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

⁴ Non-working PSUs are those which have ceased to carry on their operations.

⁵ Includes 619-B companies.

⁶ Kerala State Electricity Board Limited, a new Company formed during the year to take over the Assets and Liabilities of the erstwhile Kerala State Electricity Board has been shown as Statutory corporation as the vesting of Assets and Liabilities has not yet been done. Trivandrum Spinning Mills Limited, a non-working PSU resumed commercial operations during the year and has been included under working PSU.

⁷ Aralam Farming Corporation (Kerala) Limited and Kannur International Airport Limited.

⁸ The Metropolitan Engineering Company Limited and Kerala State Industrial Products Trading Corporation Limited.

⁹ Keltron Crystals Limited, Keltron Magnetics Limited and Keltron Resistors Limited have been merged with Keltron Component Complex Limited.

Government(s), Government companies and corporations controlled by Government(s) is treated as if it 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 Comptroller and Auditor General of India (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 in terms of Provisions of respective Legislations setting up these Corporations.

Investment in State PSUs

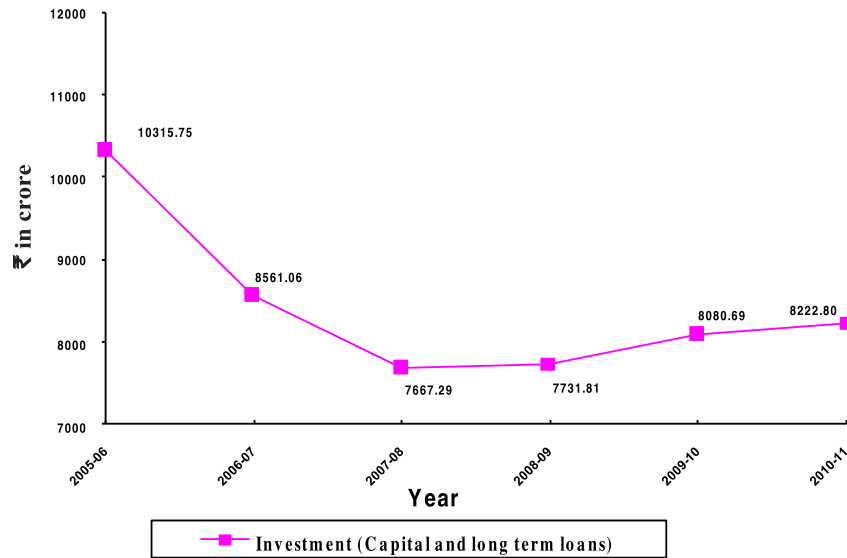
1.7 As on 31 March 2011, the Investment (Capital and Long Term Loans) in 120 PSUs (including 619-B companies) was ₹8222.80 crore as per details given below.

(₹ in crore)

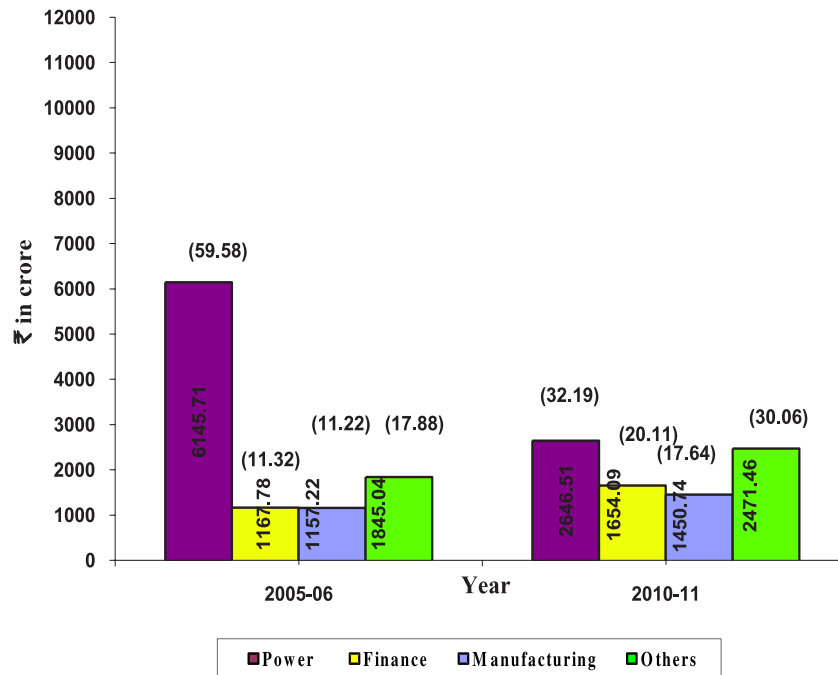
Type of PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working	2256.10	1266.16	3522.26	2263.75	2267.20	4530.95	8053.21
Non-working	64.29	105.30	169.59	...	...	...	169.59
Total	2320.39	1371.46	3691.85	2263.75	2267.20	4530.95	8222.80

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

1.8 As on 31 March 2011, of the total Investment in State PSUs, 97.94 per cent was in working PSUs and the remaining 2.06 per cent in non-working PSUs. This total Investment consisted of 55.75 per cent towards Capital and 44.25 per cent in Long Term Loans. The Investment had declined by 20.29 per cent from ₹10315.75 crore in 2005-06 to ₹8222.80 crore in 2010-11 as shown in the graph below.



1.9 The Investment in various important sectors and percentage thereof at the end of 31 March 2006 and 31 March 2011 are indicated below in the bar chart. The major chunk of PSU Investment was in power sector but the sector saw its percentage share decline from 59.58 per cent in 2005-06 to 32.19 per cent in 2010-11.



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

The Capital Investment increased by ₹1118.72 crore during 2006-2011 but Long Term Loans reduced by ₹3211.67 crore. There was overall net reduction in Investment by ₹2092.95 crore during the period.

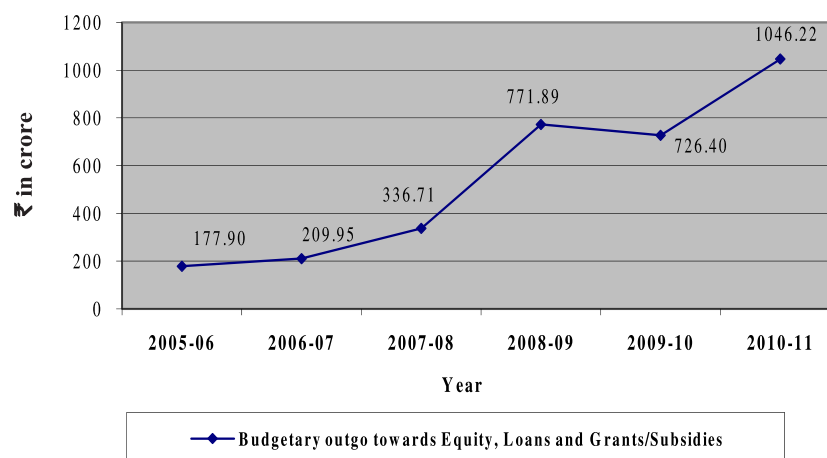
Budgetary outgo, grants/subsidies, guarantees and loans

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 2010-11.

(Amount ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	21	279.18	25	114.95	27	257.95
2.	Loans given from budget	13	148.11	16	322.73	16	322.56
3.	Grants / Subsidy received	29	344.60	24	288.72	28	465.71
4.	Total outgo (1+2+3)		771.89		726.40		1046.22
5.	Loans converted into Equity	1	22.22	1	12.38	4	66.87
6.	Loans written off	2	16.21	3	41.24	4	38.67
7.	Interest/Penal Interest written off	3	18.56	5	572.33	4	34.65
8.	Total Waiver (6+7)		34.77		613.57		73.32
9.	Guarantees issued	11	2,593.10	11	2,673.59	9	3357.91
10.	Guarantee Commitment	26	3,998.65	20	3,728.63	17	2872.77

1.11 The details regarding budgetary outgo towards Equity, Loans and Grants/ Subsidies for the six years ending 2010-11 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 showed an increasing trend and had increased from ₹177.90 crore in 2005-06 to ₹1046.22 crore in 2010-11. During 2010-11, the State Government had waived Loans and Interest / Penal Interest of ₹73.32 crore due from four PSUs as against ₹613.57 crore waived during the previous year.

During the year 2010-11, the Government had guaranteed Loans aggregating ₹3357.91 crore obtained by eight working Government companies (₹3107.91 crore) and one Statutory corporation (₹250.00 crore). At the end of the year, Guarantees of ₹2872.77 crore against 13 working Government companies (₹2579.37 crore) and three Statutory corporations (₹293.40 crore) were outstanding. As per the provisions of the Kerala Ceiling on Government Guarantee Act 2003, the Government shall guarantee only Loans 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 installments on 1 April and October of every financial year. The Guarantee Commission paid/ payable to the Government by Government companies (₹44.36 crore) and Statutory corporations (₹3.39 crore) during 2010-11 was ₹47.75 crore out of which ₹11.19 crore had been paid and a balance of ₹36.56 crore was outstanding as on 31 March 2011. The PSUs which had major arrears were - The Kerala State Financial Enterprises Limited (₹16.31 crore), Kerala State Electronics Development Corporation Limited (₹5.86 crore), The Kerala State Cashew Development Corporation Limited (₹3.92 crore), Kerala State Power and Infrastructure Finance Corporation Limited (₹1.94 crore) and Kerala State Road Transport Corporation (₹1.67 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 PSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2011 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	2785.23	4347.25	1562.02
Loans	4280.91	1235.39	3045.52
Guarantees	4213.43	2872.77	1340.66

1.13 We observed that the differences occurred in respect of 96 PSUs. The Principal Accountant General (PAG) had addressed (September 2011) the Chief Secretary and Principal Secretary (Finance) to the Government of Kerala and individual PSUs bringing to their attention the issue of difference in Investment

figures as appearing in the Finance Accounts and those furnished by the PSUs and the need for reconciliation of differences in a time-bound manner.

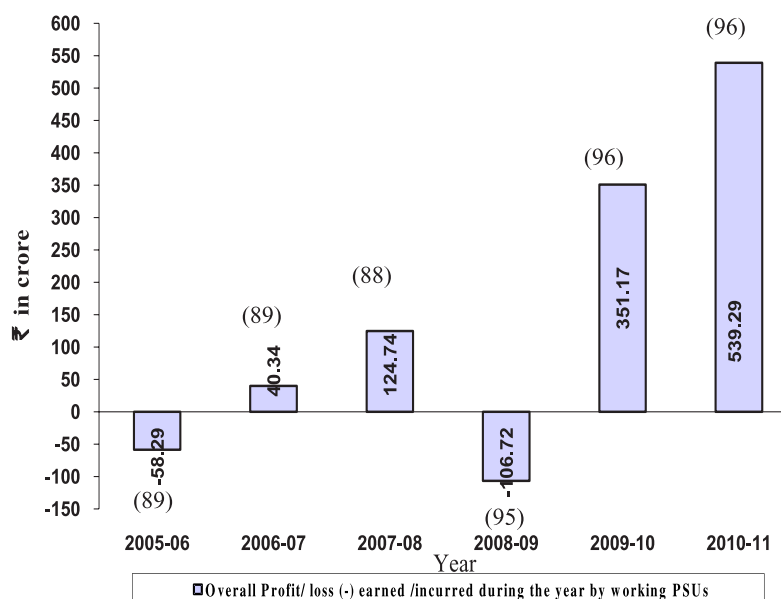
Performance of PSUs

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. 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 2005-06 to 2010-11.

(₹ in crore)						
Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover ¹⁰	8222.23	8846.01	10082.22	10877.80	12349.97	14579.38
State GDP ¹¹	136841.76	153784.88	175141.08	201019.75	230315.55	265322.00
Percentage of Turnover to State GDP	6.01	5.75	5.76	5.41	5.36	5.49

The percentage of Turnover of PSUs to the State GDP which had been declining steadily showed a slight improvement during 2010-11.

1.15 Profits earned/ Losses incurred by State working PSUs during 2005-06 to 2010-11 are given below in a bar chart.



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

¹⁰ Turnover as per the latest finalised accounts as of 30 September of every year.

¹¹ Gross State Domestic Product at current prices from 2005-06 to 2007-08, 2008-09 (provisional), 2009-10 (quick), 2010-11 (figure from Budget in brief, Government of Kerala 2011-12)

As evident from the above chart, Profit earned by working PSUs showed an increasing trend in 2010-11 over the year 2009-10.

During the year 2010-11, out of 96 working PSUs, 52 PSUs earned Profit of ₹788.89 crore and 38 PSUs incurred Loss of ₹249.60 crore as per their latest finalised accounts, while two¹² PSUs had negligible Profit/ Loss. Remaining four¹³ PSUs had not either commenced commercial activities or prepared their first accounts. The major contributors to Profit were Kerala State Electricity Board (₹240.72 crore), Kerala State Beverages (Manufacturing & Marketing) Corporation Limited (₹171.52 crore), The Plantation Corporation of Kerala Limited (₹52.73 crore), Kerala Financial Corporation (₹50.59 crore), Kerala State Financial Enterprises Limited (₹38.11 crore). Heavy losses were incurred by Kerala State Road Transport Corporation (₹ 117.12 crore), The Kerala State Cashew Development Corporation Limited (₹ 52.56 crore), Kerala State Electronics Development Corporation Limited (₹22.85 crore), Steel Complex Limited (₹8.38 crore), Kerala State Drugs and Pharmaceuticals Limited (₹6.52 crore).

1.16 The Losses of PSUs are mainly attributable to deficiencies in their 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 ₹1049.33 crore and infructuous investment of ₹117.09 crore which were controllable with better management. Year-wise details from Audit Reports are stated below:

(₹ in crore)				
Particulars	2008-09	2009-10	2010-11	Total
Net Profit (Loss)	(129.89)	331.78	521.47	723.36
Controllable Losses as per CAG's Audit Report	263.58	300.86	484.89	1049.33
Infructuous Investment	2.30	65.92	48.87	117.09

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. 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:

(₹ in crore)						
Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Return on Capital Employed (Per cent)	7.73	9.84	7.87	4.89	8.95	8.27
Debt	6850.33	5052.48	4085.37	3925.13	3900.95	3638.66
Turnover ¹⁴	8222.23	8846.01	10082.22	10877.80	12349.97	14579.38
Debt / Turnover Ratio	0.83:1	0.57:1	0.41:1	0.36:1	0.32:1	0.25:1
Interest Payments	472.03	460.86	407.33	733.76	767.41	744.17
Accumulated Losses	2445.52	2447.73	2026.74	2055.58	1212.70	369.96

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

¹² Serial Nos A31 and A75 in Annexure 2.

¹³ Serial Nos A14,42,57 and 81 in Annexure 2.

¹⁴ Turnover of working PSUs as per the latest finalised accounts as of 30 September.

1.19 Return on Capital Employed was showing a varying trend. It was 7.73 per cent in 2005-06, 9.84 per cent in 2006-07, 7.87 per cent in 2007-08, 4.89 per cent in 2008-09, 8.95 per cent in 2009-10 and reduced marginally to 8.27 per cent in 2010-11. At the same time Accumulated Losses of PSUs decreased from ₹2445.52 crore in 2005-06 to ₹369.96 crore in 2010-11. The Debt/ Turnover ratio also steadily declined from 0.83:1 in 2005-06 to 0.25:1 in 2010-11.

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, 52 working PSUs earned an aggregate profit of ₹788.89 crore and 14 PSUs declared a Dividend of ₹48.34 crore. The State Government Policy on Dividend payment was, however, complied with by only six¹⁵ companies.

Arrears in finalisation of accounts

1.21 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 2011.

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Number of Working PSUs	89	88	95	96	96
2.	Number of Accounts finalised during the year	84	74	99	93 ¹⁶	86 ¹⁷
3.	Number of Accounts in arrears	191	203 ¹⁸	198 ¹⁹	197 ²⁰	209 ²¹
4.	Average arrears per PSU (3/1)	2.15	2.31	2.08	2.05	2.18
5.	Number of Working PSUs with arrears in Accounts	70	71	71	73	76
6.	Extent of arrears (in years)	1 to 13	1 to 13	1 to 13	1 to 12	1 to 13

¹⁵ Rehabilitation Plantations Limited, The Kerala Minerals and Metals Limited, Kerala State Beverages (Manufacturing & Marketing) Corporation Limited, Oil Palm India Limited, Kerala State Financial Enterprises Limited and Kerala State Industrial Enterprises Limited.

¹⁶ Kerala State Information Technology Infrastructure Limited has prepared accounts from 31 January 2008 to 31 March 2008 and from 1 April 2008 to 31 March 2009 as one single account.

¹⁷ Kerala State Coastal Area Development Corporation has prepared accounts for 22 December 2008 to 31 March 2010 as one single account.

¹⁸ Excluding two accounts of Kerala Hi-Tech Industries Limited which was handed over to BrahMos Aerospace Thiruvananthapuram Limited.

¹⁹ Including eight arrear accounts of 619-B companies which were added to the list of companies but excluding nine arrear accounts of two companies which have become non-working during the year.

²⁰ Excluding four arrear accounts of Kerala Irrigation Infrastructure Limited which has become non-working during the year but inclusive of two accounts of Kerala State Coastal Area Development Corporation Limited.

²¹ Six arrear accounts of three companies which have been merged with Keltron Component Complex Limited excluded. One arrear account of Kannur International Airport Limited and seven arrear accounts of Trivandrum Spinning Mills Limited which has become a working company during the year included.

1.22 The performance of finalisation of Accounts during the year 2010-11 was on the lower side compared to previous year. Average arrears per PSU increased from 2.05 during 2009-10 to 2.18 during 2010-11. During 2010-11, thirty²² working PSUs did not finalise even a single Account which contributed to the accumulation of arrears in Accounts.

1.23 In addition to above, there were also arrears in finalisation of Accounts by non-working PSUs. Out of 24 non-working PSUs, except one non-working PSU²³ which had finalised its Accounts upto 2010-11, the remaining 23 non-working PSUs had arrears of Accounts for one to 26 years.

1.24 The State Government had invested ₹1462.79 crore (Equity: ₹302.52 crore, Loans: ₹461.85 crore, and Grants: ₹698.42 crore) in 48 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, there is no assurance that the Investments and Expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved and thus Government's Investment in such PSUs remain outside the scrutiny of the State Legislature. 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.

1.25 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. The Principal Accountant General (PAG) brought the position of arrears of Accounts to the notice of the administrative departments concerned. No remedial measures were, however, taken. As a result of this the Net Worth of these PSUs could not be assessed in audit. The PAG also addressed (October 2011) the issue to the Managements of the PSUs whose Accounts were in arrears for more than three years. Principal Secretary to Government of Kerala (Department of Industries and Bureau of Public Enterprises) had earlier 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.

²²Kerala Agro Machinery Corporation Limited, Kerala State Poultry Development Corporation Limited, The Kerala State Coir Corporation Limited, Aralam Farming Corporation (Kerala) Limited, Kerala Artisans' Development Corporation Limited, Kerala State Film Development Corporation Limited, Kerala State Handicapped Persons' Welfare Corporation Limited, Kerala State Women's Development Corporation Limited, Kerala Urban & Rural Development Finance Corporation Limited, Kerala Venture Capital Fund Private Limited, Kerala Venture Capital Trustee Private Limited, Kerala Police Housing and Construction Corporation Limited, Roads and Bridges Development Corporation of Kerala Limited, Kerala State Information Technology Infrastructure Limited, Kinfra Film and Video Park, Kanjikode Electronics and Electricals Limited, Keltron Electro Ceramics Limited, Kerala Clays and Ceramic Products Limited, Kerala Electrical and Allied Engineering Company Limited, Kerala Feeds Limited, Malabar Cements Limited, The Kerala Ceramics Limited, The Travancore Cements Limited, Travancore Titanium Products Limited, Malabar Distilleries Limited, Trivandrum Spinning Mills Limited, Kerala State Power and Infrastructure Finance Corporation Limited, Kerala Medical Services Corporation Limited, Vizhinjam International Seaport Limited, Kerala State Mineral Development Corporation Limited.

²³ Kerala State Detergents and Chemicals Limited

1.26 In view of above state of arrears, 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.

Winding up of non-working PSUs

1.27 There were 24 non-working PSUs (all companies) as on 31 March 2011. Liquidation process had commenced in five PSUs. The number of non-working companies at the end of each year during past five years is given below:

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
No. of non-working companies	25	25	28	27	24

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

1.28 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	24	...	24
2.	Of (1) above, the No. under:		...	
(a)	Liquidation by Court/ Voluntary winding up (Liquidator appointed)	06 ²⁴	...	06
(b)	Closure, i.e. closing orders / instructions issued but liquidation process not yet started.	10	...	10
(c)	Others ²⁵	8	...	8

1.29 During the year 2010-11, two²⁶ companies were wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from three to nine years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously. The Government may make an early decision regarding winding up of 10 non-working PSUs where closing orders/ instructions have been issued but liquidation process has not yet started. The Government may consider to expedite closing down its non-working companies.

Accounts Comments and Internal Audit

1.30 Sixty one working companies forwarded their 81 audited Accounts to PAG up to September 2011. Of these, 54 Accounts of 43 companies were selected for supplementary audit. The audit reports of Statutory Auditors appointed by CAG

²⁴ Keltron Power Devices Limited, Keltron Counters Limited, Keltron Rectifiers Limited, Kunnathara Textiles Limited, Kerala State Detergents and Chemicals Limited and SIDECO Mohan Kerala Limited.

²⁵ Out of the eight companies, the names of seven companies were struck off from the Register maintained by Registrar of Companies during 2011-12.

²⁶ The Metropolitan Engineering Company Limited and Kerala State Industrial Products Trading Corporation Limited.

and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of Aggregate Money Value of comments of Statutory Auditors and CAG are given below:

(Amount: ₹in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	14	33.88	21	102.96	24	29.05
2.	Increase in loss	31	28.72	23	175.85	20	21.15
3.	Non-disclosure of material facts	8	11.33	7	405.12	11	82.33
4.	Errors of classification	...	...	4	7.92	5	7.09

1.31 During the year 2010-11, the Statutory Auditors had given Unqualified Certificates for 13 Accounts, Qualified Certificates for 64 Accounts, Adverse Certificates (which means that Accounts do not reflect a true and fair position) for three Accounts and disclaimer (meaning the Auditors are unable to form an opinion on Accounts) for one Account. Additionally, CAG gave comments on 23 Accounts during the supplementary audit. The compliance of companies with the Accounting Standards (AS) remained poor. There were 106 instances of non-compliance of AS in 47 Accounts during the year.

1.32 Some of the important comments in respect of Accounts of companies are stated below.

Tourist Resorts (Kerala) Limited (2010-11)

- Liabilities (₹7.58 crore) stood understated by ₹0.37 crore due to non-provision of lease rent payable to Government of Kerala in violation of the Assignment of Land within Municipal and Corporation Areas (Amendment) Rules 2004. Correspondingly, the Profit before Tax (₹0.48 crore) also was overstated by an equal amount.

Kinfra Export Promotion Industrial Parks Limited (2009-10)

- Profit for the year, ₹2.47 crore, was understated by ₹0.67 crore due to non-accounting of matching income equivalent to Depreciation on Assets created and capitalised out of Grants received from Government of India as required under AS12.

Kerala State Electronics Development Corporation Limited (2009-10)

- Net loss for the year, ₹22.68 crore, was arrived at without accounting interest on Guarantee Commission outstanding, in line with the Government order, resulting in understatement of Loss for the year by ₹0.51 crore.

Kerala State Textile Corporation Limited (2009-10)

- Net Profit for the year, ₹0.49 crore, was overstated by ₹0.53 crore due to short provision of Gratuity liability and non provision of 'Interest Accrued but not due' on margin money Loan.

Kerala State Backward Classes Development Corporation Limited (2006-07)

- Profit for the year, ₹10.51 crore, was overstated by ₹0.43 crore due to non-provision for Pay Revision Arrears and Service Tax Liability.

1.33 Similarly, the five working Statutory corporations had forwarded their five Accounts to PAG upto 30 September 2011. Of these, three Accounts²⁷ pertained to corporations where CAG was the sole auditor which were completed and Separate Audit Reports (SARs) issued. The remaining two Accounts²⁸ were selected for supplementary audit and SARs 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: ₹in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1	Decrease in profit	...	...	2	1,555.79	2	2580.81
2	Increase in loss	2	6.73	1	0.22	1	3.98
3	Non-disclosure of material facts	2	18.41	1	0.07	3	251.45
4	Errors of classification	2	21.91	1	1.18	1	126.37

1.34 During the year 2010-11, the five Statutory corporations furnished their five accounts. Four²⁹ of them were issued qualified certificates while one³⁰ certificate was issued without qualification.

1.35 Some of the important comments in respect of Accounts of Statutory corporations are stated below.

Kerala State Electricity Board (2009-10)

- Interest on Electricity Duty, Inspection fee and Surcharge payable to the State Government under Section 8 of the Kerala Electricity Duty Act 1963 for the period from 2002-03 to 2008-09 amounting to ₹1929.88 crore was not provided for during the year resulting in overstatement of profits.

Kerala State Road Transport Corporation (2008-09)

- Loss for the year, ₹ 117.12 crore, was understated by ₹ 2.27 crore due to non-provision for the Pay Revision Arrear for the month of March 2009 (paid in May 2009).

²⁷ Kerala Industrial Infrastructure Development Corporation (2009-10), Kerala State Electricity Board (2009-10) and Kerala State Road Transport Corporation (2008-09).

²⁸ Kerala State Warehousing Corporation (2007-08) and Kerala Financial Corporation (2010-11).

²⁹ Kerala Financial Corporation (2010-11), Kerala Industrial Infrastructure Development Corporation (2009-10), Kerala State Electricity Board (2009-10) and Kerala State Road Transport Corporation (2008-09).

³⁰ Kerala State Warehousing Corporation (2007-08).

Kerala Financial Corporation (2010-11)

- Non-provision of non-performing Loan Assets of ₹9.49 crore resulted in overstatement of Operating Profit of ₹61.70 crore by a like amount.

1.36 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 54 companies for the year 2009-10 and 41 companies³¹ for the year 2010-11 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	
		2009-10	2010-11	2009-10	2010-11
1.	Non-fixation of minimum/maximum limits of stores and spares	2	2	A-10, 66	A-34,65
2.	Absence of internal audit system commensurate with the nature and size of business of the company	22	29	A-2,5,8,14,15, 20,22,23,26, 28,34,35,45,36, 52,55,62,64,74, 82: C-20,23	A-2,3,4,13, 15, 19 ,20,24, 26,28,33,36,4 7,53,54,56, 63,65,66,67, 69, 71,74,82, 85,86, 88, C- 21,22
3.	Non-maintenance of cost records	5	5	A-7,61,66: C-20,23	A-24,47,58, 62, C-21
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	18	23	A-2,7, 8,12,15, 20,25,28,55,56, 58, 61, 64, 65,66, ,74, 80 B-1,	A-3,4,8,13,17, 19,23,36,44, 54,55,62,63, 66,79,86,88, C-6,8, 9,13, 21,22
5	Lack of internal control over sale of power	7	8	A-2,5,20,25, 40,75; C-5	A-2,4,13,19, 47,82,85,C-13

Recoveries at the instance of audit

1.37 During the course of propriety audit in 2010-11, recoveries to be made amounting to ₹ 26.94 crore were pointed out to the Managements of various PSUs, of which an amount of ₹ 6.64 crore was admitted by PSUs. An amount of ₹ 6.63 crore was recovered during the year 2010-11.

³¹ A-2,3,4,8,13,15,17,19,20,23,24,26,28,33,34,36,44,47,53,54,55,56,58,62,63,65,66,67,69,71,74,79, 82,85,86,88; C-6,9,13,21,22.

Status of placement of Separate Audit Reports

1.38 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.

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	2009-10	2010-11	Accounts not finalised	
2.	Kerala State Road Transport Corporation	2006-07	2007-08	11.03.2011	Yet to be placed in the Legislature
			2008-09	04.11.2011	
			2009-10	Accounts not finalised	
			2010-11		
3	Kerala Financial Corporation	2009-10	2010-11	26.09.2011	Yet to be placed in the Legislature
4	Kerala State Warehousing Corporation	2007-08	2008-09	Accounts not finalised	
			2009-10		
			2010-11		
5	Kerala Industrial Infrastructure Development Corporation	2009-10	2010-11	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.

Disinvestment, Privatisation and Restructuring of PSUs

1.39 The Government restructured Kerala State Electricity Board into Kerala State Electricity Board Limited. The Company was incorporated on 14 January 2011. It is yet (September 2011) to take over all the assets, rights and obligation of erstwhile Kerala State Electricity Board.

Reforms in Power Sector

1.40 The State has Kerala State Electricity Regulatory Commission (KSERC) formed (November 2002) under Section 17 (1) of the Electricity Regulatory Commissions Act, 1998³², with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences.

1.41 Memorandum of Understanding (MoU) was signed (August 2001) between the Union Ministry of Power and the State Government as a joint commitment for

³² Since replaced with Section 82 (1) of the Electricity Act, 2003.

implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below:

		Milestone	Achievement as at March 2011
I	By the State Government:		
	Reduction in Transmission and Distribution losses	Reduction of loss to 17 <i>per cent</i> by December 2004	T&D loss has been reduced from 30.84 <i>per cent</i> in 2001-02 to 16.09 <i>per cent</i> in March 2011.
	Electrification of all villages	100 <i>per cent</i>	All Villages electrified.
	Metering of all distribution feeders	100 <i>per cent</i> by October 2001	Metering of all feeders completed.
	Metering of all consumers	100 <i>per cent</i> by December 2001	Metering of all consumers completed.
	Securitising outstanding dues of Central PSUs	Securitisation limit not to cross two months billing	An amount of ₹ 1158.25 crore outstanding as on 30.09.2001 has been securitised by Government of Kerala by issuing bonds to CPSUs.
	Establishment of State Electricity Regulatory Commission (SERC)	October 2001	KSERC has started functioning on 29 November 2002.
	Implementation of tariff orders issued by SERC during the year		KSERC has approved (December 2010) revision of bulk supply tariff applicable to licensees and bulk consumers, which has been implemented by the latter with effect from 01 December 2010.
	Energy Audit of 11 KV metering	March 2002	Metering of all 11 KV feeders completed.
	Energy Audit above 11 KV metering	October 2001	Metering of all feeders above 11 KV completed.
	Computerisation of accounting and billing in towns	Computerised billing & customer service centre - Town Schemes (target 66 nos) Billing collection & Accounting in towns (target 619 nos as on 31.03.07)	LT Billing Computerisation completed in all 641 sections of KSEB.