

# EXECUTIVE SUMMARY

## About this report

This report presents the financial position and performance of the State Public Sector Undertaking (PSUs) in Kerala. Besides, the report also covers other significant aspects viz. Oversight role of the Comptroller and Auditor General of India (CAG), Corporate Governance in PSUs and Corporate Social Responsibility of PSUs.

## Audit Coverage

There were 150 PSUs under the audit jurisdiction of the Comptroller and Auditor General of India as on 31 March 2022. These included 130 Government companies, 16 Government controlled other companies and four Statutory corporations. This Report deals with the analysis of financial position and performance of 131 working PSUs. Nineteen PSUs which were defunct/ non-working/ under liquidation are not covered in this Report.

*(Para 1.1.2)*

## What have we found and what do we recommend

This report contains four chapters under which particulars of the financial position and operational performance of PSUs were reviewed and CAG's observations given thereon. Further, Corporate Governance practices and Corporate Social Responsibility activities of PSUs were reviewed and recommendations thereon are provided.

## Chapter I Summary of Financial Performance of Public Sector Undertakings

### Investment by State Government

As on 31 March 2022, the total investment by Government of Kerala (GoK) in 131 PSUs was ₹20,439.04 crore comprising of equity share capital of ₹9,817.46 crore and long term loans of ₹10,621.58 crore. The GoK infused equity of ₹ 386.51 crore in 22 PSUs during 2021-22.

*(Para 1.2)*

### **Return from Government companies and Corporations**

Out of 131 working PSUs, 55 PSUs earned profit of ₹654.99 crore as per their finalised accounts submitted till September 2022 while 63 PSUs incurred losses of ₹4,065.38 crore. Four PSUs have incurred no profit/loss. There were nine PSUs which were yet to furnish their first accounts for CAG's review.

*(Para 1.3.1 and Para 1.3.2)*

### **Net worth/ Accumulated loss**

Seventy five working PSUs had an aggregate accumulated loss of ₹19,169.12 crore as per their latest finalised accounts. Of the 75 PSUs, the net worth of 46 PSUs had been completely eroded by accumulated loss and their net worth was negative. The net worth of these PSUs was (-)₹12,460.21 crore against equity investment of ₹6,081.18 crore. Out of 46 PSUs, whose capital had been eroded, 37 PSUs reported loss of ₹3,935.37 crore, eight PSUs had a profit of ₹78.26 crore and one PSU reported no profit/loss as per the latest finalised accounts.

*(Para 1.3.3)*

Three PSUs declared dividend of ₹3.23 crore during the year 2021-22. The return in the form of dividend on aggregate investment of ₹2,344.07 crore in 51 profit earning PSUs was 0.06 *per cent*.

*(Para 1.3.4)*

Fifty one profit earning PSUs had not declared dividend or declared dividend lesser than the percentage stipulated by GoK and there was shortfall of ₹226.47 crore in the payment of dividend to GoK.

*(Para 1.3.4)*

## **Chapter II Oversight role of CAG**

Five PSUs (including one Statutory corporation) submitted their accounts for the financial year 2021-22 for audit within the stipulated period. Sixty PSUs submitted their arrear accounts (2014-15 to 2020-21) for audit by CAG.

*(Para 2.3.2)*

Out of 86 certified accounts received from 65 PSUs, 38 certified accounts of 32 Government companies and one Government controlled other company along with the report of the Statutory auditors were reviewed by CAG by carrying out supplementary audits. The accounts of Kerala Financial Corporation for 2021-22 was also audited separately. For the balance 47 certified accounts, CAG conducted review of the financial statements and the Statutory auditors' reports and issued Non-review certificates to those companies.

*(Para 2.5.1)*

As a result of supplementary audit of financial statements conducted by CAG during 2021-22, the Statutory auditors of five Government companies revised their reports before laying the financial statements of these companies in their General Meeting.

*(Para 2.5.1.1)*

Deviations from the provisions of Accounting Standards/Ind AS in preparation of financial statements were noticed in 40 companies by the Statutory auditors.

*(Para 2.6)*

### **Chapter III Corporate Governance**

Out of the 131 working PSUs, 72 companies and one Statutory corporation had furnished (till 30 October 2022) the details regarding corporate governance which were considered for analysis. Out of the 72 companies, 40 companies did not comply with the mandatory requirement of conducting four meetings of the Board of Directors during 2021-22.

*(Para 3.2.1)*

Out of the 72 companies, six companies appointed independent directors on their Board and 26 companies appointed at least one woman director.

*(Para 3.2.2 and 3.2.3)*

Out of the 72 companies, the independent directors of only five companies attended General Meetings.

*(Para 3.3.3)*

Out of the 72 companies, in 11 companies, the posts of Key Managerial Personnel were not filled up within the time prescribed.

*(Para 3.4.1)*

Audit Committee was not constituted in 52 out of 73 PSUs and majority of the members of Audit Committee were not independent directors in 15 PSUs.

*(Para 3.5.1)*

Out of the 72 companies, four companies did not implement whistle blower mechanism though they satisfied the criteria required for the same.

*(Para 3.6.1)*

## Chapter IV Corporate Social Responsibility

Audit reviewed the Corporate Social Responsibility (CSR) activities carried out by nine PSUs which reported profit of rupee five crore or more and were having accumulated profit in their latest annual accounts. It was seen that the CSR committees of eight out of nine PSUs monitored implementation of CSR policy. One PSU spent more than two *per cent* of CSR funds, two PSUs spent exactly two *per cent*, three PSUs spent less than two *per cent* and three PSUs did not spend the allocation made towards CSR activity.

*(Para 4.5.1.4 & 4.5.2.1)*

Out of the nine PSUs, total spending on CSR activities by six PSUs was ₹11.82 crore. Welfare and charity (52 *per cent*) and health activities (27 *per cent*) were the main focus areas and secured maximum funding.

*(Para 4.5.2.3 and Para 4.5.3.2)*

### What did we recommend

We recommended the following to the Government of Kerala:

1. Out of the 150 PSUs, 131 PSUs are functional and 19 are non-functional. These companies are either defunct or at various stages of liquidation. Five companies are under liquidation by court since August 1990-July 2006; six companies are yet to start the liquidation process since 1996-2017 and for eight companies, Government is yet to issue closure letter and this has been pending since 1986-87 to 2018-19. In view of the above long pendency in winding up, Government must expedite the process of winding up.
2. There are differences in equity, loans and guarantees in the accounts maintained by the PSUs and those of the Government of Kerala, which are lying unattended for a long time. Therefore, the State Government and the respective PSUs should reconcile the differences relating to equity, loan and guarantees in a time-bound manner.
3. Government needs to decide on the business models of the loss making PSUs in order to address the root cause of the losses. In case the business model is not sustainable, then the Government should close the companies to avoid further straining of the public exchequer.
4. Out of the total 131 working PSUs, only five PSUs submitted their accounts for the year 2021-22 to the CAG for audit thus representing merely 3.82 *per cent* of the total PSUs under its jurisdiction. A total of 350 accounts were due from 126 PSUs. Therefore, for the delay in submission of accounts, Government must fix responsibility on the concerned CEOs/CMDs/CFOs and timely submission of accounts as a criterion needs to be fixed for further extension of tenure or for fresh appointment of CEOs in other companies.

Government should also contemplate the application of Section 129 (7) of the Companies Act which requires fines and/or imprisonment for non-preparation of accounts timely.

5. As part of corporate governance measures, Government must ensure that:
  - 5.1 Audit Committees review the internal audit process including the internal audit reports and action taken on the reports by the companies as per the provisions of the Companies Act, 2013.
  - 5.2 Audit Committees discuss with the Statutory auditors the areas of concerns in the companies and suggest additional areas which require further probe and reporting.
  - 5.3 Whistle blower mechanism is formed by the companies which are legally required to do so.
  - 5.4 Regular meetings of Board of Directors are held as per the provisions of the Companies Act, 2013.
  - 5.5 Training is provided to the directors of the companies to keep themselves updated with the changes taking place in the business environment.
6. As part of Corporate Social Responsibility measures, Government must ensure that:
  - 6.1 The companies appoint independent directors in the CSR committee for better governance and transparency.
  - 6.2 Companies focus on spending the allocated funds on eligible activities in a timely manner.
  - 6.3 The Travancore Sugars and Chemicals Limited establishes the monitoring mechanism for CSR activities.
  - 6.4 The CSR Committees of the companies review and strengthen the monitoring mechanism through review meetings.