

# CHAPTER I

## 1 Functioning 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 keeping in view the welfare of people and also occupy an important place in the State economy. As on 31 March 2016, there were 128 PSUs in Kerala. No company was listed on the stock exchanges as on 31 March 2016. One PSU<sup>1</sup> commenced business in the year 2015-16 and one company<sup>2</sup> became a Government Company in the year 2013-14. The details of the State PSUs in Kerala as on 31 March 2016 are given in *Table 1.1*:

**Table 1.1: Total number of PSUs as on 31 March 2016**

| Type of PSUs          | Working    | Non-working | Total      |
|-----------------------|------------|-------------|------------|
| Government company    | 109        | 15          | 124        |
| Statutory corporation | 4          | 0           | 4          |
| <b>Total</b>          | <b>113</b> | <b>15</b>   | <b>128</b> |

The working PSUs registered a turnover of ₹19,878.35 crore as per their latest finalised accounts as of September 2016. This turnover was equal to 3.40 *per cent* of Gross State Domestic Product (GSDP) for 2015-16. The working PSUs incurred aggregate loss of ₹623.78 crore as per their latest finalised accounts. They had employed 1.27 lakh employees as at the end of March 2016.

As of 31 March 2016, there were 15 non-working PSUs having investment of ₹111.65 crore. They were non-functioning for the last 10 to 32 years. This is a critical area as the investments in non-working PSUs do not contribute to the economic growth of the State.

### Accountability framework

**1.2** The accounts of Government companies (including companies deemed to be Government companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act, 1956 and Sections 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, Government company means any company in which not less than fifty one *per cent* of the paid up share capital is held 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, and

<sup>1</sup> Trivandrum Engineering Science and Technology Research Park.

<sup>2</sup> Kerala Aqua Ventures International Limited.

includes a company which is a subsidiary company of such a Government company.

Further, as per Section 143(7) of the Act, CAG may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of Section 19 A of CAG's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit. Thus, a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by CAG. An audit of the financial statement of a company in respect of the financial years that commence on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

### **Statutory Audit**

**1.3** The financial statements of the Government companies {as defined in Section 2 (45) of the Act} are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 139 (5) or (7) of the Act. They shall submit a copy of the Audit Report to CAG including financial statements of the company under Section 143(5) of the Act. These financial statements are subject to supplementary audit to be conducted by CAG within sixty days from the date of receipt of the audit report as per the provisions of Section 143(6) of the Act.

Audit of Statutory corporations is governed by their respective legislations. Out of four statutory corporations, CAG is the sole auditor for Kerala State Road Transport Corporation and Kerala Industrial Infrastructure Development Corporation. In respect of Kerala State Warehousing Corporation and Kerala Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit done by CAG.

### **Role of Government and Legislature**

**1.4** The State Government exercises control over the affairs of these PSUs through its administrative departments. Government appoints the Chief Executive and the Directors to the Board.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Report and comments of CAG, in respect of State Government companies and Separate Audit Reports in case of Statutory corporations are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

## Stake of Government of Kerala

1.5 The State Government's stake in the PSUs is of mainly three types:

- **Share Capital and Loans-** In addition to the share capital contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

## Investment in State PSUs

1.6 As on 31 March 2016, the investment (capital and long-term loans) in 128 PSUs was ₹19786.89 crore as per details given in *Table 1.2*:

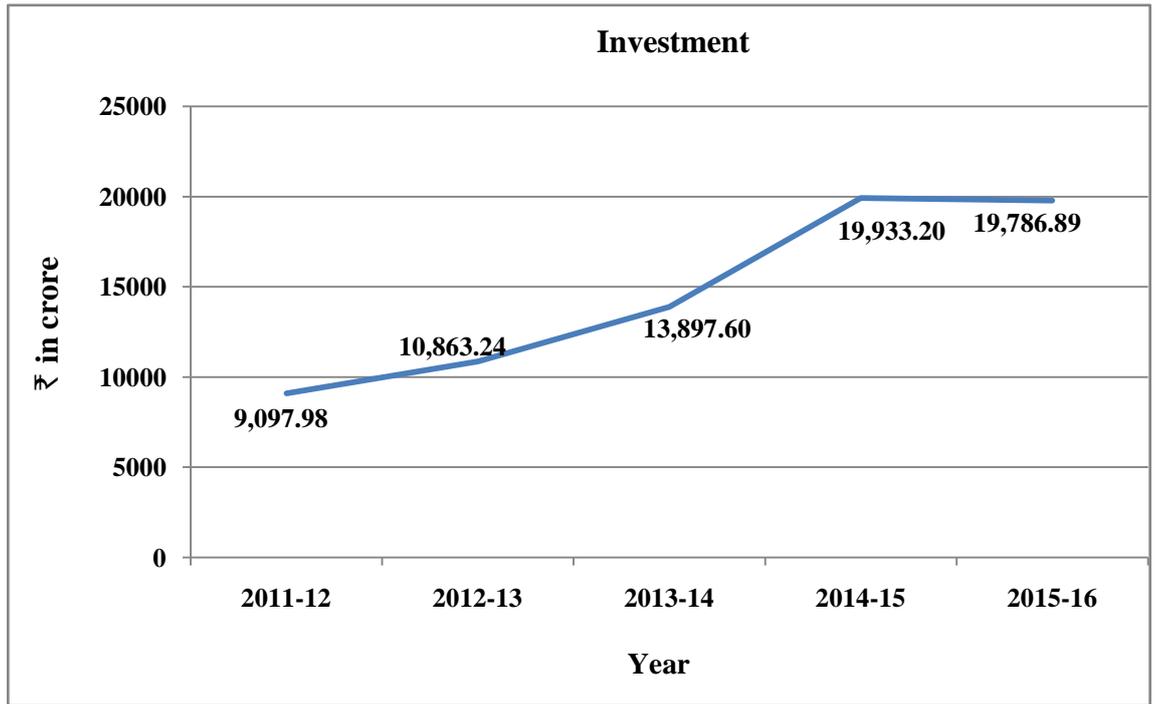
**Table 1.2: Total investment in PSUs**

(₹ in crore)

| Type of PSUs     | Government companies |                 |                  | Statutory corporations |                 |                 | Grand Total      |
|------------------|----------------------|-----------------|------------------|------------------------|-----------------|-----------------|------------------|
|                  | Capital              | Long Term Loans | Total            | Capital                | Long Term Loans | Total           |                  |
| Working PSUs     | 7,644.86             | 5,886.89        | 13,531.75        | 989.64                 | 5,153.85        | 6,143.49        | 19,675.24        |
| Non-working PSUs | 44.87                | 66.78           | 111.65           | 0.00                   | 0.00            | 0.00            | 111.65           |
| <b>Total</b>     | <b>7,689.73</b>      | <b>5,953.67</b> | <b>13,643.40</b> | <b>989.64</b>          | <b>5,153.85</b> | <b>6,143.49</b> | <b>19,786.89</b> |

As on 31 March 2016, of the total investment in State PSUs, 99.44 per cent was in working PSUs and the remaining 0.56 per cent in non-working PSUs. This total investment consisted of 43.86 per cent towards capital and 56.14 per cent in long term loans. The investment has grown by 117.49 per cent from ₹9,097.98 crore in 2011-12 to ₹19,786.89 crore in 2015-16 as shown in *Chart 1.1*.

**Chart 1.1: Total investment in PSUs**



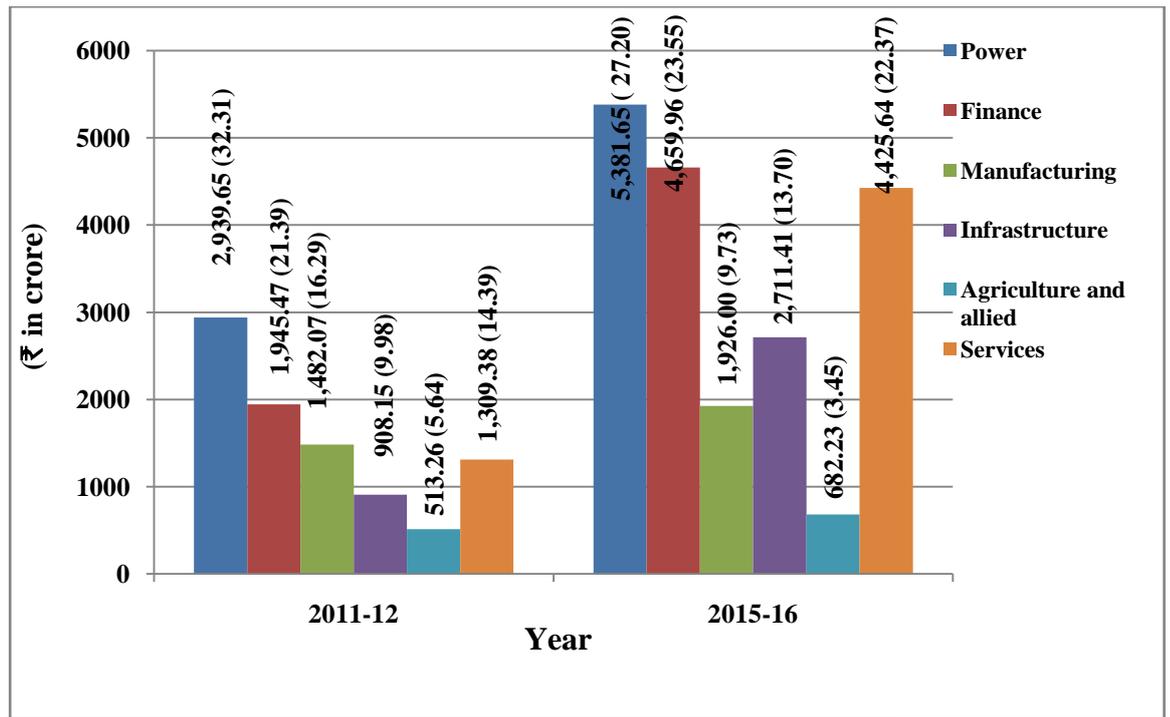
1.7 The sector wise summary of investments in the State PSUs as on 31 March 2016 is given in *Table 1.3*:

**Table 1.3: Sector-wise investment in PSUs**

| Name of sector         | Government companies | Statutory corporations | Total      | Investment (₹ in crore) |
|------------------------|----------------------|------------------------|------------|-------------------------|
|                        | (Number)             |                        |            |                         |
| Power                  | 3                    | ...                    | 3          | 5,381.65                |
| Finance                | 18                   | 1                      | 19         | 4,659.96                |
| Manufacturing:         |                      |                        |            |                         |
| Working                | 35                   | ...                    | 35         | 1,814.35                |
| Non-working            | 15                   | ...                    | 15         | 111.65                  |
| Infrastructure         | 16                   | 1                      | 17         | 2,711.41                |
| Agriculture and allied | 17                   | 1                      | 18         | 682.23                  |
| Services               | 20                   | 1                      | 21         | 4,425.64                |
| <b>Total</b>           | <b>124</b>           | <b>4</b>               | <b>128</b> | <b>19,786.89</b>        |

The investment in various sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 are indicated in *Chart 1.2*.

Chart 1.2: Sector-wise investment in PSUs



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

The thrust of PSU investment was mainly in power sector which increased from ₹2,939.65 crore in 2011-12 to ₹5,381.65 crore in 2015-16, thus, registering an increase of 83.07 per cent. Investment in service sector also increased substantially from ₹1,309.38 crore in 2011-12 to ₹4,425.64 crore in 2015-16 with an increase of 238 per cent.

### Financial support and returns during the year

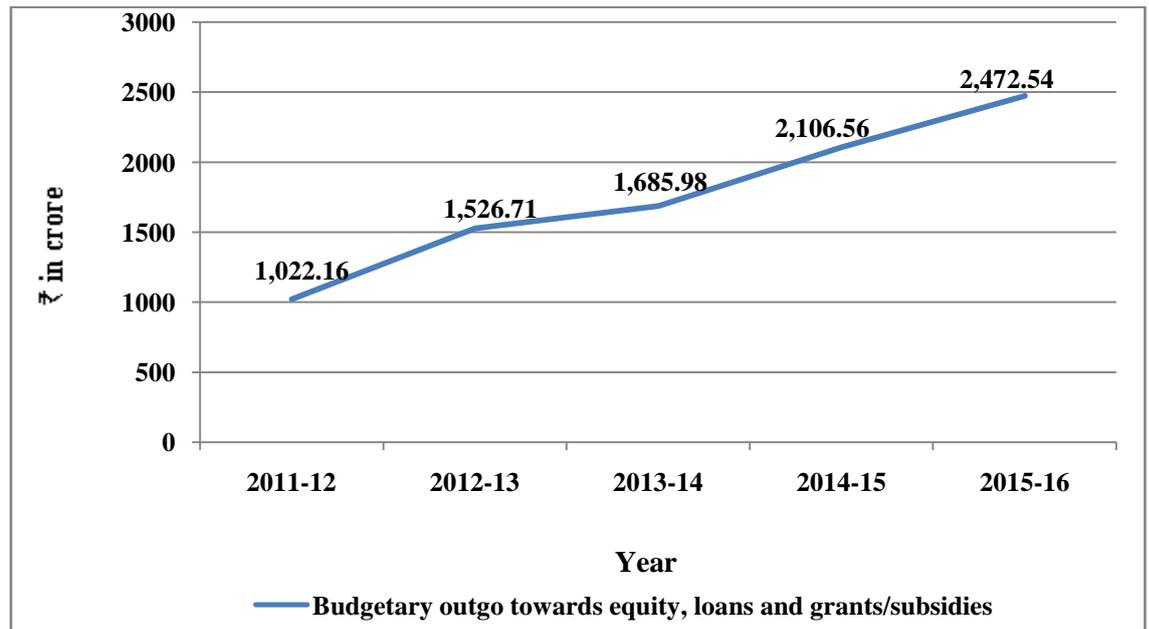
**1.8** The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and interest waived in respect of State PSUs for three years ended 2015-16 are given in *Table 1.4*:

**Table 1.4: Details regarding budgetary support to PSUs**

| Sl. No. | Particulars                      | 2013-14     |                     | 2014-15     |                     | 2015-16     |                     |
|---------|----------------------------------|-------------|---------------------|-------------|---------------------|-------------|---------------------|
|         |                                  | No. of PSUs | Amount (₹ in crore) | No. of PSUs | Amount (₹ in crore) | No. of PSUs | Amount (₹ in crore) |
| 1       | Equity Capital outgo from budget | 24          | 456.36              | 23          | 357.84              | 19          | 305.93              |
| 2       | Loans given from budget          | 18          | 658.86              | 18          | 354.92              | 19          | 358.19              |
| 3       | Grants/Subsidy given             | 28          | 570.76              | 32          | 1,393.80            | 25          | 1,808.42            |
| 4       | <b>Total outgo (1+2+3)</b>       |             | <b>1,685.98</b>     |             | <b>2,106.56</b>     |             | <b>2,472.54</b>     |
| 5       | Waiver of loans and interest     | 2           | 2.24                | 1           | 23.98               | 1           | 5.07                |
| 6       | Guarantees issued                | 10          | 3,466.64            | 7           | 4,696.34            | 9           | 4,989.66            |
| 7       | Guarantee commitment             | 13          | 4,669.98            | 14          | 5,579.21            | 17          | 6,484.74            |

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in *Chart 1.3*.

**Chart 1.3: Budgetary outgo towards equity, loans and grants/ subsidies**



The above chart indicates that the budgetary assistance in the form of equity, loans and grants/subsidies by the Government of Kerala (GoK) to PSUs increased from ₹1,022.16 crore in 2011-12 to ₹2,472.54 crore in 2015-16. During 2015-16, GoK waived loans and interest/penal interest of ₹5.07 crore due from one PSU<sup>3</sup> as against ₹23.98 crore waived during the previous year.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State Government gives guarantees under the Kerala Ceiling on

<sup>3</sup> Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited.

Government Guarantee Act, 2003 subject to the limits prescribed by the Constitution of India, for which the guarantee commission is being charged. The Government would charge a minimum of 0.75 per cent as guarantee commission, which shall not be waived under any circumstances. The guarantee commitment increased to ₹6,484.74 crore during 2015-16 from ₹5,579.21 crore in 2014-15. Further, 16 PSUs paid guarantee commission to the tune of ₹63.28 crore during 2015-16. There were 13 PSUs which did not pay guarantee commission during 2015-16. The accumulated/ outstanding guarantee commission was ₹36.85 crore as on 31 March 2016. The PSUs which had major arrears were Kerala State Electricity Board Limited (₹13.60 crore), Kerala Transport Development Finance Corporation Limited (₹11.52 crore), Kerala State Electronics Development Corporation Limited (₹5.36 crore) and Kerala State Road Transport Corporation (₹3.20 crore).

### Reconciliation with Finance Accounts

**1.9** 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 2016 is stated in *Table 1.5*.

**Table 1.5: Equity, loans and guarantees outstanding as per Finance Accounts vis-a-vis records of PSUs**

(₹ in crore)

| Outstanding in respect of | Amount as per Finance Accounts | Amount as per records of PSUs | Difference |
|---------------------------|--------------------------------|-------------------------------|------------|
| Equity                    | 4,379.98                       | 7,866.08                      | 3,486.10   |
| Loans                     | 6,346.74                       | 2,251.41                      | 4,095.33   |
| Guarantees                | 6,630.80                       | 6,484.74                      | 146.06     |

Audit observed that the differences occurred in respect of 99 out of 128 PSUs. The Principal Accountant General, Economic & Revenue Sector Audit-Kerala (PAG) had taken up this matter from time to time with the Chief Secretary, Principal Secretary (Finance), Secretaries of departments of GoK concerned and individual PSUs so as to reconcile the differences in a time-bound manner. The progress in reconciliation was, however, not impressive. Thus, GoK and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

### Arrears in finalisation of accounts

**1.10** The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 136(1) of read with Sections 129(2) and 96(1) of the Act. Failure to do so may attract penal provisions under Section 129(7) of the Act. Similarly, in

case of statutory corporations, their accounts are required to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Table 1.6 provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2016:

**Table 1.6: Position relating to finalisation of accounts of working PSUs**

| Sl. No. | Particulars                                     | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16          |
|---------|---|---------|---------|---------|---------|------------------|
| 1       | Number of working PSUs                          | 99      | 101     | 109     | 111     | 113              |
| 2       | Number of accounts finalised during the year    | 97      | 118     | 101     | 95      | 103              |
| 3       | Number of accounts in arrears                   | 207     | 194     | 198     | 239     | 252 <sup>4</sup> |
| 4       | Number of working PSUs with arrears in accounts | 77      | 75      | 83      | 94      | 96               |
| 5       | Extent of arrears (in years)                    | 1 to 14 | 1 to 12 | 1 to 11 | 1 to 19 | 1 to 20          |

It can be observed that the number of accounts in arrears has increased from 207 in 2011-12 to 252 in 2015-16. The number of arrears of accounts includes 246 accounts of 93 Government companies and six accounts of three<sup>5</sup> Statutory corporations.

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 stipulated period. Though the Administrative Departments concerned were informed regularly (twice a year), the number of accounts in arrears is still on higher side. In addition, this issue was also discussed in the Apex Committee meeting convened by the Chief Secretary and in the Audit Monitoring Committee meetings conducted by the Heads of Administrative Departments. However, no improvement has been noticed.

**1.11** The State Government had invested ₹4,626.33 crore in 54 PSUs {Equity: ₹547.09 crore (23 PSUs), loans: ₹724.40 crore (20 PSUs) and grants ₹3,354.84 crore (31 PSUs)} during the years for which accounts have not been finalised as detailed in **Appendix 1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investment and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus, Government's investment in such PSUs remained outside the control of State Legislature.

**1.12** In addition to the above, as on 30 September 2016, there were arrears in finalisation of accounts by non-working PSUs. Out of 15 non-working PSUs, four PSUs<sup>6</sup> were in the process of liquidation whose 20 accounts<sup>7</sup> were

<sup>4</sup> Including the accounts in arrears of new PSUs.

<sup>5</sup> Kerala State Warehousing Corporation Limited (2013-14 to 2015-16), Kerala State Road Transport Corporation (2014-15 to 2015-16) and Kerala Industrial Infrastructure Development Corporation (2015-16).

<sup>6</sup> Keltron Rectifiers Limited, Keltron Power Devices Limited, Kunnathara Textiles Limited and Vanjinad Leathers Limited.

in arrears. Of the remaining 11 non-working PSUs, 129 accounts were in arrears.

**Table 1.7: Position relating to arrears of accounts in respect of non-working PSUs**

| Number of non-working companies | Period for which accounts were in arrears | Number of accounts in arrears |
|---------------------------------|---|-------------------------------|
| 15                              | 1985-86 to 2015-16                        | 149                           |

In respect of non-working companies where accounts were in arrears starting from 1985-86 onwards, the progress in finalisation of the accounts was poor. For example, only 3<sup>8</sup> out of 15 non-working PSUs finalised their accounts during 2015-16.

### Placement of Separate Audit Reports

**1.13** The position depicted in *Table 1.8* shows the status of placement of Separate Audit Reports (SARs) issued by CAG (up to 30 September 2016) on the accounts of Statutory corporations in the Legislature.

**Table 1.8: Status of placement of SARs in Legislature**

| Sl. No. | Name of Statutory corporation                            | Years up to which SARs placed in Legislature |
|---------|--|--|
| 1       | Kerala State Road Transport Corporation                  | 2011-12                                      |
| 2       | Kerala Financial Corporation                             | 2014-15                                      |
| 3       | Kerala State Warehousing Corporation                     | 2011-12                                      |
| 4       | Kerala Industrial Infrastructure Development Corporation | 2013-14                                      |

### Impact of non-finalisation of accounts

**1.14** As pointed out above (*Paragraphs 1.10 to 1.12*), the 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 relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to the GSDP for the year 2015-16 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, 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.

<sup>7</sup> Excluding accounts of Kunnathara Textiles Limited and Vanjinad Leathers Limited (data regarding their finalisation of accounts were not available).

<sup>8</sup> Kerala State Detergents and Chemicals Limited (2014-15), Kerala Special Refractories Limited (2014-15) and Kerala State Wood Industries Limited (2002-03 to 2011-12).

- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.

**Performance of PSUs as per their latest finalised accounts**

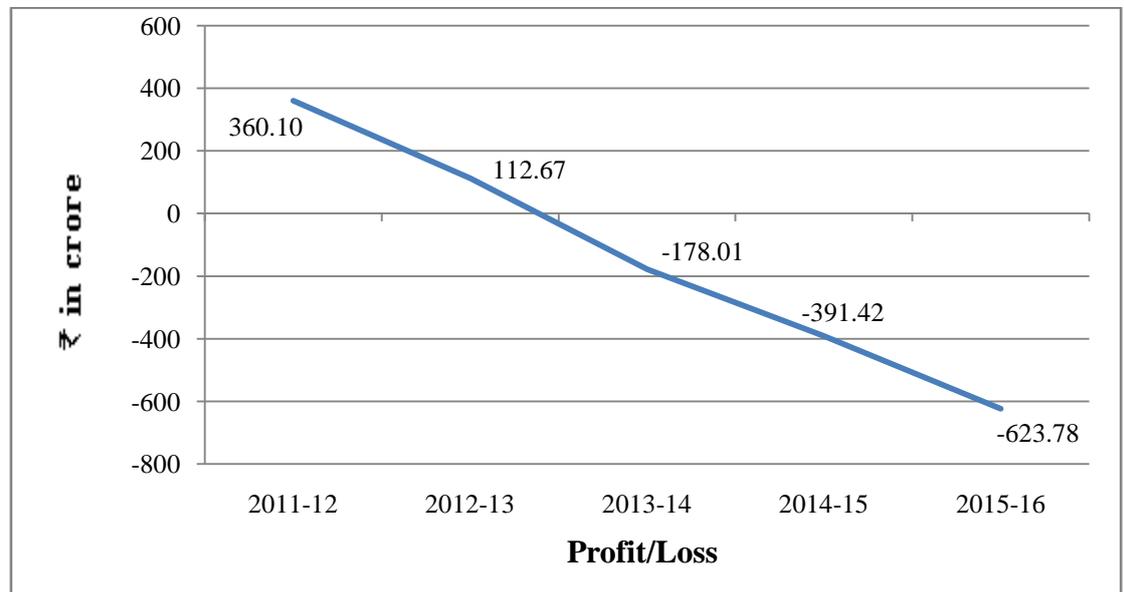
**1.15** The financial position and working results of working Government companies and statutory corporations are detailed in **Appendix 2**. A ratio of PSU turnover to GSDP shows the extent of PSU activities in the State economy. **Table 1.9** provides the details of working PSUs’ turnover and GSDP for a period of five years ending 2015-16:

**Table 1.9: Details of working PSUs’ turnover vis-a-vis GSDP**

| (₹ in crore)                   |          |          |          |           |           |
|--------------------------------|----------|----------|----------|-----------|-----------|
| Particulars                    | 2011-12  | 2012-13  | 2013-14  | 2014-15   | 2015-16   |
| Turnover <sup>9</sup>          | 16,171.3 | 18,486.2 | 17,586.9 | 19,194.06 | 19,878.35 |
| GSDP <sup>10</sup>             | 3,64,048 | 4,12,313 | 4,62,916 | 5,19,896  | 5,85,467  |
| Percentage of Turnover to GSDP | 4.44     | 4.48     | 3.80     | 3.69      | 3.40      |

**1.16** Overall profit earned or loss incurred by State working PSUs as per the latest accounts forwarded during 2011-12 to 2015-16 are given in **Chart 1.4**.

**Chart 1.4: Profit/ Loss of working PSUs**



<sup>9</sup> Turnover as per the latest finalised accounts as of 30 September of every year.

<sup>10</sup> Change in figures with respect to previous Reports is due to adoption of revised GSDP with 2011-12 as base year. In the previous Reports, GSDP with 2004-05 as base year was adopted.

An analysis of the latest finalised accounts of all working PSUs in the State revealed that 50 PSUs earned profit of ₹395.55 crore, 56 PSUs incurred loss of ₹1,019.33 crore and three working PSUs had no profit or loss. Four working PSUs have not yet (September 2016) finalised any of their accounts. The major contributors to profit were Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹151.06 crore in 2014-15), The Kerala State Financial Enterprises Limited (₹70.72 crore in 2014-15) and Kerala State Industrial Development Corporation Limited (₹21.32 crore in 2014-15). The major PSUs which incurred loss are Kerala State Road Transport Corporation (₹583.90 crore in 2013-14), The Kerala State Civil Supplies Corporation Limited (₹89.11 crore in 2013-14) and The Kerala State Cashew Development Corporation Limited (₹88.77 crore in 2012-13).

**1.17** Some other key parameters of PSUs are given below:

**Table 1.10: Key Parameters of State working PSUs**

| Particulars                                    | 2011-12   | 2012-13   | 2013-14    | 2014-15    | 2015-16                    |
|--|-----------|-----------|------------|------------|----------------------------|
| Return on Capital Employed ( <i>per cent</i> ) | 6.75      | 5.87      | 4.10       | 5.28       | 5.65                       |
| Debt (₹ in crore)                              | 4,306.05  | 5,620.44  | 8,391.62   | 8,912.96   | 10,344.42                  |
| Turnover (₹ in crore)                          | 16,171.31 | 18,486.21 | 17,586.85  | 19,194.06  | 19,878.35                  |
| Debt/Turnover Ratio                            | 0.27:1    | 0.30:1    | 0.48:1     | 0.46:1     | 0.52:1                     |
| Interest Payments (₹ in crore)                 | 985.89    | 1,185.61  | 1,039.87   | 1,508.11   | 1,558.16                   |
| Accumulated profit/loss(-) (₹in crore)         | 214.30    | 289.81    | (-) 284.62 | (-) 198.94 | (-) 3,136.82 <sup>11</sup> |

**1.18** GoK 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 it. As per the latest finalised accounts, 50 working PSUs earned an aggregate profit of ₹395.55 crore. Out of these, 16 PSUs declared an aggregate dividend of ₹23.89 crore. Only four<sup>12</sup> PSUs, however, complied with the State Government Policy on dividend payment.

### Winding up of non-working PSUs

**1.19** There were 15 non-working PSUs as on 31 March 2016. Of these, four PSUs have commenced liquidation process. The numbers of non-working companies at the end of each year during past five years are given in *Table 1.11*.

<sup>11</sup> Increase in accumulated loss in the year 2015-16 as compared to that of 2014-15 was mainly due to reversal of accumulated profit (₹2,348.74 crore) of Kerala State Electricity Board (its all assets, rights and liabilities were re-vested in Kerala State Electricity Board Limited) in the accounts of Kerala State Electricity Board Limited for the year 2013-14 (as on 31/10/2013).

<sup>12</sup> Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, The Kerala State Financial Enterprises Limited, Kerala Agro Machinery Corporation Limited and Kerala State Power and Infrastructure Finance Corporation Limited.

**Table 1.11: Non-working PSUs**

| Particulars                     | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---------------------------------|---------|---------|---------|---------|---------|
| Number of non-working companies | 17      | 16      | 16      | 15      | 15      |

Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, these PSUs may be considered either to be closed down or revived.

**1.20** The stages of closure in respect of non-working PSUs are given below:

**Table 1.12: Closure of non-working PSUs**

| Sl. No. | Particulars  | Government companies |
|---------|--|----------------------|
| 1       | Total number of non-working PSUs   | 15                   |
| 2       | Of (1) above, number under:  |                      |
| (a)     | liquidation by court (liquidator appointed)  | 4 <sup>13</sup>      |
| (b)     | Voluntary winding up (liquidator appointed)  | ...                  |
| (c)     | Closure, i.e. closing orders/ instructions issued but liquidation process not yet started. | 11                   |

Orders for closure of the above PSUs were issued between 1998-99 and 2009-10. Out of these, liquidation process in respect of the four PSUs was ordered by court and liquidators were appointed between May and December 2006. Liquidation process in respect of these PSUs was continuing. No PSU has opted for voluntary winding up. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted and pursued vigorously. The Government may make an early decision regarding winding up of 11 non-working PSUs where closing orders/instructions have been issued but liquidation process has not yet started. The Government may consider expediting closing down of its non-working companies.

### Accounts Comments

**1.21** Eighty one working companies forwarded their audited 99 accounts to PAG during the year 2015-16. Of these, 64 accounts of 53 companies were selected for supplementary audit while in respect of 35 accounts of 28 companies non-review certificates were issued. 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 *Table 1.13*:

<sup>13</sup> Keltron Power Devices Limited, Keltron Rectifiers Limited, Kunnathara Textiles Limited and Vanjinad Leathers Limited.

**Table 1.13: Impact of audit comments on the working companies**

(Amount ₹ in crore)

| Sl. No. | Particulars                      | 2013-14         |        | 2014-15         |        | 2015-16         |        |
|---------|----------------------------------|-----------------|--------|-----------------|--------|-----------------|--------|
|         |                                  | No. of Accounts | Amount | No. of Accounts | Amount | No. of Accounts | Amount |
| 1       | Decrease in profit               | 15              | 143.40 | 16              | 916.96 | 20              | 716.33 |
| 2       | Increase in loss                 | 16              | 61.62  | 22              | 95.61  | 32              | 224.29 |
| 3       | Increase in profit               | ...             | ...    | 3               | 0.35   | ...             | ...    |
| 4       | Decrease in loss                 | ...             | ...    | 2               | 1.15   | 3               | 20.27  |
| 5       | Non-disclosure of material facts | 7               | 7.67   | 4               | 13.92  | 8               | 10.05  |
| 6       | Errors of classification         | 8               | 28.82  | 10              | 14.21  | 25              | 546.25 |

**1.22** During the year, the Statutory Auditors had given unqualified certificates for 21 accounts, qualified certificates for 71 accounts, disclaimer certificate for one account<sup>14</sup> and adverse certificates (which mean that accounts do not reflect a true and fair view) for six accounts<sup>15</sup>. Additionally, CAG gave comments on 44 accounts during the supplementary audit and one account<sup>16</sup> was revised based on supplementary audit observations. The compliance of companies with the Accounting Standards (AS) remained poor. There were 130 instances of non-compliance of AS in 53 accounts of 41 companies during the year.

Similarly, four working statutory corporations forwarded their four accounts to PAG during the year 2015-16. In respect of two accounts<sup>17</sup>, which were selected for sole audit, the audit completed in one case<sup>18</sup> and SAR issued. In respect of the remaining two accounts<sup>19</sup>, which were selected for supplementary audit, CAG gave comment in one case<sup>20</sup>.

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 the CAG are given in *Table 1.14*:

<sup>14</sup> Aralam Farming Corporation (Kerala) Limited (2013-14).

<sup>15</sup> Kerala Shipping And Inland Navigation Corporation Limited (2014-15), Handicrafts Development Corporation of Kerala Limited (2013-14 and 2014-15), United Electrical Industries Limited (2013-14), Kerala Rapid Transit Corporation Limited (Formerly Kerala Monorail Corporation Limited) (2014-15) and Kerala State Mineral Development Corporation Limited (2014-15).

<sup>16</sup> Kerala Artisans' Development Corporation Limited (2012-13).

<sup>17</sup> Kerala State Road Transport Corporation (2013-14) and Kerala Industrial Infrastructure Development Corporation (2014-15).

<sup>18</sup> Kerala Industrial Infrastructure Development Corporation (2014-15).

<sup>19</sup> Kerala State Warehousing Corporation (2012-13) and Kerala Financial Corporation (2015-16).

<sup>20</sup> Kerala Financial Corporation (2015-16).

**Table 1.14: Impact of audit comments on statutory corporations**

(Amount ₹ in crore)

| Sl. No. | Particulars                      | 2013-14         |        | 2014-15         |        | 2015-16         |        |
|---------|----------------------------------|-----------------|--------|-----------------|--------|-----------------|--------|
|         |                                  | No. of Accounts | Amount | No. of Accounts | Amount | No. of Accounts | Amount |
| 1       | Decrease in profit               | 1               | 0.09   | 1               | 0.07   | 2               | 5.42   |
| 2       | Increase in loss                 | 1               | 0.05   | ...             | ...    | 1               | 0.06   |
| 3       | Increase in profit               | ...             | ...    | 1               | 0.29   | ...             | ...    |
| 4       | Non-disclosure of material facts | ...             | ...    | ...             | ...    | ...             | ...    |
| 5       | Errors of classification         | 1               | 4      | 1               | 27.26  | 2               | 51.30  |

### Response of the Government to Audit

#### Performance Audit and Compliance Audit Paragraphs

**1.23** For the Report of CAG for the year ended 31 March 2016, three Performance Audits and 11 Compliance Audit Paragraphs involving ₹3,410.84 crore were issued to the Additional Chief Secretaries/ Principal Secretaries of the respective Departments to furnish replies within six weeks. Reply in respect of one Compliance Audit Paragraph was awaited from the State Government (February 2017).

### Follow up action on Audit Reports

#### Replies outstanding

**1.24** The Reports of CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Kerala issued (April 2005) instructions to all Administrative Departments to submit replies/ Explanatory Notes to Paragraphs/Performance Audits included in the Audit Reports of CAG within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (CoPU) as detailed in *Table 1.15*.

**Table 1.15: Explanatory Notes not received (as of February 2017)**

| Years of the Audit Report (PSUs) | Date of placement of Audit Report in the State Legislature | Total Performance Audits (PAs) and Paragraphs in the Audit Report |            | Number of PAs/ Paragraphs for which explanatory notes were not received |            |
|----------------------------------|--|---|------------|---|------------|
|                                  |  | PAs   | Paragraphs | PAs   | Paragraphs |
| 2013-14                          | 23/03/2015   | 2   | 9          | 1   | 1          |
| 2014-15                          | 28/06/2016   | 3   | 12         | 2   | 9          |
| <b>Total</b>                     |  | <b>5</b>  | <b>21</b>  | <b>3</b>  | <b>10</b>  |

From the above, it could be seen that out of five Performance Audits and 21 Paragraphs, Explanatory Notes to 3 Performance Audits and 10 Paragraphs in respect of seven departments, which were commented upon, were awaited (February 2017).

### Discussion of Audit Reports by CoPU

**1.25** The status of discussion of Performance Audits and Paragraphs that appeared in Audit Report (PSUs) by CoPU as of February 2017 was as under:

**Table 1.16: Performance Audits/Paragraphs appeared in Audit Reports vis-a-vis discussed (as on 28 February 2017)**

| Period of Audit Report | Number of Performance Audits/ Paragraphs |            |                      |            |
|------------------------|--|------------|----------------------|------------|
|                        | Appeared in Audit Report                 |            | Paragraphs discussed |            |
|                        | PAs                                      | Paragraphs | PAs                  | Paragraphs |
| 2002-03                | 3  | 17         | 2                    | 16         |
| 2003-04                | 2  | 18         | 2                    | 18         |
| 2004-05                | 4  | 19         | 3                    | 18         |
| 2005-06                | 5  | 26         | 2                    | 21         |
| 2006-07                | 5  | 20         | 5                    | 19         |
| 2007-08                | 4  | 19         | 2                    | 12         |
| 2008-09                | 3  | 23         | 1                    | 14         |
| 2009-10                | 2  | 11         | 1                    | 11         |
| 2010-11                | 2  | 18         | 2                    | 17         |
| 2011-12                | 2  | 12         | 2                    | 12         |
| 2012-13                | 3  | 10         | 0                    | 6          |
| 2013-14                | 2  | 9          | 0                    | 4          |
| 2014-15                | 3  | 12         | 1                    | 0          |
| <b>Total</b>           | <b>40</b>                                | <b>214</b> | <b>23</b>            | <b>168</b> |

### Compliance to Reports of Committee on Public Undertakings (CoPU)

**1.26** Action Taken Notes (ATNs) to 86 Paragraphs in 21 Reports of the CoPU presented to the State Legislature between October 2006 and March 2016 have not been received (February 2017) as indicated in *Table 1.17*:

**Table 1.17: Compliance to CoPU Report**

| <b>Year of the CoPU Report</b> | <b>Total number of CoPU Reports</b> | <b>Total number of recommendations in the CoPU Reports</b> | <b>No. of recommendations where ATNs not received</b> |
|--------------------------------|-------------------------------------|--|---|
| 2006-08                        | 3                                   | 40   | 5   |
| 2008-11                        | 1                                   | 14   | 1   |
| 2011-14                        | 3                                   | 25   | 14  |
| 2014-16                        | 14                                  | 78   | 66  |
| <b>Total</b>                   | <b>21</b>                           | <b>157</b>   | <b>86</b>   |

These Reports of CoPU contained recommendations in respect of Paragraphs pertaining to seven Departments, which appeared in the Report of CAG of India for the years 1993-94 to 2012-13.

It is recommended that the Government may ensure:

- (a) sending of replies to Inspection Reports/ Draft Paragraphs/ Compliance Audit Reports/ Performance Audit Reports and ATNs on the recommendations of CoPU as per the prescribed time schedule;
- (b) recovery of loss/ outstanding advances/ overpayments within the prescribed period; and
- (c) revamping of the system of responding to audit observations.