

Functioning of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) in Kerala consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature. As on 31 March 2017, there were 130 PSUs in Kerala. No company was listed on the stock exchanges as on 31 March 2017. One PSU¹ was incorporated in the year 2015-16 and one PSU² was incorporated in the year 2016-17. The details of the State PSUs in Kerala as on 31 March 2017 are given in **Table 1.1**:

Table 1.1: Total number of PSUs as on 31 March 2017

Sl. No.	Type of PSUs	Working	Non-working	Total
1	Government company	111	15	126
2	Statutory corporation	4	0	4
Total		115	15	130

The working PSUs registered a turnover of ₹26,463.28 crore as per their latest finalised accounts as of September 2017. This turnover was equal to 4.04 *per cent* of Gross State Domestic Product (GSDP) for 2016-17. The working PSUs incurred aggregate loss of ₹1,833.17 crore as per their latest finalised accounts. They employed 1.19 lakh employees at the end of March 2017.

As on 31 March 2017, there were 15 non-working PSUs having investment of ₹111.65 crore. They were non-functioning for the last 11 to 33 years. This was 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 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 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

¹ Cochin Smart Mission Limited (incorporated in March 2016).

² Kerala Rail Development Corporation Limited (incorporated in January 2017).

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 commenced 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 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 2017, the investment (capital and long-term loans) in 130 PSUs was ₹27,106.88 crore as per details given in **Table 1.2**:

Table 1.2: Total investment in PSUs

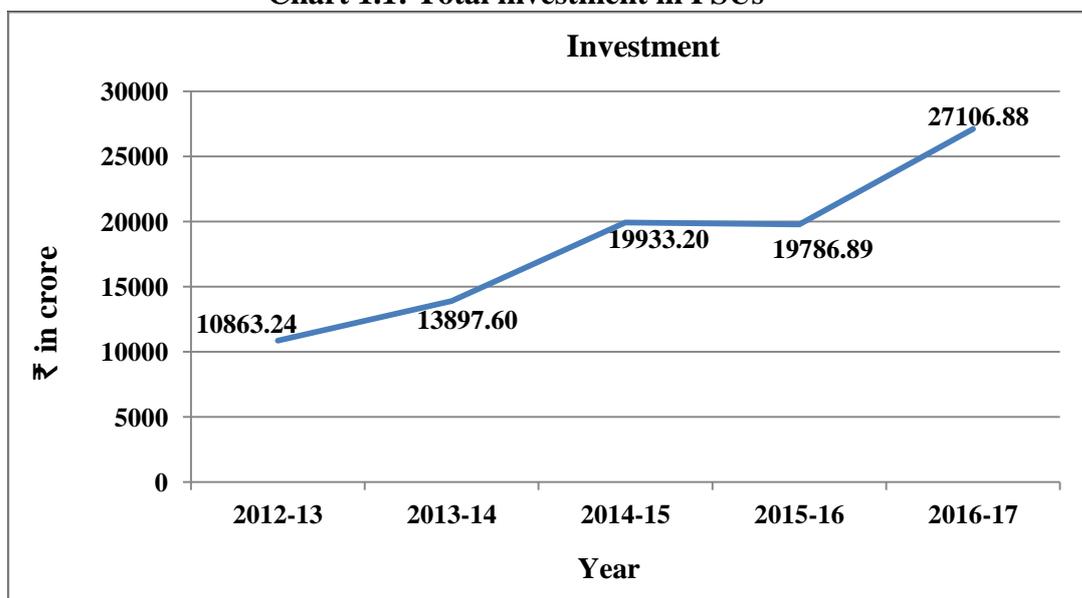
Sl. No.	Type of PSUs	Government companies			Statutory corporations			Grand Total
		Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
1	Working PSUs	8,123.67	10,671.61	18,795.28	1,030.25	7,169.70	8,199.95	26,995.23
2	Non-working PSUs	44.87	66.78	111.65	0.00	0.00	0.00	111.65
	Total	8,168.54	10,738.39	18,906.93	1,030.25	7,169.70	8,199.95	27,106.88

(₹ in crore)

(Source: Data furnished by PSUs)

As on 31 March 2017, of the total investment in State PSUs, 99.59 per cent was in working PSUs and the remaining 0.41 per cent in non-working PSUs. This total investment consisted of 33.94 per cent towards capital and 66.06 per cent in long term loans. The investment increased by 149.53 per cent from ₹10,863.24 crore in 2012-13 to ₹27,106.88 crore in 2016-17 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 2017 is given in **Table 1.3**:

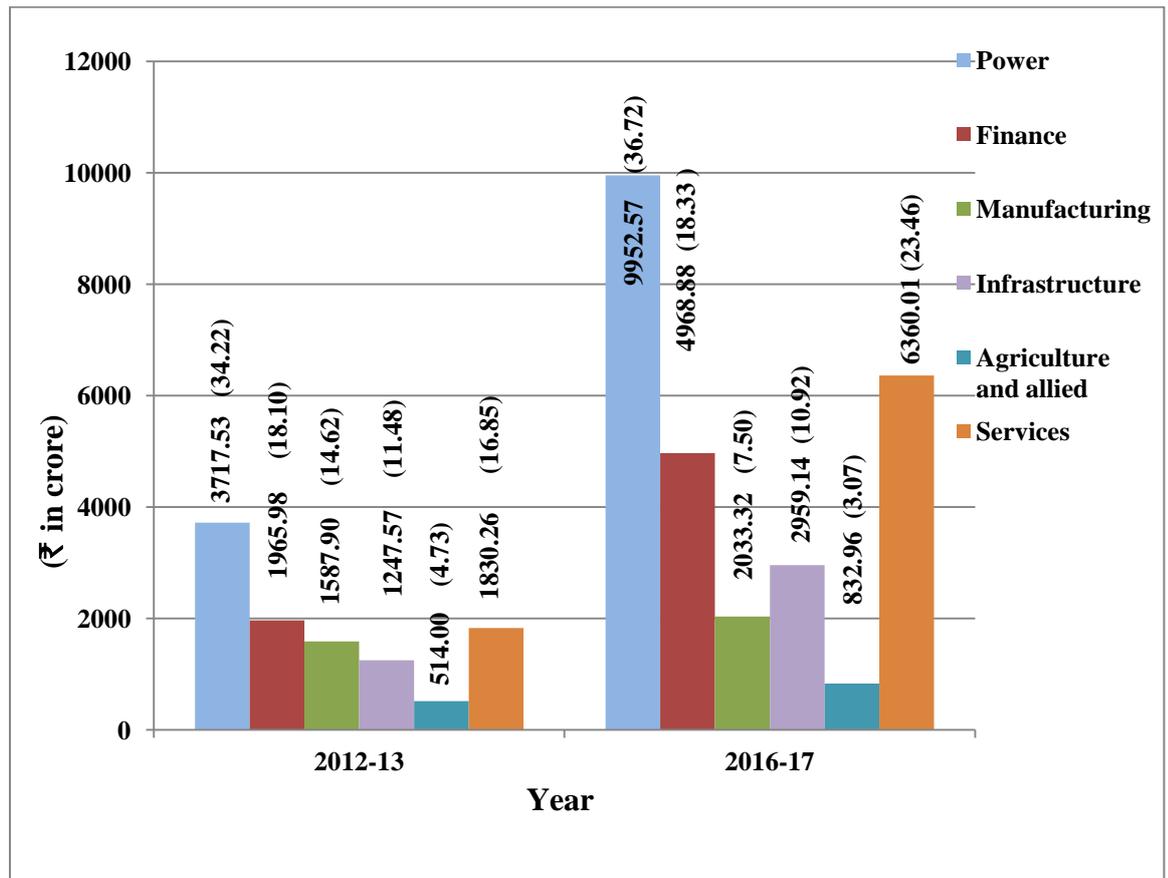
Table 1.3: Sector-wise investment in PSUs

Sl. No.	Name of sector	Government companies	Statutory corporations	Total	Investment (₹ in crore)
		(Number)			
1	Power	3	...	3	9,952.57
2	Finance	18	1	19	4,968.88
3	Manufacturing:				
	Working	35	...	35	1,921.67
	Non-working	15	...	15	111.65
4	Infrastructure	16	1	17	2,959.14
5	Agriculture and allied	17	1	18	832.96
6	Services	22	1	23	6,360.01
	Total	126	4	130	27,106.88

(Source: Data furnished by PSUs)

The investment in various sectors and *percentage* thereof at the end of 31 March 2013 and 31 March 2017 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 ₹3,717.53 crore in 2012-13 to ₹9,952.57 crore in 2016-17, thus, registering an increase of 167.72 per cent. Investment in service sector also

increased substantially from ₹1,830.26 crore in 2012-13 to ₹6,360.01 crore in 2016-17 with an increase of 247.49 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, interest waived, guarantees issued and guarantee commitment in respect of State PSUs for three years ended 2016-17 are given in **Table 1.4**:

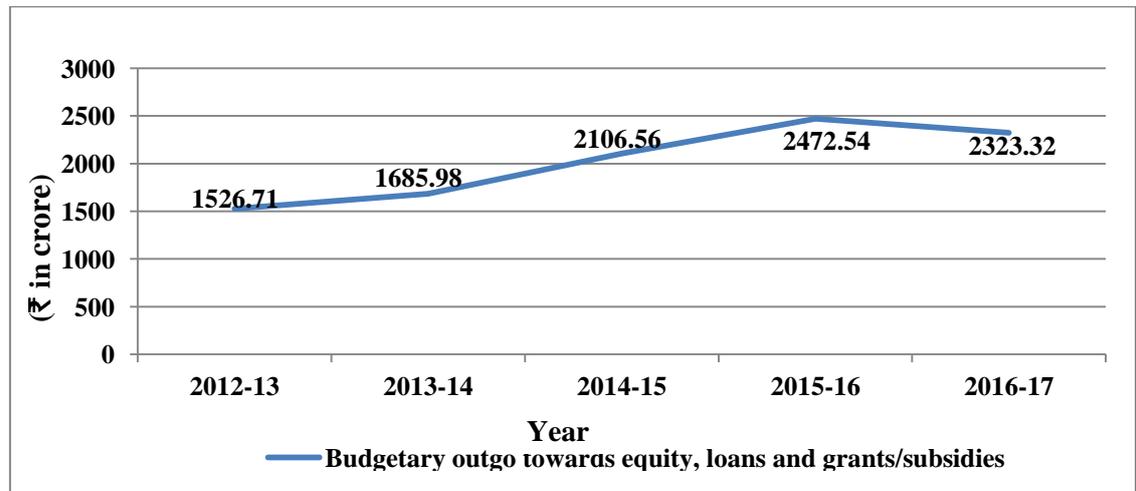
Table 1.4: Details regarding budgetary support to PSUs

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)
1	Equity Capital outgo from budget	23	357.84	19	305.93	17	362.94
2	Loans given from budget	18	354.92	19	358.19	18	154.92
3	Grants/Subsidy given	32	1,393.80	25	1,808.42	28	1,805.46
4	Total outgo (1+2+3)		2,106.56		2,472.54		2,323.32
5	Loans written off and interest waived	1	23.98	1	5.07	3	6.20
6	Guarantees issued	7	4,696.34	9	4,989.66	8	6,150.72
7	Guarantee commitment	14	5,579.21	17	6,484.74	11	7,549.92

(Source: Data furnished by PSUs)

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 ₹1,526.71 crore in 2012-13 to ₹2,323.32 crore in 2016-17. During 2016-17, GoK wrote off loans and waived interest aggregating ₹6.20 crore due from three³ PSUs as against ₹5.07 crore waived during the previous year 2015-16.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State Government gives guarantees under the Kerala Ceiling on Government Guarantee Act, 2003, subject to the limits prescribed by the Constitution of India, for which 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 ₹7,549.92 crore during 2016-17 from ₹6,484.74 crore in 2015-16. Further, out of ₹103.96 crore guarantee commission payable by 28 PSUs, 17 PSUs⁴ paid ₹70.40 crore during 2016-17. The accumulated/outstanding guarantee commission payable by 17 PSUs was ₹33.56 crore as on 31 March 2017. The PSUs, which had major arrears were Kerala State Electricity Board Limited (₹13.78 crore), Kerala State Electronics Development Corporation Limited (₹5.36 crore), Kerala State Road Transport Corporation (₹5.06 crore) and Kerala State Cashew Development Corporation Limited (₹3.92 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 such variations. The position in this regard as on 31 March 2017 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)

Sl. No.	Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1	Equity	4,597.86	8,167.13	3,569.27
2	Loans	6,883.41	3,769.49	3,113.92
3	Guarantees	9,828.26	7,549.92	2,278.34

(Source: Data furnished by PSUs and Finance Accounts)

Audit observed that the differences occurred in respect of 105 out of 130 PSUs. The Principal Accountant General, (Economic & Revenue Sector Audit), Kerala (PAG) took 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. GoK did not initiate any action for reconciliation of differences. A team from office of the PAG was deputed to reconcile the differences. The team reconciled the

³ Meat Products of India Limited (₹0.53 crore), The Kerala State Backward Classes Development Corporation Limited (₹0.59 crore) and SAIL- SCL Kerala Limited (₹5.08 crore).

⁴ Six PSUs made payments partially during the year 2016-17.

differences in respect of 36 PSUs. In the absence of reconciliation of differences, proper accounting of investment made by State Government in PSUs could not be ensured. 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) 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 on 30 September 2017:

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

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	Number of working PSUs	101	109	111	113	115
2	Number of accounts finalised during the year	118	101	95	103	101
3	Number of accounts in arrears	194	198	239	252	265
4	Number of working PSUs with arrears in accounts	75	83	94	96	101
5	Extent of arrears (in years)	1 to 12	1 to 11	1 to 19	1 to 20	1 to 14

(Source: Data collected from PSUs)

It can be observed that the number of accounts in arrears increased from 194 in 2012-13 to 265 in 2016-17. The number of accounts in arrears includes 259 accounts of 98 Government companies⁵ and six accounts of three⁶ 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 the stipulated period. Though the Administrative Departments concerned were informed regularly (twice a year) by the Principal Accountant General (Economic & Revenue Sector Audit), Kerala, the number of accounts in arrears was still on higher side. In addition, this issue was also discussed in the Apex Committee meetings convened (December 2016 and June 2017) by the Chief Secretary. However, no improvement was noticed. It was further observed that though many PSUs had

⁵ Excluding Kerala Rail Development Corporation Limited (incorporated in January 2017).

⁶ Kerala State Warehousing Corporation Limited (2014-15 to 2016-17), Kerala State Road Transport Corporation (2015-16 to 2016-17) and Kerala Industrial Infrastructure Development Corporation (2016-17).

not finalised their accounts for long, yet the Registrar of Companies did not take any penal action under Section 129 (7) of the Act.

1.11 The State Government invested ₹4,856.71 crore in 57 working PSUs {Equity: ₹664.47 crore (25 PSUs), loans: ₹558.46 crore (24 PSUs) and grants ₹3,633.78 crore (35 PSUs)} during the years in respect of which accounts were not 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 were 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 2017, there were arrears in finalisation of accounts by non-working PSUs. Their details are given in **Table 1.7**. Out of 15 non-working PSUs, four PSUs⁷ were in the process of liquidation whose 22 accounts⁸ were 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 2016-17	151

(Source: Data furnished by PSUs)

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 two⁹ out of 15 non-working PSUs finalised their accounts during 2016-17.

Placement of Separate Audit Reports

1.13 Separate Audit Reports (SARs) are audit reports of CAG on the audit of accounts of Statutory Corporations. These SARs are to be laid before the Legislature as per provisions of the respective Acts. The position depicted in **Table 1.8** shows the status of placement of Separate Audit Reports (SARs) issued by CAG (upto 30 September 2017) on the accounts of Statutory corporations in the Legislature.

⁷ Keltron Rectifiers Limited, Keltron Power Devices Limited, Kunnathara Textiles Limited and Vanjinad Leathers Limited.

⁸ Excluding accounts of Kunnathara Textiles Limited and Vanjinad Leathers Limited (data regarding finalisation of their accounts were not available).

⁹ Keltron Counters Limited (2004-05 to 2012-13) and Kerala State Wood Industries Limited (2012-13 to 2013-14).

Table 1.8: Status of placement of SARs in Legislature

Sl. No.	Name of Statutory corporation	Years up to which SARs placed in Legislature	Years for which SARs issued but not placed in the Legislature
1	Kerala State Road Transport Corporation	2011-12	2012-13 and 2013-14
2	Kerala Financial Corporation	2015-16	
3	Kerala State Warehousing Corporation	2011-12	2012-13
4	Kerala Industrial Infrastructure Development Corporation	2014-15	

(Source: Data furnished by PSUs/ GoK)

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.

Impact of non-finalisation of accounts

1.14 The delay in finalisation of accounts as pointed out above (*Paragraphs 1.10 to 1.12*), 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 Gross State Domestic Product for the year 2016-17 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 special cell to oversee the clearance of arrears and set the targets for individual companies, which may be monitored by the special cell.
- 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 2016-17:

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

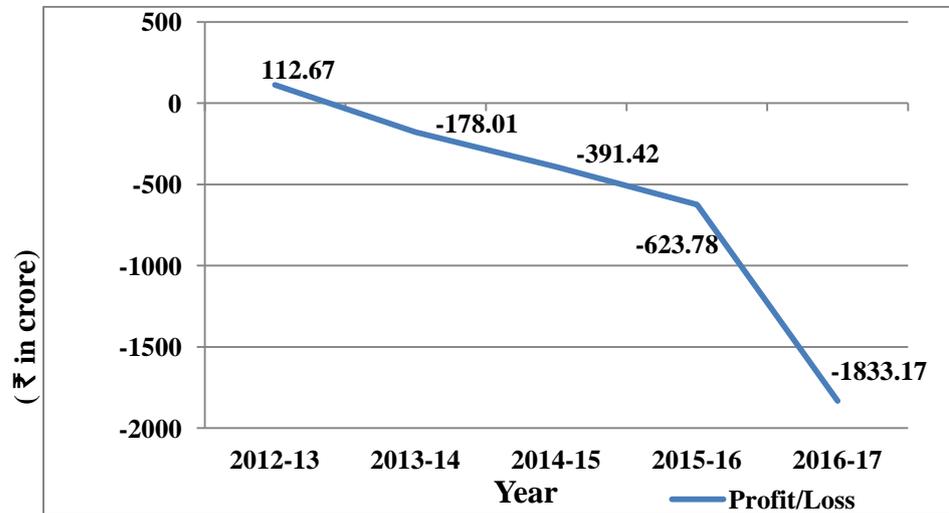
(₹ in crore)

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	Turnover ¹⁰	18,486.21	17,586.85	19,194.06	19,878.35	26,463.28
2	GSDP	4,12,313	4,65,041	5,26,002	5,88,337	6,55,205
3	Percentage of Turnover to GSDP	4.48	3.78	3.65	3.38	4.04

(Source: Data furnished by PSUs)

1.16 Overall profit earned or loss incurred by State working PSUs as per their latest finalised accounts during the period 2012-13 to 2016-17 are given in **Chart 1.4:**

Chart 1.4: Profit (+)/Loss (-) of working PSUs



An analysis of the latest finalised accounts of all working PSUs in the State revealed that 45 PSUs earned profit of ₹382.84 crore, 64 PSUs incurred loss of ₹2,216.01 crore and two PSUs had no profit or loss. Four working PSUs did not (September 2017) finalise their first 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 (₹35.87 crore in 2015-16) and Kerala State Industrial Development Corporation Limited (₹25.66 crore in 2016-17). The major PSUs, which incurred loss are Kerala State Road Transport Corporation (₹1,431.29 crore in 2014-15), Kerala State Electricity Board Limited (₹313.29 crore in 2015-16) and the Kerala State Civil Supplies Corporation Limited (₹107.43 crore in 2014-15).

1.17 Some other key parameters of working PSUs as per their latest finalised accounts as on 30 September 2017 are given in **Table 1.10:**

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

Table 1.10: Key Parameters of State working PSUs

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	Return on Capital Employed (<i>per cent</i>)	9.21	5.48	6.06	7.28	6.05
2	Return on Equity (<i>per cent</i>)	0.98	(-) 1.49	(-) 3.14	(-) 10.06	(-) 49.94
3	Debt (₹ in crore)	5,620.44	8,391.62	8,912.96	10,344.42	12194.78
4	Turnover (₹ in crore)	18,486.21	17,586.85	19,194.06	19,878.35	26463.28
5	Debt/Turnover Ratio	0.30:1	0.48:1	0.46:1	0.52:1	0.46:1
6	Interest Payments (₹ in crore)	1,185.61	1,039.87	1,508.11	1,558.16	2545.45
7	Accumulated profit/loss (-) (₹ in crore)	289.81	(-) 284.62	(-) 198.94	(-) 3,136.82	(-) 6348.10

(Source: Data furnished by PSUs)

1.18 GoK formulated (December 1998) a Dividend Policy under which all PSUs are required to pay a minimum return of 20 *per cent* on the paid up share capital contributed by it. As per the latest finalised accounts, 45 working PSUs earned an aggregate profit of ₹382.84 crore. Out of these, 9 PSUs declared an aggregate dividend of ₹32.04 crore. Only two¹¹ PSUs, however, complied with the State Government Policy on dividend payment. As a result, there was short payment of dividend to the extent of ₹76.30 crore by 42 PSUs¹².

Winding up of non-working PSUs

1.19 There were 15 non-working PSUs as on 31 March 2017. Of these, four PSUs commenced their liquidation process. The number of non-working companies at the end of each year during past five years are given in **Table 1.11**:

Table 1.11: Non-working PSUs

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Number of non-working companies	16	16	15	15	15

(Source: Data furnished by PSUs)

Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, these PSUs may be considered for their closure or revival.

¹¹ Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (2014-15) and the Kerala State Financial Enterprises Limited (2015-16).

¹² One PSU was a Statutory Corporation which did not have any paid up share capital.

1.20 The stages of closure in respect of non-working PSUs are given in **Table 1.12:**

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 ¹³
(b)	Voluntary winding up (liquidator appointed)	...
(c)	Closure, i.e. closing orders/instructions issued but liquidation process not yet started.	11

(Source: Data furnished by PSUs)

Orders/ instructions for closure of the above PSUs were issued between 1990-91 and 2016-17. Out of these, liquidation process in respect of the four PSUs was ordered by court and liquidators were appointed between August 1990 and May 2006. Liquidation process in respect of these PSUs was continuing. Two PSUs opted for Fast Track Exit Mode Scheme. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted and pursued vigorously. Non-winding up/non-closure of non-working PSUs for a long time is a matter of concern in view of the cost being incurred on their existence without any tangible benefit. The Government may, therefore, make an early decision regarding winding up of nine non-working PSUs where closing orders/instructions were issued but liquidation process was not started.

Accounts Comments

1.21 Seventy working companies forwarded their 97 audited accounts to PAG during the year 2016-17. Of these, 64 accounts of 40 companies were selected for supplementary audit while non-review certificates were issued in respect of 33 accounts of 32 companies¹⁴. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts required to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given in **Table 1.13:**

¹³ Keltron Power Devices Limited, Keltron Rectifiers Limited, Kunnathara Textiles Limited and Vanjinad Leathers Limited.

¹⁴ In respect of two PSUs (SAIL-SCL Kerala Limited and The Kerala Land Development Corporation Limited) which forwarded two accounts each during the year 2016-17, one account each was selected for supplementary audit.

Table 1.13: Impact of audit comments on the accounts of working companies
(Amount ₹ in crore)

Sl. No.	Impact of audit comments	2014-15		2015-16		2016-17	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1	Decrease in profit	16	916.96	20	716.33	10	19.90
2	Increase in loss	22	95.61	32	224.29	19	479.88
3	Increase in profit	3	0.35	...	...	5	1.34
4	Decrease in loss	2	1.15	3	20.27	5	3.29
5	Non-disclosure of material facts	4	13.92	8	10.05	27	378.11
6	Errors of classification	10	14.21	25	546.25	37	924.76

(Source: Data furnished by PSUs)

1.22 During the period from October 2016 to September 2017, the Statutory Auditors gave unqualified certificates for 25 accounts, qualified certificates for 49 accounts, disclaimer certificate for 21 accounts and adverse certificates (which means that accounts do not reflect a true and fair view) for two accounts¹⁵. Additionally, CAG gave comments on 40 accounts during the supplementary audit. CAG gave nil comments in respect of 24 accounts during the supplementary audit. The compliance of companies with the Accounting Standards (AS) remained poor. There were 119 instances of non-compliance of AS in 41 accounts of 35 companies during the year.

Similarly, four working Statutory corporations forwarded their four accounts to PAG during the year 2016-17. In respect of two accounts¹⁶, which were selected for sole audit, SAR was issued in one case¹⁷ and SAR was pending (February 2018) in another case¹⁸. In respect of the remaining two accounts¹⁹, which were selected for supplementary audit, CAG gave comment in one case²⁰.

The Audit Reports of Statutory Auditors and the sole/supplementary audit of CAG indicated that the quality of maintenance of accounts was required to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and the CAG are given in **Table 1.14**:

¹⁵ Kerala Shipping and Inland Navigation Corporation Limited (2015-16) and Kerala State Mineral Development Corporation Limited (2015-16).

¹⁶ Kerala State Road Transport Corporation (2014-15) and Kerala Industrial Infrastructure Development Corporation (2015-16).

¹⁷ Kerala Industrial Infrastructure Development Corporation (2015-16).

¹⁸ Kerala State Road Transport Corporation (2014-15).

¹⁹ Kerala State Warehousing Corporation (2013-14) and Kerala Financial Corporation (2016-17).

²⁰ Kerala Financial Corporation (2016-17).

Table 1.14: Impact of audit comments on the SAR of Statutory corporations

(Amount ₹ in crore)

Sl. No.	Impact of audit comments	2014-15		2015-16		2016-17	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1	Decrease in profit	1	0.07	2	5.42	1	0.03
2	Increase in loss	...	...	1	0.06	1	0.06
3	Increase in profit	1	0.29	...	...	...	...
4	Errors of classification	1	27.26	2	51.3	1	4.64

(Source: Data furnished by PSUs)

Response of the Government to Audit

Performance Audit and Compliance Audit Paragraphs

1.23 In respect of the Report of CAG for the year ended 31 March 2017, two Performance Audits and ten Compliance Audit Reports/Paragraphs involving ₹461.24 crore were issued to the Additional Chief Secretaries/Principal Secretaries of the respective Administrative Departments to furnish replies within six weeks. The respective Administrative Departments furnished replies to all the above Performance Audit Reports/Compliance Audit Reports/Paragraphs.

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 directions to all Administrative Departments in 2017 to furnish Explanatory Notes to Performance Audits/Compliance Audits/Paragraphs included in the Audit Reports of the CAG of India within a period of two months of their presentation to the Legislature for speedy settlement of audit observations. The status of Explanatory Notes not received as of February 2018 is given in **Table 1.15**:

Table 1.15: Status of Explanatory Notes not received (as of February 2018)

Years of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Compliance Audits(CAs)/Paragraphs in the Audit Report		Number of PAs/CAs/Paragraphs for which Explanatory Notes were not received	
		PAs	CAs/Paragraphs	PAs	CAs/Paragraphs
2014-15	28/06/2016	3	12	1	3
2015-16	23/05/2017	3	11	2	10
Total		6	23	3	13

(Source: Data furnished by PSUs/ GoK)

From the above, it may be seen that out of six Performance Audits and 23 CAs/Paragraphs, explanatory notes to three Performance Audits and 13 CAs/Paragraphs in respect of 17 Administrative Departments, which were commented upon, were awaited (February 2018).

Discussion of Audit Reports by CoPU

1.25 The status of discussion of Performance Audits and CAs/Paragraphs that appeared in Audit Report (PSUs) by CoPU as of February 2018 is shown in **Table 1.16**:

**Table 1.16: Performance Audits/CAs/Paragraphs appeared in Audit Reports
vis-a-vis discussed as of February 2018**

Period of Audit Report	Number of PAs/CAs/Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	CAs/Paragraphs	PAs	CAs/Paragraphs
2002-03	3	17	3	16
2006-07	5	20	5	19
2007-08	4	19	3	19
2008-09	3	23	3	21
2010-11	2	18	2	17
2013-14	2	9	2	7
2014-15	3	12	1	2
2015-16	3	11	0	0
Total	25	129	19	101

(Source: Data furnished by PSUs/ GoK)

Compliance to Reports of Committee on Public Undertakings (CoPU)

1.26 Action Taken Notes (ATN) to 95 paragraphs in 20 Reports of the CoPU presented to the State Legislature between October 2006 and May 2017 was not received (February 2018) as indicated in **Table 1.17**:

Table 1.17: Compliance to CoPU Report

Year of the CoPU Report	Total number of CoPU Reports	Total number of recommendations in the CoPU Reports	Number of recommendations where ATNs not received
2006-08	3	40	5
2008-11	1	14	1
2011-14	1	13	11
2014-16	3	18	6
2016-19	12	74	72
Total	20	159	95

(Source: Data furnished by GoK)

These Reports of CoPU contained recommendations in respect of paragraphs pertaining to nine departments, which appeared in the Report of the CAG of India for the year 1993-1994 to 2013-2014. The pace of receipt of ATNs from

GoK to the CoPU was not encouraging.

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 response by GoK to audit observations.**