

### Functioning of State Public Sector Undertakings

#### General

1 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 2018, there were 136 PSUs in Kerala. No company was listed on the stock exchanges as on 31 March 2018. The details of the State PSUs in Kerala as on 31 March 2018 are given in **Table 1.1**:

**Table 1.1: Total number of PSUs as on 31 March 2018**

| Sl. No. | Type of PSUs          | Working    | Non-working | Total      |
|---------|-----------------------|------------|-------------|------------|
| 1       | Government company    | 117        | 15          | 132        |
| 2       | Statutory corporation | 4          | 0           | 4          |
|         | <b>Total</b>          | <b>121</b> | <b>15</b>   | <b>136</b> |

The working PSUs registered a turnover of ₹28,917.68 crore as per their latest finalised accounts as of September 2018. This turnover was equal to 4.21 *per cent* of Gross State Domestic Product (GSDP) for the year 2017-18 (₹6,86,116 crore). The working PSUs incurred aggregate loss of ₹3,334.85 crore as per their latest finalised accounts. They employed 1.21 lakh employees at the end of March 2018.

As on 31 March 2018, there were 15 non-working PSUs having investment of ₹106.76 crore. They were non-functioning for the last 12 to 34 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

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.

CAG appoints the statutory auditors of a Government company and Government controlled other company under Section 139 (5) and (7) of the Companies Act,

2013. Section 139 (5) of the Act provides that the statutory auditors in case of a Government company or Government controlled other Company are to be appointed by the CAG within a period of one hundred and eighty days from the commencement of the financial year. Section 139 (7) of the Act provides that in case of a Government company or Government Controlled other company, the first auditor is to be appointed by the CAG within sixty days from the date of registration of the company and in case CAG does not appoint such auditor within the said period, the Board of Directors of the company or the members of the company have to appoint such auditor.

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 the 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**

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 is done by CAG.

## **Submission of accounts by PSUs**

### **Need for timely finalisation and submission**

4 According to Section 394 and 395 of the Act, Annual Report on the working and affairs of a Government company is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation, laid before the Houses or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement

to the Audit Report made by the CAG. Almost similar provisions exist in the respective Acts regulating statutory corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of the State.

Section 96 of the Act requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Act stipulates that the audited financial statements for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Act provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Act.

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

5 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**

6 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

7 As on 31 March 2018, the investment (capital and long term loans) in 136 PSUs was ₹39,494.84 crore as per details given in **Table 1.2**:

**Table 1.2: Total investment in PSUs**

(₹ in crore)

| Sl. No. | Type of PSUs     | Government companies |                  |                  | Statutory corporations |                 |                 | Grand Total      |
|---------|------------------|----------------------|------------------|------------------|------------------------|-----------------|-----------------|------------------|
|         |                  | Capital              | Long Term Loans  | Total            | Capital                | Long term loans | Total           |                  |
| 1       | Working PSUs     | 8,410.45             | 22,034.73        | 30,445.18        | 1,036.35               | 7,906.55        | 8,942.90        | 39,388.08        |
| 2       | Non-working PSUs | 39.97                | 66.79            | 106.76           | 0.00                   | 0.00            | 0.00            | 106.76           |
|         | <b>Total</b>     | <b>8,450.42</b>      | <b>22,101.52</b> | <b>30,551.94</b> | <b>1,036.35</b>        | <b>7,906.55</b> | <b>8,942.90</b> | <b>39,494.84</b> |

(Source: Data furnished by PSUs)

As on 31 March 2018, of the total investment in State PSUs, 99.73 per cent was in working PSUs and the remaining 0.27 per cent in non-working PSUs. This total investment consisted of 24.02 per cent towards capital and 75.98 per cent in long term loans. The investment increased by 184.18 per cent from ₹13,897.60 crore in 2013-14 to ₹39,494.84 crore in 2017-18.

8 The sector-wise summary of investment in the State PSUs as on 31 March 2018 is given in **Table 1.3**:

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

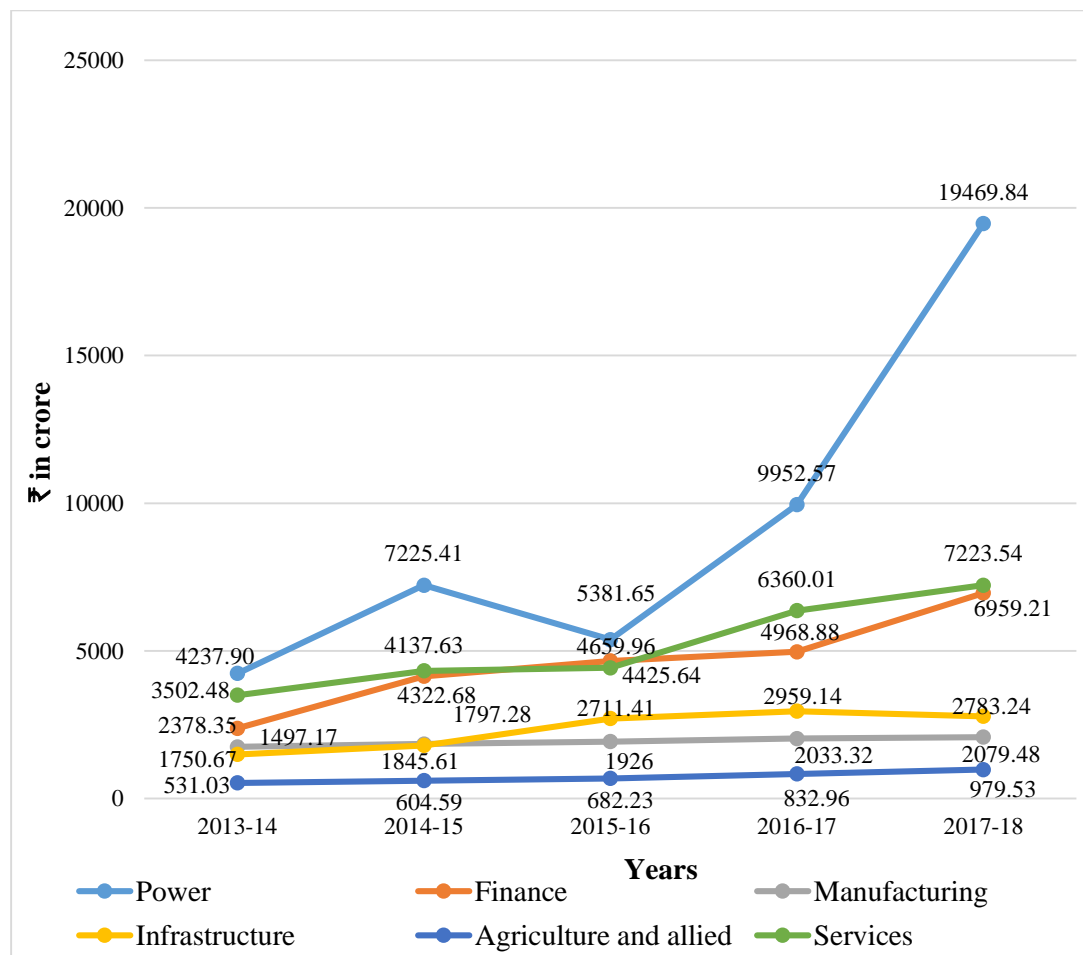
| Sl. No. | Name of sector         | Government companies | Statutory corporations | Total      | Investment (₹ in crore) |                  |                  |
|---------|------------------------|----------------------|------------------------|------------|-------------------------|------------------|------------------|
|         |                        |                      |                        |            | Equity                  | Long term loans  | Total            |
| 1       | Power                  | 3                    | ..                     | 3          | 3,526.02                | 15,943.82        | 19,469.84        |
| 2       | Finance                | 18                   | 1                      | 19         | 980.36                  | 5,978.85         | 6,959.21         |
| 3       | Manufacturing:         |                      |                        |            |                         |                  |                  |
|         | Working                | 35                   | ...                    | 35         | 976.28                  | 996.44           | 1,972.72         |
|         | Non-working            | 15                   | ...                    | 15         | 39.97                   | 66.79            | 106.76           |
| 4       | Infrastructure         | 17                   | 1                      | 18         | 1,613.75                | 1,169.49         | 2,783.24         |
| 5       | Agriculture and allied | 18                   | 1                      | 19         | 567.58                  | 411.95           | 979.53           |
| 6       | Services               | 26                   | 1                      | 27         | 1,782.21                | 5,440.73         | 7,223.54         |
|         | <b>Total</b>           | <b>132</b>           | <b>4</b>               | <b>136</b> | <b>9,486.77</b>         | <b>30,008.07</b> | <b>39,494.84</b> |

(Source: Data furnished by PSUs)

The thrust of PSU investment was mainly on Power Sector during the last five years. The Power Sector received investments of ₹15,231.94 crore (59.51 per cent) out of the total investment of ₹25,597.24 crore made during the period from 2013-14 to 2017-18.

9 The investment in various sectors at the end of 31 March 2014 to 31 March 2018 are indicated in **Chart** below:

**Chart 1: Sector-wise investment in PSUs**



Keeping in view the huge investment in Power Sector, we are presenting the results of audit of three PSUs in Part I<sup>1</sup> of this Report and of 133 PSUs (other than Power Sector) in the Part II<sup>2</sup> of this Report.

<sup>1</sup> The Part I includes Chapter-I (Functioning of Power Sector Undertakings) and Chapter-II (Compliance Audit Observations relating to Power Sector Undertakings).

<sup>2</sup> The Part II includes Chapter-III (Functioning of PSUs other than Power Sector), Chapter-IV (Performance Audit relating to PSUs other than Power Sector) and Chapter-V (Compliance Audit Observations relating to PSUs other than Power Sector).