

# Executive Summary

## I. Financial performance of Central Public Sector Enterprises

As on 31 March 2011, there were 466 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 329 government companies, 131 deemed government companies and six statutory corporations. This Report deals with 406 CPSEs comprising 292 government companies, six statutory corporations and 108 deemed government companies. Sixty companies are not covered in this report. Out of this, accounts of eight CPSEs were in arrears for three years or more, four CPSEs had not submitted their first accounts, thirty six CPSEs were defunct/under liquidation and accounts of twelve CPSEs were not due.

[Para 1.1.3]

### Government Investments

The accounts of 298 government companies and corporations indicated that the Government of India had invested ₹ 188321 crore directly in the equity capital of government companies and corporations. Loans amounting to ₹ 60886 crore had also been received by the CPSEs directly from the Government of India as on 31 March 2011. Compared to the previous year, investment by the Government of India in equity of CPSEs registered a net increase of ₹ 15347 crore and loans given to them increased by ₹ 3315 crore. The GOI realised ₹ 22763 crores on disinvestment of its shares (face value ₹ 1544 crores) in 6 CPSEs.

[Para 1.2]

### Market Capitalisation

The market value of shares of 40 listed government companies, which were traded as per prices prevailing in stock markets on 31 March 2011 stood at ₹ 1500921 crore. Market value of shares held by the Government of India stood at ₹ 1216915 crore as on 31 March 2011.

[Para 1.2.4]

### Return on Investment

Out of the 298 government companies and corporations where data has been analysed in this Report, 186 government companies and corporations earned profits during the year and 92 government companies suffered losses excluding Food Corporation of India, Inland Waterways Authority of India and National Highways Authority of India. These three statutory corporations prepare accounts on no profit/no loss basis. The remaining 17 companies were not in operation. The total profit earned by 186 government companies and corporations was ₹ 124380 crore of which, as much as 62 per cent (₹ 76933 crore) was contributed by 41 government

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companies and corporations under three sectors viz., Petroleum & Natural Gas, Power and Coal & Lignite.

[Paras 1.3 and 1.4]

Out of the 186 government companies and corporations which earned profit, 112 government companies and corporations declared dividend for the year 2010-2011 amounting to ₹ 35712 crore. Out of this, ₹ 24387 crore were paid/payable to the Government of India. The dividend paid to Government of India represented 12.95 per cent return on the total investment by the Government of India (₹ 188321 crore) in all government companies and corporations.

Government companies under the Ministry of Petroleum and Natural Gas, Power, Coal and Lignite operating partially under the administered/ regulated prices, contributed ₹ 13339 crore representing 37 per cent of the total dividend declared by all government companies.

Non compliance with government's directive in the declaration of dividend by 44 companies resulted in a shortfall of ₹ 8772.65 crore in the payment of dividend for the year 2010-11.

[Para 1.3.2]

### Net Worth/Accumulated Loss

- ❖ Out of 298 government companies and corporations, the equity investment in 67 companies had been completely eroded by their accumulated losses. As a result, the aggregate net worth of these companies had become negative to the extent of ₹ 64346 crore as on 31 March 2011. Although 15 companies out of 67 companies earned profit of ₹ 9728 crore during 2010-11, the accumulated loss in these 67 government companies stood at ₹ 82477 crore in 2010-2011.

[Para 1.4.1]

## II. CAG's oversight role

Out of 466 CPSEs including six statutory corporations, annual accounts for the year 2010-2011 were received from 367 CPSEs including five statutory corporations and 104 deemed government companies. Of these, accounts of 274 CPSEs including five statutory corporations were reviewed in audit.

[Paras 2.3.2, 2.3.3 and 2.5.2]

In order to enhance the quality of financial reporting, the CAG introduced the system of Three Phase Audit of accounts of CPSEs on consensus basis. This had led to a significant improvement in the quality of their financial statements. The net impact of Three Phase Audit in 69 CPSEs for the year 2010-2011, on profitability was ₹ 2807 crore and on assets/liabilities was ₹ 2080 crore.

[Para 2.5.1]

### Revision of Accounts

As a result of supplementary audit by the CAG, six companies (including two listed companies) revised their accounts for the year 2010-2011. The impact of the revision on the financial statements of these companies was to the extent of ₹ 182.50 crore. In addition the statutory auditors of four listed companies (including one deemed

government company) and seven unlisted companies revised their reports at the instance of supplementary audit by the CAG.

[Para 2.5.2]

### **Impact of CAG's comments on the accounts**

Comments issued by the CAG as a result of supplementary audit brought out :

- Overstatement of profit by ₹ 388.40 crore (eight companies) and there was understatement of loss by ₹ 0.30 crore (one company) and understatement of assets by ₹ 1.74 crore (one company) and liabilities by ₹ 558.38 crore (one company).
- Overstatement of assets by ₹ 494.57 crore (three companies) and overstatement of liability of ₹ 34.45 crore (one company)

In the case of statutory corporations where CAG is the sole auditor, rectification of errors amounting to ₹ 2296 crore was carried out at the instance of CAG's audit. Various other accounting errors amounting to ₹ 42663 crore were also pointed out by CAG.

[Para 2.5.3]

### **Departures from Accounting Standards**

Deviations from the provisions of Accounting Standards in preparation of the financial statements were noticed in 33 companies by the statutory auditors. CAG also pointed out such deviations in three other companies.

[Para 2.6]

### **Observations of statutory auditors**

The statutory auditors appointed by the CAG made significant qualifications in their reports in respect of one statutory corporation and 28 companies (including three deemed government companies) of which five were listed companies.

[Para 2.8]

In compliance with the directions issued by the CAG under Section 619(3)(a) of the Companies Act, 1956, the statutory auditors reported deficiencies relating to financial controls and procedures including lack of internal control measures in respect of fixed assets, internal procedure and operational efficiency, investment, inventory, internal audit, Information Technology policies and vigilance in various companies.

[Paras 2.9 and 2.10]

## **III. Corporate Governance**

DPE guidelines on corporate governance though mandatory are not being complied with by some of the CPSEs. Following significant departures from the prescribed guidelines were noticed:

- Representations of independent directors in some of the CPSEs were not adequate. In 18 companies the required number of independent directors was not there and in 29 companies there were no independent directors in

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the Board. Therefore, induction of the requisite number of independent directors on the Board of CPSEs needs to be ensured.

(Para 3.2.2)

- Two-third of the members of the Audit Committee were not independent directors in 19 companies. In 12 companies, the Chairman of the Audit Committee was not an independent director.

(Paras 3.3.2 and 3.3.3)

- Whistle Blower Mechanism was not observed in 11 companies.

(Para 3.3.15)

- No anti-fraud and anti-corruption policies were observed in the six CPSEs and in 12 CPSEs there was no system of review of anti-fraud and anti-corruption policies and procedures by the Audit Committee.

(Paras 3.3.17 and 3.3.18)

## IV. Convergence of Indian Accounting Standards with IFRS

There was a commitment in G-20 Summit held in September 2009 in Pittsburgh that G-20 countries of which India is a member country, would converge national accounting standards with the IFRS by June 2011.

(Para 4.1.1)

However, MCA could not notify the date of implementation of the converged Accounting standards ('Ind-AS') as per the notified road-map, primarily in the absence of clarity on the tax impact of the adoption of Ind-AS and several other regulatory issues.

(Para 4.3.1)

The road-map may have to factor in the emerging changes in the tax laws and other regulations. Since it is more than eight months since the Ind-AS have been notified, MCA may arrange to rework the convergence time table.

(Para 4.5.1)

## V. Compliance with Department of Public Enterprises' (DPE) Guidelines

There was no mechanism to monitor CPSEs' compliance with guidelines of DPE. Irregular payments relating to non compliances as pointed out in audit continued in the absence of timely corrective action by CPSEs.

Violation of the DPE guidelines resulted in substantial irregular payment/loss of interest on investments amounting to ₹ 948.35 crore. In fact, these irregularities were noticed as a result of test check only and there could be more such cases of irregular payments.

In 8 cases, there was no action on the reported non-compliance with DPE guidelines, which in fact, resulted in further irregular payment of ₹ 494.64 crore.

Considering the magnitude of the irregularities involved, DPE may issue suitable instructions to all CPSEs to ensure that CPSEs do not violate the guidelines and that timely action is taken on the reported irregular payments.

(Para 5.2)

In essence, the role of DPE in ensuring compliance with its own guidelines by CPSEs was only peripheral and not effective as the

- DPE did not maintain database as to which of the CPSEs' Boards adopted its guidelines;
- DPE did not have a mechanism to ensure compliance with its guidelines;
- DPE did not write to CPSEs for recovery of irregular payments pointed out by Audit.

(Para 5.4)

DPE should set up suitable institutional arrangement to promote compliance with its guidelines in the interest of good corporate governance. To make it effective, this parameter should be factored in the MOU.

(Para 5.6)

## VI. Corporate Social Responsibility

The Department of Public Enterprises issued guidelines (April 2010) for Corporate Social Responsibility (CSR) specifying the mandate and scope of activities of CSR in CPSEs. During the year 2010-2011, less than 50 *per cent* of the CPSEs complied with the minimum CSR Budget /Expenditure as prescribed in the guidelines.

(Para 6.2)

A review conducted in 114 CPSEs with profit of more than ₹ 10 crore for the year 2010-11 revealed that 58 CPSEs did not comply with the DPE guidelines in terms of the minimum CSR budget/expenditure. While the compliance was unsatisfactory in the cases of CPSEs earning profit between ₹ 10 crore and ₹ 100 (37 out of 49) and between ₹ 100 crore and ₹ 500 crore (17 out of 31), the compliance was encouraging among large CPSEs which earned profit of more than ₹ 500 crore as 25 CPSEs spent/provided for CSR in excess of the minimum requirement.

(Para 6.4)