

### 2.1 Audit Scope and Methodology

Performance Audit of Revival of sick CPSEs was undertaken to assess the adequacy and effectiveness of the measures taken at various levels to address the sickness of the CPSEs. Besides, timeliness in approval of schemes, structuring of design and implementation of the schemes and their impact on the revival of the CPSEs were also examined in audit. In addition, the impact of the existing legal, institutional and regulatory framework for insolvency on the revival of sick enterprises, more specifically CPSEs, was also undertaken.

Up to March 2010, GOI approved revival schemes for 35 sick CPSEs belonging to 12 Ministries at a cost of ₹ 39658.72 crore. Audit selected a sample of the following 9 CPSEs falling under six Ministries belonging to different sectors to study their revival schemes.

#### **Ministry of Heavy Industry and Public Enterprises**

- (i) Cement Corporation of India Limited (CCI)
- (ii) Heavy Engineering Corporation Limited (HEC)
- (iii) HMT Machine Tools Limited

#### **Ministry of Chemicals and Fertilisers**

- (iv) Fertilisers and Chemicals (Travancore) Limited (FACT)
- (v) Hindustan Organic Chemicals Limited (HOCL)

#### **Ministry of Coal**

- (vi) Eastern Coalfields Limited (ECL)

#### **Ministry of Railways**

- (vii) Braithwaite and Company Limited (BCL)

#### **Ministry of Textiles**

- (viii) National Textile Corporation Limited (NTC)

#### **Ministry of Water Resources**

- (ix) National Projects Construction Corporation Limited (NPCC)

In addition, NEPA Limited (NEPA) under the Ministry of Heavy Industry and Public Enterprises, GOI where the revival scheme was pending for approval by GOI was also selected for audit.

The sample covered the major schemes sanctioned at a cost of ₹ 27,845.14 crore which constituted 70 per cent of the total cost of the 35 sanctioned schemes. The Ministry-wise break-up of the approved 35 CPSEs and the 9 CPSEs selected from them for audit is given in **Annexure II**.

In respect of National Textile Corporation Limited (NTC Ltd), the scope of Performance Audit has been restricted to modernisation of mills, as a Performance audit covering sale of surplus land and buildings had already been reported in C&AG's Audit Report No. PA 27 of 2009-10 which was discussed by Committee on Public Undertakings (COPU) during November 2009 to February 2010. COPU Report No.2 (2009-10) on the findings was presented in Parliament in March 2010. Recommendations of COPU are given in **Annexure III**.

Audit commenced with entry conferences with the Managements of the ten CPSEs wherein the scope, objectives and audit methodology were discussed and their views were taken. This was followed by examination of relevant records in these CPSEs and their Administrative Ministries. The Audit was concluded with exit conferences with the respective Managements of all the ten CPSEs wherein the Audit findings were discussed and their views on various issues considered. The draft report was also issued (September 2011) to the respective Administrative Ministries of the CPSEs along with the Department of Public Enterprises, GOI which is the coordinating agency for CPSEs. In addition, our specific concerns were also addressed (November 2011) to Ministry of Corporate Affairs and Department of Economic Affairs, Ministry of Finance, GOI for their comments. Their responses wherever received have been considered and incorporated suitably.

An exit conference was also held in November 2011 with the Department of Public Enterprises where the major audit findings were discussed and responses received from the GOI have been suitably incorporated in this report.

While finalizing our performance audit, a need was felt to associate an expert with our report to strengthen our audit findings and add technical views of an expert. Accordingly, Shri Sumant Batra, a corporate and commercial lawyer with extensive experience in policy, high profile global and Indian insolvencies and formal and informal restructurings was associated. Discussions were also held with the officers of BIFR.

## 2.2 Audit Objectives

The Performance Audit was conducted to:

- Assess the adequacy of legislative/ institutional/ operational framework for addressing the sickness in CPSEs in the backdrop of the international standards and best practices.
- Examine the process for approval of revival schemes and timeliness in their sanction.
- Analyse the designing process of the revival schemes
- Examine the implementation including compliance to the directions/ orders of GOI/BIFR/BRPSE in the revival schemes.
- Evaluate the impact of revival schemes on the operations of the CPSEs,
- Recommend measures to address the gaps identified in the insolvency system and improve the regime for revival of sick and potentially sick CPSEs.

## 2.3 Audit Criteria

Performance of the Companies was assessed against the following criteria:

- The existing legal and institutional framework of insolvency;
- Provisions of BRPSE;
- Deliberations and decisions taken by BIFR/ BRPSE;
- Cabinet notes for approval of revival packages;
- Approved revival packages of each selected CPSE;
- The reports of consultants/ operating agencies and the proposals finalised by the Administrative Ministries;
- Orders/ directions issued by GOI/ BIFR to the CPSEs; and
- Operational and financial targets set in the schemes.

## 2.4 Audit Findings

The audit findings are organized in the following chapters:

- Chapter 3 provides an overview of the legislative framework and its impact on revival of sick CPSEs.
- Chapter 4 relates to design and approval of the revival schemes
- Chapter 5 deals with issues relating to implementation of the revival schemes
- Chapter 6 discusses impact of revival schemes on the performance of the CPSEs
- Chapter 7 sums up the conclusions and recommendations.

## 2.5 Acknowledgement

Audit acknowledges the cooperation extended to the Audit teams by the Administrative Ministries/Managements of the CPSEs selected for audit.