Executive Summary

I. Financial performance of Central Public Sector Enterprises

As on 31 March 2012, there were 481 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 338 government companies, 137 deemed government companies and six statutory corporations. This Report deals with 422 CPSEs comprising 297 government companies, six statutory corporations and 119 deemed government companies. 59 companies are not covered in this report. Out of this, 40 CPSEs were defunct/under liquidation, five CPSEs' accounts were in arrears for three years or more, 10 CPSEs' first accounts were not due and four CPSEs' first accounts were not received.

[Para 1.1.3]

Government Investments

The accounts of 303 government companies and corporations indicated that the Government of India had invested ₹ 2,04,417 crore directly in the equity capital of government companies and corporations. Loans amounting to ₹ 61,410 crore had also been received by the CPSEs directly from the Government of India as on 31 March 2012. Compared to the previous year, investment by the Government of India (GOI) in equity of CPSEs registered a net increase of ₹ 14,422 crore and loans given to them increased by ₹ 886 crore. The GOI realised ₹ 13,894 crores on disinvestment of its shares (face value ₹ 268 crores) in two CPSEs.

[Paras 1.2 and 1.2.1]

Market Capitalizations

The market value of shares of 40 listed government companies, which were traded as per prices prevailing in stock markets on 31 March 2012 stood at ₹ 12,40,923 crore. Market value of shares held by the Government of India stood at ₹ 9,81,956 crore as on 31 March 2012.

[Para 1.2.4]

Return on Investment

Out of the 303 government companies and corporations where data has been analyzed in this Report, 191 government companies and corporations earned profits during the year and 96 government companies and corporations suffered losses. The remaining 16 companies were not in operation. The total profit earned by 191 government companies and corporations was ₹ 1,27,021 crore, of which as much as 67 *per cent* (₹ 85,428 crore) was contributed by 44 government companies and corporations under three sectors viz., Petroleum & Natural Gas, Power and Coal & Lignite.

[Paras 1.3 and 1.4]

Out of the 191 government companies and corporations which earned profit, 112 government companies and corporations declared dividend for the year 2011-2012 amounting to ₹ 42,671 crore. Out of this, ₹ 27,644 crore were paid/payable to the Government of India. The dividend paid to Government of India represented 13.52 per cent return on the total investment by the Government of India (₹ 2,04,417 crore) in all government companies and corporations.

Government companies under the Ministry of Petroleum and Natural Gas, operating partially under the administered/ regulated prices, contributed ₹ 12,989 crore representing 30 per cent of the total dividend declared by all government companies.

Non compliance with government's directive in the declaration of dividend by 43 companies resulted in a shortfall of ₹ 8,506 crore in the payment of dividend for the year 2011-12.

[Para 1.3.2]

Net Worth/Accumulated Loss

Out of 303 government companies and corporations, the equity investment in 60 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 ₹ 70,946 crore as on 31 March 2012. Only 10 companies out of 60 companies earned profit of ₹ 1,981 crore during 2011-12.

[Para 1.4.1]

II. CAG's oversight role

Out of 481 CPSEs including six statutory corporations, annual accounts for the year 2011-2012 were received from 376 CPSEs in time (i.e. by 30 September 2012) including five statutory corporations and 106 deemed government companies. Of these, accounts of 258 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 58 CPSEs for the year 2011-2012, on profitability was ₹ 7,357.90 crore and on assets/liabilities was ₹ 8,291.03 crore.

[Para 2.5.1]

Revision of Accounts

As a result of supplementary audit by the CAG, seven companies revised their accounts for the year 2011-2012. The impact of the revision on the financial statements of these companies was to the extent of ₹ 93.52 crore. In addition, the statutory auditors of 10 government companies (including two listed government companies) and two deemed government 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

In the case of statutory corporations where CAG is the sole auditor, rectification of errors amounting to ₹ 9,316.69 crore was carried out at the instance of CAG's audit. Various other accounting errors amounting to ₹ 1,851.17 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 50 companies by the statutory auditors. CAG also pointed out such deviations in six other companies.

[Para 2.6]

Management Letter

Irregularities and deficiencies in the financial reports or in the reporting process observed during supplementary audit were communicated to the management of 105 CPSEs through 'Management Letter' for taking corrective action.

[Para 2.7]

Observations of statutory auditors

The statutory auditors appointed by the CAG made significant qualifications in their reports in respect of one statutory corporation and 44 companies of which seven 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, fraud & risk 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:

- Representation of independent directors in some of the CPSEs was not adequate. There was no independent director in the Board in 21 companies. In 13 Companies the required number of independent directors was not there.

[Para 3.2.2]

- There was no Audit Committee in 19 companies. In 11 companies two third of the members of the Audit Committee were not independent directors. In 8 companies, the Chairman of Audit Committee was not an independent director.

[Paras 3.3.1, 3.3.2 and 3.3.3]

- There was no whistle blower mechanism in 8 companies.

[Para 3.3.10]

- There was no system of regular reporting to the Board by the Audit Committee in 9 companies.

[Para 3.3.13]

IV. Convergence of Indian Accounting Standards with IFRS

In March 2010, Ministry of Corporate Affairs (MCA) notified a road map for conversion of Indian Accounting Standards with IFRS (Ind AS) to be implemented in three phases beginning the financial year 2011-12. However, the road map has not been implemented.

[Para 4.2.2]

The revised Schedule VI notified in March 2011 and the new Companies Bill, which is presently in process of approval by the Parliament, contains relevant provisions/clause required for implementation of Ind-AS.

[Para 4.2.4]

MCA notified 35 converged accounting standards (Ind-AS) in February 2011, however, the date of implementation of the Ind-AS was yet to be notified.

[Para 4.3.1]

Adequate infrastructure, in terms of professional expertise and IT applications, is necessary for smooth transition towards the convergence. The stakeholders might be delaying their preparatory efforts towards Ind-AS, until a revised road-map is notified.

[Para 4.3.5]

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

Mechanism to monitor CPSEs compliance with DPE guidelines required to be strengthened. Audit noticed that irregular payments as a result of non-compliance continued in CPSEs and the corrective action on the audit paras was not satisfactory.

Violation of DPE guidelines resulted in substantial irregular payment of ₹ 946.60 crore in 27 cases as pointed out in CAG's Audit Report No.3 of 2011-12. In fact, these irregularities were noticed as a result of test check only and there could be more such cases of irregular payments.

Out of the 27 cases, the irregularities were stopped in 13 cases. In 6 cases, the irregularities still continue. In 8 cases, involving six CPSEs under the Ministry of Railways, the information was not readily available. In 7 cases there was further irregular payment of ₹ 167.40 crore, including one case where the irregularity was stopped belatedly.

[Para 5.2]

The role of DPE in ensuring compliance with its own guidelines by the CPSEs was not entirely effective as the

- DPE did not maintain data base as which of the CPSEs' Boards its adopted its guidelines;
- DPE did not have a mechanism to ensure compliance with all 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 arrangements to ensure compliance to all its guidelines and issue directions to CPSEs for recovery of the irregular payments reported in Audit.

[Para 5.6]

VI. Corporate Social Responsibility

In April 2010, Department of Public Enterprises issued guidelines for Corporate Social Responsibility (CSR) specifying the mandate and scope of activities for CSR in the CPSEs. A review of the CSR budget/expenditure by the CPSEs during the year 2011-12 was conducted in respect 110 CPSEs with profit of more than Rs.10 crore.

[Para 6.2]

Out of 110 CPSEs, 47 CPSEs did not comply with the DPE guidelines in terms of the minimum CSR budget/expenditure. The compliance was not satisfactory in case of CPSEs earning profit between ₹ 10 crore and ₹ 500 crore, as 42 out of 71 CPSEs failed to comply with the guidelines. Out of 39 CPSEs with profit of more than ₹ 500 crore, 5 CPSEs did not comply with the minimum requirement.

[Para 6.4]

VII. Management of Surplus Cash by CPSEs

Central Public Sector Enterprises (CPSEs) occupy an important place in the national economy. As on 31 March 2011, 406 active CPSEs held cash balance amounting to ₹3,11,371 crore. The study of management of surplus cash by 31 CPSEs selected as sample was undertaken by Audit to ascertain the compliance of DPE guidelines by these CPSEs on dividend payment, issue of bonus shares, buy back of shares, investment policy and repayment of loans. It was also examined whether the CPSEs have sufficient project plans in place to utilize the surplus cash. Safe custody of investment and physical verification and decisions made by CPSEs on repayment of loans, investment in mutual fund and equity were also examined to address the issue of safety, liquidity and profitability. These 31 CPSEs chosen by Audit as sample held ₹ 1,75,332 crore as on 31 March 2012 with a paid up capital of ₹ 78,064 crore.

[Paras 7.1, 7.1.2 and 7.1.5]

For the years 2007-08 to 2011-12, 30 CPSEs have declared dividend of a total of ₹ 1,28,410 crore with dividend payout ratio ranging from 34 to 38 per cent . NTC Limited, which was a loss making company, was not required to pay any dividend.

[Para7. 2.1]

DPE guidelines on payment of dividend stated that "all profit making CPSEs should pay a dividend of "whichever is higher of 20 percent of PAT or equity". In case of Oil and Infrastructure companies the dividend payout requirement was 30 per cent of PAT or 20 per cent of equity, which ever was higher. This created an anomalous situation when PAT is less than 20 or 30 per cent of equity as it happened in case of NHDC Limited in 2010-11.

[Para 7.2.1]

15 CPSEs whose reserves are more than thrice its paid up capital have not complied with DPE guidelines on issue of bonus shares. Out of these 15 CPSEs, 5 CPSEs have not received any instructions from their administrative ministry on issue of bonus shares during 2007-12.

[Para 7.2. 2]

28 CPSEs have planned projects for expansion and diversification during the period 2012-17.

[Para 7.3]

3 CPSEs namely Antrix Corporation Limited, MMTC Limited and the Shipping Corporation of India Limited have not prepared any capital outlay plans.

[Para 7.3]

All the 31 CPSEs had invested at least 60% of their funds in Public Sector Banks.

[Para 7.4.3]