Executive Summary

I. Financial performance of Central Public Sector Enterprises

As on 31 March 2015, there were 570 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 390 government companies, 174 government controlled other companies and six statutory corporations. This Report deals with 365 government companies and corporations (including six statutory corporations) and 156 government controlled other companies. Forty nine companies (including 19 government controlled other companies) whose accounts were in arrears for three years or more or were defunct/under liquidation are not included in the report.

[Para 1.1.3]

Government Investments

The accounts of 365 government companies and corporations indicated that the Government of India had an investment of ₹ 2,65,499 crore in share capital and had loans outstanding amounting to ₹ 51,642 crore as on 31 March 2015. Compared to the previous year, investment by the Government of India (GOI) in equity of CPSEs registered a net increase of ₹ 15,512 crore and loans given to them decreased by ₹ 3,110 crore. The GOI realised ₹ 24,349 crore on disinvestment of its shares in 7 CPSEs and ₹ 563 crore were received due to redemption of preference shares.

[Para 1.2.1 and 1.2.2]

Market Capitalization

The total market value of shares of 46 listed government companies (including four subsidiary companies) which were traded during 2014-15 stood at ₹ 13,27,781 crore as on 31 March 2015. Market value of shares held by the Government of India in 42 listed government companies (excluding four subsidiary companies) stood at ₹ 9,27,531 crore as on 31 March 2015.

[Para 1.2.4]

Return on Investment

The total profit earned by 205 government companies and corporations was ₹ 1,37,338 crore of which, 66 *per cent* (₹ 90,901 crore) was contributed by 48 government companies and corporations under three sectors viz., Petroleum, Coal & Lignite and Power.

[Para 1.3.1]

One hundred and twelve government companies and corporations declared dividend of ₹ 57,749 crore for the year 2014-15. Out of this, dividend receivable by Government of India amounted to ₹33,771 crore which represented 12.72 *per cent* return on the total investment by the Government of India (₹ 2,65,499 crore) in all government companies and corporations.

Ten government companies under the Ministry of Petroleum and Natural Gas contributed ₹ 14,667 crore representing 25.40 *per cent* of the total dividend declared by all government companies.

Non-compliance with government's directive in the declaration of dividend by 17 companies resulted in a shortfall of ₹ 2,521 crore in the payment of dividend for the year 2014-15.

[Para 1.3.2]

Net Worth/Accumulated Loss

Out of 157 government companies and corporations with accumulated losses, the equity investment in 64 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 ₹ 74,100 crore as on 31 March 2015. Only seven companies out of 64 companies earned profit of ₹ 304 crore during 2014-15.

[Para 1.4.1]

II. CAG's oversight role

Out of 564 CPSEs, annual accounts for the year 2014-15 were received from 483 CPSEs in time (i.e. by 30 September 2015). Of these, accounts of 277 CPSEs were reviewed in audit.

[Para 2.3.2 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 57 CPSEs for the year 2014-15 on profitability was ₹ 8387.82 crore and on assets/liabilities was ₹ 16,394.97 crore.

[Para 2.5.1]

Impact of CAG's comments on the accounts

A number of comments were issued by the CAG subsequent to audit of financial statements of government companies by statutory auditors. In the case of statutory corporations where CAG is the sole auditor, apart from significant comments, rectification of errors amounting to ₹ 405.34 crore was carried out at the instance of CAG's audit.

[Para 2.5.3]

Departures from Accounting Standards

Deviations from the provisions of Accounting Standards in preparation of the financial statements were noticed in 31 government companies by the statutory auditors. CAG also pointed out such deviations in 20 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 104 CPSEs through 'Management Letter' for taking corrective action.

[Para 2.7]

III. Corporate Governance

The chapter covers 49 listed companies under administrative control of various Ministries. DPE/Securities and Exchange Board of India guidelines, 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 29 CPSEs was not adequate. There was no independent director in the Board in 16 CPSEs.

  [Para 3.2.2.1 and 3.2.2.2]

- In 18 CPSEs the post of independent directors and functional directors was not filled up even after the lapse of three and six months respectively. In two CPSEs less than four meetings of Audit Committee were held.

  [Para 3.2.5 and 3.3.5]

- There was no whistle blower mechanism in five CPSEs. In four CPSEs the Audit committee did not review the whistle blower mechanism.

  [Para 3.3.9]

IV. Management of surplus cash by CPSEs

CPSEs occupy an important place in the national economy. Forty six listed government companies had cash and bank balance of ₹ 1,62,970 crore as on 31 March 2015 and market capitalization of ₹ 13,50,506 crore as on 31 July 2015. The study of management of surplus cash by 36 listed government companies 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 and investment policy. 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 issues of safety, liquidity and profitability.

[Para 4.1.2, 4.3 and 4.5.4]

- Four CPSEs did not disburse minimum dividend of ₹ 1,718 crore as required under the DPE guidelines, despite having sufficient profit after tax.

[Para 4.5.1.2]

- Three CPSEs did not disburse minimum dividend of ₹ 5,237 crore as required by DPE, due to insufficient PAT, despite having large free reserves.

[Para 4.5.1.3]

- In case of 27 CPSEs, free reserves were in excess of thrice of their paid up capital. However, bonus shares were not issued as required by DPE in case of 24 CPSEs. In case of three CPSEs, namely Balmer Lawrie & Co. Limited, Container Corporation of India Limited and Bharat Petroleum Corporation Limited, even after issue of bonus shares, their reserves remained more than three times of their paid up capital. They did not consider issue of bonus shares as per DPE guidelines.

[Para 4.5.2.2]

- In case of eight CPSEs, managements have yet to amend Articles of Association to provide for buyback of shares as required by DPE.

[Para 4.5.3.2]

- Utilisation of surplus cash is not included as a financial parameter to monitor performance in MOUs of 23 CPSEs.

[Para 4.5.3.4]

- Ten CPSEs, namely, MMTC Limited, NMDC Limited, Bharat Electronics Limited, BEML Limited, SJVN Limited, MOIL Limited, The Shipping Corporation of India Limited, Madras Fertilizers Limited, The Fertilizers and Chemicals Travancore Limited and Rashtriya Chemicals and Fertilizers Limited did not formulate their investment policy for investing surplus cash as required by DPE.

[Para 4.5.4.1]