Executive Summary

I. Financial performance of Central Public Sector Enterprises

There were 636 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India as on 31 March 2017. These included 438 Government Companies, 192 Government Controlled Other Companies and 06 Statutory Corporations. This Report deals with 406 Government Companies and Corporations (including 06 Statutory Corporations) and 173 Government Controlled Other Companies. Fifty seven CPSEs (including 19 Government Controlled Other Companies) whose accounts were in arrears for three years or more or were defunct/under liquidation or first accounts were not received or were not due are not covered in this Report.

[Para 1.1.3]

Investment by Government of India

The accounts of 406 Government Companies and Corporations indicated that the Government of India (GoI) had an investment of ₹3,24,270 crore in share capital. The loans given by GoI outstanding as on 31 March 2017 amounted to ₹79,671 crore. Compared to the previous year, investment by the GOI in equity of CPSEs registered a net increase of ₹25,470 crore and loans outstanding increased by ₹11,799 crore during 2016-17. The GoI realised ₹46,246.58 crore from disinvestment of its shares in 14 CPSEs as against Budgeted receipt of ₹56,500 crore.

[Para 1.2.1.1, 1.2.1.2 and 1.2.2]

Market Capitalisation

The total market value of shares of 46 listed Government Companies (including 04 subsidiary companies) the shares of which were traded during 2016-17 stood at ₹15,14,177 crore as on 31 March 2017. Market value of shares held by the GoI in 42 listed Government Companies (excluding 04 subsidiary companies) stood at ₹9,79,564 crore as on 31 March 2017.

[Para 1.2.4]

Return on Equity

212 Government Companies and Corporations earned profit of ₹1,58,373 crore during 2016-17 of which, 74.69 *per cent* (₹1,18,273 crore) was contributed by 49 Government Companies and Corporations in three sectors viz., Petroleum, Coal and Lignite and Power. Return on Equity (ROE) in these 212 CPSEs was 13.78 per cent in 2016-17 as compared to 14.83 per cent in 203 CPSEs in 2015-16.

[Para 1.3.1]

One hundred and eleven Government Companies and Corporations declared dividend of ₹82,491 crore during the year 2016-17. Out of this, dividend received/receivable by GoI amounted to ₹47,226 crore which represented 14.57 *per cent* return on the total investment by the GoI (₹3,24,270 crore) in all Government Companies and Corporations.

Sixteen Government Companies under the Ministry of Petroleum and Natural Gas contributed ₹34,918 crore representing 42.33 *per cent* of the total dividend declared by all Government Companies and Corporations.

There were 157 CPSEs that incurred losses during the year 2016-17. The losses incurred by these companies during the year 2016-17 amounted to ₹30,678 crore compared to ₹31,957 crore in 2015-16.

Non-compliance with directive of Government of India on declaration of dividend by 20 CPSEs resulted in a shortfall of ₹5456.56 crore in the payment of dividend to GoI for the year 2016-17.

[Para 1.3.2]

Net Worth/Accumulated Loss

There were 188 Government Companies and Corporations with accumulated losses of ₹1,23,194 as on 31 March 2017. Of these, the net worth of 71 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 ₹71,935 crore as on 31 March 2017. Only 11 out of these 71 companies earned profit of ₹2958 crore during the year 2016-17.

[Para 1.4.1]

II. Oversight role of CAG

Annual accounts for the year 2016-17 were received from 544 CPSEs out of 630 CPSEs (excluding six Corporations) in time (i.e. by 30 September 2017). Of these, accounts of 332 CPSEs were reviewed in audit.

[Paras 2.3.2 and 2.5.2]

The CAG introduced the system of Three Phase Audit of accounts of CPSEs on consensus basis in order to enhance the quality of financial reporting. This had led to a significant improvement in the quality of their financial statements. As a result of Three Phase Audit in 71 CPSEs the changes in profitability and in value of assets/liabilities was ₹16,248.55 crore and ₹21391.15 crore, respectively, for the year 2016-17.

[Para 2.5.1]

Departures from Accounting Standards

Deviations from the provisions of Accounting Standards in preparation of the financial statements were noticed in 16 companies by the statutory auditors. CAG also pointed out such deviations in 3 companies.

[Para 2.6]

Management Letters

Irregularities and deficiencies in the financial reports or in the reporting process observed during supplementary audit which are not material observations on the financial statement were communicated to the management of 114 CPSEs through 'Management Letter' for taking corrective action.

[Para 2.7]

III. Corporate Governance

The review of Corporate Governance covered 52 listed CPSEs (49 listed CPSEs and 3 CPSEs whose bonds were listed) under the administrative control of various Ministries. Provisions of the Companies Act, 2013; DPE guidelines; Regulations of Securities and Exchange Board of India regarding Corporate Governance, though mandatory, were not being complied with by some of the CPSEs. During the year the following significant departures from the prescribed guidelines were noticed:

- In seven CPSEs the non-executive directors constituted less than 50 *per cent* of the total strength of the Board of Directors. There was no woman director on the Board of Directors of nine CPSEs.

  [**Para 3.2.1 and 3.2.3]**

- Representation of independent directors in 37 CPSEs was below the required number. There was no independent director on the Board of Directors of 4 CPSEs.

  [Para 3.2.2]

- The independent directors did not attend Board meeting/Board committee meeting in 29 CPSEs, and the independent directors did not attend General meeting in 18 CPSEs.

  [Para 3.3.4 and 3.3.5]

- Evaluation of performance of independent directors as required was not conducted by Board of Directors in 41 CPSEs.

[Para 3.3.7]

- Vacancies of independent directors were not filled in time in 23 CPSEs. Vacancies of functional directors in 16 CPSEs were not filled in time.

[Para 3. 5]

- While all the CPSEs under review with the exception of Scooters India Limited constituted audit committee, the number of independent directors in the audit committee was below the prescribed number in six CPSEs.

[Para 3.6.1]

- There was no whistle blower mechanism in 3 CPSEs. In 7 CPSEs the Audit Committee did not review the whistle blower mechanism.

[Para 3.8.1 and 3.8.2]

IV. Corporate Social Responsibility

The review covered 77 CPSEs (seven Maharatna, 17 Navratna, 50 Miniratna Category-I and three Miniratna Category-II) under the administrative control of 24 Ministries/ Departments. The period of one year ended March 2017 was covered during the review. Following significant observations were made in the review:

[Para 4.3]

- Fifteen CPSEs have constituted CSR committee during the year 2016-17 with a delay ranging from 25 to 39 months in constitution of CSR Committee. Two CPSEs out of qualifying CPSEs did not have independent director in the Committee during 2016-17. CSR policy of five CPSEs did not indicate the activities to be undertaken, from the 11 activities specified in schedule VII of the Companies Act 2013.

[Para 4.5.1.1] [Para 4.5.1.2] [Para 4.5.1.4]

- Review of 77 CPSEs revealed that 49 of the 66 profit making CPSEs had allocated at least two *per cent* of the average net profit. Thirteen profit making CPSEs did not allocate the prescribed amount for CSR expenditure. Expenditure on CSR of 41 CPSEs was above two *per cent* of the average net profit, whereas, the expenditure of 25 CPSEs was below 2 *per cent* of average net profit.

[Para 4.5.2] [Para 4.5.2.1]

- CPSEs have spent more in Andhra Pradesh, Odisha, Uttar Pradesh, Gujarat and Chhattisgarh, whereas, expenditure in Punjab and north-eastern States such as Mizoram, Manipur, Nagaland, Sikkim is insignificant.

[Para 4.5.2.3]

- Fifty seven CPSEs preferred combination of exclusive direct, own foundation, collaboration with other Companies and Society/Trust/ Section 8 Company as their medium of implementation, whereas 11 CPSEs prefer exclusive direct mode of implementation for undertaking CSR activities.

[Para 4.5.3.2]

- Nineteen CPSEs out of seventy seven CPSEs did not carry out any baseline/need assessment surveys prior to selection of CSR activities.

[Para 4.5.3.3]

- Forty nine out of seventy seven CPSEs, had defined local area of operations however; the same did not form part of CSR Policy of five CPSEs. Twenty four CPSEs had not defined the local area of their operations.

[Para 4.5.3.4]

- During the year 2016-17, the number of projects undertaken by 77 CPSEs was 8840 and CSR expenditure thereon (including amount spent from the carried forward amount of previous years) was ₹3150.37crore. Education and skill development, Healthcare, Rural Development and Environment sustainability with total expenditure of ₹1036 crore, ₹826 crore, ₹417 crore and ₹394 crore, formed the thrust areas for CSR. Whereas, focus on Technology incubation, Armed forces, Funds set up by Central Government and Slum Area Development was limited.

[Para 4.5.3.5]

- Out of 55 CPSEs, expenditure on administrative overheads for the financial year 2016-17 of three CPSEs exceeded 5 *per cent* of the total CSR expenditure of the company. Out of the total expenditure of ₹75.61 crore on CSR activities by 26 CPSEs, ₹66.60 crore was towards salaries of CSR staff which was inadmissible.

[Para 4.5.3.6]

- Out of 77 CPSEs there was no monitoring mechanism in place in six CPSEs.

[Para 4.5.4.2]

V. Analysis of Memoranda of Understanding between Administrative Ministries and CPSEs

Audit has carried out analysis of MOU between 17 'Navratna' companies and their respective Administrative Ministries for the years 2015-16 and 2016-17.

[Para 5.5]

As per the MOU guidelines, the targets should be the maximum achievable under the given and anticipated circumstances and the basic target of relevant financial parameter should be determined on the basis of projection based on actual achievement of last five years. However, the targets fixed in respect of eight CPSEs were lower than their actual achievement against these parameters in the previous years. The under-pitching of targets eventually helped the CPSEs to achieve better ratings. Improper evaluation of parameters were also noticed in three CPSEs.

[Para 5.7.1]

The MOU guidelines mandated benchmarking of parameters with reference to national and international peers which was not carried out by six CPSEs.

[Para 5.7.3]

Though the MOU guidelines mandated the CPSEs to incorporate necessary commitment from Administrative Ministry in the MOU for filling up positions of non-official Directors on their Board and for compliance of provisions of Listing Agreement and Companies Act regarding independent and woman Directors, some positions of independent and woman Directors in 7 CPSEs were lying vacant.

[Para 5.7.4]

Delay in submission of MOU to Department of Public Enterprises and Administrative Ministries and also in signing the final MOU were also noticed in case of 5 CPSEs.

[Para 5.7.6]

VI. Joint Venture operations of CPSEs

The audit covered CPSEs categorised as Maharatna, Navratna and Miniratna. There were 98 CPSEs categorised as Maharatna, Navratna and Miniratna by the Department of Public Enterprises (May 2017). Out of this, 46 CPSEs did not have any JV and accordingly, 52 CPSEs (7 Maharatna, 17 Navratna and 28 Miniratna) were covered under this review.

The following significant observations were made in the review:

- Out of 251 incorporated JVs where information was available, selection of JV partner in 84 JVs was as per directives of Government, 19 JVs through Open tender, 75 JVs through choice out of few prospective partners identified by

CPSEs, 49 JVs on nomination basis and in 24 cases, investment was made by CPSEs in already existing JVs.

(Para 6.7.1)

- four CPSEs were short of attendance of at least two non-official directors in the Board Meeting where appraisal of formation of JV was deliberated upon.

(Para 6.7.1.(i))

- In respect of three CPSEs, the representation of CPSEs in the Management and operation of JVs was not as per JV agreement.

(Para 6.7.1.(ii))

- None of the Maharatna/ Navratna CPSEs had submitted comprehensive list of JVs formed and status thereof to DPE on a half-yearly basis.

(Para 6.7.2)

- Out of 158 incorporated JVs for which information was received, 76 JVs were earning profit, 64 JVs were incurring loss and 18 JVs earned profit only in the year 2016-17 but had accumulated losses.

(Para 6.7.3)

- Indian Oil Corporation Limited while forming its JVs did not obtain prior approval of the Board of Directors in violation of DPE guideline. Further no pilot study was conducted to ensure the commercial viability of the project before submitting to the Board.

(Para 6.7.4)

- ONGC Videsh Limited in respect of its overseas E&P projects where investment was more than ₹300 crore, obtained investment approvals of ₹11239.83 crore from Oil and Natural Gas Corporation Limited instead of Cabinet Committee on Economic Affairs (CCEA)

(Para 6.7.5)

VII. Compliance with Provisions of Public Procurement Policy, 2012 for Micro and Small Enterprises

The review of Compliance with Provisions of Public Procurement Policy, 2012 for Micro and Small Enterprises covered 18 listed CPSEs under administrative control of various Ministries. Provisions of the Public Procurement Policy, 2012 for Micro and Small Enterprises though became mandatory from 1 April 2015, are not being complied with by some of the CPSEs. During the period from 2012-13 to 2016-17 covered in audit, the following were noticed:

- CPSEs were mandatorily required to procure a minimum of 20 *per cent* of their total procurement from MSEs. Out of 18 selected CPSEs, 7 had achieved the target of minimum of 20 *per cent* of their total procurement from MSEs during 2015-16 and 2016-17**.**

[Para 7.5.1 (a)]

- Nine CPSEs excluded significant quantum of their procurement while reporting compliance with the policy of purchasing specified percentage of goods and services from MSEs.

[Para 7.5.1 (b)]

- There were significant outstanding payables to MSEs in 8 CPSEs though it was mandatory to make such payments within 45 days.

[Para 7.5.2]

- Eleven of the eighteen selected CPSEs followed the provisions of Purchase Preference Clause of the Policy and a total of 5553 MSEs benefitted due to compliance with the provision of the clause.

[Para 7.5.4]

- Items designated for procurement from MSEs were being procured from non MSEs by four CPSEs.

[Para 7.5.5]

- Eight out of eighteen selected CPSEs had not uploaded their annual procurement plan from MSEs on their websites and five CPSEs had not reported goals and achievement of procurement targets from MSEs in their annual reports.

[Para 7.5.7]

- Downgrading through deduction of marks in rating of the CPSEs for non-achievement of targets under Memorandum of understanding has not proved an effective deterrent against non-implementation of the policy.

[Para 7.6]

VIII. Impact of Implementation of Indian Accounting Standards in Selected Central Public Sector Enterprises

The Ministry of Corporate Affairs had notified Indian Accounting Standards (Ind AS) which were applicable for companies in phased manner from financial year 2016-17. The standalone financial statements of 67 CPSEs consisting of Maharatna, Navratna, Miniratna companies, which have adopted Ind AS in preparation of their financial statements w.e.f. 01 April 2016, have been selected for review of Impact of Implementation of Indian Accounting Standards on Central Public Sector Enterprises (CPSEs). The impact of implementation of Ind AS in these CPSEs on their revenues, profit after tax (PAT), net worth and total assets of the CPSEs were reviewed. The impact was assessed by comparing the values as on 31 March 2016 as per the Ind AS compared to corresponding values as per Indian Generally Accepted Accounting Principles (IGAAP) on the same date.

[Para 8.1, 8.3]

Impact on Profit after Tax (PAT)

Consequent to adoption of Ind AS, increase in profits were noticed in CPSEs in the defence sector, infrastructure sector, power sector and shipping sector whereas profits of CPSEs in communication sector, energy sector, fertiliser sector, metal sector and mining sector had shown decrease. Out of 67 CPSEs reviewed, in case of 39 CPSEs (58 *per cent*), the profits increased, whereas the profits decreased in case of 28 CPSEs (42 *per cent*).

The overall maximum increase of ₹412.53 crore in Profit After Tax (PAT) of CPSEs was noticed in infrastructure sector whereas overall maximum decrease of ₹1454.20 crore in PAT of CPSEs was noticed in energy sector. The Shipping Corporation of India recorded the highest increase in profits of ₹375.99 crore due to adoption of Ind AS whereas the reduction of profits was the highest in respect of ONGC Videsh limited which recorded a decrease of profits of ₹1835 crore.

[Para 8.7]

Impact on Revenues

45 CPSEs (67 *per cent*) out of the reviewed CPSEs carried out adjustment on revenues consequent to adoption of Ind AS. Out of this, 20 CPSEs (44 *per cent*) reported an increase and 25 CPSEs (56 *per cent*) reported decrease in revenue. The overall maximum increase of ₹29691.18 crore in revenue was noticed in CPSEs belonging to the energy sector.

[Para 8.9]

Impact on Total Assets

49 CPSEs (73 *per cent*) out of the 67 CPSEs reviewed, carried out adjustment on value of total assets consequent to adoption of Ind AS. Out of this, 29 CPSEs (59 *per cent*) reported an increase in value and 20 CPSEs (41 *per cent*) reported decrease in total value of assets. The overall maximum increase of ₹73560 crore in value of total assets was noticed in the case of CPSEs in the communication sector whereas overall maximum decrease of ₹1095.99 crore in total value of assets was noticed in case of CPSEs in the defence sector.

[Para 8.10]

Impact on Net Worth

66 CPSEs (99 *per cent*) out of the CPSEs subject to review, carried out adjustment on value of net worth consequent to adoption of Ind AS. Out of this, 46 CPSEs

(70 *per cent*) reported an increase in net worth and 20 CPSEs (30 *per cent*) reported decrease in net worth. The overall maximum increase of ₹58383.81 crore in net worth was noticed in respect of CPSEs belonging to the communication sector whereas overall maximum decrease of ₹4719.76 crore in net worth was noticed in respect of CPSEs belonging to the mining sector.

[Para 8.11]