

OVERVIEW

1. Financial performance of Public Sector Undertakings

As on 31 March 2007, there were 401 central government Public Sector Undertakings (PSUs) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 300 government companies, 95 deemed government companies and six statutory corporations. This report deals with 348 PSUs comprising 267 government companies, 75 deemed government companies and six statutory corporations. Fifty three companies are not covered in this report. Out of them, accounts of 12 PSUs were in arrears for three years or more, two PSUs had not submitted their first accounts, 28 PSUs were defunct/under liquidation and accounts of 11 PSUs were not due.

*[Para 1.1.5]***Government Investments**

The accounts of 348 PSUs (289 for current year and 59 for earlier years) indicated that the Government of India had invested Rs.1,37,110 crore directly in the equity capital of 273 government companies and corporations. Loans amounting to Rs.69,798 crore had also been received by the PSUs from the Government of India as on 31 March 2007. Compared to the previous year, investment in equity of PSUs by the Government of India registered a net increase of Rs.12,622 crore and loans given to them increased by Rs.1,114 crore.

*[Para 1.2.1]***Market Capitalisation**

The market value of shares of 37 listed government companies as per prices prevailing in stock markets on 31 March 2007 stood at Rs.6,41,483 crore. This compared favourably with the total book value of their shares at Rs.2,51,119 crore. Market value of shares held by the Government of India and government companies in these companies stood at Rs.5,07,297 crore as on 31 March 2007 as compared with the book value of Rs.1,94,419 crore.

*[Para 1.2.2]***Return on Investment**

Out of the 273 government companies and corporations where data has been analysed in this Report, 178 government companies and corporations earned profits during the year and 72 government companies suffered losses excluding Food Corporation of India and Inland Waterways Authority of India where deficits are reimbursed by the Government of India as subsidy/grant. The remaining 21 companies had not started their commercial operations. The total profit earned by 178 government companies and corporations was Rs.94,809 crore of which, as much as 80.96 per cent (Rs.76,750 crore) was contributed by 50 government companies and corporations under six sectors viz., Petroleum, Telecommunication Services, Power, Coal & Lignite, Steel and Minerals & Metals.

[Paras 1.3.1.1, 1.3.1.2 and 1.5.1.1]

Out of the 178 government companies and corporations which earned profit, 107 government companies and corporations declared dividend for the year 2006-07

amounting to Rs.27,859 crore. Out of this, Rs.20,831 crore were paid/ payable to the Government of India. The dividend paid to Government of India represented 15.19 *per cent* return on the total investment by the Government of India (i.e. Rs.1,37,110 crore) in all government companies and corporations.

[Paras 1.3.3.2 and 1.3.3.7]

Government companies under the Ministry of Petroleum and Natural Gas, operating partially under the administered/ regulated prices, contributed Rs.12,045 crore representing 43.24 *per cent* of the total dividend declared by all government companies.

[Para 1.3.3.3]

Non compliance with Government's directive in the declaration of dividend resulted in a shortfall of Rs.2388 crore in the payment of dividend for the year 2006-07.

[Para 1.3.3.6]

Net Worth/Accumulated Loss

Out of 273 government companies and corporations, the equity investment in 70 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 Rs.64,358 crore as on 31 March 2007. Due to the negative net worth, recovery of the loans given by the Government to these companies was doubtful. The accumulated losses in these 70 government companies increased by Rs.3,362 crore, from Rs.73,193 crore in 2005-06 to Rs.76,555 crore in 2006-07.

[Para 1.5.2]

Companies referred to BIFR

Out of 70 companies the equity capital of which had been eroded, 35 had been referred to the BIFR. While revival package was approved in respect of six companies, 16 were recommended for closure/winding up. The remaining 13 companies were under various stages of processing.

[Para 1.5.3]

2. Audit of Public Sector Undertakings

Out of 401 PSUs including six statutory corporations, annual accounts for the year 2006-07 were received from 289 PSUs including five Statutory Corporations. Of these, accounts of 198 PSUs including four statutory corporations were reviewed in audit.

[Paras 2.3.2 and 2.4.3]

Revision of Accounts

As a result of supplementary audit by the C&AG, 12 government companies (including one listed government company) revised their accounts for the year 2006-07. The impact of the revision on the profitability of these companies was to the extent of Rs.243.66 crore.

[Para 2.4.3.1]

Impact of C&AG's comments on the accounts

Comments issued by the C&AG as a result of supplementary audit of government companies brought out overstatement of assets by Rs.71.94 crore in five companies and profit by Rs.1036.23 crore in 15 companies.

Similarly, there was understatement of assets by Rs.24.18 crore in six companies, liabilities by Rs.6.38 crore in three companies, profit by Rs.55.98 crore in four companies and loss by Rs.41.36 crore in five companies.

[Paras 2.4.4.2 and 2.4.4.5]

In the case of statutory corporations where C&AG is the sole auditor, the impact of audit observations on the accounts of three corporations was overstatement of assets by Rs.341.06 crore and profit by Rs.2.64 crore. Similarly, liabilities and loss were understated by Rs.36.32 crore and Rs.1.64 crore respectively. Assets were overstated by Rs.17.80 crore in Central Warehousing Corporation where C&AG conducts supplementary audit.

[Paras 2.4.4.7 and 2.4.4.8]

Observations of Statutory Auditors

The Statutory Auditors appointed by the C&AG made significant qualifications in their reports in respect of 40 government companies (including deemed government companies), of which 11 were listed companies.

[Paras 2.4.4.1 and 2.4.4.4]

In compliance with the directions issued by the C&AG 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, debtors, inventory and internal audit in various government companies (including deemed government companies).

[Paras 2.4.4.3, 2.4.4.6 and 2.5]

Departures from Accounting Standards

Deviations from the provisions of accounting standards in preparation of the financial statements were noticed in 32 companies and one statutory corporation by the statutory auditors. C&AG also pointed out such deviations in another 27 companies and one statutory corporation.

[Para 2.6]

3. Corporate Governance

Corporate Governance generally refers to the practices by which organisations are directed, controlled and held to account.

[Para 3.1.1]

As the Board of Directors and Audit Committee are the most significant instrument of Corporate Governance in a company, Audit conducted a limited review of the compliance with the provisions of Clause 49 of the Listing Agreement, Section 292A of the Companies Act, 1956 and DPE's guideline relating to the number of independent directors or non-official directors on the Board and constitution and composition of Audit Committee of limited government companies as on 30 June 2007.

[Paras 3.5.2, 3.6.1, 3.7.1 and 3.8.1]

The Board of 30 listed government companies had not been constituted as per clause 49 of Listing Agreement as there were no independent directors on the Board of nine listed government companies and the Board of 21 listed government companies did not have the required number of independent directors.

[Para 3.5.2]

The Board of 64 unlisted government companies had not been constituted as per DPE's guideline as there was no non-official director on the Board of 48 unlisted government companies and the Board of Directors of 16 unlisted government companies did not comprise the required number of non-official directors.

[Para 3.7.1]

Though the Audit Committee existed in all listed companies, the composition of the Committee in 18 listed companies was not as per Clause 49 of the Listing Agreement. As regards unlisted government companies, there was no Audit Committee in five companies leading to non-compliance with the provisions of section 292A of the Companies Act, 1956.

[Paras 3.6.2 and 3.8.1]

To promote good governance practices, 30 unlisted government companies formed Audit Committee though not required by Section 292A of the Companies Act, 1956.

[Para 3.9.1]

Since statutory corporations are not governed by the Companies Act, 1956, they do not prepare Directors'/Members' Responsibility Statement.

[Para 3.10]

4. Environmental Aspect and Sustainability Reporting

The high levels of public accountability attached to Public Sector Undertakings (PSUs) as a result of their public ownership makes socially responsible reporting by PSUs particularly important.

The issue relating to social obligations of Central Public Enterprises was examined by the Committee on Public Undertakings (COPU) in 1992. Based on the recommendations of COPU, Department of Public Enterprises (DPE) issued general guidelines in November, 1994. A limited survey of socially responsible reporting by central PSUs in India revealed that central PSUs were yet to adopt a systematic approach towards socially responsible reporting.

The 'United Nation's Global Compact' is an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on them through Communication on Progress. There are 10 principles relating to Human Rights, Labour Standards, Environment and Anti-Corruption that the participating companies are required to follow and report on. Out of 47 PSUs which were members of the UN's Global Compact as of November 2007, 23 PSUs were recognized as active participants

[Para 4.2.2]

The Global Reporting Initiative (GRI) is a large multi-stakeholders' network of experts formed with the support of the United Nations Environment Programme. The GRI Guidelines provide the most common reporting framework used in the world for social responsibility reporting. No central government PSU was reporting systematically in accordance with the GRI protocols.

[Para 4.3]

A limited survey was conducted by audit to collect the information from government companies in the petroleum, power, mining, fertilizer, coal & lignite and telecommunication sectors on measures taken by them to conserve energy and water and to control emissions. Based on the information made available some of the government companies had taken initiatives in these areas during the period 2004-05 to 2006-07.

[Para 4.4]