Executive Summary

I. Financial performance of Central Public Sector Enterprises

As on 31 March 2013, there were 525 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 358 government companies, 161 deemed government companies and six statutory corporations. This Report deals with 327 CPSEs (including six statutory corporations) and 137 deemed government companies. This Report does not include 61 companies (including 24 deemed government companies) whose accounts were in arrears for three years or more or were defunct/under liquidation or first accounts not received or first accounts were not due.

[Para 1.1.3]

Government Investments

The accounts of 327 CPSEs indicated that the Government of India had an investment of ₹ 2,25,037 crore in share capital and had loans outstanding amounting to ₹ 50,437 crore as on 31 March 2013. Compared to the previous year, investment by the Government of India (GOI) in equity of CPSEs registered a net increase of ₹ 19,652 crore and loans given to them decreased by ₹ 2,840 crore. The GOI realised ₹ 23,956 crore on disinvestment of its shares in eight CPSEs.

[Para 1.2]

Market Capitalization

The market value of shares of 44 listed government companies, which were traded as per prices prevailing in stock markets on 31 March 2013 stood at ₹ 11,10,382 crore. Market value of shares held by the Government of India stood at ₹ 8,30,913 crore as on 31 March 2013.

[Para 1.2.4]

Return on Investment

Out of the 327 government companies and corporations where data has been analyzed in this Report, 182 government companies and corporations earned profits and 124 government companies and corporations suffered losses during the year 2012-13. The remaining 21 companies were not in operation. The total profit earned by 182 government companies and corporations was ₹ 1,48,142 crore of which, as much as 62 *per cent* (₹ 91,981 crore) was contributed by 37 government companies and corporations under three sectors viz., Petroleum & Natural Gas, Coal & Lignite and Power.

[Paras 1.3]

Out of the 182 government companies and corporations which earned profit, 107 government companies and corporations declared dividend for the year 2012-13 amounting to ₹ 49,929 crore. Out of this, dividend receivable by Government of India amounted to ₹ 32,741 crore which represented 14.55 *per cent* return on the total investment by the Government of India (₹ 2,25,037 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 ₹ 14,067 crore representing 28 *per cent* of the total dividend declared by all government companies.

Non compliance with government's directive in the declaration of dividend by 30 companies resulted in a shortfall of ₹ 3,588 crore in the payment of dividend for the year 2012-13.

[Para 1.3.2]

Net Worth/Accumulated Loss

Out of 327 government companies and corporations, the equity investment in 65 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 ₹ 68,202 crore as on 31 March 2013. Only 8 companies out of 65 companies earned profit of ₹ 1,745 crore during 2012-13.

[Para 1.4.1]

II. CAG's oversight role

Out of 525 CPSEs, annual accounts for the year 2012-13 were received from 421 CPSEs in time (i.e. by 30 September 2013). Of these, accounts of 283 CPSEs 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 60 CPSEs for the year 2012-13 on profitability was ₹ 4,595.82 crore and on assets/liabilities was ₹ 4,349.74 crore.

[Para 2.5.1]

Revision of Accounts

As a result of supplementary audit by the CAG, eight companies revised their accounts for the year 2012-2013. The impact of the revision on the financial statements of these companies was to the extent of ₹ 9.32 crore. In addition, the statutory auditors of 15 government companies (including two listed government companies) and three deemed government companies revised their reports as a result of supplementary audit by the CAG.

[Para 2.5.2]

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 ₹ 6,222.30 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 36 companies by the statutory auditors. CAG also pointed out such deviations in 11 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 53 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 59 companies of which 14 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

The chapter covers 45 companies under jurisdiction of Ministry of Chemicals and Fertilizers, Ministry of Defence, Ministry of Steel and Ministry of Shipping. 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 13 companies. In 23 Companies the required number of independent directors was not there.

  [Para 3.2.2]

- In 15 companies two third of the members of the Audit Committee were not independent directors. In 11 companies, the Chairman of Audit Committee was not an independent director.

  [Paras 3.3.2 and 3.3.3]

- There was no whistle blower mechanism in 21 companies.

[Para 3.3.11]

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]

A new Companies Act 2013 has been enacted in August 2013. The Act specifies that the financial statements shall comply with accounting standards notified by Central Government and shall be in form or forms as may be provided for class or classes of companies. This would facilitate implementation of the Ind-AS in phases.

[Para 4.2.4]

MCA could not notify the date of implementation of Ind-AS as per its notified road-map, primarily on grounds of lack of consensus on its implementation.

[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 irregular payment of ₹ 46.23 crore in 2 cases as pointed out in CAG's Audit Report No.8 of 2012-13. In fact, these irregularities were noticed as a result of test check only and there could be more such cases of irregular payments.

[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 to which of the CPSE Boards 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 2012-13 was conducted in respect 103 CPSEs with profit of more than ₹ 10 crore.

[Para 6.2]

Out of 103 CPSEs, 41 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 29 out of 65 CPSEs failed to comply with the guidelines. Out of 38 CPSEs with profit of more than ₹ 500 crore, 12 CPSEs did not comply with the minimum requirement.

[Para 6.4]

VII Public Private Partnerships and Joint Ventures

New arrangements have developed, particularly in infrastructure sector, whereby substantial public fund and/or assets are used to implement public programs or economic activity by the Government through involvement of private parties on medium to long term basis. These arrangements are largely in the form of Public Private Partnership (PPP) and/or Joint Ventures (JVs), both in the Centre and States. There are risks in estimation of revenue streams of projects under PPP arrangement which may significantly impact the exchequer or users of the services, which is normally the public at large. These arrangements are, however, outside the traditional legislative oversight by the Parliament. PPP agreements signed so far also do not provide for comprehensive audit by CAG.

[Para 7.1 & 7.3]

Investment made by ONGC Videsh Limited in JVs/ foreign subsidiaries stood at ₹ 70,761 crore by end of March 2013. Further, an investment of ₹ 10,300 crore was made by end of March 2013 by 23 government companies/corporation in 84 JVs (76 JVs incorporated in India and 8 JVs un-incorporated). The accounts of these JVs/foreign subsidiaries lacked parliamentary oversight.

[Para 7.4.1]