Executive Summary

I. Financial performance of Central Public Sector Enterprises

As on 31 March 2014, there were 544 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 377 government companies, 161 deemed government companies and six statutory corporations. This Report deals with 353 government companies and corporations (including six statutory corporations) and 144 deemed government companies. Forty seven companies (including 17 deemed government 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 353 government companies and corporations indicated that the Government of India had an investment of ₹ 2,45,191 crore in share capital and had loans outstanding amounting to ₹ 54,907 crore as on 31 March 2014. Compared to the previous year, investment by the Government of India (GOI) in equity of CPSEs registered a net increase of ₹ 13,902 crore and loans given to them increased by ₹ 4,091 crore. The GOI realised ₹ 15,819 crore on disinvestment of its shares in 11 CPSEs and newly formed CPSE-ETF scheme.

[Para 1.2.1 and 1.2.2]

Market Capitalization

The market value of shares of 46 listed government companies, which were traded as per prices prevailing in stock markets on 31 March 2014 stood at ₹ 11,06,657 crore. Market value of shares held by the Government of India stood at ₹ 7, 97,348 crore as on 31 March 2014.

[Para 1.2.4]

Return on Investment

The total profit earned by 202 government companies and corporations was ₹ 1,53,907 crore of which, 65 *per cent* (₹ 1,00,369 crore) was contributed by 41 government companies and corporations under three sectors viz., Petroleum, Coal & Lignite and Power.

[Paras 1.3]

One hundred and eleven government companies and corporations declared dividend of ₹ 66,051 crore for the year 2013-14. Out of this, dividend receivable by Government of India amounted to ₹ 41,842 crore which represented 17.06 *per cent* return on the total investment by the Government of India (₹ 2, 45, 191 crore) in all government companies and corporations.

Ten government companies under the Ministry of Petroleum and Natural Gas contributed ₹14,997 crore representing 22.7 *per cent* of the total dividend declared by all government companies.

Non-compliance with government's directive in the declaration of dividend by 19 companies resulted in a shortfall of ₹ 2,555 crore in the payment of dividend for the year 2013-14.

[Para 1.3.2]

Net Worth/Accumulated Loss

Out of 353 government companies and corporations, the equity investment in 67 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 ₹ 87,885 crore as on 31 March 2014. Only nine companies out of 67 companies earned profit of ₹1,399 crore during 2013-14.

[Para 1.4.1]

II. CAG's oversight role

Out of 544 CPSEs, annual accounts for the year 2013-14 were received from 467 CPSEs in time (i.e. by 30 September 2014). Of these, accounts of 297 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 74 CPSEs for the year 2013-14 on profitability was ₹20,225.28 crore and on assets/liabilities was ₹38,496.51 crore.

[Para 2.5.1]

Revision of Accounts

As a result of supplementary audit by the CAG, the statutory auditors of eight government companies (including two listed government companies) revised their reports.

[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 ₹480.06 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 33 government companies by the statutory auditors. CAG also pointed out such deviations in 13 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 113 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 54 companies of which 11 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 34 companies under administrative control of Ministries of Commerce and Industry, Ministry of Mines, Ministry of Tourism, Ministry of Urban Development and Ministry of Textiles. DPE 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 some of the CPSEs was not adequate. There was no independent director in the Board in 18 CPSEs.

[Para 3.2.2]

- Risk policy for managing the risk and avoiding damage to the entity's reputation and associated consequences was yet to be evolved in nine CPSEs. In 10 CPSEs less than four meetings of Audit Committee were held.

[Paras 3.2.6 and 3.3.5]

- There was no whistle blower mechanism in nine CPSEs. Model code of business conduct for Board of Directors was not circulated in 16 CPSEs.

[Paras 3.3.10 and 3.4]

IV. Convergence of Indian Accounting Standards with IFRS

As per the road-map announced by Ministry of Corporate Affairs (MCA) in March 2010, the Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards were to be applied to specified class of companies in phases beginning with the financial year 1 April 2011. Audit observed that MCA could not notify the date of implementation of Ind AS as per its notified road-map.

[Para 4.1.1]

In pursuance of the Budget Statement of the Finance Minister in February 2014, MCA after consultations with various stakeholders and regulators, issued a press note on 2 January 2015 wherein a revised Road map for implementation of Ind AS converged with IFRS was laid down for companies other than Banking Companies, Insurance Companies and Non- Banking Finance Companies.

[Para 4.1.2]

Companies Act, 2013 specified 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 Ind AS in phases. Accordingly, MCA vide its notification dated 16 February 2015 notified the Companies (Indian Accounting Standards) Rules 2015 specifying 39 Ind AS to be implemented as per the road-map.

[Para 4.1.3]

Challenges to convergence

- Ind AS are based on the concept of fair value measurement of assets and liabilities, corresponding standards under the Income Tax Act are essential to ensure smooth and harmonised transition.

  [Para 4.2.1]

- Banks and Insurance Companies have been kept out of the proposed road map for transition to Ind AS in view of the specific needs and concerns of these two sectors.

  [Para 4.2.2]

- Issues such as cost of compliance, capacity building, managing two sets of standards (one for entities that seek transition and the other for those which do not) and the impact of exceptions or 'carve outs' on the achievement of objectives of convergence would need to be addressed through a well-coordinated mechanism among MCA, DPE and ICAI.

  [Para 4.2.3]

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

Mechanism to monitor CPSEs compliance with DPE guidelines required to be strengthened.

Violation of DPE guidelines resulted in payment of ₹ 1326.80 crore in 46 cases involving 44 CPSEs as pointed out in CAG's Audit Report No.13 of 2013 & 2014. In fact, these irregularities were noticed as a result of test check only and there could be more such cases.

[Para 5.2]

While it is the responsibility of the respective Administrative Ministry/Department to ensure that DPE guidelines are followed by the CPSEs under their jurisdiction, in letter and spirit, in view of the continuous and recurring instances of non-compliance of DPE guidelines being reported in CAG's Audit Reports, a dedicated mechanism either in the Ministry of Finance or DPE may be instituted so that all issues of non-compliance are addressed through regular and critical review.

[Para 5.5]

VI. Corporate Social Responsibility

Department of Public Enterprises has revised its Corporate Social Responsibility (CSR) guidelines which are effective from April 2013 specifying the mandate and scope of activities for CSR in the CPSEs.

[Para 6.2]

A review of 39 CPSEs of Energy Sector under administrative control of Ministry of Power, Ministry of Coal, Ministry of Petroleum & Natural gas, Ministry of Atomic Energy and Ministry of New and Renewable Energy Resources was conducted. For the purpose of the review, an assessment framework was prepared based on the provisions contained in the DPE guidelines of 12 April 2013. Following significant observations were made in the review:

[Para 6.3]

- Six CPSEs had not formulated a CSR and sustainability policy. Further, two CPSEs did not prescribe measurable and the expected outcome and social, economic & environmental impact of such activities.

[Para 6.4.1 and 6.4.2]

- Each CPSE, with the approval of its Board of Directors, was to make a budgetary allocation for CSR and Sustainability activities / projects for the year based on the profitability of the company. In five CPSEs budgetary allocation was less by ₹ 8.66 crore than the prescribed ranges.

[Para 6.5.1]

- Implementation and monitoring of the CSR & sustainability activities was to be overseen by constituting the two-tier organisational structure within the organization. However, these guidelines were not complied by eight CPSEs.

[Para 6.6.1]

- In seven CPSEs CSR projects which are implemented in–house by the Company, are not subject to monitoring and final evaluation has not been assigned to independent external agency.

[Para 6.6.3]