Executive Summary

I. Financial performance of Central Public Sector Enterprises

As on 31 March 2016, there were 607 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 410 Government Companies, 191 Government Controlled other Companies and six Statutory Corporations. This Report deals with 384 Government Companies and Corporations (including six Statutory Corporations) and 170 Government Controlled other Companies. Fifty three CPSEs (including 21 Government Controlled other Companies) whose accounts were in arrears for three years or more or were defunct/under liquidation or whose first accounts were not received or were not due are not covered in this Report.

[Para 1.1.3]

Government Investments

The accounts of 384 Government Companies and Corporations indicated that the Government of India (GoI) had an investment of ₹ 2,96,061 crore in share capital and had GoI loans outstanding amounting to ₹ 78,609 crore as on 31 March 2016. Compared to the previous year, investment by the GOI in equity of CPSEs registered a net increase of ₹ 27,692 crore and loans given to them increased by ₹ 12,992 crore during 2015-16. The GoI realised ₹ 24,311 crore on disinvestment of its shares (Equity share and Preference share) in 11 CPSEs as against Budgeted receipt of ₹ 41,000 crore.

[Para 1.2.1 and 1.2.1.2]

Market Capitalization

The total market value of shares of 46 listed Government Companies (including four subsidiary companies) which were traded during 2015-16 stood at ₹ 11,06,539 crore as on 31 March 2016. Market value of shares held by the GoI in 42 listed Government Companies (excluding four subsidiary companies) stood at ₹ 7,48,881 crore as on 31 March 2016.

[Para 1.2.4]

Return on Investment

The total profit earned by 197 Government Companies and Corporations during 2015-16 was ₹ 1,36,695 crore of which, 72.75 *per cent* (₹ 99,437 crore) was contributed by 47 Government Companies and Corporations in three sectors viz., Petroleum, Coal and Lignite and Power.

[Para 1.3.1]

One hundred and six Government Companies and Corporations declared dividend of ₹ 71,887 crore during the year 2015-16. Out of this, dividend received/receivable by GoI amounted to ₹ 41,185 crore which represented 13.91 *per cent* return on the total investment by the GoI (₹ 2,96,061 crore) in all Government Companies and Corporations.

Thirteen Government Companies under the Ministry of Petroleum and Natural Gas contributed ₹ 16,570 crore representing 23.05 *per cent* of the total dividend declared by all Government Companies and Corporations.

Non-compliance with Government's directive in the declaration of dividend by 37 CPSEs resulted in a shortfall of ₹ 9,011 crore in the payment of dividend for the year 2015-16.

[Para 1.3.2]

Net Worth/Accumulated Loss

Out of 174 Government Companies and Corporations with accumulated losses, the net worth of 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 ₹ 79,227 crore as on 31 March 2016. Only six out of 67 companies earned profit of ₹ 456.62 crore during 2015-16.

[Para 1.4.1]

II. CAG's oversight role

Out of 601 CPSEs (excluding six Corporations), annual accounts for the year 2015-16 were received from 502 CPSEs in time (i.e. by 30 September 2016). Of these, accounts of 312 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 87 CPSEs for the year 2015-16 on profitability was ₹ 9,429.71 crore and on assets/liabilities was ₹ 25,505.39 crore.

[Para 2.5.1]

Departures from Accounting Standards

Deviations from the provisions of Accounting Standards in preparation of the financial statements were noticed in 14 Government Companies by the statutory auditors. CAG also pointed out such deviations in 14 other companies.

[Para 2.6]

Management Letters

Irregularities and deficiencies in the financial reports or in the reporting process observed during supplementary audit were communicated to the Management of 131 CPSEs through 'Management Letters' for taking corrective action.

[Para 2.7]

III. Corporate Governance

The chapter covers 48 listed CPSEs under administrative control of various Ministries. Provisions of the Companies Act, 2013; DPE guidelines; Securities and Exchange Board of India regulations regarding Corporate Governance, though mandatory, are not being complied with by some of the CPSEs. During the year the following significant departures from the prescribed guidelines were noticed:

- In 16 CPSEs the non-executive directors constituted less than 50 *per cent* of the total Board strength. There was no woman director on the board of 17 CPSEs.

  [Para 3.2.1 and 3.2.3]

- Representation of independent directors in 33 CPSEs was not adequate. There was no independent director on the Board of 13 CPSEs.

  [Para 3.2.2]

- Evaluation of performance of independent directors was not conducted by Board of Directors in 16 CPSEs.

  [Para 3.3.8]

- In 18 CPSEs, vacancies of independent directors were not filled in time. Vacancies of functional directors in 9 CPSEs were not filled in time.

  [Para 3.5]

- There was no whistle blower mechanism in three CPSEs. In six 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 76 CPSEs (seven Maharatna, 17 Navratna and 52 Miniratna Category-I) under the administrative control of 24 Ministries/Departments. The period of one year ended 31 March 2016 was covered during the review. The following significant observations were made in the review:

- Four CPSEs did not disclose the composition of CSR Committee in the Board's Report. Three CPSEs out of qualifying CPSEs did not have an independent director in the Committee. Eight CPSEs have either not formulated CSR or sustainability policy or the policy of the CPSE was not duly approved by Board.

[Para 4.4.1.1, 4.4.1.2 and 4.4.1.3]

- Four CPSEs did not allocate the prescribed amount of at least two *percent* of the average net profits of the company made during the three immediately preceding financial years towards budget for CSR expenditure.

[Para 4.4.2]

- Twenty one CPSEs did not maintain information regarding actual expenditure from the CSR allocated fund. Two CPSEs did not deliberate on the reasons for not spending the prescribed amount in the Board's report.

[Para 4.4.2.1]

- Most of the CPSEs included Education and Skills, Healthcare and eradication of hunger, Environment sustainability and Rural Development as their thrust areas for CSR. Focus on Technology incubation, Armed Forces and PM Relief Fund was lower. Five CPSEs did not give preference to local area of operation. Expenditure on capacity building of 38 CPSEs exceeded the limit of five *percent* of the total CSR expenditure. There was no monitoring mechanism in place in 11 CPSEs.

[Para 4.4.3.2, 4.4.3.4, 4.4.3.5 and 4.4.4.2]

- Two CPSEs did not include an annual report on CSR in their Board's report. Impact assessment for completed projects/activities was not carried out in case of 19 CPSEs.

[Para 4.4.5.2 and 4.4.6]

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

Audit reviewed MoUs of seven 'Maharatna' CPSEs under the jurisdiction of Ministry of Power, Ministry of Coal, Ministry of Petroleum & Natural Gas, Ministry of Steel and Ministry of Heavy Industries and Public Enterprises for the years 2014-15 and 2015-16. The following observations were made in the review:

- Instances of non-submission of annual plan/annual budget/corporate plan along with draft MoU and non-alignment of MoU targets with plans were noticed in three CPSEs.

[Para 5.7.1.2]

- In case of two CPSEs, there was a delay in signing of final MoUs.

[Para 5.7.1.3]

- As against stipulation in guidelines issued by DPE, benchmarking with national and global peers was not carried out by two CPSEs. In case of two CPSEs, targets set were lower than previous year's achievement.

[Paras 5.7.2.1 and 5.7.2.2]

- Reporting of inflated operational performance against financial parameters like 'Sales Turnover', 'Sales Turnover/Net Block', 'Gross Operating Margin', 'Profit After Tax/Net worth' etc. were noticed due to inclusion of deemed generation in sales turnover by one CPSE.

[Paras 5.7.5.1]

- Audit also noticed submission of incorrect information in the Self Evaluation Reports by one CPSE and incorrect and/or incomplete certification by two CPSEs in complying with MSME guidelines. Three CPSEs did not comply with DPE Guidelines.

[Paras 5.7.6.1, 5.7.6.2 and 5.7.6.3]