Executive Summary

I. Summary of financial performance of Central Public Sector Enterprises

There were 668 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India as on 31 March 2019. These included 480 Government Companies, 182 Government Controlled Other Companies and six Statutory Corporations. This Report deals with 434 Government Companies and Corporations (including six Statutory Corporations) and 162 Government Controlled Other Companies. 72 CPSEs (including 20 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]

Equity holding of Central Government

The accounts of 434 Government Companies and Corporations indicated that the Central Government had an equity holding of ₹4,00,909 crore in share capital. The loans given by Central Government outstanding as on 31 March 2019 amounted to ₹1,49,150 crore. Compared to the previous year, holding of the Central Government in equity of CPSEs registered a net increase of ₹40,370 crore and loans outstanding increased by ₹60,699 crore during 2018-19.

[Para 1.2, 1.2.1 and 1.2.2.1]

Market Capitalisation

The total market value of shares of 54 listed Government Companies (including five subsidiary companies) the shares of which were traded during 2018-19 stood at ₹14,29,111 crore as on 31 March 2019. Market value of shares held by the Central Government in 47 listed Government Companies (excluding seven subsidiary companies) stood at ₹13,35,264 crore as on 31 March 2019.

[Para 1.2.4]

Return from Government companies and Corporations

247 Government Companies and Corporations earned profit of ₹1,77,932 crore during 2018-19 of which, 73 *per cent* (₹1,29,887 crore) was contributed by 63 Government Companies and Corporations in three sectors viz., Petroleum, Coal

and Lignite and Power. Return on Equity (ROE) in these 247 CPSEs was 18.58 *per cent* in 2018-19 as compared to 19.03 *per cent* in 225 CPSEs in 2017-18.

[Para 1.3.1]

100 Government Companies and Corporations declared a dividend of ₹71,857 crore during the year 2018-19. Out of this, the dividend received/receivable by Central Government amounted to ₹36,709 crore which represented 9.16 *per cent* return on the total investment by the Central Government (₹4,00,909 crore) in all Government Companies and Corporations.

13 Government Companies under the Ministry of Petroleum and Natural Gas contributed ₹29,272 crore representing 40.74 *per cent* of the total dividend declared by all Government Companies and Corporations.

Non-compliance with directive of Government of India on declaration of dividend by 36 CPSEs resulted in a shortfall of ₹8,011.33 crore in the payment of dividend for the year 2018-19.

[Para 1.3.4]

There were 157 CPSEs that incurred losses during the year 2018-19. The losses incurred by these companies during the year 2018-19 amounted to ₹37,310 crore compared to ₹41,180 crore in 2017-18.

[Para 1.3.2]

Net Worth/Accumulated Loss

There were 189 Government Companies and Corporations with accumulated losses of ₹1,40,307.55 crore as on 31 March 2019. Of these, the net worth of 77 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 ₹83,394.28 crore as on 31 March 2019. Only 15 out of these 77 companies earned profit of ₹662.45 crore during the year 2018-19.

[Para 1.3.3]

Rate of Real Return (RORR) on Government Investment

Out of 596 CPSEs covered in this report, the Central Government has direct investment in 198 CPSEs. RORR in respect of 139 CPSEs (53 listed CPSEs and 86 unlisted CPSEs) has been computed since 2000-01 to compare the same with the conventional rate of return on historical cost. RORR was 25.13 *per cent* in comparison to conventional rate of return on historical cost of 72.40 *per cent* in 2018-19. RORR has shown an increasing trend till 2006-07 after which it started to decline and ranged between 25 *per cent* to 31 *per cent* during the preceding five years from 2014-15 to 2018-19.

The company-wise analysis of RORR for the preceding three years revealed that while listed companies have given RORR between 58 *per cent* and 59 *per cent* during the preceding three years, unlisted CPSEs have given negative returns ranging between two *per cent* and five *per cent* during the same period.

(Para 1.4.4)

Return on Investment (ROI) of Listed CPSEs

ROI (Annual Average Rate) and ROI (Compounded Annual Growth Rate) of 53 listed CPSEs have been computed since 2000-01 to assess the benefit obtained from the investment done by the Central Government in these CPSEs. The consolidated ROI (Average Annual Rate) of these 53 CPSEs was 190.24 *per cent* during 2016-17, it reduced to 182.53 *per cent* in 2017-18 and 159.31 *per cent* in 2018-19. Similarly, ROI (CAGR) reduced from 22.91 *per cent* in 2016-17 to 21.61 *per cent* in 2017-18 and 19.86 *per cent* in 2018-19. Consolidated ROI (Annual Average Rate) indicated a continuous declining trend since 2007-08 from 469 *per cent* to 159 *per cent* in 2018-19.

(Para 1.4.5)

Performance of listed CPSEs with private companies

The performance of 35 listed CPSEs was compared with private companies with similar nature of business during the last five years on the five parameters (ROE, ROCE, EPS, P/E ratio and ICR). It was observed that out of total 35 CPSEs, ROE, ROCE, EPS, P/E ratio and ICR was on the lower side in 18, 17, 26, 29 and 17 CPSEs respectively in comparison to private companies in same sector.

[Para 1.4.6]

II. Oversight Role of CAG

Out of 662 CPSEs (excluding six statutory corporations) under the audit jurisdiction of CAG, Financial Statements for the year 2018-2019 were received from 548 CPSEs in time i.e. by 30 September 2019. While Financial Statements were not due from 19 CPSEs, Financial Statements of 95 CPSEs were in arrear due to different reasons.

(Para 2.3.2)

Out of 548 CPSEs from which the Financial Statements were received in time, supplementary audit was undertaken in 442 CPSEs.

(Para 2.5.1)

As a result of three phase audit in 86 CPSEs, the changes in profitability and in the value of assets/liabilities were ₹10,184.75 crore and ₹28,864.85 crore, respectively.

One CPSE amended its Financial Statements and statutory auditors of 46 CPSEs revised their Audit Report before laying of the Financial Statements in Annual General Meeting. In addition, various comments highlighting inaccuracies in the Financial Statements were also issued.

The financial impact of significant comments, issued on the financial statements of the selected CPSEs, on profitability and assets/liabilities was ₹2,633.93 crore and ₹7,068.01 crore, respectively.

(Para 2.5.1)

Deviations from the provisions of Accounting Standards/Ind AS in preparation of the Financial Statements were noticed in 27 CPSEs by the Statutory Auditors. CAG also pointed out such deviations in 10 CPSEs.

(Para 2.6)

Irregularities and deficiencies in the financial reports or in the reporting process observed during supplementary audit which were not material, were communicated to the Management of 155 CPSEs through 'Management Letter' for taking corrective action.

(Para 2.7)

III. Corporate Governance

The review of Corporate Governance covered 55 CPSEs (53 listed and two CPSEs whose bonds are 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 one CPSE the non-executive directors constituted less than 50 *per cent* of the total strength of the Board of Directors. There was no woman director in Board of two CPSEs.

  [Para 3.2.1 and 3.2.3]

- Representation of independent directors in 30 CPSEs was below the required number. There was no independent director on the Board of Directors of two CPSEs.

  [Para 3.2.2]

- Some of the independent directors did not attend even 80 *per cent* of Board meetings in 31 CPSEs and Board committee meetings in 16 CPSEs. Some of the Independent Directors did not attend General meetings in 34 CPSEs.

[Para 3.3.3 and 3.3.4]

- In six CPSEs, separate meetings of Independent Directors were not conducted and in 20 CPSEs some Independent Directors did not attend the separate meetings.

[Para 3.3.5.1 and 3.3.5.2]

- Vacancies of independent directors were not filled in time in 29 CPSEs. Vacancies of Whole Time Key Managerial Personnel in four CPSEs were not filled in time.

[Para 3.4.1 and 3.4.2]

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

[Para 3.5.1]

- Audit Committee did not review whistle blower mechanism in seven CPSEs.

[Para 3.6.9]

IV. Corporate Social Responsibility

The review covered 82 CPSEs (7 Maharatna, 14 Navratna, 45 Miniratna and 16 others) under the administrative control of 10 Ministries/ Departments. The period of one year ended March 2019 was covered during the review. The following significant observations were made in the review:

[Para 4.3]

- CSR Committee of five CPSEs (Antrix, BRPL, ITI Ltd., NSKFDC & NTPL) did not monitor the CSR Policy of the Company.

[Para 4.5.1.4]

- 11 CPSEs did not have an annual CSR Plan for the year 2018-19. One CPSE, NFDC, got the annual budget for CSR approved only in July 2019.

[Para 4.5.1.5]

- There was under-allocation of funds towards CSR by four CPSEs viz. HUDCO, NSL, NEEPCO & PHL.

[Para 4.5.2.1]

- While 14 CPSEs fully utilised the prescribed two *per cent* of net profit for CSR during the year 2018-19, there was a shortfall in utilisation by 30 CPSEs and 38 CPSEs spent more than the stipulated amount.

  [Para 4.5.2.3]

- Eight CPSEs did not spend the carry forward amount of CSR during the year.

  [Para 4.5.2.4]

- Total spend on CSR activities by 82 CPSEs in 2018-19 was ₹3,759 crore. The Petroleum Sector spent the maximum amount of ₹1,817.65 crore towards CSR.

  [Para 4.5.2.6 & 4.5.2.10]

- Three CPSEs, viz., HCOL, KPL & PFCL, exceeded the overheads expenses limit of five *per cent* during the year 2018-19.

  [Para 4.5.2.11]

- 39 CPSEs could not achieve the target of 60 *per cent* on common theme, namely school education and health care and 19 CPSEs did not give any preference to aspirational districts.

  [Para 4.5.2.12]

- Health care received maximum focus with ₹1,310.87 crore (35 *per cent*) followed by education with ₹1,231.21 crore (33 *per cent*)

  [Para 4.5.3.3]

- 33 CPSEs did not conduct any impact assessment on CSR expenditure.

  [Para 4.5.4]

- REML did not include the responsibility statement of the CSR Committee in accordance with Rule 9 of CSR Rules 2014.

  [Para 4.5.5]

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

- Audit carried out analysis of MoU between eight 'Maharatna' companies and their respective Administrative Ministries for the years 2017-18 and 2018-19.

  [Para 5.5]

- The MoU guidelines mandated to submit Annual Budget and Corporate Plan with draft MoU. The same was not adhered to by four CPSEs.

  [Para 5.7.1.1]

- 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

Directors, some positions of independent Directors in four CPSEs were lying vacant.

[Para 5.7.2.2]

- As per MoU signed between NTPC and Ministry of Power for the year 2017-18, one of the performance criteria for other than mandatory parameters was Human Resource Management, including 'Preparation of succession plan and its approval by the Board of Directors' as one of the targets. The marks to be awarded for this parameter was set at two and the date by which HR Audit & Board Decision on finding of HR audit was to be obtained was 30 September 2017 for excellent rating. This target was achieved on 27 October 2017 i.e date of approval by Board of Directors of NTPC but NTPC stated in self-evaluated score date of achievement as 29 September 2017 i.e. submission of proposal to functional Directors and CMD of NTPC and claimed full marks for the same. If actual date of achievement date is considered, the achievement of NTPC falls under the fair category against the excellent as claimed by NTPC. This resulted in MoU being over-rated as 'Excellent' instead of 'Very Good' and in higher payment of PRP.

[Para 5.7.3.3 and 5.8]