OVERVIEW

Introduction

As on 31 March 2006, there were 404 central government Public Sector Undertakings (PSUs) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 304 government companies, 94 deemed government companies and six statutory corporations. This report deals with 349 PSUs comprising 271 government companies, 72 deemed government companies and six statutory corporations. Fifty five companies are not covered in this report. Out of them, accounts of 14 PSUs were in arrears for three years or more, four PSUs had not submitted their first accounts, 23 PSUs were defunct/under liquidation and accounts of 14 PSUs had not become due.

[Paragraph 1.1.5]

Government Investments

The accounts of 349 PSUs (294 for current year and 55 for earlier years) indicated that the Government of India had invested Rs.121006 crore directly in the equity capital of 277 PSUs. Loans amounting to Rs.68417 crore had also been received by the PSUs from the Government of India as on 31 March 2006. Compared to the previous year, investment in equity of PSUs by the Government of India registered a net increase of Rs.5410 crore and loans given to them increased by Rs.3456 crore.

[Paragraph 1.2.1]

Market Capitalisation

The market value of shares of 37 listed central government companies as per prices prevailing in stock markets on 31 March 2006 stood at Rs. 627269 crore. This compared favourably with the total book value of their shares at Rs. 222903 crore. Market value of shares held by the Government of India and government companies in these companies stood at Rs. 4,89,598 crore as on 31 March 2006 as compared with the book value of Rs 1,72,326 crore.

[Paragraph 1.2.2]

Return on Investment

Out of the 277 central government companies and corporations where data has been analysed in this Report, 175 central government companies and corporations earned profits during the year and 94 central 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 six companies had not started their commercial operations. The total profit earned by 175 central government companies and corporations was Rs.79,427 crore of which, as much as 69.16 *per cent* (Rs.54934 crore) was contributed by 38 central government companies and corporations under four sectors viz., Petroleum, Telecommunications, Power, and Coal & Lignite.

[Paragraphs 1.3.1.1, 1 3.1.2 and 1.5.1.1]

Out of the 175 central government companies and corporations which earned profit, 109 central government companies and corporations declared dividend for the year 2005-06 amounting to Rs.23,280 crore. Out of this, Rs.17,345 crore were paid/ payable to the Government of India. The dividend paid to Government of India represented 14.33 *per cent* return on the total investment by the Government of India (i.e. Rs.1,21,006 crore) in all central government companies and corporations.

[Paragraphs 1.3.3.2 and 1.3.3.7)]

Central government companies under the Ministry of Petroleum and Natural Gas, operating partially under the administered/ regulated prices, contributed Rs.10,043 crore representing 43.14 *per cent* of the total dividend declared by all central government companies.

[Paragraph 1.3.3.3]

Non compliance with Government's directive in the declaration of dividend resulted in a shortfall of Rs.2338 crore in the payment of dividend for the year 2005-06.

[Paragraph 1 3.3.6]

Net Worth/Accumulated Loss

Out of 277 central government companies and corporations, the equity investment in 82 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.67036 crore as on 31 March 2006. Due to the negative net worth, recovery of the loans given by the Government to these companies was doubtful. The accumulated losses in these 82 central government companies decreased marginally by Rs.419 crore, from Rs.82036 crore in 2004-05 to Rs.81,617 crore in 2005-06.

[Paragraph 1.5.2]

Companies referred to BIFR

Out of 82 companies the equity capital of which had been eroded, 46 had been referred to the BIFR. While revival package was approved in respect of 12 companies, 18 were recommended for closure, winding up or sale. The remaining 16 companies were under various stages of processing.

[Paragraph 1.5.3]

Audit of Public Sector Undertakings

Out of 404 PSUs including six statutory corporations, annual accounts for the year 2005-06 were received from 294 PSUs including five Statutory Corporations. Of these, accounts of 238 PSUs including four statutory corporations were reviewed in audit.

[Paragraphs 2.3.2 and 2.4.3]

Revision of Accounts

As a result of supplementary audit by the CAG, 12 unlisted government companies revised their accounts for the year 2005-06. The impact of the revision on the profitability of these PSUs was to the extent of Rs.103.96 crore.

[Paragraph 2.4.3]

Impact of CAG's comments on the accounts

Comments issued by the CAG as a result of supplementary audit of government companies brought out overstatement of assets by Rs.42.14 crore in eight companies, liabilities by Rs.213.82 crore in four companies and profit by Rs.198.53 crore in 13 companies.

Similarly, there was understatement of assets by Rs.190.59 crore in eight companies, liabilities by Rs.873.45 crore in 18 companies, profit by Rs.295.96 crore in seven companies and loss by Rs.67.67 crore in seven companies.

[Paragraphs 2.4.4.2 and 2.4.4.5]

In the case of statutory corporations where CAG is the sole auditor, the impact of audit observations on the accounts of three corporations was understatement of assets by Rs.187.13 crore, liabilities by Rs.49.38 crore and profit by Rs.67.92 crore. Similarly, assets were overstated by Rs.5.83 crore.

[Paragraph 2.4.4.7]

Observations of Statutory Auditors

The Statutory Auditors appointed by the CAG made significant qualifications in their reports in respect of 45 government companies (including deemed government companies), of which 10 were listed companies.

[Paragraphs 2.4.4.1 and 2.4.4.4]

In compliance with the supplementary 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, debtors, inventory and internal audit in various government companies (including deemed government companies).

[Paragraphs 2.4.4.3, 2.4.4.6, 2.5 and Appendix XIII]

Deviations from Accounting Standards

Deviations from the provisions of accounting standards in preparation of the financial statements were noticed in 15 companies by the Statutory Auditors. CAG also pointed out such deviations in another 33 companies and two statutory corporations.

[Paragraph 2.6 and Appendix XIV]

Corporate Governance

Corporate Governance is the set of processes and policies affecting the way in which a company is directed, administered or controlled. Corporate Governance includes the relationships among the stakeholders in the context of the goals of the company.

[*Paragraph* 3.1]

Clause 49 of the Listing Agreement prescribed by SEBI (as amended in October 2004) requires all listed companies having paid up capital of Rs. three crore and above to have a qualified and independent Audit Committee. Clause 49 prescribes a compliance report on Corporate Governance in the Annual Report which should highlight the non-compliance with any mandatory requirement. Listed companies are also required to obtain a certificate from either the auditors or practising company secretaries regarding compliance with conditions of Corporate Governance as stipulated in clause 49.

[*Paragrapshs* 3.3, 3.4.1, 3.4.2 and 3.4.3]

As Audit Committee is the most important working committee of the Board in the case of a government company, a limited review of the compliance with clause 49 during 2005-06 relating to constitution and functioning of Audit Committee in respect of 45 listed central government companies was carried out based on Management's Compliance Report on Corporate Governance, Compliance Certificate of statutory auditors/company secretary on Corporate Governance and responses of the statutory auditors to the directives issued to them under section 619(3)(a) of the Companies Act,1956. This limited review is primarily based on the information and documents obtained from the management of the companies concerned.

[*Paragraphs* 3.3.2 and 3.4.4]

Though most of the companies had generally complied with the requirements of Corporate Governance in a constructive manner, the main non -compliance observed related to absence of required number of independent Directors on the Audit Committee. In 12 government companies, there was no independent Director on the Audit Committee and in five government companies the Audit Committee did not comprise of the required number of independent Directors. This resulted in a number of other related instances of non-compliance with clause 49.

[*Paragraphs* 3.4.7, 3.4.8 and 3.5.1]

Environmental Aspects and Sustainability Reporting

The high level of public accountability which applies to Public Sector Undertakings (PSUs) as a result of their public ownership, makes socially responsible reporting by PSUs very important.

Corporate Sustainability is a business approach that creates long term shareholder value by embracing opportunities and managing risks derived from economic, environmental and social developments. A survey by Audit revealed that **Hindustan Paper Corporation Ltd, Bharat Petroleum Corporation Limited** and **Steel Authority of India Limited** prepared separate Sustainability Reports or Social Responsibility Reports. In their Report they described their contribution towards society and environment.

[Paragraphs 4.1 to 4.1.4]

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. A survey of PSUs who are members to the UN’s Global Compact revealed that the total of 21 PSUs had joined the UN’s Global Compact. However, only 11 PSUs submitted Communication on Progress.

[*Paragraphs* 4.2 to 4.2.2]

A major component of socially responsible behaviour is compliance with Labour and Environment Laws and Regulations. A survey covering the last three years ending 31 March 2006 revealed that there were some defaults by Indian Medicine Pharmaceutical Corporation Ltd, Indian Road Construction Corporation Ltd and Bengal Chemicals & Pharmaceuticals Ltd on Labour Laws and Regulations. There was some default by Fertilizers and Chemicals Travancore Ltd (Udyogamandal Division) on Environmental Laws and Regulations.

[*Paragraphs* 4.3 to 4.3.2]

There is a need to promote a drive in PSUs towards greater Corporate Accountability on social, environmental and ethical issues that have an impact on the Society and the Environment. Moreover, there is a need for developing a consensus on a standard reporting format and a system for providing assurance on such reports by an independent agency. The Institute of Chartered Accountants of India has already taken up the task for preparation of a Guidance Note on assurance aspects of Sustainability Reporting.

[*Paragraph* 4.4]