

# OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

NEW DELHI  
05<sup>th</sup> April, 2017

## CAG AUDIT REPORT ON CENTRAL PUBLIC SECTOR ENTERPRISES PRESENTED IN PARLIAMENT

The Union Audit Report of the Comptroller and Auditor General of India on General Purpose Financial Reports of Central Public Sector Enterprises (CPSEs), Report No. 6 of 2017 was tabled in Parliament today.

This Audit Report has been prepared under Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in 1984. This Report consists of five chapters. While chapter – 1 gives an overall appreciation of the financial performance of the Government Companies and Corporations as revealed by their accounts and information obtained in Audit, chapter – 2 brings out the oversight role of Comptroller and Auditor General of India (C&AG) in the audit of financial statements. It contains significant comments arising out of supplementary audit conducted by C&AG and important qualifications made by Statutory Auditors and the impact thereof on Profit & Loss account and Balance Sheet. The report also enumerates the status of adherence of CPSEs' to the provisions of the Companies Act, 2013; guidelines issued by Securities Exchange Board of India and Department of Public Enterprises (DPE) on Corporate Governance and Corporate Social Responsibility and analysis of Memoranda of Understanding between Administrative Ministries and CPSEs.

Some of the salient features of the Report are highlighted below:

### **Chapter - I Financial Performance of CPSEs**

There were 607 CPSEs under the audit jurisdiction of C&AG of India. These included 410 Government Companies, 191 government controlled other companies and 6 statutory corporations. This Report deals with 554 CPSEs comprising 378 Government Companies, 170 Government Controlled other Companies and 6 Statutory Corporations. 53 Government Companies including 21 Government Controlled other Companies are not covered in this Report as accounts of these companies were in arrears for three

years or more or were defunct/under liquidation or first accounts were not received/due.

### **Return on Investment**

Out of the 384 Government Companies and Corporations whose data has been analysed in this Report, 197 Government Companies and Corporations earned profits during the year 2015-16. Total profit earned by 197 Government Companies and Corporations 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 and Natural Gas, Power and Coal & Lignite.

Out of 197 Government Companies and Corporations which earned profit, 106 Government Companies and Corporations declared dividend for 2015-16 amounting to ₹ 71,887 crore. Out of this, ₹ 41,185 crore were paid/payable to the Government of India which represented 13.91 *per cent* return on the total investment by the Government of India (i.e., ₹ 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.

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

### **Net Worth/Accumulated Loss**

Equity investment in 67 Government Companies had been completely eroded by their accumulated losses. As a result, the aggregate net worth of these Government Companies had become negative to the extent of ₹ 79,227 crore as on 31 March 2016.

### **Chapter - II C&AG's oversight role**

Accounts of 312 CPSEs out of 502 CPSEs which submitted their accounts for 2015-16 by 30<sup>th</sup> September 2016 were reviewed in Supplementary Audit.

C&AG had introduced the system of Three Phase Audit of accounts of CPSEs on consensus basis in order to enhance the quality of financial reporting and completion of audit in time. The net impact of Three Phase Audit in 87 CPSEs on profitability was ₹ 9429.71 crore and on assets/liabilities was ₹ 24,505.39 crore.

## **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.

## **Chapter - III Corporate Governance**

Provisions of the Companies Act, 2013 and guidelines of Department of Public Enterprises /Securities and Exchange Board of India on Corporate Governance, though mandatory, were not being complied with by some of the CPSEs listed on the Stock Exchanges.

Following significant departures from the prescribed guidelines were noticed:

- Representation of Independent Directors in 33 CPSEs was not adequate. There was no Independent Director in the Board in 13 CPSEs.
- In 18 CPSEs the post of Independent Directors and in 9 CPSEs vacancy of Functional Directors were not filled in time.
- There was no whistle blower mechanism in three CPSEs. In six CPSEs the Audit committee did not review the whistle blower mechanism.

## **Chapter - IV Corporate Social Responsibility**

Compliance by 76 CPSEs under administrative control of 24 Ministries with the provisions of the Companies Act, 2013 and Department of Public Enterprises' guidelines on Corporate Social Responsibility were reviewed and following were observed:

- Four CPSEs did not disclose the composition of CSR Committee in the Board's Report. Eight CPSEs have either not formulated CSR or sustainability policy or the policy of the CPSE was not duly approved by Board.
- 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.
- Out of 36 CPSEs which maintained information regarding actual expenditure incurred on Corporate Social Responsibility, 27 had spent the full amount earmarked for CSR activities and 9 CPSEs had an unspent amount of ₹ 193 crore.
- Two CPSEs did not include annual report on CSR in their Board's report. Impact assessment for completed projects/activities was not carried out in case of 19 CPSEs.

## **Chapter - V Analysis of Memoranda of Understanding between Administrative Ministries and CPSEs**

Memorandum of Understanding signed by Seven Maharatna CPSEs for the years 2014-15 and 2015-16 were reviewed and following were observed:

- 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. In case of two CPSEs, there was delay in signing of final MoUs.
- 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.
- 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 guidelines of Ministry of Micro, Small and Medium Enterprises. Three CPSEs did not comply with Guidelines of DPE.