Executive Summary

I. Financial performance of Central Public Sector Enterprises

There were 644 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India as on 31 March 2018. These included 450 Government Companies, 188 Government Controlled Other Companies and 06 Statutory Corporations. This Report deals with 420 Government Companies and Corporations (including 06 Statutory Corporations) and 165 Government Controlled Other Companies. 59 CPSEs (including 23 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]

Investment by Government of India

The accounts of 420 Government Companies and Corporations indicated that the Government of India (GoI) had an investment of ₹ 3, 57,064 crore in share capital. The loans given by GoI outstanding as on 31 March 2018 amounted to ₹ 88,479 crore. Compared to the previous year, investment by the GoI in equity of CPSEs registered a net increase of ₹ 35,038 crore and loans outstanding increased by ₹ 5,978 crore during 2017-18.

[Para 1.2 and 1.2.1]

Market Capitalisation

The total market value of shares of 47 listed Government Companies (including 05 subsidiary companies) the shares of which were traded during 2017-18 stood at ₹14,42,216 crore as on 31 March 2018. Market value of shares held by the GoI in 42 listed Government Companies (excluding 05 subsidiary companies) stood at ₹ 13,63,194 crore as on 31 March 2018.

[Para 1.2.4]

Return on Equity

231 Government Companies and Corporations earned profit of ₹ 1,66,197 crore during 2017-18 of which, 71.83 *per cent* (₹ 1,19,379 crore) was contributed by 52 Government Companies and Corporations in three sectors viz., Petroleum, Coal and Lignite and

Power. Return on Equity (ROE) in these 231 CPSEs was 13.16 *per cent* in 2017-18 as compared to 13.82 *per cent* in 215 CPSEs in 2016-17.

[Para 1.3.1]

101 Government Companies and Corporations declared dividend of ₹ 70,562 crore during the year 2017-18. Out of this, dividend received/receivable by GoI amounted to ₹ 42,229 crore which represented 11.83 *per cent* return on the total investment by the GoI (₹ 3,57,064 crore) in all Government Companies and Corporations.

14 Government Companies under the Ministry of Petroleum and Natural Gas contributed ₹ 28,859 crore representing 40.90 *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 53 CPSEs resulted in a shortfall of ₹ 9,417.75 crore in the payment of dividend to GoI for the year 2017-18.

[Para 1.3.2]

There were 158 CPSEs that incurred losses during the year 2017-18. The losses incurred by these companies during the year 2017-18 amounted to ₹ 41,420 crore compared to ₹ 33,574 crore in 2016-17.

[Para 1.4]

Net Worth/Accumulated Loss

There were 184 Government Companies and Corporations with accumulated losses of ₹ 1, 42,309.28 crore as on 31 March 2018. 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, 122.38 crore as on 31 March 2018. Only 12 out of these 77 companies earned profit of ₹ 1344.45 crore during the year 2017-18.

[Para 1.4.1]

Performance of listed CPSEs with private companies

The performance of 36 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 36 CPSEs, ROC, ROCE, EPS, P/E ratio and ICR was on the lower side in 16, 15, 26, 29 and 17 CPSEs respectively.

[Para 1.5.3]

Return on the basis of Present Value of Investment

The present value (PV) of GoI investment was computed in respect of 25 CPSEs which are in losses for eight or more years to assess the rate of return/loss on the PV of investments of GoI as compared to historical value of investments. The PV of the investments of GoI worked out to ₹ 1,12,958.30 crore as on 31 March 2018, against which the return was amounting to ₹ (-)21,145.73 crore.

[Para 1.5.4]

II. Oversight Role CAG

Out of 638 CPSEs (excluding six statutory corporations) under the audit jurisdiction of CAG, Financial Statements for the year 2017-18 were received from 540 CPSEs in time i.e. by 30 September 2018. While Financial Statements were not due from 4 CPSEs, Financial Statements of 94 CPSEs were in arrear due to different reasons.

[Para 2.3.2]

Out of 540 CPSEs from which the Financial Statements were received in time, supplementary audit was undertaken in 386 CPSEs.

[Para 2.5.1]

As a result of three phase audit in 87 CPSEs, the changes in profitability and in the value of assets/liabilities was ₹ 5,786.43 crore and ₹ 9,831.24 crore, respectively.

Three CPSEs amended their Financial Statements and statutory auditors of 35 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 ₹ 2,374.62 crore and ₹ 51,014.59 crore respectively.

[Para 2.5.1]

Deviations from the provisions of Accounting Standards/ IND AS in preparation of the Financial Statements were noticed in 14 CPSEs by the Statutory Auditors. CAG also pointed out such deviations in 17 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 98 CPSEs through 'Management Letter' for taking corrective action.

[Para 2.7]

III. Corporate Governance

The review of Corporate Governance covered 52 listed CPSEs 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 two CPSEs the non-executive directors constituted less than 50 *per cent* of the total strength of the Board of Directors. There was no woman director on the Board of MMTC Ltd.

[Para 3.2.1 and 3.2.3]

- Representation of independent directors in 24 CPSEs was below the required number. There was no independent director on the Board of Directors of three CPSEs.

[Para 3.2.2]

- The independent directors did not attend Board meeting/Board committee meeting in 42 CPSEs, and the independent directors did not attend General meeting in 19 CPSEs.

[Para 3.3.4 and 3.3.5]

- In two CPSEs separate meetings of Independent Directors were not conducted and in 13 CPSEs Independent Directors did not attend the separate meetings.

[Para 3.3.6.1 and 3.3.6.2]

- Vacancies of independent directors were not filled in time in 13 CPSEs. Vacancies of functional directors in 15 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 constituted audit committee, the number of independent directors in the audit committee was below the prescribed number in four CPSEs.

[Para 3.5.1]

- There was no whistle blower mechanism in two CPSEs

[Para 3.7]

IV. Corporate Social Responsibility

The review covered 82 CPSEs (7 Maharatna, 14 Navratna, 44 Miniratna and 17 others) under the administrative control of 10 Ministries/ Departments. The period of one year ended March 2018 was covered during the review. The following significant observations were made in the review:

[Para 4.3]

- No independent Director was nominated in the committee by 7 CPSEs viz. Antrix, BLI, GGL, HSCC, IIFCL, JCI and NHDC.

[Para 4.5.1.2]

- JCI did not have CSR Policy in place.

[Para 4.5.1.3]

- Two CPSEs ECGC and NTPL did not prepare Annual CSR budget.

[Para 4.5.1.4]

- There was under allocation of funds towards CSR by 6 CPSEs viz. CCIL, HUDCO, KPL, NCL, PFCL, UCIL.

[Para 4.5.2.1]

- Forty-eight CPSEs had fully utilised the CSR funds during the year and 34 CPSEs had not fully utilised the CSR funds.

[Para 4.5.2.3]

- 4 CPSEs viz. CONAIR, ITPO, KRCL and NTPVNL did not spend the carry forward amount of CSR during the year.

[Para 4.5.2.4]

- BDL, BHEL and PHL have made provision for the unspent amount to the extent of ₹ 9.58 crore, ₹ 31 crore and ₹ 2.20 crore respectively in contravention to Guidance Note on Accounting for CSR. AAI, ECGC, HSCC and IOC have created reserves for CSR for an amount of ₹ 61.72 crore, ₹ 2.25 crore, ₹ 1.44 crore and ₹ 1.32 crore respectively

[Para 4.5.2.4.1]

- Total spend on CSR activities by 82 CPSEs in 2017-18 was ₹ 3,338.60 crore. Petroleum Sector spent the maximum amount of ₹ 1,416.12 crore towards CSR.

[Para 4.5.2.6 & 4.5.2.9]

- BDL invested the surplus CSR funds (₹ 9.59 crore) in term deposit and interest thereon was taken as business income instead of ploughing back in CSR funds.

[Para 4.5.2.11]

- Under CSR expenditure focus was on health (32.66 *per cent*) followed by education (31.98 *per cent*).

[Para 4.5.3.3]

- 73 CPSES spent ₹ 1,019.16 crore on Swachh Bharat (SB) which is 30.52 *per cent* of total CSR Spend. As per DPE directions the CPSEs had to spend 33 *per cent* of CSR funds towards SB with a mission to clean India by October 2019. There was shortfall on SB by 2.48 *per cent*. 26 CPSEs had spent more than 33 *per cent* and 47 CPSEs spent less than 33 *per cent*.

[Para 4.5.3.5(1)]

- BPCL has contributed an amount of ₹ 14.83 crore towards National Oil Museum.

[Para 4.5.3.5(4)]

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

Audit has carried out analysis of MOU between 17 'Miniratna' companies and their respective Administrative Ministries for the years 2016-17 and 2017-18.

[Para 5.5]

The MOU guidelines mandated benchmarking of parameters with reference to national and international peers which was not carried out by 11 CPSEs.

[Para 5.7.3]

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 and woman Directors, some positions of independent and woman Directors in five CPSEs were lying vacant.

[Para 5.7.4]

MOU guidelines for the year 2016-17 mandated with the compliance of eight additional eligibility criteria. Failure to comply with any one of the conditions would result in downgrading the CPSEs from “Excellent” to “Very Good”. Audit noticed that Board of Directors of 10 CPSEs had certified incorrect compliance of DPE guidelines while furnishing the evaluation of MOUs for the year 2016-17. DPE has not deducted any score of the five CPSEs by treating these cases as compliant with the guidelines which resulted in over rating to two CPSEs as excellent instead of Very Good which consequently impacted higher payment of PRP.

[Para 5.7.6, 5.7.7and 5.7.8]

VI. Impact of Implementation of Indian Accounting Standards (under Phase-II) in selected Central Public Sector Enterprises

The Ministry of Corporate Affairs had notified Indian Accounting Standards (Ind AS) which were applicable for companies in phased manner from financial year 2016-17. In Phase-I financial statements of 67 CPSEs consisting of Maharatna, Navratna, Miniratna companies, which had adopted Ind AS in preparation of their financial statements w.e.f. 01 April 2016, were selected for review of Impact of Implementation of Indian Accounting Standards on Central Public Sector Enterprises (CPSEs) and findings thereof included in Report No. 18 of 2018. The present study covers 25 CPSEs which were required to adopt Ind AS in Phase II or they voluntarily adopted Ind AS during 2017-18. The impact of implementation of Ind AS in these CPSEs on their revenues, profit after tax (PAT), net worth and total assets of the CPSEs were reviewed. The impact was assessed by comparing the values as on 31 March 2017 as per the Ind AS compared to corresponding values as per Indian Generally Accepted Accounting Principles (IGAAP) on the same date.

[Para 6.1, 6.4 and 6.5]

Impact on Profit after Tax (PAT)

Consequent to adoption of Ind AS, increase of ₹17.79 crore in PAT were noticed in 10 CPSEs. As against this, decrease in PAT of ₹ 240.04 crore was observed in six CPSEs. The maximum decrease of ₹ 236.34 crore in PAT was noticed in Maharashtra Metro Rail

Corporation Limited whereas maximum increase of ₹ 7.56 crore in PAT was noticed in Hassan Mangalore Rail Development Company Limited.

[Para 6.8.1]

Impact on Revenues

Nine CPSEs out of the reviewed 25 CPSEs carried out adjustment on revenues consequent to adoption of Ind AS. Out of these, six CPSEs reported an increase of ₹ 258.80 crore and three CPSEs reported decrease of ₹ 110.98 crore in revenues. The maximum increase of ₹ 218.86 crore was noticed in Cotton Corporation of India Limited while the maximum decrease of ₹ 110.71 crore was observed in India Tourism Development Corporation Limited.

[Para 6.8.3]

Impact on Total Assets

15 CPSEs out of the 25 CPSEs reviewed carried out adjustment on value of total assets consequent to adoption of Ind AS. Out of these, nine CPSEs reported an increase in value of ₹ 1,209.73 crore and six CPSEs reported decrease of ₹ 109.48 crore in value of total assets. The maximum increase of ₹ 1,113.11 crore in value of total assets was noticed in the case of Hindustan Organic Chemicals Limited whereas maximum decrease of ₹ 69.01 crore in total value of assets was noticed in case of Braithwaite Burn and Jessop Construction Company Limited.

[Para 6.8.5]

Impact on Net Worth

Sixteen CPSEs out of the 25 CPSEs subject to review carried out adjustment on value of net worth consequent to adoption of Ind AS. Out of these, 11 CPSEs reported a decrease of ₹ 462.33 crore in net worth and five CPSEs reported increase of ₹ 69.70 crore in net worth. The maximum increase of ₹ 49.75 crore in net worth was noticed in respect of Hindustan Fluorocarbons Limited whereas maximum decrease of ₹ 270 crore in net worth was noticed in respect of Hindustan Organic Chemicals limited.

[Para 6. 8.7]

VII. Expenditure on Research and Development by CPSEs

The audit covered analysis of expenditure on Research and Development activities by 21 CPSEs (7 Maharatna, 8 Navratna, 3 Miniratna and 3 other CPSEs) during the period 2013-14 to 2017-18. During the period from 2013-14 to 2017-18 covered in audit, the following were noticed:

- The R&D expenditure as percentage of PAT was above the prescribed percentage of one *per cent* in 79 company-years[1] during 2013-14 to 2017-18 whereas it was below one per cent in 15 company-years out of total 94 company-years.

[Para 7.5.2.1]

- The R&D budget for the next three years was not indicated in case of nine selected CPSEs in contravention to the DPE Guidelines.

[Para 7.5.2.2]

- Only four CPSEs could utilize 100 *per cent* of the R&D budget during all the five years covered in audit and two CPSEs utilized 100 *per cent* of the R&D budget in four years out of five years covered in audit.

[Para 7.5.2.2]

- 4046 In-house R&D projects were taken up during 2013-14 to 2017-18 out of which 3595 projects were completed. 363 projects were delayed beyond the scheduled completion period out of which delay was more than one year in case of 80 projects.

[Para 7.5.3.1]

- 439 R&D projects taken up in collaboration with Universities/Institutes during 2013-14 to 2017-18 out of which 178 projects were completed. 87 projects were completed within scheduled period and 91 projects were completed beyond schedule.

[Para 7.5.3.2]

- BHEL was granted 198 patents during 2013-14 to 2017-18. Only 49 patents were granted during the year 2013-14 to 2017-18 out of 600 projects filed for patent registration by nine other CPSEs, whereas no patent was granted during the year 2013-14 to 2017-18 in 11 CPSEs.

[Para 7.5.5]

- Only two CPSEs could earn significant revenues from the technology developed and five CPSEs could earn meagre revenue.

[Para 7.5.6.2]

VIII. Disinvestment in CPSEs

The current disinvestment policy was brought out by the Government of India (GoI) on 05 November 2009. During the audit following issues were noticed:

- Budget estimate, revised estimate and actual realization made through disinvestment process for the year 2017-18 were ₹ 72,500 crore, ₹ 1,00,000 crore and ₹ 1,00,057 crore respectively. GoI divested its share in 36 cases

[1] 1 company-year = 1 year for 1 company

through different modes/ routes which includes income from SUUTI investment as part of disinvestment process which should not be part of disinvestment resulting in overstating the amount of disinvestment proceeds by ₹ 1400 crore.

[Para 8.3]

- CCEA approved (13 May 2015) disinvestment of 15 *per cent* of Government shareholding each in MMTC Limited and The State Trading Corporation of India Limited (STC) through OFS. The proposed disinvestment was to be implemented by 21 August 2017. However DIPAM could not implement the decision of CCEA for disinvestment in MMTC & STC within the time frame. Consequently, the expected realization of ₹ 974 crore (MMTC: ₹ 836.97 crore and STC: ₹ 137.03 crore) based on trading prices prevailing on 21 August 2017 did not materialize. It was observed that DIPAM could not use the opportunity to offload the shares at the best price.

[Para 8.5.2]

- GoI approved Strategic disinvestment of 24 CPSEs during 2017-18, for which only one HPCL-ONGC deal was finalized during 2017-18. Strategic disinvestment in 23 CPSEs could not be conducted within the time frame specified in CCEA approval. Further four CPSEs had been divested during 2018-19 as informed by DIPAM.

[Para 8.7.2]