Office of the Comptroller and Auditor General of India

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Press release

C&AG's Audit Report No. 18 of 2018 on General Purpose Financial Reports of CPSEs, Commercial tabled in Parliament today.

Comptroller and Auditor General of India's Audit Report No. 18 of 2018 on Union Government, Commercial, General Purpose Financial Reports of Central Public Sector Enterprises has been tabled in Parliament.

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 eight chapters. The report enumerates the status of adherence by 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, Analysis of Memoranda of Understanding between Administrative Ministries and CPSEs, Joint Ventures Operations of CPSEs, Compliances of Provisions of Public Procurement Policy, 2012 for Micro and Small Enterprises and Impact of Implementation of Indian Accounting Standards in Selected Central Public Sector Enterprises (CPSEs). Some of the salient features of the Report are highlighted below:

Chapter - I Financial Performance of CPSEs

Out of total 636 CPSEs under the audit jurisdiction of C&AG of India for the year ended 31 March 2017, 579 Companies consisting of 400 Government Companies, 06 Statutory Corporations and 173 Government Controlled Other Companies were covered in this report.

Return on Equity and Declaration of Dividend

During 2016-17, the total investment in 406 Government Companies and Corporations registered a net increase of ₹40,992 crore whereas total investment in 173 Government Controlled Other Companies was increased by ₹4,320 crore.

212 Government Companies and Corporations earned profits of ₹1,58,373 crore during the year 2016-17 of which 74.69 *per cent* (₹1,18,273 crore) was contributed by 49 CPSEs alone which pertained to Petroleum, Coal and Lignite and Power sectors. Return on Equity (a measure of profitability) in case of these profit earning CPSEs was 13.78 per cent in 2016-17. On the other hand, 119 Government Controlled Other Companies earned profit of ₹7,666 crore during the year 2016-17 were Return on Equity was 4.81 per cent in 2016-17.

111 Government Companies and Corporations declared dividend amounting to ₹82,491 crore for the year 2016-17. Out of this, ₹47,226 crore were paid/payable to the Government of India which represent 14.57 *per cent* return on the total investment by the Government of India (₹3,24,270 crore) in all Government Companies and Corporations. On the other hand, 60 Government Controlled Other Companies declared dividend amounting to ₹1,495 crore for the year 2016-17 which represented 13 *per cent* of their paid up capital of ₹11,472 crore. Non-compliance with Government's directive in the declaration of dividend by 20 Government Companies resulted in a shortfall of ₹5456.56 crore in the payment of dividend for 2016-17.

Losses incurred by CPSEs

157 Government Companies incurred losses amounting to ₹30,678 crore during 2016-17. On the other hand, 41 Government Controlled Other Companies incurred losses amounting to ₹4,308 crore during 2016-17.

Erosion of Net Worth

Net worth in 71 Government Companies had been completely eroded by their accumulated losses. As a result, the aggregate net worth of these CPSEs had become negative to the extent of ₹71,935 crore as on 31 March 2017. There were only 11 companies out of these CPSEs which earned profit of ₹2,958 crore during the year 2016-17.

Chapter - II C&AG's oversight role

Comptroller & Auditor General of India (CAG) appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. CAG has a right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the statutory auditor. Statutes governing some corporations require that their accounts be audited by the CAG and a report be submitted to the Parliament.

<u>Timely submissions of accounts for the year 2016-17</u>

As of 31 March 2017, there were 630 CPSEs under the purview of CAG's audit. Of these, accounts for the year 2016-17 were due from 625 CPSEs. Accounts were not due from 5 CPSEs which were new. Out of the 625 Companies whose Accounts were due for audit, a total of 544 CPSEs submitted their accounts for audit by CAG on or before 30 September 2017. Accounts of 81 CPSEs were in arrears for various reasons.

Of the six statutory corporations viz. Airports Authority of India, Damodar Valley Corporation, Inland Waterways Authority of India, National Highways Authority of India, Food Corporation of India and Central Warehousing Corporation where CAG conducts the audit, accounts of Food Corporation of India for the year 2016-17 were awaited as on 30 September 2017.

<u>Audit of Accounts</u>

Out of the 544 accounts which were received for audit on or before 30 September 2017, accounts of 332 CPSEs were reviewed by the CAG. In total, CAG reviewed accounts of 61 *per cent* of the CPSEs whose accounts were received up to 30 September 2017. Accounts of five Statutory Corporations which were received before the said date, were also reviewed.

Three Phase Audit

CAG had also introduced an intensified, innovative, focused and result oriented approach to financial audit called 'Three Phase Audit' in selected public sector enterprises falling under categories of 'Listed', 'Navratna', 'Miniratna' and 'Statutory Corporations' from the year 2008-09 with the objective of establishing an effective communication and a coordinated approach amongst the statutory auditors, management and CAG relating to the financial statements presented by the CPSEs, to identify and highlight errors, omissions, non-compliances etc., before the approval of the financial statements by the management of the CPSEs and provide an opportunity to the statutory auditors and the managements of the CPSEs to examine such issues for taking timely remedial action and to reduce the time of CAG's audit after the approval of financial statements by the management of the CPSEs.

The value addition made by Three Phase Audit in the financial statements of 71 CPSEs for the year 2016-17 was to the tune of ₹ 16,248.55 crore as far as profitability was concerned and was ₹ 21391.15 crore as far as assets/liabilities were concerned.

Impact of supplementary audit

As a result of supplementary audit of the accounts for the year ended 31 March 2017 conducted by the CAG, the statutory auditors of 41 CPSEs revised their report. Besides, various significant comments were also issued on accounts of these CPSEs.

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 37 CPSEs was not adequate. There was no Independent Director on the Board of directors of 4 CPSEs. There was no woman director on the Board of Directors of 9 CPSEs.
- In 23 CPSEs the post of Independent Directors and in 16 CPSEs vacancy of Functional Directors were not filled in time.
- There was no whistle blower mechanism in 3 CPSEs. In 7 CPSEs the Audit committee did not review the whistle blower mechanism.

Chapter - IV Corporate Social Responsibility

The CSR expenditure of the 77 CPSEs under the control of 24 Ministries were reviewed for compliance with the provisions of the Companies Act, 2013, CSR Rules and Department of Public Enterprises Office Memorandums.

In respect of 15 CPSEs there was delay in constitution of CSR Committee, 13 Profit making CPSEs did not allocate the prescribed amount of CSR and 24 CPSEs had not defined the local area of their operations.

Out of the total expenditure by 26 CPSEs amounting to ₹75.61 crore on CSR activities, ₹66.60 crore was towards salaries of CSR staff which was inadmissible.

It was also observed that most of the CPSEs have spent considerably in Andhra Pradesh, Odisha, Uttar Pradesh, Gujarat and Chhattisgarh, whereas, expenditure in Punjab and north-eastern States such as Mizoram, Manipur, Nagaland, Sikkim is insignificant.

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

Memorandum of Understanding signed by 17 'Navratna' companies for the years 2015-16 and 2016-17 were reviewed and following were observed:

- In 8 CPSEs, targets fixed were lower than actual achievement of last five years.
- Improper evaluation of parameters were noticed in 3 CPSEs.
- Benchmarking of parameters with reference to national and international peers was not carried out by 6 CPSEs, as stipulated in DPE guidelines.
- Positions of independent and woman Directors in 7 CPSEs were lying vacant.
- There were delays in submission of MOU to DPE / Administrative Ministries and also in signing of the final MOU in case of 5 CPSEs.

Chapter - VI Joint Venture operations of CPSEs

The audit covered CPSEs categorised as Maharatna, Navratna and Miniratna. There were 98 CPSEs categorised as Maharatna, Navratna and Miniratna by the Department of Public Enterprises (May 2017). Out of this, 46 CPSEs did not have any JV and accordingly, 52 CPSEs (7 Maharatna, 17 Navratna and 28 Miniratna) were covered under this review.

The following significant observations were made in the review:

- Out of 251 incorporated JVs (including JVs formed by more than one CPSE) where information was available, selection of JV partner in 84 JVs was as per directives of Government, 19 JVs through Open tender, 75 JVs through choice out of few prospective partners identified by CPSEs, 49 JVs on nomination basis and in 24 cases, investment was made by CPSEs in already existing JVs.
- As per DPE guidelines, attendance of at least two non-official directors was required in the Board meeting where appraisal of formation of JVs was deliberated upon. In four CPSEs, this was not adhered to.
- In respect of three CPSEs, the representation of CPSEs in the Management and operation of JVs was not as per JV agreement.
- None of the Maharatna/Navratna CPSEs had submitted comprehensive list of JVs formed and status thereof to DPE on a half-yearly basis.
- Out of 158 incorporated JVs for which information was received, 76 JVs were earning profit, 64 JVs were incurring losses and 18 JVs earned profit only in the year 2016-17 but had accumulated losses.

- Indian Oil Corporation Limited, while forming its JV viz. Indian Oil CREDA Bio-fuels did not obtain prior approval of the Board of Directors in violation of DPE guidelines. Further no pilot study was conducted to ensure the commercial viability of the project before submitting to the Board.
- ONGC Videsh Limited in respect of its overseas E&P projects where investment was more than ₹300 crore, obtained investment approvals of ₹11239.83 crore from Oil and Natural Gas Corporation Limited instead of Cabinet Committee on Economic Affairs (CCEA).

Chapter - VII Compliance with Provisions of Public Procurement Policy, 2012 for Micro and Small Enterprises

Audit covered 18 Central Public Sector Enterprises (CPSEs) (namely ONGC, BHEL, IOCL, HPCL, BPCL, NTPC, RINL, NHDC, GAIL, CSL, NMDC, NLC, SAIL, NALCO, NRL, OIL, CIL) to review compliance with the Public Procurement Policy, 2012 for Micro and Small Enterprises (MSEs) by these CPSEs during 2012-13 to 2016-17 and following were observed:

- Audit found that CPSEs were mandatorily required to procure a minimum of 20 per cent of their total procurement from MSEs. Seven CPSEs had achieved the target of minimum of 20 per cent of their total procurement from MSEs during 2015-16 and 2016-2017.
- Nine CPSEs excluded significant quantum of their procurement while reporting compliance with the policy of purchasing specified percentage of goods and services from MSEs.
- There were significant outstanding payables to MSEs in eight CPSEs though it was mandatory to make such payments within 45 days.
- Eleven CPSEs followed the provisions of Purchase Preference Clause of the Policy and a total of 5553 MSEs benefitted due to compliance of the provisions of the clause.
- Items designated for procurement from MSEs were being procured from non MSEs by four CPSEs.
- Eight CPSEs had not uploaded their annual procurement plan from MSEs on their websites and five CPSEs had not reported goals and achievement of procurement targets from MSEs in their annual reports.
- Downgrading through deduction of marks in rating of the CPSEs for non-achievement of targets under Memorandum of Understanding had not proved an effective deterrent against non-implementation of the policy.

Chapter - VIII Impact of Implementation of Indian Accounting Standards in Selected Central Public Sector Enterprises (CPSEs)

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. The standalone financial statements of 67 CPSEs which have adopted Ind AS in preparation of their financial statements w.e.f. 01 April 2016, have been covered in the chapter. The impact of implementation of Ind AS on revenues, profit after tax (PAT), net worth and total assets of the CPSEs were assessed by comparing the values as on 31 March 2016 as per the Ind AS with corresponding values as per Indian Generally Accepted Accounting Principles.

- *Consequent to adoption of Ind AS, increase in profits (PAT) were noticed in CPSEs in the defence sector, infrastructure sector, power sector and shipping sector whereas profits of CPSEs in communication sector, energy sector, fertiliser sector, metal sector and mining sector had shown decrease.*
- *Out of 67 CPSEs reviewed, the profits were increased in case of 39 CPSEs and decreased in case of 28 CPSEs.*
- The Shipping Corporation of India recorded the highest increase in profits due to adoption of Ind AS
- 47 CPSEs carried out adjustment on revenues of which 20 CPSEs reported an increase and 27 CPSEs reported decrease in revenue.
- Maximum increase in revenue was noticed in CPSEs belonging to the energy sector.
- 49 CPSEs carried out adjustment on value of total assets of which 29 CPSEs reported an increase and 20 CPSEs reported decrease in total value of assets.
- The overall maximum increase in value of total assets was noticed in the case of CPSEs of communication sector and decrease in case of CPSEs of defence sector.
- 66 CPSEs carried out adjustment on value of net worth of which 46 CPSEs reported increase in net worth and 20 CPSEs reported decrease in net worth.
- Maximum increase in net worth was noticed in respect of CPSEs belonging to the communication sector whereas maximum decrease in net worth was noticed in respect of CPSEs belonging to the mining sector.