CHAPTER: II

C&AG'S OVERSIGHT ROLE

2.1 Audit of Public Sector Undertakings

Under Section 619 of the Companies Act, 1956, the auditor (Statutory Auditor) of a government company including Deemed Government Companies, appointed by the C&AG conducts the audit of accounts of these companies. On the basis of supplementary audit conducted thereafter, the C&AG issues comments upon or supplements the Audit report of the Statutory Auditor.

Statutes governing some corporations require that their accounts be audited by the C&AG and a report be given to the Parliament.

2.2 Appointment of statutory auditors of PSUs

2.2.1 Objectivity in the appointment of statutory auditors

Statutory auditors for Government Companies including Deemed Government Companies are appointed by the C&AG in exercise of the powers conferred under Section 619(2) of the Companies Act, 1956 as amended vide Companies (Amendment) Act, 2000. For this purpose a panel of firms of Chartered Accountants is maintained by the C&AG by inviting applications every year from the eligible firms of Chartered Accountants. The panel so formed is used for selection of statutory auditors of Public Sector Undertakings (PSUs) for the ensuing financial year. The statutory auditors are appointed annually on regular basis.

Selection of the statutory auditors for appointment is made by correlating the point score earned by each firm of Chartered Accountants that applies for empanelment with the size of the audit assignment. The point score is based upon the experience of the firm, number of partners and their association with the firm, number of Chartered Accountant employees, etc., for assessing that the antecedents of the firm are well established and the firm has capacity to handle the allotted audits. This system ensures that allotment of audit to Chartered Accountants' firm is done objectively based on merit and competence.

2.2.2 Timely appointment of statutory auditors of PSUs for the year 2008-09

Under Sections 210 read with Sections 166 and 230 of the Companies Act, 1956, the annual audited accounts of every Company for the financial year are to be laid before the shareholders at its Annual General Meeting (AGM) to be held each year. According to Section 224 of the Companies Act, 1956 the statutory auditor holds office from the conclusion of one AGM until the conclusion of the next AGM.

Clause 41 of the Listing Agreement with the Securities and Exchange Board of India (SEBI) provides that all the entities listed with the Stock Exchanges should publish their Quarterly Financial Review (QFR), duly approved by the Board of Directors and after a "limited review" by the statutory auditors of the Company. A copy of the Review Report is to be submitted to the Stock Exchange within two months of the close of the quarter. The limited review of the first quarter of a financial year is accordingly to be carried out so that the results can be published by end-August of the year. PSUs also have the option of getting the QFR done by any Chartered Accountant other than the statutory auditors of the Company. In addition, a listed Company is required to prepare the half yearly results in the given proforma and the same is to be approved by the Board of Directors and subjected to a "limited review" by the statutory auditors of the Company. A copy of the Review Report is required to be submitted to the Stock Exchange within two months of the close of the half year.

In order to facilitate timely compliance with the provisions mentioned above, statutory auditors for the listed Government Companies, including Deemed Government Companies, were appointed by the C&AG for conducting the audit of accounts for the year 2008-09 by July 2008.

2.2.3 Independence of statutory auditors of Government Companies and Deemed Government Companies

The statutory auditor has a fiduciary duty to provide independent professional opinion on the financial statements of the Company he audits. In order to ensure independence of the statutory auditors and to obviate any chances of conflict of interest, Section 226 of the Companies Act, 1956 prohibits the appointment of (i) an officer or employee of the Company or their partner or employee, (ii) a person who is indebted to the Company and (iii) a person who is the holder of any securities having voting rights, etc., as the auditor of the Company. Similarly, the Chartered Accountants Act, 1949 contains provisions to ensure independence of the statutory auditors. Paragraph 10 of the First Schedule of the Chartered Accountants Act, 1949 prohibits acceptance of fees, which are either linked to profits or otherwise dependent on the finding or the results of employment. Further, paragraph 4 of the Second Schedule, Part I, makes it an act of misconduct for a Chartered Accountant to express an opinion on the financial statements of a business in which he or his firm or a partner of his firm has a substantial interest unless disclosure of such interest is made.

In order to ensure the independence of statutory auditors of Government Companies, the following further safeguards have been provided by the C&AG:

Acceptance of non-audit assignments by the statutory auditors - In order to maintain the independence of the statutory auditor as well as the quality of audit, partners or relatives (husband, wife, brother, sister or any lineal ascendant or descendant) or associates[*] of the statutory auditors of a government company, are prohibited from undertaking any assignment for internal audit or consultancy or render other services to the government company during the year of audit and for one year after the firm ceases to be the statutory auditor of that Company. Acceptance of non-audit assignments that involve performing management functions or making management decisions are also

[*] ***The term 'Associates' includes (a) other firms of Chartered Accountants in which any employee or partner of the Audit firm has an interest and (b) any employee or partner of the audit firm practicing as a Chartered Accountant in his/her individual capacity***

prohibited during the year of audit and for one year after the firm ceases to be the statutory auditor.

Rotation of audit – A system of rotation of the statutory auditors of Government Companies every four years has been adopted as a good practice.

2.3 Arrears of accounts of PSUs

2.3.1 Need for timely submission

According to Section 619 A of the Companies Act 1956, Annual Report on the working and affairs of a government company, is to be prepared within three months of its AGM and as soon as may be after such preparation laid before both the Houses of Parliament together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the C&AG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary parliamentary control over the utilisation of public funds invested in the Companies from the Consolidated Fund of India.

Section 166 of the Companies Act, 1956 requires every Company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 210 of the Companies Act, 1956 stipulates that the audited Annual Accounts for the period ending with the day, which shall not precede the day of the AGM by more than six months, have to be placed in the said AGM for their consideration.

Section 210 (5) and (6) of the Companies Act, 1956 also provides for levy of penalty like fine and imprisonment on the persons including Directors of the Company responsible for non-compliance with the provisions of Section 210 of the Companies Act, 1956.

The issue of arrears in accounts of central Government Companies has been consistently reported by C&AG in the Audit Reports. The matter was also raised with the Ministry of Corporate Affairs in January 2007 and the Administrative Ministries which have nominated Government Directors on the Board of Directors of these Companies. The Ministry of Corporate Affairs in turn instructed the Registrar of Companies to draw the attention of such companies, whose accounts were in arrears, to the provisions of sub-section (5) and sub-section (6) of the Section 210 of Companies Act, 1956 and advised them to complete their accounts at an early date so as to ensure compliance with the provisions of the Companies Act, 1956. The concerned administrative ministries have been reminded again for clearance of arrears of accounts in November 2009.

However, no action under sub sections 5 and 6 of section 210 of the Companies Act 1956 against the defaulting persons including Directors of the central Government Companies responsible for non-compliance in this regard has been taken although annual accounts of various PSUs were pending as detailed in the following paragraph.

2.3.2 Timeliness in preparation of accounts by Government Companies and Deemed Government Companies

As of 31 March 2009, there were 321 Government Companies and 111 Deemed Government Companies in the purview of C&AG's audit. Of these, accounts for the year 2008-09 were due from 321 Government Companies and 109 Deemed Government Companies. Accounts were not due from two Deemed Government Companies which were new. A total of 258 Government Companies and 85 Deemed Government Companies submitted their accounts for audit by C&AG on or before 30 September 2009. Accounts of 63 Government Companies and 24 Deemed Government Companies were in arrears for different periods. Details of the arrears in accounts of central Government Companies are shown in the table below:

Table 12

Particulars		**Central Government Companies where C&AG conducts Supplementary Audit**					
Number for the year 2008-09		**Government Companies**		**Deemed Government Companies**		**Total**	
		321		111		432	
		Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
		45	276	5	106	50	382
Less: New companies from which accounts for 2008-09 were not due		0	0	0	2	0	2
Companies from which accounts for 2008-09 were due		45	276	5	104	50	380
Companies which presented the accounts for C&AG's audit by 30 September 2009		43	215	5	80	48	295
Audit of accounts in progress as on 30 September 2009		1	5	0	4	1	9
Accounts in Arrears		2	61	0	24	2	85
Break- up of Arrears	(i) Under Liquidation	0	20	0	8	0	28
	(ii) Defunct	0	0	0	4	0	4
	(iii) Others	2	41	0	12	2	53
Age–wise Analysis of the arrears against 'Others' category	One year (2008-09)	2	32	0	8	2	40
	Two years (2007-2008 and 2008-2009)	0	2	0	1	0	3
	Three years and More	0	7	0	3	0	10

The names of these companies are indicated in **Appendix II**.

The delay in presentation of the accounts for C&AG's audit resulted in dilution of Parliamentary Control over management of public money invested in these entities and violation of statutory provisions.

2.3.3 Statutory Corporations

Audit of six Statutory Corporations is conducted by the C&AG. Of the five Statutory Corporations in whose case C&AG is the sole auditor, four viz. Airports Authority of India, Inland Waterways Authority of India, Damodar Valley Corporation and National Highways Authority of India presented their accounts for the year 2008-09 for audit in time. The accounts of Food Corporation of India for the year 2007-08 and 2008-09 were awaited as on 30 September 2009. In case of Central Warehousing Corporation, C&AG conducts supplementary audit and the accounts were received in time.

2.4 C&AG's oversight role

2.4.1 Financial reporting framework

Companies are required to prepare the financial statements in the format laid down in Schedule VI to the Companies Act, 1956 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with National Advisory Committee on Accounting Standards. The Statutory Corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the C&AG and any other specific provision relating to accounts in the Act governing such corporations.

2.4.2 Audit of accounts of Government Companies

The statutory auditors appointed by the C&AG under Section 619(2) of the Companies Act, 1956 conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 619(4) of the Companies Act, 1956. The C&AG plays an oversight role by monitoring the performance of the statutory auditors with an overall objective that the statutory auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power to supplement or comment upon the statutory auditors' report under Section 619(4) of the Companies Act, 1956 and to issue directions to the statutory auditors under Section 619(3)(a) of the Companies Act, 1956. The directions issued by C&AG under Section 619(3)(a) are primarily aimed at ensuring compliance with Accounting Standards and evaluating internal controls relating to financial reporting in the auditee organisation.

2.5 New Initiative: Three Phase Audit of annual accounts of selected PSUs

2.5.1 The prime responsibility of the preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 1956 or other relevant Act is of the management of an entity. The statutory auditors appointed by the C&AG under section 619(2) of the Companies Act, 1956 are responsible for expressing an opinion on the financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the Auditing and Assurance Standards of ICAI and directions given by the C&AG. The statutory auditors are required to submit the audit report to the C&AG under Section 619(4) of the Companies Act, 1956. The certified accounts of selected Government Companies along with report of the statutory auditors are reviewed by C&AG. Based on such review through supplementary audit, significant audit observations, if any, are reported under Section 619 (4) of the Companies Act, 1956 to be placed before the Annual General Meeting.

2.5.2 As the responsibility of auditor is to help the management in enhancing the quality of financial reporting i.e. readability, reliability and usefulness to different stakeholders, the C&AG has introduced more intensified, innovative, focused and result oriented approach to financial audit by 'the System of Three Phase Audit'. The Three Phase Audit System was introduced with the following objectives in 79[♥] selected public sector undertakings falling under categories of 'Listed', 'Navratna', 'Miniratna' and 'Statutory Corporations' for the financial statements of 2008-09 on consensus basis after discussion on the objectives and methodology of new audit approach with the management and statutory auditor concerned:

- To establish an effective communication and a coordinated approach amongst the statutory auditors, management and C&AG's audit for removal of inconsistencies and doubts relating to the financial statements presented by the PSUs.
- To identify and highlight errors, omissions, non-compliances etc., before the approval of the financial statements by the management of the PSUs and provide an opportunity to the statutory auditors and the managements of the PSUs to examine such issues for taking timely remedial action.
- To reduce the time of C&AG's audit after the approval of financial statements by the management of the PSUs.

Thus, Three Phase Audit brings substantial qualitative transformation in the audit process and methodology by enabling the management of PSUs to rectify the accounts in the light of accepted comments on financial statements.

2.5.3 The Phase-I and Phase-II of the new audit approach are extended provisions of Section 619(3) (a) of the Companies Act, 1956. The audit observations under first two phases are treated as preliminary observations and communicated to the statutory auditors as part of sub-directions under Section 619(3) (a) of the Companies Act, 1956. The last phase of audit (Phase-III) is conducted after approval of the financial statements by the management and audit by the statutory auditors which is same as conducted earlier.

2.6 Result of C&AG's oversight role

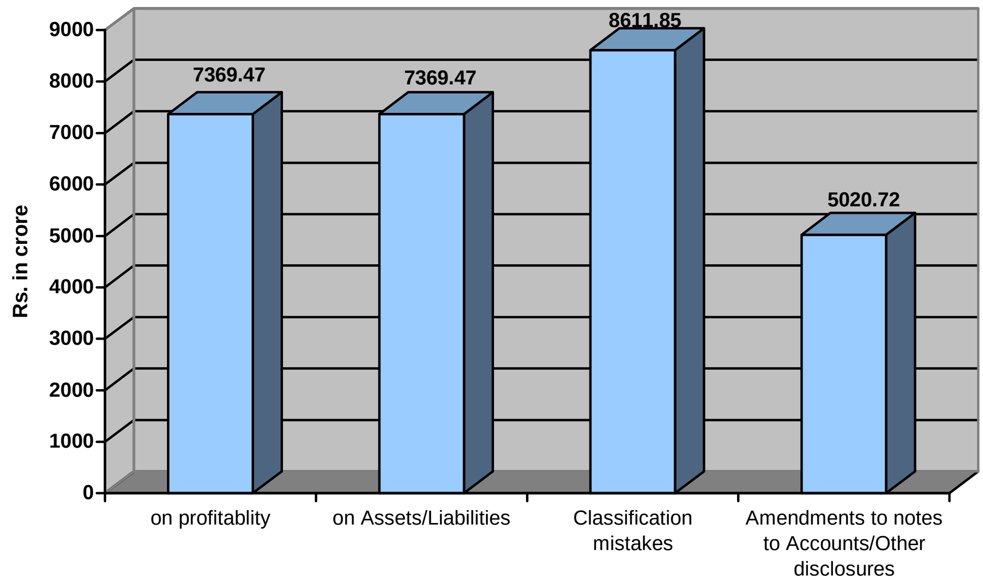
2.6.1 Impact of Three Phase Audit

As a result of Three Phase Audit conducted in 59 PSUs, a number of quantitative as well as qualitative changes were made by the PSUs in their financial statements which lead to improvement in the quality of their financial statements. The value addition made by

[♥] ***Actually implemented in 59 PSUs.***

Three Phase Audit of financial statements of these PSUs for the year 2008-09 is depicted in the following graph:

Graph 9 - Net impact of Three Phase Audit



The new audit approach was appreciated by both management of various PSUs who opted and the statutory auditors concerned. As there was a strong consensus in favour of Three Phase Audit, it was decided to extend the system to 114 selected PSUs in the financial year 2009-10.

2.6.2 Audit of accounts of Government Companies/Deemed Government Companies under Section 619 of the Companies Act, 1956

Financial statements for the year 2008-09 were received from 258 Government Companies (including 43 of the 45 listed companies), 85 Deemed Government Companies (including five listed companies) and five Statutory Corporations by 30 September 2009. Of these, accounts of 199 Government Companies (including 43 listed companies) and 56 Deemed Government Companies (including five listed companies) and five Statutory Corporations were reviewed in audit by the C&AG.

2.6.2.1 Revision of Accounts and its impact

As a result of supplementary audit of the accounts for the year ended 31 March 2009 conducted by the C&AG, three listed Government Companies and five unlisted Government Companies revised their accounts. The major impact of revision of accounts on the profitability of the Companies is indicated in the following table:

Table 13

Decrease in Profit

Sl. No.	**Name of the Company**	**Rs. in crore**
1.	Central Coalfields Limited	33.58

Increase in loss

Sl.No.	**Name of the Company**	**Rs. in crore**
1.	Hindustan Shipyard Limited	0.78
2.	ITI Limited **(Listed)**	6.12

Increase in profit

Sl. No.	**Name of the Company**	**Rs. in crore**
1.	Dredging Corporation of India Limited **(Listed)**	0.21
2.	Hindustan Aeronautics Limited	0.72

2.6.2.2 Revision of Auditors' Report

As a result of supplementary audit of the accounts for the year ended 31 March 2009 conducted by the C&AG, the statutory auditors of three listed Government Companies and seven unlisted Government Companies (including three Deemed Government Companies) revised their report. The significant revision in auditors' report is indicated in the following table:

Sl. No.	**Name of the Company**	**Nature of Revision**
1.	Bharat Heavy Plates and Vessels Limited	Revision with reference to the following: (i) Provision for Depreciation was made without making a technical assessment of useful life of the assets which was inconsistent with the modified Accounting Policy No. 6. (ii) Contrary to Accounting Standard 15, the provision of liability towards leave encashment was made on accrual basis instead of valuing the same on actuarial basis. (iii) Non provision of liability amounting to Rs.77.36 crore in respect of employees' pay revision arrears from 1 January 1997 to 31 March 2009. (iv) Non disclosure of Rs.66.28 lakh as contingent liability, being penal charges levied and demanded by Regional Provident Fund Commissioner, which the Company has not acknowledged as debt.
2.	Canbank Factors	The disclosure that the Company in its Accounting

	Limited **(Deemed Government Company)**	Policy stated that the provision for Non Performing Assets (NPA) shall be made at the minimum as determined by the RBI in the Prudential Norms. However, during the year 2007-08, the Company had voluntarily provided at 100 *per cent* on NPAs with suitable disclosure. During the year 2008-09, the Company has decided to revert to prudential norms guidelines. While doing so, the provision made for the earlier years at 100 *per cent* on four NPA accounts was reversed. Had the Company provided at 100 *per cent* for these accounts, the profit would have been lower by Rs.1.14 crore.
3.	FACT RCF Building Products Limited	Revision due to disclosure of information under Companies (Auditors' Report) Order 2003 (vide clause X) relating to incurring of Accumulated losses and cash losses for the relevant periods as required under the Act.
4.	ITI Limited **(Listed)**	Revision for proper disclosure with reference to: (i) Non-provision of interest on royalty. (ii) Accounting of sales of Rs.73.84 crore which was not in conformity with Accounting Standard 9, resulted in understatement of loss by Rs.1.87 crore and inventory by Rs.71.97 crore and overstatement of Sundry Debtor by Rs.73.84 crore. (iii) Non-provision of Rs.60.29 crore being interest on advances resulted in understatement of loss and current liability by Rs.60.29 crore. (iv) The Company has not deposited Rs.0.47 crore to the Investor Education and Protection Fund.
5.	KIOCL Limited **(Listed)**	The auditors' report was revised to include that raw materials, stores & spares, consumables and additives were valued at weighted average cost in accordance with accounting policy but not written down to realisable value as done in respect of the stock of finished goods namely, pellets and pig iron as per Accounting Standard 2, its effect on the accounts was not quantifiable.
6.	Petronet MHB Limited **(Deemed Government Company)**	The auditors' report was revised and the following was included in the revised report: (i) The Accounting of insurance claims on accrual basis as against cash basis adopted in the previous year had resulted in overstatement of profit for the year by Rs.65.84 lakh and corresponding increase in the receivables and understatement of carried forward Profit & Loss Account balances at the end of the year to the same extent.

		(ii) The Company had accounted the prior period expenditure of Rs.54.82 lakh towards stamp duty for issue of shares in the current financial year. This was contrary to the Accounting Standard 5. Had this being followed, the Profit for the year would have been higher by the above amount and corresponding prior period adjustment would have been lower to that extent.
7.	REC Power Distribution Company Limited	The auditors' report was revised to include the following: (i) The accounting policy of the Company in respect of Revenue Recognition was not in conformity with the Accounting Standards, due to which Revenue being consultancy income had been overstated by Rs.83 lakh and Reserve & Surplus had been overstated to that extent and (ii) Opinion on the Cash Flow Statement, which was not given in the original report. (iii) Para 7 of the annexure to the auditors' report was revised to state that the Company had no internal audit system.

2.6.3 Comments of the C&AG issued as supplement to the statutory auditors' reports on Government Companies

Subsequent to the audit of the financial statements for the year 2008-09 by statutory auditors, the C&AG conducted supplementary audit and the significant comments issued on accounts of Government Companies are as detailed below:

2.6.3.1 Listed companies

Comments on Financial Position

Name of the Company	Comment
GAIL (India) Limited	Capital work in progress did not include Rs.7.78 crore for completed works by the contractor which resulted in understatement of Capital work-in-progress and under-statement of liability for work done.

Comments on Profitability

Name of the Company	Comment
BEML Limited	Sales was overstated by Rs.28.22 crore and Profit was overstated by Rs.8.48 crore due to recognition of sale of 33 Tatra vehicles which were not ready for inspection by the purchaser by 31 March 2009.
Bharat Electronics Limited	(i) Overstatement of the sales by Rs.274.51 crore and profit by Rs.104.10 crore due to recognition of sales amounting to Rs.274.51 crore in respect of

		three contracts, where the equipment were retained by the Company at the request of the buyer or for want of dispatch instructions. As these contracts were on 'Free on Rail (FOR)- Destination basis' and the dispatch of equipment on retention were subject to further clearances, the risks and rewards would be transferred to the buyers on delivery of the goods at their destination. Accordingly, revenue recognition should have been postponed in these cases.
	(ii)	Overstatement of the sales by Rs.1.73 crore and profit by Rs.93 lakh due to recognition of sales in respect of four indents where the items had not reached the consignee as on 31 March 2009.
	(iii)	Understatement of Sundry Creditors by Rs.1.23 crore and overstatement of inventory and profit by Rs.1.64 crore and Rs.2.87 crore respectively due to (a) charging off of Rs.2.87 crore representing claims towards Technical Assistance Fees, (b) erroneously accounted the payment towards claim of Rs.1.64 crore as inventory – materials in transit and (c) failed to recognise the liability towards claim of Rs.1.23 crore.
Bharat Immunolgical and Biologicals Corporation	(i)	Loss was understated by Rs.5.22 crore due to accountal of deferred tax assets contrary to Accounting Standard 22.
	(ii)	Loss was understated by Rs.1.05 crore due to non-accountal of penalty imposed by Ministry of Health and Family Welfare.
GAIL (India) Limited	(i)	Gross Block did not include extra work completed and claimed by Contractor amounting to Rs.11.46 crore for laying of Jamnagar Loni Pipeline. This also resulted in understatement of current liability by Rs.11.46 crore. Consequently, there was understatement of depreciation and overstatement of profit by Rs.5.12 crore.
	(ii)	The Gross Block did not include provision of Rs.17.68 crore in respect of low business potential Optical Fibre cable (OFC) links where current operating expenditure exceeded current revenue. The non-provision of low business potential OFC links of an unviable business resulted in overstatement of fixed assets and profit and understatement of provisions to the extent of Rs.17.68 crore each.
	(iii)	The sundry debtors included Rs.29.82 crore on

	account of invoices raised by the Company without any contractual provisions for over-drawal of gas against daily nominated quantity which resulted in overstatement of current assets, loan & advances and profit to the extent of Rs.29.82 crore each. (iv) Security expenses did not include the provision for liability of Rs.3.07 crore towards 60 *per cent* arrears of 6th Central Pay Commission payable to the Central Industrial Security Force personnel which resulted in understatement of liability and overstatement of profit to the extent of Rs.3.07 crore each.
NTPC Limited	Income recognition to the extent of Rs.938.30 crore was commented upon by the C&AG on the accounts of the Company for the year ended 31 March 2008. The Company in the current year 2008-09 again recognised income to the extent of Rs.105.70 crore in respect of issues disputed by CERC before the Hon'ble Supreme Court of India. As the Company, through its Counsel, had submitted before the Hon'ble Supreme Court of India that it would not press for determination of the disputed issues, the income recognition of Rs.1044 crore (previous year Rs.938.30 crore and current year Rs.105.70 crore) should have been postponed as required under Accounting Standard 9. As a result, Reserves and Surplus (accumulated profits) of the Company were overstated by Rs.1044 crore.

2.6.3.2 Unlisted companies

Comments on Financial Position

Name of the Company	Comment
Aravali Power Company Private Limited **(Deemed Government Company)**	Capital Work-in-progress and Construction Stores and Advances were understated by Rs.1.04 crore and Rs.5.15 crore respectively due to non-accounting of work done and material supplied by the contractors. Consequently Current Liabilities were understated by Rs.6.19 crore.
Bokaro Power Supply Company (P) Limited **(Deemed Government Company)**	(i) The Capital Work-in-Progress and Current Liabilities were understated by Rs.21.04 crore due to: a) Non-provision of liability of Rs.20.23 crore deducted towards retention money from the bills of the contractors, which was to be released subsequently. b) Non-provision of liability of Rs.81 lakh

	towards taxes & duties payable for material supplied to the Company. (ii) Sundry Debtors included Rs.1.17 crore being the excess interest on normative working capital claim rejected by the Steel Authority of India Limited which should have been written off by the Company. This resulted in overstatement of sundry debtors and net profit by Rs.1.17 crore.

Comments on Profitability

Name of the Company	Comment
Bharat Pumps & Compressors Limited	Capital expenditure in progress included an amount of Rs.84.48 lakh on account of renovation expenditure incurred on old machines which had exhausted their standard usable life and should have been charged to Profit and loss account. This resulted in overstatement of capital expenditure-in-progress and profit by Rs.84.48 lakh each.
	Current Liabilities & Provisions did not include an amount of Rs.36.15 lakh towards provision for 6th Central Pay Commission Arrears, Bonus and D.A. Arrears in respect of Central Industrial Security Force employees. This resulted in understatement of other liabilities and overstatement of profit by Rs.36.15 lakh.
Bharat Refractories Limited	Profit of the Company was overstated by Rs. 6 crore due to withdrawal of the provision towards arrear salary/wages made during 2007-08.
Bharat Sanchar Nigam Limited	Sundry Debtors included Rs.161.40 crore in respect of which details of debtors/subscribers from whom it was recoverable were not available. This resulted in overstatement of Sundry Debtors and Profit for the year by the same amount.
Fertiliser Corporation of India Limited	(i) Fixed assets (retired assets held for disposal) were overstated by Rs.1.25 crore as depreciation up to 95 *per cent* of the gross block of building and road and culverts was not charged since 2003-04 which resulted in understatement of accumulated loss by Rs.1.25 crore. (ii) Inventories included Rs.1.44 crore being the value of scrap items held for disposal for long for which provision for obsolescence was not made in the accounts.
Fresh & Healthy Enterprises Limited	A comment was issued on the accounts of the Company for the year ended 31 March 2008 regarding charging of depreciation on controlled atmosphere store being a continuous process plant at a rate of 4.75 *per cent* instead of 5.28 *per cent* as required under Schedule –XIV of the

	Companies Act, 1956. During the year 2008-09 also, the depreciation had been arrived at after charging depreciation on controlled atmosphere store at a rate of 4.75 *per cent* instead of 5.28 *per cent*. This resulted in understatement of depreciation and overstatement of net block of fixed assets by Rs.38.58 lakh. The loss of the Company was understated to the same extent.
GAIL Gas Limited	The Company did not prepare Profit and Loss Account. As a result, Capital work in progress included Rs.1.26 crore being the preliminary expenditure on formation of Company, which should have been treated as an expense. This resulted in overstatement of Capital Work-in-progress and understatement of loss by Rs.1.26 crore.
Hindustan Steelworks Construction Limited	Loss of the Company was understated by Rs.8.56 crore due to: (i) Write back of liabilities of Rs.7.87 crore towards estate dues payable to Steel Authority of India Limited pending settlement. (ii) Non-charging of scrap and invisible wastage of Rs.69 lakh to consumption of store in respect of a fabrication job.
HMT Machine Tools Limited	(i) Sales included an amount of Rs.3.07 crore being the revenue recognised based on dispatch of three machines on 'Free on Rail (FOR) – Destination basis' on 31 March 2009. As the contracts were on FOR, the risks and rewards would be transferred to the buyers on delivery of the goods at their destination. These machines reached its destination in April 2009. Accordingly, revenue recognition should have been postponed in these cases in accordance with Accounting Standard 9. This resulted in overstatement of sale to an extent of Rs.3.07 crore and understatement of loss by Rs.42 lakh. The Company's accounting policy on Revenue recognition on sales in case of FOR destination contracts was also not in line with Accounting Standard 9. (ii) Prior Period Adjustment included an amount of Rs.1.21 crore relating to Material in Transit which was written off during the year 2008-09. As there were no errors or omissions in this transaction, treating this as prior period item was not in accordance with Accounting Standard 5. This resulted in overstatement of prior period adjustments and understatement of current year loss

	to an extent of Rs.1.21 crore.
Indian Strategic Petroleum Reserves Limited	(i) The Company did not prepare Profit and Loss Account. The preliminary expenditure of Rs.2.39 crore on formation of the Company was not treated as an expense for the year. (ii) Salary and other Benefits did not include arrears payable amounting to Rs.20 lakh to the officers and staff on deputation with the Company from PSUs and Oil Industry Development Board on account of revision of their pay scales on the recommendations of the pay commission. This resulted in understatement of expenditure on salary and other benefits and current liability to the extent of Rs.20 lakh.
ONGC Videsh Limited	Provisions and write offs included expenditure of Rs.6.47 crore for the year (cumulative Rs.141.87 crore) in respect of exploration of Farsi Block as per Service Contract. National Iranian Oil Corporation (NIOC) had already approved (August 2008) the commerciality of field development and asked (September 2008) the Company to submit its proposal for development of field along-with Draft Contract and Minimum Development Programme. In view of the commercially proved oil reserves and submission of the draft Master Development Plan to NIOC, making a provision for the expenditure incurred was not in line with Company's accounting policy No.3.3 and Guidance Note on the 'accounting for oil and gas producing activities' issued by the Institute of Chartered Accountants of India. This resulted in overstatement of provisions and write off and understatement of profit to the extent of Rs.6.47 crore for the current year and by Rs.135.40 crore for the previous years.
Tehri Hydro Development Corporation Limited	(i) The Fixed Assets included an amount of Rs.9.13 crore towards the Static Excitation System, which was obsolete and unusable, hence replaced by another system. Non provision of Rs.9.13 crore on account of dismantled capital stores resulted in overstatement of profit by Rs.9.13 crore. (ii) Current Liabilities did not include Rs.1.84 crore relating to the salary and allowances payable to the personnel of Central Industrial Security Force placed at Tehri and Koteshwar as per pay proposals of 6th pay commission, which resulted in understatement of other liabilities and overstatement of profit by Rs.1.84 crore.

Comments on Disclosure

Name of the Company	Comment
Hindustan Steelworks Construction Limited	(i) Contingent liability was understated by Rs.14.39 crore due to short disclosure of: a. claim of Rs.12.39 crore made by a contractor towards value of work done including interest for which the contractor had filed a suit in the Court. b. demand of Rs.2 crore made by the Central Excise and Service Tax Department towards Service Tax and Cess. (ii) The Company had not complied with the disclosure requirement of Accounting Standard 27 in respect of its interest in Joint Ventures.
IDBI Capital Markets Limited	Investment included an amount of Rs.29.93 crore being the cost of 29,92,850 equity shares at the rate of Rs.100 *per* share (face value Rs.10 per share) devolved on the Company (February 2007) on underwriting of public issue of equity shares of a Company in private sector. The value of such shares had considerably eroded, but was not disclosed in the notes to accounts.
Indian Medicines Pharmaceuticals Corporation Limited	Against a contract for civil work for Rs.2.98 crore, unexecuted work as on 31 March 2009 amounted to Rs.2.49 crore. This commitment on capital account was not disclosed.
National Institute of Food Technology Entrepreneurship and Management	(i) The Company did not prepare Income & expenditure account in accordance with the requirement of Part II of Schedule VI to the Companies Act, 1956. (ii) There was understatement of estimated amount of contracts remaining to be executed on capital account and not provided for by Rs.46.16 crore.
National Textile Corporation Limited	Estimated amount of contract remaining to be executed on Capital account and not provided was understated by Rs.83.92 crore.
Security Printing & Minting Corporation of India Limited	Capital commitment remaining to be executed and not provided was understated by Rs.4.17 crore.

Comment on Auditors' Report

Name of the Company	Comment
Fertiliser Corporation of India Limited	Auditor's Report did not state the total effect of all the qualifications on profit/loss and state of affairs as required under Auditing and Assurance Standard-28.

Other comments

Name of the Company	Comment
Bharat Sanchar Nigam Limited	(i) As per certified annual accounts of Mahanagar Telephone Nigam Limited for the year 2008-09, the amount recoverable from and the amount payable to the Company on current account by Mahanagar Telephone Nigam Limited were Rs.1678.56 crore and Rs.249.85 crore respectively, resulting in a net recoverable amount of Rs.1428.71 crore from the Company. There was net difference of Rs.3224.53 crore (previous year Rs.2227.96 crore) in the receivable/payable amounts between these two Government Companies under the same Ministry. Such differences were also indicative of serious flaw in the revenue recognition practices of the Company and despite a similar comment of the C&AG on the previous year's annual accounts, no corrective action was taken. (ii) Proper action was not taken by the Company on the following persistent irregularities despite being repeatedly commented upon by the Statutory Auditors since the first account of the Company for the year 2000-01: a) No confirmation had been produced regarding ownership and value of net assets (including contingent liabilities) taken over from Department of Telecommunication (DoT) as on 1 October 2000. b) No confirmation from DoT on DoT balances on current account recoverable/payable shown in the accounts had been produced. c) Non-preparation of bank reconciliation statements by six units in four circles. d) The record of 36 circles (previous year 31 circles) did not give full particulars, including quantitative details and situation of fixed assets. Such records were also not updated in 20 circles (previous year 8 circles). e) Non availability of documentary evidence supporting the physical verification of assets in 30 circles (previous year 26 circles). f) Non submission of documentary evidence supporting the physical verification of inventories of 17 circles (previous year 7 circles).

The impact of these comments on assets, profit and loss has been detailed in Appendix XI.

2.6.3.3 Statutory Corporations where C&AG is the sole auditor

The audit observations as contained in the Audit Reports issued by the C&AG on the accounts for the year 2008-09 of the Statutory Corporations where C&AG acts as the sole auditor are as under:

Airports Authority of India

I Capital work in progress was overstated by Rs.22.20 crore due to:

(i) capitalisation of the revenue expenditure and expenditure incurred on assets which were not Authority's assets amounting to Rs.10.86 crore. Consequently profit was overstated by same amount and

(ii) non capitalization of various assets amounting to Rs.11.34 crore already completed/put to use. This resulted in understatement of Fixed Assets by the same amount. Consequently depreciation was understated by Rs.1.60 crore and Profit was overstated to the same extent.

II Current Assets were understated by Rs.89.07 lakh due to non-accountal of spares as inventory. Consequently, Profit was understated by same amount.

2.7 Departures from Accounting Standards

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 of the Companies Act, 1956 (1 of 1956), read with sub-section (3C) of Section 211 and sub-section (1) of Section 210A of the said Act, the Central Government, in consultation with National Advisory Committee on Accounting Standards prescribed Accounting Standards 1 to 7 and 9 to 29 as recommended by the Institute of Chartered Accountants of India.

The Accounting Standards shall be applied in the preparation of General Purpose Financial Statements and every Company and its auditor(s) shall comply with the Accounting Standards in the manner specified in these rules.

The Statutory Auditor reported that 39 companies as detailed in **Appendix XII** departed from mandatory Accounting Standards. However, during course of supplementary audit, the C&AG observed that the following companies had also not complied with the mandatory Accounting Standards which were not reported by their statutory auditors:

Accounting Standard (AS)		Name of the Company	Deviation
AS-3	**Cash Flow Statement**	India Infrastructure Finance Company Limited	The components of cash and cash equivalents and the reconciliation of the amounts were not disclosed in the Cash Flow Statement.
		National Handicapped	The Companies did not prepare and attach the Cash Flow

		Finance and Development Corporation	Statement.
		Orissa Drugs & Chemicals Limited	

2.8 Management Letters

One of the objectives of financial audit is to establish communication on audit matters arising from the audit of financial statements between the auditor and those charged with the responsibility of governance of the corporate entity. The material observations on the financial statements of PSUs were reported as comments by the C&AG under Section 619(4) of the Companies Act, 1956. The impact of such material comments has been given in the preceding paragraphs. Besides these comments, irregularities or deficiencies observed by C&AG in the financial reports or in the reporting process, were also communicated to the management through a 'Management Letter' for taking corrective action. These deficiencies generally related to application and interpretation of accounting policies and practices, adjustments arising out of audit that could have a significant effect on the financial statements and inadequate or non disclosure of certain information on which management of the concerned PSU gave assurances that corrective action would be taken in the subsequent year. During the year C&AG issued 'Management Letter' to the 93 companies.

2.9 Significant observations of statutory auditors on the accounts of Government Companies

2.9.1 Listed Government Companies

Significant qualifications made by the statutory auditors in their audit reports on the accounts of listed Government Companies for the year 2008-09 are given below:

Sl. No.	Name of the Company	Auditors' qualification
1.	Hindustan Cables Limited	(i) The Company had not made any adjustment for shortage of inventory detected in physical verification amounting to Rs.5.34 crore in its Rupnarayanpur unit.
		(ii) No provision had been made for Sundry Debtors amounting to Rs.115.81 crore at Naini unit, Rupnarayanpur unit, Hyderabad unit and Turnkey division which was doubtful of recovery.
2.	Hindustan Organic Chemicals Limited	Non provision/pending charge to the profit and loss account in respect of the following: (i) Penal interest of Rs.3.54 crore on overdue loan from Government of India. (ii) Liabilities of wages revision for the period

		01.01.1997 to 31.12.2000 of Rs.23.08 crore. (iii) Non-charging of Rs.5.26 lakh of value of leasehold land at JNPT tank farm project. (iv) Non-charging of Rs.29.67 crore of capital work in progress of JNPT tank terminals. (v) Short provision for obsolete / non- moving stock of Rs.74.54 lakh. (vi) Non- charging of Rs.20.94 lakh of capital work in progress of captive power plant. (vii) Reversal of provision on diminution on investment in HFCL of Rs.11.06 crore. (viii) Reversal of provision for bad and doubtful debts of Rs.26.10 crore on account of loans and advances on HFCL (ix) Non - charging of Rs.22.09 crore on account of impairment of assets as per Accounting Standard 28 (x) Non provision on account of misappropriation of Company's fund to the tune of Rs.64.81 lakh, pending final report from CBI and outcome of the civil suit. (xi) Regarding claims of JNPT of minimum guaranteed through put charges of Rs.11.25 crore. (xii) Regarding short provision of Rs.2.97 crore on account of escalation at the rate of 10 *per cent* per annum on the leased rental on the lease payable to JNPT. (xiii) Regarding Rs.2.74 crore on account of a decree order passed by Civil Court, Panvel in case of a private construction Company. (xiv) Regarding Rs.91.15 lakh on account of certain old unreconciled loans and advances.
3.	ITI Limited	Interest and penalty leviable if any, for violation of the provisions of Income Tax Act, 1961 for non-deduction of Tax Deducted at Source was not ascertainable at present. The Company had not provided for Rs.27.38 crore being penalty levied or non-payment of guarantee fee.
4.	Madras Fertilizers Limited	(i) The Company did not deposit central excise duty amounting to Rs.5.42 crore with regard to dispute on levy of excise duty and customs duty amounting to Rs.65.86 crore relating to the period 1993 to 2003 being the differential customs duty

		claimed by Commissioner of Customs. (ii) The Company defaulted in payment of dues to Financial Institutions. As on 31 March 2009, the principal and interest overdues due to Financial Institutions amounted to Rs.119.60 crore and Rs.80.85 crore respectively.
5.	Mahanagar Telephone Nigam Limited	(i) The amounts recoverable from DoT and Bharat Sanchar Nigam Limited were subject to reconciliation and confirmation and in view of various pending disputes regarding each other's claims auditor was unable to comment on the impact of the same on the profitability of the Company. (ii) The Delhi mobile service unit did not make provision in the accounts for the balance of Rs.14.18 crore outstanding for more than 3 years in the respect of dues from operators. Thus, the profit of the Company was overstated by Rs.14.18 crore and claims Recoverable were overstated by the same amount. (iii) The Delhi Unit has not made provision in the accounts for the balance of Rs.2.41 crore outstanding for more than 3 years in respect of dues from operators. Thus, the profit of the Company was overstated by Rs.2.41 crore and debtors were overstated by the same amount. (iv) Non provision of certain claims of the Bharat Sanchar Nigam Limited on account of signaling charges, transit tariff, MP Bills, IUC claims and IUC claims of Company rebutted by Bharat Sanchar Nigam Limited, Service Connection billing & Tax charges recoverable and payable, pending identification, reconciliation and settlement of these and other similar claims of the Company, the impact of the same was not ascertainable. (v) Balance in subscriber's deposit account of Rs.452.62 crore and interest accrued thereon of Rs.5.85 crore, unlinked receipts from subscribers Rs.8.23 crore were subject to reconciliation. (vi) During the year no reconciliation of roaming receivables was carried out. (vii) The Bank Reconciliation Statements as at 31st March, 2009 include the unmatched / unlinked credits and debits aggregating Rs.5.53 crore and

		Rs.6.32 crore respectively, which were not properly accounted, in the absence of adequate particulars. The impact of such entries on the Accounts cannot be ascertained. (viii) Retaining of outstanding liability of Rs.47.01 crore on account of decommissioned assets pending arbitration case. (ix) The system regarding reconciliation & confirmation of deposit to various departments, reconciliation between the exchanges generated calls & billed calls, reconciliation of the balance in subscriber deposit account with subsidiary record, needed to be strengthened.
6.	Neyveli Lignite Corporation Limited	Depreciation accounting in respect of unamortized depreciable amount was not charged over the revised remaining useful life in respect of Specialised Mining Equipment (SME) existing on 31.08.2007. Had this method of accounting been followed, the provision for depreciation for the period would have been lower by Rs.147.33 crore. Accordingly profit for the year and fixed assets were understated to that extent.

2.9.2 Unlisted companies

Significant qualifications made by the statutory auditors in their audit reports on the accounts of unlisted Government Companies and Deemed Government Companies for the year 2008-09 are given below:

Sl. No.	Name of the Company	Auditors' qualification
1.	Bharat Gold Mines Limited	(i) Non-accounting of electrical copper wires weighing 143.547 tonnes worth approximately Rs.3.43 crore in the stores pending decision by the Company regarding its usage or disposal resulted in understatement of inventory to that extent. (ii) Non-accounting of ore weighing 340 tonnes, Tailing Sands which contains 13200 kgs of recoverable gold on the surface and 14 numbers specimen ore samples of rock of nuggets weighing 12386 gms (gross) pending ascertainment of realisable value.
2.	Bharat Sanchar Nigam Limited	(i) The process of taking over the assets and liabilities from DoT was still in progress and the fact that the value of net assets, identified subsequent to 01.10.2000, had been adjusted to Capital Reserves. (ii) The titles to the various immoveable properties taken over from DoT were yet to be transferred in

		the name of the Company. (iii) Income from recharge coupon, prepaid calling cards, ITC cards, Sancharnet cards and stock of recharge coupons and prepaid calling cards, were subject to reconciliation in 14 circles.
3.	Coal India Limited	Non provision for investment in loans and other receivables from two subsidiaries-namely, Bharat Coking Coal Limited and Eastern Coalfields Limited aggregating to Rs.4772.69 crore and Rs.5910.22 crore respectively as they had been declared sick under the Sick Industrial Companies (Special Provision) Act. 1985 and were referred to BIFR.
4.	The Elgin Mills Company Limited	Land admeasuring 1040 Sq. yards was illegally under the possession of a private party (since 10/2001); however, no legal or other action had been taken by the Company to recover it back.
5.	Export Credit Guarantee Corporation of India Limited	(i) The Corporation was required to reinsure its business relating to insurance activities in accordance with Insurance Regulatory & Development Authority's guidelines. (ii) The Corporation was yet to fully comply with the guidelines concerning investments issued by Insurance Regulatory & Development Authority.
6.	General Insurance Corporation of India	Short provision of Rs.34.39 crore on doubtful loans outstanding towards various State Governments.
7.	Hassan Mangalore Rail Development Company Limited	(i) The capital expenditure under the Fixed Assets-Project Railway included expenditure of Rs.140.79 crore transferred by South Western Railways (SWR) under the shareholders agreement as well as assets created by SWR out of the funds provided by the Company. This expenditure was accounted based on the statements received from SWR and was considered provisional and subject to reconciliation. The statements received from SWR and certificate issued by the Management for the purpose of evaluating gross value of these Fixed Assets were relied upon. (ii) The unsecured loan amounting to Rs.140.79 crore was shown as subordinate debt from Ministry of Railways. The shareholders agreement between Ministry of Railways and the Company did not provide for any rate of interest to service the debt or repayment of the same. Subsequently, as per the agreement by the Company and the Ministry of Railways the debt will be serviced, in the event of surplus, proportionately on the same ratio between the debt and equity. The Company had not made

		any provision in respect of its liability to Ministry of Railways towards the share of surplus attributable to the subordinate debt. The reduction on account of this in the net profit as well as Reserves & Surplus as on 31.03.09 could not be quantified.
8.	Heavy Engineering Corporation Limited.	(i) Bills of Bihar State Electricity Board and Jharkhand State Electricity Board for Delayed Payment Surcharge amounting to Rs.622.71 crore had not been accounted and provided for. (ii) Damages of Rs.95.02 crore levied by Regional Provident Fund Commissioner under section 14B of the Employees Provident Fund and Miscellaneous Provisions Act, 1952 for delayed remittances during the period March 1976 to September 1999 had not been accounted and provided for. (iii) Water charges bills of Public Health Engineering Department amounting to Rs.10.22 crore had not been accounted and provided for. (iv) Although 17 non-residential building were transferred by the Company during the current financial year on a consideration of Rs.80.00 crore and consideration amount received on 31.3.2009, no accounting entry were passed for such transfer as well as for Profit/Loss on such transfer, pending acceptance of Revival Package of Government of Jharkhand by the Hon'ble Jharkhand High Court.
9.	Hindustan Aeronautics Limited	The net impact of Prior Period transactions on current year profit amounted to Rs.7.40 crore and consequently current year profit was overstated to that extent.
10.	Hindustan Steelworks Construction Limited.	Sundry debtors included claims of Rs.101.96 crore outstanding for a long time. Full provision for the amount should have been made by the Company in the accounts instead of Rs.67.45 crore.
11.	National Seeds Corporation Limited	(i) Funds given under Central Sector Seed production for Drought Prone Areas were not kept in a separate special bank account i.e. 'Revolving Fund Seed Production'; instead the funds had been pooled with the funds of the Corporation. (ii) Non-availability of detail of payment for land and lease deed in respect of certain offices and non-execution/ non-availability of title deeds/ lease deeds and finalization of lease amount in respect of certain properties, the financial impact of the same on the accounts if any, was unascertainable.
12.	National Textile	(i) The Company entered into five joint ventures (JV)

	Corporation Limited	on public-private partnership for revival of textile sector with stipulated conditions that the Company will make initial investment plan for revival or modernization of textile mills for a period of two years. In the event of failure of revival of textile mills, the performance guarantee of Rs. five crore of strategic partners would be forfeited. The JV Company had so far done little for revival of textiles mills but altered other object of Memorandum of Agreement. (ii) The Company made payment of Rs.12.33 crore to five JV Companies on account of differences in net assets position as on opening date of Undertaking Transfer Agreement and 31st March 2008 which was not in line with clause 50 of the 'Request for Proposal' It was also in contravention of share subscription and shareholders agreement entered between NTC, JV Company and Strategic Partner which clearly stated that NTC will not invest any amount for first five years. (iii) Non-provisioning of Post-takeover Receivables/ overstatement of Current assets and other items affecting Profit and Loss Account as reported by Sub-Office Auditors amounting to Rs.110.83 crore.
13.	North Eastern Handicrafts & Handloom Development Corporation Limited	The Company did not provide for Rs.30.62 crore towards interest on GOI loan.
14.	ONGC Videsh Limited	(i) The Company incurred consultancy expenditure amounting to Rs.47 crore approximately for acquiring Imperial Energy Corporation, UK and the same was charged to profit and loss account instead of debiting to the respective Company. This resulted in understatement of profit to that extent. (ii) Loans and advances included discount on commercial papers amounting to Rs.308.98 crore resulting in overstatement of loans and advances to that extent.
15.	Security Printing & Minting Corporation of India Limited	During the year fixed asset register of IGM Hyderabad had been reconstructed and there was a difference of Rs.82.71 crore between financial records and reconstructed fixed asset register and same was subject to verification by auditors and its impact had not been given in books of accounts. Further individual details of various fixed assets, their cost and written down value as per fixed asset register

		were not matching with financial statement and depreciation was provided on gross block as such correctness of depreciation charged could not be verified.

2.9.3 Qualifications of statutory auditors on the accounts of Statutory Corporation where C&AG conducts supplementary audit

Central Warehousing Corporation

The title deeds in respect of 86 freehold/leasehold land sites valuing Rs.93.54 crore had not been executed in favour of the Corporation. Out of these, the title deeds of 67 land sites valuing Rs.8.60 crore were pending for execution for more than 15 years.

2.9.4 Observations reported by the statutory auditors in compliance with directions issued by the C&AG under Section 619(3) (a) of the Companies Act, 1956.

The significant observations made by statutory auditors in their supplementary reports that reflect the quality of accounts and systems of accounting of the companies are reproduced below:

2.9.4.1 Deficiencies in accounting policies and practices

Andaman Fisheries Limited

- ❖ There was no system in place for timely lodging of claims with the outside parties.
- ❖ The Company had no laid down investment policy.
- ❖ The Company did not have an efficient system for monitoring and adjusting advances to contractor/ suppliers.

Andrew Yule & Company Limited

- ❖ The system of monitoring and adjusting of advances to contractors and suppliers needed improvement.

Bharat Pumps & Compressors Limited

- ❖ The Company did not have a clear credit policy for providing for doubtful debts/write offs and liquidated damages.

Hindustan Copper Limited

- ❖ The system of reconciliation of claims recoverable and sundry creditors at the end of year with main ledger required improvement.

The Jute Corporation of India Limited

- ❖ Liability on account of Raw Jute Buffer Stock Scheme for Rs.3.74 crore was pending for adjustment for a long time.

2.9.4.2 System of accounts and financial control

Coal India Limited

- ❖ There were many credit balances in Advance Accounts at head office, which needs proper reconciliation.
- ❖ The system of monitoring for recovery of dues had not been implemented in full as a result of which long outstanding amount of Rs.10.72 crore remained in the books.
- ❖ The Company enjoyed cash credit limit of Rs.550 crore with banks but the same remained under-utilised resulting in additional cost burden by way of commitment charges.

Eastern Coalfields Limited

- ❖ The Company shall have to follow the payment of Gratuity Act, 1972 with regards to the un-disbursed gratuity (amount not ascertainable) lying with the Company for more than three years for depositing the same with the prescribed authority.
- ❖ Confirmation of balances from parties under various heads of advances, creditors, depositors and other parties under various heads and for inoperative balances have not been obtained and provided to the auditor. The balances as per subsidiary ledger and general ledger in respect of advances, other receivable, deposit, sundry creditors etc., were in the process of preparation and reconciliation and its effect in the accounts could not be ascertained.
- ❖ In many cases surveyed off Plants and Machinery with cost of Rs.181.48 crore having nil written down value were lying for years together without disposal action.

Mahanagar Telephone Nigam Limited (Listed)

- ❖ The policy with regards to doubtful debts from private operators needs to be laid down.

National Seeds Corporation Limited

- ❖ The system of accounts especially the stock record were not properly maintained and statutory compliance of taxes was not done in time for which qualified staff needs to be posted and accounts should be computerized fully.
- ❖ The Cash and Carry policy for private supply was not strictly followed as such debtors of Rs.3.19 crore were outstanding for the period exceeding one year from private parties.
- ❖ The system of monitoring the recovery was not followed strictly and therefore, huge amounts were outstanding for the period exceeding three years.

2.9.4.3 Corporate Governance and Audit Committee

Bharat Sanchar Nigam Limited

- ❖ Audit committee did not examine the replies to paragraphs, reviews comprehensive appraisals, etc., included in various Audit reports of the C&AG before their submission.

Engineers India Limited

- ❖ Clause 49(1) (A) of the listing agreement requires that not less than fifty *per cent* of total strength of Board of Directors of the Company should comprise of Non-Executive Directors being independent. However, during the year, the Company did not have the required number of Non Executive being independent directors on its board.
- ❖ The Audit Committee did not examine the replies to paragraphs, mini review, sectoral reviews, comprehensive appraisals etc. included in various audit reports of the C&AG before their submission to Government audit/Committee on Public Undertakings.

MMTC Limited

- ❖ The Company did not have 50 *per cent* independent directors on their Board as required under SEBI guidelines. In fact besides the five whole time directors including Chairman cum Managing Director only two Government nominee directors were there.

Security Printing & Minting Corporation of India Limited

- ❖ The Company did not have proper set up to carry out costing of its products.
- ❖ There was no documented mechanism to review trial balance on periodical basis by management. Rectification/adjustment entries have also been passed at some units and Head Office during the course statutory audit.

2.9.4.4 Confirmation of balances of debtors and creditors

Based on the observations made by statutory auditors in their supplementary report, it was noticed that the system of obtaining confirmation of balances of debtors/creditors was deficient in 30 Companies as detailed in **Appendix-XIII.**

2.10 Internal control over financial reporting

Internal control is the process designed and implemented by those charged with governance and the management to provide reasonable assurance about the achievement of the entity's objective with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, and to check fraud and misappropriation. Internal control measures may vary with the size and complexity of the organisation. Effective and efficient internal control measures ensure that the financial statements prepared give a true and fair view and the degree of reliance that a statutory auditor can place on the financial statements for the purpose of reporting. In accordance with the directions issued by the C&AG under Section 619(3) (a) of the Companies Act, 1956, the statutory auditors are required to submit a report on the adequacy or otherwise, of internal control measures followed by the Company and to suggest improvement, if any, in the areas of management, safeguarding and verification of fixed and current assets including debtors, cash and bank balances.

The deficiencies reported by the statutory auditors with regard to non-maintenance of fixed assets register, lack of physical verification of fixed assets, non-fixation of inventory stock holding norms, lack of monitoring the recovery of outstanding dues and absence of policies for prevention and detection of frauds in the Government Companies including Deemed Government Companies are given below:

Table 14

Sl. No.	**Area of Deficiency**	**Number of companies**
1.	Fixed Assets	6
2.	Internal Procedures and Operational Efficiency	32
3.	Debtors	6
4.	Inventory	11
5.	Internal Audit	14
6.	Delineated Fraud Policy	25
7.	Separate Vigilance Department	3

The particulars of the companies indicating lack of internal controls in the above mentioned areas are given in the **Appendix XIV**.