CHAPTER: II

CAG'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 company, appointed by the CAG conducts the audit of accounts of the companies. On the basis of supplementary audit conducted thereafter, the CAG issues comments upon or supplements the Audit Report of the statutory auditor**.**

Statutes governing some corporations require that their accounts be audited by the CAG 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 CAG 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 CAG 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 firms is done objectively based on merit and competence.

2.2.2. Timely appointment of statutory auditors of PSUs for the year 2009-10

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 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 CAG for conducting the audit of accounts for the year 2009-10 by July 2009.

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 CAG:

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 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 CAG. 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 6 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 CAG 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

---

* ***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.***

been reminded again for clearance of arrears of accounts in October 2010.

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 2010, there were 329 government companies and 116 deemed government companies in the purview of CAG's audit. Of these, accounts for the year 2009-10 were due from 329 government companies and 113 deemed government companies. Accounts were not due from three deemed government companies which were new. A total of 258 government companies and 89 deemed government companies submitted their accounts for audit by CAG on or before 30 September 2010. Accounts of 71 government companies and 24 deemed government companies were in arrears for different periods. Details of the arrears in accounts of central government companies were shown in the table below:

Table 13

Particulars	**Central government companies where CAG conducts supplementary audit**					
	Government companies		**Deemed government companies**		**Total**	
Number as on 31.03.2010	329		116		445	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
	47	282	5	111	53	392
Less: New companies from which accounts for 2009-10 were not due	0	0	0	3	0	3
Companies from which accounts for 2009-10 were due	47	282	5	108	53	389
Companies which presented the accounts for CAG's audit by 30 September 2010	46	212	5	84	52	295
Accounts in Arrears	1	70	0	24	1	94

Break- up of Arrears	(i) Under Liquidation	0	23	0	8	0	31
	(ii) Defunct	0	0	0	6	0	6
	(iii) Others	1	47	0	10	1	57
Age–wise Analysis of the arrears against 'Others' category	One year (2009-10)	1	41	0	6	1	47
	Two years (2008-09 and 2009-10)	0	1	0	1	0	2
	Three years and more	0	5	0	3	0	8

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

The delay in presentation of the accounts for CAG'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 CAG. Of the five statutory corporations in whose case CAG 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 2009-10 for audit in time. The accounts of Food Corporation of India for the year 2009-10 were awaited as on 30 September 2010. In case of Central Warehousing Corporation, CAG conducts supplementary audit and the accounts were received in time.

2.4 Impact of CAG's oversight - Audit of accounts and supplementary audit

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 CAG and any other specific provision relating to accounts in the Act governing such corporations.

2.4.2 CAG's oversight - Audit of accounts of government companies

The statutory auditors appointed by the CAG 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 CAG plays an oversight role by monitoring the performance of the statutory auditors with the 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) of the Companies Act, 1956. The directions issued by CAG 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

The prime responsibility for 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 CAG 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 CAG. The statutory auditors are required to submit the Audit Report to the CAG 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 CAG. 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.

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 CAG 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 CAG'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 CAG's audit after the approval of financial statements by the management of the PSUs.

[♥] ***Actually implemented in 59 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.

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 PSUs in the financial year 2009-10.

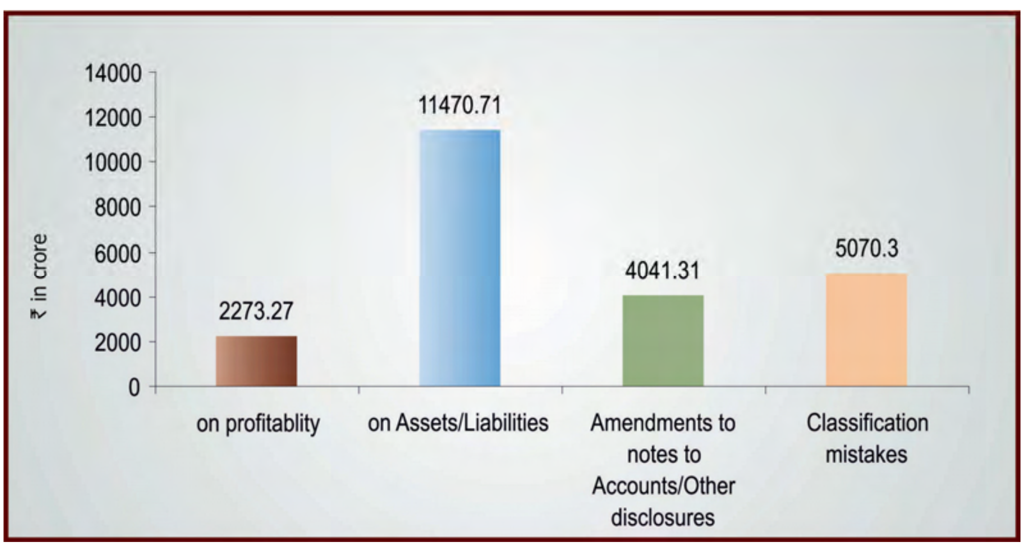
The Phase-I and Phase-II of the new audit approach are extended provisions of Section 619(3) (a) of the Companies Act, 1956. The audit observations under first two phases are treated as preliminary observations and communicated to the statutory auditors as part of sub-directions under Section 619(3) (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 CAG's oversight role

2.6.1 Impact of Three Phase Audit

As a result of Three Phase Audit conducted in 114 PSUs, a number of quantitative as well as qualitative changes were made by the PSUs in their financial statements which led to improvement in the quality of their financial statements. The value addition made by Three Phase Audit of financial statements of 61 PSUs for the year 2009-10 is depicted in the following graph:

Graph 14 – Net impact of Three Phase Audit



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 2009-10 were received from 258 government companies (including 46 of the 47 listed companies), 89 deemed government companies (including five listed companies) and five statutory corporations by 30 September 2010. Of these, accounts of 182 government companies (including 45 listed companies) and 62 deemed government companies (including four listed companies) and five statutory corporations were reviewed in audit by the CAG.

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 2010 conducted by the CAG, one listed government company and two 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 14

Increase in Loss

Sl.No.	Name of the company	₹ in crore
1.	HPCL Biofuels Limited	1.59
2.	ITI Limited (Listed Company)	90.54

Decrease in profit

Sl.No.	Name of the company	₹ in crore
1.	Hindustan Shipyard Limited	0.93

Increase in Assets

Sl.No.	Name of the company	₹ in crore
1.	Hindustan Shipyard Limited	2.06

Increase in Liabilities

Sl.No.	Name of the company	₹ in crore
1.	Hindustan Shipyard Limited	2.99

2.6.2.2 Revision of Auditors' report

As a result of supplementary audit of the accounts for the year ended 31 March 2010 conducted by the CAG, the statutory auditors of one listed and seven unlisted government companies (including one deemed government company) revised their report. The significant revision in auditors' report is indicated in the following table:

S.No.	Name of the Company	Nature of Revision
1.	Hindustan Shipyard Limited	Statutory auditors qualified the figure of profit of ₹ 2.32 crore into an overall loss of ₹ 698.11 crore.
2.	HLL Lifecare Limited	Revision by inclusion of (i) disclosure of cash losses not incurred by the Company. (ii) qualification relating to misclassification of Cash and Bank Balances under Other Current Assets
3.	HMT Machine Tools Limited	Revision as a result of overstatement of sales for the year to the extent of ₹ 5.98 crore and understatement of loss for the year by ₹ 0.67 crore.
4.	ITI Limited (Listed Company)	The impact of revision by the statutory auditors in their report resulted in understatement of loss of ₹ 40.06 crore, understatement of current liabilities by ₹ 26.85 crore and overstatement of inventory by ₹ 13.21 crore.
5.	Karnataka Trade Promotion Organisation	Revision with reference to the following: (i) Non provision of liability towards luxury tax and interest thereon demanded by the Assistant Commissioner of Commercial Taxes for the financial years 2005-06 to 2007-08 amounting to ₹ 2.14 crore which would have effect on the assets and liabilities of the company. (ii) Non-provision and quantification of liability towards luxury tax along with interest thereon payable to Commercial Taxes Department presently not demanded by the Department for the financial year 2008-09 which would have effect on the assets and liabilities of the company. (iii) Understatement of prior period expense to the tune of ₹ 5 lakh by recognizing a prior period income of ₹ 5 lakh without obtaining confirmation from ITPO which will have effect on the profitability and also on the assets and liabilities of the company.
6.	Kumarakruppa Frontier Hotels Private Limited (2007-08)	The annual accounts had been re-approved by the Board of Directors on 25.06.2010 on the basis of audit observation as there was difference in figures of financial statements approved by the Board of Directors (BODs) and financial statements signed by the Directors on behalf on the BODs and audited and reported thereon by the statutory auditors. Accordingly the statutory auditors revised their Report.

7.	NABARD Financial Services Limited (Deemed Government Company)	Revision was made to auditors report, exhibiting the "cash flow statement of the cash flows for the year ending 31.3.2010."
8.	Sethusamudram Corporation Limited	Revision for inclusion of disclosure on Cash Flow Statement.

2.6.3 Comments of the CAG issued as supplement to the statutory auditors' reports on government Companies

Subsequent to the audit of the financial statements for the year 2009-10 by statutory auditors, the CAG 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 Disclosure

Name of the Company	Comment
HMT Limited and HMT Watches Limited	The government of India (GOI) released a plan assistance of ₹ 2 crore to HMT Limited in March 2007 for its subsidiary company viz., HMT Watches Limited for meeting capital expenditure towards establishing an Ion Plating Plant by the latter. Fifty *per cent* of the assistance was in the form of equity and balance fifty *per cent* in the form of loan. Accordingly, the Company allotted 10, 00,000 equity shares of ₹ 10 each valuing ₹ 1 crore to the GOI on 10 April 2007 and passed on the financial assistance to HMT Watches Limited. As HMT Watches Limited could not utilise the funds for the purpose for which it was sanctioned, the GOI ordered (December 2009) refund of the entire unutilized financial assistance of ₹ 2 crore. The Company refunded (February 2010) the loan of ₹ 1 Crore to GOI on behalf of HMT Watches Limited by raising a debit against the latter. As refund of balance amount of ₹ 1 crore towards equity share capital will result in reduction of paid up share capital of the Company, a clarification as to the procedure for reduction of share capital was sought by it from GOI in January 2010; reply of GOI was awaited.
Mahanagar Telephone Nigam Limited and Bharat Sanchar Nigam Limited	As per Notes to the accounts of Mahanagar Telephone Nigam Limited (MTNL), the amount recoverable from and the amount payable to Bharat Sanchar Nigam Limited (BSNL) was shown as ₹ 2,031.83 crore and ₹ 451.72 crore respectively, resulting in net recoverable amount of ₹ 1,580.11 crore from BSNL. However, as per

	approved accounts of BSNL for the year 2009-10, the amount recoverable from and the amount payable to MTNL was ₹ 3,062.72 crore and ₹ 981.73 crore, respectively, resulting in a net recoverable amount of ₹ 2,080.99 crore from Mahanagar Telephone Nigam Limited. Thus, there was a net difference of ₹ 3661.10 crore in the receivable/payable amount between these two government companies. The matter of there being a huge difference in the receivable/payable amounts between MTNL and BSNL falling under the same Ministry was brought to the notice of Management, vide CAG's comments on the accounts of MTNL, for the year ended 31st March 2005 and 31st March 2006 respectively and through a 'Management letter' on the accounts for the year 2008-09. However no action had been taken by the Management so far to reconcile the difference.

2.6.3.2 Unlisted companies

Comments on Profitability

Name of the Company	Comment
Bengal Chemicals & Pharmaceuticals Limited (2007-2008)	Loss was understated by ₹ 5.70 crore due to incorrect credit of interest on short term deposit on government of India fund received as revival package under "Extraordinary Income" instead of "Current Liabilities".
Bharat Pumps & Compressors Limited	(i) Short provision of ₹ 33.66 crore on account of arrears of wage revision with effect from 1 January 1997 resulted in overstatement of profit. (ii) Miscellaneous expenditure to the extent not written off/adjusted amounting to ₹ 1.19 crore represented the balance of the payment towards termination benefits to employees separated under Voluntary Retirement Scheme treated as deferred revenue expenditure and carried forward to accounting period 2010-11. This resulted in overstatement of profit by ₹ 1.19 crore
Brahmaputra Valley Fertilizer Corporation Limited	(i) Loss was understated by ₹ 34.67 crore due to write back of interest on government of India's loan, without its approval. (ii) Loss was understated by ₹ 1.03 crore due to non-provision for impairment of surplus inventory items as per the valuation report with corresponding overstatement of inventory to the same extent.

Fresh and Healthy Enterprises Limited	The Net Block 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 ₹ 0.62 crore. The accumulated loss of the company was also understated to the same extent.
Hindustan Steelworks Construction Limited	Loss of the Company was understated by ₹ 17.78 crore due to: (i) Non-provision of ₹ 9.79 crore against debtors as the claim of the Company was not accepted by Steel Authority of India Limited. (ii) Non-provision of liability of ₹ 7.99 crore towards estate dues (quarter rent, electricity and water charges, hospital charges, etc.) claimed by Steel Authority of India Limited for availing the above facilities by the employees of the Company.
Indian Drugs and Pharmaceuticals Limited (2008-09)	Provisions did not include ₹ 4.88 crore being interest on principal amount payable to CISF at Rishikesh Plant as demanded by CISF. This resulted in understatement of loss and liability by ₹ 4.88 crore.
Indian Renewable Energy Development Agency Limited	Provision for bad and doubtful debts included ₹ 149.30 crore towards provision in respect of sub-standard, doubtful and loss of assets which were recovered by 31 March 2010. Retention of excess provision resulted in overstatement of provision for bad and doubtful debts and understatement of profit by ₹ 149.30 crore.
National Scheduled Tribes Finance and Development Corporation	Provisions for employees did not include ₹ 0.36 crore in respect of Performance Related Pay for three financial years from 2007-08. This resulted in understatement of provisions for the employees and overstatement of excess of income over expenditure to the extent of ₹ 0.36 crore.
ONGC Videsh Limited	Provision and write offs were overstated due to non-reversal of provision of ₹ 141.47 crore made upto 31 March 2009 and an additional provision of ₹.2.59 crore made during 2009-10 for commercial proved oil reserves at Farsi Block at Iran. This resulted in overstatement of Provisions and write offs and understatement of Profit to the extent of ₹ 144.06 crore.

Other comments

Name of the Company	Comment
Indian Drugs and Pharmaceuticals Limited (2008-09)	In respect of the Grant-in-Aid received in March 1990/March 1991 from Government of India, Ministry of Science & Technology, Department of Bio-Technology (DBT) for R&D Projects, the Company was required to

	maintain a separate Bank Account for Grants, and unspent balance was to be surrendered to the Government. Any carry forward of the funds was to be with the specific approval of the National Biotechnology Board. Further Interest earned on the same was to be reported to the DBT and adjusted towards further installments to the Grants or to be refunded at the end of the project. However the Company neither refunded the unspent balance nor kept it in a separate bank account as on 31 March 2009.

2.6.3.3 Unlisted Deemed government Companies

Comment on Profitability

Name of the Company	Comment
Petronet India Limited	Expenditure was understated by ₹ 0.18 crore due to non-provision of a claim made by Bharat Petroleum Corporation Limited in respect of bonus to their staff deputed to Petronet India Limited. This resulted in corresponding understatement of Current Liabilities and Provisions and Loss for the year by the same amount.
Petronet MHB Limited	The Company had worked out extra shift depreciation based on 365 working days instead of actual number of 329 working days during the year 2009-10 and had also not considered any depreciation for 36 days on which the plant remained closed. This resulted in understatement of depreciation for the year and overstatement of net block of fixed assets by ₹ 6 crore.
The Orissa Minerals Development Company Limited	(i) Profit of the company was understated by ₹ 1.48 crore due to non-accountal of accrued interest on short-term fixed deposit at bank. (ii) Non-amortization of lease amount (Net Present Value) deposited with Divisional Forest Officer/Keonjhar resulted in over statement of profit as well as over statement of Loans and Advances to the tune of ₹ 3.63 crore.

Comment on Disclosure

Name of the Company	Comment
NTPC BHEL Power Projects Private Limited	Cash and Bank Balance included ₹ 49.60 crore on account of unutilized equity contributed by Bharat Heavy Electricals Limited and NTPC Limited. This fact was to be disclosed in compliance of Schedule VI of the Companies Act, 1956 but the Company has not disclosed the unutilised equity portion.

NTPC Tamilnadu Energy Company Limited	Foreign currency exposure not hedged by a derivative instrument or otherwise in respect of unexecuted amount of contracts remaining to be executed in US Dollar was stated as US$ 69.09 million (₹ 315.55 crore) instead of US$ 74.86 million (₹ 341.90 crore) in Notes on Accounts.

Comment on Auditors Report

Name of the Company	Comment
Bokaro Power Supply Company (Pvt.) Limited	Statutory Auditors reported that there had been understatement of income by ₹ 4.28 crore whereas it should have been understatement of income by ₹ 4.95 crore. Further the total impact of the qualification should have been: Understatement of income ₹ 4.95 crore Understatement of expenditure ₹ 5.21 crore Understatement of prior period expenditure ₹ 0.26 crore

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

2.6.3.4 Statutory corporations where CAG is the sole auditor

The significant comments issued by the CAG on the accounts of statutory corporations where CAG acts as the sole auditor are detailed below:

Airports Authority of India

An amount of ₹ 313.95 crore, consisting of ₹ 167.61 crore towards withdrawn provision in respect of interest on commencing capital loans of erstwhile National Airport Authority (NAA) for the years prior to 1991 and interest amounting to ₹ 146.34 crore received from Income Tax Department for assessment years 1997-98 to 2000-01, were not included under Miscellaneous Income but under Profit & Loss Appropriation Account which was not in line with standard accounting practices.

Food Corporation of India – Accounts for the year 2007-08

(A) The Management had carried out correction to the provisional accounts to the extent of ₹ 948.68 crore on the basis of the observations of CAG audit.

(B) Besides above, the net impact of the audit observations as contained in the Audit Report issued by the CAG is as under:-

(i) Claims receivable was understated by ₹ 68.56 crore due to non-inclusion of:

a. excess reimbursement of Hill Transport Subsidy of ₹ 67.39 crore to Government of Arunachal Pradesh and
b. claims of ₹ 1.17 crore in respect of un-authorised release of interest on market fee and rural development cess in respect of custom milled rice deliveries in Andhra Pradesh.

(ii) Claims receivable was overstated by ₹ 404.26 crore due to inclusion of:

a. transit shortages recoverable from employees - ₹ 355 crore;
b. claims of ₹ 9.52 crore which have been repudiated by Railways or the records for which are not available with the Railways;
c. recoverable from employees who have already been retired/terminated and their entire dues cleared - ₹ 2.02 crore;
d. misappropriated stock and loss of food grains due to flood pending recovery since long from State Warehousing Corporation West Bengal Region - ₹ 1.27 crore;
e. ₹ 1.45 crore against Container Inland Water Transport Limited being carried forward for the last one decade;
f. shipping claims of ₹ 1.60 crore pending realization for 19 to 33 years;
g. towards erroneous payment of double machine stitching charges to the rice millers recovery of which was stopped due to stay order - ₹ 31.77 crore;
h. on account of port demurrage for Vietnam rice and USA wheat - ₹ 1.58 crore.

(iii) Bank Balance with scheduled banks in current accounts were overstated by ₹ 159.66 crore due to non adjustment of the amount wrongly credited by bank to sugar account instead of food account.

(iv) Deposits and Other Receivables were overstated by ₹ 20.33 crore due to:
a. Non adjustment of advance of ₹ 13.65 crore paid to NIC/NICSI and Bharat Sanchar Nigam Limited for computer hardware/software
b. Amount of ₹ 6.68 crore not recoverable from Haryana Sales Tax authorities on account of excess of input tax.

(v) Current Liabilities were understated by ₹ 295.56 crore due to non-inclusion of:

a. ₹ 197.57 crore on account of revision of salary and wages for the period 01.01.2006 to 31.03.2008;
b. Unsettled claims of ₹ 96.70 crore of Government of Arunachal Pradesh on account of Hill Transport Subsidy for lifting food grains during the period 2004-05 to 2007-08;
c. ₹ 1.28 crore payable to M/s FHP Limited on account of balance of medical health scheme for employees of the corporation.

(vi) Expenditure was understated by ₹ 2.63 crore due to non-inclusion of debts considered as doubtful by the UP Region.

National Highways Authority of India

(i) Claims recoverable was understated by ₹ 59.78 crore due to

a. non-inclusion of amount recoverable from contractors

b. toll revenue short realized and negative grant recoverable from concessionaire.

Consequently, Current liabilities and Provisions were understated by ₹ 59.78 crore which was payable to the Government.

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 statutory auditor reported that 31 companies as detailed in **Appendix XI** departed from mandatory Accounting Standards. However, during course of supplementary audit, the CAG observed that the following companies had also not complied with the mandatory Accounting Standards which were not reported by their statutory auditors:

Accounting Standard		Name of the Company	Deviation
AS-3	Cash Flow Statement	North Eastern Regional Agricultural Marketing Corporation Limited	The Company did not prepare and attach the cash flow statement with the accounts.
AS-28	Impairment of Assets	Hindustan Photo Films Manufacturing Company Limited (Listed Company)	The Company failed to comply with the requirements of Accounting Standard 28. The impact of impairment could not be ascertained.

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 CAG 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 CAG 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 CAG issued 'Management Letter' to 75 companies.

2.9 Significant observations of statutory auditors on the accounts of statutory corporations/government companies

2.9.1 Statutory corporation

Significant qualifications made by the statutory auditors in their audit reports on the accounts of statutory corporation for the year 2009-10 are given below:

Sl. No.	Name of the Corporation	Auditors' qualification
1.	Central Warehousing Corporation	(i) The title deeds in respect of 74 freehold/leasehold land sites valuing ₹ 40.33 crore were pending for execution in favour of the Corporation and conveyance deeds in respect of 88 residential flats valuing ₹ 2.55 crore were also pending for execution. (ii) Out of 86 flats purchased by the Corporation at a cost of ₹ 9.32 crore in the year 1998-99 at D'Node, JNP, Mumbai only one flat was occupied.

2.9.2 Listed government companies

Significant qualifications made by the statutory auditors in their audit reports on the accounts of listed Government companies for the year 2009-10 are given below:

S.No.	Name of the Company	Auditors' qualification
1.	BEML Limited	There was overstatement of Sales to the extent of ₹ 384.22 crore and Net Profit before Tax to the extent of ₹ 66.99 crore with consequential effect on Sundry Debtors and Inventories in respect of sale of some items wherein significant risks and rewards had not been passed on to the customers on or before 31 March 2010.

2.	Bharat Immunologicals and Biologicals Corporation Limited	(i) The balances under loans and advances, sundry debtors and sundry creditors were pending for confirmation. The consequential impact of which was not ascertainable. (ii) The company did not maintain proper cost records.
3.	Eastern Investments Limited (Deemed Government Company)	(i) Depreciation on Block and Development in respect of Ondal property and Building of Sendra property was neither ascertained nor provided for in the accounts. (ii) No liability was provided in the accounts in respect of Lawrence property at Bauria which was yet to be mutated in favour of the company.
4.	Fertilizers and Chemicals Travancore Limited	Stock of gypsum was valued for the first time in 2008-09 at ₹ 203.08 crore based on the expected sales for the ensuing five years. However, the sales trend had not been achieved in 2009-10.
5.	Hindustan Cables Limited	(i) Debentures and bonds issued in earlier years became overdue for redemption due to shortfall of ₹ 43.28 crore in Redemption Reserve fund. (ii) No provisions were made in the accounts for custom duty liability of ₹ 9.26 crore and excise duty liability and interest thereon for ₹ 11.23 crore. (iii) There was under provision of ₹ 20.12 crore towards doubtful recovery of advances. (iv) No provision was made in the accounts for ₹ 32.25 crore towards payment of arrear wages and salaries.
6.	Hindustan Copper Limited	Grant-in-aid of ₹ 1.77 crore received from Government of India for reimbursement to Council of Scientific & Industrial Research, Bhubaneswar, remained undisbursed and was credited to other income. As a result profit was overstated by ₹ 1.77 crore.
7.	Hindustan Fluorocarbons Limited	The company has reported a profit of ₹ 3.06 crore after taking into account 221777.50 eligible/ Future Carbon Credits (CERs) as closing Work in process valuing ₹ 13.97 crore without getting confirmation from United Nations Framework Convention on Climate Change (UNFCCC) as required under the

		guidance note issued by ICAI (June 2009). Therefore, the profit of the company as reported by the company for the year amounting to ₹ 3.06 crore would have been converted into a Loss of ₹ 10.91 crore.
8.	Hindustan Photo Films Manufacturing Company Limited	(i) The company did not obtain insurance cover for its assets. (ii) The company could not renegotiate its borrowings from its bankers and financial institutions as it failed to comply with the terms and conditions specified in the loan agreements. (iii) The viability of the company appeared to be doubtful as the company was not in a position to recover even the variable cost in respect of products manufactured by it.
9.	ITI Limited	(i) Inventory comprised dormant stock, Work-in-progress and stock held in the course of trade for more than two years aggregating to ₹ 87.98 crore. (ii) There was short provision of ₹ 13.21 crore towards obsolescence at Naini Plant. (iii) Penalty levied for non-payment of Guarantee fee to the extent of ₹ 26.85 crore was not taken into accounts. This resulted in understatement of loss and current liabilities. (iv) There was no confirmation of deposits with Central Excise and Customs department amounting to ₹ 43.74 core.
10.	Madras Fertilizers Limited	Sundry Debtors included ₹ 1.03 crore for which no security other than the personal security of the debtor was held by the Company.

11.	Mahanagar Telephone Nigam Limited	(i)	₹ 738.67 crore being the balance in subscriber's deposit account, interest accrued thereon of ₹ 2.55 crore and unlinked receipts of ₹ 38.52 crore from subscribers were subject to reconciliation. The final impact of above on the accounts was not ascertainable and the same may have an impact on the profitability of the company.
		(ii)	During the year no reconciliation of roaming receivables has been carried out. The impact of non-reconciliation of roaming debtors on profitability was unascertainable.
		(iii)	The Bank Reconciliation Statements as at 31 March, 2010 included unmatched/unlinked credits and debits aggregating ₹ 5.61 crore and ₹ 6.92 crore respectively, which had not been properly accounted in the absence of adequate particulars. The impact of such entries on the Accounts could not be ascertained.
12.	STC Limited	(i)	The procedures of physical verification are not reasonable and adequate in relation to the size of the Company and nature of its business. The verification in case of goods like coal, wheat etc is not by actual weighment but by actual receipt and dispatch without accounting for handling losses.
		(ii)	The internal control system for the purchase of inventory and sale needs to be considerably strengthened considering the size and nature of its business.

2.9.3 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 2009-10 are given below:

S.No.	Name of the Company	Auditors' qualification
1.	Ahmedabad Vadodara Expressway Company Limited (Deemed Government Company)	(i) No accounting entry for liquidated damages of ₹ 10.88 crore was made in the books of account. (ii) Excess payment made to a contractor amounting to ₹ 2.17 crore outstanding for last several years and unilateral adjustment of ₹ 0.33 crore therefrom with another party has not been provided for.
2.	Andaman Fisheries Limited	The company had not repaid the secured term loan of ₹ 1.32 crore availed from Andaman & Nicobar Islands Integrated Development Corporation Limited together with the accumulated interest of ₹ 6.48 crore.
3.	Antrix Corporation Limited	The company had not made provision of ₹ 27.09 crore for liquidated damages for late delivery of satellites as per the terms of contracts entered into with customers resulting in overstatement of profit for the year and Reserves by ₹ 27.09 crore.
4.	Aurangabad Textile Apparel Parks Limited	Expenses relating to electricity, telephone, property tax and non-agricultural tax amounting to ₹ 18.41 lakh have been accounted for on the basis of their usage for which bills are not in the name of company.
5.	Bengal Chemicals & Pharmaceuticals Limited (2007-08)	The Plan Loan, Non-Plan Loan, Share Application money from GOI was not applied for the purpose for which they were obtained. The funds raised for long term purpose had been used for short term purpose.
6.	Bharat Gold Mines Limited	Non accounting of electrical copper wires weighing 143.547 tonnes worth approximately ₹ 5.35 crore in the stores, pending decision by the company as to its usage or disposal.
7.	Bharat Sanchar Nigam Limited	(i) The process of taking over the assets and liabilities from Department of Telecommunication (DoT) was still in progress. (ii) The titles to the various immovable 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, are subject to reconciliation in fourteen circles.

8.	Braithwaite & Co. Limited	There was under provision of ₹ 1.50 crore for old and non-moving capital work-in-progress.
9.	Broadcast Engineering Consultants India Limited	The internal audit system of the company needed to be strengthened in accordance with the size and nature of its business.
10.	Cement Corporation of India Limited	Consequent to conversion of loan to share application money, ₹ 41.75 crore were being reported as Share Capital Deposit. Allotment of share was pending for want of clarification on appropriation against specific loan.
11.	Central Coalfields Limited	The Capital Work in progress included advances and payment for Railway Siding amounting to ₹ 95.51 crore which had been appearing in the accounts since long.
12.	Cochin Port Road Company Limited (Deemed Government Company)	Internal control system of the company needed improvement to be commensurate with the size of the company and the nature of its business.
13.	Engineering Projects (India) Limited	(i) There was a scope for strengthening the internal control procedure. (ii) The scope and coverage of internal audit system required to be further enhanced to be commensurate with its size and nature of its business. (iii) The liability on account of non compliance of provisions of tax deducted at source under Income Tax Act 1961 and liability, if any in respect of Service Tax, Provident Fund, Employees State Insurance on account of associates and Sales Tax Acts of various states could not be ascertained.
14.	Hassan Managalore Rail Development Company Limited (Deemed Government Company)	(i) The capital expenditure (Fixed Assets-Project Railway) includes expenditure of ₹ 140.79 crore transferred by South Western Railways (SWR) under the Shareholders Agreement as well as assets created by SWR out of funds provided by the Company. These expenditures are accounted based on statements received from SWR and are considered provisional and subject to reconciliation. No physical verification of individual assets is carried out by the Management. (ii) The company is having an unsecured loan of ₹ 140.79 crore as Subordinate Debt from

		Ministry of Railways. The company has not made any provision in respect of its liability to Ministry of Railways towards the share of surplus attributable to the subordinate debt.
15.	HMT Bearings Limited	Undisputed statutory dues including Provident fund, Investor Education & Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and other statutory dues have not been regularly deposited during the year with the appropriate authorities.
16.	HMT Watches Limited	Machines and equipment in transit/under erection included ₹ 10.97 lakh which had not been installed and put to use. The usability and the working condition of these machines were not ascertainable.
17.	HSCC (India) Limited	There was non confirmation of sundry debtors, creditors and loans and advances, deposits and various balances on behalf of the Ministries/clients in various schedules.
18.	India Trade Promotion Organisation	(i) The bills/claims raised on debtors, advances and deposits given to various parties including CPWD and various embassies abroad were subject to confirmation from the concerned parties. (ii) The company was making defaults/delays in certain statutory compliances as a result of which liabilities of interest/penalty/additional cost may arise in future. The company however, did not make provision of the effects of such additional cost.
19.	Industrial Investment Bank of India Limited	(i) No provision was made in respect of amount of ₹ 70.08 lakh payable to IDBI against a counter guarantee given by the company on behalf of a liquidated assisted unit. (ii) The company had not serviced its obligations/ liabilities to its various bond holders since December 2009 which amounted to ₹ 26.64 crore inclusive of principal amount of ₹ 5 crore. (iii) Investments aggregating to ₹ 47.61 crore were not verified due to non-availability of scripts.
20.	Karnataka Antibiotics & Pharmaceuticals Limited	The net sundry debtors included receivables from the Government of Madhya Pradesh aggregating ₹ 22.16 crore which were overdue. Against this, the company had a corresponding net payable of ₹ 15.73 crore to the vendor on a back to back arrangement, resulting in

		a net exposure of ₹ 6.43 crore against which no provision had been made.
21.	Karnataka Meat and Poultry Marketing Corporation Limited	(i) The company had handed over the slaughter houses run by it to Bruhat Bangalore Mahanagara Palika pursuant to the orders of the Government of Karnataka. By virtue of this act, the Company had no gainful operations to carry on in future and hence it was no longer a going concern. (ii) Out of 57 acres and 27 guntas of lease hold land for which possession was taken by the company an area of approx. 32 acres and 32 guntas had been encroached upon.
22.	Moradabad Toll Road Company Limited (Deemed Government Company)	In the absence of details and confirmation of balances, the credit balance of ₹ 2.25 crore of creditors (Contractors and Consultants) could not be verified.
23.	National Buildings Construction Corporation Limited	(i) Balances of Debtors, Creditors and loans and advances were subject to confirmation (ii) The internal audit of the company needed further improvement commensurate with the size of the company and the nature of its business.
24.	National Informatics Centre Services Incorporated	(i) Confirmation of balance outstanding against debtors/advance from customers/creditors/ suppliers/contractors/other parties was not received in most cases. (ii) The terms and conditions of grants were not followed in many of the projects of Department of Information Technology. (iii) The company did not refund unspent balance of customers/users and was also earning interest on these funds. (iv) The system of internal control needs to be further strengthened with regard to purchase of goods, stores and equipment. (v) There was no proper internal control on vehicle facilities provided to Consultants/NIC staff/NICSI staff. (vi) The procedure for determination of unserviceable/obsolete items of purchase/stores needs to be improved.

		(vii) The Internal Audit system needed improvement. (viii) In case of foreign travelling neither any system was followed for getting prior approval of the Ministry nor for placing the tour report before the Board of Directors in their periodical meeting. (ix) The system of physical verification of fixed assets needed improvement.
25.	New Mangalore Port Road Company (Deemed Government Company)	According to the policy of the company, Miscellaneous Expenditure will be amortized over a period of five years on commissioning of the project and commencement of commercial activities. This is in contravention of the Accounting Standard 26, issued by ICAI and clause 56 of Companies (Accounting Standard) Rules, 2006 which state that the expenditure which is incurred to provide future economic benefit to an enterprise, but does not create any Intangible Asset, should be treated as an expense when it is incurred. Thus, Company has contravened the compliance of above said Accounting Standard 26 and Companies (Accounting Standard) Rules, 2006.
26.	North Eastern Handicrafts and Handlooms Development Corporation Limited	(i) No provision was made in the accounts for damaged stores of ₹ 15.25 lakh and partially damaged stores of ₹ 1.32 lakh. (ii) No provision was made in the accounts for interest of ₹ 34.83 crore on loan from GOI. (iii) No provision was made in the accounts for old outstanding debtors of ₹ 9.99 lakh.
27.	North Eastern Regional Agricultural Marketing Corporation Limited	(i) Profit was overstated by ₹ 51.69 lakh due to non-provision of interest liability on unsecured loans. (ii) No provision was made for old outstanding Sundry Debtors of ₹ 72.11 lakh resulting in understatement of loss for the year.
28.	Northern Coalfields Limited	In accordance with the government directives, the assets and liabilities of Singarauli division of Central Coalfields Limited as on 01.04.1986 were taken over at Net Value by the Company. The legal formalities for transfer of such assets and liabilities to the company were yet to be completed.

29.	ONGC Videsh Limited	Loans and advances included unamortized financial charges on commercial papers amounting to ₹ 26.76 crore resulting in overstatement of loans and advances and understatement of miscellaneous expenditures to the extent not yet written off / adjusted to that extent.
30.	PEC Limited	(i) The method of determining the cost for the purposes of valuation of closing stock of pulses is not in accordance with AS-2. (ii) The procedures of physical verification was not commensurate with the size of the company and nature of its business which requires to be strengthened. (iii) Separate internal audit department was required with audit manual and guidelines.
31.	Rubber Park India Private Limited (Deemed Government Company)	No provision for ₹ 53.48 lakh towards additional claims on leasehold land decreed by the court against the Company was made.
32.	Security Printing & Minting Corporation of India Limited	No payment had been made towards employer's contribution of Provident Fund.
33.	Tamil Nadu Trade Promotion Organisation	Balances due to/from various parties including deposits and advances at the year end were subject to confirmation.
34.	The Jute Corporation of India Limited	(i) Liability on account of Raw Jute Buffer Stock Scheme for ₹ 3.74 crore was pending for adjustment for a long time. (ii) Provision of ₹ 1.32 crore relating to sales tax net of advance could not be verified.
35.	The New India Assurance Company Limited	Internal Audit System required substantial strengthening in the areas of audit coverage and compliances.
36.	Tuticorin Port Road Company Limited (Deemed Government Company)	Non confirmation of credit of ₹ 2.06 crore by its parent company (National Highways Authority of India).
37.	Tyre Corporation of India Limited	(i) Effects of ₹ 26.67 lakh on account of increase in authorized capital, allotment of shares and of reduction of issued and subscribed capital (sanctioned by BIFR) was not shown in the Balance Sheet. (ii) No provision was made in the accounts for interest and penalty on delayed payment of

		income tax, professional tax and other statutory dues. (iii) Delayed payment of interest of ₹ 71 lakh towards Family Pension Scheme. (iv) Conversion of sales tax liability of ₹ 52.60 lakh to term loan (sanctioned by BIFR) was not made in the accounts and corresponding liability for interest thereon for ₹ 3.55 lakh was also not provided.

2.9.4 Observations reported by the statutory auditors in compliance with directions issued by the CAG 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 did not have an efficient system for monitoring and adjusting advances to contractor/ suppliers.

Andaman & Nicobar Islands Integrated Development Corporation Limited

❖ The company did not maintain any cost accounts.

Braithwaite and Company Limited

❖ The company did not have an efficient system for monitoring and adjusting advances to contractors/ suppliers.

Cement Corporation of India Limited

❖ The company has not prescribed the minimum and maximum level of stores and spares and Economic Order Quantity for procurement of stores.

❖ There was no system of identifying the non- moving, slow moving and surplus stock at year end therefore no provision is created in this regard in the books of accounts.

Eastern Coalfields Limited

- There was no system of prescribing maximum, minimum limit and Economic Order Quantity for management of stores. Adequate monitoring is required for reconciliation between bin card with physical stock and stores ledger. The company did not adopt ABC analysis to control the inventory.

Tyre Corporation of India Limited

- The company had no clear credit policy, policy for providing doubtful debts, write offs and liquidated damages.

2.9.4.2 Business risk

National Seeds Corporation Limited

- The company was dependent on the subsidy from the government. The production and distribution subsidy claimed on purchases and sales made during the financial year amounted to ₹ 58.04 crore and ₹109.72 crore respectively. Profit before tax of ₹ 79.84 crore during financial year 2009-10 was not even half of the total revenue subsidy claimed from government. The company had already taken unsecured short term loan of ₹ 85 crore from different banks pending realization of the amount due from government and other debtors which had resulted in interest burden of ₹ 3.57 crore during the financial year 2009-10 compared to ₹ 66.50 lakh during 2008-09. The company had also taken total debt funds to the tune of ₹ 93.6 crore without concentrating on the realization from debtors which can probably impact the short term as well as long term solvency of the company. The delay in realization from debtors can impact the profitability of the company due to increased interest burden. Any change in the government policy regarding subsidy would affect the pricing competitiveness of the company and can reasonably be expected to impair the financial stability and profitability of entity.

2.9.4.3 System of accounts and financial control

Andaman & Nicobar Islands Forest & Plantation Development Corporation Limited

- Loan obtained from the Ministry of Environment for ₹ 69.83 crore as principal remained outstanding on which interest of ₹ 30.96 crore and penal interest of ₹ 4.22 crore were also accumulated.

Antrix Corporation Limited

- The Company does not have a system of monitoring and adjusting advances to contracts/suppliers.

- Abnormal delays were noticed in settling issues viz., performance guarantee and recovery of liquidated damages. There were instances where performance guarantee had expired although the contractual obligations of the vendors were pending. Test checks revealed that liquidated damage clause was not enforced for supplies beyond the due dates of delivery.

Bharat Sanchar Nigam Limited

- The methodology of allocation of overheads to Work in Progress was not being followed uniformly in some circles resulting into irrational booking of the expenditure under capital head.

Broadcast Engineering Consultants India Limited

- The delegation of financial powers should be redefined keeping in view the nature and size of operation of the company.

- The system of recording, procurement and disposal of stores needs to be strengthened.

- The balances appearing under Debtors, Creditors, Loans, Advances and Securities are subject to confirmation.

- The company needs to intensify its system of recovery of dues specially relating to debts outstanding for more than 6 months.

- The internal control system needed to be strengthened with regard to purchase and consumption of stores.

Coal India Limited

- Though there is a system of monitoring recovery of dues, the same was not implemented as a result an amount of ₹ 10.72 crore was outstanding for long.

- The company enjoys cash credit limit of ₹ 550 crore with banks but the same remained under utilized resulting in additional cost burden by way of commitment charges

Eastern Coalfields Limited

- The efforts for recovery of dues from public sector units needed more vigorous persuasion. The advances made to various parties as well as the large credit balances in customers' accounts remaining unadjusted for a long period needed special attention for recovery and adjustment.

EDCIL (India) Limited

- The system of monitoring and timely recovery of outstanding dues from the debtors needed strengthening.

Electronics Corporation of India

- The company does not have an accounting manual detailing the uniform accounting procedure to be followed for various items of expenditure and income both revenue and capital.

Hindustan Salts Limited

- The system of recovery of advances and debtors; confirmation and reconciliation of balances in respect of various old outstanding debtors and creditors, needed to be strengthened.

Housing & Urban Development Corporation Limited

- The Financial Accounting module and Loan Accounting module based on Oracle were yet to be integrated.

KIOCL Limited (Listed Company)

- Norms for transit losses in respect of Coke and Iron Ore were not fixed.

Mahanagar Telephone Nigam Limited (Listed Company)

- Loss on account of unusable instruments was not ascertained and provided for.

Maharashtra Elektrosmelt Limited (Listed Company)

- There is no defined policy for making provision for old doubtful debts and loans and advances.

National Handicapped Finance & Development Corporation Limited

- The loan register and the general ledgers were not reconciled till date.

- The accounts of the Corporation continue to be maintained manually although parallel run software "TALLY" is in vogue, resulting in duplication of efforts.

National Seeds Corporation Limited

- Inspite of having a system of monitoring the recovery, huge amount were outstanding for a period exceeding three years.

National Small Industries Corporation Limited

- Policy regarding provisions for doubtful debts and advances needed to be examined. The exact quantum of doubtful debts and advances could not be quantified exactly.

North Eastern Handicrafts and Handlooms Development Corporation Limited

- Interest of ₹ 38.19 crore was not provided for in the books of accounts.

- Internal control for accounting system was not proper.

Northern Coalfields Limited

- The Management had not fixed maximum and minimum limits of stores and spares or determined Economic Order Quantity for procurement of Stores etc.

- Internal control system needs to be strengthened

Security Printing & Minting Corporation of India Limited

- There was no documented mechanism to review trial balance on periodical basis by management. Rectification/Adjustment entries were passed at some units and HO during the course of statutory audit.

- There was substantial delay in accounting of inward material due to delay in processing of Good Receipt Vouchers.

- In case of ISP Nashik, although an inventory module was being used, the control over daily stock level, receipts, issues, consumption, wastages and rejections were on manual platform leading to various corrections.

- At unit level, coordination between accounts and other departments should be improved for periodical review and reconciliation with financial data.

- Only authorized senior official should be given the power to delete/modify data.

- In case of IGM Hyderabad, plant and machinery which was not in use for several years with book value of ₹ 24.28 crore was indentified. In case of ISP Nashik, hospital equipments purchased in 2001-02 for ₹ 28 lakh were not put to use ever since its acquisition.

- In case of ISP Nashik deficiencies in monitoring and adjustment of advances for work/contract awarded to CPWD was reported.

The New India Assurance Company Limited

❖ Internal control for reconciliation of reinsurance balances in Reinsurance Department needed to be strengthened.

2.9.4.4 Assets (Including Inventory)

Bharat Heavy Electricals Limited (Listed Company)

❖ Items valued at ₹. 4.98 crore remained in work- in- progress since long time.

❖ Material lying unused for last 3 years valued ₹. 64.88 crore, ₹.16.72 crore, ₹.11.25 crore and ₹.8.21 crore, in Trichy, HEEP, Haridwar, Hyderabad and Jhansi respectively.

Container Corporation of India Limited (Listed Company)

❖ Two items valued at ₹ 6.11 crore (for Road over Bridge at Dadri) and ₹ 92 lakh (for extension of siding at Ankleshwar) were pending in Work in Progress since April' 2007 and February' 2008, respectively.

❖ The method of recognizing the obsolete/ unserviceable items needed improvement as stores inventory worth ₹ 2.16 crore was lying unutilized for a period of over 3 years.

Mahanadi Coal Fields Limited

❖ Steps have to be taken for installation of plant and machineries lying for installation for more than 3 years.

❖ ABC analysis was not adopted by the company to control the inventory.

❖ Physical verification of Civil Capital works in progress and discarded/surveyed off Assets should be carried out by the management at regular interval.

Maharashtra Elektrosmelt Limited (Listed Company)

❖ The capital work in progress included following items of Plant and Machinery lying in factory and not erected/installed/put into use for long time.

Particulars	Amount (₹ in lakh)	Period of pendency
Ferro Alloy Plant	74.89	2005-06
Consultancy charges for various projects	13.78	2007-08
For various projects	265.33	2008-09
Electrification of Railway siding	98.64	2007-08

Mazagon Dock Limited

- There was a need to strengthen the control procedures over stores.

- The Company needs to strengthen the process of physical verification of fixed assets.

PEC Limited

- Separate records are to be maintained in respect of inventories lying with the third parties.

2.9.4.5 Internal Audit System

Dredging Corporation of India Limited (Listed Company)

- The compliance mechanism on internal audit observations needs to be strengthened and should be made time bound.

Karnataka Trade Promotion Organisation

- The company had appointed a firm of chartered accountants as internal auditors which was reporting to the Managing Director and not to the Board of Directors.

The Central Cottage Industries Corporation of India Limited

- In case of sales order placed through website, goods were taken out of the showroom for delivery to the customers without proper documentation.

2.9.4.6 EDP audit

Antrix Corporation Limited

- The company does not have an approved IT strategy or plan.

- The company did not have a security policy for data/software/hardware.

- The system of proper documentation of software programmes was not in existence.

Bharat Heavy Plates and Vessels Limited

- Inventory accounting in the area of bills needs some further checks to ensure that proper records are maintained. It is also necessary to build adequate checks in the areas like material in transit and advances.

Bharat Sanchar Nigam Limited

❖ There was no laid down policy for keeping periodical data backup and there was no storage facility for storing data backup.

Container Corporation of India Limited (Listed Company)

❖ The following in-built checks in software systems of the company need to be developed:
  - Procedure as to day closing, month closing, quarterly closing and annual closing of accounts in various software need to be streamlined.
  - Process of data conversion from operations based ETMS (Exim Terminal Management System)/ DTMS (Domestic Terminal Management System) packages, to oracle finance need to be reviewed so that automatic interface is established so as to facilitate cross checks and minimize the chances of manual errors. Presently, the data generated from the revenue software is manually punched in the financial package.

❖ Periodical system audit by an independent agency needs to be carried out.

❖ The Regional Offices were unable to extract details beyond 45 days from the DTMS package, and are not having any document retention policy. Further, it is not possible to extract yearly party wise account showing all transactions carried out with the parties.

Indian Railway Catering and Tourism Corporation Limited

❖ The company does not have any approved IT strategy or plan.

❖ The company has not evolved any security policy for software/hardware, even though its operations have increased considerably.

❖ The company has no document retention policy.

❖ The ERP Software needs to be customized to gain maximum advantage for the company.

Konkan Railway Corporation Limited

❖ The EDP system of the Company did not generate agewise analysis of the receivables and payables.

Mahanadi Coalfields Limited

❖ The Company has failed to implement Coalnet application programme in a time bound manner. There is an urgent and pressing need to augment IT resources considering the size of operation of the company.

- ❖ Information System Audit of the Company has not been done to test the implementation of the security policy. The security policy is not reviewed and updated periodically. Several measures such as firewall installation, strengthening pass word construction rule and increasing the password length, disabling ID after a number of failed login attempts, disabling ID after a fixed period of inactivity, data retention and security policy, employees training, COB plan and Disaster recovery facility and many such issues needs to be addressed on priority basis.

- ❖ Built-in-checks in the computer environment, physical and logical access controls are poor and need to be reviewed and strengthened.

Mahanagar Telephone Nigam Limited (Listed Company)

- ❖ No EDP Audit system is in existence. There is an urgent need for undertaking such audit at the earliest in order to ensure the correctness of the outputs generated by the system. (XV 2)

National Backward Classes Finance and Development Corporation Limited

- ❖ The corporation has no formal IT strategy plan.

- ❖ The corporation needs to strengthen its security policy in the areas of installing security firewall, timely backup of data and ensuring its safe storage etc.

- ❖ The company does not have any system for documentation of software programs.

National Safai Karamchari Finance & Development Corporation

- ❖ The corporation does not have any approved IT strategy or plan.

- ❖ The company does not have any system for documentation of software programs.

Railtel Corporation of India Limited

- ❖ The Tally software used by in the company does not have audit trails.

- ❖ In current accounting software (particularly in Southern Region), original entries are replaced by rectification entries, without keeping any evidence. There is a need to install built-in checks in the computer environment to incorporate additional controls to ensure that all entries passed are recorded as additional entries, and that evidence or audit trail exists.

Rail Vikas Nigam Limited

- ❖ The Company does not have any approved IT strategy or plan.

- ❖ The company has not evolved proper security policy for software and hardware.

United India Insurance Company Limited

- The Company had no security policy for its software and hardware.

2.9.4.7 Fraud and risk

Railtel Corporation of India Limited

- No report was submitted to the Board by the vigilance wing.

2.9.4.8 Award and execution of contracts

Mahanadi Coalfields Limited

- The system for monitoring and adjusting advance to contractors / suppliers needs to be strengthened.

National High Power Test Laboratory Private Limited (Deemed government company)

- The Company has not devised proper system of tendering for awarding of various contracts.
- The Company does not have an effective system of monitoring and adjusting advances to contractors/ suppliers.

National Small Industries Corporation Limited

- Area of drafting of agreement and timing of release of advance, system for monitoring and adjusting advances to contractors/suppliers needs to be strengthened.

2.9.4.9 Investments

National Handicapped Finance & Development Corporation Limited

- The Company did not lay down any investment policy, and the surplus funds are lying in Saving Account.

National Informatics Centre Services Incorporated

- Number of cases had come to notice where investment decisions were not taken correctly by assessing the funds availability for short-term and long-term. It was observed that long term high interest bearing FD's have been prematurely encashed to meet short term requirements of funds.

2.9.4.10 Other issues

Dedicated Freight Corridor Corporation of India Limited

- ₹ 9.50 crore shown as recoverable from Ministry of Railway on account of land acquisition expense was to be confirmed by the Ministry.

Housing & Urban Development Corporation Limited

- The Company charged ₹ 1,136.90 crore towards interest in respect of two loans as against ₹ 1,135.90 crore shown by the agencies. The difference of ₹ 1 crore was yet to be reconciled.

National Minorities Development & Finance Corporation Limited

- No record of scheme-wise sanction of the loan was maintained by the company, hence the possibility of sanctioning a loan more than once for the same scheme cannot be ruled out.

- The system of monitoring the utilization of advances by the State Channelising Agencies is not foolproof, hence the chances of using the sanctioned advances, by them to repay the interest and principal dues, or diversion for some other purpose cannot be ruled out.

National Safai Karamchari Finance & Development Corporation

- There was no budgetary mechanism existing in the company.

- The Company was neither having state government guarantee nor had any letter of assurance in respect of a term loan of ₹ 0.67 crore granted to the State Channelising Agencies of Assam and Orissa.

National Scheduled Tribes Finance and Development Corporation

- No penal interest was charged on the sum of ₹ 48.49 crore lying unutilized with various State Channelising Agencies.

RITES Limited

- Interest clause was not mentioned in the agreements with the result no interest was collected on delayed recoveries.

2.9.4.11 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 34 Government companies as detailed in **Appendix-XII.**

2.10 Internal control over financial reporting

Internal control is the process designed and implemented by those charged with governance and 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 checking 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 CAG 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 and lack of monitoring the recovery of outstanding dues in the government companies including deemed government companies are given below:

Table 15

Sl. No.	Area of Deficiency	Number of companies
1.	Fixed Assets	2
2.	Internal Procedures and Operational Efficiency	12
3.	Debtors	3
4.	Inventory	20
5.	Internal Audit	23

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