CHAPTER 2

Oversight Role of CAG

2.1 Audit of Public Sector Enterprises

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 these 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. In addition to supplementary/test audit, CAG conducts performance audit of specific topics and sectors.

2.2. Appointment of statutory auditors of Public Sector Enterprises by CAG

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 Enterprises (CPSEs) 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., so that the credentials 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 CPSEs for the year 2013-14

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.

Statutory auditors of Companies for the year 2013-14 were appointed during July/August 2013.

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. CPSEs have the option of getting the QFR done by the statutory auditors of the company.

In order to facilitate timely compliance with the provisions mentioned above, statutory auditors for the government companies, including deemed government companies were appointed by the CAG for conducting the audit of accounts for the year 2013-14 during July/August 2013.

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

- an officer or employee of the company or their partner or employee;
- a person who is indebted to the company; and
- 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.

Independence of Auditors

- Restriction on acceptance of non-audit assignments
- Rotation of auditors every four years

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

[*] *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*.

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 CPSEs every four years has been adopted as a good practice.

2.3 Arrears of accounts of CPSEs

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 utilization 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 in the Audit Reports by the CAG. The matter was also raised with the Ministry of Corporate Affairs, Government of India 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 2011.

However, audit noticed that 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 CPSEs were pending as detailed in the following paragraph.

2.3.2 Timeliness in preparation of accounts by government companies and deemed government companies

Out of 538 companies, accounts of 76 companies were in arrears.

As of 31 March 2014, there were 377 government companies and 161 deemed government companies in the purview of CAG's audit. Of these, accounts for the year 2013-14 were due from 377 government companies and 161 deemed government companies. A total of 325 government companies and 137 deemed government companies submitted their accounts for audit by CAG on or before 30 September 2014. **Accounts of 52 government companies and 24 deemed government companies were in arrears for different reasons.**

Details of arrears in accounts of central government companies are as below:

Particulars		Central government companies where CAG conducts supplementary audit					
		Government companies		**Deemed government companies**		**Total**	
		377		**161**		**538**	
		Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Number as on 31.03.2014		**51**	**326**	**8**	**153**	**59**	**479**
Less: New companies from which accounts for 2013-14 were not due		-	-	-	-	-	-
Companies from which accounts for 2013-14 were due		**51**	**326**	**8**	**153**	**59**	**479**
Companies which presented the accounts for CAG's audit by 30 September 2014		**51**	**274**	**8**	**129**	**59**	**403**
Accounts not submitted		-	-	-	-	-	-
Accounts in Arrears		**0**	**52**	**0**	**24**	**0**	**76**
Break-up of Arrears	(i) Under Liquidation	**0**	**23**	**0**	**8**	**0**	**31**
	(ii) Defunct	**0**	**3**	**0**	**6**	**0**	**9**
	(iii) Others	**0**	**26**	**0**	**10**	**0**	**36**
Age–wise Analysis of the arrears against 'Others' category	One year (2013-14)	**0**	**21**	**0**	**6**	**0**	**27**
	Two years (2012-13 and 2013-14)	**0**	**3**	**0**	**1**	**0**	**4**
	Three years and more	**0**	**2**	**0**	**3**	**0**	**5**

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

The delay in presentation of the accounts for CAG's audit amounted to dilution of Parliamentary Control over management of public money invested in these entities and violation of statutory provisions.

2.3.3 Timeliness in preparation of accounts by Statutory Corporations

Audit of six statutory corporations is conducted by the CAG. Of the five statutory corporations where CAG is the sole auditor, in case of four viz. Airports Authority of India, Damodar Valley Corporation, Inland Waterways Authority of India and National Highways Authority of India, the accounts for the year 2013-14 were presented for audit in time. The accounts of Food Corporation of India for the year 2013-14 were awaited as on 30 September 2014. In case of Central Warehousing Corporation, CAG conducts supplementary audit and the accounts were received in time.

2.4 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 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 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 audited organisation, and**
- **to supplement or comment upon the statutory auditor's report under Section 619(4) of the Companies Act, 1956.**

2.4.3 Criteria for selection of CPSEs for annual accounts audit

In order to reduce the time to carry out supplementary audit of the annual accounts of CPSEs, CAG has stipulated 42 days to complete the process of supplementary audits. CAG revised the criteria for selection of CPSEs to focus more on important issues and to use the Audit resources optimally. As per the criteria, supplementary audit by the CAG is to be conducted annually in respect of those CPSEs which has turnover of ₹ 5000 crore or more or has paid up capital of ₹ 500 crore or more. All other CPSEs are to be selected for audit based on the risk assessment subject to the condition that these are audited at least once in five years.

2.4.4 Three Phase Audit of annual accounts of selected CPSEs

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.

> **Three Phase Audit**
> An intensified, innovative, focused and result oriented approach to financial audit introduced by CAG to improve the quality of financial statements of CPSEs.

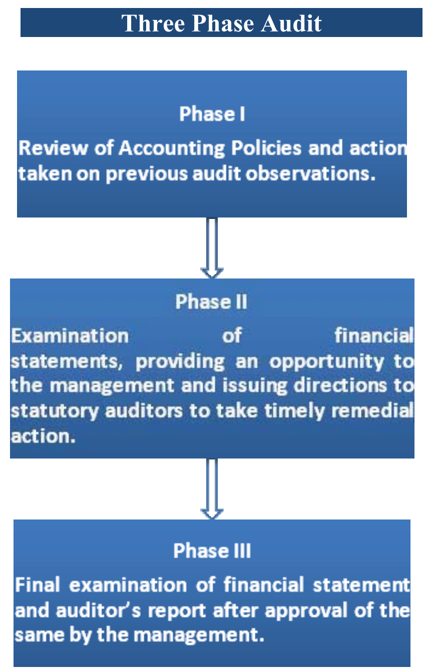
The statutory auditors appointed by the CAG under section 619(2) of the Companies Act, 1956 are responsible for expressing an opinion on the financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the Standard Auditing Practices of ICAI and directions 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 the 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 selected CPSEs 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 CPSEs.**
- **To identify and highlight errors, omissions, non-compliance etc., before the approval of the financial statements by the management of the CPSEs and provide an opportunity to the statutory auditors and the managements of the CPSEs to examine such issues for taking timely remedial action.**
- **To reduce the time of CAG's audit after the approval of financial statements by the management of the CPSEs.**



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

The new audit approach was appreciated by both management of various CPSEs who opted for it and the statutory auditors concerned. 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 the same as used to be conducted earlier.

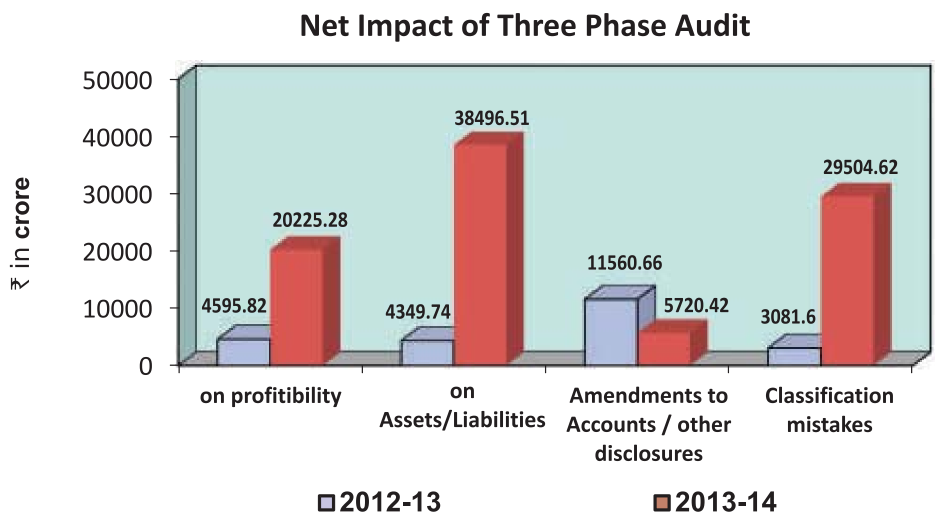
2.5 Result of CAG's oversight role

2.5.1 Impact of Three Phase Audit

As a result of Three Phase Audit conducted in 74 CPSEs, a number of quantitative as well as

qualitative changes were made by the CPSEs 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 these CPSEs for the year 2013-14 as compared to the previous year is depicted in the following graph:



CPSEs where major value addition was made are listed below:

Sr. No.	Name of the CPSE
1.	Eastern Coalfields Limited
2.	Gail (India) Limited
3.	General Insurance Corporation of India
4.	Hindustan Aeronautics Limited
5.	Indian Oil Corporation Limited
6.	NHPC Limited
7.	Northern Coalfields Limited
8.	NTPC Limited
9.	Oil and Natural Gas Corporation Limited
10.	Oil India Limited
11.	ONGC Videsh Limited
12.	Power Finance Corporation Limited
13.	Power Grid Corporation of India Limited
14.	SJVN Limited
15.	Steel Authority of India Limited

2.5.2 Audit of accounts of government companies and deemed government companies under Section 619 of the Companies Act, 1956

CAG reviewed accounts of 292 companies and five statutory corporations for the year 2013-14.

Financial statements for the year 2013-14 were received from 325 government companies, 137 deemed government companies and five statutory corporations by 30 September 2014. Of these based on risk assessment, accounts of 224 government companies and 68 deemed government companies and five statutory corporations were reviewed in audit by the CAG.

In sum, CAG reviewed accounts of 69 *per cent* of the government companies and 50 *per cent* of deemed government companies out of the accounts received upto 30 September 2014, based on risk assessment carried out by the principal audit offices keeping in view the prescribed criteria as at para 2.4.3 above.

Revision of Auditors' report:

As a result of supplementary audit of the accounts for the year ended 31 March 2014 conducted by the CAG, the statutory auditors of eight government companies (including two listed Government Companies) revised their report. The significant revisions in the auditors' report are indicated in the following table:

Statutory auditors of eight Companies revised their Report after the supplementary audit by CAG.

Sl.No	Name of the Company	Nature of Revision
1.	BEL Optronics Devices Limited	Changed format of report to include modified opinion and Emphasis of Matter to conform to SA-705 and SA-706.
2.	Bhartiya Rail Bijlee Company Limited	Report revised to incorporate correct amount of disputed dues in respect of wealth tax, service tax, income tax, custom duty, excise duty and cess that had not been deposited with the appropriate authority.
3.	Central Registry Of Securitization Asset Reconstruction and Security Interest of India	Revised Report was submitted in the new format as per revised SA-700.
4.	Heavy Engineering Corporation Limited	As per requirement of SA-700 (Revised), information regarding Cash Flow Statement was included in item No. 2(d) of Report.
5.	Madras Fertilizer Limited	Report revised to include: (i) Reference to section 274(1) (g) of the Companies Act, 1956. (ii) The fact that the statutory dues in respect of sales tax, income tax, provident fund contribution had been regularly deposited. (iii) The fact that accumulated loss exceeded 50 *per cent* of net worth.
6.	Nabinagar Power Generating Company Limited	Report revised to incorporate corrections relating to amount of disputed income tax.
7.	Nellore Transmission Limited	Report revised to present the correct applicable undisputed statutory dues which were deposited with the appropriate authorities.
8.	Rural Electrification Limited	Report was revised to: (i) Delete the word 'Consolidated' from the para on Auditor's Responsibility Report. (ii) Delete the comment on section 227(13) (g) of the Companies Act, 1956 under 'Report on other Legal and Regulatory Requirements'.

		(iii) Bring clarity regarding physical verification of fixed assets. (iv) Include correct amount of disputed tax liabilities.

2.5.3 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 2013-14 by statutory auditors, the CAG conducted supplementary audit and the significant comments issued on accounts of government companies are as detailed below:

❖ **Listed companies**

Comment on Profitability

Name of the Company	Comment
IFCI Limited	Bad and doubtful assets had not been provided in accordance with RBI guidelines (July 2013) applicable to NBFCs, in respect of loan given to Pipavav Marine and Offshore Limited, despite inadequate security cover against the loan, poor past track record of the group in dealing with IFCI and meagre paid up capital of the newly incorporated borrower Company.
Mahanagar Telephone Nigam Limited	• Administrative, Operative and Other Expenses did not include demand for ₹ 1887.70 million raised by the Department of Telecommunication (DoT) (July 2013) towards Provisional Assessment of License fee dues for the period from 2006-07 to 2009-10. • Exceptional Items included an amount of ₹ 1738.10 million to be paid to the GOI on account of interest for delayed payment of leave salary and pension contribution for the period from 1 April 1986 to 30 September 2000, which was not paid by the Company.
National Buildings Construction Corporation Limited	Other Operating Revenue was overstated on account of (i) recognition of interest on mobilization advance recoverable from contractors in respect of East Kidwai Nagar project being executed on behalf of Ministry of Urban Development, in contravention of Escrow Agreement - ₹ 6.84 crore. (ii) Interest on mobilization advance recoverable from the contractor for CRPF works - ₹ 0.17 crore.

Comment on Financial Position

Name of the Company	Comment
ITI Limited	Short Term Loans and Advances was overstated by ₹ 16.90 crore due to inclusion of amount recoverable from M/s HCL Infosystems Limited (HCL) as 'conditional reimbursement' as per the agreement between the Company and HCL. The conditional reimbursement was to be paid by HCL in case orders were placed by the Company. Since the

	Company had not placed any order, accounting for income based on agreement was not correct.
MMTC Limited	• Non-Current Investments included an amount of ₹ 33.80 crore being 26 *per cent* equity investment in joint venture Sical Iron Ore Terminal Limited (SIOTL). Due to restrictions imposed in view of Supreme Court decision on mining, transportation and export of iron ore, the project completed in November 2010 could not commence commercial operation. The SIOTL in its books had not capitalised the above project, resultantly, all administrative costs and financing costs after November 2010 were still being booked to Capital Works in Progress (CWIP) and no depreciation was being provided for. Had these costs been transferred to Profit & Loss Account the net worth of the SIOTL would have completely eroded by 2013-14. • Short Term Loans and Advances were overstated by ₹ 19.29 crore (including ₹ 2.74 crore deducted towards interest on excess payment made by GOI) being the claims recoverable on account of import of pulses under 15 *per cent* scheme of GOI, which had been disallowed by the Ministry of Consumer Affairs.
Steel Authority of India Limited	• The management had reported commissioning of the Bettiah SPU; the Board Committee was also informed that some of the major packages of IISCO Steel Plant were commissioned. It was, however, noted that Bettiah SPU was not capitalised and the dates of the capitalisation of IISCO plant and machinery in the accounts of the Company were at variance with the dates reported about commissioning to the Board. As such, the correctness of dates of capitalization and consequently the depreciation charged could not be verified. • Inventories included ₹ 51.95 crore being the value of estimated 8,688 tonne of extractable skull from the LD slag at Salem Steel Plant (SSP). Valuation of skull was not justified because slag as such was not a saleable inventory. Since there was no physical existence of skull stock of 8,688 tonne in hand at SSP as on 31 March 2014, it could not be considered as inventory.
The State Trading Corporation of India Limited	Trade Receivables included ₹ 1468.14 crore recoverable from GSPI/GSHL on account of steel slabs exported during the period 2008 – 2010. Considering the rate of recovery, even after conciliation agreement dated 15 November 2011 and further settlement agreement dated 17 May 2012 for payment of entire dues, lack of adequate security and age of outstanding dues, the possibility of recovery of outstanding dues was unascertainable.

Comments on Disclosure

Name of the Company	Comment
Mahanagar Telephone Nigam Limited	• The Cabinet approved (January 2014) the refund of ₹ 45339.70 million representing one time BWA spectrum fee paid to DoT in 2010 and allowed the Company, to raise bonds worth ₹ 45339.70 million with sovereign guarantee to be provided by GOI without guarantee fee and with repayment of bonds and interest being the responsibility of the GOI. The Company requested the DoT for sovereign guarantee for ₹ 45339.70 million for issuance of bonds. However, the Department of Economic Affairs approved the sovereign guarantee for bonds of ₹ 10000 million only. Against this, the Company could issue bonds (3A-2014 series) for an amount of ₹ 7650 million only in 2013-14. The fact that Debentures 3A series valued ₹ 7650 million were issued in lieu of refund of onetime BWA spectrum fee by the DoT had not been disclosed. • For the year 2013-14, the amount recoverable from and the amount payable to Bharat Sanchar Nigam Limited (BSNL) was ₹ 41860.40 million and ₹ 18282.54 million respectively resulting in net recoverable amount of ₹ 23577.86 million from BSNL. However, as per annual accounts of BSNL for the year 2013-14, the amount recoverable from and payable to the Company was ₹ 35179.52 million and ₹ 9960.15 million respectively resulting in a recoverable amount of ₹ 25219.37 million from the Company. Thus, there was a net difference of ₹ 48797.23 million in the receivable/payable amounts between these two government companies under the same Ministry. Similar comment was raised on accounts of the Company for the year 2012-13 also. However, there was no change in the status of un-reconciled balances between the Company and BSNL.

❖ **Unlisted companies**

Comment on Profitability

Name of the Company	Comment
Bharat Sanchar Nigam Limited	• License and spectrum fee did not include ₹ 1428.62 crore towards the penalties imposed by the TERM Cell of DoT during the year 2013-14. • Employee Benefit Expenses (Pension Contribution) was understated by ₹ 707.03 crore due to charging of pension

	contribution of absorbed employees on the basis of actual pay drawn instead of on maximum pay during 2011-12, 2012-13 and 2013-14.
General Insurance Corporation of India	Motor Claims outstanding did not include ₹ 441.84 crore on account of exclusion of underwriting year 2007, while computing provision for 'Incurred but not Reported' in respect of Motor class of business.
Heavy Engineering Corporation Limited	Short Term Trade Receivables included (i) ₹ 8.39 crore against which the Company had accepted the claim of ₹ 2.73 crore in final settlement with the Bhilai Steel Plant. (ii) ₹ 2.40 crore including ₹ 0.74 crore towards service tax against which the Bhilai Steel Plant has accepted only ₹ 1.38 crore for extra work executed by the Company. (iii) ₹ 14.58 crore being the amount awarded by the Appellate Authority in November 1999 in favour of the Company for the claim relating to contract for supply of equipment etc. relating to Bina Coal Handling Plant of Northern Coalfields Limited, which could not be realized even after a lapse of more than fourteen years.
India Renewable Energy Development Agency Limited	Revenue from operations included ₹ 103.10 crore due to write back of 'Provision for Bad & Doubtful Debts' whereas bad & doubtful debts of ₹ 98.80 crore were written off by charging to the Statement of Profit and Loss.
Konkan Railway Corporation Limited	Fixed Assets (Earth Work) included an amount of ₹ 228 crore towards expenditure incurred on Geo-tech safety works from the year 2005-06. As the expenditure was not an expenditure of capital nature which increases the earning capacity from the existing asset, the same should have been charged to Statement of Profit and Loss.
North Eastern Handicrafts and Handloom Development Corporation Limited	Employee Benefit Expenses were understated by ₹ 1.52 crore due to short provision in respect of contribution towards gratuity fund payable to Life Insurance Corporation of India.
Nuclear Power Corporation of India Limited	Administration and other Expenses did not include ₹ 93.31 crore being the interest payable by the Company to Irrigation Department, Government of Gujarat on the delayed/non-payment of water charges during 2010-11 to 2013-14.
PFC Consulting Limited	Other Operating Income included ₹ 2.00 crore on account of sale proceeds of 'Request for Proposal' documents received by the Company in the capacity of Bid Processor Coordinator relating to five Independent Transmission Projects viz., Special Purpose Vehicle which was in violation of Standard Bidding Documents approved by the Ministry of Power for selection of bidders for Independent Transmission Projects which provided that sale proceeds of Request for Proposal documents be deposited directly in the account of Special Purpose Vehicle.

Comments on Financial Position

Name of the Company	Comment
Antrix Corporation Limited	Corporate Social Responsibility and Sustainable Activities Reserve was understated by ₹ 10.25 crore due to non provision of same for the years 2010-11 to 2012-13 and short provision for 2013-14.
Bharat Broadband Network Limited	• Fixed Assets (Tangible Assets) did not include ₹ 3.39 crore towards the value of NOFN-Pilot project in three blocks viz. Arain in Ajmer District (Rajasthan), Parvada in Visakhapatnam (Andhra Pradesh) and Panisagar (Tripura) covering 60 Gram Panchayats, which had been completed and put to use on 10 May 2012. • Cash and Cash Equivalents - Fixed Deposits of Subsidy amount from USOF for NOFN was understated by ₹ 2.50 crore due to utilisation out of this Corpus for purchase of NLD license.
Bharat Sanchar Nigam Limited	DoT, after completing provisional assessment of License fee for the years 2006-07 to 2008-09, raised an additional demand of ₹ 4076.62 crore apart from ₹ 378.30 crore towards demand for short payment of license fee for the year 2012-13. The Company did not provide for the same but disclosed it as a contingent liability.
Bokaro Power Supply Company (P) Limited	Capital Work in Progress included ₹12.35 crore towards the amount of Bank Guarantee encashed by Central Coalfields Limited in March 2011 due to non-fulfilment of commitment given by the Company against Letter of Assurance for purchase of coal for 2x250 MW power plant project. More than three years had elapsed and the Company had not been able to get the refund of forfeited Security Deposit.
Central Registry of Securitisation Assets Reconstruction and Security Interest of India	Cash and Bank Balance did not include Fixed Deposits of ₹ 38.95 crore with original maturity period of less than three months and Fixed Deposits of ₹ 111.75 crore with original maturity period of more than three months but less than 12 months.
Darbhanga Motihari Transmission Company Limited	Capital Work in Progress did not include ₹ 0.40 crore on account of sale proceeds of Request for Proposal documents for calling bids to transfer the Company on tariff based competitive bidding process for development of Independent Transmission System as required by the Standard Bidding Documents approved by the Ministry of Power for selection of Transmission Service Providers.
DGEN Transmission Company Limited	Capital Work in Progress did not include ₹ 0.30 crore on account of sale proceeds of Request for Proposal documents for calling bids to transfer the Company on tariff based competitive bidding process for development of Independent

	Transmission System as required by the Standard Bidding Documents approved by the Ministry of Power for selection of Transmission Service Providers.
Hindustan Prefab Limited	Other Current Liabilities included ₹ 22.47 crore on account of Security Deposits not refundable within one year from the date of Balance Sheet.
HPCL Rajasthan Refinery Limited	Capital Work in Progress included an amount of ₹ 8.19 crore spent on the foundation stone lying ceremony for inauguration of the Company and meeting for finalization of MOU and JV agreement.
Hindustan Shipyard Limited	A reference is invited to the Comments of the CAG on the annual accounts of the Company for the year 2012-13 wherein non-provision for liability for interest of ₹ 42.18 crore earned by the Company on advance funds received for Refurbishment and Replacement of Machinery and Infrastructure (RRMI) Scheme not utilised for the intended purpose within the stipulated period of one year but kept in term deposits during 2011-12 and 2012-13, to be credited to GOI was pointed out. During the year 2013-14 also, the Company neither paid such interest to GOI nor provided for the liability. Further, ₹ 103.05 crore were utilised from RRMI funds for meeting various working capital requirements in contravention of the terms of sanction. Hence, notional interest of ₹ 5.53 crore that would have been earned if invested in similar term deposits was not credited to GOI in accordance with the terms of sanction.
Jagdishpur Paper Mills Limited	Current Liabilities as well as Capital work-in-progress were overstated by ₹ 16.50 crore due to accounting of agency commission considered as payable to the holding company for implementation of the project which was neither included in the Feasibility Report nor approved by the GOI.
MECON Limited	Social Amenities was overstated by ₹ 2.76 crore due to capitalization of cost of repair of existing road.
Nagaland Pulp and Paper Company Limited	Current Liabilities as well as Capital work-in-progress were overstated by ₹ 4.89 crore due to accounting of agency commission considered as payable to the holding company for implementation of revival package which was neither included in the Modified Draft Rehabilitation Scheme submitted to BIFR nor approved by the GOI.
National Film Development Corporation Limited	Provision for Taxation for income tax was overstated by ₹ 1.15 crore due to erroneous provision for Tax/MAT for Financial Year 2012-13.
National Projects Construction Corporation Limited	• Furniture and Fixture and Office Equipment were depicted under same head 'Office Furniture and Equipment' against the format prescribed under revised Schedule VI of the Companies Act, 1956. • Security Deposit with Project Authority had been included in 'Other Non-Current Assets' in place of 'Long

	Term Loan and Advances'. • Fixed deposits with maturity period of more than a year and pledged to Bank/Project Authority for Security Deposits/Bank Guarantee had been shown as 'Other Balances with Scheduled Bank' in place of 'Other Non-Current Assets'. • Trade Payable was understated by ₹ 1.09 crore due to under provision of liability for work done- Rock Excavation work in construction of high altitude road. • Other Current Liabilities was understated by ₹ 22.74 crore due to non provision for payment of additional compensation to land owner in compliance with the judgment of District & Session Judge, Lunglei.
NEPA Limited	Other Non Current Assets included ₹ 3.34 crore paid by the Company as 'Damages' to the Employees Provident Fund Organisation (EPFO) due to penalty imposed by EPFO in view of delay by the Company in depositing EPFO dues. The amount was not recoverable from EPFO and should have been charged to the Statement of Profit and Loss.
Patran Transmission Company Limited	Capital Work in Progress did not include ₹ 0.50 crore on account of sale proceeds of Request for Proposal documents for calling bids to transfer the Company on tariff based competitive bidding process for development of Independent Transmission System as required by the Standard Bidding Documents approved by the Ministry of Power for selection of Transmission Service Providers.
PEC Limited	• Trade Receivables included ₹ 88.61 crore towards amount recoverable from GOI on account of losses booked on import and sale of pulses on Government Account under 15 *per cent* reimbursement scheme. As the Ministry of Commerce & Industry had informed (April 2014) that no admissible claim was pending, the recoverability of the amount was doubtful. • Short Term Loans and Advances included ₹ 121 crore being the claims recoverable from M/s National Spot Exchange Limited. As chances of realisation of the amount were remote, the amount should have been provided.
Purulia Kharagpur Transmission Company Limited	Capital Work in Progress did not include ₹ 0.30 crore on account of sale proceeds of Request for Proposal documents for calling bids to transfer the Company on tariff based competitive bidding process for development of Independent Transmission System as required by the Standard Bidding Documents approved by the Ministry of Power for selection of Transmission Service Providers.

Railtel Corporation of India Limited	Short Term Loans and Advances were overstated due to inclusion of : (i) ₹ 49.96 crore recoverable from Ministry of Railways for sales tax and other recoveries. (ii) ₹ 1.61 crore for advances given to Railways for Capital works.
RAPP Transmission Company Limited	Capital Work in Progress did not include ₹ 0.50 crore on account of sale proceeds of Request for Proposal documents for calling bids to transfer the Company on tariff based competitive bidding process for development of Independent Transmission System as required by the Standard Bidding Documents approved by the Ministry of Power for selection of Transmission Service Providers.

Comments on Disclosure

Name of the Company	Comment
Bharat Broadband Network Limited	As per Schedule wise list of CPSEs, the Company had not been classified as Schedule 'A' Company by the Department of Public Enterprises; however, the Company was extending the facility of a Schedule 'A' Company to its employees at Board level and below Board level. The fact that Schedule 'A' Company status was being extended pending classification by Department of Public Enterprises was not disclosed in the notes.
Bharat Sanchar Nigam Limited	The amount recoverable from and the amount payable to MTNL on current account have been disclosed as ₹ 3517.95 crore and ₹ 996.02 crore respectively resulting in net recoverable amount of ₹ 2521.93 crore from MTNL. However, as per approved annual accounts of MTNL for the year 2013-14, the amount recoverable from and the amount payable to the Company was ₹ 4186.04 crore and ₹ 1828.25 crore respectively resulting in a net recoverable amount of ₹ 2357.79 crore from the Company. Thus, there was net difference of ₹ 4879.72 crore in the receivable/payable amounts between these two Government Companies under the same Ministry. This comment was raised on accounts of the Company for the year 2012-13 also. However, there was no change in the status of un-reconciled balances between the Company and MTNL.
Bokaro Power Supply Company (P) Limited	Contingent Liabilities did not include claim amounting to ₹ 7.39 crore including interest of ₹ 2.45 crore upto 31 March 2014 lodged by the contractor towards work done for 9th Boiler Project.
Central Registry of Securitisation Assets Reconstruction and Security	Capital Commitment to the extent of ₹ 44.24 crore on account of purchase of residential and commercial space from National Building Construction Corporation Limited was

Interest of India	not disclosed.
Hindustan Prefab Limited	Contingent Liabilities did not include ₹ 9.97 crore towards principal claims from customers and suppliers and interest claims in respect of various Court and Arbitration cases filed against the Company.
HPCL Rajasthan Refinery Limited	The Notes regarding establishment of 'Refinery-cum-Petrochemical Complex' did not disclose (i) The review of the project undertaken by Government of Rajasthan considering the commitment towards interest free advance of more than ₹ 56000 crore over a period of 15 years, allotment of land for the project and inadequacy (26%) of its equity into the share capital of the company, and (ii) The project was not cleared by Government of Rajasthan till approval of the financial statement in March 2014. The activities of the project were on hold and further developments in the progress of project depend on the outcome of the review and decision of Government of Rajasthan.
Konkan Railway Corporation Limited	The demand raised for return of the unspent amount of ₹ 25 crore advanced by Research Design & Standard Organisation, Ministry of Railways for 'Sky Bus Project' alongwith interest at the rate of 8% per annum, from August 2007, had not been disclosed.
NEPA Limited	Capital Commitment was understated by ₹ 6.15 crore due to non-considering capital works which were yet to be executed.
NTPC Electric Supply Company Limited	The Contingent Liabilities did not include: (i) Income Tax demand raised under section 156 - ₹ 22.56 crore (ii) Interest on Service Tax and Penalty for the period April 2007 to March 2014 - ₹ 138.30 crore (iii) Penalty and Interest on Service Tax for the period April 2012 to March 2014 - ₹ 9.94 crore.
Rail Vikas Nigam Limited	The Company was accounting for the contract revenue relating to work done by special purpose vehicle engaged for undertaking work obtained from Ministry of Railways without any formal construction agreement in contravention of own Accounting policy. This had not been disclosed.
Sambhar Salts Limited	The fact that 424.80 acres of its land was under encroachment had not been disclosed.

Comments on Auditor's Report

Name of the Company	Comment
DGEN Transmission Company Limited	The observation that the expenses relating to manpower and other administrative overheads as incurred and allocated by PFC Consulting Limited were neither directly attributable to acquisition/construction of fixed assets nor could be said to be attributable to constructive activity in general as the

	construction was yet to commence, was not correct as the expenses were specifically attributable to the Transmission Project to be executed by the Company formed as Special Purpose vehicle by PFC Consulting Limited. These expenses were recoverable by PFC Consulting Limited from the prospective bidder to whom the Company would be transferred on selection of bidder.

Other Comments

Name of the Company	Comment
Chandigarh Scheduled Caste Financial and Development Corporation Limited (2012-13)	The rates of depreciation charged in respect of vehicles were less than the minimum rates prescribed under Schedule XIV of the Companies Act, 1956.
SBI Cards and Payment Services Private Limited	In view of changed accounting policy on treatment of stale cheques including those issued for Credit Balance Refund, unidentified credits and other trade liabilities outstanding for more than three years, income of ₹ 12.21 crore booked in earlier years needs to be reversed/adjusted.

❖ Unlisted Deemed government Companies

Comment on Financial Position

Name of the Company	Comment
Sidcul Concor Infra Company Limited	Other Bank Balances included an amount of ₹ 30 crore towards a fixed deposit created for a period of three months.

Comment on Disclosure

Name of the Company	Comment
Aravali Power Company Private Limited	Contingent Liability was understated by ₹ 1.21 crore due to incorrect assessments and non-inclusion of liabilities towards interest and solatium payable to the owners of the land acquired by the Company in terms of the Land Acquisition Amendment Act, 1984.
Energy Efficiency Services Limited	Capital commitment was overstated by ₹ 0.74 crore due to inclusion of cost of LED lamps to be collected by the vendor from consumer at the time of distribution of LED lamps to the household consumer.
Ratnagiri Gas and Power Private Limited	• Claim for reimbursement of Excise Duty/Value Added Tax and Service Tax amounting to ₹ 4.15 crore made by the Joint Venture of Whessoe Oil & Gas Limited and Punj Lloyd Limited had not been included under Contingent Liabilities. • In terms of opinion of Expert Advisory Committee of the Institute of Chartered Accountants of India given in July

	2014, the Company had neither disclosed the clear charges being made by NTPC Limited and GAIL (India) Limited whose employees were posted in the Company on secondment basis, nor had disclosed impact of changes from Defined Benefit Plan to Defined Contribution Plan adopted by the Company.

Comment on Auditor's Report

Name of the Company	Comment
Energy Efficiency Services Limited	The qualification regarding Prior Period Expenses was not correct since the income of ₹ 7.15 crore payable by Bureau of Energy Efficiency under Perform-Achieve-Trade scheme was related to period till 31 March 2013. As the Company omitted to recognize the income in 2012-13, the Company had rightly booked the amount as prior period income.

Other Comment

Name of the Company	Comment
Sidcul Concor Infra Company Limited	The Company had contradictory Accounting Policies (no. 14 and 16) on 'Miscellaneous Income'. The Company had adopted the policy no. 16 in preparation of the Financial Statement of the Company.

❖ 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:

(1) National Highways Authority of India

(i) Serious reservations regarding the maintenance of proper books of accounts and other relevant records by the NHAI, did not enable forming an opinion as to whether the financial statements of NHAI gave a true and fair view in conformity with accounting principles generally accepted in India as enumerated below:

(a) Capital Work in Progress (CWIP) of ₹ 1,23,064.82 crore could not be verified in the absence of project-wise details of expenditure on ongoing projects.

(b) Borrowing cost of ₹ 904.45 crore booked under 'Expenditure on Completed Projects Awaiting Capitalization/Transfer' was in contravention to generally accepted accounting principles and NHAI's Accounting Policy No.6.2. As the NHAI did not maintain records in respect of utilization of project-wise borrowed funds, correctness of the total borrowing costs allocated to complete and incomplete projects till date could not be verified.

(c) Allocation of 'Net establishment expenses for the year' to completed projects was also against generally accepted accounting principles as this was revenue expenditure and should not be allocated to completed projects. In the absence of project wise details of expenditure, Audit had been unable to quantify the impact of such incorrect booking.

(d) 'Expenditure on completed projects awaiting capitalization/ transfer' included costs incurred by NHAI on 16 road projects which had been handed over, along with tolling rights, to concessionaires for upgradation of the roads to 6-lanes on BOT basis. Similarly, five other road projects had been transferred to the State Governments. Though these projects did not exist with NHAI, no adjustments had been made in the accounts.

(e) NHAI became operational in 1995 and had disclosed an expenditure of ₹ 78727.85 crore as having been incurred on completed Highway projects. Though the said stretches of National Highways were already completed and were being used by the general public but the same had not yet been capitalized and no depreciation was being charged, which was against the generally accepted accounting principles and their own Accounting Policy No. 6.3.

(ii) CWIP Less Capital Reserve of ₹ 667.71 crore represented the amount collected/received by the NHAI on account of encashment of bank guarantee and damages recovered from contractor/concessionaire in case of their default; amount received from third parties on account of income, interest on income tax refund, etc. which were not payable to the Government. These incomes had been booked under the above head without indentifying its nature, viz., revenue or capital. During 2013-14, NHAI had deducted the amount proportionately from the cost of completed project as well as the projects in progress as on 31 March 2014. As the amount recovered in respect of completed projects could not be identified, the proportionate deduction of an amount of ₹ 99.88 crore from the completed project was not correct and it should have been credited to Profit and Loss Account. This was in violation of AS – 10.

(iii) NHAI invested ₹ 345.21 crore in its two subsidiary companies, viz., M/s Moradabad Toll Road Company Limited and M/s Ahmedabad–Vadodara Expressway Company Limited. The road project and toll collection right had been transferred in December 2010 and January 2013, respectively to Concessionaires for upgradation but a provision for diminution in the value of the investments had not been made.

In addition, NHAI invested (including share application money pending allotment) ₹ 226.60 crore in three subsidiary companies, viz., Visakhapatnam Port Road Company Limited, Cochin Port Road Company Limited and Paradip Port Road Company Limited. Due to accumulated losses, value of investment had diminished and resulted in erosion of more than 50 *per cent* of their net worth. However, no provision had been made as per AS - 13.

(iv) Loan to Subsidiary Companies included loan of ₹ 69.47 crore given to two subsidiary companies, viz., M/s Moradabad Toll Road Company Limited and M/s Ahmedabad–Vadodara Expressway Company Limited. The road projects as well as toll collection rights had been transferred to the Concessionaire and decision of winding up of these two companies had already been taken by the Board of Directors. There was no possibility of recovery of the loan.

(v) Interest accrued and due on CALA deposits was understated by ₹ 4.51 crore due to non-accounting of interest earned on the CALA joint bank account during the year 2013-14.

(vi) Other liabilities was understated by ₹ 618.65 crore due to non/short provision of liability on account of CALA demand, proportionate semi-annuity, construction work done and certified, positive grant, land acquisition demand of Defence Authority, payable to forest Department, bill for variations in BOQ and maintenance work.

(vii) Contingent Liability was understated by ₹ 128.78 crore due to non-inclusion of claims against NHAI in arbitration and legal cases.

(viii) Contingent liabilities were understated to the extent of 90 *per cent* of debts due as on 31 March 2014 given to the concessionaire by the commercial banks. The amount of debts was secured under the provisions of termination clause of concession agreements as per the guidelines of the RBI. In the absence of details, audit was unable to quantify the amount of contingent liabilities.

(ix) As per 'Statement by the Members of the Boards' under the heading 'Other Regulatory and Statutory Disclosures' given in the prospectus for issue to Tax Free Secured Redeemable Non Convertible Bonds issued during 2011-12 of ₹ 10000 crore and in the year 2013-14 of ₹ 5000 crore, NHAI committed that:

- All monies received out of each Tranche Issue of the Bonds to the public shall be transferred to a separate bank account.
- Details of all monies utilised out of each Tranche Issue shall disclose the purpose for which such monies were utilised under an appropriate separate head in the Balance Sheet.
- Details of all unutilised monies out of each tranche issue shall disclose the form in which such unutilized monies had been invested under an appropriate separate head in the Balance Sheet.

However, the NHAI had not complied with any of the aforesaid conditions and only given a general disclosure vide Note No. 26 (f) of Notes on Accounts that "*All receipts of NHAI viz. Funds received from the Ministry, Market borrowings through issue of NHAI Tax free Bonds, NHAI Capital Gains Tax Exemption Bonds under Section 54-EC, interest on surplus funds etc. are credited in the NHAI Funds and all expenditure is met out of this Fund as per the provisions of Article 18 of NHAI Act, 1988. As such, no separate Account was being maintained for utilisation of NHAI Bond proceeds.*"

Thus, the disclosure was deficient and also in violation of the Listing Agreement.

(x) NHAI being a body corporate was to act on 'Business Principles' as per Section 10 of NHAI Act, 1988. Further as provided under Section 23 of the NHAI Act, 1988, the format of annual statement of accounts of NHAI had been duly prescribed by the GOI in consultation with the CAG. As per Schedule 5 (Fixed Assets) of the prescribed formats, one of the sub-heads is 'Roads & Bridges' for which the prescribed rate of depreciation was 5 *per cent;* however, this sub-head had been left blank since inception inspite of completed road projects of ₹ 78727.85 crore (including cost of land of ₹ 8204.22 crore) as on 31 March 2014 and the same were depicted under the head CWIP (Expenditure on completed projects awaiting capitalization/transfer) and no depreciation was provided even after the completion of the road projects, which was not in consonance with the approved format. The approved format also provided that the surplus/deficit in the Profit and Loss Account was to be carried to the Balance Sheet; however, the NHAI was allocating the deficit in the Profit and Loss Account at the year end to the on-going and completed projects booked under 'Fixed Assets – CWIP'. Further, as per the format, the Grant-in-aid for Maintenance of Highways and expenditure thereon should have been accounted for in Profit and Loss Account; however, the NHAI was adjusting the same from Capital Account (Plough back of Toll Remittance, etc.). Thus, the NHAI was not following the approved format of 'Annual Statement of Accounts'. Resultantly, the

Profit and Loss Account / Financial Statements did not disclose the income or expenditure of the NHAI.

(xi) NHAI carried out corrections in the accounts to the extent of ₹ 451.12 crore on the basis of audit observations, as detailed below:

(₹ in crore)

Sr. No.	Particulars	Inter Head		Intra Head	
		Debit	Credit	Debit	Credit
1	Assets	449.69	9.18	1.10	1.10
2	Liabilities	0.28	440.84	-	-
3.	P&L A/c	0.05	-		
	Total	**450.02**	**450.02**	**1.10**	**1.10**

(2) Inland Waterways Authority of India

(i) Advance to contractors and suppliers was overstated by ₹ 6.25 crore due to non-adjustment of the advances given to Government Departments. Consequently, 'Claims Recoverable' was also understated to the same extent.

(ii) The Corporation had carried out correction to the draft accounts to the extent of ₹ 28.94 crore on the basis of the observations of CAG Audit.

2.6 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, 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 33 companies as detailed in ***Appendix - VI*** departed from mandatory Accounting Standards.

However, during course of supplementary audit, it was observed that the following companies had 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 Statements	IFCI Limited	The Company had neither disclosed nor prescribed policy for composition of cash and cash equivalents.
AS - 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting	Antrix Corporation Limited	Prior period items amounting to ₹ 18.20 crore was shown under 'other income'.
		Chandigarh Scheduled Caste Financial and Development Corporation Limited	Amount of Reserve for Bad and Doubtful Debts and Reserve for Relief and

	Policies	(2012-13)	Common Good Fund had been shown as Exceptional Items.
		National Film Development Corporation Limited	Impact due to change in Accounting Policies regarding treatment of cost of production of films and production of television serials/acquired programmes had not been disclosed.
AS - 9	Revenue Recognition	Konkan Railway Corporation Limited	The Company had recognized interest at seven *per cent* per annum on the loan of ₹ 19.03 crore given to Konkan Railway Welfare Organisation for construction of accommodation for railway personnel. The loan agreement containing terms and conditions of repayment of loan were still to be executed.
AS - 12	Accounting of Government Grants	Chandigarh Scheduled Caste Financial and Development Corporation Limited (2012-13)	Income and expenditure incurred out of Government Grants were not routed through Statement of Profit and Loss.
		India Renewable Energy Development Agency Limited	Disbursed grant of ₹ 100 crore received from GOI for Rooftop PV and Small Solar Power Generation Programme to various parties for the purpose of generation based incentive without routing through the books of accounts. Also, invoked bank guarantee of ₹ 27.02 crore and kept the amount out of books of accounts.
AS-13	Accounting for Investment	IFCI Limited	Despite continuous cash losses; negative Earning Per Share; heavy debt on balance sheet; erosion of net worth; accumulated losses; non declaration of dividend; passing/filing of winding up petition in courts and having no buy back commitments/ defaults in buy back commitments by investee

			Companies, no assessment had been made for adequacy of the provision for diminution in value of investment in respect of four companies.
AS-15	Employee Benefit	National Projects Construction Corporation Limited	The Company did not make provision for leave travel concession on actuarial basis.
		Railtel Corporation of India Limited	The valuation of employee benefit was not got done from qualified actuary.
		Rajasthan Electronics and Instruments Limited	The Accounting Policy of the Company on leave encashment was not in line with Accounting Standard.
AS-18	Related Party Disclosures	Cement Corporation of India Limited	The names of related party had not been disclosed.
		HARDICON Limited	Disclosure regarding related party relationship as well as details of Key Management personnel had not been given.
		India SME Technology Services Limited	The names of related party had not been disclosed.
		Rajasthan Consultancy Organisation Limited	Disclosure regarding related party relationship as well as details of Key Management personnel had not been given.
AS-20	Earnings Per Share	HARDICON Limited	The Company had not disclosed diluted EPS.
		Rajasthan Consultancy Organisation Limited	The Company had not disclosed its accounting policy relating to calculation of EPS.

2.7 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 PSEs were reported as comments under Section 619(4) of the Companies Act, 1956. Besides these comments, irregularities or deficiencies 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 PSE gave assurances that corrective action would be taken in the subsequent year.

During the year 'Management Letter' was issued to 113 companies.

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

❖ Statutory Corporation

Significant qualifications made by the statutory auditors in their audit reports on the accounts ofstatutory corporation for the year 2013-14 are given below:

Sl. No.	Name of the Corporation	Auditors' qualification
1.	Central Warehousing Corporation	The Title Deeds in respect of 56 freehold/leasehold land sites amounting to ₹ 35.65 crore were pending for execution in favour of the Corporation.

❖ Listed government companies

Significant qualifications made by the statutory auditors in their audit reports on the accounts of listed government companies for the year 2013-14 are given below:

Sl.No.	Name of the Company	Auditors' qualification
1.	Andrew Yule & Co. Limited	No provision had been made in the accounts for diminution in the value of investment in equity shares of WEBFIL Limited.
2.	Chennai Petroleum Corporation Limited	The accumulated loss of the Company was more than 50 *per cent* of its Networth. The Company had not incurred cash loss during the financial year.
3.	Dredging Corporation of India Limited	Impairment of long-term investments of ₹ 30.00 crore in Sethusamudram Corporation Limited was not recognized.
4.	Hindustan Cables Limited	• In the absence of valuation of inventories on net realizable value, the provision made against inventory was inadequate. • Balances of Secured Loans of ₹ 2642.85 crore calls for reclassification into unsecured since all the production units remained closed/unmaintained for more than 10-11 years, movable assets had become redundant, defunct and technically non usable, trade receivables remains unconfirmed, disputed and unrealized over long periods and inventories were mostly in the form of scrap, the value of securities had reduced substantially.
5.	Hindustan Copper Limited	The inventories included ₹ 65.43 crore towards the amount computed by the Company for the first time as cost of 27.50 lakh tonnes of Lean Ore. This was a change in accounting of inventories of the Company during the year.

6.	Hindustan Organic Chemicals Limited	• No provision had been made in the financial statement amounting to ₹ 46.76 crore towards penal interest, loss on account of misappropriation of fund, liability of wage revision and claims of JNPT in respect of lease rentals and water charges. • Capital work in progress included amount of ₹ 29.79 crore incurred on JNPT tank terminal project. The construction had been suspended for more than six years and the lease had been called off by the lessor - JNPT after the expiry of the lease period in June 2010. The project was stagnant, incomplete and of no utility since long. • Although the net worth of the Company was fully eroded the financial statements had been prepared on going concern basis. The Company had made an application for reference to BIFR in terms of Sec-15(1) of the Sick Industrial Company's (Special Provisions) Act, 1985 for declaring the Company as sick under the said Act.
7.	Hindustan Photofilms Manufacturing Company Limited	• The net worth had been fully eroded and the Company had been consistently making significant losses for the past several years. • The Company had been referred to BIFR in terms of the provisions of Sick Industrial Companies (Special Provisions) Act, 1985 on 14 October 1995. The BIFR had confirmed its opinion for winding up the Company under Section 20(1) of the SICA vide order dated 30 January 2003. The Company's appeal to the AAIFR against the order of the BIFR was dismissed confirming the BIFR opinion for winding up of the Company. BRPSE in the review meeting held during June 2013 observed that the Revival Proposal of the Company was not viable. Pursuant to the above CCEA had also directed to take further action for closure of the Company. • The viability of the Company appeared to be doubtful as the Company at current product mix and production level was not in a position to recover even the variable cost in respect of products manufactured by it.
8.	Ind Bank Housing Limited	The Company had defaulted in repayment of dues to financial institutions and banks.
9.	Madras Fertilisers Limited	• The Company had accounted a sum of ₹ 20.80 crore towards additional compensation under Nutrient Based Subsidy for producing P & K fertilizers and exhibited the same as receivable from Department of Fertilizers. Since the proposal to extend the scheme for additional compensation was still under consideration by Department of Fertilizers as at the year end, exhibition of amount of ₹ 68.20 crore (including ₹ 47.40 crore pertaining to previous year) as recoverable from GOI was

		not correct. • The accumulated losses as at the yearend had exceeded 50 *per cent* of the Net worth.
10.	Mahanagar Telephone Nigam Limited	• Amount recoverable from BSNL (₹ 23640.05 million) and DoT (₹ 84202.51 million) were subject to reconciliation and confirmation in view of various pending disputes regarding each other's claims. • The Company allocated the establishment overheads towards capital works on estimated basis.
11.	Steel Authority of India Limited	• The Company had not provided for: a) entry tax in the state of Uttar Pradesh- ₹91.55 crore Chhattisgarh ₹1071.28 crore Odisha - ₹214.81 crore b) claims by DVC for supply of Power - ₹ 291.76 crore • In respect of Rourkela Steel Plant, depreciation and interest had been short provided by ₹ 104.92 crore and ₹ 28.74 crore respectively.

❖ **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 2013-14 are given below:

Sl.No.	Name of the Company	Auditors' qualification
1.	Agriculture Insurance Company of India Limited	During the Financial Year 2009-10, the Company had paid an amount of ₹ 200 crore to the Consolidated Fund of India in terms of Government letter Ref.F.No.C-13014/16/2004-Ins.I dated 23 December 2009 as a prelude to the recasting of the National Agricultural Insurance Schemes and the same was continued to be shown as 'Advances and Other Assets' in the Balance Sheet. This amount had not been adjusted against the retained profits/reserves, pending recasting of the said scheme.
2.	Antrix Corporation Limited	No provision had been made towards the liability of Liquidated Damages in the form of delayed delivery penalty of US$ 5 million (₹ 21.89 crore) for its failure to deliver the leased capacity from a fully operational satellite within the stipulated date as per the terms of the contract entered into with M/s Devas Multimedia Limited.
3.	Assam Ashok Hotel Corporation Limited	The Company had not provided and paid Service Tax due under Reverse Charge Mechanism on services availed by it.
4.	Bharat Bhari Udyog Nigam Limited	An amount of ₹ 68.13 crore shown under the head 'Other Current Assets' represented normal value of disinvestment of 6,81,34,428 number of equity share in Jessop & Co. Limited. An amount of ₹ 18.18 crore was received against this investment and was also refunded to GOI in earlier years. In absence of any instruction from GOI, necessary

		provision, for the resultant loss of ₹ 49.95 crore towards shortfall on realization had not been made in the accounts.
5.	Bharat Sanchar Nigam Limited	• The financial statements, assets and liabilities (including contingent liabilities) taken over from DoT had been verified and valued by the management based on internal calculations and were subject to reconciliations and confirmation from DoT as regards ownership, value and classification. • Amount due from and to DoT included in current assets and current liabilities aggregating to ₹ 1737.79 crore and ₹ 391.09 crore respectively were subject to confirmations and reconciliation. • Capital work-in-progress, in few circles, inter alia included balances pending capitalisation for long-periods of time owing to pending analysis of status, value and obtaining of commissioning certificates. • Revenue from National Long Distance and International Long Distance were segregated on an estimated basis instead of actual usage of pulse which consequently resulted in recognition of the license fees on estimated basis.
6.	Brahmaputra Valley Fertilizer Corporation Limited	• The Company had accounted for Price Escalation (Subsidy) claims amounting to ₹ 30.33 crore which was to be notified and lodged with FICC. The Company had also provided for ₹ 9.64 crore towards Freight Subsidy Claim for the year but not yet lodged with FICC. These claims had been consistently lodged as in previous years, however, pending final settlement of the claims, the effects arising out of these provisions made in the accounts were not ascertainable. • Since accumulated losses of ₹ 969.40 crore at the end of the financial year exceeded 50 *per cent* of its net worth, the Company comes within the purview of Sick Industrial Undertaking as per Section 2 (46AA) of the Companies Act, 1956.
7.	British India Corporation Limited (2012-13)	• The Liability of Cumulative Dividend of ₹ 3.47 crore upto the redemption date of 14 June 2003, accrued in earlier years, continued to remain un-provided for. The Company had continuously defaulted in the Redemption and providing of Accumulated Dividend for 14 *per cent* Cumulative Redeemable Preference Shares of ₹ 100 each. • The Company was in default of complying with the Disclosure requirement(s) as set forth in Schedule VI, which required the "Terms of Redemption" of any redeemable Preference Share Capital to be stated, together with the earliest date of redemption. • Long Term Loans and Loans and Advances included

		Outstanding dues of ₹ 52.76 crore from Subsidiaries and Companies under same Management, a sum ₹ 0.29 crore stands provided for, the difference of ₹ 52.47 crore should have been provided in light of Non-working status and/or in liquidation. • No provision for rent and other Expenses for use of Premise of the subsidiary company Elgin Mills Company Limited had been made which the Company was using since 7 September 2007.
8.	Cement Corporation of India	• Execution of title and lease deed of land of certain units was pending. • Mining lease had expired since long. • Non determination and non provision of the liability arising out of alienation orders was awaited from Revenue Department in respect of Government land outside Adilabad Township. • Interest on inter corporate loans of ₹ 37.00 crore taken by the Company had not been provided for after the cut-off date of 31 March 2005. • The Company had shown entire Inventory of ₹ 43.12 crore in respect of closed Units under Current Assets as against Non-Current Assets in spite of the fact that the inventory was lying as such since long and there was no probability of consuming it in the normal operation cycle of the Units as the Units had been put on sale as per BIFR sanctioned scheme.
9.	Central Cottage Industries Corporation of India Limited	Title deeds in respect of premises at Jawahar Vyapar Bhawan, New Delhi were pending execution.
10.	Central Inland Water Transport Corporation Limited	Out of 113 vessels, 93 vessels were non-operational. The Company had not estimated any value in use or obtained any realizable value of vessels.
11.	Energy Efficiency Services Limited	Value Added Tax (at the rate of 5 *per cent* under DVAT Act, 2004) had not been charged by the Company in contravention to Section 2 (1) (ZC) of DVAT Act, 2004 on invoices raised for supply of "LED Based Solar Lighting Systems" as per individual agreements with the parties.
12.	Hindustan Fertilizer Corporation Limited	• The accounts were prepared on the principle applicable to a 'Going Concern' despite heavy accumulated losses which had totally eroded the Net Worth of the Company. The huge loss of the Company raised substantial doubt that whether the Company would be able to continue as 'Going Concern' and as such the extent of adjustments that would be necessary towards assets and liabilities of the Company which ceases to maintain the status of going concern could not be commented. Reference had been made to the Board for Industrial and Financial Reconstruction and final disposal of the case was pending. The operational

		existence of the Company was dependent on the decision of GOI. • Agreements remain to be executed in regard to 1121.885 acres of land. • The Company had not admitted the claim of Kolkata Port Trust on account of expired lease as debts amounting to ₹ 119.75 crore. • Balances in respect of transactions on account of Brahmaputra Valley Fertilizer Corporation Limited, Rashtriya Chemicals Fertilizer Limited and the Fertilizer Corporation of India Limited had not been reconciled and no confirmation had been received from them.
13.	Hindustan Insecticides Limited	• The Company had not created provision for Minimum Alternate Tax in accordance with section 115JB of Income Tax Act despite there being an estimated tax liability of ₹ 0.50 crore. • Some of the units had not identified redundant/damaged stock and considered the same as good stock.
14.	Hindustan Paper Corporation Limited	• The Company had recognized an amount of ₹ 21.39 crore as commission income from Nagaland Paper & Pulp Company Limited (NPPC) and Jagdishpur Paper Mills Limited (JPML), subsidiaries towards certain projects of NPPC and JPML, as project execution for both the companies was entrusted with the Company as per directives of GOI. In absence of any directive from GOI and the approval from the respective boards of NPPC and JPML, it could not be opined whether the subsidiaries were liable to pay any commission to the Company towards execution of projects. • The Company had recognized net deferred tax asset aggregating to ₹ 138.94 crore till 31 March 2013. For the current financial year, further net deferred tax asset had not been recognised. Since the virtual certainty of sufficient taxable income could not be substantiated realisation of the net deferred tax asset recognised till date could not be opined. • No provision had been made towards liability for agricultural cess amounting to ₹ 0.68 crore.
15.	Hindustan Vegetable Oils Corporation Limited	• All the manufacturing units of the Company had been closed. The liquidation proceedings had already started and liquidator was appointed by GOI. There were substantial losses and negative cash flows. The net worth of the Company was significantly eroded. There was material uncertainty about the entity's ability to continue as a going concern. In such situation the Company might not be able to realize its assets and discharge its liabilities fully and adequately in the

		normal course of its existence. • The Company had been providing huge amount of interest expense to GOI as per the terms of their sanction, the amount of which was ₹ 20.15 crore. There was material uncertainty about its ability to pay such huge interest.
16.	HMT Chinar Watches Limited	Since the Company had closed its operation and inventories had not been moved, provision for non-moving inventories was inadequate.
17.	HMT Watches Limited	• The financial statements had been prepared assuming that the Company would continue as a going concern. The Company's operations were negligible compared to its installed capacity of working. The Company had suffered recurring losses from operations and had net capital deficiency that raised substantial doubt about the Company's ability to continue as a going concern. • Other Current Liabilities included a sum of ₹ 8.90 crore relating to advances received against sale of land including the building for which an Agreement to Sell had been executed and possession of land had been given to the purchaser. The transaction had not been recognized as sale pending approval from the concerned authorities for the execution of sale deed. • The difference of ₹ 1.89 crore between Gross block of fixed assets in Watch Marketing Division and as per Asset Register had not been reconciled.
18.	HOC Chematur Limited	The Company was formed as a Joint Venture between HOCL and CEAB, for setting up a project at Rasayani, Raigad District, Maharashtra, to manufacture 20,000 MTs per annum of Methyl Di-Isocyanate. Project viability in the meantime suffered due to higher input cost and lower sale price for want of project finance. In view of the uncertainty involved in project viability the holding company i.e. HOCL decided to opt for the winding up of the Company. The existence of a material uncertainty cast significant doubt about the Company's ability to continue as a going concern. The Company may not be able to realise its assets and discharge its liabilities in the normal course of business.
19.	India Trade Promotion Organisation	• Provision of ₹ 3.37 crore was made during the year (cumulative up to 31 March 2014 ₹ 27.27 crore) for Performance Related Pay and payments amounting to ₹ 11.75 crore released up to 31 March 2014 without approval of the scheme by the Company. • The quantified liability of Income Tax for ₹86.06 crore, ₹ 36.76 crore and ₹ 33.08 crore for the Assessment years 2009-10, 2010-11 and 2011-12 respectively; un-quantified Income-Tax liabilities for the subsequent assessment years 2012-13, 2013-14 and 2014-15 and un-quantified liability for interest and penalties, if any,

		for all these assessment years was not provided. However, withheld amounts of refunds and payments amounting to ₹ 52.29 crore were shown as asset. • No provision was made for Service-tax demand-cum–show cause for ₹ 26.82 crore and un-quantified interest and penalties, if any.
20.	Indian Drugs and Pharmaceuticals Limited (2011-12)	• In Rishikesh plant, interest on delayed payments to suppliers/service providers including CISF, Payment to employees under VRS, interest receivable from employees on delayed receipts, Port Clearance, Demurrage clearing and forwarding charges were being accounted for on cash basis which was in contravention to the provisions of Section 209(3) of the Companies Act, 1956. • The Company had not filed Income Tax Returns from Assessment year 2004-05 to 2010-11 which might attract penalty under section 271B and 271F of Income Tax Act, 1961.
21.	IndianOil CREDA Biofuels Limited	The Company had not valued the interest in the land which was brought as non cash capital contribution by CREDA. The Company had adopted the policy of maintaining the share capital ratio of 74:26 by allotting requisite share capital to CREDA on the basis of amount invested by IOCL upto 31 March 2013.
22.	Instrumentation Limited	Liability towards 'Liquidated Damage' amounting to ₹ 45.92 crore had not been provided.
23.	Karnataka Trade Promotion Organisation	• The 50 acre of developed land received from Karnataka Industrial Area Development Board amounting to ₹ 10 crore had not been taken in records. • Amount of ₹ 5.85 crore released by Government of Karnataka to Karnataka Industrial Area Development Board for development of external infrastructure had not been recorded. • No provision had been made for Income Tax for 2008-09 to 2013-14.
24.	Konkan Railway Corporation Limited	• Claims lodged against the Company and lying under arbitration (in respect of execution of Udhampur Srinagar Baramulla Rail Link Project) for a sum of ₹ 1587.80 crore was not considered as contingent liability. • No provision for contingency on estimated basis had been made on arbitration award granted for ₹ 10.01 crore.
25.	Moradabad Toll Road Company Limited	The assets (Moradabad by-pass along with other assets) which were earlier transferred to M/s. Moradabad Bareilly Expressway Limited with effect from 4 December 2010, were reinstated on 1 April 2011 at a value of ₹ 58.69 crore and the reinstated assets which were lying in the books as

		on 31 March 2012 had been transferred to NHAI as on 1 April 2012 at Zero value resulting in loss of ₹ 51.12 crore to the Company. However, no supporting evidences, agreements, confirmation etc. were made available confirming the same.
26.	National Bicycle Corporation of India Limited	No provision was made for interest amounting to ₹ 108.46 crore up to 31 March 2014 with respect to Government loans due to different mechanism adopted for calculating interest by Government.
27.	National Centre for Trade Information	The amount of bank and other time deposits of ₹ 4.00 crore made from Corpus Fund of the Company was shown as 'Investments' which was not in accordance with Schedule –VI of the Companies Act, 1956.
28.	National Handicapped Finance and Development Corporation	• Penal interest had been charged for financial years 2012-13 and 2013-14 only, there was no document/policy/resolution of the board or the general body, to show that the Company had waived off the penal interest for the earlier years though the same had never been charged. Though the interest had been calculated party wise yet the parties neither had been notified nor had the entries for the same been made in individual accounts of the parties. • The difference between the totals of the computerised loan outstanding and the manually maintained individual ledger accounts was not reconciled. • The Company had, for the benefit of its employees, created a separate gratuity trust, namely, "NHFDC Employees Group Gratuity Scheme" on 30 June 2011. The Company had booked all the contributions and expenses in its books while the same should have been done in the books of the trust. The following actions had not been taken: (a) The Trust had not been registered under section 12A of the Income Tax act, 1961, (b) No auditors had been appointed and consequently no audits had been conducted for the financial years 2011-12, 2012-13 and 2013-14. (c) The trust deed provided and the company had agreed to the clause that all the expenses of the gratuity trust would be borne by the Company. Non registration of the gratuity trust with the Income Tax Authorities would entail income tax liability on the income of the trust, which would cost additionally to the Company.
29.	National Insurance Company Limited	Cheques amounting to ₹ 986.57 crore and deposited in the banks but not credited by the bank; unidentified credits in the bank statement amounting to ₹ 952.12 crore and not

		effected in the books, and entries amounting to ₹ 146.98 crore (net difference between ledger balance & bank statement and between Gem & Genesis database) were yet to be reconciled.
30.	National Jute Manufacturing Corporation Limited	The accounts of its subsidiary Birds Jute & Exports Limited were not merged in the Company's financial statements.
31.	National Projects Construction Corporation Limited	• Against the amount of security deposit ₹ 59.98 crore deducted by the clients/Project authorities from the work bills raised by the Company, a provision for ₹ 10.15 crore had been created towards amount doubtful of recovery, although the Company had deducted and/or retained the amount equivalent to the security deducted by the client from the Sub-contractors bills amounting to ₹ 179.17 crore. Thus the provision so created for doubtful of recovery was superfluous. • Inventory of Stores/Spares/ Materials / Assets which were lying with third parties had neither been physically verified by the Management nor had any certificate been obtained from the parties holding the same. • In cases where contracts had been terminated resulting into disputes between Company/Sub-Contractors/ Clients/Project Authority, the Company had raised various claim bills on the clients based on the claim received from the Sub-Contractor, such bills had not been accounted in the books as per Accounting Policy (No – 6 (vi)) of the Company.
32.	National Textile Company Limited	Cumulative MAT credit entitlement of ₹ 92.30 crore shown as claimable as on 31 March 2014 was not in accordance with Guidance Note on accounting for credit available in respect of MAT.
33.	New Mangalore Port Road Company Limited	The Company had not charged depreciation of ₹ 7.31 crore, Finance Cost of ₹ 12.68 crore and Administrative cost of ₹ 0.20 crore due to delayed capitalization of 34.98 km of road on 4 December 2013 instead of as on 30 May 2012 which constitutes departure from the Accounting Standards.
34.	North Eastern Electric Power Corporation Limited.	The Company had shown an amount of ₹ 527.31 crore as deferred tax recoverable. The Company had not recognized any income on account of materialization of deferred tax liability though it was permissible as per CERC Regulation 2004. As the Company does not have project wise data of deferred tax liability and deferred tax recoverable of each project commissioned up to financial year 2008-09, total amount of deferred tax recoverable could not be assessed.
35.	NTPC Vidyut Vyapar Nigam Limited	• The Company had accounted for interest income on Fly Ash Utilization Fund as its income under other Income.

	• The policy guidelines for Fly Ash Utilization Fund framed by NTPC/NVVN had not been approved by the Ministry of Environment & Forests GOI though the fund was created vide notification dated3 November, 2009.
36.	PEC Limited	• Unable to comment on realisability of claims recoverable aggregating to ₹ 113.95 crore towards reimbursement of loss in supply of Edible Oil under the Public Distribution Scheme of GOI for the Financial Year 2008-09 and 2009-10. • Trade payable included Buyer's Credit of ₹ 502.27 crore which resulted in overstatement of Sundry Creditors and understatement of Unsecured Loans to that extent.
37.	Richardson & Cruddas (1972) Limited	• The appropriateness of the going concern basis was inter-alia dependent on the infusion of requisite funds for meeting its obligations, rescheduling/restructuring of debts. • Provision of Section 383A of the Companies Act, 1956 required a whole time Company Secretary, the same had not been complied. Provision of Section 215 also had not been complied regarding authentication of Financial Statements.
38.	Sambhar Salts Limited	Capital expenditure incurred on installing its Salt Refinery had been shown under capital work-in-progress although the said refinery was commissioned in 2010-11. Consequently depreciation had not been charged for the year.
39.	State Farms Corporation of India Limited	Undistributed amount of production subsidy for ₹ 5.80 crore related to 2007-08 was lying in the books of Bhopal Branch. There were around 700 farmers to whom this subsidy was to be distributed, out of which only 139 had been identified till the end of financial year. Out of identified farmers, the Company had paid the amount of subsidy to 23 such farmers and remaining 116 had not been paid since the bank details of these farmers were not available with the Company. Details regarding balance 561 farmers were not available with the Company.
40.	STCL Limited	The financial statements of the Company had been prepared on the assumption of going concern basis, notwithstanding the following indicators indicating that the preparation of financial statements on going concern basis was inappropriate. • The Shareholders of the Company in their Extraordinary General Meeting held on 12 September 2013 had approved winding up of the Company under Section 433(a) of the Companies Act, 1956. Ministry of Commerce and Industry vide its letter dated 26 August 2013 had conveyed approval of the Union Cabinet for winding up of the Company and offering Voluntary Separation Scheme to the employees. Accordingly, the

		Company had filed winding up petition with the High Court of Karnataka as on 26 November 2013 and had offered VSS to the regular employees. • UCO Bank from whom Company had borrowed short term loans had also filed winding up petition against the Company in the High Court of Karnataka. • The Company had negative net worth and had suffered cash losses. • The consortium of banks (except UCO Bank) had filed case against the Company with the Debt Recovery Tribunal and the bankers had also issued notice under Section 13(2) of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Based on the above, the bankers had issued two Possession Notices, one on the Factory Land and Building located at Byadagi and another on Factory Land and Building located at Chindwara, Madhya Pradesh.
41.	Tamil Nadu Trade Promotion Organization	The Company had not made provision for income tax liability of ₹ 56.52 crore and deferred tax liability ₹ 24.33 crore.
42.	The Handicraft and Handlooms Export Corporation of India Limited	The title deeds of three properties situated in Delhi had not been executed in the favour of Company. The liability on account of stamp duty on registration of title deeds could not be ascertained.
43.	Tungabhadra Steel Products Limited	The accounts of the Company had been compiled based on the assumption that the Company would continue as a going concern. The accumulated loss of ₹ 411.31 crore had exceeded the net-worth of ₹ 8.44 crore of the Company which had suffered cash loss during the year and in the immediately preceding financial year. The Company was a "sick industrial company" within the meaning of clause (O) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions Act), 1985. The Company had made reference to the BIFR during 2004-05. Thus, the Company's ability to continue as a going concern was in doubt and would depend upon any revival programme by BIFR/Government. Further, the BIFR in hearing held on 27 November 2013 formed an opinion that the Company was not likely to make its net worth exceed its accumulated losses within a reasonable time while meeting all its financial obligations and found it equitable and in public interest that it would be wound up under Section 201 of Sick Industrial Companies (Special Provisions Act), 1985.

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

Under section 619 (3) (a) of the Companies Act, 1956, CAG have powers to direct the manner in which the company's accounts shall be audited by the auditor appointed in pursuance of sub-section (2) of section 619 and to give such auditor instructions in regard to any matter relating to the performance of his functions.

In compliance with the directions issued by the CAG under section 619 (3) (a) of the Companies Act, 1956, significant observations were made by statutory auditors in their supplementary reports. The number of Companies where statutory auditors had observed deficiencies and had highlighted the need for improvement are given in ***Appendix -VII to Appendix - XVI***. Areas of such observations along with number of CPSEs involved, is depicted below.

Sl. No.	Area of Observation	Number of CPSEs
1.	Accounting Policies and Practices (Deficient accounting policies and practices)	**8**
2.	Business Risk (Procedure for identification of business risk was either inadequate or not in existence)	**22**
3.	System of Accounts and financial Control (System of accounts and financial control are required to be strengthened)	**59**
4.	Assets (including Inventory) (Economic Order Quantity, ABC Analysis, system of physical verification or maintenance of inventory was not adequate/deficient)	**58**
5.	Internal Audit System (Internal audit system needs to be strengthened)	**40**
6.	EDP Audit (Proper security policy for software/hardware, IT strategy/plan needs improvement)	**69**
7.	Costing System (Absence of formal cost policy or existing cost policy not effective)	**16**
8.	Awards and Execution of Contracts (Monitoring and adjusting advances to contractors and suppliers requires to be strengthened)	**17**
9.	Confirmation of Balances of Debtors and Creditors (Deficient system of obtaining confirmation of balances of debtors/creditors)	**22**
10.	Fraud and Risk (Inefficient fraud risk policy/whistle blowing policy)	**68**

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 were with regard to:

- improper maintenance of fixed assets register,
- non-existence of investment policy,
- non-creation of separate vigilance department, and
- non-fixation of inventory stock holding norms in the government companies including deemed government companies etc.

The details regarding lack of internal control in the various companies are given in ***Appendix - XVII***. Area of deficiency along with the number of companies involved is depicted below:

Sl. No.	Area of Deficiency	Number of CPSEs
1	Fixed Assets	7
2	Internal Procedures and Operational Efficiency	4
3	Investment	7
4	Inventory	9
5	Internal Audit	12
6	IT Policy	5
7	Vigilance	14