CHAPTER 2

Oversight Role of CAG

2.1 Audit of Public Sector Enterprises

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

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

Under Sections 129 read with Sections 96 and 145 of the Companies Act, 2013, the audited financial statements 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.

Statutory auditors of Companies for the year 2014-15 were appointed during June/July 2014.

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 government controlled other companies were appointed by the CAG for conducting the audit of accounts for the year 2014-15 during June/July 2014.

2.3 Submission of accounts by CPSEs

2.3.1 Need for timely submission

According to Section 394 of the Companies Act, 2013, 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 96 of the Companies Act, 2013 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 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration.

Section 129 (7) of the Companies Act, 2013 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 129 of the Companies Act, 2013.

However, audit noticed that no action 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 government controlled other companies

Out of 564 companies, accounts of 77 companies were in arrears.

As of 31 March 2015, there were 390 government companies and 174 government controlled other companies in the purview of CAG's audit from which the accounts for the year 2014-15 were due. A total of 333 government companies and 150 government controlled other companies submitted their accounts for audit by CAG on or before 30 September 2015. Accounts of 55 government companies and 22 government controlled other companies were in arrears for different reasons. Details of arrears in accounts of central government companies are given in Table 2.1.

Table 2.1: Details of arrears in accounts of CPSEs

Particulars		Government companies			Government controlled other companies			Total		
		Listed	Unlisted	Total	Listed	Unlisted	Total	Listed	Unlisted	Total
Companies from which accounts for 2014-15 were due		51	339	**390**	8	166	**174**	59	505	**564**
Companies presented the accounts for CAG's audit by 30 September 2015		50	283	**333**	8	142	**150**	58	425	**483**
Accounts not submitted[14]		-	2	**2**	-	2	**2**	-	4	**4**
Accounts in Arrears		1	54	**55**	-	22	**22**	1	76	**77**
Break- up of Arrears	(i) Under Liquidation	-	22	**22**	-	8	**8**	-	30	**30**
	(ii) Defunct	-	3	**3**	-	6	**6**	-	9	**9**
	(iii) Others	1	29	**30**	-	8	**8**	1	37	**38**
Age–wise Analysis of the arrears against 'Others' category	One year (2014-15)	1	22	**23**	-	4	**4**	1	26	**27**
	Two years (2013-14 and 2014-15)	-	3	**3**	-	2	**2**	-	5	**5**
	Three years and more	-	4	**4**	-	2	**2**	-	6	**6**

[14] Number of companies who have not submitted accounts are those whose first accounts are yet to be received for the year 2014-15, hence they were excluded from accounts in arrears

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 respect 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 2014-15 were presented for audit in time. The accounts of Food Corporation of India for the year 2014-15 were awaited as on 30 September 2015. 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 III to the Companies Act, 2013 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 139 of the Companies Act, 2013, conduct audit of accounts of the government companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

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 143 (5) of the Companies Act, 2013, and
- to supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

2.4.3 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, 2013 or other relevant Act is of the management of an entity.

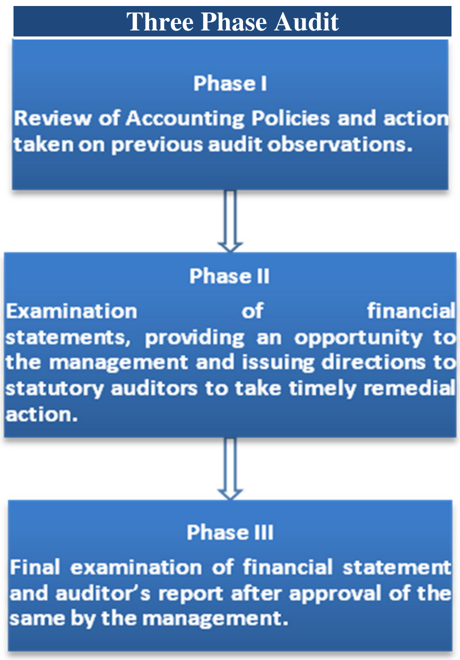
The statutory auditors appointed by the CAG under section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the financial statements under section 143 of the Companies Act, 2013 based on independent audit in accordance with the Standard Auditing Practices of ICAI and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

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 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 143 (6) of the Companies Act, 2013 to be placed before the Annual General Meeting.

As the responsibility of auditor is to help the management in enhancing the quality of financial reporting i.e. readability, reliability and usefulness to different stakeholders, the CAG introduced more intensified, innovative, focused and result oriented approach to financial audit by 'the System of Three Phase Audit'. The Three Phase Audit System was introduced with the following objectives in selected public sector enterprises 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 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-compliances etc., before the approval of the financial statements by the management of the CPSEs and provide an opportunity to the statutory auditors and the managements of the CPSEs to examine such issues for taking timely remedial action.
- 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 Phase – I and Phase – II of the Three Phase Audit approach are extended provisions of Section 143 (5) of the Companies Act, 2013. The audit observations under first two phases are treated as preliminary observations and communicated to the statutory auditors. The last phase of audit (Phase-III) is conducted after approval of the financial statements by the management and audit by the statutory auditors which is same as conducted earlier.

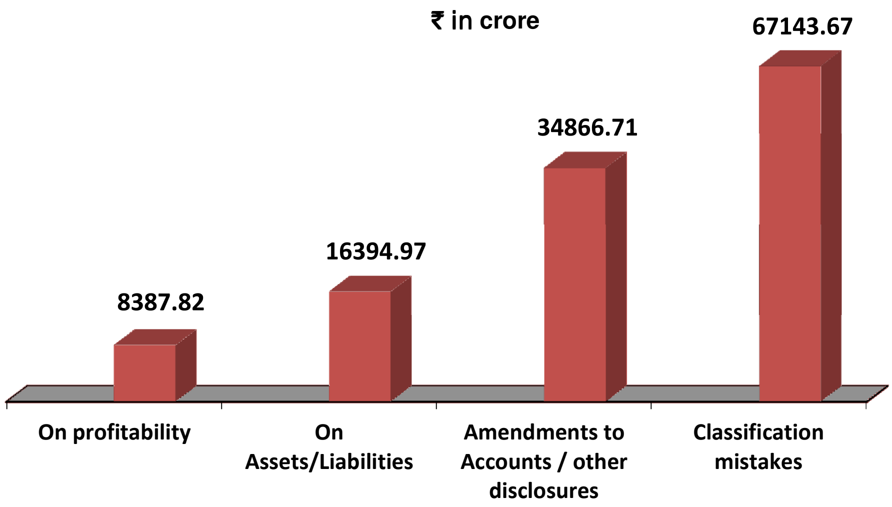
2.5 Result of CAG's oversight role

2.5.1 Impact of Three Phase Audit

As a result of Three Phase Audit conducted in 57 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 2014-15 is depicted in chart VIII.

Chart VIII: Impact of Three Phase Audit during 2014-15



Name of CPSEs where major value addition was made is given in Table 2.2.

Table 2.2: Name of CPSEs where major value addition made

Sr. No.	Name of the CPSE
1.	Bharat Heavy Electricals Limited
2.	General Insurance Corporation Limited
3.	Hindustan Aeronautics Limited
4.	Hindustan Copper Limited
5.	Hindustan Petroleum Corporation Limited
6.	Housing and Urban Development Corporation Limited
7.	NHPC Limited
8.	Northern Coalfields Limited
9.	NTPC Limited
10.	Oil and Natural Gas Corporation Limited
11.	Power Finance Corporation Limited
12.	Power Grid Corporation of India Limited
13.	Rural Electrification Corporation Limited
14.	South Eastern Coalfields Limited
15.	Steel Authority of India Limited

2.5.2 Audit of accounts of government companies/ government controlled other companies under Section 143 of the Companies Act, 2013

CAG reviewed accounts of 277 companies and five statutory corporations for the year 2014-15.

Financial statements for the year 2014-15 were received from 333 government companies (including 50 listed companies), 150 government controlled other companies (including eight listed companies) and five statutory corporations by 30 September 2015. Of these, accounts of 217 government companies and 60 government controlled other companies and five statutory corporations were reviewed in audit by the CAG.

In sum, CAG reviewed accounts of 65 *per cent* of the government companies and 40 *per cent* of government controlled other companies out of the accounts received upto 30 September 2015.

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 2014-15 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	• Allowance for bad and doubtful assets was understated by ₹ 309.66 crore. • Standard and Securitized Assets was understated by ₹ 17.55 crore. • Revenue from Operations was overstated by ₹ 5.54 crore.
Mahanagar Telephone Nigam Limited	License Fee was understated by ₹ 590.59 crore towards provisional assessment of dues raised by Department of Telecommunication.
Steel Authority of India Limited	'Other Expenses' were understated by ₹ 35.04 crore due to non-inclusion of expenditure incurred on Corporate Social Responsibility activities.
The State Trading Corporation of India Limited	'Other Income' included ₹ 203.61 crore towards interest on outstanding dues recoverable from Global Steel Philippines Inc./ Global Steel Holdings Limited in contravention of provisions of AS –9.

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.
Mahanagar Telephone Nigam Limited	Deposits with Excise and Sales Tax – Cenvat Credit was overstated by ₹ 104.62 crore pertaining to cenvat on bills issued by Bharat Sanchar Nigam Limited pending payment.
Steel Authority of India Limited	Tangible Assets included ₹ 7.79 crore incurred towards re-carpeting and repair done to restore the condition of the Nandini air –strip.
The State Trading Corporation of India Limited	• Trade Receivables included ₹ 1640.53 crore recoverable from Global Steel Philippines Inc./Global Steel Holdings Limited on account of steel slabs exported. • Revaluation Reserve included ₹ 547.29 crore towards reserve created in respect of leasehold land at Jawahar Vypar Bhavan and STC Housing Colony. In the absence of clear title to the leasehold land and written consent of lessor, revaluation done was not correct.

Comments on Disclosure

Name of the Company	Comment
IFCI Limited	The company failed to depict the share of profit attributable to minority interest amounting to ₹37.35 crore as required in Para 1 (i) of Schedule III of the Companies Act, 2013.

Name of the Company	Comment
Power Grid Corporation of India Limited	Share in one of its Joint Ventures (JV) viz. National High Power Test Laboratory Private Limited (NHPTPL) had been consolidated on the basis of 20 *per cent* shareholding as per JV agreement. The shareholding portion of the company in NHPTPL, however, stood at 21.64 *per cent* due to non-contribution of required Share Capital by one of the JV Partners. This was not disclosed in the Notes to Accounts.

❖ **Unlisted companies**

Comment on Profitability

Name of the Company	Comment
Artificial Limbs Manufacturing Corporation of India Limited	The decrease in liability as on 31 March 2015 on account of gratuity and leave encashment payable to the employees was not adjusted/accounted for by the Company.
Bengal Chemicals & Pharmaceuticals Limited	• Loss after Tax was understated by ₹ 11.81 crore due to recognition of unaccounted Fixed Deposits including interest accrued and amount of Tax deducted at source. • Confirmed Liability of ₹ 1.05 crore was accounted as contingent liability.
Hindustan Salts Limited	Short Term Loans and Advances was overstated by ₹ 1.43 crore due to not considering penal interest receivable from subsidiary company Samber Salts Limited.
IFCI Venture Capital Fund Limited	• Revenue from operations included ₹ 2.17 crore towards accrued interest on substandard short term loan of M/s Marg Limited and M/s Nakoda Limited which was not in accordance with RBI norms. • Other Expenses did not include ₹ 0.87 crore being short provision in respect of short term loan of M/s Marg Limited wrongly classified as restructured standard loan. • No provision had been made as per RBI norms against the outstanding loan (₹ 6.21 crore) to M/s Nakoda Limited as classified as standard asset.
IFIN Securities Finance Limited	Short Term Provisions was understated by ₹ 6.73 crore due to short provision made against advance to Zylog Group, as the gift deeds mortgaged for securing loan were found forged.
India Infrastructure Finance Company Limited	Loan asset related to Indira Container Terminal Private Limited was incorrectly treated as Standard Asset instead of Non Performing Asset.
Indian Drugs and Pharmaceutical Limited (2012-13)	• Other Long Term Liabilities did not include ₹ 117.18 crore towards electricity charges payable as per reconciliation with Uttarakhand Power Corporation Limited. • No provision had been made for ₹ 16.25 crore towards interest payable to CISF.

Name of the Company	Comment
National Insurance Company Limited	Profit after Tax was overstated by ₹455.35 crore due to write back of IBNR claims previously provided on account of dismantling of Indian Motor Third Party Insurance Pool in concurrence with IRDA's order.
National Projects Construction Corporation Limited	'Litigation Expenses' included ₹ 7.23 crore relating to 'Interest on delayed payment of service tax payment'.
National Waqf Development Corporation Limited	Revenue from Operations was overstated due to recognising the income at the rate of 10% against five percent of total funds transferred to State Waqf Board towards Administrative expenses.
Nepa Limited	Due to incorrect valuation, inventories of finished goods were overstated.
Nuclear Power Corporation of India Limited	Provision of 100% diminution in the value of investment of ₹ 147.32 crore in the Joint Venture M/s L&TSSHF had been included under 'Administrative and Other Expenses' instead of 'Extraordinary Item'.
PFC Consulting Limited	Other Operating Income included ₹ 0.30 crore on account of sale proceeds of 'Request for Proposal' documents received by the Company in the capacity of Bid Processor Co-ordinator relating to an Independent Transmission Projects viz., Special Purpose Vehicle which was in violation of Standard Bidding Documents.
Samber Salts Limited	Long Term Borrowings was understated by ₹ 1.43 crore due to not considering penal interest payable to the parent company Hindustan Salts Limited.
Security Printing & Minting Corporation of India Limited	• No provision was made for ₹ 36.69 crore towards 226.48 million pieces of bank notes printed in 2014 bearing the signature of the Governor who had completed his tenure in September 2013 and not lifted by RBI. • Loss for the year was understated by ₹ 199.65 crore due to recognition of revenue from the sale of coins on the basis of rates finalized by Cost Accounting Branch for the year 2012-13 instead of selling rates adopted in Memorandum of Understanding for 2014-15.

Comments on Financial Position

Name of the Company	Comment
Artificial Limbs Manufacturing Corporation of India Limited	Long Term Borrowings included ₹ 52.13 crore towards outstanding interest and penal interest on loans approved for conversion into equity by GOI.
Bharat Broadband Network Limited	'Advances to Others' were overstated due to non-provision of amount paid to NICSI for hiring of manpower for the year 2014-15.
Haridaspur Paradip Railway Company Limited	No provision had been made for claim of ₹ 3.38 crore raised by Rail Vikas Nigam Limited towards interest charges.

Name of the Company	Comment
Hindustan Prefab Limited	• Trade payables was worked out after netting off the debit balance of Sundry Creditors of ₹ 10.64 crore. • Other Current Liabilities were overstated by ₹ 13.77 crore due to inclusion of non-current liabilities of security deposit and earnest money deposit.
Hindustan Shipyard Limited	The company received ₹ 457.36 crore from GOI for Refurbishment and Replacement of Machinery and Infrastructure Scheme. The interest earned on the unutilized funds was to be credited to GOI. The company invested the unutilized amount in fixed deposits and diverted ₹ 361.79 crore for meeting various working capital requirements of which ₹ 175.86 crore was replenished. No provision was made for the notional interest of ₹ 9.27 crore that would have accrued on the funds diverted by company.
Kanti Bijli Utpadan Nigam Limited	Interest of ₹ 0.74 crore due on late payment of advance tax for the year 2014-15 was included in 'Current Tax' instead of 'Finance cost'.
Nabinagar Power Generating Company Private Limited	• Capital Liability payable certified as ₹ 0.84 crore was erroneously accounted for as ₹ 8.40 crore. • Capital Expenditure payable in respect of contract to M/s Gannon Dunkerely & Co Limited was overbooked by ₹ 4.35 crore • 'Other Current Liabilities' was overstated by ₹ 0.28 crore in respect of contract awarded to M/s Absolute Project (India) Limited.
National Projects Construction Corporation Limited	• 'Security Deposit' had been shown under 'Other Non-Current Assets' in place of 'Long Term Loan and Advances'. • Cash and Cash Equivalents was overstated by ₹ 34.68 crore in respect of Fixed Deposit Receipts pledged to third party. • No provision was made for payment of enhanced compensation to land owners in compliance with the judgment dated 16 February 2015 of Hon'ble court of District and Session judge, Lunglei.
NICS Inc.	'Other income (Interest income)' was overstated by ₹ 13.87 crore towards retained interest earned on grant in aid received from GOI for various projects.
PEC Limited	Loans and advances included ₹ 7.58 crore towards advance provided to M/s Whitefield against Turnover financing for stock of rice, the existence of which could not be substantiated.

Comments on Disclosure

Name of the Company	Comment
Cross Border Power Transmission Company Limited	Estimated amount of contracts remaining to be executed on capital account and not provided for did not include ₹ 11.08 crore on account of price variation towards supply and service contracts remaining to be executed by M/s KEC International Limited.

Name of the Company	Comment
Hindustan Salts Limited	The facts that (i) 23569 acres of land at Kharaghoda was under dispute with Government of Gujarat and (ii) 74.086 acres of land at Guma was yet to be mutated in the name of the Company in the records of the Revenue Department of Mandi, Himachal Pradesh were not suitably disclosed.
National Projects Construction Corporation Limited	Income Tax demand dated 23 March 2015 of ₹ 64.44 crore had not been included under Contingent Liability.
Rajasthan Drugs and Pharmaceuticals Limited	The company had made a reference to the Board of Industrial and Financial Reconstruction for registration of the company as Sick Industrial Company as the accumulated losses had exceeded its net worth and it needed immediate remedial measures for revival. This had not been disclosed.
Sambhar Salts Limited	The facts/information that (i) 2648 acres of land was under encroachment/dispute (ii) 58.24 acres of disputed land in other's name, was under possession with the Company (iii) no lease deed in respect of 57600 acres of land had been signed by the Company with Government of Rajasthan (iv) the present market value of the encroached land as on Balance Sheet date were not suitably 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.
Housing and Urban Development Corporation Limited	The observation that the company had created an additional provision of ₹ 170 crore for non-performing assets, beyond the NHB norms was deficient as it was mere repetition of Point 25 of Explanatory Notes (Note 26) given in the Financial Statements without recording the substantive reasons for this qualification in contradiction to the requirement of Standard on Auditing 705. Moreover, the additional provision was made by the company in accordance to their Accounting policy adopted in 2014-15 which was duly agreed to by the Statutory Auditor.

❖ Unlisted government controlled other companies

Comment on Profitability

Name of the Company	Comment
National High Power Test Laboratory Private Limited	The Company had charged total expenditure of ₹ 2.28 crore on enabling assets not owned by the Company to the Statement of Profit and Loss which had further been transferred to Capital Work-in-Progress as 'Expenditure During Construction'.

Comment on Financial Position

Name of the Company	Comment
National High Power Test Laboratory Private Limited	Consultancy fees of ₹ 2.67 crore payable to Power Grid Corporation of India Limited was shown as Trade Payables instead of Other Current Liabilities.

Comment on Disclosure

Name of the Company	Comment
Energy Efficiency Services Limited	The capital commitment was overstated due to inclusion of ₹ 4.66 crore in respect of a contract awarded in 2015-16.
National High Power Test Laboratory Private Limited	• Capital Commitment was understated by ₹ 8.51 crore due to incorrect inclusion of capital commitment towards project execution assigned to Power Grid Corporation of India Limited. • Contingent Liabilities did not include demand of ₹ 0.49 crore raised by Income Tax Department.

❖ 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) Due to serious reservations regarding the maintenance of proper books of accounts and other relevant records by the Authority, Audit was unable to form an opinion as to whether the financial statements of NHAI give a true and fair view in conformity with accounting principles generally accepted in India; as enumerated below:

(a) The Capital work-in-progress (CWIP) of ₹ 140797.31 crore included expenditure incurred by NHAI on the completed as well as ongoing highway projects. On one hand NHAI contended that the GOI was the owner of these road assets, on the other hand, these were being shown in the Balance Sheet as Fixed Assets of NHAI.

(b) The above amount could not be verified in the absence of project-wise details of expenditure on ongoing as well as completed projects.

(c) The entire amount of borrowing cost of ₹ 1780.87 crore for the year 2014-15 booked under CWIP included borrowing cost in respect of completed projects also in contravention to generally accepted accounting principles and NHAI's Accounting Policy No.6.2.

(d) Allocation of 'Net establishment expenses for the year' amounting to ₹ 206.43 crore to CWIP was also against generally accepted accounting principles as this was revenue expenditure and entire amount should not be allocated to CWIP. Proportionate amount related to completed projects was not a part of CWIP and should not be capitalized. In the absence of project wise details of expenditure, Audit had been unable to quantify the impact of such incorrect booking.

(e) The Capital work-in-progress included ₹ 10941.71 crore incurred by the Authority 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.

(ii) CWIP included ₹ 1155.98 crore released by the NHAI to the State Governments for NHDP phase-IV projects on the advice of Ministry of Road Transport and Highways. These projects had not been transferred to NHAI.

(iii) No reserve fund had been created as per Rule 9 of NHAI Rules 1990 for amount of ₹ 24892.85 crore shown as payable to the bond holders of capital gain tax free bonds-54EC (₹ 9187.60 crore), tax fee redeemable non-convertible bonds (₹ 15000 crore) and loan from ADB (₹ 705.25 crore).

(iv) An amount of ₹ 86.03 crore represented the amount collected/received by the NHAI from contractor/concessionaire on account of encashment of bank guarantee, damages, negative change of scope and annuity. These amounts had been booked as Capital Reserve without indentifying its nature.

(v) Interest on un-utilized capital included ₹ 152.39 crore towards accrued interest on the loan disbursed to nine subsidiary companies. This interest income had been deducted from CWIP instead of being shown as income in P&L Account. This has resulted in understatement of CWIP and income for the year by ₹ 152.39 crore.

(vi) 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) ₹ 642.39 crore in six subsidiary companies, viz., Visakhapatnam Port Road Company Ltd., Cochin Port Road Company Ltd. and Paradip Port Road Company Ltd., New Mangalore Port Road Company Ltd, Calcutta Haldia Port Road Company Ltd and Tuticorin Port Road Company Ltd. Due to accumulated losses ranging from 33.92 *per cent* to 155.56 *per cent of* share capital, it resulted in erosion of their net worth for which no provision had been made as per Accounting Standard – 13.

(vii) Loan to Subsidiary Companies included loan of ₹ 71.49 crore given to two subsidiary companies, viz., M/s Moradabad Toll Road Company Limited and M/s Ahmedabad–Vadodara Expressway Company Ltd. As 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 for which no provision was made.

(viii) Claim recoverable was understated by ₹ 56.65 crore due to non inclusion of claim recoverable from (a) concessionaire on account of increase in user fee due to increase in length of project highway, negative change of scope, damages, concession fee toll remittance payable to GOI (b) IDBI bank on account of services provided for redemption of bonds and (c) annual interest payment on bonds for the year 2014-15 in respect of PIUs at Rohtak, Aligarh, Gwalior, Ajmer, Narsinghpur and Kanpur.

(ix) Cash and bank balance was understated by ₹ 40.13 crore due to non-accounting of amounts credited by bank on account of encashment of bank guarantees by NHAI and performance security directly deposited by the contractor in the NHAI bank account during the year 2014-15.

(x) Other liabilities was understated by ₹ 791.02 crore due to non/short provision of liability on account of CALA demand, positive grant payable, construction work done and certified, land acquisition demand of Defence Authority, interest payable bill for variations in BsOQ etc.

(xi) The Authority, vide note no. 24, on Notes to Accounts has stated that Accounting Standards issued by the ICAI (except for AS 15, 17 and 21) have generally been followed. The Expert Advisory Committee of the ICAI has also opined that 'it is appropriate to apply accounting standards to the NHAI is preparation of its financial statements'.

However, as brought out in the previous paragraphs, the Authority has deviated from the provisions of Accounting Standards and guidelines issued by the ICAI.

(xii) Advance for deposit work given to various departments/agencies amounting to ₹ 158.86 crore are lying un-reconciled in the books of accounts ranging from 03 to 12 years.

(xiii) The Authority carried out corrections in the accounts to the extent of ₹ 298 crore on the basis of audit observations, as detailed below:

(₹ in crore)

Particulars	Inter Head		Intra Head	
	Debit	Credit	Debit	Credit
Assets	146.66	5.40	-	-
Liabilities	2.34	143.60	-	-
Profit & Loss A/c	-	-	-	-
Total	**149.00**	**149.00**	**-**	**-**

(2) Airports Authority of India

Subject to reservations regarding non obtaining of basic records of Delhi International Airport Limited (DIAL) and Mumbai International Airport Limited (MIAL) and their JVs and the minutes of the meeting of Board of Directors of DIAL and MIAL in order to certify the total revenue of DIAL and MIAL and correspondingly the share of Airports Authority of India (Authority) as per Operation, Management and Development Agreement (OMDA), the audit of Balance Sheet and Profit and Loss Account of the authority was carried out on the basis of all information, explanation produced to audit.

(i) Reserve & Surplus did not include grant amounting to ₹ 14.10 crore released by Ministry of Civil Aviation on 30 March 2015.

(ii) Current liabilities was understated by ₹ 55.74 crore due to non/short provision of liability on account of VISF payments, disputed amount recoverable, property tax payable, income tax on PRP expenditure and payment to IATA.

(iii) Current liabilities did not include provision for minimum amount of service tax amounting to ₹ 29.95 crore payable on the dues cleared by Air India during 2013-14 and 2014-15.

(iv) Tangible Fixed Assets was understated by ₹ 9.40 crore due to Non-capitalization of civil work/ assets in three profit centres.

(v) While calculating Deferred Tax assets, provision for superannuation benefits schemes of ₹ 618.46 crore, which were yet to be approved, was included resulting in overstatement of Deferred Tax Assets by ₹ 210.21 crore.

(vi) As per the accounting policy of the Authority, the provision for Income Tax was adjusted against the advance tax and TDS on receipt of final order from ITAT (Appeal). The Authority had adjusted Advance Tax and TDS upto the assessment year 2010-11 against the provision for income tax of the concerned year. However, the Authority had not reconciled the TDS balances appearing in the books for the assessment years 2011-12 to 2015-16.

(vii) Income included airport lease revenue from DIAL (₹ 1967.81 crore) and MIAL (₹ 929.31 crore), for the year 2014-15. As per clause 1.1 of Operation Management and Development Agreements executed by the Authority for Delhi and Mumbai airports with DIAL and MIAL, the JVCs were required to share their pre-tax gross revenue (DIAL - 45.99 per cent and MIAL – 38.70 per cent) with AAI. To ensure the correctness of revenue shared with the Authority, as per clause 11.2 of the OMDA, independent revenue auditor was appointed by DIAL/MIAL and the Authority who certifies the revenue to be shared by these JVCs with the Authority.

As reflected in the Independent Revenue Auditors Report of DIAL for the years 2013-14 and upto June 2014, the Independent Revenue Auditors had qualified that financial statements of the JVs formed for outsourcing of non-aeronautical services, had not been verified since the same were not furnished to them. They had also stated that neither the financial statements of these JVs nor access to the books of accounts of these JVs was made available to them. Further, review of records revealed that the Authority was fully dependent on the Revenue Auditors' report (quarterly) to account for the airport lease revenue being earned from these JVCs in its books of accounts and the Authority was not independently verifying the correctness of the airport lease revenue calculations. Moreover, the Authority could not produce any basic records to Audit for verifying the correctness of revenue accruing to DIAL and MIAL from these JVs and the share of revenue transferred to the Authority as per OMDA. In the absence of relevant records the veracity of airport lease revenue of ₹ 2897.12 crore reflected in the books of accounts could not be vouchsafed.

(3) Inland Waterways Authority of India

As per the Authority's revised format of accounts, which were approved by the Ministry of Shipping, Road Transport & Highways vide its letter No. G-25020/1/2004-IWT dated 28/02/05, the Authority was to include in its accounts:

- A policy statement in Form C3 that the accounts had been prepared keeping in view all the relevant accounting standards approved by Institute of Chartered Accountants of India.
- A note in the accounts about the Member's Responsibility Statement.

The Authority was also required to form an audit committee on the lines of provisions of Companies Act as a measure of good corporate governance.

The Authority failed to comply with the directives of the Administrative Ministry.

On the basis of observations of Audit, the Management carried out corrections in the accounts to the extent of ₹ 107.34 crore as detailed below:

(₹ In crore)

Particulars	Increase	Decrease
Assets	36.65	53.39
Liabilities	-	0.22
Expenditure	16.80	0.06
Income	0.22	-

2.6 Departures from Accounting Standards

In exercise of the powers conferred by Section 469 of the Companies Act, 2013, read with Section 129 (1) and Section 133 of the said Act, the Central Government, in consultation with National Advisory Committee on Accounting Standards prescribed Accounting Standards 1 to 7 and 9 to 29 as recommended by the Institute of Chartered Accountants of India.

The statutory auditor reported that 31 companies as detailed in ***Appendix-V*** departed from mandatory Accounting Standards.

However, during course of supplementary audit, the CAG 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 Statement	Aravali Power Company Private Limited	The fact that 'Cash and Bank Balances' included fixed deposits of ₹ 3.65 crore pertaining to Fly Ash Utilization Reserve and ₹ 2.70 crore with lien on account of issue of Letter of Credit by bank were not readily available for use was not disclosed.
	IFCI Venture Capital Fund Limited	The Company had neither disclosed components of cash and cash equivalents nor prescribed any accounting policy for determining the composition of cash and cash equivalents.
	IFIN Securities Finance Limited	
	IFIN Commodities Limited	
AS - 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	Antrix Corporation Limited	Prior period items amounting to ₹ 18.20 crore were shown under 'other income'.
	Chandigarh Schedule Caste Financial and Development Corporation Limited (2012-13)	Amount of Reserve for Bad and Doubtful Debts and Reserve for Relief & Common Good Fund had been shown as Exceptional Items.

	Fresh and Healthy Enterprises Limited	The impact of change in Accounting Policy on depreciation on Fixed Assets in compliance to the Companies Act, 2013 had not been disclosed.
	Kutch Railway Company Limited	The impact of revision of depreciation rates based on maximum useful life of Fixed assets as per Companies Act, 2013 had not been disclosed.
	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	National Textile Company Limited	The company recognized interest of ₹ 21.94 crore on loan given to British India Corporation even though there was no budgetary support from Ministry of Textiles.
AS – 10 Accounting for Fixed Assets	NHPC Limited	Expenditure of ₹ 173.61 crore incurred on enabling assets not owned by the company were charged to Expenditure during Construction and transferred to Capital work in progress/capitalized.
	NTPC Limited	The company capitalized the expenditure of ₹ 167.99 crore incurred on assets not owned by the company under tangible Assets and Capital work in progress.
AS - 12 Accounting of Government Grants	IFCI Limited	General Reserve included ₹ 184.48 crore transferred from Grants received from GOI under KfW Loan despite it being of capital nature to be utilized for specified purposes for promotional activities of Industrial Development.
	Indian Drugs and Pharmaceuticals Limited (2012-13)	Accounting Policy adopted for Government Grants had not been disclosed.
AS-13 Accounting of Investment	IFCI Limited	The company had made a policy for provision against diminution in value of equity shares as per which no diminution was required to be provided till there was no default in buyback arrangement and the decline in book value of unquoted equity was more than 75 *per cent*. As a result of this policy, company had made no provision/ inadequate provision against long term investment of ₹734.31 crore in respect of six companies despite erosion of net worth, continuous cash losses, negative earnings, accumulated losses and having no buy-back commitment/ default in buy-back commitments by investee companies.
	Indian Drugs and Pharmaceuticals Limited (2012-13)	Despite permanent decline in the value of investment in three subsidiaries/joint venture companies, no provision had been made.

AS - 15 Employees Benefit	Rajasthan Drugs & Pharmaceuticals Limited	Employees benefit expenses did not include for accumulated half pay/sick leave standing at the credit of employees.
AS – 18 Related Party	Cement Corporation of India	The company had not disclosed name, remuneration paid to key management personnel and transactions with related parties.
	IFIN Securities Finance Limited	
	SBI Cards Payments Services Private Limited	
AS – 22 Deferred Tax Assets	Rajasthan Drugs & Pharmaceuticals Limited	The previously recognized Deferred Tax Assets had not been written down in the absence of virtual certainty of its realization.
	Indian Vaccines Company Limited	Deferred Tax Assets had been recognized though there was no income from operations and the expenditure incurred during the year exceeded the income from leasing of factory land and interest from Bank Deposits.
	Kanti Bijli Utpadan Nigam Limited	Deferred Tax Assets of ₹ 17.52 crore was not created.

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 CPSEs were reported as comments by the CAG under Section 143 (5) of the Companies Act, 2013. Besides these comments, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process, were also communicated to the management through a 'Management Letter' for taking corrective action. These deficiencies generally related to

- application and interpretation of accounting policies and practices,
- adjustments arising out of audit that could have a significant effect on the financial statements, and
- inadequate or non disclosure of certain information on which management of the concerned CPSE gave assurances that corrective action would be taken in the subsequent year.

During the year CAG issued 'Management Letter' to 104 CPSEs.