CHAPTER II

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

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

Sections 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of one hundred and eighty days from the commencement of the financial year.

Statutory auditors of Companies for the year 2016-17 were appointed during June-July 2016.

The statutory auditors of the above Companies for the year 2016-17 were appointed by the CAG during June-July 2016.

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 Annual General Meeting (AGM) and as soon as may be after such preparation laid before both the Houses of Parliament together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating statutory corporations. This mechanism provides the necessary parliamentary control over the utilisation of public funds invested in the companies from the Consolidated Fund of India.

Section 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 in this regard has been taken against the defaulting persons including directors of the Central Government Companies responsible for non-compliance 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 630 companies, accounts of 81 companies were in arrears

As of 31 March 2017, there were 438 Government Companies and 192 Government Controlled Other Companies under the purview of CAG's audit. Of these, accounts for the year 2016-17 were due from 433 Government Companies and 192 Government Controlled Other Companies. Accounts were not due from 5 Government Companies which were new. A total of 376 Government Companies and 168 Government Controlled Other Companies submitted their accounts for audit by CAG on or before 30 September 2017. Accounts of 57 Government Companies and 24 Government Controlled Other Companies were in arrears for various reasons. Details of arrears in submission of accounts of Government Companies are given below:

Particulars	Government Companies/Government Controlled Other Companies where CAG conducts supplementary audit					
	Government Companies		Government Controlled Other Companies		Total	
Total number of Companies under the purview of CAG 's audit as on 31.03.2017	438		192		630	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Listed/Unlisted	51	387	8	184	59	571
Less: New Companies from which accounts for 2016-17 were not due	0	5	0	0	0	5
Number of companies from which accounts for 2016-17 were due	51	382	8	184	59	566
Number of companies which presented the accounts for CAG's audit by 30.09.2017	51	325	8	160	59	485

Number of accounts in arrears		0	57	0	24	0	81
Break-up of Arrears	(i) Under Liquidation	0	22	0	8	0	30
	(ii) Defunct	0	3	0	6	0	9
	(iii) First Accounts not submitted	0	2	0	1	0	3
	(iii) Others	0	30	0	9	0	39
Age–wise Analysis of the arrears against 'Others' category	One year (2016-17)	0	21	0	3	0	24
	Two years (2015-16 and 2016-17)	0	3	0	2	0	5
	Three years and more	0	6	0	4	0	10

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

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, accounts of four[25] statutory corporations for the year 2016-17 were presented for audit in time. The accounts of Food Corporation of India for the year 2016-17 were awaited as on 30 September 2017. 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.

[25] ***Airports Authority of India, Damodar Valley Corporation, Inland Waterways Authority of India and National Highways Authority of India***

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of public sector undertakings 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.

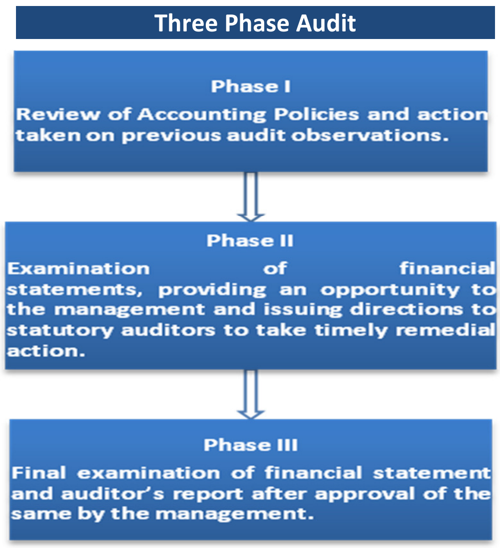
2.4.3 Three Phase Audit of annual accounts of selected CPSEs

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.

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 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 Institute of Chartered Accountants of India (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.



The certified accounts of selected Government Companies along with the report of the statutory auditors are reviewed by CAG by carrying out a supplementary audit. Based on such review, 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 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 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.

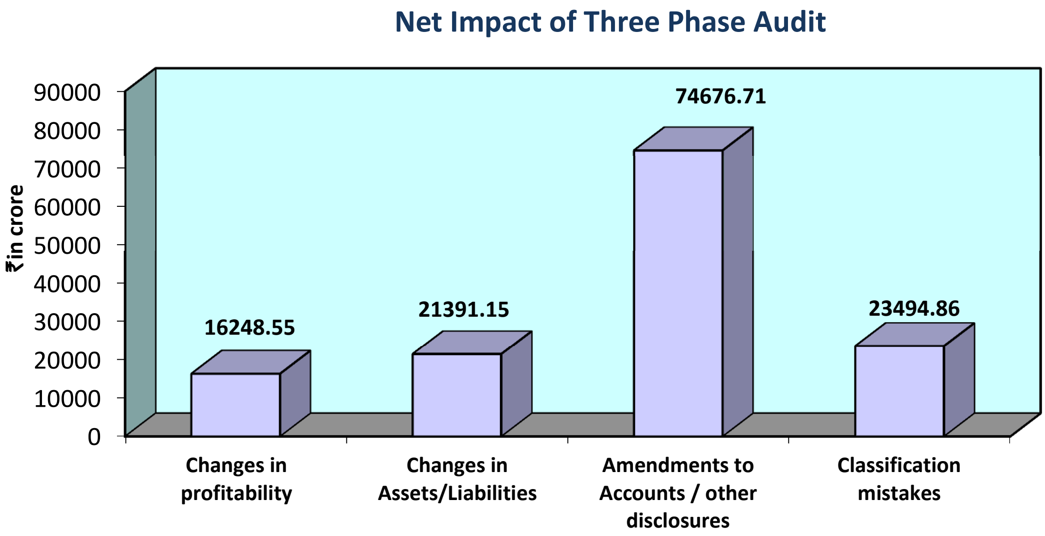
The Phase – I and Phase – II of the Three Phase Audit approach are extended provisions of Section 143 (5) of the Companies Act, 2013. The audit observations under first two phases are treated as preliminary observations and communicated to the statutory auditors as part of sub-directions under Section 143 (5) of the Companies Act, 2013. The last phase of audit (Phase-III) is conducted after approval of the financial statements by the management and audit by the statutory auditors.

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 71 CPSEs for the year 2016-17, 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 2016-17 is depicted in the following graph:



CPSEs where major value addition was made were:

Sl. No.	Name of the CPSE
1.	GAIL India Limited
2.	Hindustan Aeronautics Limited
3.	Hindustan Copper Limited
4.	Housing & Urban Development Corporation Limited
5.	Indian Oil Corporation Limited
6.	Mahanadi Coalfields Limited
7.	New India Assurance Company Limited
8.	NHPC Limited
9.	Northern Coalfields Limited
10.	Oil and Natural Gas Corporation Limited
11.	ONGC Videsh Limited
12.	Power Finance Corporation Limited
13.	Rural Electrification Corporation Limited
14.	Southern 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 332 companies and five statutory corporations for the year 2016-17

Financial statements for the year 2016-17 were received from 376 Government Companies (including 51 listed companies), 168 Government Controlled Other Companies (including 8 listed companies) and 5 statutory corporations by 30 September 2017. Of these, accounts of 251 Government Companies and 81 Government Controlled Other Companies and 05 Statutory Corporations were reviewed in audit by the CAG.

In total, CAG reviewed accounts of 67 *per cent* of the Government Companies and 48 *per cent* of Government Controlled Other Companies out of the accounts received up to 30 September 2017.

2.5.3 Revision of Auditors Report

As a result of supplementary audit of the accounts for the year ended 31 March 2017 conducted by the CAG, the statutory auditors of 35 Government Companies and 6 Government Controlled Other Companies revised their report.

2.5.4 Comments of the CAG issued as supplement to the statutory auditors' reports on Government Companies/Government Controlled Other Companies

Subsequent to the audit of the financial statements for the year 2016-17 by statutory auditors, the CAG conducted supplementary audit and the significant comments issued on accounts of Government Companies and Government Controlled Other Companies are as detailed below:

❖ **Listed Government Companies**

Comment on Profitability

Sl. No.	Name of the Company	Comment
1.	Hindustan Organic Chemicals Limited	• Employee Benefits Expenses and Loss were understated due to non-inclusion of ₹84.46 crore being the expenditure towards Voluntary Retirement Scheme/Voluntary Separation Scheme introduced by the Company as per the restructuring plan for the Company approved (25 May 2017) by the Government of India. • Employee Benefits Expenses were understated and Prior Period Adjustments were overstated by ₹22.08 crore due to incorrect classification of provision on account of wage revision (1997 and 2007) of Rasayani Unit.
2.	IFCI Limited (Standalone and Consolidated Financial Statement)	• Long term Loans and Advances were overstated and Allowance for Bad and Doubtful Assets as well as losses were understated by ₹123.66 crore due to: i. Short provision of ₹51.03 crore due to incorrect classification of subscription of ₹56.74 crore in Non-Convertible Debentures of VBC Industries Limited as standard asset instead of doubtful assets, ii. Short provision of ₹2.68 crore due to non-classification of loan of ₹ 50 crore given to Kohinoor Power Private Limited as sub-standard asset, iii. Non-creation of provision of ₹69.95 crore as per RBI's S4A[26] scheme in respect of term loans of ₹368.97 crore

[26] *Scheme for Sustainable Structuring of Stressed Assets*

		extended (July 2013 and July 2015) to Coastal Energen Pvt. Ltd. • Inadequate provision to the tune of ₹155.46 crore made for diminution in value of long term investments.
3.	Mumbai Metro Rail Corporation Limited	• Current Liabilities and Capital Work in Progress were understated by ₹84.45 crore due to: **(i)** non-accounting of ₹76.03 crore being the amount due for the work contracts upto 31 March 2017. **(ii)** non-provisioning of ₹8.42 crore towards front end fee payable on the loan from Japan International Corporation Agency for implementation of Mumbai Metro Line-3 Project.
4.	Shipping Corporation of India Limited	• Trade Receivables as well as Profit were overstated and Provision for Doubtful Debts were understated by ₹6.05 crore due to unbooked offhires and short paid service tax in respect of eight vessels deployed between March, 2014 and March, 2017 based on Charter Party agreements with M/s Poompuhar Shipping Corporation Limited.
5.	Steel Authority of India Limited – Consolidated and Standalone Financial Statements	• An amount of ₹8.15 crore deducted by Railways towards Engine Hire Charges for the period between December 2015 and December 2016 on account of failure of the Company to unload/load wagons within permissible free time, was shown as claims recoverable which resulted in overstatement of Claims Recoverable and understatement of Other Expenses and Losses for the year by ₹8.15 crore. • Other Expenses and Losses were understated to the tune of ₹15.75 crore due to non-provisioning of the amount deducted by Indian Railways towards excess excise duty paid by it earlier on procurement of long rails from the Company during the period from 2008 to 2010. • Non-provision of a claim of ₹22.87 crore from NTPC-SAIL Power Supply Company Limited (NSPCL), a 50:50 joint venture company between the Company and NTPC, towards Deferred Tax Liability resulted in understatement of Other Expenses and Loss by ₹22.87 crore.
6.	The State Trading Corporation of India Limited (Standalone and Consolidated Financial Statements)	• Write back of the liability towards 25 *per cent* of lease rent payable to Land & Development Office for the period 2004-05 to 2015-16, in respect of an office building, unilaterally and without any change in the terms and conditions of the existing lease agreement, resulted in overstatement of Exceptional Items–Income by ₹66.12 crore and understatement of Liabilities as well as Loss to the same extent.

Comments on Disclosure

Sl. No.	Name of the Company	Comment
1.	Mahanagar Telephone Nigam Limited	• Non-provisioning of License Fee of ₹590.90 crore pertaining to the period from 2007-08 to 2010-11 and 2012-13 demanded by Department of Telecommunication (DOT) was

		commented upon on the accounts of the Company for the year ended 31st March 2016. In response, the Company had stated that issues were under review by DOT, no license fee dues were pending, there was no acknowledged debt in view of the issue not attaining finality and thus, there was no justification for creation of provision for it. The above was however, not disclosed in the Financial Statements of the year 2016-17.
2.	The State Trading Corporation of India Limited (Consolidated Financial Statements)	• The Auditor's Report did not disclose a case of conspiracy, cheating, fraud and misrepresentation of stock during the year 2004 to 2016 by a business associate having outstanding balance of ₹1904.24 crore.

❖ **Unlisted Government Companies**

Comment on Profitability

S.N.	Name of the Company	Comment
1.	Air India Limited (For the Year 2015-16)	• Depreciation to the tune of ₹306.43 crore was not provided in respect of nine Aircrafts which were transferred to Asset held for disposal. This resulted in understatement of Depreciation and Amortisation expenses and overstatement of Asset Held for Disposal by ₹306.43 crore. Consequently, Loss was also understated by the same extent. • The Company wrote back an amount of ₹14.01 crore towards amortisation of leasehold land which was not on perpetual lease. This resulted in understatement of Depreciation and understatement of Loss by ₹14.01 crore.
2.	Bharat Dynamics Limited	• Sale of Spares included Spares valuing ₹40.82 crore which were accounted based on undated Inspection Certificates issued after 31 March 2017. Inclusion of sale value of these spares in sale of Spares resulted in overstatement of sale of Spares by ₹40.82 crore. This also resulted in an overstatement of profit and understatement of inventory, the impact of which could not be quantified.
3.	Heavy Engineering Corporation Limited	• Non-accounting of consumption as per Bin Card in the Stores Price Ledger resulted in overstatement of Inventories and understatement of consumption of Raw Materials and Stores & Spares by ₹6.55 crore. Consequently, Loss was understated by the same amount.
4.	Hindustan Salts Limited (Consolidated Financial Statement)	• Non-provision of arrears due to merger of 50 *per cent* of Dearness Allowance for CDA pattern employees for the period April 2004 to May 2009 resulted in understatement of Expenses as well as Current Liabilities by ₹1.17 crore. Consequently, Loss was understated by the same amount.
5.	MPCON (Standalone and Consolidated Financial Statements)	• Other Current Liabilities did not include ₹1.20 crore being the liability for leave encashment on accumulated leave standing to the credit of employees as assessed by Life Insurance Corporation of India which resulted in understatement of liability for leave encashment and overstatement of Profit by ₹1.20 crore.

6.	Oriental Insurance Company Limited	• As per qualified opinion given in the Auditors' Report of Kuwait Agency (branch office of the Company) for the years 2015-16 as well as 2016-17, Auditors were unable to satisfy themselves as to recoverability of an amount of ₹31.05 crore towards reinsurance ceded receivables. Against this, a provision of only ₹12.30 crore was created without any evidence for chances of recovery of balance amount of ₹18.75 crore. This has resulted in understatement of Provision and Loss for the year by ₹18.75 crore. • The Premium Deficiency Reserve (PDR) was understated by ₹107.65 crore as the same was not created in accordance with Clause no. 64 V (1) (ii) (b) of Insurance Act, 1938 read with Clause no.3 of IRDAI's Circular (04 April 2016). This resulted in understatement of Loss for the year by ₹107.65 crore.

Comments on Financial Position

Sl.	Name of the Company	Comment
1.	Air India Express Limited	• The Company made a provision at the rate of 0.5 *per cent* as against the Guarantee Fees payable at 1 *per cent* of outstanding dues payable to Government of India. This resulted in under provision of Other Current Liabilities and overstatement of Profit by ₹49.91 crore.
2.	Air India Limited (For the year 2015-16)	• Short Term Provisions were understated by an amount of ₹7.56 crore and ₹7.68 crore towards Service Tax for the years 2015-16 and 2014-15, respectively being applicable on revenue shared with Air India Air Transport Services Limited (AIATSL) during these years. This resulted in understatement of Short Term Provisions by an amount of ₹15.24 crore and understatement of Other Expenses by an amount of ₹7.56 crore and Prior Period Adjustment (Net) by an amount of ₹7.68 crore. Consequently, Loss for the year was understated by ₹15.24 crore.
3.	Educational Consultants India Limited	• Advance Against Projects was understated by ₹1.10 crore being the amount of service tax which was deducted and paid in the year 2013 from the advance received from Ministry of Human Resource Development (MHRD) against National Project Implementation Unit for the Technical Education Quality Improvement Programme of Government of India as the same was not agreed by MHRD. This resulted in understatement of Other Long Term Liabilities (Advances against Projects) and overstatement of Profit for the period by ₹ 1.10 crore.
4.	NLC Tamil Nadu Power Limited	• Delay in capitalisation of common assets, by two months, resulted in undercharging of depreciation by ₹7.16 crore. This also resulted in overstatement of Non-Current Assets and Profit by the same amount.
5.	ONGC Petro additions Limited	• Trade Payables did not include the following payments due to Oil & Natural Gas Corporation Limited (ONGC): **(i)** premium of ₹8.58 crore and exports related expenses and loading charges of ₹28.92 crore for Naphtha

		supplied by ONGC through Marine route in the year 2016-17. **(ii)** short payment of ₹15.49 crore due to adoption of wrong formula for working out the payment to be made to ONGC for supply of methane during 2016-17. **(iii)** liability for payment of interest of ₹7.35 crore on overdue payments to ONGC for purchase of Naphtha, Ethane, Propane & Butane. Consequently, Current Liabilities and Loss for the year were understated by ₹60.34 crore. • Provisions were understated by ₹10.50 crore due to non-accounting of an invoice raised by M/s Samsung Engineering Co. Ltd in December 2016. Non provision of the same has resulted in understatement of the Current Liability, Other Expenses as well as Loss for the year by ₹10.50 crore.
6.	Sidcul Concor Infra Company Limited	• Fixed Deposits of ₹12.26 crore having original maturity of more than three months but less than twelve months were included under Cash and Cash Equivalents instead of Other Bank Balances. • Non-Current Assets were overstated and Current Assets were understated due to inclusion of security deposit of ₹0.99 crore refundable by Railways after setting up of Private Freight Terminal (PFT) under Non-current Assets.

Comments on Disclosure

Sl. No.	Name of the Company	Comment
1.	Air India Express Limited	• Air India Express Limited was providing depreciation for full year in the year of acquisition of Assets in respect of 'Rotables' and 'Other Fixed Asset' and no depreciation was provided in the year of disposal. This was not in accordance with the Companies Act 2013. • As per Notes to the Financial Statements, Inventories were valued at weighted average cost. This was contrary to Accounting Standard 2 - Valuation of Inventories which provides that Inventories should be valued at cost or net realisable value.
2.	Air India Limited – Consolidated Financial Statement (For the year 2015-16)	• As per Notes to the Financial Statements, Inventories were valued at weighted average cost. This was contrary to Accounting Standard 2 - Valuation of Inventories which provides that Inventories should be valued at cost or net realisable value.
3.	Air India Limited-Standalone (For the year 2015-16)	• The accounting policy in respect of 'Assets held for Sale' was not in line with the Accounting Standard 10 - Accounting for Fixed Assets. • Air India Limited was providing depreciation for full year in the year of acquisition of Assets in respect of 'Rotables' and 'Other Fixed Asset' and no depreciation was provided in the year of disposal. This was not in accordance with the Companies Act 2013.

		• As per Notes to the Financial Statements, Inventories were valued at weighted average cost. This was contrary to Accounting Standard 2 - Valuation of Inventories which provides that Inventories should be valued at cost or net realisable value. • The fact of cancellation of lease deed of land for staff housing colony at Vasant Vihar and expiry of lease deed relating Land at Khajuraho for housing colony was not disclosed. • Lease deed in respect of Land at Bhopal for booking office and for land at Varanasi, were not found on records.
4.	IFCI Financial Services Ltd.	• The statutory auditors did not comply with the notification dated 30 March 2017 issued by Ministry of Corporate Affairs which provided Independent Auditors' Report should contain a comment as to whether the company had provided requisite disclosure in its financial statements as to holdings as well as dealings in Specified Bank Notes (SBN) during the period from 8 November 2016 to 30 December 2016 and if so, whether these are in accordance with the books of accounts maintained by the company.
5.	IIFCL Projects Limited	• Earnings per Share was incorrectly calculated by considering the closing number of shares at the year-end instead of time weighting the equity shares issued during the year which was contrary to the provisions of Accounting Standard 20 - Earnings Per Share.
6.	Indian Medicines and Pharmaceuticals Corporation Limited (For the year 2015-16)	• Contingent Liabilities, incorrectly, included ₹0.69 crore towards penalty charges which were already deducted by three parties for delayed supply of products. • Commitment for estimated amount of contracts remaining to be executed on capital account did not include an amount of ₹5.09 crore being the capital commitment towards remaining estimated amount of contract given for renovation and modification of existing facilities.
7.	Kamarajar Port Limited	• Property, Plant & Equipment included land to the extent of 8.48 acre, acquired by the company, which was yet to be mutated in its name. However, the land was fraudulently mortgaged by a third party with various banks and the said banks have attached the same. This fact was not disclosed in the Financial Statements.
8.	NHDC Limited	• In Cash Flow Statement, cash outflow of ₹269.98 crore towards bank deposits with more than 12 months' maturity (including impact of interest accrued) was included in 'Cash Flow from Operating activities' instead of 'Cash Flow from Investing Activities' which was contrary to the requirements of IND AS 7 – Statement of Cash Flows.
9.	NLC Tamil Nadu Power Limited	• The Company held and transacted Specified Bank Notes and Other Denomination Notes during the period from 8 November 2016 to 30 December 2016. The disclosure in this regard as per the provisions of the notification issued by the Ministry of Corporate Affairs on 30.03.2017 was however, not made in the Financial Statements. Further, the statutory auditor

		instead of reporting the non-disclosure in his Audit Report wrongly stated that the Company did not have any holding or dealings in Specified Banks Notes during the period from 8 November 2016 to 30 December 2016.
10.	ONGC Mangalore Petrochemicals Limited	• Out of a total demand of ₹15.23 crore received from Mangalore SEZ Limited towards maintenance, development and other expenditure incurred for providing infrastructure facilities and amenities for the year 2015-16 and 2016-17, the Company paid ₹6.09 crore under protest and made provision for ₹3.83 crore, due to a dispute regarding computation of the total demand in the absence of a formal Operations and Maintenance Agreement. However, disclosures on dispute and balance demand of ₹5.31 crore was not made.
11.	Oriental Insurance Company Limited	• Non-bifurcation of investments in accordance with IRDAI's circular dated 4 April 2016 read with the IRDAI's Investments Regulations, 2016 and IRDAI circular dated 12 January 2017 resulted in overstatement of shareholders' investments and understatement of policyholders' investments by ₹2370 crore. • In addition, IRDAI's direction to bifurcate the Fair Value Change Account under the Policyholders' Funds and Shareholders' Funds, was also not complied with. • Against the net addition of Fixed Assets amounting to ₹150.11 crore made during the year 2016-17, Company depicted ₹162.89 crore in Cash Flow Statement. This resulted in a difference of ₹12.78 crore between books of accounts and Cash Flow Statement.
12.	Tamilnadu Telecommunications Limited	• The Company did not disclose the details of Specified Bank Notes (SBN) even though it held and transacted the same during the period from 8 November 2016 to 30 December 2016. This was contrary to notification dated 30 March 2017 issued by the Ministry of Corporate Affairs (MCA). • Further, the statement of Statutory Auditors in their Report that the company disclosed the details of the Specified Bank Notes (SBN) held and transacted during the period from 8th November 2016 to 30th December 2016 and they are in accordance with the books of accounts maintained by the company was not factual in view of the above.

❖ **Unlisted Government Controlled Other Companies**

Comment on Profitability

Sl. No.	Name of the Company	Comment
1.	Agriculture Insurance Company of India Limited	• Creation of provision on Investments in Government Securities/Bonds in contravention of IRDA Master Circular issued in October 2012 resulted in overstatement of Provisions by ₹18.07

		crore and understatement of the Profit for the current year by ₹4.17 Crore. It also resulted in understatement of Reserves & Surplus by ₹13.90 crore.

Comment on Financial Position

Sl. No.	Name of the Company	Comment
1.	Agriculture Insurance Company of India Limited	• Non-bifurcation of investments in accordance with IRDAI's circular dated 4 April 2016 read with the IRDAI's Investments Regulations, 2016 and IRDAI circular dated 12 January 2017 resulted in overstatements of Shareholders' Investments and understatement of Policyholders' Investments by ₹1059.63 crore. • IRDAI's direction to bifurcate the Fair Value Change Account under the Policyholders' Funds and Shareholders' Funds was not complied with.

❖ Statutory Corporations where CAG is the sole auditor

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

Airports Authority of India

i. Airports Authority of India could not produce basic records for verifying the correctness of revenue accruing to its Joint Ventures viz. Delhi International Airport Limited (DIAL) and Mumbai International Airport Limited (MIAL) and the share of revenue transferred to Airports Authority of India as per the respective Operation, Management and Development Agreements. In the absence of relevant records, the veracity of revenue of ₹3826.38 crore received from DIAL and MIAL could not be vouchsafed.

ii. Other Income, disclosed in Notes to Accounts, did not include an amount of ₹6.89 crore towards interest accrued but not due on Fixed Deposits of ₹597.00 crore for the period from 18 January 2017 to 31 March 2017.

iii. Provision for Bad and Doubtful Debts was overstated by ₹38.48 crore due to creation of excess provision as against the accounting policy.

iv. Other provisions-rehabilitation created from 1996-97 to 2013-14 to rehabilitate the encroachers of land at airports of AAI included an amount of ₹445.74 crore. As no further expenditure was envisaged by the Airports Authority of India against such provision as on 31 March 2017, continuation of the provisions was in contravention of the provisions of Accounting Standard 29 – Provisions, Contingent Liabilities and Contingent Assets and resulted in overstatement of Long Term Provisions and consequent understatement of Profit by ₹445.74 crore.

v. Other Current Liabilities did not include an amount of ₹25.14 crore as per details below:

(₹ in crore)

S. N.	Particulars	Amount
1.	Non-provision of liability for deployment of security personnel, salary/DA arrear at Ludhiana, Pathankot, Leh and Bhuntar airports	12.02
2.	Non-provisioning of liability for deficiency charges payable to South Delhi Municipal Corporation.	5.17
3.	Non-provision of liability towards Cost Recovery Charges demanded by Customs Department at Amritsar Airport for the period April 2005 to December 2016	5.72
4.	Non-provision of liability for service charges payable to Corporation of Chennai	0.92
5.	Non-provisioning of compensation award in relation to extension and strengthening of runway and allied work at Maharana Pratap Airport, Udaipur	0.32
6.	Non-provision of liability for spares delivered by supplier in March 2017	0.99
	Total	**25.14**

vi. Current Liabilities included excess provision of liability of ₹109.43 crore on account of the following:

(₹ in crore)

S. N.	Particulars	Amount
1.	Non-adjustment of liability on account of balance unspent compensation towards Voluntary Retirement Scheme received from DIAL and MIAL.	106.02
2.	Non-adjustment of liability towards Tax Deducted at Source from employees which was already paid.	2.65
3.	Anti-hijacking expenses to be met by Government of Andhra Pradesh shown as liability of AAI.	0.76
	Total	**109.43**

vii. Notes to accounts pertaining to Tangible Fixed Assets included an amount of ₹4.71 crore which should not have been capitalised in the books of accounts of AAI as per details given below:

(₹ in crore)

S. N.	Particulars	Amount
1.	Re-carpeting work at tango taxi and perimeter road at Jaipur Airport (₹2.58 crore); replacement of flooring and false ceiling at Leh Airport (₹0.48 crore); earth work related to levelling and grading of strip at Bhuntar Airport (₹0.22 crore) and cost of paver blocks over damaged bitumen road at Jodhpur Airport (₹0.17 crore).	3.45
2.	Proportionate cost recoverable from Director General of Civil Aviation towards integrated office complex and furniture at Lucknow Airport.	0.68
3.	Interest earned on mobilisation advance given to the contractor, not set off against the cost of construction of Terminal Building, Ceremonial Lounge etc. at Vijaywada Airport.	0.58
	TOTAL	**4.71**

viii. Tangible Fixed Assets did not include an amount of ₹22.14 crore as per details below, which should have been capitalised in the books of accounts of AAI:

(₹in crore)

S. N.	Particulars	Amount
1.	Cost of development of land at Rangpuri for shifting of land owners of Nangal Dewat village.	21.08
2.	Cost of completed building work at Jaipur (₹0.88 crore) and enhanced compensation and interest paid to land owners as per court orders at Jammu Airport (₹0.18 crore)	1.06
	TOTAL	**22.14**

ix. Notes to Accounts on Capital work-in-progress (CWIP) included an amount of ₹106.34 crore which should not have been booked in CWIP, as per details given below:

(₹ in crore)

S. N.	Particulars	Amount	Amount of Depreciation
1.	**Completed works included in CWIP**		
	Conveyor line and additional departure conveyors for common handling line at Kolkata Airport	10.08	1.11
	Radio Navigation Equipment including civil work at Aligarh Airport	0.51	0.03
	Installation of passenger boarding bridges, car parking work, compound wall at Surat Airport	3.25	0.30 (incl. prior period ₹0.01 crore)
	Supply installation and testing of X-BIS (Baggage Inspection System) at Indore	1.61	0.18
	Non-capitalisation of photocopier, Master Clock System, printers and SAP at Corporate Headquarters of AAI	3.99	3.05 (incl. prior period ₹2.26 crore)
	Sub Total	**19.44**	**4.67**
2	**Works executed on behalf of other agencies but included in CWIP of AAI**		
	Cost of construction of Indian Aviation Academy constructed on behalf of Director General of Civil Aviation (DGCA) and Bureau of Civil Aviation and Security (BCAS) against deposit work.	82.27	--
	Proportionate cost of BCAS/AAI building and furniture at Amritsar Airport which was recoverable from BCAS	3.48	--
	Sub Total	**85.75**	-
3	**Expenses of revenue nature booked under CWIP**		
	Renovation of toilets, glass partition and false ceiling at Kangra Airport (₹0.10 crore) and replacement of existing tile flooring at Srinagar Airport (₹1.05 crore)	**1.15**	--
	Grand TOTAL (1+2+3)	**106.34**	**4.67**

x. Notes to Accounts on Claims not acknowledged as debts under Contingent Liabilities did not include an amount of ₹246.40 crore being the amount demanded by Government of Rajasthan for land admeasuring 43.49 acres under possession of Airports Authority of India and covered with boundary wall.

2.6 Non Compliance with provisions of Accounting Standards

In exercise of the powers conferred by Section 469 of the Companies Act, 2013, read with Section 129 (1), Section 132 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 auditors reported that 16 companies as detailed in **Appendix-VI** did not comply with mandatory Accounting Standards.

During course of supplementary audit, the CAG observed that the following companies had also not complied with the Accounting Standards which were not reported by their statutory auditors:

Accounting Standard		Name of the Company	Deviation
AS 13	Accounting for Investments	IFCI Limited	• The Company did not make adequate provision for diminution in the value of long term investments of ₹155.46 crore.
AS-15	Employee Benefits	MPCON Limited	• Non-recognition of liability for leave encashment on accumulated leave standing to the credit of employees as assessed by Life Insurance Corporation of India.
AS– 22	Deferred Tax Assets	Broadcast Engineering consultants India Limited	• Deferred Tax Assets did not include an amount of ₹0.05 crore due to non-inclusion of provision created for performance related pay in deferred tax calculation.

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 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 observations 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 CAG issued 'Management Letters' to 114 CPSEs.