Chapter-III

Oversight role of CAG

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3.1 Audit of State Public Sector Enterprises (SPSEs)

Comptroller and Auditor General of India (CAG) appoints the Statutory Auditors of a State Government Company[1] and State Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. Comptroller and Auditor General of India has a right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the Statutory Auditor. Accounts of Statutory Corporations are audited by the Comptroller and Auditor General of India as required by their Statutes governing them and a report be submitted to the State Legislature.

3.2 Appointment of Statutory Auditors of SPSEs by CAG

Section 139 (5) of the Companies Act, 2013 provides that the Statutory Auditors in case of a State Government Company or State Government Controlled Other Company are to be appointed by the Comptroller and Auditor General of India (CAG) within a period of 180 days from the commencement of the financial year.

The Statutory Auditors of the SPSEs registered under Companies Act, 2013 and Punjab State Warehousing Corporation for the year 2019-20 were appointed by the CAG during August 2019. Further, the statutory auditors of Punjab Financial Corporation are appointed by shareholders in the General Meeting out of panel of auditors approved by Reserve Bank of India.

3.3 Submission of accounts by SPSEs

3.3.1 *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 the House or both Houses of the State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the Comptroller and Auditor General of India. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the Companies from the Consolidated Fund of the State.

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[1] A Government Company is defined in Section 2(45) of the Companies Act, 2013 as a company in which not less than *51 per cent* of the paid-up share capital is held by Central Government, or by any State Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company.

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.

Despite above, annual accounts of various SPSEs were pending as on 31 December 2020, as detailed in the following paragraph.

3.3.2 *Timeliness in preparation of accounts by State Government Companies and State Government Controlled Other Companies*

As of 31 March 2020, there were 42 State Government Companies (one listed and 41 unlisted) and three State Government Controlled Other Companies under the CAG's audit purview. Of these, Accounts for the year 2019-20 were due[2] from all 42 State Government Companies and three State Government Controlled Other Companies. A total of 12 Government Companies submitted their accounts for audit by Comptroller and Auditor General of India on or before 31 December 2020. Accounts of 33 State Government Companies were in arrears for various reasons. Details of arrears in submission of accounts of these are given below:

Table 3.1: Arrears in Submission of Accounts by State Government Companies and State Government Controlled Other Companies

Particulars	**State Government Companies / State Government Controlled Other Companies**					
	State Government Companies		**State Government Controlled Other Companies**		**Total**	
Total number of Companies under the purview of CAG's auditas on 31 March 2020	42		3		45	
	Listed	**Unlisted**	**Listed**	**Unlisted**	**Listed**	**Unlisted**
Listed/Unlisted	1	41	-	3	1	44
Less: New Companies from which accounts for 2019-20 were not due	-	-	-	-	-	-
Number of Companies from whom accounts for 2019-20 were due[2] for submission	1	41	-	3	1	44
Number of Companies which presented the accounts for CAG's audit by 31 December 2020	1	11	-	-	1	11

[2] Due date for holding of Annual General Meeting has been extended upto 31 December 2020 for the financial year 2019-20 due to difficulties faced due to Covid pandemic as per Registrar of Companies order of 8 September 2020.

Number of Companies with accounts in arrears		-	30	-	3	-	33
Breakup of Arrears	(i) Under Liquidation	-	4	-	-	-	4
	(ii) Defunct	-	12	-	-	-	12
	(iii) First Accounts not submitted	-	-	-	-	-	-
	(iv) Others	-	14	-	3	-	17
Age-wise analysis of arrears against 'Others' category	One year (2019-20)	-	6	-	3	-	9
	Two years (2018-19 and 2019-20)	-	7	-	-	-	7
	Three years and more	-	1	-	-	-	1

Source: Compiled on the basis of annual accounts received in this office.

The names of Companies with accounts in arrears are indicated in ***Annexure 7.***

3.3.3 *Timeliness in preparation of accounts by Statutory Corporations*

Audit of Statutory Corporations is governed by their respective legislations. Out of four Statutory Corporations, the CAG is sole auditor for Punjab Scheduled Castes Land Development and Finance Corporation and PEPSU Road Transport Corporation. In respect of Punjab State Warehousing Corporation and Punjab Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the Comptroller and Auditor General of India. None of the four Statutory Corporations submitted their accounts for the financial year 2019-20 upto 31 December 2020. The position of arrears of accounts of Statutory Corporations are indicated in ***Annexure 7***.

3.4 CAG's Oversight- Audit of accounts and supplementary audit

3.4.1 *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 renamed as National Financial Reporting Authority[3]. The Statutory Corporations are required to prepare their accounts in the format prescribed under the Rules, framed in consultation with the Comptroller and Auditor General of India and any other specific provision relating to accounts in the Act governing such Corporations.

[3] Effective from 01 October 2018

3.4.2 *Audit of accounts of State Government Companies by Statutory Auditors*

The Statutory Auditors appointed by the Comptroller and Auditor General of India under Section 139 of the Companies Act 2013, conduct audit of accounts of the State Government Companies and submit their reports thereon in accordance with Section 143 of the Companies Act, 2013.

The Comptroller and Auditor General of India plays an oversight role by monitoring the performance of the Statutory Auditors in audit of Public Sector Enterprises 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.

3.4.3 *Supplementary Audit of accounts of Government Companies*

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 the 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 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 State 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.

3.5 Result of CAG's oversight role

3.5.1 *Audit of accounts of State Government Companies/State Government Controlled Other Companies under Section 143 of the Companies Act, 2013*

The financial statements of 12 working State Government Companies for the financial year 2019-20 were received by 31 December 2020. Of these 12 accounts received, NRC[4] was issued to three companies and audit of nine

4 Non-review certificate

companies[5] was conducted. The results of the review conducted by the Comptroller and Auditor General of India are detailed below:

3.5.2 *Significant comments of the CAG issued as supplement to the statutory auditors' reports on State Government Companies*

Subsequent to the audit of the financial statements for the year 2019-20 by Statutory Auditors, the Comptroller and Auditor General of India conducted supplementary audits of the financial statements of the State Government Companies. The list of SPSEs in respect of whom comments were issued is given in ***Annexure 8***. Significant comments issued on financial statements of State Government Companies have been tabulated below. The financial impact of comments of CAG on the profitability of SPSEs was ₹ 1,339.15 crore[6].

Table 3.2: Comments on Profitability

Sl. No.	Name of Company	Comments
1.	Punjab State Transmission Corporation Limited	Company did not follow its Accounting Policy of recognising receivable delayed payment surcharges (DPS) on accrual basis. This resulted in understatement of trade receivables and overstatement of loss by ₹ 53.86 crore.
2.	Punjab State Power Corporation Limited	• The Punjab State Electricity Regulatory Authority had allowed recovery of carrying cost from various categories of consumers in the form of surcharge during the period from January 2020 to December 2020. The Company booked carrying cost of ₹ 1,177.40 crore pertaining to the period April 2020 to December 2020 as current year (2019-20) income in violation of its accounting policy. This resulted in understatement of loss by like amount. • Administration & General Expenses did not include consent fees of ₹ 2.18 crore payable to Punjab Pollution Control Board. • Finance Cost was understated by ₹ 85.36 crore - due to short accountal of Guarantee charges payable to State Government and delayed payment surcharge payable to PSTCL. There was consequent equal understatement of loss.

Source: Comments on Financial Statements of SPSEs as finalised by the CAG.

5 Comments of two SPSEs *i.e.* Punjab Agri Export Corporation Limited and Punjab Agro Juices Limited are under finalisation.

6 PSTCL: ₹ 70.84 crore + PSPCL: ₹ 1,268.31 crore

Table 3.3: Comments on Financial Position

Sl. No.	Name of Company	Comments
1.	Punjab State Transmission Corporation Limited	Capital Work in Progress included expenditure of ₹ 1.64 crore which was to be written off as per the decision of Board of Directors of the Company. Consequently there was equal understatement of loss.
		Pursuant to the implementation of Punjab Power Sector Reforms Transfer Scheme 2010, Consumer's contribution, grants and subsidies of ₹ 338.97 crore were wrongly converted into capital of the State Government in equity of the Company. Thus equity capital was overstated and other equity understated by the amount.
2.	Punjab State Power Corporation Limited	The Company short-closed/terminated the work order for consultancy services. As per the decision of Board of Directors of the Company, the entire expenditure of ₹ 3.37 crore incurred on the work was to be written off. However, the same was not done. There was thus overstatement of Other Non current assets and understatement of loss by ₹ 3.37 crore.

Source: Comments on Financial Statements of SPSEs as finalised by the CAG.

Table 3.4: Comments on Disclosures

Sl. No.	Name of Company	Comments
1.	Punjab State Transmission Corporation Limited	As per Micro, Small and Medium Enterprises Development Act, 2006, delay in payment of ₹ 4.80 crore to firms covered in the Act has to be disclosed. However the same was not done in case of three firms.

Source: Comments on Financial Statements of SPSEs as finalised by the CAG.

3.6 Non-compliance with provisions of Accounting Standards/Ind AS

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 prescribed Accounting Standards 1 to 7 and 9 to 29. Besides these, the Central Government notified 41 Indian Accounting Standards (Ind AS) through Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) (Amendment) Rules, 2016. Non-compliance with mandatory Accounting Standards/Ind AS reported by Statutory Auditors are listed in ***Annexure 9***.

During the course of supplementary audit, the Comptroller and Auditor General of India observed that the following Companies had also not complied with the Accounting Standards/Ind AS, which were not reported by their Statutory Auditors:

Table 3.5: Non-compliance with the Accounting Standards/Ind AS

Name of Company	Accounting Standard/ Ind AS	Standard/ Ind AS	Deviation
Punjab State Power Corporation Limited	Ind AS-108	Operating Segments	The disclosure was deficient to the extent that detailed information (e.g. segment result, segment assets and liability, etc.) relating to its operating segments i.e. generation of power and distribution of power as per the requirement of Ind AS-108 was not disclosed.
	Ind AS-37	Provisions, Contingent liabilities & Contingent Assets	Damodar Valley Corporation had claimed fixed cost for non-scheduling period from 23 February 2017 to 25 March 2018. The petition was pending before Central Electricity Regulatory Commission but the same was not disclosed in non-observance of accounting policy.
Punjab State Container and Warehousing Corporation	Ind AS-17	Leases	The Company accounted up-front fee of ₹ 35 crore on straight line method in 10 years instead of over the lease period of 15 years as mandated by Ind AS 17. This resulted in overstatement of Other Equity and understatement of Other Non-Current liabilities by ₹ 4.28 crore.
Punjab State Transmission Corporation Limited	Ind AS-109	Financial Instruments	The Company booked guarantee fee of ₹ 29.90 crore during the year of its incurrence instead of amortising the same over the respective tenure of related loan in non-observance of Ind AS-109. There was understatement of Current Assets by ₹ 4.13 crore, Understatement of Non-Current Assets by ₹ 14.49 crore and Overstatement of Loss by ₹ 18.62 crore

Source: Finalised comments by CAG.

3.7 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 SPSEs were reported as comments by the Comptroller and Auditor General of India under Section 143 (6) of the Companies Act, 2013. Besides these comments, irregularities or deficiencies observed by Comptroller and Auditor General of India 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 SPSE gave assurances that corrective action would be taken in the subsequent year.

During the year, irregularities and deficiencies in the financial reports or in the reporting process observed during supplementary audit which were not material, were communicated to the Management of four SPSEs through 'Management Letter' for taking corrective action (***Annexure 8***).