



**CHAPTER-VIII
OVERSIGHT
ROLE OF CAG ON
ACCOUNTS OF
SPSEs**

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Oversight Role of CAG on Accounts of SPSEs

8.1 Audit of State Public Sector Enterprises (SPSEs)

Comptroller & Auditor General of India (CAG) appoints the statutory auditors of a State Government Company and State 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 State Legislature.

8.2 Appointment of statutory auditors of SPSEs by CAG

Sections 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a State Government Company are to be appointed by the CAG within a period of 180 days from the commencement of the financial year.

8.3 Submission of Accounts by SPSEs

8.3.1 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 State Legislature 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 legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of State.

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

8.3.2 Timeliness in preparation of accounts by State Government Companies/Statutory Corporations

As of 31 March 2020, there were 72 State Government Companies, three Statutory Corporations and four Government controlled other companies under the purview of CAG's audit (total 79 SPSEs). Of these, accounts for the year 2019-20 were due from all State Government Companies / Statutory Corporations. A total of two²²² State Government Companies submitted their accounts for the year 2019-20 for audit by CAG on or before 31 December 2020. Accounts of rest 70 State Government Companies, three Statutory Corporations and four Government Controlled Other Companies (total 77 SPSEs) were in arrears for various reasons.

Audit of Statutory Corporations is governed by their respective legislations. Out of the three Statutory Corporations, the CAG is the sole auditor for Bihar State Road Transport Corporation. In respect of Bihar State Financial Corporation and Bihar State Warehousing Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the CAG.

The accounts of Bihar State Financial Corporation for the year 2019-20, Bihar State Road Transport Corporation for the year from 2015-16 to 2019-20 and Bihar State Warehousing Corporation for the year from 2015-16 to 2019-20 were awaited as on 31 December 2020.

Details of arrears in submission of accounts of SPSEs as on 31 December 2020 are given in **Table 8.1**:

Table 8.1
Position relating to submission of accounts by the State PSEs

Particulars	Government Companies/Government Controlled Other Companies/Statutory Corporations			
	Government Companies	Government controlled other Companies	Statutory Corporations	Total
Total number of SPSEs under the purview of CAG's audit as on 31 March 2020	72	04	03	79
Less: New SPSEs from which accounts for 2019-20 were not due	-	-	-	-
Number of SPSEs from which accounts for 2019-20 were due	72	04	03	79
Number of SPSEs which presented the accounts for 2019-20 for CAG's audit by 31 December 2020	02	-	-	02

²²² North Bihar Power Distribution Company Limited and Bihar Grid Company Limited

Particulars		Government Companies/Government Controlled Other Companies/Statutory Corporations			
		Government Companies	Government controlled other Companies	Statutory Corporations	Total
Number of SPSEs having arrear accounts as of 31 December 2020		70	04	03	77
Number of accounts in arrears		1,284	08	11	1,303
Break-up of Arrears	(i) Under Liquidation	101	-	-	101
	(ii) Non-functional	1,065	-	-	1,065
	(iii) Others	118	08	11	137
Age-wise analysis of arrears against 'Others' category	One year (2019-20)	10	01	01	12
	Two years (2018-19 and 2019-20)	12	04	-	16
	Three years and more	96	03	10	109

The names of these companies are indicated in *Appendix-8.1 A*.

8.4 CAG's oversight - Audit of accounts and supplementary audit

8.4.1 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.

8.4.2 Audit of accounts of SPSEs by Statutory Auditors

The statutory auditors appointed by the CAG under Section 139 of the Companies Act, 2013, conduct audit of accounts of the State 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 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.

8.4.3 Supplementary Audit of accounts of SPSEs

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 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.

8.5 Result of CAG's oversight role

8.5.1 Audit of accounts of SPSEs under Section 143 of the Companies Act, 2013

Financial statements for the year 2019-20 were received from two²²³ State Government Companies by 31 December 2020. These two accounts of State Government Companies have been reviewed by the CAG. The results of the review are detailed below:

8.5.2 Significant comments of the CAG issued as supplement to the statutory auditors' reports on SPSEs

The statutory auditors forwarded 30 accounts during January 2020 to December 2020 subsequent to the audit of the financial statements by them. The CAG issued non-review certificate on six accounts and conducted supplementary audit of the financial statements of the remaining SPSEs. During January 2020 to December 2020, CAG issued disclaimer on 13 accounts and comments on seven accounts.

The list of SPSEs covered in this report in respect of whom comments were issued is given in **Table 8.2**.

Table 8.2

List of SPSEs covered in this report where comments were issued by CAG

Sl. No.	Name of the Company	Year of the Account
1	Bihar State Road Development Corporation Limited	2016-17
2	Bihar State Road Development Corporation Limited	2017-18

²²³ Bihar Grid Company Limited and North Bihar Power Distribution Company Limited.

Sl. No.	Name of the Company	Year of the Account
3	Bihar State Building Construction Corporation Limited	2017-18
4	Patna Smart City Limited	2017-18
5	Bihar State Educational Infrastructure Development Corporation Limited	2017-18
6	Bihar Forestry Development Corporation Limited	2018-19

Some of the significant comments issued on financial statements of Government Companies and Government Controlled Other Companies, the financial impact of which on the profitability was ₹2,238.28 crore and on assets/liabilities was ₹4,949.14 crore, have been tabulated below:

A. Comments on Profitability

Sl. No.	Name of the SPSE	Comments
1	Patna Smart City Limited (2017-18)	<ul style="list-style-type: none"> Non-provision for a bill of ₹1.20 crore for the months of January to March 2018 raised by the project management consultant M/s Eptisa on 23 March 2018 resulted in understatement of Other Current Liabilities as well as Loss for the year by ₹1.20 crore each.
2	Bihar State Building Construction Corporation Limited (2017-18)	<ul style="list-style-type: none"> During the year 2017-18, an amount of ₹7.75 crore only has been earned and credited to project fund as interest earned on unutilised project fund but instead of ₹7.75 crore, ₹23.91 crore has been shown as Finance Cost and interest earned on fixed deposits under Other Income in the Statement of Profit and Loss. Further, as the interest pertains to project fund, the same should not have been shown as company's revenue and expenditure which resulted in overstatement of Expenses for the year as well as Revenue for the year to the extent of ₹16.16 crore each. The Company charged ₹7.22 crore (at the rate of seven <i>per cent</i>) instead of ₹5.23 crore (at the rate of five <i>per cent</i>) as centage on the project 'Buniyad Kendra Construction Project' till March 2018. This resulted in overstatement of profit by ₹1.89 crore and Reserves and Surplus by ₹0.10 crore and Work-in-Progress by ₹1.99 crore.

Sl. No.	Name of the SPSE	Comments
		<ul style="list-style-type: none"> • Delayed capitalisation of assets at the end of the financial year 2017-18 i.e. on 31.03.2018 resulted in undercharging of depreciation by ₹1.96 crore for the year 2017-18 and by ₹1.60 crore for the year 2016-17 which resulted in overstatement of profit for the year by ₹1.96 crore, Reserves and Surplus by ₹1.60 crore and Fixed Assets by ₹3.56 crore.
3	Bihar State Road Development Corporation Limited (2016-17)	<ul style="list-style-type: none"> • Wrong accountal of contract expenses on works executed on cost plus basis has resulted in overstatement of Revenue from Operations by ₹1,347.49 crore and Contract Expenses by the same amount. • The Company booked excess centage income of ₹22.89 crore during the year 2016-17 and ₹27.44 crore in previous years on inadmissible cost components. This has resulted in overstatement of Revenue from Operations by ₹22.89 crore, Reserves & Surplus by ₹27.44 crore and Inventories by ₹50.32 crore. • Wrong accountal of interest income earned on the surplus project fund lying with the Company in its saving bank accounts has resulted in the overstatement of Other Income as well as Expenditure (Finance Cost) of the Company by a sum of ₹16.68 crore.
4	Bihar State Road Development Corporation Limited (2017-18)	<ul style="list-style-type: none"> • Wrong accountal of contract expenses on works executed on cost plus basis has resulted in overstatement of Revenue from Operations by ₹723.84 crore and Contract Expenses by the same amount. • The Company booked excess centage income of ₹11.40 crore during the year 2017-18 and ₹50.32 crore in previous years on inadmissible cost components. This has resulted in overstatement of Revenue from Operations by ₹11.40 crore, Reserves & Surplus by ₹50.32 crore and Inventories by ₹61.72 crore.

Sl. No.	Name of the SPSE	Comments
		<ul style="list-style-type: none"> The Company wrongly accounted for Prior-period Project income of ₹4.04 crore as minus item (credit) in its expenditure and correspondingly debited the Other Current Liabilities (Project fund) which resulted in understatement of Other Current Liabilities (Advance against work) and Profit by ₹8.08 crore each. The Company wrongly accounted for interest income of ₹6.30 crore earned on the surplus project fund lying in its saving bank accounts by debiting to Finance Cost (Interest-Project Advance) which resulted in overstatement of Other Income as well as Expenditure (Finance Cost) of the Company by the same amount.
5	Bihar State Educational Infrastructure Development Corporation Limited (2017-18)	<ul style="list-style-type: none"> Interest amount of ₹0.08 crore on Corporate Social Responsibility (CSR) Fund for the year 2017-18 should have been credited to CSR Fund as there is a separate bank account maintained by the Company. However, the same was not done which resulted in overstatement of Other Income and understatement of CSR Fund by ₹0.08 crore.
6	Bihar Forestry Development Corporation Limited (2018-19)	<ul style="list-style-type: none"> Interest received of ₹0.86 crore on fixed deposits of ₹15.51 crore which was received from sale of kendu leaves should have been booked under the head "Current Liabilities" instead of Other Income. This has resulted in overstatement of "Other Income" and understatement of "Current Liabilities" by ₹0.86 crore each.

B. Comments on financial position

Sl. No.	Name of the SPSE	Comments
1	Patna Smart City Limited (2017-18)	<ul style="list-style-type: none"> Other long-term liabilities and Other Current Assets receivable from Government of Bihar is understated by ₹five lakh due to adjustment of ₹five lakh receivable from Government of Bihar towards shares issued from the amount payable to Patna Municipal Corporation (PMC) towards preliminary expenses of the Company borne by PMC.

Sl. No.	Name of the SPSE	Comments
		<ul style="list-style-type: none"> Non- provision of ₹9.56 lakh towards rent payable for additional office space taken by Patna Municipal Corporation for the Company during 15 January 2018 to 31 March 2018 has resulted in understatement of Current Liabilities as well as Loss for the year by ₹9.56 lakh each.
2	Bihar State Building Construction Corporation Limited (2017-18)	<ul style="list-style-type: none"> A sum of ₹1,081.06 crore being the amount of completed and handed over works to the departments but not adjusted against the fund received from the concerned Department resulted in overstatement of work-in-Progress as well as Other Non-current Liabilities to the tune of ₹1,081.06 crore each.
3	Bihar State Road Development Corporation Limited (2016-17)	<ul style="list-style-type: none"> Non-adjustments of ₹1,917.66 crore pertaining to expenditures incurred against the fund received for the earmarked projects/works resulted in overstatement of Current Assets (Inventories) as well as Other Current Liabilities to the extent of ₹1,917.66 crore.
4	Bihar State Road Development Corporation Limited (2017-18)	<ul style="list-style-type: none"> Non-adjustments of ₹1,917.66 crore pertaining to expenditures incurred against the fund received for the earmarked projects/works resulted in overstatement of Current Assets (Inventories) as well as Other Current Liabilities to the extent of ₹1,917.66 crore.
5	Bihar State Educational Infrastructure Development Corporation Limited (2017-18)	<ul style="list-style-type: none"> Works bills amounting to ₹6.99 crore received during the period 2017-18 were not accounted for in the same year on accrual basis which has resulted in understatement of Work-in-Progress (Other Current Assets) by ₹7.48 crore (including centage at the rate of seven <i>per cent</i>), Trade Payable (Current Liabilities) by ₹ 6.99 crore and centage income by ₹0.49 crore. Wrong accountal of ₹23.82 crore being the amount refunded by Income Tax Department against the total amount paid as advance Income Tax of ₹25.79 crore resulted in overstatement of Other Current Liabilities and Other Non-current Assets by ₹23.82 crore.

Sl. No.	Name of the SPSE	Comments
6	Bihar Forestry Development Corporation Limited (2018-19)	<ul style="list-style-type: none"> • Non-provision of ₹1.23 crore being the Security deposit amount forfeited during the year 2018-19 resulted in overstatement of “Other Current Liabilities” and understatement of “Short Term Provision” by ₹1.23 crore each. • Non-adjustment of refund amount of ₹8.33 lakh towards Corporate Social Responsibility (CSR) activity received from Siti Maurya Cable Net Private Limited resulted in overstatement of “Current liabilities” and overstatement of “Cash and cash Equivalent” by ₹8.33 lakh each.

C. Comments on Disclosure

Sl. No.	Name of the SPSE	Comments
1	Bihar State Building Construction Corporation Limited (2017-18)	<ul style="list-style-type: none"> • The Company did not disclose the amount of ₹12.04 crore (<i>Salami</i>) and ₹6.02 lakh per annum (<i>lagan</i>) as contingent liabilities in respect of the demand raised (06 April 2014) by Patna Collectorate for construction of office building at Rajvanshi Nagar, Patna as per the provisions of AS 29. Further, there were 26 court cases pending as on 31 March 2018 which were also not shown as contingent liability. • Keeping in view the significant amount involved as rental income i.e. ₹3.73 crore, the same should have been disclosed in the “Notes to Accounts” but the Company failed to disclose the same.
		<ul style="list-style-type: none"> • The Company has been charging centage at old rates on projects which were tendered before the notification date i.e. 25 January 2016 but executed subsequent to date of notification. However, no approval from Board of Directors has been accorded in this respect and the same has not been disclosed.

Sl. No.	Name of the SPSE	Comments
2	Bihar State Road Development Corporation Limited (2016-17)	<ul style="list-style-type: none"> During the year, the Company has capitalised interest of ₹4.73 crore on HUDCO loan by debiting the same to the Contract Expense of the Gangapath Project. However, neither the accounting policy adopted nor the amount of borrowing costs (interest) capitalised as per Accounting Standard 16 on Borrowing Costs has been disclosed in Notes to Financial Statements. The Company did not disclose Contingent Liabilities to the tune of ₹214.29 crore towards final award of arbitration in favour of contractors in the “Notes to Accounts” in compliance of AS 29. Further, the same was also not commented by Statutory Auditor in its Report.
3	Bihar State Road Development Corporation Limited (2017-18)	<ul style="list-style-type: none"> Note no. 31 to the Financial Statements states that interest on loan taken from HUDCO for Ganga Path project has been debited to the cost of project. The above note is deficient as it does not disclose the interest amount also debited to the cost of project (capitalised) as required under paragraph 23 of AS 16.

8.5.3 Statutory Corporation

Out of three Statutory Corporations, no Corporation has finalised and forwarded their accounts of 2019-20 by 31 December 2020. The details regarding submission of accounts and arrear of accounts of these Statutory Corporations are summarised in the **Table 8.3**:

Table 8.3
Position relating to submission of accounts and arrear of accounts of Statutory Corporations

Sl. No.	Name of the Corporation	Name of Department	Year of latest Finalised Accounts	Period for which the accounts are in arrear	Number of accounts in arrear
1.	Bihar State Road Transport Corporation	Transport	2014-15	2015-16 to 2019-20	05
2.	Bihar State Warehousing Corporation	Co-operative	2014-15	2015-16 to 2019-20	05
3	Bihar State Financial Corporation	Industries	2018-19	2019-20	01

8.6 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.

The statutory auditors reported that nine SPSEs did not comply with mandatory Accounting Standards/Ind AS depicted in *Appendix-8.1B*. As can be seen from the appendix, the statutory auditors reported about 33 cases of non-compliance of Accounting Standards by seven SPSEs and nine cases of non-compliance of Ind AS by five SPSEs.



Patna
The 13 December 2021

(RAMAWATAR SHARMA)
Accountant General (Audit), Bihar

Countersigned



New Delhi
The 15 December 2021

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

