

Chapter II

Oversight role of CAG

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2.1 Audit of State Public Sector Enterprises

Comptroller and Auditor General of India (CAG) appoints the statutory auditors of a Government Company and Government Controlled Other Company, exercising the powers vested under Section 139 (5) and (7) of the Companies Act, 2013 (the Act). 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 Legislature.

2.2 Appointment of Statutory Auditors of SPSEs by CAG

Sections 139 (5) of the Act, 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 180 days from the commencement of the financial year. In case of a new Government Company, Section 139 (7) of the Act, provides for such appointment within sixty days from the date of registration of the Company.

The statutory auditors of the Government Companies for the year 2022-23 were appointed by the CAG during August / September 2022.

2.3 Submission of Accounts by SPSEs

Need for timely submission

2.3.1 According to Section 395 (1) (a) of the Act, Annual Report on the working and affairs of a State Government Company is to be prepared within three³⁷ months of its Annual General Meeting³⁸ (AGM). As soon as may be after such preparation, the Annual Report must be laid before the House or both Houses of the State Legislature, together with a copy of the Audit Report and comments of the CAG upon or as supplement to the Audit Report. 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 Act 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 Act stipulates that the audited Financial Statements for the financial year have to be placed in the said AGM for their consideration.

³⁷ Time specified in Section 394 (1) (a) of the Companies Act, 2013.

³⁸ In case of the first AGM, it shall be held within a period of nine months from the date of closing of the first financial year of the company and in any other case within a period of six months, from the date of closing of the financial year *i.e.* 30 September.

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

Taking note of inordinate delay in holding AGM by SPSEs, the State Government fixed (January 2023) a timeline for finalisation of accounts and completion of statutory audit by 30th June, obtaining Board's approval / statutory audit report / CAG comments by 31st August and holding AGM on or before 30 September. The Managing Director, Finance head and / or Accounts head of the Government Company were responsible for ensuring the compliance to the above directives.

102 SPSEs failed to comply with Government directives as their annual accounts remained pending as on 30 September 2023³⁹, as detailed in the following paragraphs.

Timeliness in preparation of accounts by Companies

2.3.2 As of 31 March 2023, there were 121 Companies under the purview of CAG's audit. Of these, only 85 Companies submitted 98 accounts (including accounts of earlier years) for supplementary audit by CAG and got them certified by 30 September 2023. This included only 25 accounts⁴⁰ pertaining to financial year 2022-23.

Overall, 233 Accounts of 96 Companies (77 accounts of five Companies under liquidation, 16 accounts of six defunct Companies and 140 accounts of 85 working Companies) were in arrears for various reasons. The age-wise details of arrears in submission of accounts of 121 Companies are given in **Table No. 2.1:**

Table No. 2.1: Details of arrears in submission of accounts of Companies

Sl. No.	Working Status	Arrears Status	SPSEs with positive net worth		SPSEs with negative net worth		Total	
			No. of SPSEs	No. of Accts	No. of SPSEs	No. of Accts	No. of SPSEs	No. of Accts
1	Working Companies	No arrears	17	0	5	0	22	0
		1 Year	46	46	16	16	62	62
		2 - 3 Years	14	35	3	9	17	44
		> 3 Years	3	14	3	20	6	34
		Total	80	95	27	45	107	140
2	Non-Working Companies (under liquidation)	No arrears	0	0	0	0	0	0
		1 Year	1	1	0	0	1	1
		2 - 3 Years	0	0	0	0	0	0
		> 3 Years	2	39	2	37	4	76
		Total	3	40	2	37	5	77
3	Non-Working Companies (Defunct)	No arrears	0	0	3	0	3	0
		1 Year	1	1	2	2	3	3
		2 - 3 Years	0	0	2	5	2	5
		> 3 Years	1	8	0	0	1	8
		Total	2	9	7	7	9	16

³⁹ Due date of holding AGM of Companies for the financial year 2022-23 is 30 September 2023 as per the Companies Act. 2013.

⁴⁰ Represents number of accounts received and certified by CAG for 2022-23.

Sl. No.	Working Status	Arrears Status	SPSEs with positive net worth		SPSEs with negative net worth		Total	
			No. of SPSEs	No. of Accts	No. of SPSEs	No. of Accts	No. of SPSEs	No. of Accts
4	Grand Total	No arrears	17	0	8	0	25	0
		1 Year	48	48	18	18	66	66
		2 - 3 Years	14	35	5	14	19	49
		> 3 Years	6	61	5	57	11	118
		Total	85	144	36	89	121	233⁴¹

Source: Data compiled by Audit

As seen, 89 accounts are in arrears in respect of 28 out of 36 SPSEs whose net worth has eroded. In total, 118 accounts are in arrears for more than three years by 11 SPSEs (including 34 accounts from six working SPSEs). The SPSE-wise details of arrears in accounts are given in *Appendix - 4*.

Since the State Government has invested in the form of equity and loans in the SPSEs whose accounts are in arrears, the non-finalisation of accounts by these companies would lead to the Government investments remaining outside the oversight of Audit as well as the State Legislature, thereby making them susceptible to fraud and misappropriation.

Citing non-adherence to the directives issued in January 2023 and as a measure of financial control as well as to ensure financial discipline, State Government has directed (November 2023) all the Government Owned Companies to prepare quarterly financial statements with effect from 01.04.2024 and place audited quarterly financial statements along with draft reports before the Audit Committee, if any, for recommendation and review by Board of Directors.

Timeliness in preparation of accounts by Statutory Corporations

2.3.3 Audit of six Statutory Corporations is also conducted by the CAG. Of these, CAG is the sole auditor for four Statutory Corporations (in transport sector⁴²) and for other two⁴³ Statutory Corporations, CAG conducts supplementary audit after financial statements are audited by statutory auditors.

As on 30 September 2023, Accounts for the year 2022-23 only are in arrears in respect of six (BMTC, KSRTC, NWKRTC, KKRTC, KSFC and KSWC) Statutory Corporations⁴⁴, of which net worth has been eroded in four Statutory Corporations in transport sector.

⁴¹ Arrears includes 22 financial statements from 21 Companies (including one non-working Companies) received before September 2023 but under various stages of audit / certification.

⁴² BMTC, KSRTC, NWKRTC and KKRTC.

⁴³ Karnataka State Financial Corporation and Karnataka State Warehousing Corporation.

⁴⁴ Accounts of three (BMTC, NWKRTC and KSFC) Statutory Corporations have been received and are under various stages of audit /certification as at September 2023.

2.4 CAG's oversight: Audit of accounts and supplementary audit

Financial reporting framework

2.4.1 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 Acts governing such Corporations.

Audit of Accounts of SPSEs by Statutory Auditors

2.4.2 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 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
- Supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

Supplementary Audit of accounts of SPSEs

2.4.3 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 (5) or 139 (7) 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 an independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 143 (5) 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 AGM.

2.5 Result of CAG's oversight role

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

2.5.1 98 Financial Statements were received (25 for the year 2022-23 and remaining 73 for earlier years) from 85 Government Companies and audited by CAG as of 30 September 2023. Of these, 76 Financial Statements of Government Companies were reviewed in audit by the CAG and Non-Review Certificate was issued for 22 Government Companies. The results of the review are detailed below:

Amendment of financial statements

2.5.2 Financial Statements of 13 Government Companies were amended as a result of supplementary audit conducted by the CAG before laying the same in the AGM. The financial impact of amendments were: (i) ₹ 357.15 crore on the profitability and (ii) change in assets and liabilities to the extent of ₹ 509.55 crore as detailed in *Appendix - 5*.

Revision of Statutory Auditors' Report

2.5.3 The statutory auditors' reports on 48 Financial Statements were revised as a result of supplementary audit of the Financial Statements conducted by the CAG as indicated in *Appendix - 6*.

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

2.5.4 The comments issued by CAG during supplementary audit on financial statements of SPSEs had an impact of (i) ₹ 88.01 crore on profitability and (ii) ₹ 130.45 crore on assets/liabilities. The same have been detailed in *Appendix - 7 and Appendix - 8*.

Significant comments on the accounts of Statutory Corporations where CAG is the sole auditor

2.5.5 The comments issued by the CAG on the accounts of Statutory corporations (where CAG is the sole auditor) had an impact of (i) ₹ 241.48 crore on the profitability and (ii) ₹ 55.36 crore on assets/liabilities. The significant comments included by the CAG in Separate Audit Reports (SAR) on the accounts of Statutory Corporations are detailed below:

Karnataka State Road Transport Corporation (KSRTC – FY 2020-21)

- Non-provision for the compensation payable due to revised guidelines in respect of 671 accidental death cases during the period June 2018 to March 2021 has resulted in understatement of liability towards Motor Vehicle Accident claims by ₹ 5.72 crore for 2020-21 and ₹ 25.14 crore for the previous years and understatement of loss for the year to that extent.

- Non-provision for the compensation payable in respect of 36 Motor Vehicle Accident Claim cases awarded before the end of March 2021 has resulted in understatement of liability towards Motor Vehicle Accident claims by ₹ 2.24 crore and understatement of loss for the year to that extent.

Karnataka State Road Transport Corporation (KSRTC – FY 2021-22)

- Non-inclusion of amount of ₹ 2.95 crore, being the interest payable on enhanced compensation awarded by the High Court of Karnataka in respect of a land at Doddahunasuru, Hunasuru acquired for construction of bus station has resulted in understatement of liabilities, expenditure and consequent understatement of loss by ₹ 2.95 crore.
- Non-provision for the compensation payable in respect of 68 cases pertaining to Mandya, Mysore Rural, Ramanagara, Chitradurga, Kolar and Bangalore Central Division awarded before the end of March 2021 has resulted in understatement of liability by ₹ 2.79 crore and understatement of loss for the year to that extent.

Bengaluru Metropolitan Transport Corporation (BMTC – FY 2020-21)

- Non provision of ₹124.68 crore being amount payable to KUIDFC as contribution to Revolving Fund under JnNURM guidelines as demanded by KUIDFC has resulted in understatement of liability and consequent understatement of loss by ₹ 124.68 crore.
- Non provision of ₹6.12 crore being amount payable as interest levied on delay in making payment towards building and other construction cess to Karnataka State Building & Other Construction Workers Welfare Board has resulted in understatement of liability, understatement of expenses and understatement of loss by ₹ 6.12 crore.

Bengaluru Metropolitan Transport Corporation (BMTC – FY 2021-22)

- Failure to charge penalty imposed on M/s Ashok Leyland towards low KPML and faulty LED Board and Voice Announcing System in respect of 450 vehicles amounting to ₹11.85 crore has resulted in understatement of claims receivable, understatement of income and overstatement of loss by ₹ 11.85 crore.
- Non-provision of ₹5.51 crore being the interest on the delay in remittance of Labour welfare cess payable to concerned department for the year resulted in understatement of liability, expenditure and consequent understatement of loss by ₹5.51 crore.

Kalyana Karnataka Road Transport Corporation (KKRTC – FY 2021-22)

- Inclusion of penalty/ liquidated damages from the bills of M/s Tata motors, M/s Ashok Leyland and M/s KMS bus body builders under unspecified liabilities has resulted in overstatement of liabilities,

understatement of income and consequent overstatement of loss for the year by ₹ 5.66 crore.

North Western Karnataka Road Transport Corporation (NWKRTC – FY 2021-22)

- Inclusion of ₹ 52.51 crore and ₹ 26.34 crore under receivables towards Student Concession Passes and Senior Citizen concession respectively, pending reimbursement from the Government without any formal assurance has resulted in overstatement of Current assets, understatement of expenditure and understatement of loss by ₹ 78.85 crore.

2.6 Accounting Standards / Indian Accounting Standards

Non-compliance of Accounting Standards/ Ind-Accounting Standards

2.6.1 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 has also notified 41 Indian Accounting Standards (Ind AS) through Companies (Indian Accounting Standards) Rules, 2015 (as amended from time to time).

Through the supplementary audits, CAG also observed that some companies did not comply with the Accounting Standards/ Ind AS which were not reported by their statutory auditors as given in **Table No. 2.2**.

Table No. 2.2: Non-compliance of Accounting Standards/ Ind AS

Sl. No.	Accounting Standard / Ind-AS No & Description	Name of the Company	Deviation
1	Ind AS 1 Presentation of Financial Statements	Karnataka Food and Civil Supplies Corporation Ltd.	The Corporation has netted off the debit and credit balances while arriving at the balances. The netting off of the balances was not in compliance to the requirements of Ind AS-1.
2	Ind AS 23 Borrowing cost	Karnataka Power Corporation Limited	The Company capitalised interest charges on loan for the period 2020-22 instead of charging off the same as revenue expenditure as per Ind AS 23.
3	Ind AS 36 Impairment of Assets	Karnataka Power Corporation Limited	The Company failed to assess the impairment losses in cases where assets were impaired/dismantled which was not in compliance to Ind AS 36.
4	AS 5 Net Profit or loss for the period, Prior period items and Changes in Accounting Policies	Sr. Babu Jagajivan Ram Leather Industries Development Corporation Ltd.	The Company did not disclose the impact and the adjustments resulting from change in Accounting policy on Depreciation. The same is not in compliance with AS -5.

Source: Data compiled by Audit

Non-compliance of Accounting Standard 15 by Statutory Corporations

2.6.2 Accounting Standard 15 states that liability for employee benefits should be calculated according to the actuarial valuation. In the absence of actuarial

valuation, the adequacy of provision for gratuity and leave encashment made could not be ascertained and ensured in any of the six financial statements of four statutory corporations (KSRTC, BMTTC, KKRTC and NWKRTC). The non-compliance to provisions of Accounting Standard 15 is being consistently commented upon every year.

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 Public Sector Enterprises were reported as comments by the CAG under Section 143 (6)(b) of the Act. 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 'Management Letter' for taking corrective action. During the year, CAG issued Management Letters to 27 Government Companies and four Statutory Corporations on the deficiencies in accounting treatment and policies, non-compliance to accounting standards on disclosures and non-compliance to assurances to audit on rectification of errors, etc. noticed in 33 financial statements.

Recommendations:

- 3. *For delay in submission of accounts, Government may consider fixing responsibility on the CEOs/CMDs/CFOs concerned and include timely submission of accounts as a criterion for further extension of tenure or for fresh appointment of CEOs in other companies.***
- 4. *Government should establish a robust monitoring and accountability mechanism to ensure that all SPSEs comply with the statutory deadlines for finalisation and submission of accounts.***
- 5. *The Government may consider the application of section 129 (7) of the Companies Act which requires fines and/or imprisonment for non-preparation of accounts on time.***