

Chapter-2

Oversight role of the

Comptroller and Auditor General of India

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This Chapter deals with the oversight role of the Comptroller and Auditor General of India (CAG) in relation to the preparation and submission of financial statements by State Public Sector Enterprises (SPSEs), the impact of audit comments on these financial statements, and instances of non-compliance with provisions of Accounting Standards/Indian Accounting Standards.

2.1 Audit of accounts of SPSEs

2.1.1 Appointment of Statutory Auditors

Section 139(5) of the Companies Act, 2013 provides that in the case of a Government Company or a Government Controlled Other Company, the CAG shall, in respect of a financial year, appoint the statutory auditor within a period of 180 days from the commencement of the financial year. Further, Section 139(7) of the Companies Act, 2013 provides that in the case of a Government Company or a Government Controlled Other Company, the first statutory auditor shall be appointed by the CAG within 60 days from the date of registration of the company. In case, the CAG does not appoint such auditor within the said period of 60 days, the Board of Directors of the company shall appoint such auditor within the next 30 days; and in case of failure of the Board to appoint such auditor within the next 30 days, it shall inform the members of the company who shall appoint such auditor within the next 60 days at an extraordinary general meeting. The first statutory auditor so appointed shall hold office till the conclusion of the first general meeting.

Out of the four Statutory Corporations under the audit jurisdiction of the CAG in Uttarakhand, the CAG is the sole auditor of three Statutory Corporations¹ and in respect of one Statutory Corporation namely Uttarakhand State Warehousing Corporation, the statutory auditor is appointed by the Government of Uttarakhand (GoU) on the advice of the CAG.

2.1.2 Statutory Audit and Supplementary Audit

In case of a Government Company and a Government Controlled Other Company, statutory audit is conducted by the statutory auditors appointed by the CAG and supplementary audit is conducted by the CAG.

As discussed in *paragraph 2.1.1*, the CAG is the sole auditor of three Statutory Corporations. In case of one Statutory Corporation, statutory audit is conducted by statutory auditors appointed by GoU, and supplementary audit is conducted by the CAG.

2.1.3 Timeliness in preparation of accounts

Section 96 of the Companies Act, 2013 provides that every company² shall in each year hold a general meeting as its annual general meeting (AGM), and not more than

¹ Uttarakhand Forest Development Corporation, Uttarakhand Transport Corporation, Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam.

² Other than a One person Company.

15 months shall elapse between the date of one AGM and that of the next. It further provides that 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. Further, Section 129 read with Section 134 of the Companies Act, 2013 stipulates that at every AGM of a company, the Board of Directors of the company shall lay before such meeting the audited financial statements for the financial year. This framework ensures regular corporate and financial reporting, enabling scrutiny and oversight by shareholders of the company. Accordingly, the Companies were required to hold AGM up to 30 September 2023 and lay the audited financial statements for the financial year 2022-23.

Additional accountability measures for Government Companies are prescribed under Sections 394 and 395 of the Companies Act, 2013 which provide that Annual Report on the working and affairs of a Government Company is to be prepared within three months of its AGM and as soon as may be after such preparation, the Annual Report is to be laid before both Houses of the Parliament and/or before the House or both Houses of the State Legislature, together with a copy of the Audit Report and comments upon or supplement to the Audit Report made by the CAG. Almost similar provisions exist in the respective Acts governing Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in Government Companies and Statutory Corporations.

In view of the aforesaid provisions, timeliness in preparing accounts is crucial, as delays in finalising accounts undermine the shareholders' right of scrutiny and oversight. Further, in case of Government Companies and Statutory Corporations, such delays result in delay in preparation and submission of Annual Reports, affecting legislative control and oversight.

Despite the above stipulations, annual accounts of various SPSEs were pending as on 30 September 2023. Out of the 32 SPSEs under the audit jurisdiction of the CAG in Uttarakhand, only five SPSEs had submitted their financial statements for the year 2022-23 to CAG by 30 September 2023. 135 Accounts of 27 SPSEs were in arrears, as detailed in *Appendix-2.1*, for various reasons. Details of arrears in submission of accounts of SPSEs are given in **Table-2.1**

Table-2.1: Status of accounts in arrears as on 30 September 2023

Particulars	Type of SPSE			Total
	Government Companies	Government Controlled Other Companies	Statutory Corporations	
No. of SPSEs under the audit jurisdiction of the CAG as on 31 March 2023	27	01	04	32
Functional SPSEs				
No. of SPSEs	18	01	04	23
No. of financial statements submitted for the year 2022-23 by 30 September 2023 for CAG's audit	05	-	-	05
No. of SPSEs having accounts in arrears	13	01	04	18
No. of accounts in arrears	69	01	10	80
Extent of accounts in arrears	1 to 17 years	1 year	1 to 04 years	1 to 17 years

Particulars	Type of SPSE			Total
	Government Companies	Government Controlled Other Companies	Statutory Corporations	
Inactive SPSEs not under liquidation				
No. of SPSEs	01	-	-	01
SPSEs which submitted their financial statements for the year 2022-23 by 30 September 2023 for CAG's audit	-	-	-	-
SPSEs having accounts in arrears	01	-	-	01
No. of accounts in arrears	36	-	-	36
Extent of accounts in arrears	36	-	-	36
Inactive SPSEs under liquidation				
No. of SPSEs	08	-	-	08
SPSEs which submitted their financial statements till the date of going under liquidation	-	-	-	-
SPSEs having accounts in arrears ³	03 ⁴	-	-	03
No. of accounts in arrears	19	-	-	19
Extent of accounts in arrears	3 to 10 years	-	-	3 to 10 years

Source: Latest finalised financial statements submitted by SPSEs up to 30 September 2023.

From **Table-2.1**, it can be seen that 80 annual accounts of 18 functional SPSEs and 36 annual accounts of one inactive SPSE (excluding SPSEs under liquidation) were in arrears for the period ranging between one and 36 years as on 30 September 2023. Further, 19 annual accounts of three SPSEs under liquidation were in arrears for the period ranging between three and 10 years as on 30 September 2023.

2.2 CAG's oversight role in audit of accounts of SPSEs

The prime responsibility for the preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Acts is of the management of the SPSE.

The CAG plays an oversight role in the audit of accounts of Government Companies and Government Controlled Other Companies by monitoring the performance of the statutory auditors. This role 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.

In case of Government Companies and Government Controlled Other Companies, the statutory auditors appointed by the CAG 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 standards on auditing prescribed under section 143(10) of the Companies Act, 2013 and directions issued by the CAG. The statutory auditors are required to submit their Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The accounts of selected Government Companies and Government Controlled Other Companies along with the report of the statutory auditors are reviewed by the CAG by

³ In case of SPSEs under liquidation, the accounts in arrears have been calculated up to the date of the SPSE going under liquidation.

⁴ Five SPSEs under liquidation did not provide information.

conducting a supplementary audit. Based on such review, significant audit comments, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the AGM.

In case of Statutory Corporations, audit comments of the CAG on the accounts, if any, are reported through Separate Audit Reports (SAR).

Out of the 23 functional SPSEs, 17 SPSEs forwarded 28 financial statements to the CAG during the period from October 2022 to September 2023. These included financial statements from the year 2005-06 to 2022-23. Details of financial statements received, reviewed and comments/ SAR issued are given in **Table-2.2**.

Table-2.2: Details of financial statements received, reviewed and comments/ SAR issued

Particulars of Financial Statements	Financial Year 2022-23			Previous years		
	Government Company	Statutory Corporation	Total	Government Company	Statutory Corporation	Total
Received	05	-	05	17	06	23
Reviewed	04	-	04	12	06	18
Audit in process ⁵	01	-	01	02	-	02
Nil Comment issued	01	-	01	-	-	-
Comments issued	03	-	03	12	06	18
No Review Certificate	-	-	-	03	-	03

Source: Compiled from comments issued on financial statements of SPSEs.

From **Table-2.2**, it can be seen that out of the 28 financial statements received during the period from October 2022 to September 2023, CAG conducted supplementary/sole audit⁶ of 22 accounts of 14 SPSEs. In the three accounts, the CAG issued 'No Review Certificate' and audit process of the remaining three accounts was completed after 30 September 2023.

2.3 Results of CAG's oversight role

Significant audit comments/SARs on 27 financial statements of 16 SPSEs (12 Government Companies and four Statutory Corporations), as detailed in **Appendix-2.2** were issued by the CAG during October 2022 to September 2023. The results of the CAG's oversight role are discussed in the succeeding paragraphs.

2.3.1 Significant comments of the CAG issued on the financial statements of SPSEs

After the audit of the financial statements by statutory auditors, CAG conducted supplementary audit of 19 financial statements of 13 SPSEs (12 Government Companies and one Statutory Corporation) and issued comments/SAR thereon during the period from October 2022 to September 2023. Besides, SARs on eight financial statements of three SPSEs⁷, where CAG is the sole auditor, were issued during the same period. Accordingly, Comments/ SARs were issued in respect of 27 financial

⁵ Reviewed/Comments/NRC issued after 30 September 2023.

⁶ Accounts of SPSEs for conducting supplementary audit annually, triennially and once in five years are selected based on criteria of paid-up capital, capital employed and turnover.

⁷ Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam, Uttarakhand Transport Corporation and Uttarakhand Forest Development Corporation.

statements of 16 SPSEs⁸ as detailed in *Appendix-2.2*. Some of the significant comments indicating impact on profitability (overstatement/understatement of profit/loss) and financial position (overstatement/understatement of assets and liabilities) are summarised below and detailed in *Appendix-2.3*.

A. Government Companies

The impact of the comments issued on the financial statements of Government Companies was ₹ 166.93 crore (on profitability) and ₹ 64.96 crore (on financial position), as detailed below:

(i) Comments on Profitability

- In case of four financial statements of four SPSEs for the year 2016-17 to 2022-23, Loss was understated by ₹ 63.50 crore.
- In case of two financial statements of one SPSE (UJVN Limited) for the year 2021-22 to 2022-23, Profit was overstated by ₹ 101.14 crore.
- In case of one financial statement of one SPSE (Power Transmission Corporation of Uttarakhand Limited) for the year 2022-23, Profit was understated by ₹ 2.29 crore.

(ii) Comments on Financial Position

- In case of three financial statements of three SPSEs for the year 2021-22 to 2022-23, Assets and Liabilities were understated by ₹ 61.13 crore.
- In case of one financial statement of one SPSE (Dehradun Smart City Limited) for the year 2021-22, Assets and Liabilities were overstated by ₹ 3.83 crore.

B. Statutory Corporations

The impact of the comments issued on the financial statements of Statutory Corporations was ₹ 163.97 crore (on profitability) and ₹ 185.57 crore (on financial position) as detailed below:

(i) Comments on Profitability

- In case of one financial statement of one Statutory Corporation (Uttarakhand Transport Corporation) for the year 2019-20, Loss was overstated by ₹ 83.72 crore.
- In case of two financial statements of two Statutory Corporations for the year 2019-20 and 2021-22, Loss was understated by ₹ 58.47 crore.
- In case of two financial statements of two Statutory Corporations for the year 2018-19 and 2020-21, Profit was overstated by ₹ 21.78 crore.

(ii) Comments on Financial Position

- In case of one financial statement of one SPSE for the year 2021-22, Assets and Liabilities were understated by ₹ 56.02 crore.

⁸ In case of one financial statement of a SPSE viz. Uttarakhand Metro Rail, Urban Infrastructure & Building Construction Corporation Limited, no comments were issued.

- In case of one financial statement of one SPSE (Uttarakhand Peyjal Sansadhan Vikas Evam Nirman Nigam) for the year 2021-22, Assets and Liabilities were overstated by ₹ 129.55 crore.

2.3.2 Provisions of Accounting Standards/Indian Accounting Standards not complied

Section 129 (1) of the Companies Act, 2013 provides that the financial statements shall give a true and fair view of the state of affairs of the company, comply with the accounting standards notified under Section 133 of the Companies Act, 2013 and be in the forms provided in Schedule-III. The Ministry of Corporate Affairs, Government of India notified Indian Accounting Standards (Ind AS), under Section 133 of the Companies Act, 2013 vide Companies (Indian Accounting Standards) Rules, 2015, keeping the Indian economic and legal environment in view and by referring to IFRS standards. The Ind AS were modelled on IFRS, which were different from the Indian Generally Accepted Accounting Principles framework mainly in three key aspects *i.e.*, fair valuation, substance over legal form, and emphasis on the Balance Sheet. These Ind AS are mandatorily to be adopted by the prescribed class of companies with effect from 1 April 2016. The Companies not covered by Ind AS shall continue to apply Accounting Standard (AS).

As of 31 March 2023, there were 28 SPSEs in Uttarakhand under the audit jurisdiction of the CAG, which were governed by the provisions of the Companies Act, 2013. Out of these 28 SPSEs, only two SPSEs *i.e.* UJVN Limited and Power Transmission Corporation of Uttarakhand Limited had adopted Ind AS.

The cases of non-compliance with Ind AS/AS as reported by the Statutory Auditors on the latest finalised financial statements of two SPSEs are summarised below and detailed in *Appendix-2.4*.

- In two financial statements of two SPSEs (Garhwal Mandal Vikas Nigam and Dehradun Smart City Limited), Statutory Auditors reported non-compliance of 18 numbers of AS.

Further, the cases of non-compliance with Ind AS/AS as pointed out by the CAG on the two finalised financial statements of two SPSEs during the period 1 October 2022 to 30 September 2023 are summarised below and detailed in *Appendix-2.5*.

- In one financial statement of one SPSE (UJVN Limited), there was one case of non-compliance with Ind AS.
- In one financial statement of one SPSE (Kishau Corporation Limited), there were two cases of non-compliance with AS.

2.4 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 CAG under Section 143 (6) of the Companies Act, 2013. Besides

these comments, irregularities or deficiencies observed by the CAG in the financial reports or in the reporting process, were also communicated to the management of the SPSEs through a ‘Management Letter’ for taking corrective action. These deficiencies generally relate 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 SPSEs gave assurances that corrective action would be taken in the subsequent year.

The CAG had issued 47 ‘Management Letters’ to 12 SPSEs during the period from October 2022 to September 2023, as detailed in **Appendix-2.6**. The broad nature of irregularities highlighted in these Management Letters were as under:

- *Inadequate/non-disclosure of Accounting Policies.*
- *Non-reconciliation of balances.*
- *Misclassifications of assets, liabilities, incomes, expenditures, etc.*
- *Inadequate/non-disclosures in ‘Notes to Accounts’.*

2.5 Placement of Separate Audit Reports of Statutory Corporations

Separate Audit Reports are audit reports of the CAG on the accounts of Statutory Corporations. These reports are to be laid before the State Legislature as per the provisions of the respective Acts governing the Statutory Corporations. The status of placement of SARs in the State Legislature as on 30 September 2023 is detailed in **Table-2.3**.

Table-2.3: Status of placement of SARs

Sl. No.	Name of the Statutory Corporation	Year of accounts for which SAR issued to Statutory Corporation	Latest year of accounts for which SAR placed in State Legislature	Year of accounts for which SAR not placed in the State Legislature
1.	Uttarakhand Transport Corporation	2019-20	No information provided	No information provided
2.	Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam	2021-22	2019-20 & 2020-21	2021-22
3.	Uttarakhand Forest Development Corporation	2020-21	2020-21	2021-22 to 2022-23
4.	Uttarakhand State Warehousing Corporation	2018-19	-	2015-16 to 2018-19

Source: Information provided by the SPSEs.

From **Table-2.3**, it can be seen that out of the four Statutory Corporations, two Statutory Corporations had placed three SARs issued by the CAG in the State Legislature. Out of the remaining two, one had not provided the information, and another one had not placed SARs in the State Legislature

