

# **CHAPTER–II**

## **Oversight role of the CAG**



## CHAPTER-II

### Oversight role of the CAG

This chapter deals with the oversight role of the CAG in relation to the preparation and submission of financial statements by SPSEs, the impact of audit comments on these financial statements, and instances of non-compliance with provisions of Accounting Standards/Indian Accounting Standards.

#### Audit of accounts of SPSEs

##### *Appointment of Statutory Auditors*

**2.1** 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 sixty days from the date of registration of the company. In case the CAG does not appoint such auditor within the said period of sixty days, the Board of Directors of the company shall appoint such auditor within the next thirty days; and in case of failure of the Board to appoint such auditor within the next thirty days, it shall inform the members of the company who shall appoint such auditor within the next sixty 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 six Statutory Corporations under the audit jurisdiction of the CAG in Uttar Pradesh, the CAG is the sole auditor of four Statutory Corporations<sup>1</sup>. Of the remaining two Statutory Corporations, the statutory auditor of Uttar Pradesh State Warehousing Corporation is appointed by the Government of Uttar Pradesh (GoUP) on the advice of the CAG, and the statutory auditor of Uttar Pradesh Financial Corporation is appointed by the Corporation in a general meeting of the shareholders from the panel of auditors approved by the Reserve Bank of India.

##### *Statutory Audit and Supplementary Audit*

**2.2** 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**, the CAG is the sole auditor of four Statutory Corporations. In case of the remaining two Statutory Corporations, statutory audit is conducted by the statutory auditors appointed by the GoUP/Corporation, and supplementary audit is conducted by the CAG.

##### *Timeliness in the preparation of accounts*

**2.3** Section 96 of the Companies Act, 2013 provides that every company<sup>2</sup> shall, in each year, hold a general meeting as its annual general meeting (AGM), and not more than 15 months shall elapse between the date of one AGM and that of

<sup>1</sup> Uttar Pradesh Forest Corporation, Uttar Pradesh State Road Transport Corporation, Uttar Pradesh Jal Nigam, and Uttar Pradesh Avam Vikas Parishad.

<sup>2</sup> Other than a one-person company.

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 ensures 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 the 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 113 SPSEs under the audit jurisdiction of the CAG in Uttar Pradesh, only 10 SPSEs<sup>3</sup> had submitted their financial statements for the year 2022-23 to the CAG up to 30 September 2023. Further, two SPSEs<sup>4</sup> under liquidation had submitted their financial statements up to the date of going under liquidation. Thus, accounts of 101 SPSEs were in arrears, as detailed in **Appendix 2.1** and summarised in **Table 2.1**.

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

Particulars	Type of SPSE			
	Government Companies	Government Controlled Other Companies	Statutory Corporations	Total
No. of SPSEs under the audit jurisdiction of the CAG as on 31 March 2023	86	21	06	113
No. of functional SPSEs	47	19	06	72
No. of functional SPSEs that submitted their financial statements for the year 2022-23 by 30 September 2023 for CAG's audit	09	01	-	10
No. of functional SPSEs having accounts in arrears	38	18	06	62
No. of accounts in arrears (functional SPSEs)	231	74	19	324
Extent of accounts in arrears (functional SPSEs)	1 to 22 years	1 to 13 years	1 to 10 years	1 to 22 years
No. of inactive SPSEs (excluding SPSEs under liquidation)	27	1	-	28

<sup>3</sup> SPSEs at serial number 5 to 10, 36, 37, 44, and 51 of **Appendix 1.1**.

<sup>4</sup> Uttar Pradesh (Poorva) Ganna Beej Evam Vikas Nigam Limited and Uttar Pradesh (Rohilkhand Tarai) Ganna Beej Evam Vikas Nigam Limited.

Particulars	Type of SPSE			
	Government Companies	Government Controlled Other Companies	Statutory Corporations	Total
No. of inactive SPSEs (excluding SPSEs under liquidation) which submitted their financial statements for the year 2022-23 by 30 September 2023 for CAG's audit	-	-	-	-
No. of inactive SPSEs (excluding SPSEs under liquidation) having accounts in arrears	27	1	-	28
No. of accounts in arrears (inactive SPSEs excluding under liquidation)	575	28	-	603
Extent of accounts in arrears (inactive SPSEs excluding under liquidation)	1 to 41 years	28 years		1 to 41 years
No. of inactive SPSEs under liquidation	12	1	-	13
No. of inactive SPSEs under liquidation that submitted their financial statements till the date of going under liquidation	2	-	-	2
No. of inactive SPSEs under liquidation having accounts in arrears <sup>5</sup>	10	1	-	11
No. of accounts in arrears (inactive SPSEs under liquidation)	112	8	-	120
Extent of accounts in arrears (inactive SPSEs under liquidation)	1 to 29 years	8 years	-	1 to 29 years

*Source: Compiled based on the latest financial statements submitted by the SPSEs up to 30 September 2023*

From **Table 2.1**, it can be seen that 324 annual accounts of 62 functional SPSEs and 603 annual accounts of 28 inactive SPSEs (excluding SPSEs under liquidation) were in arrears for a period ranging between one and 41 years as on 30 September 2023. Further, 120 annual accounts of 11 SPSEs under liquidation were in arrears for a period ranging between one and 29 years as on 30 September 2023.

### ***CAG's oversight role in the audit of accounts of SPSEs***

**2.4** 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, lies with 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.

<sup>5</sup> In the case of SPSEs under liquidation, the accounts in arrears has been calculated up to the date of the SPSE going under liquidation.

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 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 Annual General Meeting.

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

Out of the 113 SPSEs, 47 SPSEs forwarded 66 financial statements to the CAG during the period from October 2022 to September 2023. These included financial statements from the year 2010-11 to 2022-23. Details of financial statements received, reviewed, and comments/ Separate Audit Report issued are given in **Table 2.2**.

**Table 2.2: Details of financial statements received, reviewed, and comments/ Separate Audit Report issued**

Particulars	Financial Year 2022-23			Previous years		
	Government Companies	Statutory Corporations	Total	Government Companies	Statutory Corporations	Total
Received	11 <sup>6</sup>	-	11	46	9	55
Reviewed	11	-	11	35	9	44
Audit in progress <sup>7</sup>	8	-	8	7	7	14
Nil comment issued	-	-	-	-	-	-
Comments issued	3	-	3	28	2	30
No Review Certificate issued	-	-	-	11	-	11

*Source: Compiled based on the financial statements submitted by the SPSEs during the period from October 2022 to September 2023 and the concerned files*

From **Table 2.2**, it can be seen that out of the 66 financial statements received during the period from October 2022 to September 2023, CAG conducted supplementary audit<sup>8</sup> of 55 accounts of 45 SPSEs. In the remaining 11 cases, the CAG issued ‘No Review Certificates’.

### **Results of CAG’s oversight role**

**2.5** Significant audit comments/Separate Audit Reports on 76 financial statements of 47 SPSEs (31 Government Companies, 12 Government Controlled other 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.

#### ***Amendment of financial statements/Revision in Auditor’s Report***

**2.6** As a result of the supplementary audit of the financial statements of SPSEs conducted by the CAG during the period from October 2022 to September 2023, Statutory Auditors revised their report on the financial statements of Uttar Pradesh State Construction and Infrastructure Development Corporation Limited for the year 2019-20.

<sup>6</sup> This includes two financial statements (Standalone and Consolidated) of Uttar Pradesh Power Corporation Limited for the year 2022-23.

<sup>7</sup> Comments issued after 30 September 2023.

<sup>8</sup> Accounts of SPSEs, for conducting supplementary audit annually, triennially, or once in five years, are selected based on the criteria of paid-up capital, capital employed, and turnover.

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

2.7 After the audit of the financial statements by statutory auditors, the CAG conducted supplementary audit of 68 financial statements of 43 SPSEs (31 Government Companies and 12 Government Controlled other Companies) and issued comments thereon during the period from October 2022 to September 2023. In addition, Separate Audit Reports (SARs) on seven financial statements of three SPSEs<sup>9</sup> where CAG is the sole auditor, and one SAR on the financial statements of an SPSE<sup>10</sup> where supplementary audit is conducted by the CAG, were issued during the same period. Thus, comments/Separate Audit Reports were issued in respect of 76 financial statements of 47 SPSEs<sup>11</sup>, 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 and Government Controlled other Companies**

**(i) Comments on Profitability**

- In the case of 11 financial statements of five SPSEs for the years 2019-20 to 2021-22, losses were understated by ₹ 3,582.34 crore.
- In the case of nine financial statements of five SPSEs for the years 2019-20 to 2021-22, losses were overstated by ₹ 1,053.77 crore.
- In the case of one financial statements of an SPSE for the year 2019-20, profit was understated by ₹ 1.39 crore.

**(ii) Comments on Financial Position**

- In the case of 10 financial statements of seven SPSEs for the years 2018-19 to 2021-22, assets and liabilities were understated by ₹ 5,348.71 crore.
- In the case of four financial statements of three SPSEs for the years 2020-21 to 2021-22, assets and liabilities were overstated by ₹ 5,014.51 crore.

**B. Statutory Corporations**

**(i) Comments on Profitability**

- In the case of one financial statements of a Statutory Corporation for the year 2021-22, profit was understated by ₹ 1.75 crore.
- In the case of one financial statements of a Statutory Corporation for the year 2021-22, loss was understated by ₹ 47.03 crore.

**(ii) Comments on Financial Position**

- In the case of one financial statements of a Statutory Corporation for the year 2020-21, assets and liabilities were understated by ₹ 9.10 crore.
- In the case of one financial statements of a Statutory Corporation for the year 2020-21, assets and liabilities were overstated by ₹ 3.30 crore.

<sup>9</sup> Uttar Pradesh Forest Corporation, Uttar Pradesh Jal Nigam, and Uttar Pradesh State Road Transport Corporation.

<sup>10</sup> Uttar Pradesh State Warehousing Corporation.

<sup>11</sup> In case of two financial statements of two SPSEs, viz., Uttar Pradesh State Construction and Infrastructure Corporation Limited, and Uttar Pradesh Textile Corporation Limited, no comments were issued.

***Provisions of Accounting Standards/Indian Accounting Standards not complied with***

**2.8** 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 (MCA), Government of India (GoI), notified the Indian Accounting Standards (Ind AS) under Section 133 of the Companies Act, 2013 vide the Companies (Indian Accounting Standards) Rules, 2015, keeping the Indian economic and legal environment in view and by referring to the International Financial Reporting Standards (IFRS).

The Ind AS were modelled on IFRS, which were different from the Indian Generally Accepted Accounting Principles (IGAAP) 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. Companies not covered under Ind AS are required to continue applying the Accounting Standards.

As on 31 March 2023, there were 107 SPSEs in Uttar Pradesh under the audit jurisdiction of the CAG that were governed by the provisions of the Companies Act, 2013. Out of these 107 SPSEs, 26 SPSEs had adopted Ind AS (Phase I – 18 SPSEs, Phase II – five SPSEs, and Voluntary Adoption – three SPSEs). Out of the three SPSEs that voluntarily adopted Ind AS, one SPSE, *viz.*, Moradabad Smart City Limited, had adopted Ind AS from its first financial statements for the year 2018-19. Further, despite fulfilling the requisite criteria, one SPSE, *viz.*, U.P. Scheduled Castes Finance and Development Corporation Limited, had not complied with Ind AS in the preparation of the latest finalised financial statements for the year 2017-18.

The cases of non-compliance with Ind AS/AS, as reported by the Statutory Auditors in their reports on the financial statements of 27 SPSEs, are summarised below and detailed in **Appendix 2.4**.

- In 10 financial statements of 10 SPSEs, the Statutory Auditors reported 37 instances of non-compliance with Ind AS.
- In 17 financial statements of 10 SPSEs, Statutory Auditors reported 59 instances of non-compliance with AS.

In addition, the cases of non-compliance with Ind AS/AS in 32 financial statements of 22 SPSEs, as pointed out by the CAG during the period 1 October 2022 to 30 September 2023 are summarised below and detailed in **Appendix 2.5**.

- In 16 financial statements of 10 SPSEs, there were 37 instances of non-compliance with Ind AS.
- In 16 financial statements of 12 SPSEs, there were 26 instances of non-compliance with AS.

***Management Letters***

**2.9** One of the objectives of financial audit is to ensure effective 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.

Material observations on the financial statements of SPSEs are reported by the CAG as comments under Section 143(6) of the Companies Act, 2013. In addition to these comments, irregularities or deficiencies observed by the CAG in the financial reports or the reporting process are communicated to the management of the concerned SPSEs through 'Management Letters' for taking corrective action. These deficiencies generally relate to the 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.

During the period from October 2022 to September 2023, the CAG issued 25 'Management Letters' to 18 SPSEs, as detailed in **Appendix 2.6**. The broad nature of irregularities highlighted in these Management Letters were:

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

### **Placement of Separate Audit Reports of Statutory Corporations**

**2.10** Separate Audit Reports (SARs) are audit reports of the CAG on the accounts of Statutory Corporations. As per the provisions of the respective Acts governing the Statutory Corporations, these reports are to be laid before the State Legislature. The status of placement of SARs in the State Legislature as on 30 September 2023 is given in **Table 2.3**.

**Table 2.3: Status of placement of SARs**

Sl. No.	Name of the Statutory Corporation	Year for which SAR issued	Latest year for which SAR placed in the State Legislature	Year(s) for which SAR not placed in the State Legislature
1.	Uttar Pradesh State Road Transport Corporation	2020-21	2017-18	2018-19 to 2020-21 (3 years)
2.	Uttar Pradesh Forest Corporation	2021-22	2017-18	2018-19 to 2021-22 (4 years)
3.	Uttar Pradesh Awas Evam Vikas Parishad	2019-20	2019-20	-
4.	Uttar Pradesh Financial Corporation	2012-13	2012-13	-
5.	Uttar Pradesh State Warehousing Corporation	2018-19	2012-13	2013-14 to 2018-19 (6 years)
6.	Uttar Pradesh Jal Nigam	2016-17	2010-11	2011-12 to 2016-17 (6 years)

*Source: Compiled based on information provided by the SPSEs*

From **Table 2.3**, it can be seen that out of the six Statutory Corporations, only two Statutory Corporations had placed all SARs issued by the CAG in the State Legislature. The remaining four Statutory Corporations had not placed 19 SARs (ranging between three and six years) issued by the CAG in the State Legislature, thereby not complying with the statutory requirements.

