CHAPTER 1

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA ON THE ACCOUNTS OF PSUs

Under Section 619 of the Companies Act, 1956 (the Act) the Statutory Auditor of a Government Company, appointed by the Comptroller and Auditor General of India (CAG), conducts the audit of accounts of the Government Companies including Deemed Government Companies under Section 619-B of the Act. On the basis of supplementary audit, CAG issues comments upon or supplements the report of the Statutory Auditors. Statutes governing some Corporations also require their accounts to be audited by CAG and a report to be given to the Government.

The details of Government Companies/Deemed Government Companies and Corporations of the Union Government whose accounts for 2004-05 were received and audited by CAG were as under:

	Government Companies	**Deemed Government Companies**	**Corporations**	**Total**
(i) No. of PSUs (List given in Appendix I, II and III)	293	89	6	388
(ii) No. of PSUs whose accounts for 2004-05 were received for audit upto 15 December 2005.	241	63	5	309
(iii) No. of PSUs selected for supplementary audit	205	53	5	263
(iv) No. of PSUs whose accounts were under audit as of 15 December 2005 (see Appendix I, II and III)	8	4	2	14

Note ***The status of audit of accounts of PSUs for 2004-05 (received upto 15 December 2005) has been indicated against each PSU in Appendix I, II and III.***

As a result of supplementary audit of accounts, 17 Government Companies and one Deemed Government Company revised their accounts for 2004-05. Comments were issued on the accounts for 2004-05 of 64 Government Companies and nine Deemed Government Companies. Audit Reports on the accounts of three Statutory Corporations (Central Warehousing Corporation, Inland Waterways Authority of India and Airports Authority of India) were also sent to the Government/Corporation.

1.1 (A) Revision of Accounts:

As a result of supplementary audit and consequent corrections made in the accounts for the year ended 31 March 2005, the profit in respect of the following Companies increased (+) or decreased (-) as indicated below:

(i) Decrease (-) of Profit

Name of the Company	**Rupees in crore**
1. Western Coalfields Limited	320.73
2.Mahanadhi Coalfields Limited	135.34
3. Coal India Limited	35.41
4. Central Coalfields Limited	16.02
5.MECON Limited	3.09
6. Central Mine Planning and Design Institute Limited	0.35
Total Decrease:	**(-) 510.94**

(ii) Increase (+) of profit

1. Dredging Corporation of India Limited	1.34
2. Hindustan Aeronautics Limited	0.23
3. Karnataka Trade Promotion Organisation	0.14
Total Increase:	**(+) 1.71**

In the following Companies, loss for the year increased (-) as given below:

(iii) Increase (-)of Loss

Name of the Company	**Rupees in crore**
1. Bharat Coking Coal Limited	953.48
2. Eastern Coalfields Limited	648.28
3. ITI Limited	8.72
Total Increase:	**(-) 1610.48**
Note: The Accounts of Kudremukh Iron Ore Limited, National Textiles Corporation Limited(APPK&M), Kutch Railways Corporation Limited, Rail Vikas Nigam Limited, NEPA Limited and Karnataka Agriculture Development Finance Company Limited were also revised but there was no financial impact on the profit/loss disclosed in these accounts.	

1.1 (B) Impact of Comments on Balance Sheet and Profit & Loss Account:

(a) The comments issued by the Comptroller and Auditor General of India on the financial statements of various companies other than the 'Navratna Companies' (in respect of which the position has been brought out separately in para 1.1 (B) (b)), indicated that in 20 PSUs assets as on 31 March 2005 were overstated by Rs.386.64 crore and in five PSUs these were understated by Rs.108.80 crore. Similarly liabilities were overstated by Rs.196.01 crore in five PSUs and understated by Rs.245.66 crore in 16 PSUs. In 13 PSUs net profit for 2004-05 was overstated by Rs.180.58 crore and in three PSUs it was understated by Rs.21.90 crore. Similarly, in 12 PSUs net loss for 2004-05 was understated by Rs.188.91 crore and in one PSU it was overstated by Rs.20.10 crore. The following tables give a Company-wise break up of the financial implication of the comments of the Comptroller and Auditor General of India:

(i) Assets overstated (-):

Name of the Company	**Rupees in crore**
1. National Highways Authority of India	76.21
2. Bharat Sanchar Nigam Limited	74.23
3. Food Corporation of India	67.03
4. Railtel Corporation of India Limited	35.72
5. National Projects Construction Corporation Limited	32.45
6. HMT Limited	24.25
7. SatlujJal Vidyut Nigam Limited	15.31
8. Delhi Metro Rail Corporation Limited	14.74
9. Brahmaputra Valley Fertilizers Corporation Limited	13.46
10. Konkan Railways Corporation Limited	10.10
11. Shipping Corporation of India Limited	7.20
12. Bharat Refractories Limited	4.51
13 Indian Airlines Limited	3.80
14. National Hydroelectric Power Corporation Limited	2.81
15. Madras Fertilizers Limited	1.36
16. MMTC Limited	1.18
17. Others- four PSUs	2.28
Total overstatement (-)*	**386.64**

****Total assets overstated included Rs.14.94 crore relating to the accounts for the year 2003-04*.

(ii) ***Assets understated (+):***

1. Airport Authority of India Limited	74.74
2. HMT Machine Tools Limited	20.10
3. The State Trading Corporation of India Limited	10.33
4. Others-two PSUs	3.63
Total understatement (+)*	**108.80**

****Total assets understated included Rs.319.63 crore relating to the accounts for the year 2003-04*.**

(iii) Liabilities understated (-):

Name of the Company	Rupees in crore
1. Airports Authority of India	54.48
2. Heavy Engineering Corporation Limited	45.37
3. HMT Limited	37.12
4. National Insurance Company Limited	24.31
5. Power Grid Corporation of India Limited	16.35
6. Shipping Corporation of India Limited	12.01
7. Bharat Sanchar Nigam Limited	10.39
8. Hindustan Salt Limited	9.76
9. The State Trading Corporation of India Limited	9.50
10. Konkan Railway Corporation Limited	8.33
11. Bharart Earth Movers Limited	7.68
12. Air India Limited	3.56
13. Container Corporation of India Limited	3.56
14. PEC Limited	1.31
15. Others- two PSUs	1.93
Total liabilities understated (-)*	**245.66**

**Total liabilities understated included Rs.361.82 crore relating to the accounts for the year 2003-04.*

(iv) ***Liabilities overstated (+):***

1. National Highways Authority of India	76.21
2. Food Corporation of India	67.03
3. Railtel Corporation of India Limited	35.72
4. National Projects Construction Corporation Limited	15.98
5. Indian Airlines Limited	1.07
Total liabilities overstated (+)	**196.01**

**Total liabilities overstated included Rs.1.66 crore relating to the accounts for the year 2003-04.*

(v) Profit overstated (+):

Name of the Company	Rupees in crore
1. Bharat Sanchar Nigam Limited	84.62
1. National Insurance Company Limited	24.31
3. Shipping Corporation of India Limited	19.21
4. Power Grid Corporation of India Limited	16.35
5. SatlujJal Vidyut Nigam Limited	15.31
6. Bharat Earth Movers Limited	7.68
7. Air India Limited	3.56
8. National Hydroelectric Power Corporation Limited	2.81
9. Indian Airlines Limited	2.73
10. PEC Limited	1.33
11. MMTC	1.18
12. Others-two PSUs	1.49
Total overstatement (+) *	**180.58**

****Total profit overstated included Rs.42.19 crore relating to accounts for the year 2003-04.***

(vi) Profit understated (-):

1. Airport Authority of India Limited	20.26
2. Others-two PSUs	1.64
Total understatement (-)	**21.90**

(vii) Loss understated (+):

Name of the Company	Rupees in crore
1. HMT Limited	61.37
2. Heavy Engineering Corporation Limited	45.37
3. Konkan Railway Corporation Limited	18.43
4. National Projects Construction Corporation Limited	16.47
5. Delhi Metro Rail Corporation Limited	14.74
6. Brahmaputra Valley Fertilizers Corporation Limited	13.46
7. Hindustan Salt Limited	9.76
8. Bharat Refractories Limited	5.76
9. Madras Fertilizers Limited	1.36
10. Others-three PSUs	2.19
Total loss understated (+)*	**188.91**

****Total loss understated included Rs.16.60 crore relating to the accounts for the year 2003-04.***

(viii) Loss overstated (-):

HMT Machine Tools Limited	20.10
Total loss overstated (-)	**20.10**

(b) Navratna Companies:

(i) Impact of comments issued by the Comptroller & Auditor General of India on the financial statements on 'Navratna' Public Sector Undertakings for the year 2004-05 indicated that Assets were over-stated by Rs.527.61 crore in three PSUs. Similarly liabilities were understated by Rs.180.74 crore in two PSUs. The following tables give company-wise break-up of the financial implication of the comments of the Comptroller & Auditor General of India.

Assets overstated (-):

Name of the Company	**Rupees in crore**
1. Indian Oil Corporation Limited	391.00
2. Mahanagar Telephone Nigam Limited	112.37
3. GAIL (India) Limited	24.24
Total assets overstated (-)	**527.61**

Liabilities understated (-):

1. Mahanagar Telephone Nigam Limited	167.98
2. Bharat Heavy Electricals Limited	12.76
Total liabilities understated (-)	**180.74**

(ii) In addition to the above, the impact of CAG's comments on the profit and loss of the 'Navratna' Public Sector Undertakings for the year 2004-05 is given below:

(Rupees.in crore)

Name of the Company	**Net Profit (before tax)/ Loss (-) and prior period adjustments as per accounts**	**Over-statement (+)/ Under-statement (-) of Profit or Loss as commented**	**Impact of comments as a percentage of profit/loss shown as per accounts**
1.	2.	3.	4.
1. Bharat Heavy Electricals Limited	1,601.66	(+)12.76	0.79
2. GAIL (India) Limited	2,872.27	(+)24.24	0.84
3. Indian Oil Corporation Limited	6,067.62	(+)391.00.	6.44
4. Mahanagar Telephone Nigam Limited	1,215.67	(+)280.35	23.06
Total	**11,757.23**	**708.35**	

1.2 Salient Comments on Balance Sheet/Profit & Loss Statements

MINISTRY OF AGRICULTURE & CO-OPERATION

1.2.1 State Farms Corporation of India

Loss for the year was overstated by Rs.3.88 crore due to accounting of waiver of interest given by the Syndicate Bank on short-term loan during the year as previous year income instead of current year income.

The Management accepted the comment.

MINISTRY OF CHEMICAL AND FERTILIZERS

DEPARTMENT OF FERTILIZERS

1.2.2 Brahmaputra Valley Fertilizer Corporation Limited

The net loss carried forward to the Balance Sheet was understated by Rs.13.46 crore due to incorrect capitalisation of:

(i) Rs.11.76 crore (including Rs.4.89 crore pertaining to previous year) representing interest on Government loan for Namrup-III plant which due to commissioning of plant should have been accounted for as revenue expenditure; and

(ii) Rs.1.70 crore towards penal interest in respect of the above cited loan.

The Management accepted the comment.

1.2.3 Madras Fertilizers Limited

Current assets, loans and advances were overstated and losses carried forward to the Balance Sheet were understated by Rs.1.36 crore due to accounting of claims as recoverable which had not been accepted by the Customs authorities and were pending for more than 15 years.

The Management stated that it had been continuously following up the claims with the Customs authorities for an early refund.

MINISTRY OF CIVIL AVIATION

1.2.4 Air India Limited

The Company did not provide for a liability of Rs.3.56 crore payable to Customs authorities towards Custom Duty and penal interest as per demand notes for four cases relating to bond expired items in cabin stores and aircraft bond stores.

The Management stated that as per demand notice received from Customs in February 2005 for Rs.1.88 crore, an amount of Rs.0.74 crore was provided and the balance amount of Rs.1.14 crore was disclosed as contingent liability.

The Management's reply was not tenable as the amount of Rs.1.88 crore related to one case only and the total liability in four cases amounted to Rs.4.30 crore. The Company had represented to the Ministry for waiver of penal interest etc. covered in the demand notices but the same had not been granted so far (November 2005).

1.2.5 Airports Authority of India

2003-04

1. The surplus carried forward to Balance sheet was overstated and current liabilities and provisions were understated by Rs. 40.81 crore due to non-provision of liabilities of:

(i) Rs.26.19 crore towards gratuity, leave encashment and half pay leave.

(ii) Rs.13.32 crore representing dividend payable to Government.

(iii) Rs.0.94 crore on account of interest compensation as per court order.

(iv) Rs.0.26 crore towards advertisement and publicity expenditure; and

(v) Rs.0.10 crore on account of overtime allowance.

2. The surplus carried forward to Balance Sheet was understated and current liabilities and provisions were overstated by Rs.1.01 crore due to non-withdrawing of balance liabilities of Rs.0.18 crore and Rs.0.83 crore on Government loan towards interest and penal interest respectively, which were not payable.

3. Fixed assets as well as depreciation were overstated by Rs.2.28 crore and Rs.0.34 crore respectively due to: -

(i) Incorrect capitalisation of incomplete works of Rs.1.69 crore which also resulted in overstatement of depreciation by Rs.0.29 crore.

(ii) Incorrect capitalisation of revenue expenditure at Bangalore and Hyderabad airports by Rs.0.59 crore and overstatement of depreciation by Rs.0.05 crore.

Reply to the Audit Report was not furnished.

2004-05

1. Capital reserve and fixed assets were overstated by Rs.3.01 crore and Rs.2.50 crore respectively and profit was understated by Rs.0.51 crore due to:

(i) Land received free of cost from State Governments was accounted for at fair market value of Rs.2.50 crore instead of at nominal value as per requirement of AS-12.

(ii) Deposit work fee of Rs.0.51 crore received from Himachal Pradesh Government was accounted as Grant instead of as income.

2. Profit for the year was overstated and current liabilities and provisions were understated by Rs.16.89 crore due to non-provision of liabilities of

(i) Rs.1.96 crore towards Municipal Taxes payable for Jaipur Airport and Indira Gandhi International (IGI) Cargo Complex.

(ii) Rs.3.10 crore representing land revenue and cess for Kolkata Airport.

(iii) Rs.1.66 crore towards charges for services availed.

(iv) Rs.1.87 crore on account of short accounting of liability in respect of arbitration awards relating to Libyan and Maldives Projects.

(v) Rs.1.30 crore in respect of consultancy charges for privatisation of Airports, and

(vi) Rs.7 crore for removal of unauthorized hutments at Indira Gandhi International (IGI) Airport by Municipal Corporation of Delhi.

3. The Profit for the year was understated and current liabilities and provisions overstated by Rs.6.74 crore due to:

(i) Not writing back the balance liability of Rs.2.51 crore towards anti-hijacking expenses.

(ii) Excess creation of liability of Rs.0.21 crore towards payment to AP Meat and Poultry Development Corporation.

(iii) Cost of Rs. 0.12 crore incurred towards work undertaken at Indira Gandhi Rashtriya Uran Academy adjustable from the deposits received from the academy.

(iv) Incorrect accounting of passenger service fee (PSF) of Rs.0.39 crore received from Alliance Air as advance from clients.

(v) Double booking of Rs.0.30 crore on account of Central Industrial Security Force (CISF) arms and ammunition bill.

(vi) Excess creation of liability of Rs.0.27 crore.

(vii) Non writing back of liabilities/liquidated damages/advances etc. of Rs.2.79 crore which were no longer required.

(viii) Excess provision of Rs.0.15 crore towards Bharat Sanchar Nigam Limited (BSNL) dues.

4. Fixed assets as well as depreciation were overstated by Rs.17.61 crore and Rs.2 crore respectively due to incorrect capitalisation of works before putting them to use.

5. Incorrect capitalisation of revenue expenditure resulted in over statement of fixed assets as well as profit by Rs.1.35 crore and Rs.1.24 crore (net of depreciation-Rs.0.11 crore) respectively.

6. Fixed assets of Rs.3.96 crore were incorrectly classified under the head furniture and fixtures and car parking bays etc., resulting in understatement of depreciation by Rs.0.50 crore.

7. Incorrect capitalisation of cost of construction of RCC bridge at Jaipur Airport, which was recoverable from the State Government, resulted in under statement of loans and advances, capital reserve and profit by Rs.8.58 crore, Rs.7.54 crore and Rs.1.04 crore respectively.

8. Net profit as well as traffic revenue were understated by Rs.45 crore due to crediting the security component of PSF to capital reserve instead of routing the same through profit and loss account.

9. Accounting policy 6 of the Authority was deficient in as much as it allowed charging of full value of purchases of stores and spares issued during the year irrespective of actual consumption. Stores and spares valuing Rs.23.06 crore added to the stock during the year and charged to profit and loss account were lying unconsumed as on 31 March 2005.

Reply to the Audit Report was not furnished by the Authority.

1.2.6 Indian Airlines Limited (2003-04)

1. Profit for the year as well as Inventories were overstated by Rs.3.80 crore due to short provision for obsolescence reserve for engineering spares and stores.

The Management stated that provision for obsolescence of spares was consistently being provided based on the approved Accounting Policy of the Company.

Reply of the Management was not tenable as obsolescence reserve was to be made as per the depreciable life of aircraft, which comes to 17.67 years as per Schedule XIV of Companies Act, 1956 instead of 18 years being followed by the Company.

2. Operating expenses as well as profit for the year were overstated by Rs.1.07 crore due to accounting of maintenance charges on assumed utilisation basis (Rs.7.16 crore) instead of on actual utilisation of the aircraft (Rs.6.09 crore) taken on lease by the Company.

The Management stated that the accounting treatment was being consistently followed and pending reconciliation of maintenance charges, these were accounted for on assumption basis.

Reply of the Management was not acceptable as annual reconciliation of Maintenance Reserve payments was completed in July 2004 before adoption of accounts (December 2004). Hence accounting of the same on assumption basis instead of accrual basis was against the fundamental accounting assumption.

MINISTRY OF COMMERCE & INDUSTRY

1.2.7 MMTC Limited

Prior Period Adjustments did not include Rs.1.29 crore being the amount assessed by various Sales Tax authorities against the deposits made by the Company between the periods 1971-72 to 1996-97 in respect of which the cases had been decided against the Company. This resulted in overstatement of deposits by Rs.1.18 crore and understatement of liabilities by Rs.0.11 crore and consequently overstatement of profit before tax by Rs.1.29 crore.

The Management stated that the amounts assessed by Sales Tax authorities against the deposits made by the Company had been included in the contingent liabilities as some appeals were still pending. It further stated that in case no positive developments took place during the next financial year i.e. 2005-06, necessary provisions/charge off would be made.

1.2.8 Neelachal Ispat Nigam Limited

The Company had not disclosed the deferred tax assets and liabilities in the Balance Sheet as required under Accounting Standard (AS)–22.

The Management noted the comment.

1.2.9 PEC Limited

1. Profits as well as inventories were overstated by Rs.1.33 crore due to valuation of stock at minimum support price instead of at realisable value.

The Management stated that in the absence of realistic realisable value the valuation was done at minimum support price and the resultant profit/loss of the transaction would be booked during 2005-06.

2. Current liabilities as well as sundry debtors were understated by Rs.1.31 crore due to withholding tax payable on the interest paid/payable to suppliers' credit for the usance period of letters of credit to non-corporate non-resident assesses.

The Management stated that the Company had deposited an amount of Rs.5.31 crore with the Income Tax Department toward withholding tax for the year 2004-05.

Reply of the Management was not tenable as they should have provided for withholding tax payable on the interest payable/paid.

1.2.10 The State Trading Corporation of India Limited

Current liabilities and cash and bank balances were understated by Rs.9.50 crore due to incorrect accounting of interest accrued on the fixed deposit receipts (FDRs) as Rs.86.68 crore instead of actual amount of Rs.96.18 crore.

The Management stated that these FDRs were held for associates and the accounts were pending reconciliation.

The above reply was not tenable, as the interest accrued should have been accounted for.

MINISTRY OF COMMUNICATIONS

1.2.11 Bharat Sanchar Nigam Limited (BSNL)

1. Gross block of fixed assets was understated by Rs.143.93 crore due to non/short capitalisation of assets, which were commissioned and put to use during the current year or earlier and non/incorrect accounting of assets pertaining to the Department of Telecommunications (DoT) in 20 units of the Company.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

2. Gross block of fixed assets was overstated by Rs. 69.02 crore due to excess/incorrect capitalisation of capital WIP and revenue expenditure, incorrect booking of overhead charges and non-removal of decommissioned assets from the block of fixed assets in 14 units of the Company.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustments in 2005-06.

3. Net block of fixed assets was understated by Rs.5.98 crore due to incorrect/ excess charging of depreciation in seven units.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustments in 2005-06.

4. Net block of fixed assets was overstated by Rs.5.31 crore due to short/incorrect charging of depreciation on fixed assets/decommissioned assets in nine units of the Company.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustments in 2005-06.

5. The total value of fixed assets and capital WIP taken over from DoT as in October 2000 had been accounted for as Rs.59132 crore in the current year's accounts as against the value of Rs.69768 crore transferred by DoT.

The Management stated that the task force had been constituted to reconcile the assets taken over with those reflected in the books of DoT.

6. Capital work-in-progress was understated by Rs.7.19 crore on account of non/short accounting of expenditure in capital WIP in six units of the Company.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

7. Capital work-in-progress was overstated by Rs.1.54 crore due to incorrect accounting of maintenance expenses, etc. in four units of the Company.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

8. Short provision of Rs.14.25 crore against the accrued interest on capital advances given to M/s Hindustan Cables Limited (HCL), which was doubtful of recovery, had resulted in overstatement of accrued interest, profit for the year and general reserve by Rs.14.25 crore each.

The Management stated that the matter had been taken up with the Department of Heavy Industries and based on the reply about realisation of the amount from HCL necessary action would be taken in the matter.

9. Inventories were understated by Rs.5.97 crore due to incorrect accounting of inventories consumed in capital WIP.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

10. Inventories were overstated by Rs.38.34 crore on account of non-capitalisation of wireless-in-local loop instruments and TAX equipment, non accounting of loss of obsolete/ non-moving/ slow-moving stores and non accounting of loss due to shortages noticed in physical verification of inventory and excess liabilities created in 13 units.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

11. Sundry debtors were overstated by Rs.92.98 crore due to non-provision/ short provision for disputed debtors, differences with sub-ledgers, wrong / double booking of debtors, non-provision for refund of rent collected in excess, creation of liabilities instead of provisions and accrued debtors not being taken on actual basis in 12 units.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

12. Sundry debtors were understated by Rs.19.61 crore due to excess provision made for doubtful debts, non/ incorrect accounting of interconnection usage charges (IUC) charges and differences with subsidiary ledgers in six units.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

13. Current liabilities were overstated by Rs.18.83 crore due to excess/incorrect accounting of liabilities and incorrect accounting of 'own your telephone' (OYT) deposits in 11 units.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

14. Current liabilities were understated by Rs.109.16 crore due to non-provision of liabilities for capital and revenue expenditure in 19 units of the Company.

The Management noted this and stated that the concerned circles would carry out necessary adjustment in 2005-06.

15. Current liabilities did not include an amount of Rs.13.04 crore payable to Mahanagar Telephone Nigam Limited on account of its share of the revenue earned from leased circuits and teleprinter circuits.

The Management stated that Northern Telecom Region would examine the issue and carry out adjustment, if found necessary.

16. Income from services was overstated by Rs.19.18 crore due to excess/incorrect accounting of income/income received in advance, etc. in 10 units.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

17. Income from services was understated by Rs.33.09 crore due to non/short accounting of income in eight units.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

18. Other income was understated by Rs.3.68 crore due to non recognition of the non refundable portion of tatkal deposits as income and non accounting of interest receivable from bank in four units.

The Management accepted the comment and stated that the concerned circles would carry out necessary adjustment in 2005-06.

19. The 'adjusted gross revenue' (AGR) calculated by the Company did not include revenue from promotional activities (Rs.15.36 crore), profit on sale of assets (Rs.6.18 crore) and liquidated damages (Rs.147.86 crore), which were required to be included as per the format prescribed by DoT. This had resulted in understatement of licence fee and current liabilities by Rs.16.18 crore each and overstatement of profit for the year by Rs.16.18 crore.

The Management stated that the amount of the items in question were not included in AGR as per AS-9. However, the matter would be taken up with DoT for clarification.

1.2.12 Mahanagar Telephone Nigam Limited (MTNL)

1. In contravention of Section 32 of the Income Tax Act, 1961, the provision for taxation was calculated after claiming the benefit of depreciation for the whole year instead of claiming the benefit to the extent of 50 *per cent* in respect of assets, which were acquired during the year and put to use for less than 180 days. This had resulted in understatement of provision for taxation and current liabilities by Rs.25.42 crore each, overstatement of provision for deferred taxation and deferred tax liability (Net) by Rs.24.11 crore each and overstatement of profit after tax by Rs.1.31 crore.

The Management accepted the comment.

2. Gross block of fixed assets, net block of fixed assets, depreciation for the year, prior period depreciation and current liabilities, were overstated by Rs.15.11 crore, Rs.13.71 crore, Rs.1.14 crore, Rs.0.27 crore and Rs. 1.99 crore respectively and advances, capital work-in-progress, profit for the year and reserve and surplus were understated by Rs.1.36 crore, 11.75 crore, 1.14 crore and Rs.1.41 crore respectively due to (i) incorrect capitalisation of an advance of Rs.1.36 crore given to Delhi Development Authority for a plot of land not allotted to MTNL, (ii) double booking of revised cost of Rs.1.99 crore for land at Tughlakabad and (iii) incorrect capitalisation of three remote switching units valued at Rs.11.75 crore, not ready for use due to non-availability of cables in Delhi unit.

The Management accepted the comment and stated that necessary adjustments would be made in the year 2005-06.

3. Fixed assets (Delhi unit) included 38450 technologically faulty and prone to be cloned/misused CDMA handsets (capitalised during October 2001) at a gross value of Rs.67.14 crore. However, as per AS-10, these fixed assets should have been eliminated from the financial statement when no further benefit was expected from their use and disposal. This resulted in overstatement of gross block of fixed assets by Rs.67.14 crore, net block of fixed assets by Rs.43.65 crore and accumulated depreciation by Rs.23.49 crore, profit by Rs.43.65 crore and understatement of administrative, operating and other expenses (loss of obsolete assets) by Rs.43.65 crore.

The Management stated that the handsets were useable and in working condition. Hence these were not eliminated from the financial statement as further benefit was expected from their use.

Reply of the Management was not acceptable because these handsets did not have the provision of authentication keys (A-Keys) that safeguard users against any fraud/misuse and were technically faulty and not repairable. Further, these handsets were neither useful nor any value could be realised from their disposal. Keeping this in view and as per requirement of AS-10, these handsets should have been eliminated from the gross block of fixed assets and the amount of their unamortised cost should have been booked as loss on obsolete assets.

4. As per policy decision (April 2004) of the Company, all telephone instruments, which were older than six years were to be replaced. Thus the useful life of telephone instruments was estimated to be six years. However, in the Delhi unit, the unamortised depreciable amount of Rs.8.55 crore of such instruments capitalised prior to March 1999 was not fully charged off during the year. Also, depreciation on instruments having an unamortised cost of Rs.31.96 crore was not re-fixed over the revised remaining useful life (six years instead of 10 years), which resulted in overstatement of net block of fixed assets by Rs.13.06 crore and profit by Rs.13.06 crore and understatement of depreciation by Rs.13.06 crore.

The Management *inter-alia* stated that replacement of instrument, which were older than six years, was an administrative order and not linked with their useful life.

The above contention of the Management was not tenable as according to AS-6 in case the useful life of any asset was refixed, then the rate of depreciation on such asset should be revised so as to amortise its entire depreciable cost within the re-fixed useful life.

5. Sundry debtors included a disputed amount of Rs.3.60 crore pertaining to the Delhi unit for which no provision was made as required under Company's significant accounting policy 1(ii) (b). This resulted in overstatement of sundry debtors by Rs.3.60 crore; understatement of provision for doubtful debts and administrative, operating and other expenses by Rs.3.60 crore and overstatement of profit by Rs.3.60 crore.

The Management stated that all such cases were suspected to be of cloning but not yet confirmed. Necessary provision if required would be made in the accounts of 2005-06.

The above reply was not tenable as these cases were disputed cases and according to accounting policy No. 1(ii) (b), provisions were required to be made for these cases.

6. Loans and advances included an amount of Rs.30.12 crore recoverable from BSNL, which was estimated on the basis of incomparable call pattern of other cellular mobile telephone operators. This basis of accounting was in violation to the requirements of AS-9 and resulted in overstatement of loans and advances, income and profit by Rs.30.12 crore respectively.

The Management stated that in the absence of specific information, the revenue was booked on the basis of available trend of other operators and this was in accordance with AS-9 (para 9.4). Hence, there was no overstatement of revenue.

The contention of the Management was not tenable due to the reason that subscriber base of BSNL's basic services was 3.70 crore as on March 2005 whereas the subscriber base of M/s Bharti and M/s Reliance (under consideration) in these services was only 8.6 lakh and 13 lakh respectively. Further, BSNL had monopoly in basic services, so its call pattern could not be compared with the call pattern of M/s Bharti and M/s Reliance. As such the revenue was not determined on reasonable basis and its accounting should have been postponed in compliance to the mandatory requirement of paragraph 9.4 of AS-9.

7. Current liabilities and administrative operating and other expenses, were understated by Rs. 59.77 crore and Rs.0.24 crore and other income as well as profit were overstated by Rs.59.53 crore and Rs.59.77 crore respectively due to (i) unilateral write back of MCD's demand for property tax amounting to Rs.47.66 crore for the period 1996-97 to 2003-04, (ii) incorrect write back of liabilities of Rs.11.87 crore towards Non-OYT deposits and (iii) non accounting of the amount of Rs.0.24 crore payable to M/s Bhagyanagar Metal Limited in compliance to the order of the court.

The Management stated that with regard to (i) the computation was done on the basis of revised guidelines of MCD. The balance amount of property tax was correctly written back after obtaining independent legal opinion.

The above reply of the Management was not tenable due to the reason that MCD had accepted the property tax of Rs.46 lakh on the basis of the new self- assessment scheme. The self-assessment of the tax liability by the assessee did not mean that the self-assessment was accepted by MCD and the demands raised in the earlier years were not correct.

The Management with regard to (ii) above stated that write back of non –OYT deposit related to the period prior to 1986 and majority of the connections pertaining to that period were closed. Hence, the write back of liability was done correctly.

Reply of the Management was not tenable for the portion of non-OYT deposits of Rs.11.87 crore written back. Non-OYT deposits could only be written back in case of closed connections. Moreover, no details were available with the Management for non-OYT connections.

As regards (iii) above the Management accepted the comment.

8. The non-provision of liability of Rs.13.62 crore to private operators in terms of the orders of the Supreme Court of December 2004 had resulted in understatement of current liabilities and revenue sharing expenditure by Rs.13.62 crore each and overstatement of profit by Rs.13.62 crore.

The Management noted this for compliance and stated that necessary adjustments would be made in the year 2005-06.

9. Income from services included an amount of Rs.5.93 crore towards monthly telephone rent billed to subscribers after the dates of disconnection of their telephone connections due to non payment/ incorrect billing of the above amount. This had resulted in overstatement of income from services and sundry debtors by Rs.5.93 crore each with consequent overstatement of profit for the year by Rs.5.93 crore.

The Management noted this for compliance and stated that necessary adjustment would be made in the year 2005-06.

10 Revenue sharing expenditure also did not include an amount of Rs.14.60 crore due to incorrect calculation of the amount payable to BSNL on account of 91/92/95 calls, at 3.75 *per cent* instead of 5.3 *per cent* (average of 3.75 *per cent* and 6.85 *per cent*) as per a decision taken in a meeting held between DoT, MTNL and BSNL in May 2004. This had resulted in understatement of revenue sharing expenditure by Rs.14.60 crore understatement of sundry creditors by Rs.14.60 crore; overstatement of profit for the year by Rs.14.60 crore.

The Management stated that as MTNL data supported the application of 3.75 *per cent* and the matter of settlement with BSNL was being finalised by DoT and the final outcome when determined, the percentage to be applied and necessary adjustment would be made accordingly in the accounts of 2005-06.

The contention of the Management was not correct as in the meeting held in May 2004 between MTNL, BSNL and DoT on the matter, MTNL had agreed to pay for the revenue sharing on such calls for the period 2001-2002 at the rate of 5.3 percent.

11. Income amounting to Rs.93.28 crore on account of write-back of expenditure provided for in earlier years in respect of liabilities for suppliers/contractors, expenses for employees' claims, abandoned WIP, uncleared cheques etc was not included in the AGR for the purpose of calculating the amount of licence fees payable to DoT at the rate of 10 *per cent*, which was in violation of the instructions of DoT (May 2002) for computing AGR. This had resulted in understatement of licence fees payable to DoT, current liabilities by Rs.93.28 crore each and overstatement of profit for the year by Rs.93.28 crore.

The Management stated that write back of expenditure provided for in earlier years in respect of liabilities for suppliers / contractors, expenses for employees claim, abandoned WIP and uncleared cheques were not income of the company but only credit adjustment. These did not fall within purview of AGR hence there is no violation of DoT instructions.

The above reply is not tenable because as per the definition of AGR, all income including all miscellaneous income shown in the Profit and Loss Account were to be considered for the purpose of calculation of AGR.

MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

1.2.13 Food Corporation of India

Accounts of Food Corporation of India (FCI) for the year 2002-03 and 2003-04 were audited by C&AG, as sole auditor under Section 34 of the Food Corporations Act, 1964 as amended in June, 2000. The Audit Reports thereon were issued to the Government on 22 December 2004 and 28 October 2005 respectively.

(A) Some important observations made in the Report were as under:

2002-03:

Claims Receivable were overstated by Rs 7.56 crore due to inclusion of claims pertaining to period prior to July, 1995 (Punjab region) for which railway records had already been destroyed by Railways.

The Management stated that the field offices had been instructed to review all these claims for expeditious settlement.

2003-04

1. Sundry creditors for goods and services were understated by Rs 1.20 crore on account of partial accounting of godown rent of Brooklyn Depot under District Office, Port Depot.

The Management accepted the comment.

2. Claims receivable were overstated by Rs 127.30 crore representing claims for transit shortages recoverable from Handling and Transport contractors and accounted for during the year 2001-02 to 2003-04 without fixing responsibility.

The Management stated that existing instructions towards raising of claims against consignor were under review.

3. Book debts were overstated by Rs 68.24 crore due to incorrect adjustment of the amount realised on account of Sampoorna Gramin Rozgar Yojna from Ministry of Rural Development under sundry creditors for goods and services instead of adjusting the same against book debts.

The Management accepted the comment.

(B.) Weakness in System of Internal Control and Book-Keeping:

1. Internal audit system was not adequate and was not commensurate with the size and nature of the business of the Corporation.

2. The independence of Internal audit has been eroded by a Board decision (December 1999) which required that the internal audit team should report to the concerned field managers instead of to the Executive Director (IA)/ Managing Director.

3. Fixed asset registers did not indicate quantitative details and location of assets in various districts under East Zone and North East Zone.

4. Details of missing wagon claim (sugar) for Rs 2.56 crore and liability for unconnected wagons (sugar) for Rs 3.10 crore up to 1997-98 (District office, Silchar) were not produced to Audit.

The Management stated that concerned District Offices and Regional Offices had been suitably advised to furnish the details of missing and unconnected wagons in respect of sugar during audit of accounts for the year 2004-05.

5. Claims receivable included Rs 2.28 crore representing the value of transit shortages pending recovery from Central Inland Water Transport Corporation for years together.

Management stated that the matter was being pursued for recovery of transit shortages.

6. Internal Control System, inter-alia, needed to be strengthened in the following areas:-

(i) Reconciliation of transit/storage losses and railway claims for excess freight as per the records of operating divisions with that of Accounts Division, and

(ii) Preparation of schedules and statement as per the requirements of Accounts Manual of the Corporation.

The Management stated that suggestions of audit for further strengthening of the system had been noted.

MINISTRY OF DEFENCE

Department of Defence Production & Supplies

1.2.14 Bharat Earth Movers Limited

Other liabilities did not include Rs.7.68 crore due to withdrawal of a portion of interest charges (Rs.5.04 crore) provided in the accounts of earlier years and non-provision of interest (Rs.2.64 crore) on the advance received from the Ministry of Defence against supply of wagons. The withdrawal/non-provision of interest was due to adoption of a lower rate of interest by the Company without the consent/acceptance of the Ministry. This resulted in understatement of other liabilities and overstatement of profit for the year by Rs.7.68 crore.

The Management stated that the advance of Rs.50.34 crore received from the Ministry of Defence, pending finalisation of commercial terms and issuance of orders, was invested in short term deposits with commercial banks during the period March 2002 to 2004, on which interest at the rate of five *per cent* (for 2002-2003) and four *per cent* (for 2003-04) were earned. The Management further stated that Commercial Negotiation Committee (CNC) accepted (September 2004) Company's contention and that the same would get regularised when the formal order was issued.

The reply of the Management was not acceptable as the decision of the Company was unilateral and there was no explicit acceptance by the CNC in the minutes of the meeting. Further, the Company has provided interest at the cash credit rate of 9.5 *per cent* (up to 2003-04) and 7.25 *per cent* (2004-05) on advances received in respect of another order for Bridge.

MINISTRY OF FINANCE

Department of Banking

1.2.15 Bharatiya Reserve Bank Note Mudran (P) Ltd.

Loss on sale of investments (Rs.6.31 crore) was a major contributing factor towards loss for the year (Rs.7.82 crore). As it was not expected to occur frequently/regularly in the normal course of the business of the Company, it was an extra ordinary item in terms of AS-5 and should have been disclosed separately in the Profit and Loss Account.

The Management stated that loss on sale of investments was incidental to the business and being an exceptional item, the same has been disclosed in Schedule 21.

The reply of the Management was not tenable as sale of investments could not be considered as incidental to the business of the Company, which is engaged in the printing of currency notes.

1.2.16 PNB Housing Finance Limited

The housing loans amounting to Rs.2.89 crore were sanctioned and disbursed without proper verification of borrowers' credentials and the site. The Company made a provision of Rs.86.70 lakh towards non–performing assets at the rate of 30 *per cent* against requirement of 100 *per cent* provision as per National Housing Bank (NHB)'s guidelines on the ground that it had adequate security and had moved an application in the court for taking possession of the properties under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

The Management's contention that secured assets were valued at Rs.3.37 crore and no further provision beyond 30 *per cent* was required was not tenable as 100 *per cent* provisioning was required in terms of NHB's guidelines. Further, the Company had not disclosed these facts in the accounts.

Insurance Division

1.2.17 National Insurance Company Limited

Profit (after Tax) for the year (Rs.131.12 crore) was overstated by Rs.24.31 crore due to under provision of Rs.11.29 crore noticed in the test check of 3940 cases (out of 271442 cases), relating to Motor Third Party Outstanding (MACT) claims, conducted during supplementary audit and Rs.13.02 crore as noticed by the Internal Audit wing of the Company.

The Management stated that out of Rs.11.29 crore under provision was only Rs.3.35 crore and the balance was reinsurance recovery of paid and outstanding claims. As regards Internal Audit cases, the Management stated that reports were received much after the statutory audit was completed.

Reply of the Management was not acceptable because the test check of records in Audit revealed that the amount accounted for under reinsurance recovery was arrived at taking into account the double/excess booking of MACT outstanding claims. This resulted in under provisioning of MACT claims. Besides, the Management did not produce any documentary evidence to substantiate the fact that an amount of Rs.7.94 crore was recovered/ recoverable under reinsurance arrangement. Further, Internal Audit is part of the Management and necessary corrections should have been carried out before certification of the accounts.

MINISTRY OF HEAVY INDUSTRY & PUBLIC ENTERPRISES

1.2.18 Bharat Heavy Electricals Limited

Profit for the year was overstated by Rs 12.76 crore due to:

(i) Short-provision of contractual obligations for renovation and modernisation work done in Kothgodam Project by Rs.2.64 crore.

(ii) Non-provision of contractual obligation of Rs.0.86 crore towards spares supplied to various customers during the year 2003-04.

(iii) Non-provision of liability of Rs.9.26 crore towards liquidated damages levied by Pragati Power Corporation Limited.

The Management accepted comment (i) and (iii). In respect of comment No. (ii) the Management stated that it had been consistently providing for contractual obligations at 2.5

per cent of total turnover and the same was adequate to meet such obligations. The reply was not tenable as the spares supplied were under warranty on the date of balance sheet.

1.2.19 Heavy Engineering Corporation Limited

In addition to the understatement of loss of Rs.95.02 crore reported in paragraph 3.2 (c) of the Auditors' Report on the accounts of the Company, non-provision of penalty/damages for delayed remittances of CPF/EPF dues during the period March 1976 to September 1999, the loss was further understated by Rs.45.37 crore due to non-provision of penalty/damages on defaulted CPF/EPF dues from October 1999 to March 2005.

The Management stated that an appeal had already been filed before the Appellate Tribunal on the ground of being BIFR referred Sick Company and the damages had been shown as contingent liability pending decision of the appeal.

The contention of the Management was not tenable because pending final decision of the Appellate Tribunal in the matter, the statutory liability should have been provided in the accounts.

1.2.20 HMT Limited (2003-04)

1. Loans and Advances were overstated by Rs.12.26 crore due to accounting of VRS grant receivable from Government of India (National Renewal Fund) in respect of employees who went on VRS prior to 2000. As these dues were more than three years old, and after approval of turnaround plan of the Company, VRS payments were to be met out of VRS bonds guaranteed by Government of India, the above amount was doubtful of recovery. Non-provision on this account resulted in overstatement of loans and advances and understatement of loss by Rs.12.26 crore.

The Management stated that the Government was funding VRS payments to the Company by way of loan and the Government had the option to convert these loans into equity and hence the question of provisioning for doubtful recovery did not arise.

The reply of the Management was factually incorrect. As per the turn around plan (August 2000), the Government provided only guarantee for the bonds to be raised by the Company for payment of VRS expenditure. Subsequently also the Government gave loans only for meeting VRS expenditure. Hence the possibility of providing more grants to the Company was remote.

2. Other income was overstated and loss was understated by Rs.37.12 crore due to accounting of profit on sale of land and buildings allocated to Company's subsidiaries under scheme of arrangement approved by the Government. Though the Company entered (March 2004) into MOUs with both the subsidiaries, in consideration of the transaction to identify and dispose of land of equivalent value elsewhere on their behalf, the Company had not created suitable liability.

The Management stated that the process of identification and disposal of land for equivalent value elsewhere under its possession was an on going one, the creation of liability did not arise now and the same would be carried out at the appropriate time of actual disposal.

The Reply of the Management was not acceptable as the MOU clearly stated that the holding company would sell land of equivalent value consequent to accounting such profit in its accounts. Hence there existed a clear liability on the part of the Company, which should have been provided for.

3. The Company recognised Rs.11.99 crore as deferred tax asset during 2003-04 considering positive evidence of realising the capital gain on projected sale of land and buildings. As the sale of land and building had not materialised and the Company had finalised leasing of three floors of the building, the carry forward of deferred tax asset with no positive evidence of realising the capital gain was in deviation of AS-22. This resulted in overstatement of deferred tax asset and understatement of Loss by Rs.11.99 crore.

The Management stated that the offer for sale of Corporate office building was active and the position will be reviewed in 2004-05 and appropriate action will be taken thereon.

The reply of the Management was not acceptable as the sale had not materialised and the Company had leased out three floors of the said building to a Government department.

1.2.21 HMT Machine Tools Limited (2003-04)

1. Sales were overstated and loss was understated by Rs.2.81 crore being the claim towards erection and commissioning in respect of machines despatched but not erected and commissioned as of March 2004.

The Management stated that the erection and commissioning of machines were only a subsequent formality to be completed at customer's site.

The reply of the Management was not acceptable as accounting the income prior to completing the errection and commissioning was not in order.

2. Other Income was understated and loss overstated by Rs.22.91 crore due to non accounting of the profit receivable from HMT Ltd. on sale of land and building belonging to the Company as per the scheme of arrangement approved by the Government of India in March 2001.

The Management stated that the holding company agreed to transfer the land at the equivalent price of sale proceeds, which was yet to be identified.

The reply of the Management was not acceptable as the holding company had not identified land even after two years.

1.2.22 HMT Watches Limited (2003-04)

Work in progress was overstated and loss was understated by Rs.58 lakh being the value of materials, which was not converted into finished goods even after a lapse of 5 years. As conversion and sale of these items were doubtful due to obsolescence, suitable provision for obsolescence should have been made.

The Management stated that a review of the materials lying in the WIP will be made in the ensuing financial year and necessary provision will be made.

1.2.23 Hindustan Salts Limited

1. The Company carried out adjustments regarding waiver of the Government's loan and interest thereon during the year though specific approval of the Government for the waiver was not received and the Memorandum of Understanding was also not executed. Writing

off the amount of loan and interest due there on in the accounts during the year has resulted in understatement of net loss carried over to balance sheet by Rs.9.76 crore.

The Management stated that the adjustments were carried out on the basis of GOI's approval dated 18 May 2005.

The reply of the Management was not tenable as the assistance in the form of grant was made by GOI in the year 2005-06 subject to certain conditions of MOU.

MINISTRY OF PETROLEUM & NATURAL GAS

1.2.24 GAIL (India) Limited

1. The accounting of the differential amount between higher rate of 'regasified liquefied natural gas' (RLNG) and the 'administered price mechanism' (APM) rates without enabling provision in the agreement resulted in overstatement of sundry debtors and profit by Rs.21.23 crore.

The Management stated that APM rates were applicable only for the quantity supplied under APM. In case, gas was drawn more than the APM quantity, RLNG rates were charged based on the agreement/subsequent letters issued to the customers and the revenue had been recognised as per the provisions of AS-9.

The contention of the Management was not tenable, as the Company had not executed any revised agreements with the customers to charge higher rate for gas drawn above the APM quantity.

2. Advances recoverable in cash or kind included Rs.3.01 crore spent on Global Depository Receipt (GDR) issue in 1999, which was doubtful of recovery. Non-provision towards doubtful advances resulted in overstatement of advances recoverable in cash or in kind as well as profit by Rs.3.01 crore.

The Management stated that the amount was recoverable from the Government. The above contention of the Management was not tenable, as the Government had not accepted the claim so far (November 2005).

1.2.25 Indian Oil Corporation Limited

1. Plant and machinery and depreciation had been understated by Rs.13.93 crore and Rs.55.16 lakh respectively due to non-capitalisation of mandatory stores and spares related to Linear Alkyne Benzene Project capitalised during the year.

The Management stated that there was no understatement of plant and machinery and depreciation as the stores and spares were in the nature of consumables required for operation and maintenance.

The reply of the Management was not tenable as it had identified the stores as mandatory and therefore, these should have been capitalized.

2. Profit and fixed assets were overstated by Rs.7.08 crore due to charging depreciation at the rate of 5.28 *per cent* per annum instead of at the rate of 16.21 *per cent* per annum on offsite modernisation of Haldia Refinery, a computerised blending operation system and Digital Control System on Solvent Dewaxing Unit of Digboi Refinery.

The Management accepted the comment.

3. Intangible Assets were understated by Rs.13.35 crore due to charging of 'system analysis and production' (SAP) licences of Rs.13.35 crore to revenue instead of treating them as Intangible assets as per AS-26. This also resulted in understatement of amortisation by Rs.1.17 crore and consequently understatement of profit by Rs 12.18 crore.

The Management stated that expenditure was incurred on SAP implementation prior to AS-26 becoming mandatory (April 2003) and the same had already been charged to revenue. The subsequent expenditure of Rs.13.35 crore was also charged to revenue in line with the provisions of Para 59 of AS-26.

The reply of the Management was not tenable as the expenditure was on purchase of new licenses made in 2004-05 and was, therefore, an intangible asset.

4. Profit as well as loans and advances were overstated by Rs.386.13 crore due to accounting of claims paid on the basis of self-assessment since 1997-98 onwards, which was disputed by the Custom Department.

The Management stated that the claims on account of customs duty arising in the normal course of business have been booked in accordance with the generally accepted accounting principles of 'going concern' and 'accrual basis'.

The reply of the Management was not tenable in view of the ongoing dispute with the Custom Department and consequent uncertainty attached therewith. Thus, the revenue recognition was not certain and hence not in line with the Accounting policy of the Company.

5. Profit and loans and advances were overstated by Rs.9.42 crore due to accounting of refund of entry tax claim of Rs.9.42 crore for which acceptance of the Department was awaited.

The Management stated that the claim on account of entry tax had arisen during 2003-04 and the same would be dealt with by the Department at the time of assessment for the year 2003-04 and there was certainty in realisation of the claim.

The reply of the Management was not tenable, as the Company was not allowed to adjust the claim from the payments made during the year 2004-05.

MINISTRY OF POWER

1.2.26 National Hydroelectric Power Corporation Limited

Profit carried forward to the balance sheet for the year was overstated by Rs.2.81 crore due to:

(i) Under-charging of depreciation on 'tunnels' (Rangit power station) for the last five years since 2000-01. This resulted in overstatement of profit (including Rs.5.65 crore for prior period) and fixed assets (net block) by Rs.6.80 crore.

(ii) Non-raising of bills amounting of Rs.3.99 crore on account of exchange rate variation arising on repayment of principal and payment of interest on foreign currency loan in respect of Chamera II power station, which as per CERC regulations were recoverable from the beneficiaries on year-to-year basis. Accordingly, sales and profit were understated by Rs.3.99 crore.

The Management noted the comments.

1.2.27 Power Grid Corporation of India Limited

The Company had not capitalised the cost of Tehri-Meerut Transmission Line (Circuit I), though the line had been test charged in August 2004 after completion of construction activities. Non-capitalisation of the same resulted in overstatement of capital work-in-progress by Rs.319.66 crore and understatement of gross block, expenditure charged to profit and loss account on account of non-charging of interest after commissioning the line and depreciation by Rs.307.49 crore, Rs.12.17 crore and Rs.4.18 crore respectively. Consequently, the profit was overstated by Rs.16.35 crore.

The Management stated that the line had been test charged as an anti theft measure after obtaining approval of CEA and as such the construction of the line was not complete. The reply is not tenable as the line was complete and test charged in August 2004.

1.2.28 Satluj Jal Vidyut Nigam Limited

Profit for the year as well as sales were overstated by Rs.15.31 crore on account of:

(i) Incorrect calculation of exchange rate variation (ERV) recoverable from beneficiaries resulting in overstatement of sales and profit by Rs.17.38 crore.

(ii) Incorrect calculation of ERV recoverable from the beneficiaries for the year 2003-04 resulting in understatement of sales (prior-period adjustment) and profit by Rs.40 lakh.

(iii) Exclusion of other income arising in the normal course of carrying out generation activity while calculating the amount of income tax recoverable from the beneficiaries resulting in understatement of sales and profit by Rs.1.67 crore.

The Management noted the comments.

MINISTRY OF RAILWAYS

1.2.29 Container Corporation of India Limited

The profit for the year was overstated by Rs.74 lakh due to:

(i) Non-provision of Rs.3.56 crore demanded by Northern Railways and South Western Railways on account of unauthorised construction of residential units on land licensed to the Company for operational purpose. The Management's contention that the demands were not covered by the directives issued by the Railway Board, was not tenable since the Ministry of Railways had issued the demand in view of the unauthorized construction of residential units by the Company.

(ii) Non adjustment of Rs.2.82 crore (estimated) being the amount of land license fees paid in excess to Railways for internal movements of empty containers during the period from 1999-2000 to 2003-04.

The Management stated that claim would be lodged after appropriate calculations since the data of internal movements of empty containers prior to 2004 were not available.

1.2.30 Konkan Railway Corporation Limited

1. Loss for the year was understated and inventories were overstated by Rs.4.07 crore due to allocation of direct and general charges of Rs.4.48 crore on ‘ACD installation in NF Railway’ on a percentage basis, instead of Rs.41.33 lakh on actual expenditure basis.

The Management stated that the direct and general charges added to expenditure on installation of ACD in NF Railway was to meet the various expenditure incurred on execution and supervision of the work. The above contention of the Management was not tenable as actual expenditure of Rs.41.33 lakh should have been included in the cost of ACD installation instead of on percentage basis as inventory was being accounted for on historical cost basis.

2. Net fixed assets were overstated and losses carried forward to Balance sheet were understated by Rs.6.61 crore (net of depreciation) due to incorrect capitalisation of an amount of Rs.8.06 crore, which was settled as a result of arbitration awards.

The Management stated that in the opinion of the Institute of Chartered Accountants of India, losses due to inefficiency, mischief or an accident should not be treated as part of the cost of the project and the arbitration awards were not due to these reasons.

The Management’s reply was not tenable as the arbitration awards were on account of delay in payment of bills. And were the results of inefficiency in payment action. Hence capitalisation of such expenses was not proper and the same should have been charged to the Profit and Loss Account.

3. Loss for the year and current liabilities were understated by Rs.5.19 crore due to non-creation of liability for the balance amount premium/contribution payable to insurer under group gratuity scheme.

The Management stated that the insurer had agreed for payment of the balance amount in future in annual installments.

Reply of the Management was not tenable, as the liability for the balance amount had accrued for which liability should have been provided in the accounts, pending its payment in the installments.

4. The Company did not account for a total claim of Rs.3.14 crore settled by the arbitrator in favour of a contractor, of which a sum of Rs.57.70 lakh was of capital nature and the balance amount of Rs.2.56 crore, representing interest on delayed payments etc., which should have been charged to Profit and Loss Account. Consequently, current liabilities, loss for the year and fixed assets were understated by Rs.3.14 crore, Rs.2.56 crore and Rs.57.70 lakh respectively.

The Management stated that the arbitration award was not acceptable and the same was challenged in the High Court. The Management’s contention was not acceptable because a provision for the liability should have been created in the accounts based on the arbitration award, pending final decision of the High Court.

1.2.31 Railtel Corporation of India Limited

Assets and Reserves and Surplus were overstated by Rs.35.72 crore due to overcapitalisation of the right of way.

The Management assured review of the accounting treatment next year.

MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

1.2.32 National Highways Authority of India (2003-04)

1. Capital grant was overstated by of Rs.1803.99 crore due to variance in Accounting policies 3 (ii) and 6 (I) (Scheduel-18). The Government of India had not spelt out its policy on ownership/capitalisation of completed works financed through specified grants. Consequently, the Capital work-in-progress (CWIP) was overstated to the same extent as the Authority continued to exhibit 11 completed stretches funded by multilateral lending agencies and passed on as grant for a value of Rs.1803.99 crore (475.46 km) as CWIP.

The Management replied that the Government had not taken any decision so far.

2. The Accounting policy No.6 (i) was not in accordance with generally accepted accounting principles. Accordingly, completed roads (870.31 km length) at a cost of Rs.3079.67 crore ending March 2004, were yet to be transferred to the Government for want of any decision. Non-transfer of completed works had resulted in overstatement of Capital work-in-progress as well as Capital (Cess).

The Management replied that the Government had not taken any decision so far.

3. Capital work-in-progress was overstated by Rs.137.85 crore due to:

(i) Non-writing back of price escalation of Rs.120.08 crore paid to contractor against the provision of contract, which was also objected by the Ministry of Law and

(ii) Non-adjustment of excess provision of liability of Rs.17.77 crore accounted for on the basis of interim payment certificate up to March 2004 and the actual booked expenditure.

The Management accepted the comment.

4. Capital work-in-progress was understated by Rs.61.64 crore due to:

(i) Non-provision of balance amount of Rs.46.28 crore payable for land taken over at different places.

(ii) Non-provision for balance value of Rs.15.36 crore of work done up to March 2004 but not provided-for.

The Management accepted the comment.

5. Advance against deposit works recoverable from the Government was understated by Rs.371.06 crore being 69 *per cent* of Rs.537.77 crore incurred on two completed stretches of Surat-Manor Tollway Project which were funded out of ADB direct loans. Since these stretches belong to the Government, and the Authority had obligation to only repay the loan to ADB, the loan portion of the project after completion of each stretch should have been shown as receivable from the Government. Further non-transfer of completed works to the Government had resulted in overstatement of CWIP by Rs.537.77 crore.

The Management replied that the project was implemented on behalf of the Government and the loan was to be repaid out of the user-fee collection on behalf of the Government. As there was no direction for transfer of the assets back to the Government, the accounting of two completed stretches of Surat-Manor Tollway project under CWIP was in order.

The reply of the Management was not acceptable in view of the fact that pending decision of ownership of the project, Authority is only an executing agency. Therefore, all expenditure relating to the project including the loan from ADB should have been treated as receivable from the Government. Further, as per accepted accounting principles, assets after commissioning should not be shown in the accounts of the executing agency.

Ministry of Science & Technology

1.2.33 Central Electronics Ltd.

Administrative, selling and other expenses did not include Rs.68.35 lakh being royalty payable to National Research Development Corporation on commercial production of digital axle counters at the rate of three *per cent* of sale value for a period of five years as envisaged in the agreement (March 2000). The commercial sale of the product started in 2002-2003 but neither any royalty had been paid nor provided for. This resulted in understatement of royalty as well as accumulated loss by Rs.68.35 lakh.

The Management stated that as per decision of project review committee meeting (September 2005), liability for royalty payment would arise only against future supplies.

Reply of the Management was not tenable, as the royalty at the rate of three *per cent* as per the agreement was payable from the start of commercial sale which started from 2002-03 and hence the Company was liable to pay royalty.

MINISTRY OF SHIPPING

1.2.34 The Shipping Corporation of India Limited

1. Income on account of Charter Hire earnings included Rs.9.17 crore being the advance Charter Hire receipt pertaining to April 2005 received at London Bank Account of the Company in March 2005. As the income pertained to the year 2005-06, this should have been accounted as "Advance received in cash or in kind or for value to be received" and not as revenue for the year 2004-05. Consequently, this has resulted in overstatement of profit for the year by Rs. 9.17 crore.

The Management accepted the comment.

2. Non-recognition of refund of Rs.1.97 crore, agreed to by one of the agents, as income on accrual basis during the year 2004-05 even though a commercial agreement was signed with the agent on 31 March 2005 resulted in understatement of income. Consequently, the profit for the year was also understated by Rs. 1.97 crore.

The Management has accepted the comment.

3. Current liabilities and provisions were understated and profit was overstated by Rs.12.01 crore due to writing back of liability provided in the year 1997-98 towards dry-

dock bills raised by M/s. Chokhani International Limited during 2004-05 in spite of the fact that there was no change in the status of the suit filed in Mumbai High Court in 2001.

The Management stated that all pending cases were being periodically reviewed.

MINISTRY OF SMALL INDUSTRIES

1.2.35 National Small Industries Corporation Limited

Loss was understated and sundry debtors were overstated by Rs.93.15 lakh due to non-provision/short provision for bad and doubtful debts in case of three debtors where the recovery was doubtful and the security held was also insufficient.

The Management noted the comment.

MINISTRY OF SOCIAL JUSTICE & EMPOWERMENT

1.2.36 National Safai Karamcharis Finance and Development Corporation

The profit for the year was overstated by Rs.75.27 lakh due to non-provision of doubtful loans against which the Company did not hold any guarantee.

The Management stated that it would consider the matter for making prudential norms for creating provisions in the accounts towards bad and doubtful debts from the year 2005-06.

MINISTRY OF STEEL

1.2.37 Bharat Refractories Limited

Net Loss of the Company for the year amounting to Rs.5.21 crore had been understated by Rs.5.77 crore due to the following:

(i) Excess accounting of sales of Rs.59.33 lakh due to recognition of sale of magnesia carbon bricks on full value, though the value receivable was linked with the performance of bricks supplied as per terms of the contract and the bricks actually supplied thereagainst were below the minimum as specified in the contract.

The Management stated that deficiency in operation practices had led to lower life and the matter had been taken up with the client.

The contention of the Management was not acceptable as accounting of full contract value irrespective of the heat achieved was not as per the provisions of the contract.

(ii) Non-provision of doubtful debts of Rs.92.40 lakh outstanding for a long time against supply of refractory to M/s OTTO India Limited, the ownership of which had already been transferred to a private party.

The Management stated that the Company was in regular touch with the present owner of M/s OTTO India Limited for realisation of the due and Jharkhand High Court had been approached for appointment of an arbitrator.

The above contention of the Management was not tenable, as the debt was outstanding for more than three years and the ownership of the Company had been transferred to private party. Therefore, the debt appeared to be doubtful of recovery.

(iii) Non-provision of penal interest of Rs.1.25 crore demanded by provident fund authorities on delayed remittance of provident fund contribution to Provident Fund Trust.

The Management stated that the appeal had been made to the Central Board of Trustees for waiver of the penal interest.

The above contention of the Management was not tenable as the penal interest demanded by the provident fund authorities was a statutory levy and the waiver of the same had not been granted yet.

(iv) Non-provision for advances of Rs.2.02 crore paid to supplier and others, that were lying unadjusted for more than three years.

The Management stated that it was making serious attempts for age-wise analysis and reconciliation and assured to make substantial progress in this regard during 2005-06.

The contention of the Management was not tenable as the outstanding advances comprising of large number of advances of small value were outstanding for more than three years, the chance of adjustment/recovery of these advances were remote.

(v) Incorrect capitalisation of revenue expenditure of Rs.98.40 lakh incurred for repair and maintenance of plant and equipment.

The Management stated that the amount was spent basically on revamping of imported presses/heavy equipment and for manufacturing mixer machines/equipment under capital scheme.

The contention of the Management was not tenable, as the revamping expenditure did not enhance the performance of the plant and equipment on which the expenditure was incurred.

1.2.38 Bokaro Power Supply Company (P) Limited

Profit for the year was understated by Rs.80.55 lakh due to:

(i) Accounting of coal valued at Rs.43.99 lakh received in April 2005 as consumption during the year 2004-05.

(ii) Incorrect accounting of capital expenditure of Rs.36.56 lakh as revenue expenses during the year.

The Management accepted the comments and stated that in respect of comment (i) it would be taken care in future and as regards comment (ii) necessary rectification would be made in next year's accounts i.e.2005-06.

MINISTRY OF URBAN DEVELOPMENT AND POVERTY ALLEVIATION

1.2.39 Delhi Metro Rail Corporation Limited

The Company continued to charge depreciation on certain assets at lower rates than the rates prescribed in Schedule XIV of the Companies Act, 1956. This resulted in understatement of depreciation and loss and overstatement of net fixed assets for the year by Rs.14.74 crore (cumulative amount: Rs.23.69 crore).

The Management stated that it had sought approval of the Department of Company Affairs for adoption of lower rates in respect of these assets in terms of section 205 of the Companies Act, 1956. However, approval for the adoption of lower rates was not received by the Company till finalisation of accounts.

MINISTRY OF WATER RESOURCES

1.2.40 National Projects Construction Corporation Limited

1. Current assets, loans and advances were overstated by Rs.17.51 crore being amount receivable from sub-contractor on account of mobilisation advance (Rs.3.50 crore) and other advance (Rs.14.01 crore) paid in respect of work relating to Taj Heritage Corridor Project, Agra that was not adjusted against the liability of Rs.37.50 crore due to the sub-contractor. This had also resulted in over statement of current liabilities to the extent of Rs.17.51 crore.

2. Excess provision of Rs.85.39 lakh created for Contributory Provident Fund (CPF) Trust during 1999-2000 had not been written back and taken as income. This had resulted in understatement of income and overstatement of loss by Rs.85.39 lakh.

3. Other Expenses did not include an amount of Rs.71.79 lakh being service tax payable on construction services provided to commercial organizations. This had resulted in understatement of current liabilities and loss by Rs.71.79 lakh.

1.2.41 National Projects Construction Corporation Limited (2003-04)

1. Loss was understated and current assets, loans and advances were overstated by Rs.4.82 crore due to non–provision for bad and doubtful debts of Rs.98.16 lakh (net of liabilities) and bank balance of Rs.3.84 crore lying with Iraqi Bank which were not recoverable/repatriable.

2. Loss was understated and sundry debtors were overstated by Rs.9.14 crore due to short provision of doubtful debts in respect of 19 closed projects for more than five years.

3. Loss as well as current liabilities were understated by Rs.1.66 crore due to under provision of liability in respect of CPF dues (Rs.84.30 lakh), escalation claims in respect of NOIDA fly over work (Rs.65.93 lakh) and expenses payable to contractor (Rs.16.22 lakh).

4 Loss was understated and sundry debtors were overstated by Rs.97.80 lakh due to inclusion of claims for extra items and escalations not admitted by the clients in respect of Maneri Bhali (Rs.70.87 lakh) and Ramam (Rs.26.93 lakh) units.

DEPARTMENT OF PUBLIC ENTERPRICES

1.2.42 Consequent upon the coming into force of Electricity Act 2003, with effect from 10 June 2003, the old erstwhile electricity Acts namely Electricity Act 1910, the Electricity (supply) Act 1948 and the Electricity Regulatory Commissions Act, 1998 were repealed. As the Electricity Act, 2003 did not stipulate the rates to be adopted for providing depreciation by the power generating and transmission companies, the matter was referred to the Ministry of Power. The Ministry stated that depreciation rates as notified by the Central Electricity Regulatory Commission (CERC) under tariff policy to be notified in terms of

Electricity Act 2003 in respect of generation and transmission assets would be applicable for the purpose of tariff as well as accounting. However, the tariff policy was yet to be notified (November 2005).

As the CERC did not notify the depreciation rates under the tariff policy in terms of requirement of Electricity Act, 2003 in respect of generating and transmission assets, the power generating and transmission companies charged depreciation at different rates as given below.

National Thermal Power Corporation Limited, Neyveli Lignite Corporation Limited and Satluj Jal Vidyut Nigam Limited continued to provide depreciation at the rates laid down in the Companies Act, 1956 and depreciation charged during the year ended 31 March 2005 was higher by Rs.377.90 crore, Rs.54.67 crore and Rs.138.42 crore respectively, as compared to the existing rates of depreciation notified by CERC. Profit for the year was lower to the same extent.

Narmada Hydroelectric Development Corporation Limited, National Hydroelectric Power Corporation Limited and Power Grid Corporation of India Limited continued to follow the rates of depreciation as notified by CERC. Depreciation charged by these companies during the year ended 31 March 2005 was lower by Rs.56.14 crore, Rs.199.61 crore and Rs.390.02 crore respectively, as compared to the rates laid down in the Companies Act, 1956 and profit for the year was higher to the same extent.

1.2.43 Basic and diluted earnings per share (EPS) were not computed as per requirement of AS 20. Similarly, following companies had also not complied with provisions of AS 20 in computing EPS or depicting the same on the face of Profit and Loss account or Income and Expenditure account:

(i) National Safai Karamcharis Finance and Development Corporation,

(ii) National Minorities Development and Finance Corporation,

(iii) National Backward Classes Finance and Development Corporation,

(iv) National Scheduled Tribes Finance and Development Corporation,

(v) National Textile Corporation (Madhya Pradesh) Limited,

(vi) Mineral Exploration Corporation Limited,

(vii) Housing and Urban Development Corporation Limited,

(viii) Satluj Jal Vidut Nigam Limited

(ix) Narmada Hydroelectric Development Corporation Limited

(x) Cent Bank Home Finance Limited (deemed Government Company)

(xi) PEC Limited.

1.3 Salient Comments on Statutory Auditors' Reports

MINISTRY OF FINANCE

Banking Division

1.3.1 GIC Asset Management Company Limited

Statutory Auditors in their Report stated that the accumulated losses of the Company were not more than 50 *per cent* of the networth. The above observation of the Statutory Auditors was factually incorrect, as during the year 2004-05 the accumulated losses of Rs.19.86 crore were 52.57 *per cent* of the net worth of the Company.

1.3.2 IDBI Intech Limited

Statutory Auditors' in their Report to the Members of the Company had given various qualifications on the Balance sheet and Profit and Loss Account of the Company. Despite disclaimer in para 4 of their report that the accounts of the Company had been prepared on the concept of a going concern though the Company had closed down its software & call center divisions, non-provision of liabilities owing to non-fulfillment of export obligations, non-availability of supporting documents with vouchers, non-confirmation of Sundry debtors/Bank balances etc., they opined that subject to their qualifications the Balance sheet and Profit & Loss account gave a true and fair view of the state of affairs of the Company and loss respectively. Considering these qualifications, the Balance sheet and Profit and loss account did not give a true and fair view in conformity with generally accepted accounting principles and the requirements of Auditing & Assurance Standard (AAS)-28. The opinion of the Statutory Auditors was thus, not in conformity with generally accepted accounting principles and AAS-28.

Insurance Division

1.3.3 National Insurance Company Limited

Statutory Auditors in their Report on the accounts of the Company mentioned their inability to express their opinion on completeness and adequacy of 'Motor Third Party Outstanding (MACT) claims. The above qualification was not in conformity with the instructions contained in paragraph 3.8 and 3.10 of 'Statement on qualifications in Auditors' Report' and AAS-28 issued by the Institute of Chartered Accountants of India. The Statutory Auditors have created grounds for suspicion or inquiry by not quantifying the extent of the task completed by the Company in the year 2004-05 and by refraining from expressing an opinion on the adequacy of the provision in respect of cases examined by the task force, thereby leaving it to the shareholders to ascertain the facts by diligent inquiry.

MINISTRY OF HEAVY INDUSTRY AND PUBLIC ENTERPRISES

1.3.4 Tungbhadhra Steel Products Limited.

As a result of supplementary audit by the CAG, the Statutory Auditors of the Company revised their Report and the impact on the quantification of their qualifications increased by Rs.3.63 crore.

MINISTRY OF RAILWAYS

1.3.5 Container Corporation of India Limited

Statutory Auditors' in their Report stated that provision of Rs.1.68 crore had not been made in case of amount recoverable, which was more than five years old. However, as the amount of Rs. 1.68 crore incurred on behalf of the Government towards disinvestments was recoverable from the Government, the same could not be treated as doubtful of recovery.

1.3.6 Delhi Metro Rail Corporation Limited

Statutory Auditors' in their Report stated that the Company should have treated the interest of Rs.12.60 crore received from the contractor as income. However, as transfer of leasehold rights to the contractor was subject to authorisation by the principal lessor (Ministry of Urban Development), which had not been received, non-recognition of interest as income and treating the same as liability was appropriate.

1.4 Review of Accounts:

Name of the Ministry/Company		Brief comments
MINISTRY OF ATOMIC ENERGY		
1.4.1	**Indian Rare Earths Ltd.**	The stock of stores and spares represented 49.72 months consumption in 2004-05 as against 37.66 months in 2003-04.
MINISTRY OF CHEMICALS AND FERTILISERS		
1.4.2	**Rashtriya Chemicals & Fertilizers Limited**	(i) The earning per share (EPS) decreased from Rs.3.04 in 2003-04 to Rs.2.55 in 2004-05. (ii) Liquidity ratio had come down from 4.54 in 2002-03 to 2.78 in 2004-05.
MINISTRY OF COAL		
1.4.3	**Bharat Coking Coal Limited**	The negative net worth of Rs.4926.02 crore and erosion of paid-up capital of Rs.2118 crore by the accumulated loss of Rs.7044.02 crore as on 31 March 2005 indicated precarious financial conditions.
1.4.4	**Central Coalfields Limited**	EPS decreased substantially from Rs.409.20 in 2002-03 to Rs.297.72 in 2004-05.
1.4.5	**Central Mine Planning & Design Institute Limited**	Closing stock of stores and spares which represented 4.78 months consumption in 2002-03 increased to 6.14 months consumption in 2004-05 resulting in increased carrying cost of inventory.
1.4.6	**Eastern Coalfields Limited**	Net worth per rupee of paid-up capital has further decreased to (-) Rs.1.53 in 2004-05 from (-) Rs.1.16 in 2003-04.
MINISTRY OF COMMUNICATIONS		
1.4.7	**Mahanagar Telephone Nigam Limited**	(i) The percentage of 'profit before tax' to 'capital employed' had declined from 14.49 *per cent* in 2002-03 to 11.86 *per cent* in 2004-05; (ii) Percentage of 'profit after tax' to 'equity' had declined from 10.63 *per cent* in 2002-03 to 9.89 *per cent* in 2004-05; (iii) Percentage of 'sundry debtors' to 'income from services' had increased from 27.66 *per cent* in 2002-03 to 36.85 *per cent* in 2004-05.

MINISTRY OF DEFENCE

Department of Defence Production & Supplies

1.4.8	**Goa Shipyard Limited**	(i) The stock of material represented 11 months consumption in 2004-05 as against five months consumption in 2003-04. (ii) EPS which was Rs.16.43 in 2003-04, decreased to Rs.5.11 in 2004-05. (iii) Percentage of debts to sales increased from 3.59 in 2002-03 to 38.65 in 2004-05.
1.4.9	**Mazagon Dock Ltd.**	(i) The stock of material represented 24 months consumption in 2004-05 as against 23 in 2003-04 and seven in 2002-03 indicating piling up of materials. (ii) The work in progress represented 30 months value of production in 2004-05 as against 22 in 2003-04 and 13 in 2002-03. (iii) Percentage of debtors to sales increased from 25 in 2002-03 to 77 in 2004-05.

MINISTRY OF FINANCE

BANKING DIVISION

1.4.10	**Industrial Investment Bank of India Limited**	Net worth of the Company had been fully eroded.

INSURANCE DIVISION

1.4.11	**National Insurance Company Limited**	(i) The percentage of quick assets to current liabilities (excluding provisions) decreased from 233.67 in 2003-04 to 196 in 2004-05. (ii) The ratio of expenses of management and commission to net premium increased from 30.33 *per cent* in 2003-04 to 31.97 *per cent* in 2004-05.

MINISTRY OF HEAVY INDUSTRY AND PUBLIC ENTERPRISES

1.4.12	**Andrew Yule & Company Limited**	Paid-up capital of the Company had been fully eroded in view of negative net worth.
1.4.13	**Braithwaite & Co. Limited**	Paid-up capital of the Company had been fully eroded in view of negative net worth.

1.4.14	**Bridge & Roof Co. (India) Limited**	The profit for the year (before tax) amounted to Rs.1.49 crore may be viewed in the light of write back of interest on Government of India loan of Rs.31.91 crore.
1.4.15	**Burn Standard Co. Limited.**	Paid-up capital of the Company had been fully eroded in view of negative net worth.
1.4.16	**HMT Limited**	(i) The Net worth of the Company had decreased from Rs.15.35 crore as on 31 March 2003 to Rs.11.16 crore as on 31 March 2004. (ii) The provision for doubtful debts had increased from Rs.6.97 crore in 2002-03 to Rs.26.11 crore in 2003-04 reflecting poor recovery of debts.
1.4.17	**HMT Watches Limited**	Value of Inventories held in excess of norms as on 31 March 2004. Raw materials and components-Rs.19.57 crore, Work-in-progress-Rs.15.50 crore, and Finished goods-Rs.26.13 crore. The debtors over and above the maximum credit period of two months worked out to Rs.26.94 crore as on 31 March 2004.

MINISTRY OF INFORMATION AND BROADCASTING

1.4.18	**National Film Development Corporation Ltd.**	(i) The percentage of debtors to sales/income increased from 98.79 in 2002-03 to 241.89 in 2004-05. (ii) The net worth of the Company sharply declined from Rs.16.56 crore as on 31 March 2003 to Rs.2.49 crore as on 31 March 2005.

MINISTRY OF PETROLEUM AND NATURAL GAS

1.4.19	**GAIL (India) Limited**	(i) The working capital had increased from Rs.1099.26 crore in 2003-04 to Rs.2939.83 crore in 2004-05. (ii) The stock of stores and spares was equivalent to 31.12 months consumption for production requirements in 2004-05 as compared to 23.9 months consumption in 2003-04.
1.4.20	**Guru Gobind Singh Refineries Limited**	The sundry debtors increased from Rs.2.95 crore in 2003-04 to Rs.6.76 crore in 2004-05.
1.4.21	**Indian Oil Corporation Limited**	Sundry debtors and inventory increased to Rs.5689.87 crore and Rs.19504.82 crore respectively during 2004-05 as compared to Rs.3973.12 crore and Rs.14951.08 crore respectively for the year 2003-04.

1.4.22 ONGC(Videsh) Limited

(i) Working Capital increased from Rs.2228.48 crore in 2003-04 to Rs.3850.34 crore in 2004-05 mainly due to increase in sundry debtors (Rs.582.79 crore) and loans and advances (Rs.1117.03 crore).

(ii) Borrowings from Others increased from Rs.8484.83 crore in 200304 to Rs.11645.30 crore in 2004-05 due to increase in loan raised from parent company (Rs.3062.66 crore) during the year and non recovery of deferred credits (Rs.98.41 crore) in respect of Joint Ventures.

(iii) The ratio of profit before tax to sales decreased from 143.05 *per cent* in 2003-04 to 65.71 *per cent* in 2004-05.

(iv) The percentage of debtors to sales increased from 26.88 *per cent* in 200304 to 57.78 *per cent* in 2004-05.

MINISTRY OF SHIPPING

1.4.23 Hooghly Dock & Port Engineers Limited

Net worth per rupee of paid-up capital has further decreased to (-) Rs.11.23 in 2004-05 from (-) Rs.9.95 in 2003-04.

MINISTRY OF STEEL

1.4.24 Hindustan Steel Works Construction Limited

The negative net worth of Rs.1108.94 crore in 2004-05 indicated worsening financial condition of the Company.

1.4.25 Maharashtra Elektrosmelt Limited

The percentage of debtors to sales increased from 2.82 in 2002-03 to 7.58 in 2004-05.

1.4.26 MECON Limited

Sharp increase in the percentage of total debts to income from 45.07 *per cent* in 2003-04 to 70.45 *per cent* in 2004-05 indicated lack of efforts in realisation of debts.

MINISTRY OF TEXTILES

1.4.27 The Cotton Corporation of India Limited

The stock of finished goods represented 12.17 months sale in 2004-05 as against 3.27 months sale in 2002-03 indicating piling up of stock.

1.4.28 National Textile Corporation (WBAB&O) Limited

Net worth per rupee of paid-up capital has further decreased to (-) Rs.0.66 in 2004-05 from (-) Rs.0.56 in 2003-04.

1.5 Significant findings reported by Statutory Auditors:

MINISTRY OF AGRICULTURE AND COOPERATION

1.5.1 State Farms Corporation of India

The Company did not provide for foreseeable loss of Rs.3.37 crores in respect of Chengham farm, as revealed during negotiation with State Government pending final settlement and taking over by the Tamil Nadu Government.

MINISTRY OF CHEMICAL & FERTILIZERS

1.5.2 Brahmaputra Valley Fertilizer Corporation Limited

The Company did not recognise possible impairment loss to the extent of Rs.38.83 crore in respect of unviable Ammonia –I plant.

Department of Fertilizers

1.5.3 Madras Fertilizers Limited

1. Non compliance of the requirements of Accounting Standards-2 and 29 by the Company resulted in understatement of loss/accumulated losses by Rs.15.57 crore, overstatement of inventory and loans and advances by Rs.13.11 crore and Rs.2.46 crore respectively.

2. The Company had defaulted in payment of interest to financial institutions. As on 31 March 2005, the overdue interest due to financial institutions amounted to Rs.12.08 crore.

MINISTRY OF COAL

1.5.4 Central Coalfields Limited

Provision in respect of sunk cost of dropped project, prospecting, boring and development expenses of project not implemented since 1992-93 and 'work in progress' of CCT/Kedla where plan was shelved were not made. This resulted in over statement of profit by Rs.12.57 crore with consequent overstatement of Gross Block.

1.5.5 Mahanadi Coalfields Limited

The Company did not reconcile/adjust liability of Rs.7.06 crore on account of cess on coal.

1.5.6 Northern Coalfields Limited

An amount of Rs.1.58 crore had been written back against net shortage/excess arising out of physical verification of stock of stores and spares in different units pending further scrutiny/enquiry.

1.5.7 Coal India Limited

Provisions for loans and other receivables from two sick subsidiaries of the Company i.e. Bharat Coking Coal Limited (Rs.5271.04 crore) and Eastern Coalfields Limited (Rs.4439.49 crore), aggregating to Rs.9710.54 crore had not been made.

MINISTRY OF COMMERCE

1.5.8 India Trade Promotion Organisation

1. The Company had collected Rs.13.40 crore on account of service tax up to 31 March 2004 in respect of all domestic fairs from various parties towards “Mandap Keeper’s services” and created provision for liability of the equivalent amount. During the year, the Company had reversed the said provision and had adjusted the same under Prior Period income. Since the Company was maintaining a consistent stand that it was not liable to service tax as ‘Mandap Keeper’, the amount so collected up to 31 March 2004 aggregating Rs.13.40 crore should either have been refunded to the parties concerned or deposited with the Government of India. The impact of the same on assets and liabilities/Income and expenditure, if any, was not ascertainable.

2. In terms of Central Government notification dated (August 2002), the Company was liable to collect service tax w.e.f. 16 August 2002 in respect of services provided under “Event Management Services”. During the year, 2004-05 company held third party fairs and collected service tax of Rs.37.16 crore but the same was not remitted. The liability towards service tax for the current year and earlier years (w.e.f. from 16 August 2002) along with interest thereon was not ascertainable and its impact on Income/Expenditure and Liabilities was not quantifiable.

3. The Company had not made provision for demand of Rs.7.34 crore towards entertainment tax including interest thereon. The first appeal filed by the Company had already been rejected. Provision towards above said demand should have been made. Accordingly, the income was overstated and liabilities were understated by Rs.7.34 crore.

MINISTRY OF CONSUMER AFFAIRS, FOOD & PUBLIC DISTRIBUTION

1.5.9 Central Warehousing Corporation

The Corporation had been transferring one *per cent* of the profit after tax to the Benevolent Fund for the purpose of staff welfare since 1989-90. The constitution of Trust and the Rules and Regulations for its operation had not been finalised. An amount of Rs.7.59 crore was lying with the Corporation as on 31.03.2005 as Principal Corpus of the Fund had not been specifically invested.

MINISTRY OF DEFENCE

1.5.10 Bharat Earth Movers Limited

1. Accounting of sales was not as per AS–9 as a result it had been overstated by Rs.243.06 crore.

2. Miscellaneous income included Rs.1.01 crore representing write back of sundry creditors without full details or sanction of appropriate authority in the absence of which Auditors were unable to express their opinion on the validity of the write back.

1.5.11 Mazagon Dock Limited.

1. Non-provision of customs duty liability of Rs.59.58 crore on project executed by the Company for Oil and Natural Gas Corporation Limited resulted in overstatement of profits for the year by Rs.59.58 crore.

2. Non-provision of liquidated damages of Rs.52.27 crore on proportionate basis for the year on the value of work completed till March 2005 despite foreseen delays in the delivery of the three P-17 class ships under construction for Indian Navy resulted in overstatement of profit by Rs.52.27 crore.

MINISTRY OF COMMUNICATIONS

1.5.12 Bharat Sanchar Nigam Limited

There were frauds reported by eight circles amounting to Rs.15.68 crore of which Rs.39.45 lakh were recovered and a provision for Rs.14.96 crore was made in the accounts during the year. No provision for balance amount of Rs.33.52 lakh was made in the accounts pending completion of the investigation hence, the ultimate financial impact was not ascertainable.

1.5.13 Mahanagar Telephone Nigam Limited

(i) Based on the legal opinion, the Company was claiming benefit under Section 80 1A of the Income Tax Act, 1961. However, in case the benefit under Section 80 IA of the Income Tax Act was finally accepted, the provision for taxation for the two years, 1997-98 and 1998-99, would be excess to the extent of Rs.744.28 crore and in the event of the tax benefit claimed by the Company under Section 80-IA not being finally accepted by the Income Tax authorities, profit for the year would be lower by Rs.71.03 crore and provision for taxation as at 31 March 2005 would be higher by Rs.1420.36 crore.

(ii) In respect of Delhi unit, unused stores and spares were taken into stores, resulting in overstatement of profit by Rs.12.71 crore in the case of maintenance work and understatement of profit by Rs.0.68 crore in the case of rehabilitation work, thereby, resulting in net impact of Rs.12.02 crore on the profit and loss account and overstatement of the inventory by Rs.19.58 crore.

MINISTRY OF HEAVY INDUSTRY AND PUBLIC ENTERPRISES

1.5.14 Andrew Yule & Company Limited

1. Non-provision for liability of Rs.8.73 crore in respect of pay revision of employees.
2. Non-charging of Rs 2.94 crore representing gratuity and leave encashment charges paid under Voluntary Retirement Scheme and
3. Rs.8.48 crore for un-amortised tea cultivation expenses.

1.5.15 Bharat Bhari Udyog Nigam Limited

Non-provision of:

(i) Rs.18.75 crore for permanent decline in value of equity shares in Jessop & Co Ltd.

(ii) Rs.52.40 crore on loss on sale of shares in Jessop & Co. Ltd. in earlier year.

1.5.16 Burn Standard Company Limited

Non-provision of :

(i) Rs.20.21 crore for permanent decline in value of investment in Subsidiary Companies

(ii) Rs.23 crore representing estimated liability of arrear pay on implementation of pay revision for officers.

1.5.17 Heavy Engineering Corporation Limited

The Company had not made provision for the following:

(i) Liabilities amounting to Rs 446.25 crore towards delayed payment of surcharge in respect of energy bills of Bihar State Electricity Board and Jharkhand State Electricity Board.

(ii) Liabilities amounting to Rs.8.36 crore towards water charges bills of PHED.

(iii) Sundry Debtors of Rs.28.10 crore which were long overdue.

(iv) The realisation of the amount of Rs.34.17 crore due from a single party as a result of arbitration award (February 1997) since it was long overdue.

(v) Non moving inventories of Raw Materials and Store and Spares amounting to Rs.10.84 crore for a period of three years or more.

(vi) Capital Work-in-Progress amounting to Rs.8.52 crore for items, the erection, commissioning and completion of which were pending for a period of three years or more.

(vii) Inventory of finished goods of Rs.9.19 crore being tailor made product that were not reuseable and should have been valued at scrap of Rs.0.06 crore.

1.5.18 Hindustan Paper Corporation Limited

Non- provision towards:

(i) Diminution in the value of investment by Rs.113.92 crore in subsidiary Company (NPCC), and

(ii) Temporary accommodation amounting to Rs.24.45 crore other than salary and wages given to NPCC.

1.5.19 HMT (International) Limited

Had provision for doubtful advances relating to three customers aggregating to Rs.2.02 crore been made, it would have resulted in net loss of Rs.1.88 crore as against the reported profit of Rs.0.14 crore.

1.5.20 HMT Machine Tools Limited

1. Compensation paid under Voluntary Retirement Scheme had been deferred over a period of 10 years instead of 5 years as recommended by the Expert Advisory Committee of the Institute of Chartered Accounts of India resulting in understatement of loss to the extent of Rs.19.61 crore;

2. One tenth of gratuity, settlement allowance and leave encashment were written off under deferred revenue expenditure pertaining to earlier years resulting in overstatement of loss by Rs.8.42 crore.

3 Deferred revenue expenditure was overstated by Rs.55.34 crore consequent to accounting of gratuity, settlement allowance and leave encashment which was in contravention of AS-15 on Retirement Benefits.

1.5.21 HMT Watches Limited

Considering the qualifications of the Statutory Auditors, the loss for the year would have been Rs.169.04 crore as against the reported loss of Rs.134.81 crore.

MINISTRY OF INFORMATION AND BROADCASTING

1.5.22 National Film Development Corporation Limited

Non-provision of bad and doubtful debts amounting Rs.5.20 crore on account of free commercial time (FCT) recoverable from the various advertising agencies in the accounts. Had the provision for doubtful debts on account FCT been made in the accounts the loss during the year would have been Rs.10.32 crore as against the reported figure of loss of Rs.5.12 crore. Also the accumulated loss would be Rs.16.07 crore as against the reported figure of Rs.10.87 crore.

MINISTRY OF NORTH EAST DEVELOPMENT

1.5.23 Hindustan Copper Limited

1. Non-charging of (i) Rs.4.08 crore towards the difference in rates of Electricity Duty applicable to mines and plant and (ii) Rs.27.61 crore towards interest liability on arrear fuel surcharge and water cess.

2. Under/short provision of liability towards (i) water cess for Rs.1.31 crore and (ii) against supply contract of Rs.2.07 crore.

MINISTRY OF POWER

1.5.24 National Hydroelectric Power Corporation Limited

Net profit was understated by Rs.48.80 crore due to debiting of self-insurance for contingencies to Profit and Loss Account instead of Profit and Loss Appropriation Account.

1.5.25 Satluj Jal Vidyut Nigam Limited

Profit for the year was understated due to writing off the restructuring premium of Rs.13.64 crore in the current year instead of three years, i.e. over the period of accruing benefit to the Company.

MINISTRY OF RAILWAYS

1.5.26 Indian Railway Finance Corporation Limited

Profit for the year and Reserves and Surplus were overstated by Rs.170.13 crore and Rs.1165.10 crore respectively due to non-provision of deferred tax liability during current year and non-accounting of accumulated deferred tax liability up to 31 March 2003.

1.5.27 Pipavav Railway Corporation Limited

1. Loss was understated due to non-provision of old advance of Rs.1.70 crore (net) recoverable from a party.

2. The Company could not commence container train operations due to holding back of permission for such operations by the Ministry of Railways during the year which raised substantial doubt that the Company would be able to continue as a going concern.

3. The Company had defaulted in payment of interest of Rs.24.96 crore and repayment of principal of Rs.30.84 crore of term loan/ working capital loan availed from various banks and financial institutions.

MINISTRY OF SHIPPING

1.5.28 Hindustan Shipyard Limited

1) Non provision of:

(i) income tax liability along with interest amounting to Rs.34.65 crore under Section 234 B of the Income Tax act for the assessment year 1998-1999.

(ii) Rs.7.34 crore towards sales tax liability.

(iii) Rs. 5.00 crore representing differential sales tax liability.

(iv) arbitration award amounting to Rs.2.17 crore which had been pronounced in favour of a customer.

(v) counter claims of a party amounting to Rs.59.95 crore with regard to liquidated damages, penal interest etc..

(vi) liability towards penal rate on guarantee fee amounting to Rs.22.49 crore on government guaranteed loans and advances for the period from April 1995 onwards.

(vii) Rs.51.96 crore on account of interest on SBI term loan.

(viii) Interest on Government of India Loans of Rs.27.20 crore and Guarantee fee of Rs.8.70 crore.

2. Non-implementation of Capital Restructuring proposal approved by the Government of India and non-reflection of its impact in the books of the Company, which included write off of Government of India Loans, Interests, Guarantee Fee to the tune of Rs.470.93 crore and conversion of the Government of India loans into equity share capital to the tune of Rs.120.20 crore and non provision for consequential liability.

MINISTRY OF SMALL INDUSTRIES & AGRO & RURAL INDUSTRIES

1.5.29 National Small Industries Corporation Limited

1. There was no provision of penalty amounting to Rs.6.81 crore in aggregate up to 31 March 2005 including Rs.66.81 lakh for the current year.

2. There was no provision against receivable of Rs.82.08 lakh from MEA with regard to Raj Biraj Project.

3. Considering the age of the debtors/receivables, their rate of recovery and lack of adequate security in some cases the Auditors were unable to comment whether provision of Rs.126.47 crore on account of doubtful debts and advances was adequate.

MINISTRY OF STEEL

1.5.30 MECON Limited

Sundry debtors outstanding for three years and above having no transaction during last three years amounted to Rs.43.18 crore were doubtful of recovery. Out of this, the Company had made provision for Rs.4.23 crore which was not adequate. Therefore, debtors and the profit had been overstated by Rs.38.95 crore.

MINISTRY OF TEXTILES

1.5.31 The Handicrafts and Handlooms Exports Corporation of India Limited

1. Export sale amounting to Rs.1.13 crore had been accounted for by the Company despite of non-acceptance of goods by buyer due to non-compliance of terms. The treatment was not in accordance to Accounting Standard-9.

2. There was overstatement of sales and purchases by Rs.26.02 crore and Rs.25.75 crore respectively due to booking of sale made abroad through business associates without having any transfer of ownership and risk of goods which was in violation of AS-9.

1.5.32 National Textile Corporation (APKK&M) Limited

1. The Company had not deposited provident fund, ESI, sales tax, customs/excise duty and other statutory dues of Rs.6.40 crore with the appropriate authorities during the year 2004-2005.

2. As per the 'sanctioned scheme' awarded by BIFR for revival of the Company, the Government was to write off interest of Rs.126.92 crore outstanding/accrued as on 31

March 2001 on loans given to the Company through NTC Limited, New Delhi, (Holding Company) and was not to charge any interest on its loans, at any time later, during the rehabilitation period without specific approval from BIFR. However, pending formal order from GOI, interest was charged for the year which amounted to Rs.48.22 crore and accumulated interest amounted to Rs.289.16 crore as on 31 March 2005. Due to this the accumulated loss has been overstated by Rs.289.16 crore.

3. No provision of:

(i) Rs.2.50 crore towards claims on resale loss;

(ii) Rs.3.06 crore towards interest payable to raw-material suppliers; and

(iii) Rs.1.25 crore towards wealth tax and Rs.2.87 crore towards Income tax.

1.5.33 National Textile Corporation (MP) Limited

The Company incurred net loss of Rs.56.68 crore (before considering the extraordinary income of Rs.17.87 crore) and its total liabilities exceeded total assets by Rs.939.42 crore. BIFR had ordered revival of two mills and closure of remaining five mills in its rehabilitation scheme sanctioned in February 2002 to be completed within two years of its sanction. There was delay in the implementation of the scheme. The Company had applied for extension of the implementation period by two years. Accordingly, the Company's continuance as a going concern depended on the success of the rehabilitation scheme.

1.5.34 National Textile Corporation (TN&P) Limited

Non-provision of bonus advance given to employees during the years from 1997–98 to 2004–05 resulted in understatement of net loss by Rs.8.48 crore.

1.5.35 National Textile Corporation (WBAB&O) Limited

Loans and advances included deposits of Rs.1.26 crore, which were doubtful of recovery.

MINISTRY OF WATER RESOURCES

1.5.36 National Projects Construction Corporation Limited

Loan funds of Rs.216.64 crore as at the close of March 2005 were more than the aggregate of the paid-up capital and free reserves. Approval/ratification of the President of India under Article 46 of the Articles of Association of the Corporation and also as required under Section 293(1) (d) of the Companies Act, 1956 was not obtained.