CHAPTER 2
C&AG'S OVERSIGHT ROLE

2.1 Audit of Public Sector Undertakings

2.1.1 Under Section 619 of the Companies Act, 1956 (Act), the auditor (hereinafter called the Statutory Auditor) of a government company including deemed government companies, appointed by the C&AG conducts the audit of accounts of these companies. On the basis of supplementary audit conducted thereafter, the C&AG issues comments upon or supplements the Audit report of the Statutory Auditor.

2.1.2 Statutes governing some corporations require their accounts to be audited by the C&AG and a report to be given to the Parliament.

2.2 Appointment of statutory auditors of PSUs

2.2.1. **Objectivity in the appointment of statutory auditors:** Statutory auditors for government companies including deemed government companies are appointed by the C&AG in exercise of the powers conferred under Section 619(2) of the Companies Act, 1956 as amended vide Companies (Amendment) Act, 2000. For this purpose a panel of firms of Chartered Accountants is maintained by the C&AG by inviting applications biennially from eligible firms of Chartered Accountants. The panel so formed is used for the selection of statutory auditors of Public Sector Undertakings (PSUs) for the ensuing financial year. The statutory auditors are appointed annually on regular basis.

Selection of the statutory auditors for appointment is made by correlating the point score earned by each firm of Chartered Accountants that applies for empanelment with the size of the audit assignment. The point score is based upon the experience of the firm, number of partners and their association with the firm, number of Chartered Accountant employees, etc. for assessing that the antecedents of the firm are well established and the firm has capacity to handle the allotted audits. This system ensures that allotment of audit to Chartered Accountants' firm is done objectively based on merit and competence.

2.2.2 Timely appointment of statutory auditors of PSUs for the year 2006-07

Under Sections 210 read with sections 166 and 230, of the Companies Act, 1956, the annual audited accounts of every company for the financial year are to be laid before the company at its Annual General Meeting to be held each year as per Section 166. According to Section 224 of the Companies Act, 1956 the statutory auditor holds office from the conclusion of one Annual General Meeting until the conclusion of the next Annual General Meeting.

Clause 41 of the Listing Agreement with the Securities and Exchange Board of India (SEBI) provides that all the entities listed with the Stock Exchanges should publish their Quarterly Financial Review (QFR), duly approved by the Board of Directors and after a "limited review" by the statutory auditors of the company. A copy of the Review Report is to be submitted to the Stock Exchange within two months of the close of the quarter. The limited review of the first quarter of a financial year is accordingly to be carried out so that the results can be published by end-August of the year. PSUs also have the option of getting the QFR done by any Chartered Accountant other than the statutory auditors of the company. In addition, a listed company is required to prepare the half yearly results in the given proforma and the same is to be approved by the Board of Directors and subjected to a "limited review" by the statutory auditors of the company. A copy of the Review Report is required to be submitted to the Stock Exchange within two months of the close of the half year.

In order to facilitate timely compliance with the provisions mentioned above, statutory auditors for the listed government companies, including deemed government companies, were appointed by the C&AG for conducting the audit of accounts for the year 2006-07 by June 2006.

2.2.3 Independence of statutory auditors of government companies and deemed government companies

The statutory auditor has a fiduciary duty to provide independent, professional opinion on the financial statements of the company he audits. In order to ensure independence of the statutory auditors and to obviate any chances of conflict of interest, Section 226 of the Companies Act, 1956 prohibits the appointment of (i) an officer or employee of the company or their partner or employee, (ii) a person who is indebted to the company and (iii) a person who is the holder of any securities having voting rights, etc. as the auditor of the company. Similarly, the Chartered Accountants Act, 1949 also contains provisions to ensure independence of the statutory auditors. Paragraph 10 of the First Schedule of the Chartered Accountants Act, 1949 prohibits acceptance of fees, which are either linked to profits or otherwise dependent on the finding or the results of employment. Further, paragraph 4 of the Second Schedule, Part I, makes it an act of misconduct for a Chartered Accountant to express an opinion on the financial statements of a business in which he or his firm or a partner of his firm has a substantial interest unless disclosure of such interest is made.

In order to ensure the independence of statutory auditors of government companies, the following further safeguards have been provided by the C&AG:

i) **Acceptance of non-audit assignments by the statutory auditors -** In order to maintain the independence of the statutory auditor as well as the quality of audit, partners or relatives (husband, wife, brother, or sister or any lineal ascendant or descendant) or associates[*] of the statutory auditors of a government company, are prohibited from undertaking any assignment for internal audit or consultancy or other services to the government company during the year of audit and for one year after the firm ceases to be the statutory auditor of that company. Acceptance of non-audit assignments that involve performing management functions or making management decisions are also prohibited during the year of audit and for one year after the firm ceases to be the statutory auditor.

ii) **Rotation of audit –** A system of rotation of the statutory auditors of government companies every four years has been adopted as a good practice.

2.3 Arrears of accounts by the PSUs

2.3.1 Need for timely submission

According to section 619 A of the Companies Act 1956, Annual Report on the working and affairs of a Government company, where the Government is a member, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation

[*] ***The term 'Associates' includes (a) other firms of Chartered Accountants in which any employee or partner of the Audit firm has an interest and (b) any employee or partner of the audit firm practicing as a Chartered Accountant in his/her individual capacity***

laid before both Houses of Parliament together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the C&AG. Almost similar provisions exist in the respective Acts regulating statutory corporations. This mechanism provides the necessary parliamentary control over the utilisation of public funds invested in companies from the Consolidated Fund of India.

Section 166 of the Companies Act, 1956 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 210 of the Act stipulates that the audited Annual Accounts for the period ending with the day, which shall not precede the day of the AGM by more than 6 months, have to be placed in the said AGM for their consideration.

Section 210 (5) and (6) of the Companies Act, 1956 also provides for levy of penalty like fine and imprisonment on the persons including directors of the Company responsible for non-compliance with the provisions of Section 210 of the Companies Act, 1956.

The issue of arrears in accounts of central government companies has been consistently reported by C&AG in the Audit Reports. The matter was also raised with the Ministry of Corporate Affairs in January 2007 and the Administrative Ministries which have nominated Government Directors on the Board of Directors of these Companies. The Ministry of Corporate Affairs in turn instructed the Registrar of Companies to draw the attention of such companies, whose accounts were in arrears, to the provisions of sub-section (5) and sub-section (6) of the Section 210 of Companies Act, 1956 and advised them to complete its/their accounts at an early date so as to ensure compliance with the provisions of the Companies Act, 1956.

However, no action under sub sections 5 and 6 of section 210 of the Companies Act 1956 against the defaulting persons including directors of the central government companies responsible for non-compliance in this regard has been taken so far (September 2007) although annual accounts of various PSUs were pending as detailed in the following paragraph.

2.3.2 Timeliness in preparation of accounts by government companies and deemed government companies

As of 31 March 2007, there were 300 government companies and 95 deemed government companies in the purview of C&AG's audit. Of these, accounts for the year 2006-07 were due from 290 government companies and 94 deemed government companies. Accounts were not due from 11 government companies (including one deemed government company) which were new. Two hundred and nineteen government companies and 65 deemed government companies submitted their accounts for audit by C&AG on or before 30 September 2007. Accounts of 71 government companies and 29 deemed government companies were in arrears for different periods, the majority were in arrears for one year (2006-07). Details of the arrears in accounts of central government companies are shown in the table below:

Table 12

Particulars	**Central government companies where C&AG conducts Supplementary Audit**					
	Government companies		**Deemed government companies**		**Total**	
Number for the year 2006-07	300		95		395	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
	44	256	5	90	49	346
Less: New companies from which accounts for 2006-07 were not due	0	10	0	1	0	11
Companies from which accounts for 2006-07 were due	44	246	5	89	49	335
Companies which presented the accounts for C&AG's audit by 30 September 2007	42	177	5	60	47	237
Audit of Accounts in Progress as on 30 September 2007	0	8	0	7	0	15
Accounts in Arrears	2	69	0	29	2	98
Break-up of Arrears: (ii) Under Liquidation	0	19	0	7	0	26
Break-up of Arrears: (iii) Defunct	0	0	0	5	0	5
Break-up of Arrears: (iii) Others	2	50	0	17	2	67
Age–wise Analysis of the arrears against 'Others' category: One Year (2006-07)	2	37	0	11	2	48
Age–wise Analysis of the arrears against 'Others' category: Two Years (2005-06 and 2006-07)	0	7	0	0	0	7
Age–wise Analysis of the arrears against 'Others' category: Three Years and More	0	6	0	6	0	12

The names of these companies are indicated in **Appendix II**. The majority of the government companies having accounts in arrear related to Ministry of Heavy Industry and Public Enterprises (14), Ministry of Chemical and Petrochemicals (12), Ministry of Textiles (9), Ministry of Tourism (8) and Ministry of Civil Aviation (7).

The reasons for delay in presentation of the accounts for C&AG's audit as noticed in audit were mainly companies being sick or under liquidation, lack of coordination between the Managements and the statutory auditors and delay in approval of the accounts by the Board of Directors. Thus, persistent arrears in the preparation of annual accounts resulted in dilution of Parliamentary Control over management of public money invested in these entities and violation of statutory provisions.

2.3.3 Statutory Corporations

Audit of six Corporations, as given below is conducted by the C&AG. Of the five statutory corporations in whose case C&AG is the sole auditor four viz. Airport Authority of India, Inland Waterway Authority of India, Damodar Valley Corporation and National Highways Authority of India presented their accounts for the year 2006-07 for audit in time. The accounts of Food Corporation of India for the year were awaited as on 30 September 2007. In case of Central Warehousing Corporation, C&AG conducts supplementary audit and the accounts were received in time.

1. Airports Authority of India
2. Central Warehousing Corporation
3. Damodar Valley Corporation
4. Food Corporation of India
5. Inland Waterways Authority of India
6. National Highways Authority of India

2.4 Impact of C&AG's oversight of audit of accounts and the supplementary audit

2.4.1 Financial reporting framework

Companies are required to prepare the financial statements in the format laid down in Schedule VI to the Companies Act, 1956 and in adherence to the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and other statutory provision prescribed in the Companies Act, 1956. The statutory corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the C&AG and any other specific provision relating to accounts in the Act governing such corporations.

2.4.2 C&AG's oversight of audit of accounts of government companies and statutory corporations

The statutory auditors appointed by the C&AG under Section 619(2) of the Companies Act, 1956 (Act) conduct audit of accounts of the government companies for submission of a report thereon in accordance with Section 619(4) of the Act. The C&AG plays an oversight role by monitoring the performance of the statutory auditors with an overall objective that the statutory auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power to supplement or comment upon the statutory auditors' report under Section 619(4) of the Act and to issue directions to the statutory auditors under Section 619(3) of the Act. The directions issued by C&AG under Section 619(3)(a) are primarily aimed at ensuring compliance with Accounting Standards and evaluating internal controls relating to financial reporting in the auditee orgainsation.

2.4.3 Results of audit of accounts of government companies/deemed government companies under Section 619 of the Companies Act, 1956

Financial statements for the year 2006-07 were received from 219 government companies (including 42 of the 44 listed companies) and 65 deemed government companies (including all five listed companies) and five statutory corporations by 30 September 2006. Of these, accounts of 162 government companies (including 40 listed companies) and 32 deemed government companies (including two listed companies) and four statutory corporations were reviewed in audit by the C&AG.

2.4.3.1 Revision of Accounts and its impact

As a result of supplementary audit of the accounts for the year ended 31 March 2007 conducted by the C&AG, one listed government company and 11 unlisted government companies revised their accounts. The impact of revision of accounts is indicated in the following table:

Table 13

Listed government companies:

2.4.3.1.1 Decrease in Loss

Sl. No.	Name of the company	Rupees in crore
1	ITI Limited	3.09
Total Decrease		**3.09**

Unlisted government companies:

2.4.3.1.2 Decrease in Profit

Sl.No.	Name of the company	Rupees in crore
1.	Bharat Coking Coal Limited	8.30
2.	Central Coalfields Limited	37.50
3.	Coal India Limited	1.52
4.	Eastern Coalfields Limited	6.54
5.	Mahanadi Coalfields Limited	10.58
6.	Mishra Dhatu Nigam Limited	0.79
7.	Western Coalfields Limited	8.34
Total Decrease		**73.57**

2.4.3.1.3 Increase in profit

Sl.No.	Name of the company	Rupees in crore
1.	Bharat Dynamics Limited	3.06
2.	Hindustan Aeronautics Limited	8.53
3.	Hindustan Shipyard Limited	154.85
Total Increase		**166.44**

2.4.3.1.4 Increase in Loss

Sl.No.	Name of the company	Rupees in crore
1.	Bharat Heavy Plate and Vessels Limited	0.56
Total Increase		**0.56**

2.4.3.5 One listed government company (Bharat Earth Movers Limited), one unlisted government company (STCL Limited) and one unlisted deemed government company (APITCO Limited) revised accounts to report proper disclosures for the year 2006-07 without any impact on the profitability reported in the accounts.

2.4.4 Findings of Audit under Section 619 of the Companies Act, 1956

Listed companies

2.4.4.1 Significant observations of statutory auditors on the accounts of listed government companies including listed deemed government companies

Significant qualifications made by the statutory auditors in their audit reports on the accounts for the year 2006-07 of 11 listed government companies and listed deemed government companies is given below:

Bharat Immunologicals and Biologicals Corporation Limited

- The Capital work in progress as well as Zinc Project capital grant was understated due to non-accounting of Rs 23.98 lakh as Capital work in Progress.
- The contingent liability amounting to Rs.3.46 crore on account of outstanding letter of credit for imports of Oral Polio Vaccine had not been disclosed.

Eastern Investments Limited

- Depreciation on disputed fixed assets had been neither ascertained nor provided for in the account.

Hindustan Organic Chemicals Limited

- The Company did not make provision of Rs.23.08 crore towards wage revision for the period from January 1997 to December 2000.
- No provision had been made for the claims of Jawahar Lal Nehru Port Trust amounting to Rs.10.12 crore.
- The records at Rasayani unit were not complete with regard to identification of the assets and precise location of the assets.

Hindustan Photo Films Manufacturing Company Limited

- Secured loans and “A” series Bonds of Rs.3022.92 crore (including interest) were secured by fixed and current assets to the extent of Rs.527.35 crore. The classification of the balance Rs.2495.57 crore as secured was not correct.
- The viability of the Company appeared doubtful as it was not in a position to recover even the variable cost in respect of products manufactured by it. Key financial ratios were adverse and there were substantial negative cash flows from operations.
- The undisputed statutory dues like Provident Fund, Investor Education and Protection Fund, Customs Duty, Income Tax (T.D.S.), Sales Tax, Cess and other material statutory dues were not regularly deposited with the appropriate authorities and there had been serious delays in a number of cases.

HMT Limited

- Non provision for erosion in the value of carrying cost of long term investments made in respect of shares held in subsidiary companies viz. HMT Watches Limited, HMT Chinar Watches Limited, and HMT Bearings Limited whose net worth had eroded, resulted in overstatement of profit which was not ascertainable.

India Trade Promotion Organisation

- Service Tax liability towards export of service under Export of Service Rules, 2005 aggregating to Rs.1.12. crore was outstanding as on 31 March 2006. During the year the entire amount was reversed on account of incorrect calculation and on the wrong advice of consultant, resulting in overstatement of profit.
- The Company did not recover Rs.1.35 crore from the parties operating Food Joints, Restaurant, Kiosks, etc. inside the Pragati Maidan for more than five years towards license fee (rent), property tax, electricity, water, green area usage charges and conservancy charges. Many parties were not paying even electricity, water conservancy and green area usage charges for which the Company was incurring expenditure regularly. The Company neither provided for this income nor made a provision for amounts recoverable.

ITI Limited

- Loss and liabilities for the year were understated by Rs.625.03 crore and Rs.113.25 crore, respectively and assets were overstated by Rs.511.78 crore due to:
- Non provision of sundry debtors outstanding for three years and more amounting to Rs.291.95 crore, other recoverable such as claims (inland and foreign), loans and advances and other outstanding for three years and more amounting to Rs.53.42 crore; and inventory comprising of dormant stock, work-in-progress and stock in trade held for two years and more aggregating to Rs.121.41 crore.
- Recognition of rental income of Rs. nine crore without ensuring its collectibility, liquidated damages of Rs.17.50 crore levied on the supplier without any acceptance and loan of Rs.25 crore received from Government of India as income.
- Non provision of interest on advances received from customers amounting to Rs.43.50 crore, liquidated damages levied by the customers amounting to Rs.36 crore and penalty levied for non payment of guarantee fee amounting to Rs.27.25 crore.

Madras Fertilizers Limited

- The current year's loss and accumulated losses were understated by Rs.8.39 crore due to non accounting of internal consumption of manufactured urea (Rs.4.25 crore), non provision of sum deposited with ESI (Rs.0.63 crore) as advance which was doubtful of recovery, gratuity to ex-employees (Rs.1.18 crore), amount included under claims recoverable from ex-C&F agent (Rs.0.78 crore) and for refund of customs duty (Rs.1.55 crore) not crystallised.
- The Company incurred a net loss of Rs.114.78 crore and a cash loss of Rs.65.71 crore during the year. The accumulated losses as at 31 March 2007 stood at Rs.513.70 crore as against the net owned shareholders funds of Rs.174.53 crore.
- The net worth had been fully eroded and the Company was consistently making significant losses in the past few years. The viability of the Company appeared to be doubtful as it could not recover even the variable cost in respect of its major product ie. NPK Complex Fertilizer.

Mahanagar Telephone Nigam Limited

- The profit and current assets were overstated each by Rs.125.15 crore and Rs.47.75 crore due to booking of income on account of charges for usage of its Trunk Automatic Exchange (TAX) and charges of infrastructure/ duct charges by BSNL, though these charges had not been accepted by BSNL.
- The profit and current assets were overstated by Rs.133.29 crore and Rs.10.14 crore with consequent understatement of current liabilities by Rs.123.08 crore due to non provision for expenses/claims of BSNL towards ADC charges (Rs.12.07 crore),

signaling charges (Rs.21.93 crore) lease line charges (Rs.16.69 crore), transit tariff claims (Rs.25.19 crore), M.P. bills claims (Rs.6.01 crore), service connections claims (Rs.40.15 crore), IUC claims of MTNL (Rs.10.14 crore) not accepted by BSNL and IUC claims (Rs.1.11 crore) raised by BSNL .

- The profit and the fixed assets were overstated by Rs.57.69 crore each as some equipment in old WLL exchange in Delhi MS unit were not de-capatilised and valued at lower of net book value or net realisable value.
- In spite of the opinion from the Expert Advisory Committee of the Institute of Chartered Accountants of India, installation charges received from the subscribers were accounted for as income and not adjusted against the cost thereon.
- Non-availability of the Balance Sheet of CPF Trust and GPF Trust of the Company for the financial year 2006-07 might had an impact on the profitability of the Company.

Neyveli Lignite Corporation Limited

- Non-recognition of the exchange fluctuation on foreign currency loan to profit and loss account resulted in understatement of profit by Rs.2.76 crore and understatement of capital work in progress by the same amount.

PEC Limited

- Sales recognition of Rs.1529 crore was not in accordance with Accounting Standard-9 therefore sales were overstated to that extent.

2.4.4.2 Impact of C&AG's comments issued as supplement to the statutory auditors' reports on listed government companies

Subsequent to the audit of the financial statements for the year 2006-07 by statutory auditors, the C&AG conducted supplementary audit and issued comments on accounts of government companies. The impact of these comments on assets, profit and loss (details in **Appendix XI**) of seven listed government companies is given below:

- Assets were overstated by Rs.28.17 crore and understated by Rs.12.74 crore.
- Profit was overstated by Rs. 58.10 crore and understated by Rs.15.05 crore.

2.4.4.3 Observations reported by the statutory auditors in compliance with directions issued by the C&AG under Section 619(3) (a) of the Companies Act, 1956.

It was brought out in the observations made by statutory auditors in their supplementary reports that in five[♥] listed government companies, there was deficiency in the system of obtaining confirmation of balances of debtors/creditors.

[♥] ***Andrew Yule and Company Limited, Eastern Investment Limited, Hindustan Copper Limited, ITI Limited and Mahanagar Telephone Nigam Limited.***

Unlisted companies

2.4.4.4 Qualifications on the accounts of unlisted government companies including deemed government companies by the statutory auditors

Significant qualifications made by the statutory auditors in their audit reports on the accounts for the year 2006-07 on 29 unlisted government companies and deemed government companies is given below:

Bharat Gold Mines Limited

- Ore weighing 340 tonnes, tailing sands containing approximately 13,200 kg of recoverable gold on surface and 14 specimen ore samples of rock of nuggets weighing 12,386 gm (gross), was not accounted for pending ascertainment of realisable value.
- Interest on unpaid power charges to BESCOM to the extent of Rs.26.86 crore were not provided for.
- Due to lack of information from the Company, the financial implications of the five proposals approved by Union Cabinet in its meeting held on 27 June 2006 could not be quantified:

Bharat Refractories Limited

- Liability of Rs.49 crore (approx.) towards revised wages and salaries for the period from 1 January 1997 to 31 March 2007 was not provided for in the accounts.
- The Company had considered penal interest/damages of Rs.4.28 crore on delayed/non-payment of provident fund to appropriate authorities as contingent liabilities which should have been provided for in the accounts. As a result, the loss of the Company was understated by Rs.4.28 crore.
- No provision had been made for filing fee and interest thereon amounting to Rs.2.11 crore in respect of non-filing of notice of increase in authorized capital with the Registrar of Companies in anticipation of grant of exemption from the Ministry of Company Affairs.

Bharat Sanchar Nigam Limited

- Frauds had been reported in seven circles amounting to Rs.6.35 crore of which Rs.7 lakh was neither recovered nor provided for in the accounts.
- The exchange wise reconciliation of outgoing metered calls and calls billed had not been done for fifteen circles. Consequently the completeness and the correctness of the recognition of revenue, provision for revenue sharing as well as for license fee payable, to that extent, could not be assessed.
- The balances due to and from DoT, DoP, MTNL, C-DOT and other government departments/companies on current account were subject to confirmation, reconciliation and consequent adjustment.

Cochin Shipyard Limited

- Liabilities towards sub contracts, pending settlement at the end of the year were accounted for on an estimated basis, for which sufficient details were not available for verification.

- The share capital included seven *per cent* non-cumulative redeemable preference shares (Rs.119.14 crore) overdue for redemption since April 2005.

Eastern Coalfields Limited

- Fixed assets retired from active use and held for disposal were retained at net book value of Rs.6.03 crore without ascertaining the net realisable value.
- The long unsettled debit balance in Sales Tax Account of Rs.15.28 crore was shown under loans and advances.

Electronics Corporation of India Limited

- Recognition of revenue on the basis of accounting policy which was in deviation from Accountability standard-7 resulted in overstatement of sales and debtors by Rs.20.26 crore, overstatement of profit by Rs.7.08 crore and understatement of inventory by Rs.13.18 crore.
- Recognition of revenue including the profit where the consideration itself was not determined resulted in overstatement of turnover, debtors and profit by Rs.46.31 crore, being the difference between the income recognized and the cost incurred.

Export Credit Guarantee Corporation of India

- The cash flow statement had been prepared under indirect method which was in contravention of the provisions of the Insurance Regulatory and Development Authority Regulations.
- The reversal of provision for gratuity under the head prior period income was overstated by Rs.1.62 crore.

Ferro Scrap Nigam Limited

- No provision was made for Rs.2.19 crore (balance amount payable along with interest) adjudicated against the Company in an ex-parte arbitration award, resulting in overstatement of profit.

Fertiliser Corporation of India Limited

- Provisions were not made in respect of additional custom duty of Rs.5.80 crore relating to Korba Project, penal interest on loans taken from Government of India amounting to Rs.137.53 crore, and interest on loans taken from Central Warehousing Corporation, Life Insurance Corporation of India and Indian Oil Corporation Limited amounting to Rs.11.87 crore Rs.105.50 crore and Rs.28.78 crore, respectively.

General Insurance Corporation of India

- Provisions in respect of claims incurred and claims incurred but not reported (IBNR) were made for the whole financial year ended on 31 March 2007 and to that extent matching principle of cost and revenue had not been adhered to.

Heavy Engineering Corporation Limited

- Bills of Bihar State Electricity Board and Jharkhand State Electricity Board for delayed payment surcharge amounting to Rs.475.33 crore had not been accounted and provided for.
- Damages of Rs.95.02 crore levied by Regional Provident Fund Commissioner under Section 14B of the Employees Provident Fund and Miscellaneous Provisions Act, 1952 for delayed remittances during the period March 1976 to September 1999 had not been provided for.

- Provisions had not been made for sundry debtors included Rs.25.60 crore, which were long overdue for more than three years and were not confirmed by the parties.
- Sundry Debtors included Rs.14.58 crore from a single party as a result of an arbitration award in favour of the Company in February 1997 which was disputed and realisation was uncertain warranting a provision of the entire amount.

Hindustan Antibiotics Limited♣

- No Provision was made in respect of dues from subsidiaries amounting to Rs.6.55 crore.

Hindustan Aeronautics Limited

- Sales and services (including repair/overhaul charges) invoices does not include Sales tax, Value added tax, Service tax and Turnover tax.

Hindustan Shipyard Limited

- The profit was overstated by Rs.167.77 crore due to non-provision of interest on term loan from State Bank of India amounting to Rs.121.36 crore; increased compensation due to wage revision amounting to Rs.5.50 crore payable to discharged employees under VRS during the period from January1997 to December1999; and wage arrears as per revised scales to officers, staff and workmen amounting to Rs.40.91 crore.

Hindustan Steelworks Construction Limited

- Sundry debtors included claims of Rs.104.96 crore outstanding for a long time for which provision should have been made for the entire amount instead of Rs.69.69 crore made by the Company.
- In absence of age wise breakup and long outstanding dues included in the work done but not billed of Rs.47.03 crore (net of advances), the adequacy of provision of Rs.2.48 crore for estimated loss and its effects on the accounts was not ascertainable.

HMT Watches Limited

- The Holding Company had not issued credit notes for the profit amounting to Rs.16.03 crore on sale of land and buildings transferred in the year 1999-2000 and 2003-04 resulting in understatement of prior period income.
- Provision had not been made towards inventory valued Rs.3.43 crore taken into custody by customs authorities.
- Liability towards arrears of wages, pay, etc. due to revision of pay scale with effect from 1 January 1997, default in remittance of statutory dues by way of interest, and penal interest for damages had not been ascertained and provided for.

Hindustan Prefab Limited

- Title deeds in respect of office space at SCOPE Minar Complex, Laxmi Nagar and conveyance and/or lease deed in respect of factory land and building were not executed.

Industrial Investment Bank of India

- The Company had not received the security certificate in respect of investment of Rs 44.04 crore.
- There was significant uncertainty about the continuance of the Company as a going concern.

♣ ***Relates to 2005-06***

Jute Corporation of India Limited

- Liability on account of Raw Jute Buffer Stock Scheme for Rs.3.74 crore was pending for adjustment for a long time

Kudremukh Iron and Steel Company Limited

- Interest amounting to Rs.72.25 crore on the loan borrowed from M/s.Kudremukh Iron Ore Company Limited was not provided for.

Kutch Railway Company Limited

- The amount of Rs.47.55 crore towards contract remaining to be executed on capital account and not provided for in the accounts, as on 31 March 2007, was subject to reconciliation and confirmation from Western Railway.
- According to Western Railway, the expenditure incurred till 31 March 2007 on the project was Rs.325.96 crore which was yet to be verified by the Company.

National Hydroelectric Power Corporation Limited

- The Company incurred revenue expenditure at projects namely Subansiri (Middle and Upper) and Siang even after construction activities were suspended in these projects due to intervention of Court/State Government. As per generally accepted accounting principles such abnormal expenses/losses were to be charged off to revenue. Due to capitalisation of such expenditure which did not add any value to the projects, capital work in progress was overstated by Rs.33.35 crore, current year profit was overstated by Rs.13.58 crore and reserves & surplus was overstated by Rs.19.77 crore.

Northern Coalfields Limited

- No provision had been made for service tax on inter and intra transportation/ shifting (including loading/un-loading) of coal, as in the opinion of the management it does not fall within the provisions of service tax.

Rail Tel Corporation of India Limited

- Short haul and long haul (STM-1) equipment costing Rs.34.26 crore (written down value of Rs.27.46 crore) were not transferred to Railways in terms of clause 3.2.4 of the agreement dated 21 September 2006 with Ministry of Railways.
- Penalty of Rs.3.66 crore paid to Department of Telecommunication was not provided for.

Rail Vikas Nigam Limited

- Legal opinion and expert advice of treating income from project execution as deduction claimed under section 80 IA of the Income Tax Act 1961 was not found to be satisfactory in view of sub-section (2) of above said section and hence tax provision was short by Rs.1.12 crore.

State Farms Corporation of India Limited

- Capital reserve included Rs.77.35 lakh against the value of assets which were under Capital working in progress and acquired out of grant-in-aid received from Government of India.
- Sundry Debtors of Rs.3.52 crore pertaining to Government undertakings/departments outstanding for more than three years were not provided for.
- Land of Central State Farms, Chengam, had been handed over to Tamil Nadu Forest Coporoation Ltd., Trichi, for Rs. 84.70 lakh against the book value of assets valuing Rs. 4.60 crore and adjusted the differential amount with Capital Reserve instead of charging to Profit and Loss account.

The New India Assurance Company Limited

- The historical /weighted average cost of listed and unlisted equity /equity related instruments / preference shares, the value of which were impaired on or before 31 March 2000 was not available with Company. As a result, the reversal of impairment losses was not accounted for in the profit loss /revenue account.
- Profit for the year and Miscellaneous Expenditure were over stated by Rs.12.66 crore as expenses on account of pension, gratuity and leave encashment under special voluntary retirement scheme during 2003-04 were not amortised in accordance with Accounting Standard 15.

United India Insurance Company Limited

- The cash flow statement was prepared under "Indirect Method' in contravention of IRDA instructions.
- Inter-office accounts, subsidiary and control accounts in some offices, amounts due from/to persons carrying on insurance business, reserve deposits due to/from companies on account of re-insurance were not reconciled/confirmed and certain audit findings have not been recognized in the financial statements. In absence of the details, full impact of the above on the financial statements, if any, was not ascertainable.

Western Coalfields Limited

- The assumptions of actuary for staff mortality were different for the purpose of actuarial valuation of leave salary and for gratuity even though the employees covered under both the schemes were the same.

2.4.4.5 Impact of C&AG's comments issued as supplement to the statutory auditors' reports on unlisted government companies

Subsequent to the audit of the financial statements for the year 2006-07 by statutory auditors, the C&AG conducted supplementary audit and issued comments on the accounts of government companies. The impact of these comments on Assets, Liabilities, Profit and Loss (details in **Appendix XI**) of 30 unlisted government companies (including Seven unlisted deemed government companies) was as given below:

- Assets were overstated by Rs.43.77 crore and understated by Rs.11.44 crore;
- Liabilities were understated by Rs.6.38 crore;
- Profit was overstated by Rs.978.13 crore and understated by Rs.40.93 crore;
- Loss was understated by Rs.41.36 crore.

2.4.4.6 Observations reported by the statutory auditors in compliance with directions issued by the C&AG under Section 619(3) (a) of the Companies Act, 1956.

Observation on quality of financial statements

The significant observations made by statutory auditors in their supplementary reports that reflect the quality of accounts and systems of accounting of the companies are reproduced below:

Deficiencies in accounting policies and practices

Burn Standard Company Limited

- Reconciliation of cost accounts with financial accounts was pending.

Coal India Limited

- The existing practice of valuing stores at cost plus 2 *per cent* notional freight irrespective of the fact that the cost price is CIF or otherwise needed to be reviewed to take into account the actual cost of stores.

Export Credit Guarantee Corporation of India

- The Company did not have the credit policy considering the nature of business.
- As per the Company's policy, reinsurance claims were lodged only after payment of claims of parties.

Hindustan Antibiotics Limited♣

- There was no formal written credit policy in respect of sales and similar to providing a doubtful debts / written off / liquidated damages

Hindustan Copper Limited

- Cost records were not maintained as per the provisions of the Companies Act, 1956 in its Taloja Copper Project.

Karnataka Meat and Poultry Marketing Corporation Limited

- The financial statements are prepared on the basis of going concern principle even as Government of Karnataka has passed orders for winding up of the Company.

National Centre for Trade Information

- The authorised Share Capital was required to be enhanced for allocation of pending share application money against contributions in kind by ITPO and NIC

National Research Development Corporation

- There were various debit and credit balances under current assets, loans & advances, security deposits as well as current liabilities outstanding for quite long, needed to be examined in depth and suitably dealt with.

Nuclear Power Corporation of India Limited

- The Company needed to consider the adequacy of its existing policy of identifying and providing for non-moving, slow-moving, absolute, Surplus inventory. The units carried high inventory due to technical reasons.

Railtel Corporation of India Limited

- There was no drafted policy for providing for doubtful debts/ write-offs.

Rural Electrification Corporation Limited

- The Company had not maintained separate bank accounts for grants except for Rajiv Gandhi Grameen Vidutikaran Yojana and Accelerated Generation and Supply Programme.
- The Company did not have a clear credit policy duly approved as well as policy for provisions of doubtful debts/write off and liquidated damages.

RITES Limited

- The Company frequently reversed the sales invoices towards various services, either partially or completely, stating them to have been wrongly raised.

♣ ***Relates to 2005-06***

Confirmation of balances of debtors and creditors

Based on the observations made by statutory auditors in their supplementary report, it was noticed that the system of obtaining confirmation of balances of debtors/creditors was deficient in 23 government companies as detailed in **Appendix-XII.**

2.4.4.7 Statutory Corporations where C&AG is the sole auditor

The net impact of the audit observations as contained in the Audit Reports issued by the C&AG on the accounts for the year 2006-07 of the statutory corporations where C&AG acts as the sole auditor was as under:

Airports Authority of India

Assets and Profit were overstated by Rs.15.90 crore and Rs.2.64 crore respectively and Liabilities were understated by Rs.35.40 crore.

Inland Waterways Authority of India

Assets were overstated by Rs.11.23 crore.

National Highways Authority of India

Accounts were received in September 2007 and certification of accounts was in progress (November 2007).

Food Corporation of India

Accounts for the year 2006-07 were awaited and Certification of accounts for the year 2005-06 was in progress as on 30 September 2007. During the year 2006-07 Accounts for the year 2004-05 were certified. The net impact of audit observations as contained in the Audit Report on accounts for 2004-05 was overstatement of Assets by Rs.313.93 crore and understatement of Liabilities and loss by Rs.0.92 crore and 1.64 crore.

2.4.4.8 Statutory Corporation where C&AG conducts supplementary audit

Central Warehousing Corporation

Qualifications of statutory auditors

- The title deeds in respect of 90 freehold/leasehold lands sites had not been executed in favour of the Corporation (Land value Rs.8.06 crore). The title deeds of 75 land sites were pending for execution for more than 15 years.
- The conveyance deeds in respect of 92 residential flats valuing Rs. 2.58 crore had not been executed.
- The Corporation had written off one-fifth of the post-period cost of post-retirement benefits amounting to Rs.17.63 crore and carried forward Rs. 52.88 crore as deferred revenue expenditure in contravention of Accounting Standard 15. Thus, profit for the year was overstated by Rs.52.88 crore.

Impact of C&AG's comments supplement to statutory auditors report on Central Warehousing Corporation

Assets were overstated by Rs.17.80 crore.

2.5 Internal control over financial reporting

Internal control is the process designed and implemented by those charged with governance, and the management to provide reasonable assurance about the achievement of the entity's objective with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, and to check fraud and misappropriation. Internal control measures may vary with the size and complexity of the organization. Effective and efficient internal control measures ensure that the financial statements prepared give a true and fair view and the degree of reliance that a statutory auditor can place on the financial statements for the purpose of reporting. In accordance with the directions issued by the C&AG under Section 619(3) (a) of the Companies Act, 1956, the statutory auditors are required to submit a report on the adequacy or otherwise, of internal control measures followed by of the company and to suggest improvement, if any, in the areas of management, safeguarding and verification of fixed and current assets including debtors, cash and bank balances.

The deficiencies reported by the statutory auditors with regard to non-maintenance of fixed assets register, lack of physical verification of fixed assets, non-fixation of inventory stock holding norms, lack of monitoring the recovery of outstanding dues, and absence of policies for prevention and detection of frauds in the government companies including deemed government companies are given below:

Table 14

Sl.No.	Area of Deficiency	Number of companies
1.	Fixed Assets	14
2.	Investments	5
3.	Internal Procedures and Operational Efficiency	15
4.	Debtors	11
5.	Inventory	21
6.	Cash Verification	3
7.	Internal Audit	39
8.	Delineated Fraud Policy	15

The particulars of the companies indicating lack of internal controls in the above mentioned areas are given in the **Appendix XIII**.

2.6 Compliance with Accounting Standards

With an objective to harmonise the diverse accounting practices, adherence to the Accounting Standards (AS) is imperative for preparation of financial statements in accordance with the generally accepted accounting principles. Section 211(3A) of the Companies Act, 1956 read with Section 211(3C) of the Act requires that every profit and loss account and balance sheet of the company shall comply with the accounting standards recommended by the Institute of Chartered Accountants of India (ICAI) or as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards. However, during course of audit, statutory auditors and the C&AG observed departures from the mandatory Accounting Standards by five listed government companies, 35 unlisted government companies and two statutory corporations (42 PSUs). The details are given in **Appendix-XIV**.

2.7 Management Letters

One of the objectives of financial audit is to establish communication on audit matters arising from the audit of financial statements between the auditor and those charged with the responsibility of governance of the corporate entity. The material observations on the financial statements of PSUs were reported as comments by the C&AG under Section 619(4) of the Companies Act, 1956. The impact of such material comments has been given in the preceding paragraphs. Besides these comments, irregularities or deficiencies observed by C&AG in the financial reports or in the reporting process, were also communicated to the management through a 'Management Letter'. These deficiencies generally related to application and interpretation of accounting policies and practices, adjustments arising out of audit that could have a significant effect on the financial statements and inadequate or non disclosure of certain information on which management of the concerned PSU gave assurances that corrective action would be taken in the subsequent year.