Journal
Regional Training Institute, Jaipur
Volume-I (January 2021)

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Foreward

It gives me great pleasure to present the first edition of the Journal of this Institute. The articles in the journal have been written keeping in view the clients served by this Institute, the cuting edge of audit namely Audit Officers and staff of the IA&AD . The articles are based on actual audits published in CAG audit reports and can be used to generate audit observations during field audits. Aggregations across audited entitites can result in incisive inferences worth reporting to Legislature. At the same time the articles flag significant issues which are relevant at a macro level for the managers and policy makers to take a view.

I thank the staff and officers of the Institute especially Shri Vinod Sharma SAO, Shri P. K. Jain and Shri R S Meena who conducted research and review and Shri Rakesh Vijayvergia SAO for the design.

I also thank the staff and officers whose knowledge and field audit work is the basis of these articles and needless to say without their hard work these articles could not have been written.

Ashutosh Joshi
Director General

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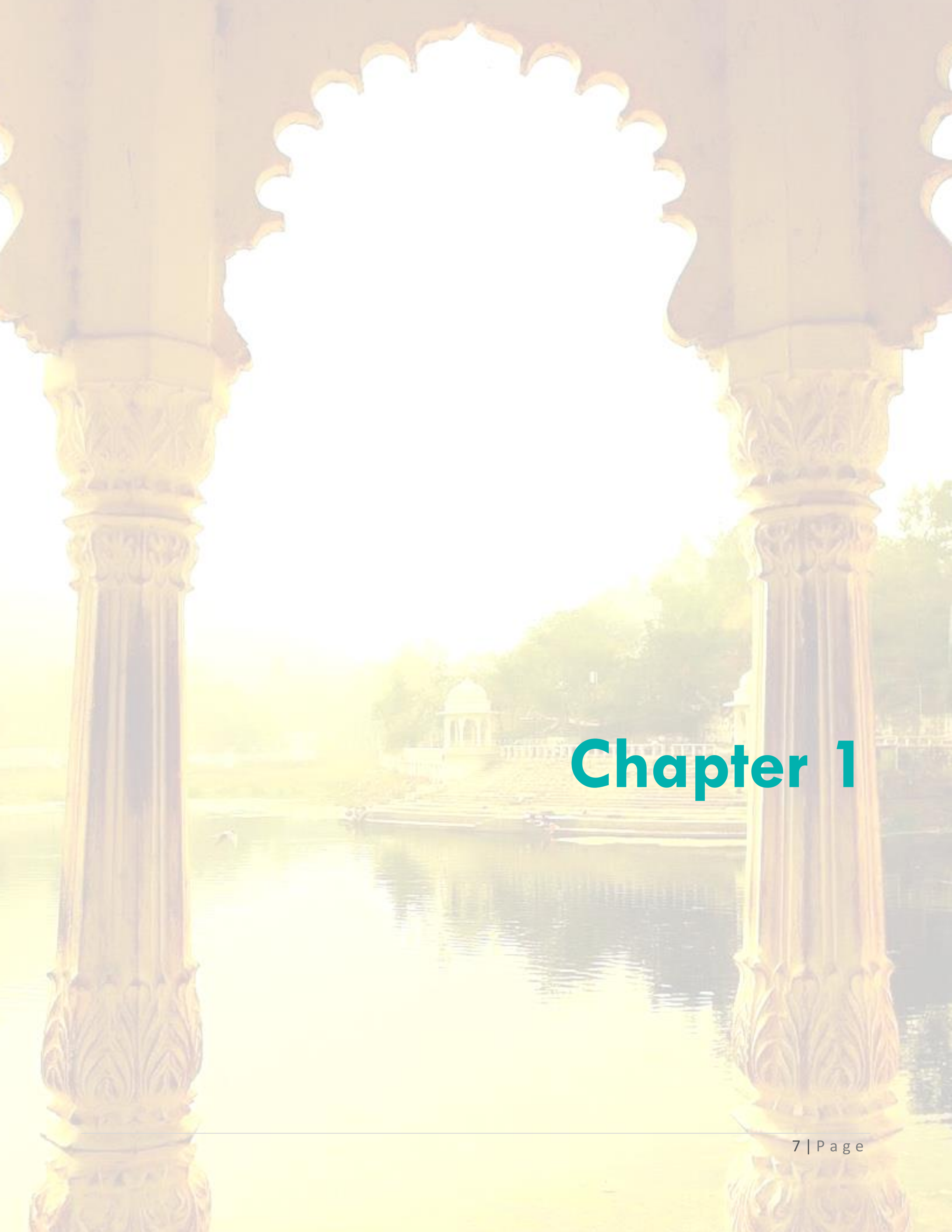

Chapter 1

Auditing Government investment in Other Joint Stock Companies

(This article draws on audit work done by Ms. V Jayanthi Sr. AO (Commercial) presently posted in O/o PD & MAB, Bengaluru, the leads for locating records for audit were provided by Mr. K S Muralidharan Sr. AO Report O/o AG Goa; Mr Santosh P. Velloddy Sr AO ES I of the same office contributed to part of the background research. Ms. V Jayanthi was supported by Mr. P. Paswan AAO in field audit. The result of the audit was published in the Report of the CAG of India on State Finances of Goa for the year ended March 2017.

A study of Finance Accounts and Reports on State Finances done at RTI Jaipur suggests position similar to that reported in Goa exists in several other states and may require audit. The research work at RTI Jaipur was primarily conducted by Sh. Vinod Kumar Sharma Sr. AO supported by Sh. Ram Singh Meena Sr. Auditor)

Statement number 19 in the Finance Accounts of State Governments, is the detailed statement of investments of the Government. This statement provides details of investments of the State Government in companies, corporations, cooperatives, banks etc. Within this statement is a section dealing with investment made in Other Joint Stock Companies i.e. companies that are not government owned companies as defined under the Companies Act.

A perusal of the relevant section of the Finance Accounts of Goa showed that on one hand the state had invested in companies such as "Banana and Fruit Development Corporation Limited, Madras" and "Karachi Electric Supply Company Limited, Karachi" and on the other in companies such as "Tata Iron and Steel Company Limited, Bombay" and "Associated Cement Company Limited, Bombay". Another curious feature was that the year of investment in all Companies, listed in the section dealing with other joint stock companies, was reported to have been made in 1947 when the state was under Portuguese rule. (Goa was merged with the Union of India on 19 December 1961).

Of the companies listed above, the first company is now liquidated, the second is in Pakistan (Karachi Electric Supply Company Limited, Karachi is now called K-Electric and generates and distributes electricity to consumers) the last two companies fall in the category of blue chip companies.

The reporting of investment in companies like the first two is misleading (assets are of no value); while investment in companies like the last two is of high value. As a part of the audit of the Finance Accounts Statements, to confirm the existence and ownership of the assets, the Audit Office called for information regarding share certificates of all the companies from the Finance Department of the State and this led to the first audit finding that State Finance Department could not provide the certificates nor could they clearly state as who held these certificates. The response was that these were held by various state government departments and pursuit with these departments also led to a blank. This position persisted for two years, with the matter remaining under pursuit with state authorities for providing share certificates for verifying the investment in joint stock companies depicted in the Finance Account.

During an un-related review meeting in the AG's office, the new Sr. AO Reports informed that the shares may be available at a hospital in Margao.

He had in an audit conducted few years ago raised a query about some payments made to a CA for a visit to Chennai. He had been told that the visit was in connection with transfer of some shares. On further enquiry about these shares he had been shown a big bundle of certificates lying wrapped in a red cloth locked away in a cupboard.

Armed with this knowledge a party was deputed to the hospital for audit. This audit gave rise to some significant findings noted in brief below. The detailed audit findings with full background are given at Annex A:

1) None of the shares were in the name of Government of Goa except for eleven companies whose shares were in the name of Hospicio Hospital. All shares had been acquired during the takeover of a private trust that ran the hospital until 1980s and the shares were held in the names of private individuals and brokers.
2) The State had not managed to get the shares of working companies registered in their names despite passage of about three decades.
3) Several companies had been liquidated, some were under liquidation etc. so the investment in such companies needed appropriate depiction in the accounts of the State.
4) There was mismatch in the number of shares available at the hospital and that reported in the Finance Accounts namely the number of shares actually available were either more or less than reported. Some companies' shares available with the hospital were not reported at all in the accounts.
5) No dividend[1] was being received from the dividend paying companies except for seven companies.
6) Nineteen companies were listed in various stock exchanges and 14 companies' shares were traded in the market. Audit analysis of the performance of eight[2] companies (test check) whose shares were traded in the market showed that they had restructured their share capital by splitting their shares, declaring bonus shares etc. Some of the Companies had also declared dividend during the past ten years. At the time of audit, market rate of their shares (face value between ₹ 2 and ₹ 10 each) was between ₹ 51 per share to ₹ 1800 per share. Had the State Government taken action to get the shares transferred in the name of Government of Goa, immediately on taking over the assets of the erstwhile trust that ran the hospital and entrust the safe custody and maintenance of these shares to the appropriately qualified authorities, they could have availed the benefit of share split, bonus shares and dividend. The Government would be holding shares worth ₹ 2.49 crore in respect of the said eight companies and would have received a dividend of ₹ 15.51 lakh (above values have been calculated using the last 10 years data, actual value would be much more since the shares have been purchased much earlier).

Thus audit showed that not only there were financial audit issues namely claim over asset without registering ownership of asset and enjoying the benefits arising therefrom; reporting investments in companies that had ceased to exist;

[1] Efforts to trace unclaimed dividends for these shares based on publicly available information failed to yield any result.

[2] Associate Cement Company, Mahindra and Mahindra Ltd, Hindustan Lever Limited, Gokak Patel Wolcart Ltd., Bombay Dyeing and Manufacturing Co Limited, Bombay Sub-Urban Electric Supply company Limited, WIMCO Limited, Orissa Cement Ltd.

reporting of incorrect value of assets but also of a significant loss in earnings over time.

In this background, the Finance Accounts and SFAR of all states in India were studied (test check[3]) and the study shows that similar situation exists in other states as well.

1. Several States have inherited shares from erstwhile princely states; or as a result of takeovers/ transfers by other entities/ allocation during reorganization of states etc. Thus potential for a Goa like situation regarding formal ownership of shares cannot be ruled out without audit verification.
2. In the Finance Accounts of Andhra Pradesh, Assam, Bihar, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Maharashtra, Odisha, Punjab, Rajasthan, Telangana and West Bengal a total sum of ₹ 4.19 crore was shown as invested in 25 companies (listed in Annex B) that have been struck off by the respective Registrar of Companies. Thus there is no likelihood of its recovery.
3. In the Accounts of Andhra Pradesh, Haryana, Kerala, Madhya Pradesh, Odisha and Telangana investment was reported in ten companies (listed in Annex C) that had been dissolved.
4. The accounts of Bihar and Gujarat reported investment in Companies that were under process for being struck off (Annex D).
5. The accounts of Andhra Pradesh, Assam, Bihar, Gujarat, Karnataka, Kerala, Madhya Pradesh, Odisha, Rajasthan, Telangana and Uttar Pradesh report investment in seventeen companies totaling ₹ 7.3 crore which are under liquidation(Annex E).
6. Seven Companies Tata Iron and Steel Company Limited, ICICI Bank limited, Radico Khaitan Limited, Industrial and Prudential Investment Company Limited, Balmer and Lawrie, The Lakshmi Mills Company Limited and the Peria Karamalai Tea Produce Company Limited declared dividends at rates ranging from 9 to 250 percent but the accounts did not show the same in statement 19. (Annex F) Thus it becomes difficult to verify if the appropriate dividend had been credited to the state. In the case of Goa it was seen that the dividend had been credited to other receipts under the head for recording medical receipts rather than the head for recording receipts from dividends.
7. During 2017-18, seven companies (details in Annex G) which had investments by Karnataka, Maharashtra, Tamil Nadu, and Uttar Pradesh, issued bonus shares. Further, three of these companies having investment by Karnataka, Maharashtra and Tamil Nadu had split[4] shares during the period. Only the accounts of Tamil Nadu recorded receipt of bonus shares and split shares. In all other states (as in case of Goa discussed above) no increase in share-holding due to issue of bonus shares and splitting of shares had been reflected in the accounts. Thus it cannot be ascertained whether these shares had been received and ownership of assets taken over by the state. The present value of these additional shares is estimated at ₹ 6.13 crore.

[3] Due to limited resources at RTI we could not track and trace every company listed in all state accounts but we have reason to believe that more such cases can be pointed out when full-fledged audit is undertaken by the State Audit Offices. Thus the cases and amounts are going to be larger than reported in this study. Also in some states the Finance Accounts do show the status of inactivity for some companies but a related Audit Reports do not deal with the issue.

[4] Issue of shares of lower denomination / face value in lieu of the already issued shares of higher denomination/ face value.

(Only a period of ten years has been reviewed by us for arriving at the values above for some of the companies, but most states have investments in Joint Stock Companies from mid-fifties or earlier, so the actual increase in value of the investment on account of bonus shares/ splitting of shares is likely to be much higher.)

8. More than a score companies[5] in which the states have invested are being traded in stock exchanges. As on March 2019 these shares were priced between ₹ 4.80[6] to ₹ 2685[7] but this is not captured in the accounts nor pointed out in the audit reports.
9. In addition to above there were many other presentation issues in the accounts namely year of investment not reported (148 cases); type of share not reported (101 cases); number of shares held not reported (100 cases); share price not mentioned (138 cases); total investment not given (39 cases); percentage of investment not given (438 cases); in 273 cases the total investment shown did not match the product of number of shares and the share price. None of these figured in any of the related audit reports.

In the prevailing scenario we have two significant issues; the first is stewardship of assets, several state investments are in companies that are valuable growing commercial enterprises, they have been issuing stocks to their investors and the value of the assets is growing but is not being reflected/ disclosed in the accounts. The second is reporting of investments in companies that have been struck off, liquidated or are under liquidation. While some of it needs to be written off as it has become worthless in some cases the state may need to engage with the liquidators to attempt to recover their investments whatever possible.

Both these concerns are not disclosed adequately in the accounts nor reported in the State Financial Audit Reports. In the light of the foregoing discussions the following steps can be considered in audit:

1) Determine the status of the Companies in which the state has reported shareholding.
2) Determine who has the custody of the share certificates. Ideally the Finance Department of the state should have custody of these investments.
3) Determine that all of these are held in the name of the state government.
4) Determine that there is no discrepancy in number of shares available with States Authorities with the figure reported in the Finance Accounts.
5) Determine that all Companies whose shares are available with the state authorities have been accurately reported in Finance Accounts (i.e. no company is excluded).
6) Determine whether all the shares have been dematerialized.
7) Determine the action taken with regard to recovery of investments in Companies in various stages of being wound up.
8) Determine if any action is being taken to offload shares of loss making companies.
9) Determine (for active companies) how many have paid dividends and whether the state has received the same and that this

[5] Example Associated Cements Limited; Apollo Tyres, Ashok Leyland, Mahindra &Mahindra, Radico Khaitan, Tata Chemicals, ICICI Bank, Tata Motors, Tata Iron and Steel Company Limited, Ramco Cements Limited etc.

[6] Nagarjuna Fertilizers and Chemicals Limited

[7] The Lakshmi Mills Company Limited

has been properly recorded in the accounts.

10) Determine (for active companies) how many have issued bonus shares / split shares and whether these have been received by the state. Are these recorded in the accounts?

(The initial audit will have to cover a large period of time starting with the investment date, subsequently each year events during the year alone have to be checked.)

These findings can then be suitably reported in the section on investments in the SFAR as also in the compliance audit report in case if loss of dividend / non receipt of shares is noted.

The above discussion also indicates the need to move forward on adoption of the Government Accounting Standard on Investments to ensure fair presentation and promote stewardship of assets through accounts.

In the end we can say that the statement of investments in the Finance Accounts is incorporated as received from the State Authorities. A review of the same shows that it needs a much closer scrutiny by the auditors. This is essential from the point of view of promoting stewardship of assets. Work done in this area will also considerably enrich the analysis of returns on investment done in the State Financial Audit Report taking it beyond the usual observation that the returns from investments are much lower than the rate of interest on borrowings.

References:

Website of Ministry of Corporate Affairs
Money Control
Financial Express
Economic times
Finance Accounts and State Financial Audit Report

Annex A

Investments in other Joint Stock Companies - Goa

The Finance Accounts of Government of Goa (GoG) disclose an investment of ₹ 3.60 lakh in the shares of 78 Joint Stock Companies (JSC). It was ascertained that the physical custody of the share certificates was with Hospicio Hospital under the Directorate of Health Services (DHS). An audit was conducted to examine whether these shares were held in the name of GoG or not.

Back ground: In December 1976, the Government of Goa, Daman and Diu issued a notification to acquire the assets and liabilities of two Social Welfare Institutions viz. Hospicio do Sagrade coracao de Maria (Hospicio Hospital), Margao and Nossa Senhora dos Milagres Hospital (Asilo Hospital), Mapusa. The said Institutions were being dissolved due to lack of financial resources to effectively manage the organisations and were functioning entirely with the assistance of grants made by the government from time to time. Consequent to the Notification, the funds and assets including immovable properties of the Hospicio Hospital and Asilo Hospital and their liabilities were taken over by the State Government as on 1.1.1977 and placed under the control of the Directorate of Health Services (DHS). Included in the assets taken over were investments in the shares of numerous Joint Stock Companies. However, the audited entity could not produce a comprehensive list of assets taken over.

An examination of the records showed that the erstwhile Institution (Hospicio) had vested the physical custody of these share certificates with the State Bank of India, Madras, the ANZ Grindlays Bank, Mumbai and the Standard Chartered Bank, Mumbai. DHS collected the share certificates in the year 1998 and year 2008 from these banks and placed them in physical custody of Hospicio Hospital.

DHS produced share certificates in respect of 69[8] Companies (27,556 shares) with face value totalling to ₹ 3.44 lakh to audit for review. On analysis of these share certificates, it was observed that:

1. These shares were acquired at various points of time and were not in the name of Government of Goa except 11 companies whose shares were in name of Hospicio Hospital.
2. No concerted effort seems to have been made by the State Government to get the shares acquired from the trust / transferred in the name of Government of Goa.
3. It was learnt that M/s. St Helens Nominees Pvt Ltd and M/s. Clive Street Nominees Pvt Ltd (both subsidiaries of Standard Chartered Bank) were dealing with the investments.
4. Dividends are being received from seven companies which were taken to DHS account under Medical receipts rather than under the Account Head 0050-Income from dividends, the correct head of account.

[8] The DHS could not produce share certificates of 14 companies depicted in the Finance Accounts. Further, included in the shares produced were shares of six companies that do not figure in the Finance Accounts. Apart from this there was a repetition of one company in Finance Accounts.

Observation on Government Finance Accounts:

- The Finance Accounts of Government of Goa for the year 2015-16 disclose an investment in 26,139 shares of face value totaling ₹ 3.60 lakh in 77[9] JSCs (listed under serial number III of the Statement No. 19).

- Out of the above, DHS could produce proof of investment of 25305 shares of face value totaling ₹ 3.11 lakh in respect of 63 companies.

- DHS could not produce share certificates in respect of 3961 shares of face value totaling ₹ 0.70 lakh in respect of 14 companies.

- However, audit came across share certificates (containing 2251 shares) of face value totaling ₹ 0.32 lakh in respect of six companies which were not included in the Finance Accounts.

- Audit further observed that even in respect of these 63 companies which appear in Finance Accounts, share certificates to the extent of 3177 shares of face value totaling 0.20 lakh were not taken into Account.

- Audit observed that out of the 63 Companies (as mentioned in point no.2 above) only 40 Companies were presently active (DHS held 21506 shares with face value totaling ₹ 2.28 lakh). 23 Companies were inactive i.e. Dormant, liquidated, not traceable or out of India (DHS held 3799 shares with face value totaling ₹ 0.83 lakh). Out of the 40 active Companies, 19 companies were listed in Stock Exchanges but only 14 were traded / quoted in the share market (BSE/NSE etc) (DHS held 7750 shares of face value totaling ₹ 1.22 lakh in shares which were traded in the share market). The Government of Goa was yet to review the issue and take appropriate decision to deal with (write off) the shares of inactive companies in Finance Accounts.
- Audit noticed that none of the shares were in the name of Government of Goa. The shares were held in the name of M/s. St. Helen Nominees India Pvt Ltd (7798 shares of face value totaling₹ 1.29 lakh), M/s. Clive Street Nominees Limited (3047 shares of face value totaling₹ 0.30 lakh), Shares held in the name of other private individuals and companies (11705 shares of face value ₹ 1.22 lakh) and only 2755 (11 companies) shares of face value totaling ₹ 0.30 lakh were held in the name of Hospicio. Hence, legally the process of takeover of the asset was incomplete and this fact needs a disclosure in the Finance Accounts of Government of Goa.

Compliance related observations:

- As per Government of Goa vide Notification (December 1976) the assets and liabilities of the Hospicio do Sagrado Coracao de Maria (Hospicio), Margao were taken over by the Government of Goa from January 1977 and the custody of the assets was vested with the Directorate of Health Services (DHS), Public Health Department. However, DHS could not produce any Register of Assets (proof of takeover) taken over.
- Discrepancies in accounting the shares and presence of share certificates of companies not disclosed in Accounts indicates that due diligence was perhaps not done at the time of takeover.

[9] The Finance Accounts indicate 78 Companies. Whereas audit noticed that M/s.Midland Rubber Company was mentioned twice (Sl.No.8 and Sl.No.64). Hence, there were only 77 Companies.

- The DHS was aware that none of the shares were in the name of Government of Goa. Scrutiny of records shows that an inventory of the share certificates was prepared (27.11.2006) and it was found that only few share certificates were held in the name of Hospicio and most of the other share certificates were in the name of M/s St. Helen Nominees India Pvt. Ltd and M/s Clive Street Nominees Ltd. and also in the name of various individuals other than Hospicio Hospital. A team consisting of officials of DHS visited (August 2007 to November 2007) the Banks. It was learnt that ANZ Grindlays Bank was merged with Standard Chartered Bank *w.e.f.* 31.08.2002 and Standard Chartered Bank were custodians of the shares and by August 2008, the DHS had collected the share certificates available with all three banks. DHS could not trace the whereabouts of M/s Clive Street Nominees Pvt. Ltd and it was also stated that, M/s St. Helen Nominees Pvt. Ltd. had stopped its activity in the year 2001 and the DHS team's efforts to correspond with one known source at Chennai who was in-charge and dealing with M/s St. Helen Nominee' matters did not yield any tangible result. Thus, the DHS could not get the shares transferred in the name of Government of Goa till date. This inability to take concerted action to get these shares transferred in the name of GoG even after 40 years is leading to a loss to the state of dividend income. As discussed below:
- Out of 63 companies whose share certificates were produced to Audit, Audit observed that 19 companies were listed in various stock exchanges and 14 companies' shares were traded in the market. Audit analysis of the performance of eight[10] companies (test check) whose shares were traded in the market revealed that they had restructured their share capital by splitting their shares, declaring bonus shares etc. Some of the Companies had also declared dividend during the past ten years. At the time of audit the market rate of their shares (face value between ₹ 2 and ₹ 10 each) were between ₹ 51 per share to ₹ 1800 per share. Had the State Government taken action immediately on taking over the Assets from the erstwhile institutions, to get the shares transferred in the name of Government of Goa and entrust the safe custody and maintenance of these shares to the appropriately qualified authorities, they could have availed the benefit of share split, bonus shares and dividend. The Government would be holding shares worth₹ 2.49 crore in respect of the said eight companies and would have received a dividend of ₹15.51 lakh (for the last 10 years). Thus, negligence by the Government to properly take over and maintain the valuable asset resulted in loss of ₹ 2.64 crore.

[10] Associate Cement Company, Mahindra and Mahindra Ltd, Hindustan Lever Limited, Gokak Patel Wolcart Ltd., Bombay Dyeing and Manufacturing Co Limited, Bombay Sub-Urban Electric Supply company Limited, WIMCO Limited, Orissa Cement Ltd.

Annex B

Examples of investment in companies that have been struck off depicted in Finance Accounts

(₹ In Lakh)

Sr. No.	Name of State	Company	Amount
1.	Andhra Pradesh	Hindustan Development Corporation Ltd. Calcutta	4.32
2.	Assam	Associated Industries (Assam)	23.19
3	Assam	Everest Cycle Ltd.	5.00
4.	Assam	Indian Refineries Ltd	100.25
5.	Bihar	Bihar Paints Private Ltd., Patna	0.5
6.	Bihar	Thakur Paper Mills Limited, Samastipur	16.54
7	Haryana	Dholpur Glassworks Limited	0.19
8	Haryana	Tiger Locks Limited, New Delhi	7.5
9	Haryana	Usha Forging and Stamping Ltd. , New Delhi	1.6
10	Himachal Pradesh	Usha Forging and Stamping Ltd. , New Delhi	0.31
11	Jammu & Kashmir	The Kashmir Ceramics Limited	29.4
12	Karnataka	The Mysore Spinning and Manufacturing Company, Bengaluru	2.34
13	Karnataka	Kobay Silk Mills Limited	0.16
14	Maharashtra	Ganesh Bank of Kurundwad, Kolhapur	1.52
15	Maharashtra	Osmanshahi Mills Limited, Nanded	6.61
16	Odisha	Indo-East Extraction Bhubaneshwar	3.5
17	Odisha	Konark Rubber Industries, Cuttack	1.64
18	Punjab	Dholpur Glassworks Limited	0.50
19	Punjab	Punjab Seamless Tubes Mills Limited, Chandigarh	0.2
20	Punjab	Bhagwanpura Sugar Mills Limited, Dhuri	20
21	Punjab	Usha Forging and Stamping Ltd. , New Delhi	4.29
22	Rajasthan	Futwah Islampur Light Railway Company Limited, Kolkata	0.1
23	Rajasthan	The Chaparmukh Silighat railways Company Limited, Kolkata	0.06
24	Telangana	The Hyderabad Chemicals and Pharmaceuticals Limited, Hyderabad	1.71
25	Telangana	Samachar Bharthi New Delhi	2.00
26	West Bengal	Engel India Machine Tools Ltd.	167.76
27	West Bengal	Great Eastern Hotel Authority	14.00
28	West Bengal	The Bengal Salt Companies Ltd.	1.70
29	Total		419.89

Annex C

Examples of investment in companies that have been dissolved depicted in Finance Accounts

Sr. No.	***State***	***Company***
1	Andhra Pradesh	Mercantile Bank Limited, Hyderabad
2	Haryana	Depro Food Limited, Rai
3	Haryana	Hada Steel Products Limited, Faridabad
4	Kerala	Cochin Malleables (Private) Limited
5	Kerala	Travancore Ogale Glass Manufacturing Company Limited
6	Kerala	Central Banking Corporation of Travancore Limited
7	Madhya Pradesh	Hindalco Ltd. Bombay
8	Odisha	Mayurbhanj Glass Works Limited, Bahalda Road, MayurBhanj
9	Odisha	Indian Chemicals Products Limited, Bahalda Road, MayurBhanj
10	Odisha	Rajendra Paper Mills Bolangir
11	Telangana	Mercantile Bank Limited, Hyderabad

Annex D

Examples of investment in companies that are under process of being struck off depicted in Finance Accounts

Sr. No.	***State***	***Company***
1	Bihar	M/s India Firebricks and Insulation Company Limited, Bombay
2	Bihar	M/s Milk Products (India) Limited
3	Gujarat	Gujarat Cement limited

Annex E

Examples of investment in companies that are under liquidation depicted in Finance Accounts

(₹ in lakh)

Sr.No.	*State*	*Company*	*Amount invested*
1	Andhra Pradesh	Sirsilk Limited, Sirpur Kagaznagar	80.49
2	Assam	Central Inland Water Transport Corporation	85.65
3	Bihar	Rai Bahadur Harditory Motilal Jute Mills Private Limited	150.00
4	Gujarat	Khodiyar Pottery Works Limited	0.25
5	Karnataka	The Mandya National Paper Mills Limited, Belagula	82.96
6	Karnataka	Mafatlal Engineering Industries Limited, Mumbai	0.04
7	Karnataka	The Scindia Steam Navigation Company Limited, Mumbai	1.18
8	Kerala	Ahmedabad Manufacturing and Calico Printing Factory Limited	0.20
9	Kerala	Kunnathara Textiles Limited	171.30
10	Madhya Pradesh	Machinery Manufacturing Corporation Limited	1.96
11	Madhya Pradesh	Bengal Nagpur Cotton Mills Limited, Rajnandgaon	0.44
12	Maharashtra	Orissa Textile Limited, PO Chowowar (District Cuttack)	0.34
13	Odisha	Kalinga Industries Limited, Jobra, Cuttack	3.00
14	Odisha	Utkal Equipment and Chemical Limited, Cuttack	3.00
15	Rajasthan	Mewar Textile Mills Bhilwara	50.00
16	Rajasthan	Jaipur Spinning and Weaving Mills, Jaipur	17.46
17	Telangana	Sirsilk Limited, Sirpur Kagaznagar	80.49
18	Uttar Pradesh	Raza Textile Mills, Rampur	0.92
	Total		729.68

Annex F

Statement giving examples of dividend declaring companies (2017-18) having state government investments.

Sr. No	***Company***	***States***	***Dividend declared (%)***
1	Tata Iron and Steel Company Limited	Andhra Pradesh, Gujarat, Karnataka, Kerala, Madhya Pradesh, Telangana, Goa	100
2	Industrial and Prudential Investment Company Limited Mumbai	Karnataka	250
3	The Lakshmi Mills Company Limited	Kerala	9
4	ICICI Bank Limited	Maharashtra	125
5	Balmer and Lawrie	Uttar Pradesh	70
6	Radico Khaitan Limited	Uttar Pradesh	40
7	The Peria Karmalai Tea Produce Company Limited, Coimbatore	Goa	100

Similarly, Associated Cement Company where several states have reported share holdings declared an interim dividend in the year.

Annex G

Statement giving examples of companies which split shares / issued bonus shares(2007-17) having state government investments.

S.No.	*Company*	*State*	*Shares held prior to bonus issue / splitting*	*Additional Shares issued due to bonus and splitting*	*Market Price additional shares March 19*	*Total value of shares held March 19*
					(In ₹)	
1	Industrial and Prudential Company Limited Mumbai. Bonus declared 1:2 May 2016	Karnataka	56	112	1011.1	1,13,243
2	Walchandnagar Industries Limited, Dharwar (Mumbai) Bonus declared 1:1 November 2007 Splitting 1:5 February 2008	Karnataka	2000	18000	89.25	16,06,500
3	Tata Motors Limited, Mumbai Splitting 1:5 September 2011	Karnataka	24662	98648	174.25	1,71,89,414
4	ICICI Bank Limited Bonus declared 10:1 June 2017 Splitting December 2014 1:5	Maharashtra	12712	57204	400.50	2,29,10,202
5	Balmer Lawrie and Company Bonus declared 4:3 (2013) and 1:3 (2016)	Uttar Pradesh	2680	16680	185.10	30,87,468
6	Ashok Leyland Limited, Chennai Bonus declared 1:1 August 2011.	Uttar Pradesh	180000	180000	91.30	1,64,34,000
7	Ramco Cements Bonus declared 1:1 2008	Tamilnadu	Impact given in the accounts.			

Total value added in cases 1 -6 above on account of splitting and bonus as on March 2019 = ₹ 6,13,40,827

Key: X:Y shares held: shares issued due to bonus / split

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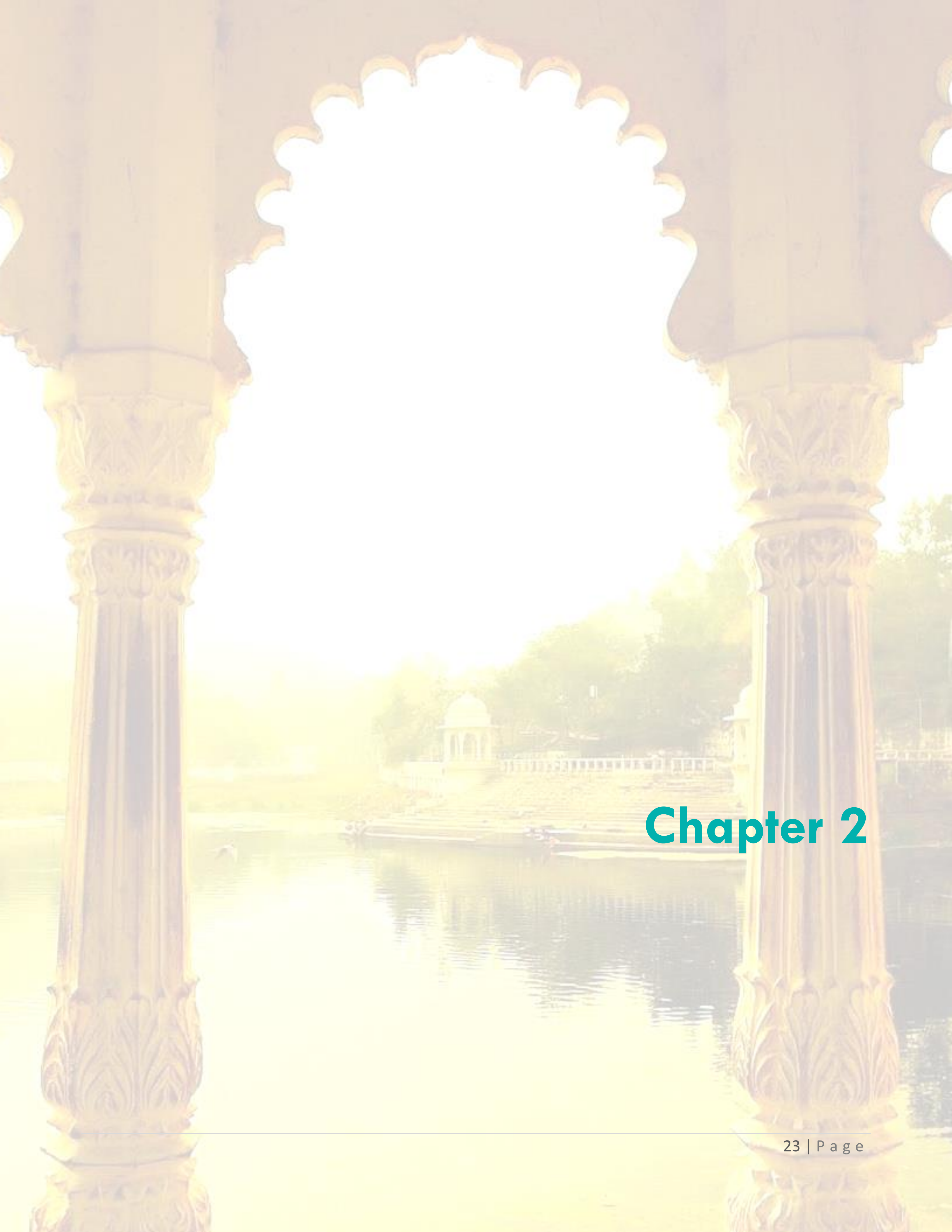


Chapter 2

Audit of AC DC Bills – An alternate perspective.

(Traditionally, Audit has looked at AC DC bills as a procedural issue. Recently, the dimension of fair presentation in accounts has been added, but it still is analyzed as a stock and not as a flow. The article reviews the audit of AC bills as currently presented in audit reports and makes a case for examining AC DC bills as a flow, based on actual audit field work, led by Mr. Robert Furtado Sr. AO. The work described is easily replicable by any audit party that has an opportunity to examine similar subject during audit)

Disbursing officers of departments are authorized to draw sums of money by preparing Abstract Contingent (AC) bills, by debiting service heads for activities where the expenditure cannot be estimated in advance (without submitting supporting vouchers). They are required to present Detailed Contingent (DC) bills (with vouchers in support of final expenditure) to the concerned accounts officer, within a period as specified in the State Rules, from the date of drawing money on AC bill.

The rules generally provide that, if previous AC bills drawn by a particular disbursing officer are outstanding over a specified period for want of DC bills, or a specified number of AC bills remain outstanding for the want of DC bills, then either the Treasury Officer can stop passage of further AC bills by that officer or a sanction of Finance Department would be needed for drawing further AC bills.

As AC bills are used to draw money without supporting vouchers they have always received audit attention. These are regularly reported in the either chapter II or III of the SFAR of state governments. In some states subject specific compliance audits have also been reported. The audit reports have largely looked at AC/ DC bills as a procedural issue and highlighted the risk involved in delay in submission of proof of expenditure. Recently, from 2017 onwards, audit has also recognized that AC bills also involve an accounts certification issue namely that expenditure under AC bills is debited to the final head of expenditure without being vouched for and thus to that extent audit cannot derive the assurance on whether the expenditure has actually occurred and so there may be an overstatement of expenditure. This concern is also now flagged in many State's SFAR's.

A study of state accounts and state audit reports for the year ended March 2018 shows that in six states the amount booked to final head of expenditure during the year through AC bills without submitting DC bills in support of expenditure was near or more than 1 percent of the total revenue expenditure of the state. The highest being 3 percent in the case of Manipur where ₹ 330.39 crores out of ₹ 9,274 crores was booked to final heads of account without submission of DC bills.(Refer table below)

Sr. No.	*State*	*Amount booked on AC bills during financial year 17-18 for which details (DC bills) were not submitted in that year. (₹ Crore)*	*Revenue Expenditure (₹ Crore)*	*3 as a percentage of 4*
1	*2*	*3*	*4*	*5*
1	Manipur	330.39	9,274.00	3.56%
2	Bihar	2903.61	1,02,624.00	2.82%
3	Sikkim	77.78	4,151.85	1.87%
4	Nagaland	163.35	10,191.35	1.60%
5	West Bengal	1528.85	1,41,077.00	1.08%
6	Tripura	97.75	10,357.00	0.94%

Given the quantum of expenditure involved there is a case for fixing the materiality threshold for reporting impact on expenditure booked in accounts in the state audit reports.

Auditors need to note that while AC bills are routed through accounts DC bills, nomenclature notwithstanding, are not routed through accounts. They are in the nature of reports with details/evidence (accompanying vouchers /challans) of expenditure for the amounts (earlier) booked to final head of accounts through the AC bills. Therefore, the robustness of adherence to the administrative process[11] prescribed for tracking AC / DC bills comes into play. In case if the monitoring of AC bills is weak, the audit process is compromised to the extent that some AC bills may not have been identified and entered in the registers maintained for tracking AC bills; or that some of the DC bills received may not have been paired with the linked AC bill; or the pendency of AC bills may have not been adequately pursued with the disbursing officer. In addition, to the above errors of omission we can also have an error of commission where the AC bills are closed (removed from the tracking registers) without receipt of DC bills. Another very genuine problem in some states is that the AC bills are no longer drawn in the originally prescribed format, this makes it difficult if not impossible to readily identify an AC bill for tracking.

Presently audit reports AC / DC bills as a stock i.e. it compares and reports the position of outstanding AC bills at two or more fixed intervals of time. The risk to stewardship of public moneys is seen only in terms of pendency of DC bills i.e. a report vouching spending of the money drawn is awaited and its accompanying dangers.

Given the large pendency of AC bills, the system being followed in departments of a state for drawal and settlement of AC bills was reviewed. All transactions done through AC/ DC bills during 2017-18 in one department were studied, the examination was not limited to the pendency position at the beginning and end of the year. The details of the transactions done by the department are given in the table below:

Sl. No.	*Voucher No AC Bills*	*Date of AC bill*	*Date of DC Bill*
1	*2*	*3*	*4*
FY 2016-17			
1	7641	02/12/2016	28/12/2017[12]
FY 2017-18			
2	3400	09/05/2017	24/10/2017
3	9154	20/06/2017	24/10/2017
4	8823	18/07/2017	23/11/2017
5	3185	04/08/2017	23/11/2017
6	2208	19/09/2017	08/11/2017
7	1599	03/01/2018	22/02/2018

[11] All AC bills are supposed to be entered in registers (called OB in several offices) and the corresponding DC bills have to paired there against. If need be pursued with the drawer of the AC bill.

[12] Cleared in FY 2017-2018

As we can see from the table above there was one AC bill outstanding on 1/4/2017; six bills were drawn and settled during the year in addition to the AC bill carried forward from the last year. The audit approach adopted hitherto would have highlighted the lone bill outstanding bill at the beginning of the year and as there was no outstanding bill at the end of the year there would be no further audit comment.

A detailed study of the dates of the transactions and amounts drawn is given in the table below:

Sl. No.	*Date of AC bill*	*Amount (in ₹)*	*Date of DC Bill*	*Amount (in ₹)*	*Amount refunded (in ₹)*	*Date of refund*	*Days between drawing of AC Bill and refund Challan*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
1	02/12/2016	429500	28/12/2017	233027	196473	01/08/2017	242
2	09/05/2017	295800	24/10/2017	222683	73117	23/10/2017	167
3	20/06/2017	108450	24/10/2017	56533	51917	23/10/2017	125
4	18/07/2017	85000	23/11/2017	13000	72000	13/11/2017	118
5	04/08/2017	254450	23/11/2017	66227	188223	13/11/2017	101
6	19/09/2017	203950	08/11/2017	168026	35924	25/10/2017	36
7	03/01/2018	163100	22/02/2018	67301	95799	19/02/2018	47
		1540250			713453		

The table shows that while ₹ 15.40 lakh were drawn on AC bills, the Department refunded ₹ 7.13 lakh (46.3 *per cent* of the initial amount) at the time of submitting the DC bills. Refunds /DC bills were submitted with delays and departmental officer drew and held on to excess cash accumulating unrequired funds for considerable periods of time as shown below:

(Amount in ₹)

Sl. No.	*Date of drawing AC bill/ Date of refund*	*Amount Drawn*	*Amount used for actual payments*	*Excess available*	*Amount refunded*	*Cumulative excess balance available with department*	*Days between drawing of AC Bill and related refund Challan*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
1	**02/12/2016**	4,29,500	2,33,027	1,96,473		1,96,473	242
2	**09/05/2017**	2,95,800	2,22,683	73,117		2,69,590	167
3	**20/06/2017**	1,08,450	56,533	51,917		3,21,507	125
4	**18/07/2017**	85,000	13,000	72,000		3,93,507	118
5	**01/08/2017**				1,96,473	1,97,034	
6	**04/08/2017**	2,54,450	66,227	1,88,223		3,85,257	101
7	**19/09/2017**	2,03,950	1,68,026	35,924		4,21,181	36
8	**23/10/2017**				1,25,034 (Refund for Sr. No. 2 & 3)	2,96,147	
9	**25/10/2017**				35,924	2,60,223	
10	**13/11/2017**				2,60,223(Refund for Sr. No. 4 & 6)	0	
10	**03/01/2018**	1,63,100	67,301	95,799			47
11	**19/02/2018**				95,799	0	

The above table shows that departmental officer held accumulated sums between 1.96 lakh to 4.2 lakh between 2/12/2016 and 13/11/2017 (nearly one year).

The reasons furnished by the department for the delay in furnishing DC bills was that supporting receipts needed for DC bills were not furnished in time. This response is a very standard one from departments and was examined in detail, the results are set in the table below:

Sl. No.	*Date of AC bill*	*Date of related event for which the AC bill was drawn*	*Dates on supporting receipts in the DC bill*	*Date of refund challan*	*Date of DC Bill*	*Delay between date of last receipt and the refund challan*	*Amount held (in ₹)*
1	*3*	*4*	*5*	*6*	*7*	*8*	*9*
1	02/12/2016	14/11/2016 to 18/11/2016	18/11/2016 to 01/03/2017	01/08/2017	28/12/2017	8 months	1,96,473
2	09/05/2017	08/05/2017 to 12/05/2017	05/05/2017 to 12/05/2017	23/10/2017	24/10/2017	5 months	73,117
3	20/06/2017	15/05/2017 to 22/05/2017	26/4/2017 to 04/07/2017	23/10/2017	24/10/2017	4 months	51,917
4	18/07/2017	-	07/08/2017	13/11/2017	23/11/2017	3 months	72,000
5	04/08/2017	25/07/2017 to 02/08/2017	18/07/2017 to 20/09/2017	13/11/2017	23/11/2017	2 months	1,88,223
6	19/09/2017	05/09/2017 to 07/09/2017	11/09/2017 to 12/09/2017	25/10/2017	08/11/2017	Bill drawn after event and receipts (one month)	35,924
7	03/01/2018	08/01/2018 to 15/01/2018	09/01/2018 to 19/01/2018	19/02/2018	22/02/2018	One month	95,799

All of above AC bills had been drawn for holding trainings/ workshops/ seminars on introduction of GST except the one at Serial No 4 which was for shifting of offices from one premises to the other and all payments were made in cash.

The above table shows that AC bills as serial numbers 1, 3, 5 and 6 had been drawn after the event which they were supposed to fund was over. This essentially means that the vendors provided services and goods on credit for the event and under these circumstances there was actually no need for drawing an AC bill. In such case the drawing an AC bill suggests abuse of powers.

In each case the refund was made much after receiving all the bills from the vendors. Analysis of the data in the table above shows that refunds have been delayed for periods of upto 8 months after obtaining all supporting detailed receipts. Thus the common response for delay in submission of DC bills due to non-availability of supporting receipts does not hold. Furthermore, it is the duty of the officer concerned to collect and provide the supporting bills within the period prescribed for settlement of AC bills. This gives credence to the audit assertion that the departmental officer had a tendency to overdraw and hold on to Government moneys.

Audit also showed that the money drawn on AC bills was not routed through the cash book. Thus it remained outside the monitory mechanism prescribed in the rules for handling government cash. Under these circumstances there is a high risk of abuse/misappropriation of money drawn as an advance on AC bills.

The State Rules provide in case a DDO wishes to draw fresh AC bills without settling old ones a waiver from the Finance Department is needed before the new AC bills are passed. In this case the Finance Department continued to give clearances for fresh AC bills as a matter of routine.

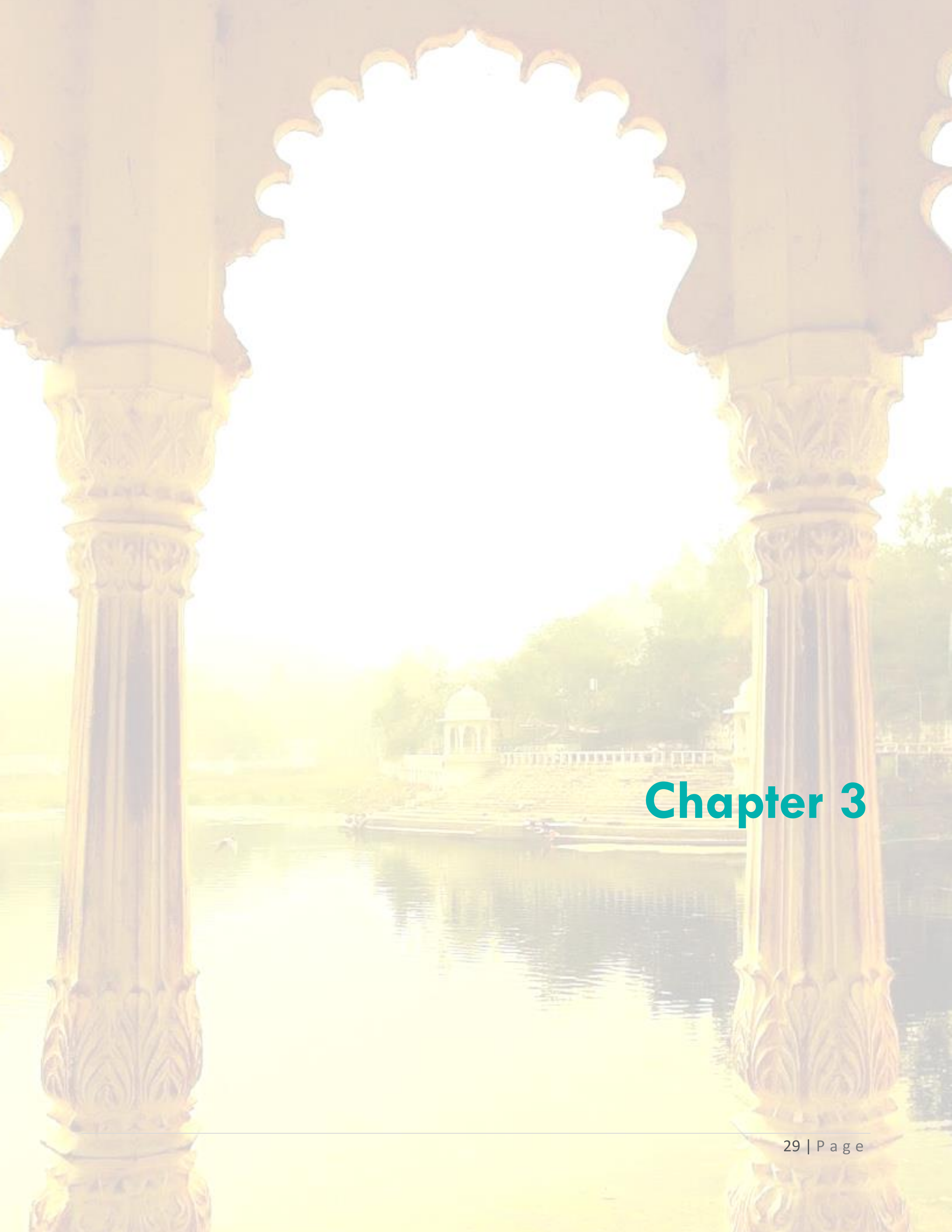
In brief, analysis of AC bills as a flow brought out the following observations:

1. Government Departments were overdrawing money on AC bills
2. In some cases, they had drawn AC bills despite having received goods and services on credit which is tantamount to abuse of authority.
3. They were delaying submission of DC bills long after having received vouchers for all expenses.
4. As a result of above they were accumulating government cash in their hands.
5. Sums drawn on AC bills were not being routed through the Cash Book and so misuse of the money accumulated in the hands of departmental officers could not be ruled out.
6. Weak controls over drawing of AC bills at the Finance Department level.

The above audit observations have emerged only because AC/DC bills have been examined as a flow and all transactions reviewed. Under the traditional approach as mentioned earlier the sole observation would have been that the lone AC bill out standing at the beginning of the year has been settled and no bill remains outstanding at the end of the financial year, this would have been a positive observation!

In fact, another department of the State refunded 2 crores after two years without a DC bill which was stated to be under preparation. While in another department, a retiring officer was fined and levied penal interest on the large balances he had retained with himself out of the unspent amounts from AC bills drawn by him.

All of the above show that there is a need to review how AC/DC bills are examined and reported in audit. Further, if a large proportion of revenue expenditure of the state has been booked in annual finance accounts through AC bills without corresponding bills having been submitted then a threshold for reporting impact of the same on state revenue expenditure has to be fixed.



Chapter 3

Understanding Emphasis of matter

(The term Emphasis of Matter has now become a part of the financial audit parlance on the civil audit side in the IA&AD. This article explains the International and National standards on Emphasis of matter)

The International standard on Auditing ISA 706 deals with inter alia the Emphasis of Matter paragraphs in the Independent Auditors report. These provisions are similar to the Standard of Auditing 706 of the ICAI.

According to these standards, an emphasis of matter paragraph is included in the auditor's report when a matter appropriately presented or disclosed in the financial statements is, in the auditor's judgment, of such importance that it is fundamental to users' understanding of the financial statements.

The standards require that before an auditor includes an Emphasis of Matter paragraph in the report the auditor must have obtained sufficient appropriate audit evidence that the matter (being included in the Emphasis of matter paragraph) is not materially misstated in the financial statements.

Further, the standards both international and national prescribe where the paragraph should figure in the auditor's report and how it should read. Whenever an auditor decides to include an emphasis of matter paragraph in the report they must:

A) Place it immediately after the Opinion paragraph of their report;
B) Use the heading "Emphasis of Matter," or any other appropriate heading;
C) Include in the emphasis of matter paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements;
D)) Must state clearly that the auditor's opinion is not modified in respect of the matter covered in the emphasis of matter paragraph.

The standards aver that to include more information in an Emphasis of Matter paragraph than is presented or disclosed in the financial statements may imply that the matter has not been appropriately presented or disclosed; accordingly, the standard limits the use of an Emphasis of Matter paragraph to matters presented or disclosed in the financial statements.

The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. Therefore, an Emphasis of Matter paragraph cannot be used to substitute/ replace either: (a) a qualified opinion or an adverse opinion, or a disclaimer. or (b) Disclosures in the financial statements that are required to be made by the management.

The standards give illustrative situations where the auditor may include an Emphasis of Matter paragraph in the report. These are uncertainty relating to future outcome of regulatory action; early application (if permitted) of an accounting standard; or if a major disaster has had / continues to have a significant financial impact on the reported entity.

Further, before including an Emphasis of Matter paragraph the auditor is required, by the standards, to communicate to the persons in charge of governance of the entity their intention to include such a paragraph in the audit report and its wording. This allows the reported entity to know the matter the auditor wishes to high light and gives them an opportunity to get any further clarification that may be necessary.

The INTOSAI practice note on application of ISA 706 to Government Sector financial audits states that the ISA is applicable for government audits. The practice note states that in audit of government entities, the assigned mandates to government auditors or the expectations from government auditors may require that government auditors have to cover additional subjects over those mentioned in the ISA as appropriate for coverage under an Emphasis of Matter paragraph. The additional subjects for which government auditors may include in Emphasis of Matter paragraphs, **provided they are properly disclosed** in the financial statements include:

• Legislative actions on programs or the budget;
• Contradictive laws, regulations or directives with a significant effect on the entity;
• Fraud, abuse or losses;
• Significant transactions;
• Significant internal control deficiencies;
• Questionable business practices;
• Transactions entered into without due regard for economy;
• Prior period restatements;
• Lack of fiscal sustainability;
• Environmental issues;
• Corporate social responsibility issues;
• Ethical issues (proper behavior by public officials); or
• Ineffective and uneconomical use of public assets.

The INTOSAI practice note says that when auditors desire to include an Emphasis of Matter paragraph in their reports, then they must communicate with those in charge of governance as required by the ISA 706 about the likely inclusion of the paragraph and its wording.

An example of an Emphasis of Matter paragraph in financial audit of government accounts is placed at Annex 1.

In a nutshell,

a) An Emphasis of Matter paragraph can be included in an independent auditor’s report on significant matters that affect the users understanding of the accounts.
b) The matter reported upon must be properly disclosed / reflected in the accounts
c) The auditor should have gathered sufficient and appropriate evidence that the matter is not materially misstated in the accounts and has been properly disclosed.
d) The auditor must declare that his opinion is not qualified in respect of the matter reported upon at the end of the Emphasis of matter paragraph.
e) The auditor cannot use an emphasis of matter paragraph as a substitute for an adverse/ qualified / disclaimer of opinion if it is required.
f) The emphasis of matter is also not to be used to substitute the disclosures that the management is required to make in the financial statements.

This in effect means that:

Matters referred to in an Emphasis of Matter paragraph should ideally not point out under provision of liabilities; under/ overstatement of expenditures; inability to obtain assurance for amounts shown as spent or express inability of the auditor to discharge assigned functions.

Annex 1

Example of an emphasis of matter paragraph in an independent auditor's report on accounts of a National Government. Subject matter emphasized "Lack of fiscal sustainability".

Emphasis of Matters [a]

The **following key item deserve emphasis in order to put the information in the consolidated financial statements and the Management's Discussion and Analysis section of the 2019 Financial Report into context** [1]. However, our disclaimers of **opinion noted above are not modified with respect to these matters** [2].

Long-Term Fiscal Challenges [b]

The 2019 Statement of Long-Term Fiscal Projections and related information in Note 23 [3] ---- show that absent (i.e. without) policy changes, the federal government continues to face an unsustainable long-term fiscal path--.

In the above please note that as required by the standards / INTOSAI Practice note:

a. The paragraph is clearly labelled "Emphasis of Matter"
b. The matter covered relates to "Lack of fiscal sustainability" as per INTOSAI practice note.
1. The opening paragraph indicates the auditors view that the matter needs to be emphasized in order to understand the consolidated financial statements and the analysis attached thereto.
2. The fact that the opinion is not modified with respect to matters covered under the Emphasis paragraph.
3. Where the matter covered under the emphasis paragraph can be found is indicated.

References cited:

1) ISA 706
2) SA 706
3) INTOSAI Practice note to ISA 706
4) US Financial Report 2019.

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