CHAPTER 2

Oversight Role of CAG

2.1 Audit of Public Sector Enterprises

Under Section 619 of the Companies Act, 1956, the auditor (statutory auditor) of a government company including deemed government company, appointed by the CAG, conducts the audit of accounts of these companies. On the basis of supplementary audit conducted thereafter, the CAG issues comments upon or supplements the Audit Report of the statutory auditor. Statutes governing some corporations require that their accounts be audited by the CAG and a report be given to the Parliament. In addition to supplementary/test audit CAG conducts performance audit of specific topics and sectors.

2.2. Appointment of statutory auditors of Public Sector Enterprises by CAG

2.2.1 Objectivity in the appointment of statutory auditors

Statutory auditors for government companies including deemed government companies are appointed by the CAG 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 CAG by inviting applications every year from the eligible firms of Chartered Accountants. The panel so formed is used for selection of statutory auditors of Public Sector Enterprises (CPSEs) 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., so that the credentials 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 firms is done objectively based on merit and competence.

2.2.2 Timely appointment of statutory auditors of CPSEs for the year 2012-13

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 shareholders at its Annual General Meeting (AGM) to be held each year. According to Section 224 of the Companies Act, 1956 the statutory auditor holds office from the conclusion of one AGM until the conclusion of the next AGM.

Statutory auditors of Companies for the year 2012-13 were appointed during July/August 2012.

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. CPSEs have the option of getting the QFR done by the statutory auditors of the Company.

In order to facilitate timely compliance with the provisions mentioned above, statutory auditors for the government companies, including deemed government companies were appointed by the CAG for conducting the audit of accounts for the year 2012-13 during July/August 2012.

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

- an officer or employee of the company or their partner or employee,
- a person who is indebted to the company and
- 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 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.

Independence of Auditors

- Restriction on acceptance of non-audit assignments
- Rotation of auditors every four years

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

- **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, 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 render 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

* *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.*

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.

- **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 of CPSEs

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, is to be prepared within three months of its AGM and as soon as may be after such preparation laid before both the Houses of Parliament together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating statutory corporations. This mechanism provides the necessary parliamentary control over the utilization of public funds invested in the 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 Companies Act, 1956 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 CAG in the Audit Reports. The matter was also raised by CAG with the Ministry of Corporate Affairs, Government of India 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 their accounts at an early date so as to ensure compliance with the provisions of the Companies Act, 1956. The concerned administrative ministries have been reminded again by the CAG for clearance of arrears of accounts in November 2011.

However, audit noticed that 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 although annual accounts of various CPSEs were pending as detailed in the following paragraph.

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

Out of 519 companies, accounts of 89 companies were in arrears.

As of 31 March 2013, there were 358 government companies and 161 deemed government companies in the purview of CAG's audit. Of these, accounts for the year 2012-13 were due from 351 government companies and 161 deemed government companies. Accounts were not due from seven government companies which were new. A total of 288 government companies and 127 deemed government companies submitted their accounts for audit by CAG on or before 30 September 2013. **Accounts of 63 government companies and 26 deemed government companies were in arrears for different reasons.**

Details of arrears in accounts of central government companies are as below:

Particulars		Central government companies where CAG conducts supplementary audit					
		Government companies		Deemed government companies		**Total**	
		358		161		**519**	
		Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Number as on 31.03.2013		51	307	8	153	**59**	**460**
Less: New companies from which accounts for 2012-13 were not due		0	7	0	0	**0**	**7**
Companies from which accounts for 2012-13 were due		51	300	8	153	**59**	**453**
Companies which presented the accounts for CAG's audit by 30 September 2013		48	240	8	119	**56**	**359**
Accounts not submitted		0	0	0	8	**0**	**8**
Accounts in Arrears		3	60	0	26	**3**	**86**
Break- up of Arrears	(i) Under Liquidation	0	22	0	8	**0**	**30**
	(ii) Defunct	0	4	0	6	**0**	**10**
	(iii) Others	3	34	0	12	**3**	**46**
Age–wise Analysis of the arrears against 'Others' category	One year (2012-13)	3	29	0	9	**3**	**38**
	Two years (2011-12 and 2012-13)	0	1	0	1	**0**	**2**
	Three years and more	0	4	0	2	**0**	**6**

The names of these companies are indicated in **Appendix II**.

The delay in presentation of the accounts for CAG's audit amounted to dilution of Parliamentary Control over management of public money invested in these entities and violation of statutory provisions.

2.3.3 Timeliness in preparation of accounts by Statutory Corporations

Audit of six statutory corporations is conducted by the CAG. The five statutory corporations where CAG is the sole auditor, viz. Airports Authority of India, Damodar Valley Corporation, Food Corporation of India, Inland Waterways Authority of India and National Highways Authority of India and Central Warehousing Corporation, where CAG conducts supplementary audit, the accounts for the year 2012-13 were presented for audit in time.

2.4 CAG's oversight - Audit of accounts and 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 prescribed by the central government, in consultation with National Advisory Committee on Accounting Standards. The statutory corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the CAG and any other specific provision relating to accounts in the Act governing such corporations.

2.4.2 Audit of accounts of government companies

The statutory auditor's appointed by the CAG under Section 619(2) of the Companies Act, 1956 conduct audit of accounts of the government companies and submit their report thereon in accordance with Section 619(4) of the Companies Act, 1956.

The CAG plays an oversight role by monitoring the performance of the statutory auditors with the overall objective that the statutory auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power

- **to issue directions to the statutory auditors under Section 619(3) of the Companies Act, 1956. The directions issued by CAG under Section 619(3)(a) are primarily aimed at ensuring compliance with Accounting Standards and evaluating internal controls relating to financial reporting in the audited organisation and**
- **to supplement or comment upon the statutory auditor's report under Section 619(4) of the Companies Act, 1956.**

2.4.3 Criteria for selection of CPSEs for annual accounts audit

In order to reduce the time to carry out supplementary audit of the annual accounts of CPSEs, CAG has stipulated 42 days to complete the process of supplementary audits. CAG revised the criteria for selection of CPSEs to focus more on important issues and to use the Audit resources optimally. As per the criteria, supplementary audit by the CAG is to be conducted annually in respect of those CPSEs which has turnover of ₹ 5000 crore or more or has paid up capital of ₹ 500 crore or more. All other CPSEs are to be selected for audit based on the risk assessment subject to the condition that these are audited at least once in five years.

2.4.4 Three Phase Audit of annual accounts of selected CPSEs

The prime responsibility for preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 1956 or other relevant Act is of the management of an entity.

> **Three Phase Audit**
> An intensified, innovative, focused and result oriented approach to financial audit introduced by CAG to improve the quality of financial statements of CPSEs

The statutory auditors appointed by the CAG under section 619(2) of the Companies Act, 1956 are responsible for expressing an opinion on the financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the Standard Auditing Practices of ICAI and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 619(4) of the Companies Act, 1956.

The certified accounts of selected government companies along with report of the statutory auditors are reviewed by CAG. Based on such review through supplementary audit, significant audit observations, if any, are reported under Section 619 (4) of the Companies Act, 1956 to be placed before the Annual General Meeting.

As the responsibility of auditor is to help the management in enhancing the quality of financial reporting i.e. readability, reliability and usefulness to different stakeholders, the CAG introduced more intensified, innovative, focused and result oriented approach to financial audit by 'the System of Three Phase Audit'. The Three Phase Audit System was introduced with the following objectives in selected public sector enterprises falling under categories of 'Listed', 'Navratna', 'Miniratna' and 'Statutory Corporations' for the financial statements of 2008-09 on consensus basis after discussion on the objectives and methodology of new audit approach with the management and statutory auditor concerned:

- **To establish an effective communication and a coordinated approach amongst the statutory auditors, management and CAG's audit for removal of inconsistencies and doubts relating to the financial statements presented by the CPSEs.**
- **To identify and highlight errors, omissions, non-compliances etc., before the approval of the financial statements by the management of the CPSEs and provide an opportunity to the statutory auditors and the managements of the CPSEs to examine such issues for taking timely remedial action.**
- **To reduce the time of CAG's audit after the approval of financial statements by the management of the CPSEs.**

Thus, Three Phase Audit brings substantial qualitative transformation in the audit process and methodology by enabling the management of CPSEs to rectify the accounts in the light of accepted comments on financial statements.

Three Phase Audit

Phase I

Review of Accounting Policies and action taken on previous audit observations.

Phase II

Examination of financial statements, providing an opportunity to the management and issuing directions to statutory auditors to take timely remedial action.

Phase III

Final examination of financial statements after approval by management and auditor's report thereon

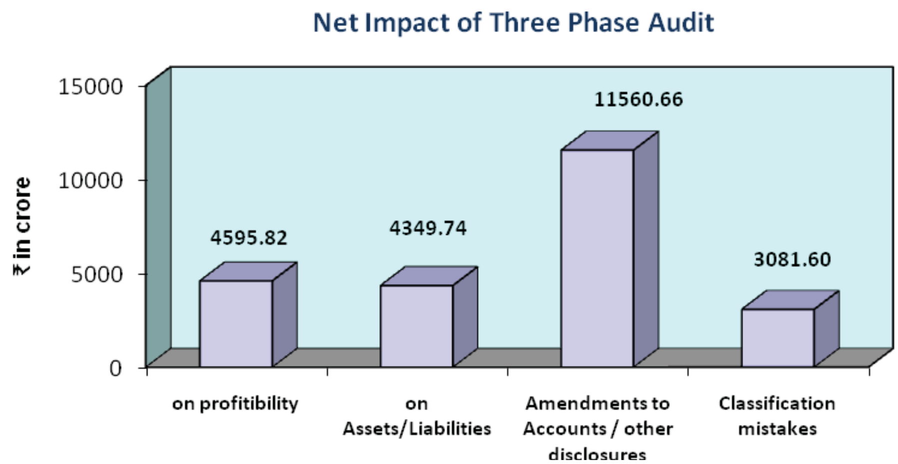
The new audit approach was appreciated by both management of various CPSEs who opted for it and the statutory auditors concerned. The Phase-I and Phase-II of the new audit approach are extended provisions of Section 619(3) (a) of the Companies Act, 1956. The audit observations under first two phases are treated as preliminary observations and communicated to the statutory auditors as part of sub-directions under Section 619(3) (a) of the Companies Act, 1956. The last phase of audit (Phase-III) is conducted after approval of the financial statements by the management and audit by the statutory auditors which is same as conducted earlier.

2.5 Result of CAG's oversight role

2.5.1 Impact of Three Phase Audit

As a result of Three Phase Audit conducted in 60 CPSEs, a number of quantitative as well as qualitative changes were made by the CPSEs in their financial statements which led to improvement in the quality of their financial statements.

The value addition made by Three Phase Audit of financial statements of these CPSEs for the year 2012-13 is depicted in the following graph:



CPSEs where major value addition was made were:

Sr. No.	Name of the CPSEs
1.	Bharat Heavy Electricals Limited
2.	Central Coalfields Limited
3.	Hindustan Aeronautics Limited
4.	Indian Oil Corporation Limited
5.	Ircon International Limited
6.	MMTC Limited
7.	National Highways Authority of India
8.	Northern Coalfields Limited
9.	NTPC Limited
10.	Oil and Natural Gas Corporation Limited
11.	Oil India Limited
12.	ONGC Videsh Limited
13.	Rural Electrification Corporation Limited
14.	South Eastern Coalfields Limited
15.	Steel Authority of India Limited

2.5.2 Audit of accounts of government companies/deemed government companies under Section 619 of the Companies Act, 1956

Financial statements for the year 2012-13 were received from 288 government companies (including 48 of the 51 listed companies), 127 deemed government companies (including eight listed companies) and six statutory corporations by 30 September 2013. Of these, accounts of 198 government companies and 80 deemed government companies and five statutory corporations were reviewed in audit by the CAG.

CAG reviewed accounts of 278 companies and five statutory corporations for the year 2012-13.

In sum, CAG reviewed accounts of 69 *per cent* of the government companies and 63 *per cent* of deemed government companies out of the accounts received upto 30 September 2013.

Revision of accounts and its impact

As a result of supplementary audit of the accounts for the year ended 31 March 2013 conducted by the CAG, eight companies revised their accounts. The major impact of revision of accounts on the profitability of the companies[♣] is indicated in the following table:

Revision of accounts by companies after review of accounts by CAG had an impact of ₹9.32 crore on the financial statements of these companies.

Decrease in profit

S.No.	Name of the company	₹ in crore
1.	NMDC-CMDC Limited	0.03
2.	Kochi Metro Rail Limited	6.30
3.	HPCL Biofuels Limited	2.98

Increase in Assets

S.No.	Name of the company	₹ in crore
1.	NMDC-CMDC Limited	0.01

Decrease in Assets

S.No.	Name of the Company	₹ in crore
1.	Kochi Metro Rail Limited	6.30

Increase in Liabilities

S.No.	Name of the company	₹ in crore
1.	NMDC-CMDC Limited	0.04
2.	HPCL Biofuels Limited	2.98

Revision of Auditors' report:

As a result of supplementary audit of the accounts for the year ended 31 March 2013 conducted by the CAG, the statutory auditors of 15 government companies (including two listed Government Companies) and three deemed government companies revised their report. The significant revision in auditors' report is indicated in the following table:

Statutory auditors of 18 Companies revised their Report after the supplementary audit by CAG.

Sl.No	Name of the Company	Nature of Revision
1.	Bokaro Power Supply Company (P) Limited.	Revised Auditor's Report corrected the format of presentation as per revised SA-700 issued by ICAI.
2.	Central Registry of Securitisation Asset Reconstruction and Security Interest of India	Auditor Report revised to include paras on (i) Management Responsibility for the Financial Statements and Auditor's responsibility. (ii) Other Legal and Regulatory requirements.
3.	Dedicated Freight Corridor Corporation of India Limited	Report revised to include provisions of CARO regarding (i) Physical verification of inventory (ii) Maintenance of Cost records.
4.	Ennore Port Limited	The report was revised to include the revision to the Annual Accounts regarding enhancement of dividend.

[♣] *Agriculture Finance Corporation India Limited, BEL Optronics Devices Limited, Biotechnology Industry Research Assistance Council, Mishra Dhatu Nigam Limited and Mazagoan Dock Limited also revised their accounts, but there was no impact on the profitability of the Companies on account of such revision, hence, not appearing in the table.*

5.	Heavy Engineering Corporation Limited.	Revised Auditor's Report: (i) Incorporated the opinion on Cash Flow Statement. (ii) Corrected the format of presentation of Report as per SA-700.
6.	High Speed Railway Corporation Limited	Revised report was submitted in the new format as per revised SA-700.
7.	Hindustan Fluorocarbons Limited	Report modified to include: (i) Creditors for capital advance of SRF Limited amounting to ₹3.42 crore written back had been shown in 'other non operating income' instead of reducing the amount from the value of the concerned asset as required under AS-10. Had the amount written back from the value of concerned asset, the profit would have reduced to losses for the year to ₹ 2.47 crore. (ii) The accumulated losses of the company as at the end of the year were more than 50 *per cent* of its net worth. Further, the company had incurred cash losses during the financial year but had not incurred cash losses in the immediately preceding financial year. The company was under the Scheme of BIFR and hence a Sick Company as per Sick Industrial Companies (Special Provisions) Act, 1985.
8.	HPCL Biofuels Limited	Report was revised to incorporate the observations regarding accounting for excise duty and erroneous inclusion of fixed assets.
9.	IRCON Infrastructure Limited	(i) Revised report was submitted in the new format as per revised SA-700. (ii) Opinion regarding Cash Flow Statement was included in the report.
10.	Kutch Railway Company Limited	Revised report was submitted in the new format as per revised SA-700.
11.	Mishra Dhatu Nigam Limited	Modified opinion was included regarding the recognition of the revenue in respect of dispatches to sub-contractors which was not consistent with the requirement of AS-7.
12.	NABARD Financial Services Limited	On account of Interest accrued on Bank Deposits Note 17 and 19 and Cash Flow Statement was revised.
13.	NHPC Limited	Report was revised to (i) Include the title of the Report as 'Independent Auditor's Report' (ii) Change in the amount of Statutory dues not deposited due to disputes from ₹ 329.63 crore to ₹ 328.41 crore.
14.	NMDC-CMDC Limited	Report was revised after Preliminary expenses of ₹ 4.19 lakh pertaining to financial year 2008-09 were provided resulting in a net loss of ₹ 1.22 lakh after tax for the year.
15.	Railtel Corporation of India Limited	Audit Report revised to include: (i) The addressee (members) of the report. (ii) Opinion regarding true and fair view in case of Cash Flow Statement (iii) Notification of cess payable under section 441A of the Companies Act. (iv) Report regarding failure to form gratuity trust. (v) Details of arbitration award of ₹ 4.69 crore.
16.	Rajasthan Electronics & Instruments Limited	Revised report was submitted in the new format as per revised SA-700.
17.	SAIL Jagdishpur Power Plant Limited.	Revised Auditor's Report: (i) Incorporated the opinion on Cash Flow Statement. (ii) Corrected the format of presentation of Report as per SA-700.

18.	SAIL Refractory Company Limited.	In annexure to Auditors' Report point (ix) (a) it was incorporated "except interest on local cess and surcharge on royalty amounting to ₹ 4.28 crore for the period from 1975 to 1991 was not deposited with the appropriate authority."

2.5.3 Comments of the CAG issued as supplement to the statutory auditors' reports on government companies

Subsequent to the audit of the financial statements for the year 2012-13 by statutory auditors, the CAG conducted supplementary audit and the significant comments issued on accounts of government companies are as detailed below:

❖ **Listed companies**

Comments on Profitability

Name of the Company	Comment
The State Trading Corporation of India Limited	• An amount of ₹ 95.96 crore withdrawn during the year from Export Import Contingency Reserve had been depicted under Profit and Loss Statement in place of applicable line item of Reserves and Surplus contravening the requirements of the Revised Schedule VI to the Companies Act, 1956. Thus, instead of Profit Before Tax for the year of ₹ 14.42 crore, there was a loss of ₹ 81.54 crore. • 'Prior Period Adjustment Net' does not include an income of ₹ 31.94 crore towards Forward Covers of USD 100 million relating to an order for import of 2000 kg bullion by M/s Lichen Metals Private Limited cancelled without execution of the order.

Comments on Financial Position

Name of the Company	Comment
BEML Limited	Short Term Loans and Advances – Provision for doubtful advances does not include ₹ 8.18 crore, being increased rates of taxes and levies claimed by Company for deliveries effected during the extended delivery period and disallowed by the customer based on denial clause stipulated while extending the delivery period.
ITI Limited	Short term Loans and Advances (Claims and expenses recoverable) was overstated by ₹ 58.48 crore due to non-provision of rentals pertaining to the period from 2005-06 to 2010-11, receivable from C-DOT. Uncertainty in respect of collection of rentals for the year 2011-12 and 2012-13 had been recognized by the company. Statutory Auditor had also qualified and quantified his opinion in Independent Auditors' Report. The company gave an assurance for taking appropriate action in the year 2012-13 with regard to rentals pertaining to earlier years. The company did not carry out its assurance resulting in overstatement of Claims and Expenses Recoverable-Inland and understatement of Provision for debtors/advances (Other expenditure).
Mahanagar Telephone Nigam Limited	The amount recoverable from and the amount payable to Bharat Sanchar Nigam Limited (BSNL) had been disclosed as ₹ 36097.39 Million and ₹ 16345.13 Million respectively, resulting in net recoverable amount of ₹ 19752.26 Million from BSNL. However, as per the annual accounts of BSNL for the year the amount recoverable from and the amount payable to the company were ₹ 33345.37 Million and ₹ 9774.70 Million respectively, resulting in a net

	recoverable amount of ₹ 23570.67 Million from the company. Thus, there was a net difference of ₹43322.93 Million in the receivable/payable amounts between these two government companies under the same Ministry.
MMTC Limited	Non-Current Investments included an investment of ₹26 crore in Indian Commodity Exchange Limited (ICEX) which had incurred huge losses since inception eroding 74 *per cent* of its Share Capital by 2012-13, with no possibility of profits in near future as per Management's own perception. A provision should have been created for an amount of ₹ 19.17 crore for diminution in value of the investment in accordance with AS -13.
The State Trading Corporation of India Limited	'Long Term Trade Receivable' included an amount of ₹ 788.71 crore receivable from foreign buyers in respect of which credit was extended by EXIM bank during the year 2007 to 2010 against which the Company had a corresponding credit balance of ₹ 348.62 crore. The Company had made a provision to the extent of ₹ 108.01 crore against the amount already repaid to EXIM bank. The amount was pending for more than three years without initiating any legal proceedings against foreign buyers, as such realization of dues was doubtful and required a provision of ₹ 332.08 crore in the accounts.

Comments on Disclosure

Name of the Company	Comment
Mahanagar Telephone Nigam Limited	In Para 20(e) to Notes to Accounts it had been disclosed that Ministry of Communication & IT, Department of Telecommunications (DOT) vide their letter No. 40-29/2002-Pen (T) dated 29 August 2002 had agreed in principle that the payment of pensionary benefits including the family pension to the Government employees absorbed in MTNL and who had opted for the Government Scheme of pension shall be paid by the Government. MTNL had not disclosed the fact that an amount of ₹ 59250.50 million had been calculated and communicated to DOT in January 2013 as Government contribution for creation of a Government Pension Fund for Government employees absorbed in MTNL. An amount of ₹ 13502.30 million as claimed had been accounted. However, interest amounting to ₹ 46895.20 million included in ₹ 59250.50 million had not been accounted as there was no clarity on interest claim from Administrative Ministry.

❖ Unlisted companies

Comments on Profitability

Name of the Company	Comment
Fertilizer Corporation of India Limited	The Profit before exceptional & extraordinary items and Tax was overstated by ₹25.00 crore due to incorrect accountal of Commitment Fee receivable, not pertaining to 2012-13 as 'Income' for the current year.
Hindustan Aeronautics Limited	• Revenue from Operations – Inland Sales (Finished Goods) - Sale of 15 Advanced Light Helicopters amounting to ₹820.13 crore was stated as recognised based on Signalling out Certificates. In these cases, only certification by the buyer's Inspector was given but ferry out and acceptance of helicopters by Board of Officers as stipulated in the contract were not complete by 31 March 2013. Therefore, recognition of revenue in respect of these 15 helicopters

	without transfer of property in goods with all significant risks and rewards of ownership to buyer during the year was not in compliance with AS – 9. • Revenue from Operations – Inland Sales (Development Sales) – included (a) Amount incurred on the Design and Development of a Light Combat Helicopter for the Ministry of Defence recognised as sales based on actual incurrence of expenditure instead of milestones completed - ₹18.50 crore. (b) Expenditure incurred for the Preliminary Design Phase of a Multi-role Transport Aircraft to be developed by MTA Limited a Russian-Indian Joint Venture Company where revenue/profit accrues only when the work was completed and accepted - ₹8.70 crore.
Hindustan Steelworks Construction Limited	• Other Expenses was understated by ₹0.66 crore due to short provision towards bad and doubtful recovery being excess of bank guarantee en-cashed by Road Construction Department, Bihar and Eastern Central Railway after adjustment of security deposit and earnest money. Consequently loss for the year was also understated by the same amount. • Finance Cost was understated due to:- (i) Accountal of interest subsidy in excess of the sanction given by the Government of India on VRS loan - ₹ 8.89 crore (ii) Non-payment of guarantee fee and penalty payable to the Government of India - ₹ 1.84 crore
Indian Drugs and Pharmaceuticals Limited (2010-11)	• Current Liabilities (Other Liabilities) included ₹56.33 crore regarding Guarantee fee payable to Government of India. As per terms of the Guarantee Agreement, no guarantee fee was payable. • Total demand of ₹11.62 crore for interest payable to CISF in respect of Rishikesh, Hyderabad and Gurgaon units as on 31 March 2011 was not provided. Same was pointed out in 2008-09 and 2009-10 also.
MSTC Limited	Trade receivables was overstated by ₹589.63 crore due to non-provision of outstanding amount towards gold export due for more than three years. Provision of the same would turn Profit before tax of ₹193.40 crore to loss of ₹396.23 crore.
Railtel Corporation of India Limited	Employee Benefit Expenses does not include provision towards Performance related pay of ₹1.58 crore.

Comments on Financial Position

Name of the Company	Comment
Antrix Corporation Limited	• Despite assurance during Audit of annual accounts for the year 2011-12, the company had not created Corporate Social Responsibility fund amounting to ₹9.96 crore as required under Department of Public Enterprises guidelines. • Other Current Liabilities does not include Service Tax for the period from January 2009 to March 2013 to the tune of ₹7.57 crore and ₹1.42 crore as interest thereon.
Bharat Broadband Network Limited	The Company received funds from Universal Service Obligation Fund which was under Department of Telecommunications to manage National Optical Fiber Network project. The company earned interest of ₹1.85 crore on temporary investment of these funds and accounted the same as 'Other Income'.

Bharat Sanchar Nigam Limited	• The amount recoverable from and the amount payable to Mahanagar Telephone Nigam Limited (MTNL) on current account had been disclosed as ₹ 3334.54 crore and ₹ 977.47 crore, respectively, resulting in net recoverable amount of ₹ 2357.07 crore from MTNL. However, as per approved annual accounts of MTNL for the year, the amount recoverable from and the amount payable to the Company was ₹ 3609.74 crore and ₹ 1634.51 crore, respectively, resulting in a net recoverable amount of ₹ 1975.23 crore from BSNL. Thus, there was net difference of ₹4332.30 crore in the receivable/ payable amounts between these two government companies under the same Ministry. Though the issue had been repeatedly commented upon by the C&AG of India since 2001-02, it was evident that proper action had not been taken and the difference was increasing which needs immediate reconciliation. • Bills amounting to ₹913.61 crore raised for advance rentals pertaining to the next year i.e. 2013-14 were accounted as 'Trade Receivables' and 'Income Received in Advance'. • Amount recoverable from Government Department/Companies was overstated by ₹3059.95 crore due to short provisioning for bad and doubtful debts remaining outstanding for more than two years in contravention of Company's accounting policy and provision for bad debts of ₹1795.82 crore was included under 'Trade Receivable' instead of amount recoverable from Government Department/Companies.
Fresh and Healthy Enterprises Limited	Plant and Machinery included Refrigeration and Electrical Machinery, a Controlled Atmosphere Plant, the depreciation had been provided at the rate of 4.75 *per cent* in place of 5.28 *per cent* resulting in overstatement of Net Block of Plant and Machinery and Reserve and Surpluses by ₹1.15 crore each.
Hassan Mangalore Rail Development Corporation Limited	• Other Income did not include ₹0.49 crore being the value of sale of scrap by South Western Railways. • Expenditure of ₹0.56 crore incurred towards setting up of BPAV chargeable under fixed assets had been included under Expenses.
Hindustan Aeronautics Limited	Other non-current Assets included ₹5750 crore towards the balances with banks in term deposits for more than 12 months.
Hindustan Shipyard Limited	Other income included ₹30.91 crore towards interest on unutilized funds received from Government of India for Refurbishment and Replacement of Machinery and Infrastructure scheme for undertaking construction of Landing Platform Dock.
Hindustan Steelworks Construction Limited	Trade receivable included ₹48.19 crore as the amount receivable from Bokaro Steel Plant (BSL) and Durgapur Steel Plant (DSP) of Steel Authority of India Limited. However BSL and DSP had shown ₹23.62 crore as payable to the Company in their books of accounts. The difference needs reconciliation.
HLL Biotech Limited	• The Company had not prepared the Profit and Loss Account in contravention of section 210 (1) and 210 (3) of the Companies Act, 1956. • Provisions and Contingencies does not include ₹126.50 crore on account of capital commitment as on 31 March 2013.
Meja Urja Nigam Private Limited	Short Term Provision and Long Term Provision were understated by ₹1.45 crore and ₹2.33 crore respectively due to non-provision of expenditure towards development of 100m wide green belt around plant and Black Buck Conservation.

Mumbai Railways Vikas Corporation Limited	Total Mumbai Urban Transport Project (MUTP) funds utilised shown under 'Other Long Term Liabilities' included an expenditure of ₹4.57 crore incurred on 'other MUTP works from 'Corporation own fund'. As this amount was neither recoverable from Ministry of Railways (MoR) nor from Government of Maharashtra (GoM), the accounting of this expenditure as 'MUTP funds utilised against the MUTP funds received from MoR/GoM' was incorrect and had contravened the company's own significant Accounting policy no.8.
National Informatics Centre Services Inc	• Fixed Assets (Tangible Assets) included ₹0.74 crore due to incorrect capitalization of expenditure incurred on improvement of the building taken on operating lease, in contravention of AS 10 and AS 19. • Other Non-Current Assets (Provision for doubtful Debts) included excess provision of ₹0.99 crore on long term trade receivables. • Fixed deposits of ₹177.25 crore with maturity period of more than 12 months had not been disclosed under Current Assets (Cash and cash equivalents). • Revenue from Operations (Administrative charges) was overstated by ₹7.98 crore due to accounting of Administrative charges on the basis of the grants received/advances instead of actual expenditure. • Service Support Expenses was understated by ₹0.40 crore due to non-provision of Annual Maintenance Charges for the quarter ended 31 March 2013.
National Projects Construction Corporation Limited	• Fixed Assets (Tangible assets) included a sum of ₹2.79 crore on account of capital work in progress which should have been depicted separately as required under revised Schedule VI of the Companies Act, 1956. • Cash and Bank Balances (Other Balances with Scheduled Banks) included fixed deposits of ₹0.74 crore having maturity period of more than a year (12 months) and pledged to Banks/Project Authority for Security Deposits/Bank Guarantee. This should have been depicted as 'Other non current assets' since first charge on the fixed deposits was with the Banks/Project Authority.
Railtel Corporation of India Limited	• Other Current Liabilities Included ₹50.63 crore payable to Railways, Department of Telecommunications and Konkan Railways for revenue sharing expenditure which should have been included in Trade Payable as per revised Schedule VI of the Companies Act. • Long Term Provisions included ₹1.94 crore towards an arbitration claim settled against the company. The same should have shown under current liability.
Triveni Structurals Limited (2011-12)	Trade Receivable (Debts considered Good) – included the following the recovery of which was doubtful: (i) Claims regarding construction of Ranjit Sagar Dam - ₹4.06 crore (ii) Claims regarding projects executed in Iraq during 1980 to 1987 - ₹2.29 crore.

Comments on Disclosure

Name of the Company	Comment
Hindustan Steelworks Construction Limited	Contingent Liabilities was overstated by ₹20.82 crore due to following • Inclusion of claims of ₹6.16 crore of M/s Kadur-Chickmagalur New BG Line twice • Wrong inclusion of ₹14.21 crore claimed by the Company in the

	Courts as recoverable • Wrong inclusion of ₹1.15 crore towards claim of M/s Bridge Building Construction Company Limited dismissed by the Court • Non-inclusion of ₹0.70 crore claimed by South Eastern Railway (Bokaro Unit).
Mumbai Railways Vikas Corporation Limited	As per Memorandum of Understanding for implementation of MUTP projects, funds shall be made available by the Ministry of Railways and Government of Maharashtra in the ratio of 50:50. Government of Maharashtra had failed to provide its share of funds amounting to ₹270.38 crore. The fact had not been disclosed by the Company.
National Projects Construction Corporation Limited	• Cash and Bank Balances (Current Account) included ₹108.25 crore received from the Ministry of Home Affairs, Government of India for Indo-Bangladesh border fencing & road works, flood lighting and construction of border outposts for Border Security Force along the Indo-Bangladesh border. The amount meant for executing dedicated projects was not disclosed suitably. • Estimated amount of contracts remained to be executed on capital account was ₹0.45 crore instead of ₹2.79 crore as inadvertently depicted in the Note to Accounts (Note no. 26).

Comments on Auditor's Report

Name of the Company	Comment
DGEN Transmission Company Limited (15 November 2011 to 31 December 2012) (1 January 2013 to 31 March 2013)	The observation that the expenses relating to manpower and other administrative overheads as incurred and allocated by PFC Consulting Limited were neither directly attributable to acquisition or construction of fixed assets nor could be said to be attributable to constructive activity in general as the construction was yet to commence, was not correct as the expenses were specifically attributable to the Transmission Project to be executed by the Company formed as Special Purpose vehicle by PFC Consulting Limited. These expenses were recoverable by PFC Consulting Limited from the prospective bidder to whom the company would be transferred on selection of bidder.
HMT Chinar Watches Limited	Committees of Secretaries (COS) in the meeting held on 31 December 2009 directed the Department of Heavy Industries (DHI) to auction the assets, except land, of HMT Chinar Watches Limited, Srinagar and introduce Voluntary Retirement Scheme (VRS) to relieve the remaining employees in light of the recommendations of the Bureau of Public Sector Enterprises. Action initiated by the management to implement the decision of COS was resented by the employee union and matter was pending in Hon'ble High Court of Jammu & Kashmir and the negotiations were going on between the Management/DHI and employees union of the Company for VRS of the remaining employees in "One Go" and closure of the company. This was not brought out in the 'Notes to Accounts' or Statutory Auditor's report.
National Informatics Centre Services Inc	The statement made in the report that the company had not recognized any revenue from National Data Centre was not correct as the company had recognized revenue of ₹0.47 crore as facilitation charges from the National Data Centre.
Rites Infrastructure Services Limited	• The format of Auditor's Report was not in conformity with the mandatory provisions of SA-700 (revised). • The statement of Profit and Loss depicted loss for the year whereas the auditor in their opinion has stated that as Profit for

	the year.
Triveni Structural Limited (2011-12)	Non-provision towards interest of ₹368.74 crore referred to in the Statutory Auditor's Report read along with Notes on Accounts for the year 2010-11 and 2011-12 of the Company, had the effect of increasing the loss for the year by ₹138.65 crore instead of ₹368.74 crore considered by the Statutory Auditors in their report. Loss for the year (₹52.34 crore), considering all the qualifications reported by the Statutory Auditor, would be ₹202.81 crore instead of ₹432.90 crore . In view of the impact of increasing the reported loss for the year from ₹52.34 crore to ₹202.81 crore, i.e. more than by 287 *per cent*, certification by the Statutory Auditors, that Balance Sheet and Profit and Loss Account of the Company for the year ended as on 31 March 2012 give a true and fair view, was not sustainable.

Other Comments

Name of the Company	Comment
Hindustan Aeronautics Limited	According to Accounting Policy 9.1 in the case of the manufacture or repair and overhaul of aircraft and helicopters, sales were set up on completion of contracted work on the basis of acceptance by the buyer's Inspector, by way of signalling out certificate (SOC). As such, aircrafts were signalled out with concessions and CAT B engines so as to make them acquire deliverable condition as on 31 March 2013 and revenue recognized based on SOC. The present Accounting Policy as followed by the company relies on SOC for recognition of revenue needs to be revisited and reframed since even the SOCs were given with significant concessions. The readiness of aircraft for delivery should be considered as basis for revenue recognition in addition to SOC.
Indian Drugs and Pharmaceuticals Limited (2010-11)	A reference is invited to Comment No. 1 of the Comptroller and Auditor General of India on the Accounts of the Company for the year ended 31 March 2007, Comment C for the year ended 31 March 2009 and Comment No. B (2) for the year ended 31 March 2010 regarding unspent 'Grant-in-Aid' received from Government of India, Ministry of Science and Technology, Department of Biotechnology (DBT) in March 1990 for R & D projects in the area of biotechnology. As per the conditions of the grant, the company was required to maintain a separate bank account for grants, and unspent balance was to be surrendered to the Government and funds were to be carried forward only with the specific approval of the National Biotechnology Board. Further, interest earned on the same was to be reported to the DBT and adjusted towards further installments of grants or refunded at the end of the project. However, the company had neither refunded the unspent balance nor kept it in separate bank account as on 31 March 2011.
Meja Urja Nigam Private Limited	"Foreign Currency Exposure not hedged by a derivative instrument or otherwise" was understated by ₹319.05 crore due to non-consideration of effect of escalation on unexecuted value of contracts.

❖ Unlisted Deemed government Companies

Comments on Disclosure

Name of the Company	Comment
Cent Bank Home Finance Limited	No disclosure of reasons for creation of a floating provision of ₹1.01 crore over and above the provision for Non Performing Assets created as per Prudential Norms laid down by National Housing Bank was made.

❖ Statutory corporations where CAG is the sole auditor

The significant comments issued by the CAG on the accounts of statutory corporations where CAG acts as the sole auditor are detailed below:

- **Food Corporation of India – Accounts for the year 2011-12**

i. The Management had carried out correction to the provisional accounts to the extent of ₹5755.21 crore on the basis of the observations of CAG Audit. Further errors to the tune of ₹467.09 crore were rectified at the instance of audit.

ii. Besides above, the net impact of the audit observations as contained in the Audit Report issued by the CAG was as under:

(a) Fixed assets were understated by ₹11.90 crore due to non capitalization of hardware and software expenditure incurred in two projects.

(b) Sundry debtors were overstated by ₹17.81 crore.

(c) Claims receivable were overstated by ₹29.56 crore

(d) Current Liabilities were overstated by ₹54.86 crore

- **National Highways Authority of India**

(i) Transfer of current liability towards 'Net off Toll Receipts, Maintenance Expenditure over Grant etc. payable to Government of India upto 31.03.2010' to Capital U/S 17 Account without obtaining approval of the Ministry of Finance and Ministry of Road Transport and Highways resulted into overstatement of 'Capital - Net off Toll collection, Negative Grant etc. up to 31.3.2010' by ₹6183.56 crore and understatement of 'Toll Receipts, Maintenance Expenditure over Grant etc. - Payable to Government of India up to 31.03.2010 Account' to the same extent.

(ii) Credit Balance of Profit and Loss Account represented Agency Charges which were notional (neither recovered nor recoverable). Depicting the same under Reserves & Surplus had resulted in overstatement of Reserves & Surplus as well as Capital Work-in-Progress by ₹411.99 crore. This issue was also raised during 2010-11 and 2011-12; however, no corrective action had been taken.

(iii) The Authority had neither capitalized completed road projects nor charged depreciation thereon as per the provisions of AS-6, since it became operational in 1995. The expenditure of ₹69280.44 crore incurred on National Highways already completed and being used by the general public was shown in the balance sheet under the head 'Expenditure on completed projects awaiting capitalization/transfer'. In the absence of detailed records, audit was unable to quantify the amount by which the assets were overstated and loss for the year was understated.

(iv) The Authority did not maintain any records in respect of allocation and utilization of project-wise borrowed funds for determination of project-wise borrowing cost and interest earned on the unutilized borrowed funds as per the provisions of AS- 16. The total borrowing cost of ₹5894.66 crore and interest earned on unutilized funds of ₹5419.32 crore was merely adjusted in Fixed Assets.

(v) The borrowing cost of ₹1331.59 crore included ₹865.54 crore booked under 'Expenditure on Completed Projects Awaiting Capitalization/Transfer' in contravention of AS– 16 as well as the Accounting Policy No. 6.2 of the Authority. In the absence of details for previous years, Audit was not able to quantify the total amount of such borrowing costs incorrectly booked to the above head.

(vi) Expenditure on completed projects awaiting Capitalization/Transfer under Capital Work-in-Progress included an amount of ₹4493.96 crore incurred by NHAI on 11 road projects which had been handed over, along with tolling rights, to concessionaires for upgradation of the roads to six lanes on BOT basis.

(vii) Net Establishment Expenses for the year transferred to Capital Work-in-Progress included establishment expenditure amounting to ₹106.07 crore allocated to the head 'Expenditure on completed projects awaiting transfer' in violation of AS – 10.

(viii) Interest on Unutilized Capital under Capital Work-in-Progress included interest accrued of ₹124.44 crore (including TDS) during the year on the loan disbursed to 11 subsidiary companies, which had been deducted from Capital Work-in-Progress instead of showing the same as income in P&L Account. This has resulted in understatement of 'Capital work-in-progress' by ₹482.76 crore and overstatement of loss for the year by ₹124.44 crore and consequent understatement of 'Surplus carried to the Balance Sheet' by ₹ 482.76 crore.

(ix) Investments included investment of ₹345.21 crore in two subsidiary companies, viz., Moradabad Toll Road Company Limited and Ahmedabad–Vadodara Expressway Company Limited, wherein the road project and toll right had been transferred in December 2010 and January 2013, respectively, to Concessionaires for upgradation.

Investment of ₹213.50 crore made in three subsidiary companies, viz., Visakhapatnam Port Road Company Limited, Cochin Port Road Company Limited and Paradip Port Road Company Limited had diminished in its value due to accumulated losses, eroding more than 50 *per cent* of their net worth.

(x) Advances of ₹51.61 crore given to Railways for construction of ROB and concessionaire for change of scope of work had been included under 'Advance against deposit works' though the work had been completed.

(xi) Claims Recoverable was understated by ₹6.72 crore due to non-accounting of amount recoverable from contractors/concessionaires as per agreement, damages for delay in achievement of commercial operation date, share of remuneration of Independent Consultants, differential toll charges and recoverable on account of scrap/variation in rates.

(xii) Loan to Subsidiary Companies included loan of ₹67.62 crore given to two subsidiary companies, viz., Moradabad Toll Road Company Limited and Ahmedabad–Vadodara Expressway Company Limited wherein the road project and toll collection right had been transferred to the Concessionaire and there was no possibility of recovery of the aforesaid loan.

(xiii) Contingent Liabilities was understated by ₹1074.56 crore due to non-inclusion of claims against the Authority in arbitration and legal cases.

(xiv) Note No. 26 (f) of Notes on Accounts was deficient to the extent that it did not disclose in the Balance Sheet the details of the funds of NHAI Bond collection proceeds utilized as well as unutilized as committed in the Prospectus for issue of Bonds of ₹10000 crore.

(xv) The Authority was not adhering to the format of annual statement of accounts approved by the Government of India in consultation with C&AG of India under NHAI Rules 1990 as pointed below:

- Schedule 5 (Fixed Assets) sub-heads 'Roads & Bridges', had been left blank since inception in-spite of completed road projects of ₹ 69280.44 crore as on 31 March 2013 for which depreciation at 5 per cent had been prescribed. The same was depicted under Capital Work-in-Progress.
- The surplus/deficit in the Profit and Loss Account was to be carried to the Balance Sheet, however, the Authority had allocated the deficit in the Profit & Loss Account at the year end to the on-going and completed projects booked under 'Fixed Assets – Capital Work-in-Progress'.
- The Grant-in-aid for Maintenance of Highways and expenditure thereon should have been accounted for in Profit and Loss Account; however, the Authority adjusted the same from Capital Account (Plough back of Toll Remittance, etc.).

2.6 Departures from Accounting Standards

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 of the Companies Act, 1956 (1 of 1956), read with sub-section (3C) of Section 211 and sub-section (1) of Section 210A of the said Act, the Central Government, in consultation with National Advisory Committee on Accounting Standards prescribed Accounting Standards 1 to 7 and 9 to 29 as recommended by the Institute of Chartered Accountants of India.

The statutory auditor reported that 36 companies as detailed in **Appendix - IX** departed from mandatory Accounting Standards.

However, during course of supplementary audit, the CAG observed that the following companies had not complied with the mandatory Accounting Standards which were not reported by their statutory auditors:

Accounting Standard		Name of the Company	Deviation
AS-3	Cash Flow Statement	J&K Mineral Development Corporation Limited	The Company needs to prepare the 'Cash Flow Statement' as it does not fall in exempted category
		REC Transmission Projects Company Limited	The fact that amount of ₹11.52 crore held as security against short term borrowings from banks was not readily available for use was not suitably disclosed.
AS – 5	Prior Period Adjustments	National Projects Construction Corporation Limited	Provisions written back for Bad and Doubtful Debts had not been disclosed as exceptional item.
AS- 5	Prior Period Adjustments	Prize Petroleum Corporation Limited	Deferred Tax Assets recognized during previous years was not written off despite absence of convincing evidence of virtual
AS - 22	Deferred Tax		

			certainty of sufficient taxable income in future.
AS-9	Revenue Recognition	Educational Consultants India Limited (2011-12)	Executed projects as service provider for/on behalf of the clients for which it accounted the project expenditure as own expenditure and the expenditure plus service charges as own revenue.
		Handicrafts and Handlooms Export Corporation of India Limited	Bullion Sale amounting to ₹4109.85 crore had been booked as own sale. As per suppliers' and buyers' agreement, the import of gold was on consignment basis and only predetermined margin should have been booked as income.
AS-13	Accounting for Investment	IFCI Limited	No Accounting Policy for provision for diminution in value of Investment has been framed.
AS– 15	Employee Benefits	Rail Vikas Nigam Limited	Recognition of expenditure was on cash basis rather than on accrual basis.
AS-26	Intangible Assets	National Fertilizers Limited	The Company capitalized the License fee and know-how fee paid for Panipat and Bhatinda units under the head tangible assets (plant & machinery).
		Rajasthan Drugs and Pharmaceuticals Limited	Computer software, being an intangible asset had been wrongly classified as a tangible asset.
AS- 29	Provisions, Contingent Liabilities and Contingent Assets	Triveni Structurals Limited (2011-12)	No provision had been made on account of arbitration cases where arbitrators had awarded decisions against the company.

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 PSEs were reported as comments by the CAG under Section 619(4) of the Companies Act, 1956. Besides these comments, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process, were also communicated to the management through a 'Management Letter' for taking corrective action. 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 PSE gave assurances that corrective action would be taken in the subsequent year.

During the year CAG issued 'Management Letter' to 53 companies.

2.8 Significant observations of statutory auditors on the accounts of statutory corporations/government companies

❖ Statutory Corporation

Significant qualifications made by the statutory auditors in their audit reports on the accounts of statutory corporation for the year 2012-13 are given below:

Sl. No.	Name of the Corporation	Auditors' qualification
1.	Central Warehousing Corporation	• The Corporation had made payments of ₹12.39 crore on account of Service Tax to some of the handling & transportation contractors, despite the rates in the contracts being all inclusive. • The Title Deeds in respect of 64 freehold/leasehold land sites amounting to ₹35.85 crore and conveyance Deeds in respect of 88 residential flats amounting to ₹2.86 crore were pending for execution in favour of the Corporation. • Due to change in accounting policy relating to Amortization/depreciation of the cost of land which was acquired on lease of 90 years and above and container yards/ open area developed on such land, the profit for the year was lower by ₹10.65 crore. • The unamortized past period cost of post retirement medical benefits of ₹20.32 crore was charged as prior period expenses.

❖ Listed government companies

Significant qualifications made by the statutory auditors in their audit reports on the accounts of listed Government companies for the year 2012-13 are given below:

Sl. No.	Name of the Company	Auditors' qualification
1.	Chennai Petroleum Corporation Limited	• The Company had incurred cash loss of ₹1323.16 crore during the financial year ended 31 March 2013 and no cash loss was incurred in the immediate preceding financial year. • Funds raised on short-term basis of ₹129.38 crore have been used for long-term investment during the year.
2.	Container corporation of India Limited	Sale/Lease deed in respect of Land and Building valuing ₹102.94 crore were yet to be executed in favour of company.
3.	Dredging Corporation of India Limited	Impairment in Investment of ₹30.00 crore in the shares of Sethusamudram Corporation Limited was not recognized and provided by the company.

4.	Eastern Investment Limited	i) The Company had certain disputes and it was not possible to determine with reasonable accuracy, the effect of settlement as and when reached and loss likely to be incurred in respect of the following:- a) The disputes regarding ownership of the fixed assets included under Block & Development b) The physical existence of the Railway Siding and Control thereon. ii) Depreciation on Block and Development in respect of Ondal Property and Building of Sendra property had neither been ascertained nor provided for in the accounts. iii) The Government of West Bengal had acquired a land measuring an approximate area of 27.58 acres out of the total land area 76.77 acres at Lawrence Property, Bauria, Howrah and notice had also been received for acquisition of balance portion of land. Company's appeal for award of compensation towards such acquisition had been upheld by District Judge and for acquisition of the balance portion of land in terms of a notice received under Urban Land (Ceiling & Regulation) Act, had also been contested by the company. The land was presently under unauthorized occupation of local inhabitants and any accounting effect had not been given. iv) Provision for rent & cess on Lawrence property had not been provided and the exact amount was not ascertainable.
5.	Hindustan Cables Limited	(i) The Company had not made provision of ₹67.87 crore on account of doubtful trade receivables, doubtful long term loans and advances etc. (ii) The Company was not regular in depositing statutory dues.
6.	Hindustan Organic Chemicals Limited	• No provision had been made for: ➢ Penal interest of ₹8.30 crore on overdue loan from Government of India ➢ Loss on account of misappropriation of Company's funds amounting to ₹0.65 crore, pending final report from CBI and outcome of the civil suit. ➢ Liability of wage revision for the period 01 January 1997 to 31 December 2000 - ₹19.29 crore and for the period 01 January 2007 to 31 March 2008 - ₹3.14 crore at Rasayani unit. ➢ Claims of Jawaharlal Nehru Port Trust amounting to ₹11.38 crore in respect of lease rental and escalation on leased land, water charges and way leave charges. • Capital work in progress included an amount of ₹29.79 crore incurred on Jawaharlal Nehru Port Trust tank terminal project which was stagnant and incomplete. No provision was made for impairment in the value of this asset pending ascertainment of the recoverable amount. • Wage arrears amounting to ₹493.79 crore pertaining to earlier period paid/provided during the year should have been reflected as a prior period expense.
7.	HMT Limited	The company had given loans and advances (aggregating dues ₹79.37 crore) and made long term investment (aggregating ₹1.66 crore) in the subsidiary company HMT Chinar Watches Limited. The net worth of the subsidiary had eroded and it was suffering continuous losses. As such, the loans and advances were doubtful of

		recovery and there was total decline in the value of investment requiring provision for the same.
8.	India Trade Promotion Organisation	No provision had been made for i) liability of income-tax of ₹86.06 crore and ₹36.76 crore for the Assessment years 2009-10 and 2010-11 respectively. ii) service tax demand of ₹10.88 crore raised including interest to the extent determined and penalties for 2006-07 to 2009-10.
9.	Mahanagar Telephone Nigam Limited	• License Fee to the Department of Telecommunications (DoT) on IUC to Bharat Sanchar Nigam Limited (BSNL) was being worked out on accrual basis upto financial year 2011-12 as against the terms of License Agreements according to which the expenditures/deductions from the Gross revenue were allowed on actual payment basis. From year 2012-13, the license fee payable to DoT was worked out strictly as per terms and conditions of the license agreement. The company continued to reflect the difference in license fee arising from working out the same on accrual basis as aforesaid for the period up to 2011-12 by way of contingent liability in place of actual liability resulting in understatement of current liabilities and losses to that extent. • Amounts recoverable from DoT/BSNL were subject to reconciliation and confirmation in view of various pending disputes regarding each other's claims. • Due to delay in issuance of completion certificate, there were cases where capitalization of fixed assets got deferred. • The company had allocated the establishment overheads towards capital works on estimated basis. • No adjustment had been considered on account of impairment loss during the year. In view of continuous losses over the years resulting in full erosion of net worth of the company and uncertainty in achievement of future projections made by the company, the particular impact on the financial statements could not be ascertained.
10.	MMTC Limited	i) Based on special audit a provision of ₹2288.20 million has been made on account of un-recoverability of the amount from a debtor in Regional office Hyderabad. ii) Based on special audit a provision of ₹155.44 million was made on account of certain acts of commission & omission pertaining to recoverable from debtors at Regional Office Chennai.
11.	NHPC Limited	Borrowing Cost of ₹386.88 core and Administrative & Other Costs of ₹139.69 crore incurred on Subansiri Lower H.E. Project, where active development of project was interrupted had been included in Capital work-in-progress.
12.	Steel Authority of India Limited	No provision had been made for: (i) Entry Tax - ₹970.10 crore (ii) Income Tax demand - ₹87.62 crore (iii) Claim of DVC for supply of power - ₹217.40 crore
13.	The Orissa Minerals Development Company Limited	Balances of Trade payables, Trade receivables, Loans and Advances had not been confirmed.
14.	The Shipping Corporation of India Limited	• The Accuracy of Exchange Gain/Loss in respect of Customer reconciliation/Advance received from Customers/Trade Payable recognized on revaluation as per AS 11 remained unverifiable and unascertainable.

		• The Company was unable to provide confirmation for accounts receivable, accounts of agents in absence of the reasonable audit evidence, the effect of the same was unascertainable/ unverifiable.

❖ Unlisted companies

Significant qualifications made by the statutory auditors in their audit reports on the accounts of unlisted government companies and deemed government companies for the year 2012-13 are given below:

Sl.No.	Name of the Company	Auditors' qualification
1.	Agriculture Insurance Company of India Limited	During the Financial Year 2009-10, the company had paid an amount of ₹200 crore to the Consolidated Fund of India as prelude to the recasting of the National Agricultural Insurance Schemes and the same was continued to be shown as 'Advances and Other Assets' in the Balance Sheet. This amount had not been adjusted against the retained profits/reserves, pending recasting of the said scheme.
2.	Antrix Corporation Limited	No provision had been made towards the liability of Liquidated Damages in the form of delayed delivery penalty of US$ 5 Million (₹21.89 crore) for its failure to deliver the leased capacity from a fully operational satellite within the stipulated date as per the terms of the contract entered into with M/s Devas Multimedia Limited.
3.	Artificial Limbs Manufacturing Corporation of India Limited	The loans received by the corporation from the Government of India in past stands repaid in previous years. Simple interest amount to ₹39.53 crore for the outstanding period of loan was though provided in past but had not been paid till date. Further no provision towards penal interest amounting to ₹11.45 crore accrued and due on said loan as per terms and conditions of the agreement had been made. The corporation had violated the provisions of Article 3 of its Articles of Association by accepting interest bearing loan from its promoter i.e. Government of India.
4.	Bharat Sanchar Nigam Limited	• The process of taking over the assets and liabilities from Department of Telecommunications (DoT) was in progress and their valuation and verification were subject to reconciliation. • Amount recoverable from DoT was subject to confirmation, reconciliation and consequential adjustment. • Certain assets though completed and put to use were shown under "Capital-work-in-progress'. • The company had no system of identifying NLD/ILD revenue separately based on actual usage of pulse. As a result the company was computing the license fee on estimated basis.
5.	Brahmaputra Valley Fertilizer Corporation Limited	• The company had accounted for Escalation Price (Subsidy) amounting to ₹50.98 crore on claim lodged basis. Pending final settlement of such claims, the effect arising out of this, if any was unascertainable. • During the year, the company had capitalized ₹9.86 crore under the head Plant and Machinery, most of which were in the nature of major repairs, renewals or replacements. In the absence of any report from technical expert regarding increase in previously assessed standard performance of fixed assets, the same cannot be said to be in compliance with AS-10. • Lease/License Agreements in most of the cases were time barred.

6.	British India Corporation Limited	• The Liability of Cumulative Dividend of ₹3.47 crore upto the redemption date 14 June 2003, accrued in earlier years, remained un-provided for. The Company had continuously defaulted in the redemption and providing of accumulated dividend for 14 *per cent* Cumulative Redeemable Preference Shares of ₹100 each. • Long Term Loans and Advances included Outstanding dues of ₹51.51 crore from Subsidiaries and Companies under same Management, a sum of ₹0.29 crore stands provided for, the difference of ₹51.22 crore was also required to be provided in light of Non-working status and/or in liquidation. • No provision for rent and other Expenses for use of premises of the Subsidiary Company, Elgin Mills Company Limited, which the Company was using since 07.09.2007 had been made.
7.	Cement Corporation of India Limited	• Execution of title and lease deed of land of certain units continued to be pending since long. • Renewal of Mining lease was pending in respect of various units. • Interest on inter corporate loans of ₹37.00 crore taken by the corporation had not been provided for after the cut off date of 31 March 2005 in terms of BIFR package. • No provision was made by the corporation in respect of demand raised by the sales tax authorities aggregating to ₹19.00 crore as the demands were *sub-judice*. • No provision had been made for ₹4.70 crore in respect of excise duty on "Clinker" which was produced in the normal course of Cement production and was being captively consumed at Rajban unit.
8.	Central Coalfields Limited	• The right, title and interest in land and mining taken over from its holding and other companies at the time of nationalization were not supported by the title deeds. • Escrow Account remained to be opened against provision of Mine Closure amounting to ₹303.15 crore. • No provision had been made for interest payable on unpaid amount of service tax for the period from 01.01.2005 to 31.12.2007 amounting to ₹15.11 crore.
9.	Central Cottage Industries of India Limited	• The Company had not followed its Accounting Policy in respect of Trade Payable (others) which included unclaimed/unconfirmed credit balances of suppliers of goods exceeding three years. • Title Deeds in respect of premises at Jawahar Vyapar Bhawan New Delhi valuing ₹0.18 crore (land) and ₹9.25 crore (Building) were pending execution.
10.	Central Inland water Transport Corporation Limited	Classification of current asset and liabilities was not in accordance with the requirements of the Revised Schedule VI.
11.	Dedicated Freight Corridor Corporation of India Limited	• Claim of ₹38.54 crore from the Ministry of Railway towards expenses incurred was subject to confirmation and approval from the Ministry. • Recognised interest of ₹0.32 crore on security deposit provided interest free to Delhi Metro Rail Corporation. • Claim of ₹5.73 crore in respect of Gujarat Value Added Tax from one of the contractor had not been provided.

12.	Eastern Coalfields Limited	In spite of the company presently having negative networth, the financial statements had been prepared on a going concern basis, which assumes that the company would continue in operational existence in the foreseeable future. The validity of this assumption depends on the successful implementation of the BIFR sanctioned rehabilitation scheme prepared under section 18 of Sick Industrial Companies Act including adherence to production targets, closing down of unviable mines, rationalization of manpower, timely implementation of the Project, obtaining various relief and concessions and also meeting the additional impact of provision of impairment of assets under AS-28 which was not envisaged in the aforesaid rehabilitation scheme.
13.	Heavy Engineering Corporation Limited	No provision had been made for ₹14.58 crore due from NCL Bina for more than three years.
14.	Hindustan Antibiotics Limited	• No provision had been made in respect of losses on discontinuation of operation of joint venture. • The company had not made provision for Interest and penalty on non-payment of income tax deducted at source and interest and penalty on non-payment of service tax.
15.	Hindustan Fertilizer Corporation Limited	• The accounts were prepared on the principle applicable to a Going Concern despite heavy accumulated past losses and loss for the year which had totally eroded the Net Worth of the company. The huge loss of the Company raises substantial doubt that whether the company would be able to continue as 'Going Concern'. Reference had been made to the Board for Industrial and Financial Reconstruction and final disposal of the case was pending. The operational existence of the company was dependent on the decision of Government of India. • Agreements remain to be executed in regard to 1121.885 acres of land. • The company had not admitted the claim of damage by Kolkata Port Trust on account of expired lease as debts which amount to ₹103.44 crore. • Balances in respect of transactions on account of Brahmaputra Valley Fertilizer Corporation Limited, Rashtriya Chemicals Fertilizer Limited and the Fertilizer Corporation of India Limited had not been reconciled and no confirmation had been received from them.
16.	Hindustan Insecticides Limited	• The company had not created provision as per Minimum Alternate Tax (MAT) in accordance with section 115JB of Income Tax Act. • Classification of Current and Non-current assets and liabilities had not been done as per Revised Schedule VI of Companies Act.
17.	Hindustan Steelworks Construction Limited.	• The company had suffered a cash loss of ₹16.27 crore and a net loss of ₹19.81 crore during the year. The Company had incurred continuous losses for past several years and the net loss carried forward in the accounts as on 31.03.2013 stands at ₹1508.90 crore as against the shareholders fund of (-)₹1391.78 crore. This shows complete erosion of net worth of the company. The "Going Concern Concept" adopted by the company in preparation of financial statements for the year was solely dependent on "Financial Restructuring" being envisaged by Government of India which, if not done, would seriously jeopardize the accounting concept adopted by the Company.

		• No provision had been made for Claims outstanding for a long time on SAIL - ₹17.01 crore and Claims outstanding not admitted by SAIL - ₹9.79 crore. • No provision had been made in the accounts of ₹23.03 crore as Interest Subsidy receivable from Government of India on Term Loan under Voluntary Retirement Scheme which has not been paid by the Government and lying outstanding in the books over a long period of time. • Advances included ₹8.00 crore due from NHAI on account of invocation of Bank Guarantee by them towards cancellation of contracts undertaken under Joint Venture project of HSCL-SIPL.
18.	Hindustan Vegetable Oils Corporation Limited	• The accounts had been prepared on the basis of going concern assumption, which was not appropriate, since all the operations of manufacturing units of the Company were closed and were placed under liquidation. Moreover, there was significant erosion in net worth of the Company. • The Corporation had not filed its Financial Statements with Registrar of Companies since Financial Year 2000-01.
19.	HMT Bearings Limited	The company had not recognized the diminution in long-term investments in Andhra Pradesh Gas Power Corporation Limited amounting to ₹1.63 crore.
20.	HMT Watches Limited	• No provision had been made towards (a) default in remitting the statutory dues by way of interest, penal interest and damages – ₹43.62 crore (b) employee related claims relating to lockouts, back wages, incentives, annual bonus, etc., pending adjudication - ₹3.65 crore • Other Current liabilities included a sum of ₹8.90 crore relating to advances received against sale of land including the building the possession of which had been given to the purchaser. The transaction has not been recognized as sale pending approval from the concerned authorities for the execution of sale deed. • The difference of ₹1.89 crore between Gross block of fixed assets in Watch Marketing Division and as per Fixed Asset Register as on 01.04.2012 had not been reconciled.
21.	HOC Chematur Limited	Considering the current situation of the availability of the cash flows, the Company had no plans to conduct any business in future. These conditions, along with other matters indicated the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a Going Concern further. Therefore the Company might not be able to realize its assets and discharge its liabilities in the normal course of business. The financial statements and notes thereto did not fully disclose this fact.
22.	IDBI Infrafin Limited	Despite the Company's net-worth being eroded, the accounts had been prepared on going concern basis. Steps had been taken to increase the operations of the company. Further, the holding company was in the process of infusing capital in the company by way of subscription to shares amounting to ₹7.09 crore.
23.	Indian Durgs and Pharmaceuticals Limited (2010-11)	• In Rishikesh plant, interest on delayed payments to suppliers/service providers including CISF, Payment to employees under VRS, interest receivable from employees on delayed receipts, Port Clearance, Demurrage clearing and forwarding charges were being accounted for on cash basis. • The Company had not filed Income Tax Returns from Assessment

		year 2004-05 to 2010-11 which may attract penalty under section 271B and 271F of IT Act, 1961.
24.	Karnataka Trade Promotion Organisation	• Interest of ₹0.97 crore on property tax had not been provided. • The 50 acre of developed land received from Karnataka Industrial Area Development Board amounting to ₹10 crore had not been capitalised. • Amount of ₹5.85 crore released by Government of Karnataka to Karnataka Industrial Area Development Board for development of external infrastructure had not been recorded. • No provision had been made for Income Tax for 2008-09 to 2012-13.
25.	Konkan Railway Corporation Limited	• Works where there was no physical progress during the year were kept under Capital works- in- progress • Claims lodged against the Konkan Railway Corporation Limited and lying under arbitration for a sum of ₹1093.32 crore were not considered as contingent liability. • No provision for contingency on estimated basis had been made as arbitration award granted for ₹8.13 crore.
26.	National Bicycle Corporation of India Limited	The company had not made provision for interest amounting to ₹138.66 crore with respect to Government loans, due to different mechanism adopted for calculating interest by Government and the company.
27.	National Minorities Development and Finance Corporation Limited	In the case of UP Alpsankhyak Vitta Avam Vikas Nigam Limited the Government Guarantee cover was short by ₹20.73 crore.
28.	National Safai Karmachari Finance and Development Corporation	• A substantial delay had been observed in obtaining utilization certificate from the State Channelising Agencies (SCAs). Out of the total loans outstanding as at 31 March, 2013 of ₹428.35 crore (as against Total Disbursal of ₹829.88 crore upto 31 March, 2013), the Corporation had an unutilized amount of ₹148.63 crore. • Out of the total loans outstanding of ₹428.35 crore, the amount of ₹111.91 crore was covered by the State Government Guarantees, ₹307.83 Crore was covered by Letter of Assurances issued by the State Governments and for the balance amount of ₹8.61 crore neither Government Guarantees nor Letter of Assurance had been obtained. • The Loans covered by State Government Guarantees had been treated as secured. The Corporation does not seem to have taken concrete steps for conversion of Letter of Assurance into guarantee. • Many SCAs had defaulted in the Principal repayment as stipulated in the Lending Policy and Guidelines of the Corporation. The total default by the said SCAs was stated to be ₹192.33 crore. • The monitoring, reporting system, and technical appraisal of projects etc. should be strengthened as it was not adequate to ensure the maximum utilization and faster recovery of the disbursements to SCAs.
29.	National Scheduled Tribed Finance and Development Corporation	A sum of ₹65.79 crore lying unutilized with various State Channelising Agencies out of the total disbursement accumulated over years was subject to reconciliation.

30.	National Textile Corporation Limited	MAT credit entitlement of ₹17.00 crore taken by the company during the year and cumulative MAT Credit Entitlement of ₹92.53 crore shown as claimable was not in accordance with Guidance Note on Accounting for Credit Available in respect of Minimum Alternative Tax under the Income Tax Act, 1961 issued by the ICAI, since no convincing evidence was available that the Company will pay normal income tax during the specified period and will be able to claim MAT Credit entitlement.
31.	New Mangalore Port Road Company Limited	The asset amounting to ₹245.89 crore had not been capitalized though out of total 37.00 km of road, 34.98 km had been taken over on 30 May 2012 from the contractor. Contractor's defect liability period had started since then and the road was capable of generating revenue though the same could not be made operational for other reasons. The borrowing cost of ₹12.17 crore and Administrative cost of ₹0.23 crore incurred on 34.98 km road had also not been charged to Statement of Profit & Loss. Accordingly, Capital Work in Progress' would have reduced by ₹258.29 crore and Fixed Assets would have increased by ₹245.89 crore and Shareholders' Fund (Net of Taxes) would have reduced by ₹12.39 crore.
32.	Northern Coalfields Limited	In accordance with the Government directives, the assets and liabilities of Singrauli division of Central Coalfields Limited as on 01 April 1986 were taken over at Net Value by the company. The legal formalities for transfer of such assets and liabilities to the company remained to be completed.
33.	Oriental Insurance Company Limited	Claims of ₹399.24 crore relating to one party were repudiated in the earlier year based on Survey Report/Legal opinion. The affected banks had preferred legal action against the repudiation. The company had not made any provision in this regard as per Accounting Policy of the Company.
34.	PEC Limited	The Company had accounted for revenue during the year aggregating to ₹43.34 crore from two associates pertaining to Iron Ore exports against its accounting policy.
35.	Railtel Corporation of India Limited	Amount of ₹106.13 crore had been shown as receivable and ₹82.69 crore had been shown as payable to Ministry of Railways on various accounts. In absence of balance confirmation/reconciliation reliability/ adjustability of the same could not be commented upon.
36.	Richardson and Cruddas (1972) Limited	• The financial statements of the Company had been prepared on a going concern basis, notwithstanding the fact that its net worth was completely eroded. The appropriateness of the going concern basis was inter-alia dependent on the infusion of requisite funds for meeting its obligations, rescheduling/ restructuring of debts. The Company might not be able to continue its operational existence and adjustment would have to be made to the carrying value of its assets and liabilities. • In respect of residential flats at Ghatkopar, no title documents were available on the ownership and nature of holding.
37.	SAIL Refractory Company Limited	No provision had been made for liability of Employee Benefits Expense of ₹1.29 crore with regard to executives working on deputation from Steel Authority of India Limited.
38.	Security Printing & Minting Corporation of India Limited	• The company had made provision of ₹21.44 crore as rate difference taken on sales of coins up to Financial Year 2009-10. The same has been shown under the head other expenses. However, no provision

		for rate difference on the sale of coins of ₹130.92 crore pertaining to financial year ended 31 March 2011 and of ₹18.07 crore pertaining to financial year ended 31 March 2012 has been made. Similarly no provision with regard to excess rate difference of ₹121.45 crore on sale of bank notes raised during the financial year ended 31 March 2012 had been made. • The sales price of Postal Stationary being billed was not as per the rates determined by the Cost Accounting Branch in 2006-07. To that extent, the Sales as well the balance of trade receivables were subject to acceptance by the Trade customers.
39.	State Farms Corporation of India Limited	• Undistributed amount of subsidy for ₹5.80 crore pending since 2009 should be refunded to Government (pending for more than 3 years) as various farmers registered with the Corporation not complying with norms of the Corporation and this created doubt of their actual existence. • The Corporation has not made proper disclosure as required by Revised schedule VI regarding the dues of Micro & Small Enterprises which were registered under Micro, Small & Medium Enterprises Act 2006. • The Corporation has taken land for cultivation purpose at Farms level from respective State Governments/Central Government; however the corporation was not in possession of any documents/ lease deed/ agreements for such right to use.
40.	STCL Limited	• The company had negative net worth. • The trade receivables loans and advances to the extent of ₹1220.14 crore were doubtful. • Consolidated Financial Statements with respect to joint venture investment in "NSS Satpura Agro Development Company Limited" had not been prepared.
41.	The Handicrafts & Handlooms Exports Corporation of India Limited	• In respect of bullion business, trade receivables for ₹43.46 crore were appearing in the balance sheet against the policy of Cash and Carry in accordance with the Bullion Agreement, which needs to be reconciled. • In respect of mesne profit determined by Hon'ble Bombay High Court for ₹120 per sq ft p.m. along with Interest at the rate of 6 *per cent* per annum to be paid within 3 months and as upheld against the Corporation by Hon'ble Supreme Court of India, the Corporation had made provision only to the extent of ₹63.50 per sq.ft. p.m. the balance amount for ₹1.44 crore towards mesne profit and ₹0.62 crore towards interest had been shown under contingent liability.
42.	Triveni Structural Limited	Although the accounts of the company had been prepared on going concern basis, in view of the BIFR order and adverse financial operational indicators, there is doubt that the company would continue as going concern in future.
43.	Tungabhadra Steel Products Limited	The accounts of the company had been compiled based on the assumption that the Company will continue as a going concern. The accumulated loss of ₹379.40 crore had exceeded the net-worth of ₹8.44 crore and had suffered cash loss during the year and in the immediately preceding financial year. The company was a "sick industrial company" within the meaning of clause (O) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions Act), 1985. The company had made a reference to the Board of Industrial and Financial Reconstruction (BIFR) during 2004-05. Thus, the company's ability to continue as a going concern was in doubt and

		would depend upon any revival programme by BIFR/Government.
44.	Utkal Ashok Hotel Corporation Limited	The company was not depositing Employee provident fund and Employee State Insurance regularly.
45.	Western Coalfields Limited	As per the policy of the company only such individual prior-period items which exceeded ₹10 lakh each were accounted as Prior-period items and rest of the items were taken as current year's expenditure/income. The policy was contrary to AS-5.

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

Under section 619 (3) (a) of the Companies Act, 1956, the Comptroller and Auditor-General of India shall have power to direct the manner in which the company's accounts shall be audited by the auditor appointed in pursuance of sub-section (2) of section 619 and to give such auditor instructions in regard to any matter relating to the performance of his functions.

In compliance with the directions issued by the CAG Under section 619 (3) (a) of the Companies Act, 1956, significant observations were made by statutory auditors in their supplementary reports. The number of companies where statutory auditors had observed deficiencies and had highlighted the need for improvement are given in **Appendix X to XIX**. Areas of the Observation along with number of Companies involved is depicted below.

Sl. No.	Area of Observation	Number of companies
1.	Accounting Policies and Practices (Deficient accounting policies and practices)	**10**
2.	Business Risk (Procedure for identification of business risk was either inadequate or not in existence)	**22**
3.	System of Accounts and financial Control (System of accounts and financial control are required to be strengthened)	**70**
4.	Assets (including Inventory) (Economic Order Quantity, ABC Analysis, system of physical verification or maintenance of inventory was not adequate/deficient)	**71**
5.	Internal Audit System (Internal audit system needs to be strengthened)	**35**
6.	EDP Audit (Proper security policy for software/hardware, IT strategy/plan needs improvement)	**67**
7.	Costing System (Absence of formal cost policy or existing cost policy not effective)	**20**
8.	Awards and Execution of Contracts (Monitoring and adjusting advances to contractors and suppliers requires to be strengthened)	**12**
9.	Confirmation of Balances of Debtors and Creditors (Deficient system of obtaining confirmation of balances of debtors/creditors)	**27**
10.	Fraud and Risk (Inefficient fraud risk policy/whistle blowing policy)	**104**

2.10 Internal control over financial reporting

Internal control is the process designed and implemented by those charged with governance and 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 checking fraud and misappropriation.

Internal control measures may vary with the size and complexity of the organisation. 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 CAG 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 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 were with regard to

- improper maintenance of fixed assets register,
- non-existence of investment policy,
- non-creation of separate vigilance department and
- non-fixation of inventory stock holding norms in the government companies including deemed government companies etc

The details regarding lack of internal control in the various companies are given in **Appendix-XX**. Area of deficiency along-with the number of companies involved is depicted below:

Sl. No.	Area of Deficiency	Number of companies
1	Fixed Assets	2
2	Internal Procedures and Operational Efficiency	11
3	Investment	3
4	Inventory	3
5	Internal Audit	9
6	IT Policy	2
7	Vigilance	10