CHAPTER II

Oversight Role of CAG

2.1 Audit of Public Sector Enterprises

Comptroller & Auditor General of India (CAG) appoints the statutory auditors of Government Companies under Section 139 (5) & (7) of the Companies Act, 2013. Comptroller & Auditor General of India has a right to conduct a supplementary audit and issue comments upon or supplement 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.

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

Statutory Auditors of Government Companies for the year 2015-16 were appointed during June/July 2015.

Under Section 129 read with Sections 96 and 145 of the Companies Act, 2013, the audited financial statement 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.

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 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 Government Controlled other Companies were appointed by the CAG for conducting the audit of accounts for the year 2015-16 during June/July 2015.

2.3 Submission of accounts by CPSEs

2.3.1 Need for timely submission

According to Section 394 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its

Annual General Meeting (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 96 of the Companies Act, 2013 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 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration.

Section 129 (7) of the Companies Act, 2013 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 129 of the Companies Act, 2013.

However, Audit noticed that no action 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 Government Controlled other Companies

As of 31 March 2016, there were 410 Government Companies and 191 Government Controlled other Companies in the purview of CAG's audit from which the accounts for the year 2015-16 were due. A total of 341 Government Companies and 161 Government Controlled other Companies submitted their accounts for audit by CAG on or before 30 September 2016. Accounts of 69 Government Companies and 30 Government Controlled other Companies were in arrears for different reasons. Details of arrears in accounts of Central Government Companies are given in Table 2.1.

Out of 601 Government Companies and Government Controlled other Companies, accounts of 99 Companies were in arrears.

Table 2.1: Details of arrears in accounts of CPSEs

Particulars		Government Companies			Government Controlled other Companies			Total		
		Listed	Unlisted	Total	Listed	Unlisted	Total	Listed	Unlisted	Total
Companies from which accounts for 2015-16 were due		51	359	**410**	8	183	**191**	59	542	**601**
Companies which presented the accounts for CAG's audit by 30 September 2016		50	291	**341**	8	153	**161**	58	444	**502**
First Accounts not submitted		-	1	**1**	-	2	**2**	-	3	**3**
Accounts in Arrears		1	67	**68**	-	28	**28**	1	95	**96**
Break- up of Arrears	(i) Under Liquidation	-	21	**21**	-	8	**8**	-	29	**29**
	(ii) Defunct	-	3	**3**	-	6	**6**	-	9	**9**
	(iii) Others	1	43	**44**	-	14	**14**	1	57	**58**
Age–wise Analysis of the arrears against 'Others' category	One year (2015-16)	1	27	**28**	-	9	**9**	1	36	**37**
	Two years (2014-15 and 2015-16)	-	10	**10**	-	2	**2**	-	12	**12**
	Three years and more	-	6	**6**	-	3	**3**	-	9	**9**

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

2.3.3 Timeliness in preparation of accounts by Statutory Corporations

Audit of six Statutory Corporations is conducted by the CAG. Of the five Statutory Corporations where CAG is the sole auditor, four[19] accounts for the year 2015-16 were presented for audit in time i.e. before 30 September 2016. The accounts of Food Corporation of India for the year 2015-16 were received in January 2017. In case of Central Warehousing Corporation, CAG conducts supplementary audit and the accounts were received 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 III to the Companies Act, 2013 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 auditors appointed by the CAG under Section 139 of the Companies Act 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

[19] *Airports Authority of India, Damodar Valley Corporation, Inland Waterways Authority of India and National Highways Authority of India*

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 143 (5) of the Companies Act, 2013, and
- to supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

2.4.3 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, 2013 or other relevant Act is of the management of an entity.

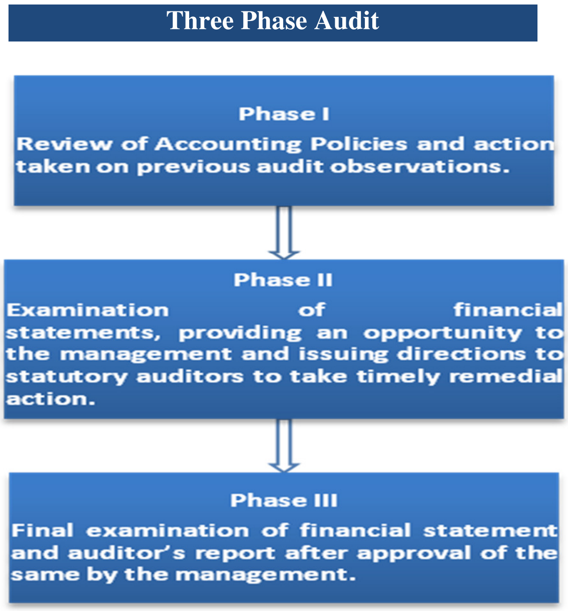
The statutory auditors appointed by the CAG under section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the financial statements under section 143 of the Companies Act, 2013 based on independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

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 143 (6) of the Companies Act, 2013 to be placed before the Annual General Meeting.

As the responsibility of the 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 ‘the system of Three Phase Audit’. The Three Phase Audit system was introduced with the following objectives in selected CPSEs 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 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 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.

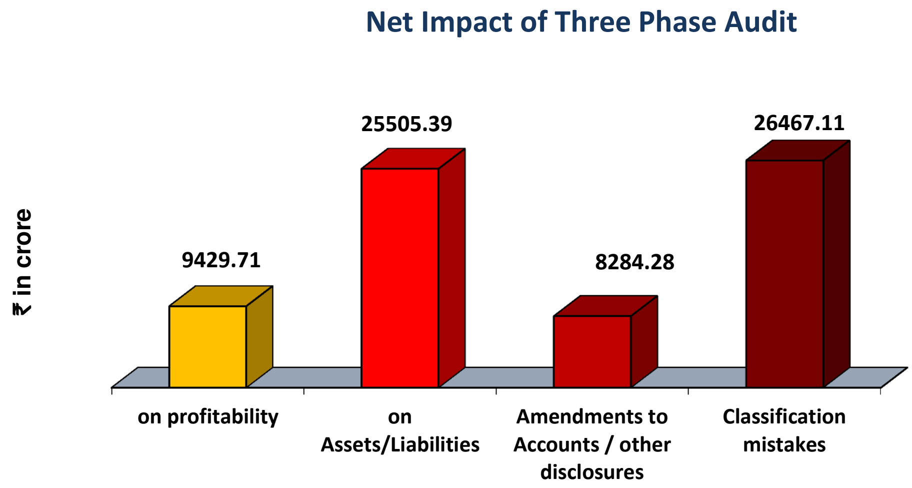
The audit observations under Phase–I and Phase–II of the 'Three Phase Audit' approach are treated as preliminary observations and communicated to the statutory auditors as part of sub-directions under Section 143 (5) of the Companies Act, 2013. The last phase of audit (Phase-III) is conducted after approval 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 87 CPSEs, a number of 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 2015-16 is depicted in the following Chart:



CPSEs where major value addition was made were:

Sr. No.	Name of the CPSE
1.	Bharat Heavy Electricals Limited
2.	General Insurance Corporation Limited
3.	Hindustan Aeronautics Limited
4.	Mazagon Dock Shipbuilders Limited
5.	Hindustan Petroleum Corporation Limited
6.	Indian Oil Corporation Limited
7.	NHPC Limited
8.	Northern Coalfields Limited
9.	NTPC Limited
10.	Oil and Natural Gas Corporation Limited
11.	Power Finance Corporation Limited
12.	Power Grid Corporation of India Limited
13.	Rural Electrification Corporation Limited
14.	New India Assurance Company Limited
15.	Steel Authority of India Limited

2.5.2 Audit of accounts of Government Companies/ Government Controlled other Companies under Section 143 of the Companies Act, 2013

CAG reviewed accounts of 312 Companies and five Statutory Corporations for the year 2015-16.

Financial statements for the year 2015-16 were received from 341 Government Companies (including 50 listed companies), 161 Government Controlled other Companies (including 8 listed companies) and five Statutory Corporations by 30 September 2016. Of these, accounts of 229 Government Companies and 83 Government Controlled other Companies and five Statutory Corporations were reviewed in audit by the CAG.

In sum, CAG reviewed accounts of 67 *per cent* of the Government Companies and 52 *per cent* of Government Controlled other Companies out of the accounts received up to 30 September 2016.

2.5.3 Significant 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 2015-16 by statutory auditors, the CAG conducted supplementary audit and the significant comments issued on accounts of Government Companies are as detailed below:

- **Listed companies**

Comment on Profitability

Name of the Company	Comment
IFCI Limited	• Allowance for bad and doubtful assets was understated by ₹ 66.28 crore. • In accordance with RBI Guidelines the loan given to M/s Jangipur Bengal Mega Food Park Limited was sub-standard asset, accordingly, provision was to be made at the rate of 10 *per cent* whereas provision of only 5 *per cent* was made resulting in short provision of ₹ 2.21 crore. • The unquoted equity shares of Essar Steel Limited, Neelachal Ispat Nigam Limited and Polygenta Technologies Limited acquired by conversion of debt into equity as part of restructuring of loans were treated as fresh non-current investment. These investments were not valued at break-up value in terms of RBI Guidelines resulting in understatement of provision of diminution in value of investment by ₹ 2.05 crore.
Mahanagar Telephone Nigam Limited	License Fees was understated by ₹ 590.90 crore due to non-provision of License Fee pertaining to the period from 2007-08 to 2010-11 and 2012-13 demanded by the Department of Telecommunications.
Steel Authority of India Limited	Other Current Liabilities was understated by ₹ 33.95 crore due to non-inclusion of company's share of entry fee as founder member of the 'Steel Research and Technology Mission of India', a society formed to promote Research and Development for steel industry.
The State Trading Corporation of India Limited	'Other Income' included ₹ 228.33 crore towards interest on outstanding dues recoverable from Global Steel Philippines Inc./Global Steel Holdings Limited in contravention of provisions of AS – 9.

Comment on Financial Position

Name of the Company	Comment
Mahanagar Telephone Nigam Limited	The difference of 'CENVAT Credit' available as per Service Tax Returns filed by the Company and that accounted in the Financial Statements had not been reconciled.
Oil & Natural Gas Corporation Limited	Intangible Assets under Development were understated by ₹ 897.96 crore due to ineligible reversal of impairment provisions.
Steel Authority of India Limited	Arrears of annual cash commitment of ₹ 88 crore for the period from 2013-14 to 2015-16 payable to Steel Development Fund under the Joint Plant Committee, Ministry of Steel had been considered as Long Term Liability.
The State Trading Corporation of India Limited	Trade Receivables included dues not considered good in view of low rate of recovery and lack of adequate security • recoverable from Global Steel Philippines Inc./Global Steel Holdings Limited on account of steel slabs exported during the period 2008-2010 - ₹ 1740.42 crore. • recoverable since 2010 from M/s Jhagadia Copper Limited for import/procurement of copper bearing material- ₹122.77 crore.

Comments on Disclosure

Name of the Company	Comment
Power Finance Corporation Limited	The Note regarding asset considered as 'restructured standard' in place of 'restructured sub-standard', as per orders of Hon'ble High Court of Madras did not disclose the impact on account of deviation from the declared Accounting Policy. Had the asset been treated as 'restructured sub-standard', (i) Interest income that would not had recognized- ₹ 328.78 crore and (ii) Additional provision necessitated- ₹ 276.37 crore was also not disclosed.
Steel Authority of India Limited	Claims by a pellet manufacturer of ₹ 139.65 crore had not been included under Contingent Liabilities.

Comments on Auditor's Report

Name of the Company	Comment
NTPC Limited	Amount of ₹ 6545.43 crore deposited with the appropriate authorities on account of disputed demand of statutory dues had not been reported.

❖ Unlisted companies

Comment on Profitability

Name of the Company	Comment
Indian Drugs and Pharmaceutical Limited (2014-15)	• Current Liabilities was understated by ₹ 143.93 crore due to provision of only ₹ 126.54 crore against reconciled amount of ₹ 270.47 crore towards electricity charges payable to Uttarakhand Power Corporation Limited. • No provision had been made for ₹ 23.99 crore towards interest payable on principal dues to Central Industrial Security Force.
Kolkata Metro Rail Corporation Limited	• Current Tax Expenses did not include Income Tax payable towards interest income on short term deposits - ₹ 12.01 crore. • Provision for taxation relating to previous years written back - ₹ 10.86 crore.
National Insurance Company Limited	Profit after Tax was understated due to : • Non-accountal of re-insurance recoverable from re-insurers arising from Nepal earthquake claims – ₹ 35.95 crore. • Inclusion of IT assets purchased as revenue expenditure instead of capital expenditure - ₹ 8.94 crore

Comments on Financial Position

Name of the Company	Comment
General Insurance Corporation of India Limited	The company is only a Manager to the India Market Terrorism Risk Insurance Pool, thus, the Terrorism Pool (TP) Assets and the TP Liabilities do not belong to the company. The TP Assets and Liabilities of ₹ 5547.53 crore under the head Current Assets and Current Liabilities respectively had resulted in the overstatement of both Current Asset and Current Liabilities by the same amount.
National Backward Classes Finance and Development Corporation	Loans and Advances was overstated due to inclusion of interest accrued but not due (₹ 4.41 crore) on Term Loans and Micro Finance and Interest receivable (₹ 41.93 crore) which were in the nature of current assets.
National Scheduled Castes Finance and Development	• Tangible Assets – Building Leasehold was understated by ₹ 61.54 crore due to non-inclusion of cost of Building

Corporation	System Upgradation work of Scope Minar, Laxmi nagar New Delhi. • Interest Receivables of ₹ 29.59 crore included under Loan and Advances were of the nature of Current Assets.

ONGC Petro Additions Limited	• Other Current Liabilities were understated by ₹ 14.70 crore due to non-inclusion of storage rental charges for Naphtha payable to M/s Gujarat Chemical Port Terminal Company Limited for the period January 2015 to March 2016.
	• Due to revision of useful life of leasehold land, differential depreciation for the period 2011-12 to 2014-15 written back through Prior Period Items - ₹ 49.49 crore retrospectively in contravention of Accounting Standard 6 resulting in overstatement of lease hold land and understatement of Capital Work in Progress.
	• Fabrication, Erection and Installation of Plant and Machinery had been considered as Building - ₹ 102.84 crore resulting in overstatement of Building and understatement of Plant and Machinery.
	• Long Term Loans and Advances was overstated due to inclusion of deposits with
	  • M/s Gujarat Industrial Development Corporation towards execution of pipeline works which had since been completed - ₹ 35.05 crore.
	  • M/s Torrent Energy Limited for laying the HT service power live from Torrent Energy which had since been completed - ₹ 6.50 crore.

Comments on Disclosure

Name of the Company	Comment
Hindustan Antibiotics Limited	Loans and Advances to related parties with subsidiary company included ₹ 25.30 crore (₹ 12.16 crore towards loan and ₹ 13.14 crore towards interest) recoverable from Maharashtra Antibiotics and Pharmaceutical Limited, which is a defunct company and whose Financial Statements had not been maintained and reconciled since 2010-11. This had not been disclosed.
IRCON Shivpuri Tollway Limited	Balances with Banks (in Current Account - ₹ 36.94 crore and Fixed Deposits - ₹ 1.40 crore) pertains to Escrow Accounts

	which were earmarked funds as per the Concession Agreement entered with National Highway Authority of India had not been disclosed.
Kamarajar Port Limited	Out of land admeasuring 647.66 acres acquired by the company from the Salt department, 1.84 acres of land had already been leased out to M/s Zuari Cements by the Government of Tamil Nadu. The company had filed an appeal with the Government of Tamil Nadu for cancellation of the said lease. This fact had not been disclosed.
National Insurance Company Limited	Demand of Liquidated Damages of ₹ 37.65 crore raised by Government of Maharashtra due to delay in payment of claims to empanelled hospitals while servicing Rajiv Gandhi Jeevandayee Arogya Yojana policies had not been disclosed.
Neyveli Uttar Pradesh Power Limited	Estimated amount of ₹ 13.69 crore of contracts remaining to be executed on capital account and not provided had not been disclosed.
PFC Consulting Limited	The Comments of the CAG on the accounts of the company under Section 143 (6) (b) of the Companies Act 2013 for the year 2014-15 had been included in the Director's Report for the year 2014-15 as 'Annexure–I' instead of placing it before the Annual General Meeting of the Company in the same manner as the audit report.
Rail Vikas Nigam Limited	The contract revenue amounting to ₹ 42.40 crore relating to Palanpur Samakhali project awarded by the SPV- M/s Kutch Railway Company Limited had been accounted for without signing of construction agreement. This had not been disclosed.
Sail Rites Bengal Wagon Industries Private Limited	The Company had not disclosed "Share in the Company held by each shareholder holding more than 5 *per cent* shares specifying the number of shares held".

Comment on Auditor's Report

Name of the Company	Comment
Educational Consultants India Limited	Balances of Sundry Debtors and Trade Receivables were not confirmed in respect of all parties.
NABARD Consultancy Services Private Limited	The adequacy of internal financial control system in the company and the operating effectiveness of such controls had not been commented.

❖ Unlisted Government Controlled other Companies

Comment on Profitability

Name of the Company	Comment
Aravali Power Company Private Limited	The Company changed its Accounting Policy regarding 'enabling assets' and reclassified it as fixed assets. The depreciation provided till 31 March 2015 was written back and recalculated retrospectively following the rates notified by the Central Electricity Regulatory Commission Tariff Regulations. The treatment followed by the company was not in line with the opinion of the Expert Advisory Committee of ICAI in this regard resulting in overstatement of Tangible assets by ₹ 41.32 crore.

❖ 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:

Airports Authority of India

(i) Trade Payables was overstated by ₹ 21.73 crore due to excess provision created for payment of anti-hijacking expenses to J&K police for deployment of security personnel at Srinagar International Airport.

(ii) Trade Payables was understated by ₹ 57.06 crore being the balance amount payable to Indian Meteorological Department towards the cost of meteorological services rendered by it during the period 1997-98 to 2015-16.

(iii) Other Current Liabilities & Short term Provisions was understated by ₹ 11.14 crore due to non-provisioning of liability for the following:

Sl. No.	Particulars	Amount (₹ in crore)
1	Software maintenance technical support under GAGAN contract	1.47
2	Payment of licence fee for O&M office at Rajiv Gandhi International Airport, Hyderabad	0.24
3	Demand from ECPF Trust	1.95
4	Electricity charges for the month of March 2016	0.60
5	Cost of clothing, equipment, arms & ammunition at Vadodara Airport	0.17
6	Work relating to beautification and Landscaping work at Visakhapatnam Airport	6.71
	TOTAL	**11.14**

(iv) Other Current Liabilities & Short term Provisions were overstated by ₹ 70.19 crore due to:

Sl. No.	Particulars	Amount (₹ in crore)
(i)	Non-adjustment of advances received from client relating to the assigned work completed by the company and handed over to the client.	1.85
(ii)	Excess provision of Performance Related Pay due to double adjustment of tax provision, inclusion of interest on Fixed Deposit Receipts in contravention of DPE guidelines and non-adjustment of Proficiency Allowance paid.	68.34
	TOTAL	**70.19**

(v) Other Current Liabilities & Short term Provisions did not include provision for service tax amounting to ₹ 29.95 crore payable on the dues cleared by Air India Limited during 2013-14 and 2014-15.

The issue was raised in the year 2014-15 also but no corrective action had been taken.

(vi) Capital Work-in-Progress was overstated by ₹ 52.33 crore on account of non-capitalization of:

(₹ in crore)

Sl. No.	Particulars	Amount	Amount of Depreciation (including prior period)
1.	Plant & Equipment-Freehold, viz., Passenger Boarding Bridge, security equipment, electric work on DVOR, breathing air compressor, VHF transmitter/receiver, solar grip, ILS, ASMGCS, electrical work related to assets completed during the period between May 2009 and March 2016.	47.56	7.63 (2.05 crore prior period)
2.	Master Clock System-Server, CISF Quarters, drainage system, boundary wall, etc.	4.77	1.19 (0.75 crore prior period)
	TOTAL	**52.33**	**8.82**

(vii) Capital Work-in-Progress was overstated by ₹ 9.65 crore on account of capitalisation of works which were of revenue nature viz., replacement of tile flooring, amplifier panel, defective LT panel accessories, AMC and training charges, expenditure on foreclosed IT backup site, consultancy fees paid on foreclosed project, expenditure on re-surfacing of runway at Kolkata Airport, etc. which should have been charged off as expenses.

(viii) Income included airport lease revenue from Delhi International Airport Limited (DIAL- ₹ 2302.66 crore) and Mumbai International Airport Limited (MIAL - ₹ 1066.23 crore). In the absence of relevant records, the veracity of airport lease revenue of as reflected in the books of accounts could not be vouchsafed.

(ix) Contingent Liabilities were understated by ₹ 123.20 crore due to non-disclosure of amounts demanded by Government of Rajasthan, for balance portion of intermittent land admeasuring 43.49 acres, which was under possession of the Authority and covered by boundary wall and which was neither acquired nor transferred to the Authority. The demand was being contested by the company with the State Government for getting the same transferred free of cost. The disclosure in the Notes was therefore deficient to that extent.

2.6 Departures from Accounting Standards

In exercise of the powers conferred by Section 469 of the Companies Act, 2013, read with Section 129 (1), Section 132 and Section 133 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 14 companies as detailed in **Appendix IV** 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 - 2	Valuation of Inventories	Kanti Bijli Utpadan Nigam Limited	Penalty paid to coal companies for not lifting the annual contracted quantity of coal had been added to the cost of inventory.
AS - 3	Cash Flow Statements	Punjab Logistics Infrastructure Limited	Term loan (₹ 10 crore) obtained from HDFC bank for 15 years had been included in Cash Flow from 'Operating Activities' instead of from 'Financing Activities'.
AS - 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	Agri Development Finance (Tamilnadu) Limited (Now NABKISAN)	Amount of ₹ 1.96 crore towards interest not accounted for and recovered through Debt Recovery Tribunal after 15 years had not been disclosed.

AS – 9	Revenue Recognition	Educational Consultants India Limited	The Company recognized 97 *per cent* of the project cost as revenue and 100 *per cent* of the amount of bills raised by the vendor as expenditure from eight projects on completion of second stage i.e. conduct of online examination, against its accounting policy for recognition at 80 *per cent*. The Company accounted for income of ₹ 0.22 crore out of advance received for conducting written test which was subsequently cancelled by the Paradeep Port Trust. New Accounting Policy regarding recognition of revenue in respect of 'online testing activity' had not been approved by the Board of Directors nor disclosed.
		National Textiles Company limited	The company recognized interest of ₹ 8.45 crore (₹ 21.94 crore during previous years) on the loan given to British India Corporation.
AS– 10	Accounting for Fixed Assets	NHPC Limited	Expenditure of ₹ 165.38 crore incurred on enabling assets had been charged to Tangible Assets and Capital Work in Progress.
		NTPC Limited	The company capitalized the expenditure of ₹ 204.66 crore incurred on assets not owned by the company under Tangible Assets and Capital Work in Progress.
AS- 12	Accounting for Government Grants	National Safai Karmachari Finance and Development Corporation	Accounting Policy adopted for Government Grants and nature and extent of Government Grants had not been disclosed.
AS-13	Accounting for Investments	IFCI Limited	Company's policy for provision against diminution in value of equity share was not as per AS-13. No provision/inadequate provision was made against long term investment of ₹ 706.17 crore in respect of five companies despite erosion of net worth, continuous cash losses, negative earnings per share, accumulated losses and default in buy back commitments by investee companies.

AS- 15	Employee Benefits	Central Coalfields Limited	Provision towards Post-retirement Medical Benefit, a defined benefit plan was made for an amount of ₹ 75.62 crore against the required amount of ₹ 59.01 crore on actuarial valuation basis.
		Bharuch Rail Dahej Corporation Limited	Necessary disclosures regarding "Employees Benefits' had not been made.
AS– 19	Leases	Central Railside Warehouse Company Limited	Future enhancement in lease rentals liability had been recognized in respect of hired office space.
AS – 22	Accounting for Taxes on Income	Health Insurance TPA of India Limited	Deferred Tax Assets were created on unabsorbed depreciation and accumulated losses without having any virtual certainty to earn sufficient taxable income in future.
AS – 29	Provisions, Contingent Liabilities and Contingent Assets	Educational Consultants India Limited	Accounting Policy adopted by the company had not been disclosed.

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 143 (5) of the Companies Act, 2013. 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 Letters' to 131 CPSEs.