

Chapter-III
Oversight Role of CAG

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3.1 Audit of State Public Sector Enterprises (SPSEs)

Comptroller and Auditor General of India (CAG) appoints the statutory auditors of a State Government Company and State Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. The CAG has a right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the statutory auditor. Statutes governing the two¹ statutory corporations require that their accounts be audited by the CAG and a report be submitted to the State Legislature.

3.2 Appointment of statutory auditors of SPSEs by CAG

Sections 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a State Government company or State Government controlled other company are to be appointed by the CAG within a period of 180 days from the commencement of the financial year.

The statutory auditors of Government companies/Government controlled other companies for the year 2019-20, were appointed by the CAG during August 2019 to September 2020. In respect of Haryana Financial Corporation, auditors are appointed out of the panel of auditors approved by the Reserve Bank of India. The auditors of Haryana State Warehousing Corporation are appointed by the State Government on the advice of the CAG. The CAG has been entrusted the right to conduct audit of Haryana Financial Corporation and Haryana State Warehousing Corporation under the respective statutes governing their incorporation and functioning.

3.3 Submission of accounts by SPSEs

3.3.1 *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 State Legislature 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 the two statutory corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the State Public Sector Enterprises (SPSEs) from the Consolidated Fund of the State.

¹ Haryana Financial Corporation and Haryana State Warehousing Corporation.

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. However, the GoI has extended (September 2020) the date of holding AGM for the FY 2019-20 till 31 December 2020 due to difficulties faced in view of COVID 19 pandemic. 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.

Despite above, annual accounts of various SPSEs were pending as on 31 December 2020, as detailed in the following paragraph.

3.3.2 *Timeliness in preparation of accounts by State Government companies and State Government controlled other companies*

As of 31 March 2020, there were 28 State Government companies and six² State Government controlled other companies under CAG's audit purview. Of these, accounts for the year 2019-20 were due³ from 27 State Government Companies and five State Government Controlled Other Companies. A total of nine Government Companies and one State Government Controlled Other Company submitted their accounts for the year 2019-20 for audit by CAG on or before 31 December 2020. Accounts of 18 State Government Companies and four State Government controlled other companies were in arrears for various reasons. Details of arrears in submission of accounts of these are given below:

Particulars	State Government companies/State Government controlled other companies		
	State Government companies	State Government controlled other companies	Total
Total number of Companies under the purview of CAG's audit as on 31 March 2020	28	6	34
Less: New Companies from which accounts for 2019-20 were not due	-	-	-
Less: Companies under liquidation	1	1	2
Number of companies from whom accounts for 2019-20 were due for submission	27	5	32
Number of companies which presented the accounts for CAG's audit by 31 December 2020	9	1	10
Number of companies with accounts in arrears	18	4	22

² (i) Gurgaon Technology Park Limited, (ii) Faridabad Smart City Limited, (iii) Gurugram Metropolitan City Bus Limited, (iv) Faridabad City Transport Services Limited, (v) Karnal Smart City Limited and (vi) Haryana State Housing Finance Corporation Limited.

³ The due date for submission of accounts was 30 September 2020. However, the GoI has extended (September 2020) the date of holding AGM for the FY 2019-20 till 31 December 2020 due to difficulties faced in view of COVID 19 pandemic.

Particulars		State Government companies/State Government controlled other companies		
		State Government companies	State Government controlled other companies	Total
Breakup of arrears	(i) Inactive	3	-	3
	(ii) First Accounts not submitted	-	2	2
	(iii) Others	15	2	17
Age-wise analysis of arrears against 'Others' category	One year (2019-20)	7	1	8
	Two years (2018-19 and 2019-20)	5	1	6
	Three years and more	3	-	3

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

Oversight by the Statutory Auditors appointed by the CAG and Supplementary Audit by the CAG could not be conducted in the absence of accounts leading to absence of assurance about whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested was achieved. Besides, their contribution to the State exchequer as well as their activities was also not reported to the Legislature.

The matter of arrear of accounts has been taken up with the Chief Secretary/Administrative Secretaries/Managing Directors of the Companies, whose accounts were in arrears to expedite clearance of arrears. However, there are still four⁴ SPSEs, whose accounts are in arrears for three to four years.

It is, therefore, recommended that the annual accounts should be prepared and finalised within the prescribed time.

During exit conference (July 2021), the ACS (Finance) agreed with concern over arrears of accounts in SPSEs and emphasised upon early action by the concerned SPSEs to clear the arrears.

3.3.3 Timeliness in preparation of accounts by Statutory Corporations

Audit of two statutory corporations is being conducted by the CAG. The accounts of both Haryana Financial Corporation and Haryana State Warehousing Corporation Limited for the year 2019-20 were awaited as on 31 December 2020.

⁴ Haryana Agro Industries Corporation Limited (4 years), Haryana Women Development Corporation Limited (3 years), Haryana Police Housing Corporation Limited (3 years) and Karnal Smart City Limited (3 years; a Government controlled other company, has not submitted its first accounts since inception in the year 2017-18).

3.4 CAG's oversight - Audit of accounts and supplementary audit

3.4.1 Financial reporting framework

Companies are required to prepare their 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 their rules, framed in consultation with the CAG and any other specific provision relating to accounts in the Act, governing such corporations.

3.4.2 Audit of accounts of State Government companies by Statutory Auditors

The statutory auditors appointed by the CAG under Section 139 of the Companies Act, 2013, conduct audit of accounts of the State Government Companies and submit their reports thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of public sector undertakings 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.

3.4.3 Supplementary Audit of accounts of Government companies

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 the 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 (ICAI) 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 State Government Companies along with the report of the statutory auditors are reviewed by CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the Annual General Meeting.

3.5 Result of CAG's oversight role

3.5.1 Audit of accounts of State Government companies/State Government controlled other companies under Section 143 of the Companies Act, 2013

Financial statements for the year 2019-20 were received from nine⁵ State Government companies and one⁶ State Government controlled other company by 31 December 2020. Accounts of seven State Government companies and one State Government controlled other company were reviewed in audit by the CAG.

Comments on accounts of four SPSEs were issued up to 31 December 2020. The results of the review are detailed below:

3.5.2 Significant comments of the CAG issued as supplement to the Statutory auditors' reports on State Government companies/State Government controlled other companies

Subsequent to the audit of the financial statements for the year 2019-20 by statutory auditors, the CAG conducted supplementary audit of the financial statements of the State Government companies and Government controlled other companies. The list of SPSEs in respect of whom comments were issued is given in *Appendix III C*. Significant comments issued on financial statements of State Government companies, the financial impact of which on the profitability was ₹ 108.21 crore⁷ and on financial position ₹ 478.86 crore, have been tabulated below:

Comments on Profitability:

Sl. No.	Name of Company	Comments
1	Haryana Power Generation Corporation Limited (HPGCL)	Company provided excess contribution of ₹ 45.06 crore towards retirement benefit of its employees. This resulted in overstatement of provisions for Employee benefits Pension Fund Trusts and understatement of profit by the same amount.
2	Haryana Vidyut Prasaran Nigam Limited (HVPNL)	Other Expenses included ₹ 0.39 crore on account of apprentice claim receivable from the Government of India (GoI) which resulted in understatement of profit and current assets (receivable from GoI) and overstatement of Other Expenses by ₹ 0.39 crore.
3	Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL)	Profits of the Company were understated by net amount of ₹ 1.34 crore as the Company neither made provision for additional power purchase cost of ₹ 12.23 crore payable to HPGCL nor booked the receivables on account of adjustment of fixed cost of ₹ 13.57 crore.

⁵ Haryana Power Generation Corporation Limited, Haryana Vidyut Prasaran Nigam Limited, Uttar Haryana Bijli Vitran Nigam Limited, Dakshin Haryana Bijli Vitran Nigam Limited, Haryana Land Reclamation and Development Corporation Limited, Haryana Roadways Engineering Corporation Limited, Panipat Plastic Park Haryana Limited, Haryana Rail Infrastructure Development Corporation Limited and Haryana Orbital Rail Corporation Limited.

⁶ Gurgaon Technology Park Limited.

⁷ HPGCL ₹ 45.06 crore plus HVPNL ₹ 56.46 crore plus UHBVNL ₹ 1.34 crore and DHBVNL ₹ 5.35 crore.

Sl. No.	Name of Company	Comments
4	Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL)	<ul style="list-style-type: none"> The Company had recovered excess additional surcharge of ₹ 0.50 crore from open access consumers and booked this amount in its other income which resulted in overstatement of profits and current liabilities by ₹ 0.50 crore. Profits of the Company were understated by net amount of ₹ 1.86 crore as the Company neither made provision for additional power purchase cost of ₹ 16.95 crore payable to HPGCL nor booked the receivables on account of adjustment of fixed cost of ₹ 18.81 crore. Other expenses did not include ₹ 6.71 crore payable for annual maintenance and technical support and IT enabled services availed during 2019-20 resulting in understatement of Current Liabilities and overstatement of Profits by ₹ 6.71 crore.

Comments on Financial Position:

Sl. No.	Name of Company	Comments
1	Haryana Vidyut Prasaran Nigam Limited	<ul style="list-style-type: none"> Capital Works in Progress and current year's profit were overstated by ₹ 8.33 crore as the Sub-Station on which the expenditure was incurred was abandoned by the Government of Haryana. The Company recovered ₹ 48.52 crore through transmission charges in excess of Aggregate Revenue Requirements (ARR) approved by Haryana Electricity Regulatory Commission (issued on 21 May 2020) for the financial year 2018-19. This resulted into understatement of current liability and overstatement of profit for the year 2019-20 by ₹ 48.52 crore.
2	Uttar Haryana Bijli Vitran Nigam Limited	Cash and cash equivalents included cheques in hand of ₹ 422.01 crore on account of subsidy released (March 2020) by Government of Haryana to the Company through HPGCL. As on 31 st March 2020, it was receivable by the Company from HPGCL. This resulted in overstatement of cash and cash equivalents and understatement of receivables from HPGCL to the same extent.

Other Significant Comments:

Sl. No.	Name of Company	Comments
1	Haryana Power Generation Corporation Limited	<ul style="list-style-type: none"> The Company received dividend of ₹ 35.83 crore during 2019-20 from its Joint Venture with NTPC Limited and Indraprastha Power Generation Company Limited (IPGCL, a Delhi State company) namely Aravali Power Private Limited and remitted the same to the Government of Haryana without routing through its Accounts. (Similar comment was included on Company's Accounts for the previous year.) The Company considered holding cost for delay in finalisation of tariff for the year 2017-18 and 2018-19 of ₹ 27.42 crore allowed to it as 'Revenue from Operations' instead of as 'other income'. Salaries included expenditure on security services engaged from Central Industrial Security Force for watch and ward of

Sl. No.	Name of Company	Comments
		HPGCL Generation plants amounting to ₹ 38.77 crore. The expenditure should have been classified under 'Other expenses'. (Similar comment was included on Company's Accounts for the previous year.)

3.6 Non-compliance with provisions of Accounting Standards/Ind AS

In exercise of the powers conferred by Section 469 of the Companies Act, 2013, read with Sections 129 (1), 132 and 133 of the said Act, the Central Government prescribed Accounting Standards 1 to 7 and 9 to 29. Besides these, the Central Government notified 41 Indian Accounting Standards (Ind AS) through Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) (Amendment) Rules, 2016.

The following instances for non-compliance with mandatory Accounting Standards/Ind AS were reported by statutory auditors:

Accounting Standard/Ind AS	Standard/Ind AS	Name of Company	Deviation
Ind AS 36	Impairment of Assets	Haryana Vidyut Prasaran Nigam Limited	The Company provides 10 <i>per cent</i> towards impairment on assets held for sale only, in violation of Ind AS 36 which says that each tangible and intangible asset should be properly evaluated and impaired accordingly. No impairment is done on Generation assets, held jointly with Bhakra Beas Management Board.

During the course of supplementary audit, the CAG observed that the following companies had also not complied with the Accounting Standards/Ind AS, which were not reported by their statutory auditors:

Accounting Standard/Ind AS	Standard/Ind AS	Name of Company	Deviation
Ind AS 1	Presentation of Financial Statements	Uttar Haryana Bijli Vitran Nigam Limited	<ul style="list-style-type: none"> The Company disposed of land for ₹ 16.81 crore whose book value was ₹ 0.05 crore earning profit of ₹ 16.76 crore. In line with provisions of Ind AS-1, this should have been included in Exceptional items, however, it was booked under 'Other Income'. There were a number of litigation cases regarding purchase of power wherein total payment of ₹ 634.24 crore has been accounted for in 'Power Purchase Cost'. As per Ind AS-1, the amount of litigation settlement is required to be disclosed separately under the head 'Exceptional Items (VI)' in Statement of Profit and Loss. This resulted in overstatement of current year's Power Purchase Cost and understatement of Exceptional Items to the extent of ₹ 634.24 crore.

Accounting Standard/Ind AS	Standard/Ind AS	Name of Company	Deviation
Ind AS 16	Property, Plant and Equipment	Haryana Vidyut Prasaran Nigam Limited	As per significant accounting policy of the company, the sub-stations, transmission lines and allied works are transferred from Capital Work in Progress to Property, Plant and Equipments on completion of all activities as per completion certificate. Although the date of commissioning of these assets as per the records of technical wing may be prior to the date of completion. This is not in accordance with Ind AS 16- Property, Plant and Equipment (Similar comment was included on Company's Accounts for the previous year.)

In Uttar Haryana Bijli Vitran Nigam Limited, the financial statements had been partially converged to Ind AS. In absence of the Impact Assessment analysis report, inadequate documentation, the impact of non-complied Ind AS on profit and loss and Balance Sheet position of the Company could not be quantified.

During exit conference (July 2021), ACS (Finance) agreed with the importance of Accounting Standards including Ind AS and instructed the SPSEs to follow the same.

3.7 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 SPSEs were reported as comments by the CAG under Section 143 (6) 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 important information.

During the year, CAG raised specific issues of interest through 'Management Letters' of four SPSEs. (*Appendix III D*).