CHAPTER II

Oversight Role of CAG

2.1 Audit of Public Sector Enterprises

CAG appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. CAG 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 submitted to the Parliament.

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

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

Statutory auditors of Companies for the year 2018-19 were appointed during July 2018.

The statutory auditors of the above Companies for the year 2018-19 were appointed by the CAG during July 2018.

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). As soon as may be after such preparation, the Annual Report must be laid before both the Houses of Parliament, together with a copy of the Audit Report and comments of the CAG upon or as supplement to the Audit Report. 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.

Despite above, annual accounts of various CPSEs were pending as on 30 September 2019, as detailed in the following paragraph.

2.3.2 Timeliness in preparation of accounts by Government Companies and Government Controlled Other Companies

Out of 662 companies, accounts of 95 companies were in arrears.

As of 31 March 2019, there were 480 Government Companies and 182 Government Controlled Other Companies under the purview of CAG's audit. Of these, accounts for the year 2018-19 were due from 461 Government Companies and 182 Government Controlled Other Companies. Accounts were not due from 19 Government Companies, which were new. A total of 397 Government Companies and 151 Government Controlled Other Companies submitted their accounts for audit by CAG on or before 30 September 2019. Accounts of 64 Government Companies and 31 Government Controlled Other Companies were in arrears for various reasons. Details of arrears in submission of accounts of Government Companies are given below:

Particulars		Government Companies/Government Controlled Other Companies					
		Government Companies		Government Controlled Other Companies		Total	
Total number of Companies under the purview of CAG's audit as on 31.03.2019		480		182		662	
		Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Listed/Unlisted		66	414	6	176	72	590
Less: New Companies from which accounts for 2018-19 were not due		0	19	0	0	0	19
Number of companies from which accounts for 2018-19 were due		66	395	6	176	72	571
Number of companies which presented the accounts for CAG's audit by 30 September 2019		66	331	6	145	72	476
Number of accounts in arrears		0	64	0	31	0	95
Break- up of Arrears	(i) Under Liquidation	0	20	0	8	0	28
	(ii) Defunct	0	2	0	5	0	7
	(iii) Others	0	42	0	18	0	60
Age–wise analysis of arrears against 'Others' category	One year (2018-19)	0	21	0	8	0	29
	Two years (2017-18 and 2018-19)	0	8	0	3	0	11
	Three years and more	0	13	0	7	0	20

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, accounts of Airports Authority of India, Damodar Valley Corporation and National Highways Authority of India for the year 2018-19 were presented for audit before 30 September 2019. The accounts of Food Corporation of India and Inland Waterways Authority of India for the year 2018-19 were awaited as on 30 September 2019. In case of Central Warehousing Corporation, CAG conducts supplementary audit and the accounts were received on 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 by Statutory Auditors

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.

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

2.4.3 Supplementary Audit of accounts of Government Companies

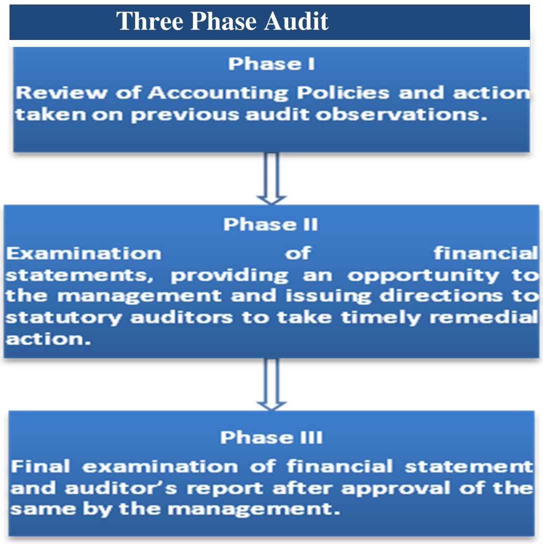
The prime responsibility for preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is of the management of an entity.

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 an 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 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 AGM.

2.4.3.1 Adoption of Three Phase Audit approach in selected Government Companies

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 '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 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.

Phase – I and Phase – II of the Three Phase Audit approach are extended provisions of Section 143 (5) of the Companies Act, 2013. 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 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.

2.5 Result of CAG's oversight role

2.5.1 Audit of accounts of Government Companies/ Government Controlled Other Companies under Section 143 of the Companies Act, 2013

Financial statements for the year 2018-19 were received from 397 Government Companies (including 66 listed companies), 151 Government Controlled Other Companies (including 6 listed companies) and four statutory corporations by 30 September 2019. Of these, accounts of 300 Government Companies and 142 Government Controlled Other Companies and four Statutory Corporations were reviewed in audit by the CAG.

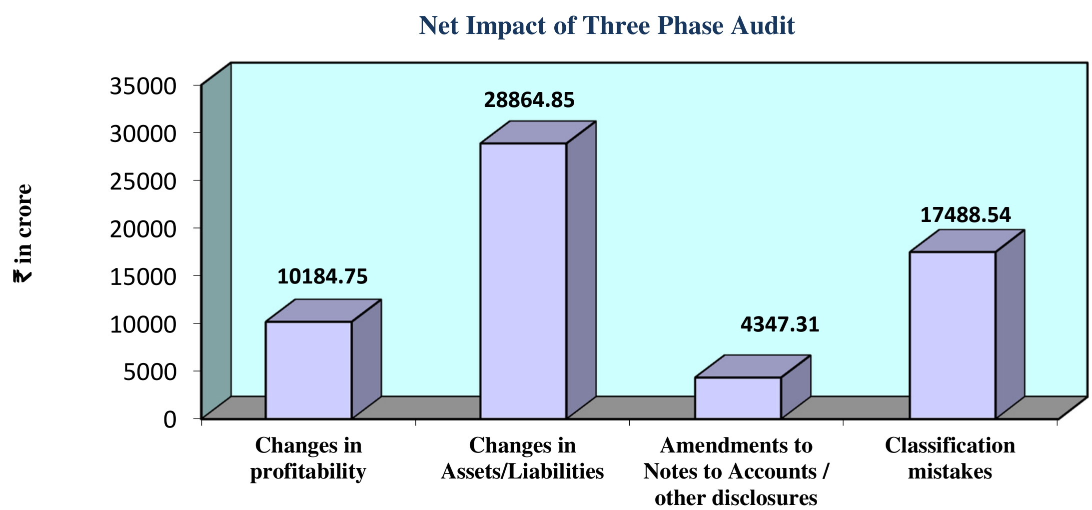
CAG reviewed accounts of 442 companies and four statutory corporations for the year 2018-19.

In total, CAG reviewed accounts of 76 *per cent* of the Government Companies and 94 *per cent* of Government Controlled Other Companies out of the accounts received up to 30 September 2019. The results of the review are detailed below:

2.5.1.1 Result of Three Phase Audit

As a result of Three Phase Audit conducted in86 CPSEs ***(Appendix-XVII)***, 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 2018-19 is depicted in the following chart:



CPSEs where major value addition was made were:

Sl.No.	Name of CPSE
1.	Bharat Sanchar Nigam Limited
2.	Central Coalfields Limited
3.	Eastern Coalfields Limited
4.	General Insurance Corporation of India
5.	Hindustan Aeronautics Limited
6.	Hindustan Petroleum Corporation Limited
7.	Indian Oil Corporation Limited
8.	National Insurance Company Limited
9.	NHPC Limited
10.	Northern Coalfields Limited
11.	NTPC Limited
12.	Oil and Natural Gas Corporation Limited
13.	Oil India Limited
14.	ONGC Videsh Limited
15.	Steel Authority of India Limited

2.5.1.2 Amendment of Financial Statements

As a result of supplementary audit of the financial statements for the year ended 31 March 2019 conducted by the CAG, APITCO Limited, a Government company amended its Financial Statements before laying the same in the AGM.

2.5.1.3 Revision of Auditors Report

As a result of supplementary audit of the financial statements for the year ended 31 March 2019 conducted by the CAG, the statutory auditors of 34 Government Companies and 12 Government Controlled Other Companies as detailed in ***Appendix-XVIII*** revised their report before laying of the Financial Statements of these Companies in their AGM.

2.5.1.4 Significant comments of the CAG issued as supplement to the statutory auditors' reports on Government Companies/Government Controlled Other Companies

Subsequent to the audit of the financial statements for the year 2018-19 by statutory auditors, the CAG conducted supplementary audit of the financial statements of the selected Government Companies and Government Controlled Other Companies. The list of CPSEs in respect of whom comments were issued is given in ***Appendix-XIX***. Some of the significant comments issued on financial statements of Government Companies and Government Controlled Other Companies, the financial impact of which on the profitability was ₹2633.93 crore and on assets/liabilities was ₹7,068.01 crore, have been tabulated below:

Listed Government Companies

Comments on Profitability

Sl. No.	Name of the Company	Comment
1.	BEML Limited	• Non-provision of liquidated damages for delayed supply of Tatra trucks to Bharat Electronics Limited and Bharat Dynamics Limited during 2015-16 and 2016-17 resulted in overstatement of trade receivables and profit by ₹18.79 crore.
2.	Container Corporation of India Limited (Standalone and Consolidated Financial Statement)	• An amount of ₹339.22 crore being grants receivable from Government of India (GoI) under Service Export from India scheme was shown under other operating income instead of showing the same as other income which was not in compliance to Accounting Standard 20.
3.	IFCI Limited (Standalone and Consolidated Financial Statement)	• As per the decision and resolution plan of National Company Law Tribunal, which was approached by the Company, the Company's claim of ₹592.34 crore against M/s Rainbow Papers Limited and M/s Alok Industries Limited was restricted to ₹190.79 crore. While the balance due of ₹401.55 crore was written off by the Company, accrued interest of ₹43.28 crore was accounted on ₹190.79 crore considering the settled amount as principal amount instead of final settlement which resulted in overstatement of interest income and outstanding loan by ₹43.28 crore. • Non-adjustment of dues amounting to ₹89.60 crore recoverable from M/s SEW Green Energy Limited and M/s SEW Infrastructure Limited as per one time settlements entered into with these Companies resulted in overstatement of loan by ₹23.18 crore and overstatement of impairment loss allowance by ₹35.42 crore. Consequently, loss for the year was understated by ₹23.18 crore. • Non-provision of entire amount of outstanding loan amounting to ₹29.77 crore given to IL&FS Transportation Network Limited less the amount for which security was available, resulted in overstatement of loan by ₹11.78 crore and overstatement of impairment loss allowance by ₹17.99 crore. Consequently, loss for the year was understated by ₹11.78 crore. • As against the total dues of ₹164.02 crore from M/s Adhunik Metaliks Limited (AML), the maximum receivable amount was ₹33.60 crore as per the offers made by private parties under a resolution plan to take over debts. In view of the above, the Company should have written off ₹130.42 crore and should have shown ₹13.29 crore as net loan (₹33.60 crore - ₹20.31 crore) outstanding from AML. Non-adjustment of the same has resulted in overstatement of loan by ₹51.58 crore and overstatement of impairment loss allowance by ₹78.84 crore. Consequently, loss for the year was understated by ₹51.58 crore. • Classification of loan of ₹24.96 crore provided to Geetanjali Gems Limited as Stage III loan and making part provision

		instead of providing for the entire loan less the amount of security available, resulted in overstatement of loan by ₹9.59 crore and overstatement of impairment loss allowance by ₹14.67 crore. Consequently, loss for the year was understated by ₹9.59 crore.
4.	The General Insurance Corporation of India (Standalone and Consolidated Financial Statement)	• The Company created a provision of ₹436.91 crore being 100 *per cent* of investment in unsecured non-convertible debentures(NCDs) and 50 *per cent* in secured NCDs of Infrastructure Leasing and Financial Services Limited (IL&FS) towards diminution in value of investments. Disclosure was made in the Notes on accounts that the provision made was higher than the provision required to be made as per prudential norms for Income Recognition, Asset Classification and Provisioning issued by Reserve Bank of India (RBI) and Insurance Regulatory and Development Authority applicable to Insurance Companies (IRDAI). However, as per proceedings (11 February 2019) before National Company Law Appellate Tribunal (NCLAT) which were available in the public domain, the two IL&FS entities had been placed under the 'Red' category by the new Board of Directors appointed by the Union Government to manage the affairs of the IL&FS group of companies, which meant that such entities could not meet their payment obligations towards even senior secured financial creditors. Considering these developments, the Company should have made full provision against diminution in the value of the above investment. The short provision resulted in understatement of provision for diminution in value of investments and overstatement of profit by ₹351.89 crore.
5.	The New India Assurance Company Limited (Standalone and Consolidated Financial Statement)	Reserves for bad and doubtful debts included ₹71.38 crore being 100 *per cent* provision for unsecured investments and 10 *per cent* provision for secured investments made in IL&FS and its group companies with total investment being ₹128.24 crore. However, as per proceedings before NCLAT available in the public domain, IL&FS had been placed under the 'Red' category by the new Board of Directors appointed by the Union Government to manage the affairs of the IL&FS group of companies, which meant that such entities could not meet their payment obligations towards even senior secured financial creditors. Considering this, the Company should have made full provision on investment of ₹15 crore in secured investments of IL&FS instead of 10 *per cent*. This resulted in understatement of provision for bad and doubtful debts and overstatement of profit by ₹13.50 crore.

Comments on Financial Position

Sl. No.	Name of the Company	Comment
1.	Mahanagar Telephone Nigam Limited	• The Company increased its authorised capital from ₹800 crore to ₹10,000 crore without obtaining the approval of the GoI which was contrary to the decision taken in the AGM of the Company.

Comments on Disclosure

Sl. No.	Name of the Company	Comment
1.	BEML Limited (Standalone and Consolidated Financial Statement)	• Disclosure requirements as per Ind AS 8 on adoption of Ind AS 115 w.e.f. 1 April 2018 were not complied with.
2.	Container Corporation of India Limited (Standalone and Consolidated Financial Statement)	• An amount of ₹10,44.03 crore was included under other current assets which represented the benefits claimed from GoI under Service Export from India scheme for the years 2015-16 to 2018-19. The same was under examination with the GoI. This fact was not disclosed appropriately by the Company in the notes to accounts.
3.	Mahanagar Telephone Nigam Limited	• Even though, during the year, the accounting policy was modified to include major structural repairs to building as capital repairs, disclosures as required under Ind AS 8, were not made. • Material change regarding revision of materiality threshold from 0.5 *per cent* to 1 *per cent* of the turnover for considering income and expense pertaining to past services as income and expense of current year, was not disclosed. • Overheads were charged on capital work in progress (CWIP) on a percentage basis in some units, which was contrary to the accounting policy which stated that these were being charged on actual basis.

Comments on Auditor's Report

Sl. No.	Name of the Company	Comment
1.	IFCI Limited	• Fixed assets register maintained by the Company did not contain details such as the situation/quantity of various assets such as flats, paintings and land etc., which was not highlighted by the independent auditor as required under clause 3(i) of Companies Auditor's Report Order (CARO) Rules, 2016. • Even though the physical inspection report of the fixed assets did not provide a comparison between the assets as shown in the fixed assets register *vis-a-vis* found during physical verification, the independent auditor's report stated that fixed assets were being physically verified by the management and no material discrepancies were noticed.
2.	Container Corporation of India Limited (Consolidated Financial Statements)	• Report under Section 143(5) of the Companies Act, 2013 on the directions issued by the CAG, the action taken and its impact on the accounts and financial statements of the Company was not submitted by the Auditor.

Sl. No.	Name of the Company	Comment
3.	The General Insurance Corporation of India	• Independent auditors' report did not include the certificate that no part of the assets of the policyholders' funds had been directly or indirectly applied in contravention of the provisions of the Insurance Act, 1938 (4 of 1938) relating to the application and investments of the policyholders' funds, which was contrary to the IRDAI regulations. • The Company held investments in private limited companies as on 31 March 2019 though such investments were prohibited under Section 27A (4) of the Insurance Laws (Amendment) Act, 2015. These included investment of ₹45.56 crore (₹45 crore in fixed interest bonds in Tata Sons Private Limited, ₹0.11 crore NCDs of Chhatar Chemicals, ₹0.33 crore in NCDs of ATASH Industries Limited and ₹0.12 crore in NCDs of Electra (India) Limited). This was not brought out in the auditor's report.

Unlisted Government Companies

Comments on Profitability

Sl. No.	Name of the Company	Comment
1.	Air India Limited (Standalone and Consolidated Financial Statement)	• Finance cost included an amount of ₹126.96 crore towards interest on delayed payment payable to Delhi International Airport Limited on estimation basis, which would be trued-up later. • Revenue from operations was understated and loss was overstated to the tune of ₹78.03 lakh due to non-inclusion of: • differential revenue of ₹38.40 lakh for the period 2018-19 booked by Chefair Flight Catering, a division of the Company during April and May 2019. • arrears receivable for the period May 2017 to March 2019, amounting to ₹39.60 lakh on account of renewal of installation of two mobile towers on its hotel terrace w.e.f May 2017 in October 2018. • Arrears payable to union employees based on the wage revision approved (July 2019) by the Ministry of Civil aviation on the recommendation (November 2018) of the Company amounting to ₹8.23 crore were booked as prior period expense instead of current year expense which was not in line with Ind AS 8. This resulted in understatement of expenses and loss for the year by ₹8.23 crore. • Interest on luxury tax paid for the period 2010-11 to 2015-16 amounting to ₹5.55 crore was booked as prior period expense instead of current year expense, which was not in line with Ind AS 8. This resulted in understatement of the

Sl. No.	Name of the Company	Comment
		finance cost and the loss for the year by ₹5.55 crore. • Training cost from the Pilots including Cadet Pilots who had joined on or after April 2008 was not shown as recoverable.
2.	Andhra Pradesh Solar Power Corporation Private Limited	• The Company did not make provision for transfer of one *per cent* of total investment made by it to Local Area Development Fund in non-compliance to guidelines for developments of Solar Parks issued by Ministry of New and Renewable Energy which resulted in overstatement of profit by ₹7.16 crore and understatement of liabilities by the same amount.
3.	Bokaro Power Supply Company (P) Limited	• Non-provision of an amount of ₹6.18 crore shown under other assets as recoverable from Central Coalfields Limited despite being disputed by it, resulted in overstatement of current assets and profit by ₹6.18 crore. • Non-provision of cost estimated at ₹53.16 crore for transportation of ash for road construction projects resulted in understatement of expenses and overstatement of profit by the same amount. Further, no provision for transportation of 15.04 lakh m^3 of ash was made by the Company. • Penalty of ₹1.03 crore payable to the Central Pollution Control Board for non-disposal of ashwas not provided due to which the expenses were understated and profit was overstated by the same amount.
4.	Broadcast Engineering Consultants India Limited (2017-2018)	• Even though an amount of ₹9.21 crore was pending for acceptance and recovery from Prasar Bharti for more than seven years, no provision in this regard was made which was not in compliance to the accounting policy. • The trade receivables included an amount of ₹5.05 crore towards dues recoverable from 22 parties, which were pending for recovery for more than five years. However, contrary to the accounting policy, no provision in this regard was made. • Out of ₹6.19 crore collected during year 2014-15 as interest for delayed payments by the lessees, an amount of ₹0.93 crore was booked as revenue and an amount of ₹0.48 crore was adjusted being expenditure incurred towards legal charges without any provision in the MoU or approval from Ministry of Information and Broadcasting. Due to this, the amount payable to the Ministry of Information and Broadcasting as well as the loss was understated by ₹1.41 crore. • Liability for interest on the amount of ₹24.43 crore towards rental charges upto 31 March 2018, which was collected from the lessees but not remitted to the Ministry of Information and Broadcasting was not provided for.

Sl. No.	Name of the Company	Comment
5.	ECGC Limited	• On the investment of ₹105 crore in secured NCDs of IL&FS, the Company created a provision of ₹26.25 crore towards diminution being 25 *per cent* of the value of investments. Disclosure was also made in the notes on accounts that the provision made was higher than the provision required to be made as per prudential norms for Income Recognition, Asset Classification and Provisioning issued by RBI and IRDAI applicable to Insurance Companies. However, as per proceeding before NCLAT dated 11 February 2019, the new Board of Directors appointed by the Union Government to manage the affairs of the IL&FS group of companies, had placed the Company under the 'Red' category which meant that the entity could not meet its payment obligations towards even senior secured financial creditors. Considering these developments, the Company should have made full provision against diminution in the value of the above investment. The short provision resulted in understatement of provision for diminution in value of investments and overstatement of profit by ₹78.75 crore.
6.	Heavy Engineering Corporation Limited	• Non-provision of interest of ₹13.12 crore on the outstanding payment of ₹30.81 crore being the cost of security resulted in understatement of expenses and loss by ₹13.12 crore. • Non-provision of interest of ₹3.32 crore towards interest payable to employee on outstanding gratuity resulted in understatement of expenses and loss by ₹3.32 crore.
7.	Hindustan Fluorocarbons Limited	• Income as well as profit for the year was overstated by ₹2.27 crore due to accounting of an error relating to earlier years as prior period income, which was not in line with the provisions of Ind AS 8.
8.	HLL Infra Tech Services Limited	• Expenses included an amount of ₹69.52 lakh on account of trade receivables written off which were due from HLL Mother and Child Care Hospitals Limited (HMC). The amount was written off on account of merger of HMC with HLL Lifecare Limited and inability of HMC to settle its dues due to negative net worth. However, as per merger arrangement, assets and liabilities of HMC were to transfer to HLL Lifecare Limited, which was a going concern with positive net worth. The decision of the Company to write off the amount without examining and exploring the likelihood of recoverability of dues resulted in overstatement of other expenses and understatement of current assets and profit by an amount of ₹69.52 lakh.
9.	Hotel Corporation of India	• Revenue from operations was understated and loss was overstated to the tune of ₹78.03 lakh due to non-inclusion of:

Sl. No.	Name of the Company	Comment
		• differential revenue of ₹38.44 lakh for the period 2018-19 booked by Chefair Flight Catering, a division of the Company during April and May 2019. • arrears receivable for the period May 2017 to March 2019, amounting to ₹39.60 lakh on account of renewal of installation of two mobile towers on its hotel terrace w.e.f May 2017 in October 2018. • Arrears payable to union employees based on the wage revision approved (July 2019) by the Ministry of Civil aviation on the recommendation (November 2018) of the Company amounting to ₹8.23 crore were booked as prior period expense instead of current year expense which was not in line with Ind AS 8. This resulted in understatement of the expenses and loss for the year by ₹8.23 core. • Interest on luxury tax paid amounting to ₹5.55 crore for the period 2010-11 to 2015-16 was booked as prior period expense instead of current year expense which was not in line with Ind AS 8. This resulted in understatement of the finance cost and the loss for the year by ₹5.55 crore.
10.	IFCI Infrastructure Development Limited (Standalone and Consolidated Financial Statement)	• Depreciation and amortization expenses were understated by ₹2.98 crore due to non-charging of depreciation/ amortization as per the Schedule II of the Companies Act, 2013 and as per the accounting policy of the Company in respect of assets held at Fraser Suites unit (set up as service apartment and providing lodging and restaurant facilities). This resulted in overstatement of profit for the year by ₹0.56 crore and reserves and surplus by ₹2.42 crore. • Income was understated and other current liabilities were overstated by ₹75 lakh due to non-accounting of amount to be deducted from the consideration of two plots, sale of which was cancelled at the request of the purchaser.
11.	Indian Strategic Petroleum Reserve Ltd.	• Expenditure of ₹78.21 crore on operation and maintenance of caverns which was recoverable from GoI and recovery of ₹58.95 crore from the GoI and Hindustan Petroleum Corporation Limited, were not recorded in the books of the Company. Only the balance amount of ₹19.26 crore was shown as receivable from the GoI. The treatment was not in line with the provisions of the Companies Act, 2013 and Memorandum of Association of the Company. This issue was commented by CAG on the Accounts of the company for the financial year 2017-18 also, however, no corrective action was taken.
12.	IRCON Devangere Haveri Highway Limited	• Other income included ₹3.26 crore being interest earned on escrow account and mobilization advance during the construction period which should have been credited to the

Sl. No.	Name of the Company	Comment
		other financial assets. This resulted in overstatement of profit before tax by ₹3.26 crore and overstatement of the other financial asset by the same amount.
13.	IRCON PB Tollway Limited	• An amount of ₹338.17 crore being the revenue from construction contract was disclosed as other operating revenue instead of disclosing the same under operating revenue, which was not in accordance with Ind AS 115.
14.	Karnataka Solar Power Development Corporation Limited	• The Company did not make provision for transfer of one *per cent* of total investment made by it to Local Area Development Fund in non-compliance to guidelines for developments of Solar Parks issued by Ministry of New and Renewable Energy which resulted in overstatement of profit by ₹1.07 crore and understatement of liabilities by the same amount.
15.	National Film Development Corporation of India (2017-18)	• No provision for the trade receivables amounting to ₹4.68 crore recoverable from Doordarshan was made even though the recovery was pending for more than four years and was under dispute which resulted in overstatement of profit for the year and trade receivables by the same amount.
16.	National Insurance Company Limited	• The Company held ₹209.09 crore in secured NCDs of IL&FS Limited and IL&FS Financial Services Limited. Both of these Companies defaulted in payment of principal as well as interest. The Company created a provision of ₹31.36 crore (15 *per cent*) towards the book value of Investment. As per proceedings before NCLAT, both these companies had been placed under 'Red' category by Board of Directors appointed by the Union Government to manage the affairs of the IL&FS group of companies, which meant that such entities could not meet their payment obligations towards even senior secured financial creditors. In view of the above, the entire investment should have been provided for and not doing so resulted in understatement of provision for doubtful debts by ₹177.73 crore and consequent understatement of loss to the same extent. • Provision of ₹17.22 crore towards various IT related services rendered by the contractor during 2018-19 was not made, which resulted in understatement of sundry creditors and understatement of loss for the year by the same amount. • The Company booked ₹61.50 crore as provisional ceding commission i.e. five *per cent* of total ceding premium of ₹1,230 crore under a reinsurance treaty even though the final settlement including commission would be calculated based on the loss ratio as on 31 March 2024. This resulted in understatement of miscellaneous commission (Net) and loss for the year by ₹61.50 crore.

Sl. No.	Name of the Company	Comment
		• As the claim ratio was less than 80 *per cent* under Swasthya Sathi Scheme, the Company was to refund premium of ₹194.43 crore to the Government of West Bengal as per the terms of the scheme. While refunding, an amount of ₹22.93 crore was adjusted by the Company towards premium receivable under another health scheme i.e. Rastriya Swastha Bima Yojana (RSBY) which was contested by the Government. As the two schemes were different and premium receivable against RSBY Scheme was already more than five years old and was not acknowledged/ accepted by the Government of West Bengal for which provision should have been created, adjustment of the same resulted in understatement of amount payable under Swasthya Sathi Scheme, premium receivable under RSBY, provisions for doubtful debts for RSBY and loss for the year by ₹22.93 crore.
17.	National Seeds Corporation Limited (2017-2018)	• Non-provision of ₹2.05 crore being amount receivable from government parties outstanding for more than six years and from private parties outstanding for more than three years was contrary to the accounting policy and resulted in overstatement of the trade receivables and profit by the same amount.
18.	North Eastern Handicrafts and Handloom Development Corporation (2017-2018)	• Current liabilities and employee benefit costs were understated and profit for the year was overstated by ₹33.14 lakh due to short provisioning in respect of contribution on account of gratuity payable to employees.
19.	Oriental Insurance Company Limited (Standalone and Consolidated Financial Statement)	• Current liabilities did not include ₹11.25 crore being the service charges payable to Banks at the rate of four *per cent* of farmer's share of premium of ₹284.68 crore received during 2018-19 under Pradhan Mantri Fasal Bima Yojna (PMFBY). This resulted in understatement of current liability with corresponding understatement of loss by ₹11.25 crore. • The Company held ₹298.04 crore in secured NCDs and ₹60.24 crore in unsecured NCDs of IL&FS Limited and IL&FS Financial Services Limited. There was default in payment of interest on these NCDs in September 2018 and principal in January 2019 for the first time (total default-principal: ₹10.00 crore and interest ₹19.49 crore up to June 2019). The Company treated the investments as sub-standard and provided for ₹60.24 crore being the total amount invested in unsecured NCDs and ₹29.80 crore being 10 *per cent* of the amount invested in secured NCDs. However, as per proceeding before NCLAT available in public domain, both these companies were placed under the 'Red' category by the new Board of Directors appointed by the Union Government to manage the affairs of the IL&FS

Sl. No.	Name of the Company	Comment
		group of companies, which meant that such entities could not meet their payment obligations towards even senior secured financial creditors. Further, investment rating of these companies were downgraded to lowest level 'D' by ICRA and CARE which meant the instruments with this rating were in default or were expected to be in default soon. In view of above circumstances, the entire investment of ₹358.28 crore should have been provided for and not doing so resulted in understatement of provision for doubtful debts by ₹268.24 crore and consequent understatement of loss to the same extent. • The Company wrongly reversed a claim of ₹71.26 crore and premium receipt of ₹28.02 crore under Pradhan Mantri Fasal Bima Yojana for Soybean Crop in Beed district of Maharashtra for Kharif 2018 due to application of area correction factor[41] (ACF) by taking the data of State Government for last three years instead of area discrepancy data from Mahalanob is National Crop Forecast Centre (MNCFC) as per the revised guidelines of PMFBY, which was awaited. This resulted in understatement of income by ₹28.02 crore and current liabilities by ₹71.26 crore. Consequently, loss for the year was understated by ₹43.24 crore.
20.	PEC Limited (2017-18)	• In the absence of any accounting policy, writing back of unclaimed liability resulted in understatement of negative balance of total comprehensive income by ₹6.86 crore.
21.	Security Printing and Minting Corporation of India Limited (Standalone and Consolidated Financial Statement)	• The Company while rectifying the error of Deferred tax asset (DTA)/Deferred tax liability (DTL) pertaining to the previous year i.e. 2017-18 wrongly included the value of land amounting to ₹4.76 crore, a non-depreciable asset, in the written down value of assets as per the Income Tax Act which resulted in understatement of DTL for the year 2017-18. Consequently, this resulted in overstatement of DTA and profit for the year 2017-18 by ₹1.64 crore[42]. • Provision for non-moving inventory of ₹5.98 crore, provision for compensation in lieu of compassionate appointments of ₹5.32 crore, provision for ex-gratia & bonus amounting to ₹3.88 crore and other employees benefits short term provisions of ₹32.38 crore, were considered as timing difference items and DTA was created on aforesaid items during the previous financial year 2017-18. During the

*41 **Area Correction Factor is arrived at by dividing the area sown by the area insured for a given unit area, and applied on the claim amount in order to scale it down. As a result, the claims of all the farmers in a unit area are scaled down uniformly.***

*42 **Computed at the tax effective income tax rate of 34.61 per cent on ₹4.76 crore***

Sl. No.	Name of the Company	Comment
		financial year 2018-19, these were not considered as timing difference for creation of DTA. However, DTA already created on these items during previous year which was an accounting error, was not reversed which was a violation of Ind AS 8 and which resulted in overstatement of DTA as well as profit for the year 2017-18 by ₹16.46[43] crore. • Inclusion of profit margin of inter unit sale in the closing stock resulted in overstatement of the inventory as well as profit for the year by ₹5.59 crore.
22.	Tungabhadra Steel Products Limited	• Exceptional items were understated by ₹55.23 crore due to non-accounting of profit realized from sale of land to Karnataka Housing Board. This was incorrectly shown as amount payable to GoI. This resulted in incorrect disclosure of loss before tax of ₹17.21 crore instead of profit before tax of ₹38.02 crore and also resulted in overstatement of other current liabilities by ₹55.23 crore. Thus, the financial statements of the Company for the year 2018-19 did not reflect a true and fair view and were also not in conformity with the generally accepted accounting principles. • The amount of ₹55.23 crore realized above was utilized towards payment of income tax on write off of GoI's loan and interest amounting to ₹467.07 crore, which was incorrectly accounted as capital gain during 2016-17. Incorrect accounting of capital gain of ₹467.07 crore in the account for the year 2016-17 was qualified by the Statutory Auditors as well during 2017-18. However, no corrective action has been taken by the Management in this regard during 2018-19.

Comments on Financial Position

Sl. No.	Name of the Company	Comment
1.	Air India Engineering Services Limited	• Due to capitalisation of various general and administration expenses in the year 2014, other intangible assets were overstated and other equity was understated by ₹271.38 crore. This was highlighted in auditor's report for the period 2014-15, 2015-16, 2016-17 and also commented upon by this office in 2017-18. However, corrective action was not taken.
2.	Air India Express Limited	• Inclusion of an amount of ₹22.62 crore being insurance claim receivable under other financial assets in contravention of accounting policy of the Company which stated that the claim receivable from the insurance company

[43] *Computed at the tax effective income tax rate of 34.61 per cent on ₹47.56 crore*

Sl. No.	Name of the Company	Comment
		is accounted for on the acceptance by the insurance company on such claims, resulted in overstatement of the same as well as profit for the year by the same amount.
3.	Air India Limited (Consolidated financial Statement)	• Due to capitalisation of various general and administration expenses in the year 2014, other Intangible Assets were overstated and Other Equity was understated by ₹271.38 crore. This was highlighted in Auditor's Report for the period 2014-15, 2015-16, 2016-17 and also commented upon by this office in 2017-18. However, corrective action was not taken. • Inclusion of an amount of ₹22.62 crore being insurance claim receivable under Other Financial Assets in contravention of accounting policy of the Company which stated that the claim receivable from the insurance company is accounted for on the acceptance by the insurance company on such claims, resulted in overstatement of the same as well as profit for the year by the same amount.
4.	Airline Allied Services Limited (2017-18)	• Advances amounting to ₹28.90 lakh given to employees of the Company for official purposes were included under cash and cash equivalents which resulted in overstatement of the cash and cash equivalents and understatement of other current assets by the same amount.
5.	Bokaro Power Supply Company (P) Limited	• Advance tax included an amount of ₹268.53 crore for the assessment year 2007-08 to 2018-19 against which a provision of ₹254.81 crore was made. Even though assessments by the Income Tax Department were completed upto the year 2016-17, the advance tax and corresponding tax provisions for the period were not adjusted as per the assessment orders. Since documents in this regard were not furnished by the Company, the impact on the financial statements could not be ascertained.
6.	Government E-Marketplace(2017-18)	• GeM project and various other assets transferred to the company during the year were not accounted for in the books of the company. • Short term loans and advances were overstated by ₹24.71 crore on account of inclusion of advances which were to be adjusted from payment to be made in the fourth and fifth year of the advance disbursement. Consequently, long term loans and advances were understated by the same amount.
7.	Hindustan Fluorocarbons Limited	• The Company had adopted deemed cost of property, plant and equipment on the date of transition to Ind AS, except for the freehold land where fair value was considered. This

Sl. No.	Name of the Company	Comment
		was not in line with the provisions of IND AS 101 which did not provide for application of carrying value on selective basis. This had resulted in overstatement of property, plant and equipment and understatement of negative balance of other equity by ₹29.96 crore in the financial statements of 2017-18. Despite being pointed out earlier, no corrective action on the same was taken in the financial statements of 2018-19.
8.	HLL Biotech Limited	• Capitalization of assets which were held for sale resulted in excess capitalization of fixed assets to the extent of ₹10.63 crore and consequently depreciation was overcharged by ₹1.88 crore which resulted in corresponding understatement of profit by ₹1.88 crore.
9.	HLL Infra Tech Services Limited	• Even though the Company was not eligible for granting pay revision to its employees in terms of DPE circular dated 3 August 2017, a provision of ₹7.88 crore created for the said purpose resulted in overstatement of current liabilities and understatement of profit by the same amount.
10.	HMT Watches Limited	• Other financial liabilities and negative balance of other equity' was overstated by ₹2669.40 crore due to non-accounting of write-off of loans and interest thereon by the GoI in the year 2016-17.
11.	IFCI Infrastructure Development Limited (Standalone and Consolidated Financial Statement)	• An amount of ₹0.75 crore deposited with Hon'ble High Court of Allahabad being 50 *per cent* of the disputed amount relating to short payment of stamp duty by the Company was shown under Inventories instead of showing the same under other non-current assets. • Inclusion of an amount of ₹1.40 crore deposited with banks having maturity period of more than 12 months in cash and cash equivalent, which was contrary to the guidance note on schedule-III (Ind AS) of Companies Act, 2013, resulted in understatement of non-current assets and overstatement of current assets by ₹1.40 crore.
12.	IFCI Venture Capital Funds Limited	• Gross loan amount had an incorrect adjustment of ₹4.65 crore on account of interest received against a party against whom no loan was outstanding. Further an amount of ₹0.81 crore received from a party was not adjusted while writing off the loan account of the said party. This resulted in understatement of interest income by ₹4.65 crore and overstatement of expenses by ₹0.81 crore. Consequently, loss for the period was overstated and loans were understated by ₹5.46 crore.

Sl. No.	Name of the Company	Comment
13.	India International Convention And Exhibition Centre Limited (2017-18)	• Current Liabilities did not include an amount of ₹6.88 crore payable to a contractor for work executed during the year involving detailed design, construction, testing and commissioning of India International Convention and Expo Centre. This resulted in understatement of current liabilities and CWIP by ₹6.88 crore.
14.	IRCON Shivpuri Guna Tollway Limited	• Despite incurring operating loss during the first year of operation, the Company did not carry out impairment testing of its investment of ₹692.41 crore which was not in accordance with the provisions of Ind AS 36 as also the accounting policy of the Company.
15.	Karnataka Solar Power Development Corporation Limited	• The capitalization cost of dismantling, removing, & restoring was not included in the carrying amount of property, plant and equipment which was not in line with Ind AS 16. The amount was not quantifiable in Audit.
16.	KIOCL Limited	• Cash and cash equivalents were overstated by ₹42.31 crore due to inclusion of amount invested in mutual funds instead of classifying the same under investments. • Inventory was overstated by ₹10.93 crore due to inclusion of capital spares instead of classifying the same under property, plant and equipment. Impact of depreciation could not be quantified due to non-availability of data. Further, the accounting policy that capital spares were valued at cost, was also not in line with Ind AS 16.
17.	National Highways & Infrastructure Development Corporation Limited	• The company did not provide liability for an amount of ₹34.63 crore which resulted in understatement of trades payables and overstatement of fund from GoI for project and for maintenance &repair of national highways by the said amount. • Other current assets included an amount of ₹77.75 crore being recoverable from a contractor engaged for construction in Assam which majorly included liquidated damages on termination of contract, recovery of which was uncertain and for which no provision was made. • Despite the fact that the national highways being developed and maintained by Company were assets of GoI and were to be transferred to it as per modalities to be decided later, following was noticed in this regard: (a) Short term loans and advances included amount of ₹2,103.48 crore being mobilization advances and other advances given to contractors and consultants and deposits for land acquisition given to Competent Authority Land

Sl. No.	Name of the Company	Comment
		Acquisition (CALA) for construction / development of national highways. As these advances and deposits were in nature of amount utilized towards projects being executed by the company, the same resulted in overstatement of short term loans and advances and funds from GoI for project by ₹2103.48 crore. (b) Current liabilities and other current assets were not classified into those pertaining to projects being executed by the Company on behalf of GoI and those pertaining to the establishment of the Company.
18.	National Informatics Centre Services Inc.	• Property, plant and equipment did not include material amounting to ₹2.45 crore purchased for enhancement of NIC cloud services. • Trade payable as well as expenses were understated by ₹8.80 crore due to non-inclusion of expenditure on services received during the year.
19.	NEPA Limited	• Other long term liabilities included an amount of ₹17.32 crore in respect of RMD Project which was payable within 12 months from the reporting period which should have been be classified as other short term liabilities as per Schedule III to the Companies Act, 2013.
20.	ONGC Petro additions Ltd.	• Current liabilities and non-current assets were understated by ₹115.44 crore due to non-inclusion of amount payable to ONGC Limited towards taking over of partly constructed HaziraDahej Naphtha Pipeline on as is where is basis as per agreement entered on 29 March 2019.
21.	United India Insurance Company Limited	• Provisions as well as loss for the year were understated to the tune of ₹247.72 crore due to creation of part provision i.e. to the extent of 10 *per cent* of the amount of principal and interest due from IL&FS and its subsidiaries instead of fully providing the same. This was not done despite the fact that as per the proceedings of NCLAT, the above Companies were placed under the 'Red' category by the new Board of Directors appointed by the Union Government which meant that the these Companies were not in a position to meet their payment obligations towards even senior secured financial creditors.

Comments on Disclosure

Sl. No.	Name of the Company	Comment
1.	Air India Limited (Standalone and Consolidated Financial Statement)	• Note regarding assets held for sale did not include disclosure regarding three properties, which were identified for return to the allotting authority for refund of the amount deposited. • Air India Engineering Services Limited, a subsidiary of the company neither recognized the DTA nor made the disclosure for not recognizing the same.
2.	Government E Marketplace (2017-18)	• Cash Flow Statement was not annexed with the Financial Statements, which was a violation of the provisions of the Companies Act, 2013.
3.	Heavy Engineering Corporation Limited	• Contingent Liabilities did not include: • An amount of ₹12.72 crore claimed by M/s Adarsh HEC Karamchar Credit Co-operative Society Limited, in respect of which case was pending before the Jharkhand High Court. • Interest payable amounting to ₹4.62 crore on demand relating to service tax matters. • Penalty of ₹1.06 crore imposed under Central Goods & Service Tax.
4.	IRCON Devangere Haveri Highway Limited	• Interest and other finance cost amounting to ₹4.05 crore incurred by the Company during the year was not disclosed under cash flow from financing activities in Cash Flow Statement in violation of Ind AS 7. • The change in non-current financial assets amounting to ₹131.80 crore was disclosed in adjustment of working capital changes instead of disclosing the same under cash flow from investing activities.
5.	IRCON PB Tollway limited	• Cash flow from investing activities included an amount of ₹97.88 crore incurred on construction of toll road and shown as purchase of property, plant and equipment including CWIP instead of purchase/construction of intangible asset.
6.	IRCON Shivpuri Guna Tollway Limited	• The Company did not disclose interest amounting to ₹52.60 crore paid to its holding company under cash flow from financing activities in violation of Ind AS-7. • An amount of ₹44.33 crore incurred during the year on construction of toll road was wrongly depicted as purchase of property, plant and equipment (including CWIP) instead of purchase/construction of intangible assets under cash flow from investing activity.

Sl. No.	Name of the Company	Comment
		• As per the concession agreement entered into by the Company with National Highway Authority of India (NHAI), the Company was required to pay a premium of ₹20.19 crore per annum to NHAI, with an annual increment of five *per cent*. This commitment worked out to ₹532.38 crore during the life of agreement. The Company did not disclose this commitment under notes as required under schedule III of the Companies Act, 2013.
7.	ONGC Petro Additions Ltd.	• The decision to exit Dahej SEZ, taken in May 2018, having a financial implication of ₹1,681.63 crore as worked out by the consultant and which would have material impact on the operations of the Company, should have been disclosed in the notes to the financial statements.
8.	Pawan Hans Limited (2017-18)	• The policy that inventories were valued at lower of cost and net realizable value after providing for obsolescence and other losses wherever considered necessary required revision on account of the note, which stated that the price trend in aviation sector was different compared to price trend in other industry and the sale/purchase price for pre-owned helicopter stores/spares/consumables was not directly available in open market due to which value of inventory represented the net realizable value. • The fact that the insurance claim for the accident of VT-PHZ became time barred as its rejection by the insurance company was not challenged in the Court of Law within 12 calendar months, was not incorporated in the note relating to insurance claims.
9.	Renewable Power Corporation of Kerala Limited	• The Company did not disclose the details of Key Management Personnel (KMPs) compensation in total and for various categories of KMPs, which was contrary to the provisions of Ind AS 24.
10.	Tungbhadra Steel Products Limited	• Receipt of ₹55.23 crore from sale of land and utilisation thereof during the year was not included in the cash flow statement. • The disclosure in notes to the accounts that sale proceeds of land amounting to ₹55.23 crore were to be disbursed to GoI did not reflect factual position as the amount had already been utilised for payment of outstanding income tax liability.

Comments on Auditor's Report

Sl. No.	Name of the Company	Comment
1.	Airline Allied Services Limited (2017-18)	• Accumulated loss was reported as ₹2,078.40 crore in the Auditor's Report as against the actual being ₹2098.28 crore. • There was reference to basis of qualified opinion paragraph in the auditor's report though there was no such paragraph in the said Report.
2.	Bokaro Power Supply Company (P) Limited	• The statement in the auditor's report that the financial impact of legal and arbitration cases as detailed in the Annexure cannot be quantified was not correct as the amount of dispute in 3 out of 12 cases was quantified. • One case which was settled in December 2018 was shown as an ongoing court case in Annexure to the auditor's report. • An ongoing court case was not included in the Annexure to the auditor's report. • The statement that no communication was furnished by the Company on the letter from Steel Authority of India Limited regarding not to pursue setting up of the 20 MW solar power project did not depict the correct position as the Board of Directors of the Company had noted the matter.
3.	IFCI Infrastructure Development Limited	• Independent auditor in his report stated that the Company was maintaining proper records showing full particulars, including quantitative details and situation of fixed assets and as reported by the management the fixed assets are physically verified by the management and no material discrepancies were noticed. It further stated that physical verification of inventory of the company had been conducted at regular interval by the management and no material discrepancies were noticed. However, no fixed assets register was made available. Further, no documents/reports were on record to ensure that physical verification of fixed assets and inventory was conducted by the Company. Thus, the independent auditors' report was deficient to that extent and was non-compliant to Companies' (Auditor's Report) Order 2016.

Sl. No.	Name of the Company	Comment
4.	IIDL Realtors Private Limited	• Independent Auditor in his Report stated that as informed by the management, the fixed assets had been physically verified by the management in a phased manner and no material discrepancies between the books records and the physical fixed assets were noticed. It was also brought out in the report that physical verification of inventory has been conducted at regular intervals by the management and no material discrepancies were noticed. However, no documents/reports were on record to ensure that physical verification of fixed assets and inventory was conducted by the Company. Thus, the independent auditors' report was deficient to that extent and was non-compliant to Companies' (Auditor's Report) Order 2016.
5.	National Highways & Infrastructure Development Corporation Limited	• Under Key Audit Matters, ₹22.60 crore which was received from sources other than GoI was included under funds from GoI.
6.	National Seeds Corporation Limited	• The comment made in one part of the auditor's report that the title deeds of immovable properties were held in the name of the company was contrary to the comment made elsewhere in the same report wherein non-execution/non-availability of title deeds/lease deeds and non-finalization of lease amount in respect of certain properties, was highlighted.
7.	Paradip Port Road Company Limited	• The qualification that interest expenses were provided without knocking-off the amount recoverable from NHAI with subordinate loan payable to it and accordingly, finance cost was excess booked by the Company amounting to ₹0.27 crore was not justified as the amount receivable was on account of various factors for which there is no agreement between the Company and NHAI for recovery/payment of interest.
8.	Pawan Hans Limited (2017-18)	• It was stated in auditor's report that the Company had a policy of physical verification of inventory over a period of three years, which was not correct as no such policy was adopted by the Company.

Unlisted Government Controlled Other Companies

Comments on Profitability

<table>
<tr><th>Sl. No.</th><th>Name of the Company</th><th>Comment</th></tr>
<tr><td>1.</td><td>Canara HSBC OBC Life Insurance Company Limited</td><td>

- The Company held ₹125 crore in fixed income securities issued by IL&FS Limited and IL&FS Financial Services Limited. IL&FS defaulted in payment of interest in December 2018 and principal amount in February and March 2019.

  In view of the downgrading of the rating of IL&FS group and reconstitution of the Board by the GoI in October 2018, the Company, decided (May 2019) to carry the investments at 50 *per cent* of the face value i.e. ₹62.50 crore after treating these investments as non-performing assets (NPA). However, as per proceeding before NCLAT both these companies of IL&FS group have been placed under the ‘Red’ category by the new Board of Directors appointed by the Union Government to manage the affairs of the IL&FS group of companies, which meant that such entities cannot meet their payment obligations towards even senior secured financial creditors.

  In view of the above and further that the investment rating had also been downgraded to lowest level ‘D’ by ICRA and CARE which meant that instruments with this rating were in default or were expected to be in default soon, full provision should have been made against diminution in value of the above.

  Non-provisioning of the balance 50 *per cent* of the investment, resulted in understatement of provision by ₹62.50 crore and consequent overstatement of profit by the same extent.

</td></tr>
<tr><td>2.</td><td>IndiaFirst Life Insurance Company Limited</td><td>

- The Company invested ₹228 crore in different instruments and entities of IL&FS group of Companies. There were principal and interest defaults during the year and the Company has created a provision of ₹58.56 crore towards diminution in value of investments, as per details given below:

(₹in crore)

<table>
<tr><th>Name of entity</th><th>Instrument</th><th>Amount invested</th><th>Provision made by the Company</th></tr>
<tr><td>IL&FS Limited</td><td>Secured NCDs</td><td>118</td><td rowspan="2">57.56</td></tr>
<tr><td>ILFS Education & Technology Services Limited</td><td>Commercial Papers – Unsecured</td><td>100</td></tr>
<tr><td>IL&FS Financial Services Limited</td><td>Unsecured NCDs</td><td>10</td><td>1.00</td></tr>
<tr><td colspan="2">Total</td><td>228</td><td>58.56</td></tr>
</table>

</td></tr>
</table>

Sl. No.	Name of the Company	Comment
		• However, as per proceedings before NCLAT dated 11 February 2019, the new Board of Directors appointed by the Union Government to manage the affairs of the IL&FS group of companies has placed IL&FS and IL&FS Financial Services under the 'Red' category, which meant that the entities cannot meet its payment obligations towards even senior secured financial creditors. In view of these developments, the Company should have made full provision against diminution in the value of the above two investments. As regards the investment made in Commercial Papers, though ILFS Education & Technology Services Limited figured in the list of unclassified entity in the NCLAT Order dated 11 February 2019, considering that these are unsecured instruments, full provision should have been created. The short provision resulted in understatement of provision for diminution in value of investments and overstatement of profit by ₹169.44 crore.
3.	Ratnagiri Gas and Power Private Limited	• Trade payables and fuel consumed did not include ₹20.73 crore towards increased transmission charges for the year 2018-19 levied by GAIL (India) Limited in terms of Gas Supply agreement (GSA) dated 29 March 2017 which was shown as contingent liability. This resulted in understatement of trade payables, understatement of fuel expenses and overstatement of contingent liabilities by ₹20.73 crore.
4.	Sail Rites Bengal Wagon Industries Limited	• Basic/ diluted earnings per share had been shown as ₹3.00 instead of ₹3.44. • Prepaid Expenses included ₹31.51 lakh being land lease charges paid in advance by the Company to Indian Railways. Out of this, lease charges of ₹10.50 lakh pertained to the period 2016-17 had not been charged to statement of Profit and Loss which resulted in overstatement of current assets by ₹10.50 lakh as well as overstatement of profit before tax by the same amount. Out of remaining, ₹10.50 lakh pertained to 2020-21 and therefore, should have been classified under non-current assets instead of current assets.
5.	SBI General Insurance Company Limited	• The Company had invested ₹85.09 crore in secured NCDs of IL&FS on which it made a provision of ₹62.55 crore (74 *per cent*) for diminution in value of the investment has been created. However, as per proceedings before NCLAT dated 11 February 2019, the new Board of Directors appointed by the Union Government to manage the affairs of the IL&FS group of companies had placed the entity in which the Company holds the above mentioned investment viz. IL&FS

Sl. No.	Name of the Company	Comment
		under the 'Red' category. This meant that the entity could not meet its payment obligations towards even senior secured financial creditors. Considering these developments, the Company should have made full provision against diminution in the value of the above investment. The short provisioning resulted in understatement of provision for diminution in value of investments and overstatement of profit by ₹22.55crore.
6.	Star Union Dai-Ichi Life Insurance Company Limited	• On defaults of principal and interest, the Company created a provision of ₹7.15 crore on its investment of ₹55 crore (₹44 crore in non-linked funds and ₹11 crore in linked funds) in NCDs of IL&FS. However, as per proceedings before NCLAT available in the public domain, IL&FS was placed under the 'Red' category by the new Board of Directors appointed by the Union Government to manage the affairs of the IL & FS group of companies, which meant that such entities could not meet their payment obligations towards even senior secured financial creditors. Further, disclosures were made in the notes on accounts that credit rating agencies ICRA and CARE had downgraded the credit rating of IL&FS from 'AAA' to 'D'. Considering these developments, provision for the full amount of investment in IL&FS should have been made. This resulted in understatement of provision for diminution in value of investments and overstatement of profit by ₹47.85 crore.

Comments on Financial Position

Sl. No.	Name of the Company	Comment
1.	Cent Bank Home Finance Limited	• Non-current investments included two investments of ₹2.51 crore which would mature in March 2020 i.e. within 12 months from the reporting date, hence should be classified under current investment instead of non-current investment.
2.	North East Transmission Company Limited	• Figure of cash and cash equivalents (having maturity less than three months) amounting to ₹28.61 lakh and that of other bank balances (having maturity more than three months) amounting to ₹84.34 crore, had interchanged on the face of the Balance Sheet which resulted in overstatement of cash and cash equivalents and understatement of other bank balance by ₹84.05 crore each. • Terms deposits amounting to ₹4.49 crore with remaining maturity period of more than 12 months were incorrectly included in other bank balances instead of other financial assets (non-current assets) which was non-compliant to Schedule III to the Companies Act, 2013.

Sl. No.	Name of the Company	Comment
		• As per Schedule III to Companies Act, 2013, advances, given for procurement of property, plant and equipment, which are non-current assets, are capital advance. However, advance of ₹3.45 crore given for services and purchase of tools and Plant was included under other current assets resulting in overstatement of the same and understatement of other non-current assets by the same amount. • The Company recognised an amount of ₹15.42 crore towards DTL (Net) in the Balance Sheet after deducting an amount of ₹15.13 crore of DTA which was not in line with the guidance note on accounting for the rate regulated activities, which stipulated that an entity shall not offset rate regulated assets and liabilities and should present separate line items in the Balance Sheet.

Comments on disclosure

Sl.No.	Name of the Company	Comment
1.	Cent Bank Home Finance Limited	• Despite the company filing a first information report on 21 September 2018 against two of its borrowers and two of its ex-employees under Section 420 and 34 of the IPC for disbursement of loan of ₹24.25 lakh on the basis of forged documents, the auditors had reported that no fraud by the company or on the company by its officers or employees has been noticed or reported during the year. This was not in compliance to the Companies Auditor's Report Order (CARO) Rules, 2016.
2.	Cross Border Power Transmission Company Limited	• The company did not disclose a capital commitment of ₹5.71 crore towards the amount of contracts for supply of goods and service contracts for AIS substation package for extension of 400kV Muzaffarpur - Sursand D/C transmission line which was not in line with the provisions of schedule III of the Companies Act, 2013.
3.	Krishnapatanam Railway Company Limited	• The Company did not disclose interest amounting to ₹97.10 crore paid to various nationalized banks towards the loan taken from them under cash flow from financing activities in violation of Ind AS 7. • The cash flow from investing activities included an item 'Capital Expenditure on Fixed Assets, including Capital Advances' which should have been depicted as 'Capital Expenditure on Intangible Assets'.

Sl.No.	Name of the Company	Comment
		• The balance with banks under cash and cash equivalents included earmarked funds amounting to ₹7.78 crore relating to escrow accounts. This was not disclosed separately as required under schedule III of the Companies Act, 2013.
4.	Sail Rites Bengal Wagon Industries Limited	• Opening cash and cash equivalents was overstated by ₹20.02 lakh and closing cash and cash equivalents was overstated by ₹21.31 lakh due to inclusion of other bank balances in cash and cash equivalent. • In contravention of Ind AS-17, the Company did not disclose the future minimum payments in respect of land taken on lease from Steel Authority of India Limited for a period of 33 years.
5.	Star Union Dai-Ichi Life Insurance Company Limited	• The note regarding interim dividend did not include disclosure in respect of proposed dividend amounting to ₹3.24 crore.

Comments on Auditor's Report

Sl.No.	Name of the Company	Comment
1.	Agriculture Insurance Company of India Limited	• The independent auditors' report did not mention investments of ₹10 crore in 9.43 *per cent* NCDs of Tata Sons Private Limited as on 31 March 2019 which was in violation of Para-4 of schedule 'C' of Insurance Regulatory and Development Authority of India (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.
2.	Cent Bank Home Finance Limited	• Even though the Company had lodged a first information report against two of its borrowers and two of its ex-employees for disbursement of loan on the basis of forged documents, the statutory auditor did not report any fraud in its report under Companies Auditor's Report Order (CARO) Rules, 2016.
3.	Krishnapatanam Railway Company Limited	• The qualification made by the auditor that Company incorrectly capitalised office building amounting to ₹306.38 lakh and provided depreciation of ₹32.16 lakh on it, which resulted in overstatement of property, plant and equipment by ₹306.38 lakh and understatement of CWIP to that extent and also overstatement of depreciation by ₹32.16 lakh and understatement of profit to that extent, was incorrect as office building was purchased, in ready to use condition, in October 2014 by the Company.
4.	Sail Rites Bengal Wagon Industries Limited	• Reasons for revising the auditors' report of 17 April 2019 on 24 May 2019 and again on 25 June 2019 were not included in the revised reports.

Sl.No.	Name of the Company	Comment
5.	SBI General Insurance Company Limited	• The certification that no part of the assets of the policyholders' funds was directly or indirectly applied in contravention of the provisions of the Insurance Act, 1938, was not correct as the Company had an investment of ₹63.29 crore in fixed interest bonds in Tata Sons Private Limited as on 31 March 2019 which was prohibited under Section 27A (4) of the Insurance Laws (Amendment) Act, 2015.
6.	Star Union Dai-Ichi Life Insurance Company Limited	• The certification that no part of the assets of the policyholders' funds was directly or indirectly applied in contravention of the provisions of the Insurance Act, 1938, was not correct as the Company had invested ₹60 crore in NCDs of Tata Sons Private Limited, which was prohibited under Section 27A(4) of the Insurance Laws (Amendment) Act, 2015.

2.5.2 Statutory corporations where CAG is the sole auditor

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

Airports Authority of India

- Tangible fixed assets relating to cargo operations and depreciation were overstated by ₹9.44 crore and ₹2.67 respectively, due to non-transfer of these assets to AAI Cargo Logistics and Allied Services Company Limited. Consequently, receivables were under-stated by ₹12.11 crore.
- Tangible fixed assets were overstated by ₹16.39 crore due to under-charging of depreciation because of adoption of wrong capitalisation date of an asset (C-ATFM). Consequently, there was overstatement of profit to the same extent.
- CWIP was overstated by ₹138.30 crore due to non-capitalization of following completed work:

(₹in crore)

Sl. No.	Particulars	Amount
i.	DVR system completed on 19.07.2018 at Lucknow Airport	0.25
ii.	11 assets completed and ready for intended use at Leh Airport	4.26
iii.	Construction work of staff quarter competed at Goa Airport.	21.56
iv.	Re-carpeting of runway work at Guwahati Airport	41.09
v.	Expansion work of apron and link taxi way at Imphal Airport	8.94
vi.	Equipment at Shillong and Tezu Airport	5.01
vii.	Expenditure incurred on shifting of equipment to new location at Agartala Airport	1.44
viii.	Crash Fire Tender commissioned on 27.03.2019 at Khajuraho Airport	5.27
ix.	Expenditure incurred on integration of GSAT-15 and implementation of GAMES (GAGAN Message System)	40.63
x.	Balance work completed on Phase-I, C-ATFM completed on 26.11.2015	9.85
	TOTAL	**138.30**

- CWIP was understated by ₹7.17 crore on account of capital work relating to widening of turning pad 27 and widening of fillet/ shoulder of taxi which was incorrectly charged off as revenue expenditure.
- Dues from JVCs/Subsidiaries were understated by ₹3.10 crore being accumulated depreciation on the cargo segment assets constructed during the period 2017-18 and 2018-19 and transferred to AAI Cargo Logistics and Allied Services Company Limited as on 31 March 2019.
- Airport lease revenue was overstated and liabilities were understated by ₹10.75 crore towards excess lease revenue received from Mumbai International Airport Limited during the year 2018-19. Consequently, profit was overstated by the same amount.
- Other income was overstated by ₹5.81 crore due to not setting off the interest income earned on the mobilization advances with the related project expenses.

National Highways Authority of India (2017-18)

- Due to disclosure of 'assets held on behalf of GoI (completed & ongoing)' under fixed assets, fixed assets of NHAI were overstated by ₹2,85,643.72 crore.
- The entire amount of borrowing cost of ₹6,890.24 crore for the year 2017-18 was booked under 'assets held on behalf of GoI' which also included borrowing cost in respect of completed projects which was in contravention of the generally accepted accounting principles. In the absence of the project-wise details with respect to ongoing and completed projects, quantification and verification of the same was not possible.
- NHAI capitalized the entire amount of ₹392.26 crore of 'net establishment expenses for the year' instead of booking the expenditure of revenue natureto Profit and Loss Account. In the absence of project-wise details of such expenditure, Audit was unable to comment on the impact of such incorrect accounting on the accounts of NHAI.
- Even though cost of 19 projects amounting to ₹1,383.01 crore, along with the expenditure incurred on behalf of GoI, was transferred to State Governments, no adjustments were made in the books of accounts which resulted in overstatement of 'assets held on behalf of GoI' by same amount.
- There were 56 projects, which were taken over by the NHAI from State Governments/Pubic Works Departments and other departments. However, the initial value of ₹767.29 crore of these projects received was not included due to which 'assets held on behalf of GoI' were understated by ₹767.29 crore.
- The expenditure on toll collection activities was understated by ₹124.99 crore due to non-creation of provision towards discount (cash back) and fee collection charges payable for the period January 2018 to March 2018 to Indian Highways Management Company Limited.

- As per generally accepted accounting principles, the amount of interest earned on unutilized capital was not the revenue of NHAI and hence should have been shown as payable to GoI on account of which the accounting policy of NHAI needed a revisit. This issue was raised during the year 2016-17 also but no corrective action in this regard was taken.
- As on 31 March 2018, an amount of ₹1,22,524.15 crore was shown as payable towards various loans. However, contrary to its own rules, NHAI did not create a reserve fund for repayment of these loans despite raising of similar comment on the accounts of NHAI for the 2015-16 and 2016-17.
- An amount of ₹129.84 crore of interest accrued during the year 2017-18 on the loan amount disbursed to eight Special Purpose Vehicle (SPV) companies was deducted from 'fixed assets – assets held on behalf of GoI' which in fact, should have been shown as income of the Authority in Profit and Loss Account. This resulted in understatement of 'Assets held on behalf of GoI' and income for the year by ₹129.84 crore.
- The 'assets held on behalf of GoI' was overstated by ₹237.16 crore on account of inclusion of 75 *per cent* of advance payment to contractors/concessionaires towards arbitration tribunals awards which had further been challenged in various courts of law, which was made in pursuant to decision (5 September 2016) of Cabinet Committee on Economic Affairs (CCEA). This also resulted in understatement of loan and advances by the same amount.
- 'Assets held on behalf of GoI' was overstated by ₹79.71 crore on account of inclusion of residential accommodation for staff and second office building, which were the assets of NHAI. This resulted in understatement of 'CWIP- Fixed Assets' as well.
- Assets held on behalf of GoI included ₹1,194.84 crore (including mobilization advance of ₹76.63 crore) released by NHAI to various State Governments for executing National Highways Development Program Phase-IV. However, these projects were neither transferred nor held by NHAI. Therefore, depiction of amount released to State Government by NHAI, in respect of these projects under 'assets held on behalf of GoI' was not correct and the same resulted in overstatement of fixed assets-assets held on behalf of GoI by ₹1,118.21 crore and current assets and loans & advances by ₹76.63 crore.
- Despite that there was no possibility of recovery of the loan of ₹253.28 crore given to the three Special Purpose Vehicle (SPV) viz. Ahmedabad-Vadodara Expressway Co. Ltd. (AVEXCL), Moradabad Toll Road Co. Ltd. (MTRCL) and Cochin Port Road Company Limited (CPRCL) as the decision for winding up of these three companies had already been taken by the Board of Directors of the respective companies, NHAI did not make any provision for the said amount which resulted in overstatement of 'deposits, loans and advances' by ₹253.28 crore and understatement of loss for the year to the same extent.

- In line with the policy of rationalisation of premium, NHAI deferred the premium amounting to ₹9,331.87 crore recoverable from the concessionaires in respect of 20 highway projects. However, this included an amount of ₹3,791.04 crore, which pertained to 2014-15 to 2017-18 which should have been shown recoverable. This resulted in understatement of liabilities-payable to GoI and claim receivable by ₹3,791.04 crore.

- Current liabilities were understated by ₹5,029.70 crore due to non/short provision of liabilities towards:

(₹ in crore)

Sl.No.	Details	Amount
i.	Compensation payable for acquisition of land despite issue of 3D Notification / 3G award payable to land losers as per Arbitration award	4,646.88
ii.	Amount payable to Contractors/Concessionaire in respect of Construction work done	231.27
iii.	Amounts payable to the contractor/Concessionaire for utility shifting	7.24
iv.	Amounts payable to consultants in respect of supervision work done	2.30
v.	Amounts payable to GoI in respect of short remittance of Toll/Interest on delayed payment by concessionaire/contractors	21.42
vi.	Amount payable to GoI in respect of premium on BOT toll projects	7.15
vii.	Amount payable to contractors for maintenance work done	7.73
viii.	Amount payable on account of legal expenses/arbitration/courts awards	2.79
ix.	Amount payable to concessionaire on account of 2nd tranche of viable gap funding(VGF)	85.06
x.	Amount payable on account of interest on debt and O & M expenses during suspension of toll plaza	15.36
xi.	Interest for the month of March 2018 on application money received against the 54 EC Bonds	2.50
	Total	**5,029.70**

- Amount recoverable was overstated by ₹8,622.91 crore being the amount considered as recoverable from the Ministry of Road Transport and Highways towards the payment made to State Government agencies for construction of 32 projects of phase IV and NH-17 despite the fact that the Ministry had already refused (June 2018) the payment.

- The amount of deposit and amount spent on Eastern Peripheral Expressway as mentioned in the notes to the accounts did not match with the status report submitted by NHAI to the Ministry of Road Transport and Highways, which in turn submitted the same to the Hon'ble Supreme Court. The amount of deposit as per the note was ₹800.25 crore whereas the same in the status report was ₹937.92 crore. Similarly, the amount spent was ₹5,115.18 crore as per the note, whereas the same was ₹5,357.75 crore as per the status report.

- Due to adjustment of maintenance grant and expenditure incurred on maintenance of highways against capital account instead of Profit and Loss Account, loss for the year as well as shareholder's fund-capital were understated by ₹891.14 crore. Corrective action was not taken despite being highlighted for the years 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17.

- NHAI disbursed an amount of ₹893.44 crore as a one-time fund infusion to the concessionaires of languishing projects as per the approval of Cabinet Committee on Economic Affairs. The approval provided for grant of the above amount on loan basis at bank rate plus two *per cent*. However, the interest was not recognized in the books of accounts.

Inland Waterways Authority of India (2017-18)

- Due to booking of leasehold land at net value of ₹41.98 crore and charging ₹3.89 crore as lease rentals gross block was understated by ₹3.89 crore.
- CWIPwas understated by ₹23.95 crore due to inclusion of amount spent on Jal Marg Vikas project during 2017-18 under operational and maintenance expenses. Consequently, the deficit was overstated by the same amount.
- Ministry of External Affairs (MEA), GoI through an agreement (March 2009) appointed the Authority as Project Development Consultant (PDC) for Kaladan Project being executed for implementation of multi-modal transit transport facility, on Kaladan River connecting Sittwe Port in Myanmar with the State of Mizoram in India. The work on the project was in progress. The disclosure in the note regarding the financial transactions relating to the Project could not be vouchsafed as Authority had prepared separate books of accounts of the Kaladan Project for the year 2017-18 and the components of accounts of above project were not included in the accounts of Authority for the year 2017-18.The issue was raised during 2016-17 also but no corrective action was taken by the management.

2.6 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 Section 129 (1), Section 132 and Section 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 statutory auditors reported that 27 companies as detailed in ***Appendix-XX*** did not comply with mandatory Accounting Standards/Ind AS.

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

Accounting Standard/Ind AS		Name of the Company	Deviation
Ind AS 1	Changes in Equity	Air India Engineering Services Limited (2017-18)	Separate reconciliation for each component including reserve andsurplus and other comprehensive income under "other equity" was not shown.
Ind AS 7	Statement of Cash Flows	North East Transmission Company Limited	Book value of assets, disposal of which was made with no cash flow was included under investing activities in the Statement of Cash Flows Term deposits, which had maturity of more than 3 months were included under cash and cash equivalents instead of cash flows from investing activities.
		IRCON DevangereHaveri Highway Limited	Interest and other finance cost was not disclosed under cash flow from financing activities. Change in non-current financial assets was disclosed in adjustment of working capital changes instead of disclosing the same under cash flow from investing activities.
		IRCON PB Tollway Limited	Cash flow from investing activities included amount incurred on construction of toll road, which was shown as purchase of property, plant andequipment including CWIP instead of purchase/construction of intangible asset.
		IRCON Shivpuri GunaTollway Limited	The Company did not disclose interest amounting paid to its holding Company under cash flow from financing activities. Amount incurredon construction of toll road was wrongly depicted as purchase of property, plant and equipment (including CWIP) instead of purchase/construction of intangible assets under cash flow from investing activity.
		Krishnapatanam Railway Company Limited	Interest paid to various nationalized banks towards the loan taken from them was not disclosed under cash flow from financing activities.

Accounting Standard/Ind AS		Name of the Company	Deviation
			Cash flow from investing activities included capital expenditure on fixed assets including capital advances, which should have been depicted as capital expenditure on intangible assets.
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Hindustan Fluorocarbons Limited	Error relating to earlier years was accounting as prior period income, which was not in line with the IND AS.
		Hotel Corporation of India	Interest paid for the earlier years was booked as prior period expenses instead of current year expense.
Ind AS 12	Income Taxes	Air India Engineering Services Limited	The company neither recognized the DTA nor made the disclosure for not recognizing the same.
Ind AS 17	Leases	Sail Rites Bengal Wagon Industries Limited	Future minimum payments in respect of land taken on lease from Steel Authority of India Limited for a period of 33 years were not disclosed.
Ind AS 20	Earnings Per Share	Container Corporation of India Limited	Grant received from GoI was shown under other operating income instead of showing the same as other income.
Ind AS 36	Impairment of Assets	IRCON Shivpuri GunaTollway Limited	Impairment testing of the investment was not carried out.
Ind AS 101	First time adoption of Ind AS	Hindustan Fluorocarbons Limited	Deemed cost of the assets on the date of transition to Ind AS was adopted on a selective basis
Ind AS 115	Revenue from Contracts with Customers	IRCON PB Tollway Limited	Revenue from construction contract was disclosed as other operating revenue instead of disclosing the same under operating revenue.

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. During the year, CAG issued 'Management Letters' to 155 CPSEs **(*Appendix-XXI*).**The 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.