

Chapter-II

Oversight role of CAG

This chapter deals with oversight role of CAG as regards to preparation and submission of financial statements by SPSEs. Analysis brings out delay in finalisation and submission of financial statements by SPSEs, impact of audit comments on financial statements and non-compliance with provisions of Accounting Standards/ Indian Accounting Standards issued by the Ministry of Corporate Affairs, Government of India.

Audit of State Public Sector Enterprises

Appointment of Statutory Auditors

2.1 Comptroller & Auditor General of India (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 (Act 2013). Sections 139 (5) of the 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. Section 139 (7) of the Act 2013 provides that in case of a Government Company or Government Controlled Other Company, the first auditor is to be appointed by the CAG within sixty days from the date of registration of the company and in case CAG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Statutory auditors of all the SPSEs except RTDCL and RSHCL for the year 2020-21 were appointed between August 2020 and September 2020.

The statutory auditors of all SPSEs, except two Government Companies *i.e.* Rajasthan Tourism Development Corporation Limited (RTDCL) and Rajasthan State Hotels Corporation Limited (RSHCL), for the year 2020-21 were appointed by the CAG between August 2020 and September 2020. The Statutory Auditors of RTDCL and RSHCL were not appointed as the accounts of these two SPSEs were pending for three years and more than three years respectively. Further, in case of one Government Controlled Other Company (Jaipur Smart City Limited) and one Government Company (Rajasthan State Handloom Development Corporation Limited), the Statutory auditors were reappointed (between January 2021 and June 2021 respectively) as the initial appointed Statutory auditors did not furnish the requisite acceptance letter.

Statutory Audit

2.2 The financial statements of the Government Companies (as defined in Section 2 (45) of the Act 2013) are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139 (5) or (7) of the Act 2013. The Statutory Auditors submit a copy of the Audit Report to the CAG including, among other things, financial statements of the Company under

Section 143 (5) of the Act 2013. These financial statements are also subject to supplementary audit by the CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act 2013.

Audit of Statutory Corporations is governed by their respective legislations. Out of three Statutory Corporations, the CAG is sole auditor for Rajasthan State Road Transport Corporation. In respect of Rajasthan State Warehousing Corporation and Rajasthan Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the CAG.

Further, as per sub-Section 7 of Section 143 of the Act 2013, CAG may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by Central Government and partly by one or more State Governments, is subject to audit by the CAG.

Submission of accounts by SPSEs

Need for timely submission of Annual Report

2.3 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 possible after such preparation shall be laid before the 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 statutory corporations. This mechanism provides the necessary legislative control over the utilization of public funds invested in the companies from the Consolidated Fund of the State.

Timeliness in preparation of accounts by SPSEs

2.4 Section 96 of the 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. The section further provides that in case of the first annual general meeting, it shall be held within a period of nine months from the date of closing of the first financial year of the company and in any other case, within a period of six months, from the date of closing of the financial year. Accordingly, the Companies were required to hold AGM up to 30 September 2021 (extended up to 30 November 2021) for the financial year 2020-21.

The Ministry of Corporate Affairs issued order dated 23 September 2021 to extend the time for holding of AGM for the financial year 2020-21 by two months from the due date. This has consequently resulted into extension in finalization of financial statements from 30 September 2021 to 30 November 2021.

Further, Section 129 of the 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 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 the above stipulations, annual accounts of various SPSEs were pending as on 30 November 2021, as detailed in the following paragraph.

Audit further observed that in case of RSHCL, the AGM was not held till November 2021 and therefore, the audited financial statements for the year ended 31 March 2016, though signed on 27 May 2019 and certified by CAG in June 2019 were not placed before AGM for consideration and adoption upto 30 November 2021.

As of 31 March 2021, there were 38⁵⁰ Government Companies and four Government Controlled Other Companies under the purview of CAG's audit. Of these, 25 Government Companies submitted their accounts for the year 2020-21 for audit by CAG on or before 30 November 2021. Accounts of 13 Government Companies and four Government Controlled Other Companies were in arrears for various reasons.

Out of 42 Companies, accounts of 17 companies were in arrears.

Table 2.1 Status of arrear in accounts as on 30 November 2021

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 March 2021		38	4	42
Number of companies which presented the accounts for CAG's audit by 30 November 2021		25	0	25
Number of accounts in arrears		13	4	17
Extent of arrear		Up to 6 years	Up to two year	
Break-up of Arrears	(i) Under Liquidation	1	-	
	(ii) Defunct	1	-	
	(iii) First Accounts not submitted	-	1	
	(iv) Others	11	3	

50 This does not include one SPSE i.e. Sangod Transmission Services Limited, incorporated on 3 February 2021, as the appointment of Statutory Auditor, being first financial year (2021-22) will be done after finalization of panel for the year 2021-22.

Placement of Separate Audit Reports of Statutory Corporations

2.5 Separate Audit Reports (SARs) are audit reports of the CAG on the accounts of Statutory Corporations. These reports are to be laid before the State Legislature as per the provisions of the respective Acts. Out of three Statutory Corporations, one Corporation had forwarded their accounts of 2020-21 by 30 November 2021.

Status of annual accounts of Statutory Corporations and placement of their SARs in the State Legislature as on 30 November 2021 is detailed in **Table 2.2**.

Table 2.2: Status of placement of SAR of the Statutory Corporations as on 30 November 2021

Name of the Corporation	Year of Accounts	Month/Year of placement of SAR
Rajasthan Financial Corporation	2019-20	February 2021
	2020-21	SAR to be finalised.
Rajasthan State Warehousing Corporation	2019-20	March 2021
	2020-21	Annual accounts not received till November 2021.
Rajasthan State Road Transport Corporation	2019-20	SAR to be finalised
	2020-21	Annual accounts not received till November 2021.

Source: Compiled based on information available on the website of Rajasthan Legislative Assembly.

CAG's oversight- Audit of accounts and supplementary audit

Financial reporting framework

2.6 The Companies are required to prepare the financial statements in the format laid down in Schedule III of 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 Listed Companies and the Companies having net worth of more than ₹ 250 crore are required to comply with the Indian Accounting Standards (Ind AS). Further parent, subsidiary, associate and joint venture of aforesaid companies are also required to comply with Ind AS. The Companies not covered by the above shall continue to apply Accounting Standards (AS). Out of the 38 Government Companies, 14 entities follow the Ind AS and one Government Controlled other Company (Kota Smart City Limited) out of four, follow the Ind AS on voluntary basis, while the remaining prepare their accounts as per AS.

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.

Audit of accounts of Government Companies by Statutory Auditors

2.7 The statutory auditors appointed by the CAG under Section 139 of the 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 the audit of public sector undertakings. This role 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.

The Statutory Auditors reported that 14 companies as detailed in **Annexure-2.1** did not comply with mandatory Accounting Standards/Ind AS.

Supplementary Audit of accounts of Government Companies

2.8 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 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 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.

Result of CAG's oversight role

2.9 During the period under review (January 2021 to November 2021), the status of the financial statements received, reviewed and comments issued is given in the **Table 2.3**.

Table 2.3: Status of Financial Statements of SPSEs as on 30 November 2021

Particulars of Financial Statements	Financial Year 2020-21			Previous Years		
	Govt. company	Statutory corporation	Total	Govt. company	Statutory corporation	Total
Received	25	1	26	7 ⁵¹	1	8
Not Reviewed	7	-	7	1	-	1
Reviewed	18	1	19	6	1	7
Audit in progress*	14	1	15	-	1	1
Nil comment	2	-	2	4	-	4

51 This excludes recast financial statements of two SPSEs. Further, it does not include financial statements of RTDCL (2017-18) and RSHCL (2016-17), which were received in July 2021 and September 2021 as in case of RTDCL, the Board of the Company in its 182 meeting held on 12 March 2021 approved the financial statements and Auditors' Report thereon though the Auditors submitted their report on a later date viz; 25 March 2021 whereas in case of RSHCL, the audited financial statements (2015-16) were not placed before the AGM for consideration.

issued						
Comments issued	2	-	2	2	-	2

*As on 30 November 2021

Further, comments on the financial statements of eight SPSEs (Four Government Companies, three Government controlled other Companies and one Statutory Corporation), out of nine SPSEs, audit of those were under progress as on 31 December 2020, were also issued between January 2021 to September 2021. Thus, comments of the CAG on financial statements of 12 SPSEs (**Annexure-2.2**) were issued during the period under review.

Amendment of financial statements/Revision in Auditor's Report

2.10 As a result of supplementary audit of the financial statements conducted by the CAG during the audit period, one Government Company (Rajasthan Medical Services Corporation Limited) and one Government Controlled other Company (Kota Smart City Limited) amended their financial statements for the year 2019-20 before laying the same in the Annual General Meeting. Besides, one Government Company (Jaipur Vidyut Vitran Nigam Limited), pursuant to directions of State Government to rescind the return on equity claimed by RRVUNL for the financial years 2019-20 and 2020-21, amended its financial statements for the year 2020-21 before laying the same in the Annual General Meeting. Accordingly, the Statutory Auditors of these three SPSEs revised their Auditor's Report.

Significant comments of the CAG issued as supplement to the Statutory Auditors' reports

2.11 Subsequent to the audit of the financial statements by the Statutory Auditors, the CAG conducted supplementary audit of the financial statements of the SPSEs received during the reporting period (January 2021 to November 2021). The supplementary audit conducted by the CAG indicated that the quality of accounts needs to be improved substantially. The details of aggregate money value of the comments of the CAG for the accounts of 2018-21 are as follows:

Table 2.4: Impact of audit comments on financial statements of SPSEs

(₹ in crore)

Sl. No.	Particulars	2018-19		2019-20		2020-21	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	7	112.46	8	2231.82	7	64.47
2	Increase in profit	2	10.20	4	92.04	3	27.28
3	Increase in loss	0	0.00	5	5362.20	0	0.00
4	Decrease in loss	0	0.00	1	0.30	0	0.00
5	Non-disclosure of material facts	0	0.00	6	86.73	2	6290.22
6	Errors of classification	1	2.00	0	0.00	3	169.37

Source: Compiled from comments issued on financial statements of SPSEs.

Some of the significant comments issued after supplementary audit by CAG to the SPSEs are shown below:

Comment on Profitability

Sl. No.	Name of Company	Comment
1.	Ajmer Vidyut Vitran Nigam Limited (2019-20)	RERC in its truing up order for 2018-19 allowed Rajasthan Rajya Vidyut Prasaran Nigam Limited to recover transmission charges of ₹ 604.89 crore from the Company, against which the Company booked ₹ 630.17 crore. Excess booking of transmission charges resulted in overstatement of Current Liabilities and understatement of Profit by ₹ 25.28 crore.
		Non accountal of POC ⁵² charges bill of ₹ 2.75 crore (July 2011 to March 2020) of Power Grid Corporation of India Limited resulted in understatement of Current Liabilities and overstatement of Profit by ₹ 2.75 crore.
		Non accountal of gratuity expenses of ₹ 1.98 crore as per significant accounting policy of Company resulted in understatement of Current Liabilities and overstatement of Profit by ₹ 1.98 crore.
		Accountal of disputed revenue of ₹ 4.79 crore as operational revenue resulted in overstatement of Current Assets as well as Profit by ₹ 4.79 crore.
2.	Rajasthan Rajya Vidyut Utpadan Nigam Limited (2019-20)	Non accountal of expenditure incurred on operation and maintenance of Kota Thermal Power Station (₹ 1.06 crore) and Chhabra Thermal Power Station (₹ 1.05 crore) resulted in understatement of current liabilities and overstatement of profit by ₹ 2.11 crore.
		Incorrect adjustment of credit of ₹ 10.69 crore against repair & maintenance expenditure resulted in understatement of repair & maintenance expenditure as well as understatement of Company's other income by ₹ 10.69 crore.
3.	RajComp Info Services Limited (2019-20)	Non booking of project expenses of ₹ 22.74 crore and service charges income (6% of project expenses of ₹ 22.74 crore) thereon of ₹ 1.36 crore in the accounts resulting in overstatement of project expenses related liabilities (Note-5) by ₹ 24.10 crore (₹ 22.74 crore + ₹ 1.36 crore) and understatement of trade payables by ₹ 22.74 crore and understatement of profit by ₹ 1.36 crore.

52 Point of Connection.

4.	Rajasthan State Warehousing Corporation (2019-20)	Incorrect capitalization of borrowing costs of ₹ 10.81 crore for the period when active development was interrupted resulted in overstatement of Capital Work in Progress and profit by ₹ 10.81 crore.
		Non provisioning of ₹ 18.85 crore for bad and doubtful assets with respect to claims lying with RSFCSC ⁵³ (₹ 2.10 crore) for the period 2013-16 and FCI ⁵⁴ (₹ 16.75 crore) resulted in overstatement of current assets, loans and advances and profit by ₹ 18.85 crore.

Comments on Financial Position

Sl. No.	Name of Company	Comment
1.	Rajasthan Rajya Vidyut Utpadan Nigam Limited (2019-20)	Non accountal of ₹ 89.82 crore being expenditure on construction of marshalling yard for unit-7 & 8 of Suratgarh Super Critical Thermal Power Station resulted in understatement of Capital Work in Progress and overstatement of other Non-Current Assets by ₹ 89.82 crore.
2.	Rajasthan State Mines and Minerals Limited (2019-20)	The Company did not make provision for incorrect booking of Input Tax Credit of ₹ 62.23 crore (2019-20- ₹ 20.64 crore, 2018-19- ₹ 26.08 crore and 2017-18- ₹ 15.51 crore). This has resulted in overstatement of Current Assets by ₹ 62.23 crore and understatement of Other Expenses' and 'Other Equity' by ₹ 20.64 crore and ₹ 41.59 crore respectively. The profit for the year has also been overstated by ₹ 20.64 crore.
3.	Jaipur Smart City Limited (2019-20)	Non accountal of capital expenditure of ₹ 1.64 crore, resulted in understatement of trade payables and Capital work in Progress by ₹ 1.64 crore.
4.	Kota Smart City Limited (2019-20)	Non accountal of final bills of ₹ 1.13 crore related with installation and commissioning work of Rooftop Solar Photovoltaic Powered Water Pumping project and construction of Bus Shelter in Kota city, resulted in understatement of Property Plant & Equipment and other Current liabilities by ₹ 1.13 crore.
5.	Udaipur Smart City Limited (2019-20)	Non accountal of capital expenditure of ₹ 2.97 crore resulted in understatement of Capital work in Progress and trade payables by ₹ 2.97 crore.
6.	Rajasthan State Warehousing	Incorrect accounting of Cheques issued and RTGS/NEFT by the debtors in April 2020 as Cheques in hand and deducting the same from outstanding debtors

53 Rajasthan State Food and Civil Supplies Corporation Limited

54 Food Corporation of India

	Corporation (2019-20)	resulted in understatement of Debtors (Warehousing Operation) and overstatement of Cash and Bank Balance - Cheques & D.D. in Hand by ₹ 46.12 crore.
7.	Rajasthan Urban Drinking Water Sewerage and Infrastructure Corporation Limited (2018-19)	Incorrect reversal of RAVIL ⁵⁵ FDR of ₹ 1.14 crore instead of reversal of Accrued Interest on FDR (included in other current assets) resulted in understatement of Cash and Cash Equivalents and overstatement of Other Current Assets by ₹ 1.14 crore.

Comments on Disclosure/ General

Sl. No.	Name of Company	Comments
1.	Rajasthan Urja Vikas Nigam Limited (2020-21)	Incorrect inclusion of Fixed Deposits with schedules banks of ₹ 40 crore under cash and cash equivalents in contravention of AS-3 provisions and Company's significant accounting policy resulting in overstatement of Net Cash from/ (used) in Investing activities with consequent overstatement of Net increase/ (decrease) in Cash and Cash Equivalents and Cash and Cash Equivalents (closing balance) by ₹ 40 crore.
2.	Rajasthan Rajya Vidyut Utpadan Nigam Limited (2019-20)	The Company agreed in principle to phase out Unit 1 to 4 of the Kota TPS and required additional capital obligation of ₹ 6,290 crore (Phase-I ₹ 3,320 crore and Phase-II ₹ 2,970 crore) but such vital fact was not disclosed in the Financial Statement of 2019-20 despite the matter is under consideration of the State Government.
3.	Kota Smart City Limited (2019-20)	The Company did not disclose the fact about revision of financial statements for 2019-20 along with reasons viz difference in date of signing of financial statements and in date of BOD meeting, not signing of the financial statements by the Company secretary.
4.	Rajasthan Medical Services Corporations Limited (2019-20)	The Company did not disclose the primary reason of revision of accounts i.e. observation made by CAG auditors during supplementary audit and impact of such revision.

Comments on Auditors' Report

Sl. No.	Name of Company	Comments
1.	Giral Lignite Power Limited (2020-21)	<p>Statutory Auditors (SAs) in its report under Basis for Adverse Opinion have reported that <i>“Government of Rajasthan has disapproved the company’s plan of phased revival of plants by infusing more investment owing to improbability and success attached to restarting of same. Thus, there is material doubt on the chances of revival of operations of the company for want of permissions.”</i> Further, in the conclusion of opinion it was also reported by the SAs that <i>“material uncertainty exists about the company’s ability to continue as a going concern”</i>.</p> <p>The Board of Directors (BoD) accorded approval (29 June 2021) for issue of the Preliminary Information Memorandum (PIM) for inviting fresh Expression(s) of Interest (EOI) for disinvestment of GLPL through sale of 100% Equity, as recommended by the committee constituted by the State Government. Thus, there is material certainty about the company’s ability to not continue as a going concern.</p> <p>Further, conditions leading to disinvestment also existed on the Balance Sheet date, viz., the State Government conveyed (8 December 2020) the decision to start disinvestment process of the Company which indicated that the fundamental accounting assumption of going concern was not appropriate on the Balance Sheet date. These two material facts have not been reported by the Statutory Auditors.</p>
2.	Rajasthan Urja Vikas Nigam Limited (2020-21)	<p>The Independent Auditor’s opinion under Report on Other Legal and Regulatory Requirements that <i>“the standalone financial statements comply with the Accounting Standards specified under section 133 of the Companies Act, read with Rule 7 of the Companies (Accounts) Rules 2014”</i> was not correct as the Company has included the amount related to investment with maturity more than three months under the head Cash and Cash Equivalents in contravention of AS-3.</p> <p>Further, the Statutory Auditors have expressed unmodified opinion. The opinion given by the Statutory Auditors was also not correct to this extent as the Statutory Auditors have failed to qualify the matter of non-compliance of AS-3.</p>

3.	Rajasthan State Mines and Mineral Limited (2019-20)	The Independent Auditor's opinion under Report on Other Legal and Regulatory Requirements that "the standalone financial statements comply with the Indian Accounting Standards specified under section 133 of Companies Act read with the Companies (Indian Accounting Standards) Rule 15 as amended." was incorrect as there were two qualifications regarding short provisioning of liabilities under the head Basis of qualified opinion, showing non-compliance of financial statements with Indian Accounting Standard (Ind AS)-37: Provisions, Contingent Liabilities and Contingent Assets.
4.	RajComp Info Services Limited (2019-20)	The Statutory Auditors' Report was deficient as they failed to report on CAG's sub directions issued to them under sub section 5 of the section 143 of the Companies Act, 2013.
5.	Rajasthan Medical Services Corporation Limited (2019-20)	The Independent Auditor did not include 'Revised' word in their Report (Opinion Clause). Further, primary reason for revision <i>i.e.</i> observation made by CAG auditors during supplementary audit of accounts and impact thereon was also not mentioned by the Independent Auditor.
6.	Rajasthan Urban Drinking Water Sewerage and Infrastructure Corporation Limited (2018-19)	<p>Standard on Auditing-706 (SA-706) states that only those matters which are presented or disclosed in the Financial Statements and which the Auditor considers necessary to draw user's attention to, may only be included in the Emphasis of Matter (EOM). Further, SA-706 explains that widespread use of EOM Paragraph diminishes the effectiveness of auditor's communication of such matters and that EOM Paragraph is not a substitute for a modified opinion.</p> <p>Inclusion by Statutory Auditor of several deficiencies in the EOM Paragraph viz. inconsistency between receipt/turnover in GST returns and books of accounts, utilization certificates not held, etc. Further, the EOM also included issues where the Statutory Auditor was unable to comment on the accuracy of transactions viz. GST liability recognized in the books, ledgers forming part of CWIP or Mobilisation and Advance against works, extent of realization of advance/trade receivable etc. due to uncertainty involved/non-reconciliation and non-confirmation.</p> <p>These matters warrant a modified audit opinion and are not to be covered only in EOM paragraph. Hence, it was not proper on the part of the Statutory</p>

		Auditor to have provided an assurance in the Audit Report that Financial Statements presented a true and fair view and were free from material misstatement.
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Statutory corporations where CAG is the sole auditor

2.12 The progress of audit on the accounts of Statutory Corporation where CAG is the sole auditor is detailed below:

Rajasthan State Road Transport Corporation

The Corporation had submitted (April 2021) its financial statements for the year 2019-20. As a result of audit the Corporation has revised its accounts and submitted (September 2021) the revised accounts for audit. The Separate Audit Report (SAR) was under finalization as on 30th November 2021. It was, however, issued on 21 January 2022.

Non-compliance with provisions of Accounting Standards/IND AS

2.13 In exercise of the powers conferred by Section 469 of the Act, 2013, read with Section 129 (1), Section 132 and Section 133 of the said Act, the Central Government prescribed Accounting Standards. 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. Three Ind AS namely Ind AS 11, 17 & 18 have been withdrawn after the notification of Ind AS 115 & 116.

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

AS/ Ind AS	Name of AS/Ind AS	Name of the Company	Deviation
AS 3	Cash Flow Statement	Rajasthan Urja Vikas Nigam Limited (2020-21)	Inclusion of Fixed Deposits with scheduled banks, having maturity of more than three months, under Cash and Cash Equivalents. SA also failed to report about non-compliance of AS-3 in its report.
Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets.	Rajasthan State Mines and Mineral Limited (2019-20)	The Independent Auditor of consolidated financial statements stated that standalone financial statements comply with the Indian Accounting Standards however the Statutory Auditors of standalone financial statements have made two qualifications

			regarding short provisioning of liabilities under the head Basis of qualified opinion.
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Management Letters

2.14 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 (5) of the Companies Act, 2013. Besides these comments, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process, were also communicated to the management through a 'Management Letter' for taking corrective action. These deficiencies generally relate 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 SPSEs gave assurances that corrective action would be taken in the subsequent year.

During the period under review, CAG issued 17 'Management Letters' to SPSEs as shown in **Annexure-2.3**. The broad nature of irregularities highlighted in these Management Letters were as under:

- Non-compliance / non-disclosure of Accounting Policies;
- Issuing direction of accounting as per Government of Rajasthan/ Hon'ble Court's decision;
- Non-reconciliation of balances;
- Misclassifications of assets, liabilities, income and expenditures *etc.*;
- Inadequate/non-disclosures in 'Notes to Accounts'; and
- Non-maintenance of proper books of accounts.

