

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 139(7) of the Companies Act, 2013. CAG has the right to conduct supplementary audit and issue comments upon or supplement the report of the Statutory auditor. Statutes governing Statutory corporations require that their accounts be either audited or audit report of Statutory auditors be supplemented by the CAG and a report submitted to the State Legislature.

2.2 Appointment of Statutory auditors of Public Sector Enterprises by CAG

Section 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. Further, Section 139(7) of the Companies Act, 2013, states that the first auditor for a Government company or any other company owned or controlled by the Central Government or a State Government must be appointed by the CAG of India within 60 days of the company's registration.

The Statutory auditors of such PSEs for the year 2022-23 were appointed by CAG from September 2022 onwards.

2.3 Submission of accounts by Public Sector Enterprises

2.3.1 Need for timely submission

According to Section 394 and 395 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 the State Legislature, 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 the Statutory corporations. This mechanism provides the necessary legislative control over the utilization of public funds invested in the companies / Statutory corporations from the Consolidated Fund of the State.

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 statements for the financial year have 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 the above provision, annual accounts of various PSEs were pending as on 30 September 2023 as detailed in the following para.

2.3.2 Timeliness in preparation of accounts by PSEs

As of 31 March 2023, there were 131 working PSEs comprising 121 Government companies, six Government controlled other companies and four Statutory corporations under the purview of CAG's audit. The accounts for the year 2022-23 became due from these PSEs on 30 September 2023 as detailed in **Table 2.1**. A total of 16 PSEs (including one Statutory corporation as discussed below) submitted their accounts for the financial year 2022-23 for audit within the stipulated period. 103 working PSEs submitted their 179 arrear accounts (2011-12 to 2021-22) for audit by CAG during October 2022 to September 2023.

Out of four Statutory corporations, the CAG is the sole auditor in two Statutory corporations (Kerala State Road Transport Corporation and Kerala Industrial Infrastructure Development Corporation) and CAG conducts supplementary audit in two Statutory corporations (Kerala Financial Corporation and Kerala State Warehousing Corporation). Of these four Statutory corporations, Kerala Financial Corporation submitted the accounts for the year 2022-23 for audit within the stipulated time. Kerala State Road Transport Corporation (KSRTC) has a pendency of seven years (2016-17 to 2022-23), Kerala Industrial Infrastructure Development Corporation and Kerala State Warehousing Corporation have a pendency of one year (2022-23) as on 30 September 2023.

2.3.2.1 Arrears in submission of accounts

As per Section 129(2) of the Companies Act, 2013, at every Annual General Meeting of a company, the Board of Directors of the company shall lay before such meeting financial statements for the financial year. Contravention of the provisions of this section attracts fine (not less than ₹50,000 which may extend to ₹5,00,000) and/or imprisonment for a term which may extend to one year for managing directors, the whole-time director in charge of finance and the chief financial officer.

Despite the above provision, numerous cases of non-preparation and non-submission of financial statements were noticed for PSEs in Kerala. Details of arrears in submission of accounts of PSEs for the year 2022-23 are given in **Table 2.1**:

Table 2.1: Details showing the arrears in submission of accounts as on 30 September 2023

Particulars		Government companies	Government controlled other companies	Statutory corporations	Total
Total number of PSEs under the purview of CAG's audit as on 31.03.2023		130	15	4	149
Working PSEs- Unlisted (including four Statutory corporations)		121	6	4	131
Listed Companies		0	0	0	0
Number of PSEs which presented the accounts for 2022-23 for CAG's audit		14	1	1	16
Number of PSEs from which accounts for and prior to 2022-23 were due		107 (256)	5 (5)	3 (9)	115 (270)
Age wise analysis of arrears of working PSEs	One year (2022-23)	40 (40)	5 (5)	2 (2)	47 (47)
	Two years (2021-22 and 2022-23)	32 (64)	0 (0)	0 (0)	32 (64)
	Three years to five years (2018-19 to 2022-23)	29 (108)	0 (0)	0 (0)	29 (108)
	Six years and above (beyond 2017-18)	6 (44)	0 (0)	1 (7)	7 (51)

(Source: As per latest finalised accounts of PSEs)
 Figures in brackets represent number of accounts

It could be seen from the above table that:

- Out of the total of 131 working PSEs, only 16 PSEs submitted their accounts for the year 2022-23 to the CAG for audit, thus representing merely 12.21 *per cent* of the total number of PSEs under its audit jurisdiction.
- A total of 270 accounts (for FY 2022-23 and prior periods) were due from 115 PSEs in the year 2022-23.
- Age-wise analysis revealed that for six years and above (*i.e.* beyond 2017-18), 51 accounts were pending from seven PSEs; for three to five years (*i.e.*, 2018-19 to 2022-23) 108 accounts were pending from 29 PSEs, for two years (*i.e.*, 2021-22 and 2022-23) 64 accounts were pending from 32 PSEs.

Though the matter regarding the arrear in finalisation of accounts of PSEs is being taken up regularly (July 2023) and also an order (August 2023) has been issued by the Planning and Economic Affairs (BPE) Department, GoK to all Chief Executive Officers to finalise the accounts within the stipulated time, the pendency in finalisation of accounts is a matter of concern. Since the State Government had made investment in form of equity and loans in the PSEs whose accounts had been falling in arrears, the non-finalisation of accounts by these companies would lead to the Government investments remaining outside the oversight of Audit as well as the State Legislature thereby making them highly susceptible to instances of fraud and misappropriation.

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 the 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 with the overall objective that the Statutory auditors discharge the functions assigned to them properly and effectively. The CAG fulfils its oversight role 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 primary responsibility for preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is vested with 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 the 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.

Out of the 131 working PSEs, 112 PSEs (103 Government companies, six Government controlled other companies and three Statutory corporations) forwarded 197 audited accounts to Principal Accountants General, Kerala during the period from October 2022 to September 2023. These included financial statements from the year 2011-12 to 2022-23. Out of the 197 accounts, 16 accounts were for the year 2022-23. Out of 197, 109 financial statements of PSEs were reviewed in audit by the CAG and 24 Comment certificates were issued for 21 PSEs. 88 Non-Review Certificates were issued for 58 PSEs.

During 2022-23, 270 annual accounts of 115 working PSEs were in arrears. The arrear position of working PSEs in finalisation of their accounts is given in

Table 2.2. and in *Appendix 12.*

Table 2.2: Details showing the arrears in submission of accounts by working PSEs

Particulars	Number of working PSEs	Number of accounts in arrears
7 to 10 years	7	51
4 to 6 years	29	108
1 to 3 years	76	105
First accounts not finalised*	3	6
Total	115	270

*PSEs which have not submitted even their first year accounts since incorporation.

Similarly, 286 annual accounts in respect of 18 non-working PSEs (defunct or under various stages of liquidation) were in arrears. The age-wise analysis of non-submission of accounts of such PSEs is given in **Table 2.3** and in *Appendix 13.*

Table 2.3: Details showing the arrears in submission of accounts by non-working PSEs

Particulars	Number of non-working PSEs	Number of accounts in arrears
More than 10 years	11	254
7 to 10 years	1	9
4 to 6 years	5	22
1 to 3 years	1	1
Total	18	286

2.5 Result of CAG's oversight role

2.5.1 Audit of accounts of PSEs

Out of 197 certified accounts received during the period October 2022 to September 2023, 185 accounts were from 103 Government companies and six accounts from six Government controlled other companies for supplementary audit by CAG. Besides, six accounts were received from three Statutory corporations for supplementary audit or sole audit by the CAG.

The status of audit of account of PSEs is shown in **Table 2.4**

Table 2.4: Status of audit of account of PSEs by CAG

Particulars	Accounts received	Comments certificates issued	Non-Review certificate issued
		Number of accounts	Number of accounts
Government companies	185 (103)	102 (70)	83 (53)
Government controlled other companies	6 (6)	1 (1)	5 (5)
Statutory corporations	6 (3)	6 (3)	0
Total	197 (112)	109 (74)	88 (58)

Figures in brackets represent number of PSEs

Based on such a review, significant audit observations, if any, were reported under Section 143(6) of the Companies Act, 2013 and the relevant statutes in case of Statutory corporation to be placed in the AGM. For the balance 88 certified accounts, CAG conducted review of the financial statements and the statutory auditors' report before issuing Non-Review certificate to these companies.

The results of the review are detailed below:

2.5.1.1 Amendment of financial statements

Four Government companies amended their financial statements as a result of supplementary audit conducted by the CAG before laying the same in the AGM. The financial impact of amendments was ₹35.17 crore on profitability and ₹35.72 crore on assets and liabilities.

2.5.1.2 Revision of Auditors' Report

As a result of supplementary audit of the financial statements conducted by the CAG during 2022-23, the Statutory auditors of 19 Government companies revised their report before laying the financial statements of these companies in their AGM.

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

Out of 197 accounts received from 112 PSEs, 109 accounts were selected for review. This includes 102 accounts of 70 Government companies, one account of one Government controlled other company; and six accounts of three Statutory corporations. In respect of 102 accounts of Government companies and one account of a Government controlled other company, comments certificates were issued in 24 financial statements of 21 companies mentioned in *Appendix 14*.

Some of the significant comments issued on the financial statements of companies, the financial impact of which was ₹45.75 crore on the profitability and ₹180.53 crore on assets/liabilities, have been detailed in *Appendix 15*.

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 90 Accounts of 52 companies as detailed in *Appendix 16* did not comply with mandatory Accounting Standards/Ind AS.

2.7 Management Letters

One of the objectives of financial audit is to establish communication on 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 statements or in the reporting process, were also communicated to the Management of the PSE / Administrative Department of the Government through a 'Management Letter' for taking corrective action. 'Management Letters' were issued to all PSEs reviewed by CAG during 2022-23, including all 21 PSEs for which comments certificates were issued.

The deficiencies reported through Management Letters generally related to:

- Disclosure of matter of reclassification in notes to financial statements and compliance with disclosure requirements of Ind AS or Accounting Standards.
- Disclosure of the contingent part of liabilities disclosed in contingent liabilities, commitments and contingent assets.
- Rectification of non-cash items in cash flow statement by excluding non-cash items.
- Rectification of computation of Earnings per share by adjusting the weighted average number of equity shares to consider the number of days as the time-weighting factor for the next year's financial statements.
- Regrouping /reclassification of previous years' figures in future financial statements.
- Compliance with Ministry of Corporate Affairs notifications regarding the necessary amendments and disclosures in the financial statements
- Review realisability/classification of claims receivable by company according to Accounting Standards and to make necessary changes while finalising next year's accounts.
- Review of asset classification and provisioning especially plant and machinery and make necessary adjustments in line with regulatory requirements.
- Recognise and account all income and expenditure on accrual basis while preparing next year's accounts.

2.8 Reply of Government

The Government replied (July 2024) that issues pointed out in the Report are under due consideration of the Government and necessary instructions/directions would be issued to Departments and PSEs to expedite action to settle the issues and adhere to the provision of necessary Act and Statutes in a timely manner.

2.9 Conclusion

Analysis revealed that a total of 16 PSEs (including one statutory corporation) submitted their accounts till the financial year 2022-23 for audit within the stipulated period. This shows that only 12.21 *per cent* of the Accounts were submitted to the CAG for audit.

103 PSEs submitted their 179 arrear accounts (FY 2011-12 to FY 2021-22) for supplementary audit by CAG during October 2022 to September 2023. Age-wise analysis of the PSEs from which accounts were still pending showed that in 115 PSEs, 270 accounts (for FY 2022-23 and before) were pending for the financial year 2022-23. Similarly, 286 annual accounts of 18 non-working PSEs were also in arrears.

2.10 Recommendations

- 1. For delay in submission of accounts, Government may consider fixing responsibility on the CEOs/CMDs/CFOs concerned and include timely submission of accounts as a criterion for further extension of tenure or for fresh appointment of CEOs in other companies.*
- 2. Government may establish a robust monitoring and accountability mechanism to ensure that all PSEs comply with the statutory time limit for finalisation and submission of accounts, thereby promoting transparency and financial discipline within these organisations.*
- 3. The Government may consider the application of section 129(7) of the Companies Act which requires fines and/or imprisonment for non-preparation of accounts on time.*