

## CHAPTER-7

### OVERSIGHT ROLE OF COMPTROLLER AND AUDITOR GENERAL OF INDIA

Comptroller and Auditor General of India (CAG) appoints the statutory auditors of a Government Company and Government Controlled Other Company under Sections 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 Legislature.

#### 7.1 Appointment of statutory auditors of State Public Sector Enterprises (SPSEs) 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.

The statutory auditors of the State Government Companies for the year 2022-23 were appointed by the CAG upto September 2023.

#### 7.2 Submission of accounts by State Public Sector Enterprises

##### 7.2.1 Need for timely submission

According to Section 394 of the Companies Act, 2013, an 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 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 Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the Companies from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every company to hold an AGM of the shareholders once in every calendar year and 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.

The annual accounts of various SPSEs were pending as on September 2023, as detailed in the following paragraph.

### 7.2.2 Timeliness in preparation of accounts by SPSEs

As of 31 March 2023, there were 35 SPSEs under the purview of CAG's audit. Of these 35 SPSEs, accounts for the year 2022-23 were due from 34 SPSEs (including from two inactive SPSEs except from Haryana State Housing Finance Limited which is under liquidation). However, only nine SPSEs submitted their accounts of the year 2022-23 for audit to CAG by 30 September 2023. As many as 60 accounts of 25 SPSEs were in arrears, for various reasons as detailed in **Appendix 7.1**. They included three accounts of three SPSEs whose net worth had been completely eroded.

Details of arrears in submission of accounts of SPSEs are given in **Table 7.1**.

**Table 7.1: Details of arrears in submission of accounts of Government Companies**

Particulars		SPSEs	Number of Accounts
Total number of Companies under the purview of CAG's audit as on 31 March 2023		35	--
<b>Less:</b> Companies under liquidation from which accounts for 2022-23 were not due		1	--
<b>Less:</b> New companies from which accounts for 2022-23 were not due		-	--
Number of companies from which accounts for 2022-23 were due		34	34
Number of companies which presented their accounts for CAG's audit by 30 September 2023		9	9
Number of companies with accounts in arrears		25	60
Breakup of Arrears	(i) Inactive	2	5
	(ii) First Accounts not submitted	3	12
	(iii) Others	20	43
Age-wise analysis of arrears against 'Others' category	One year	8	8
	Two years	5	10
	Three years and above	7	25

**Source:** Complied on the basis of annual accounts received in the office of Principal Accountant General (Audit) Haryana

### 7.2.3 Timeliness in preparation of accounts by Statutory Corporations

Audit of two statutory corporations<sup>1</sup> is being conducted by the Chartered Accountants and supplementary audit is conducted by the CAG. Neither of the two statutory corporations presented their accounts for the year 2022-23 for audit before September 2023. As on September 2023, two accounts (i.e. of the year 2022-23) of these two Statutory Corporations were pending.

## 7.3 CAG's oversight - Audit of accounts and supplementary audit

### 7.3.1 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

<sup>1</sup> Haryana Financial Corporation and Haryana State Warehousing Corporation.

consultation with National Advisory Committee on Accounting Standards renamed as National Financial Reporting Authority<sup>2</sup>. 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.

### **7.3.2 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.

### **7.3.3 Supplementary Audit of accounts of SPSEs**

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 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.

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<sup>2</sup> Effective from 01<sup>st</sup> October 2018.

## 7.4 Result of CAG's oversight role

### 7.4.1 Audit of accounts of SPSEs

Twenty six financial statements for the year 2022-23 and of earlier years were received from 24 SPSEs during October 2022 to September 2023. 18 of these 26 Financial Statements were reviewed in audit by the CAG while Non-Review Certificates were issued for eight SPSEs. The results of the review are detailed below:

### 7.4.2 Significant comments of the CAG issued as supplement to the statutory auditors' reports on Government Companies

Subsequent to the audit of the Financial Statements for the year 2022-23 by statutory auditors, the CAG conducted supplementary audit of the six Financial Statements of six SPSEs. Some of the significant comments issued on Financial Statements of SPSEs for the year 2022-23, the financial impact of which was ₹ 55.71 crore on the profitability and ₹ 4,254.96 crore on financial position, have been detailed in **Table 7.2** and **Table 7.3**.

**Table 7.2: Impact of the Comments on the Profitability of Government Companies**

Sr. No.	Name of the Company	Comments
1	Haryana Vidyut Prasaran Nigam Limited for the year 2022-23	The Company capitalised 71 works amounting ₹ 293.80 crore from April 2022 to March 2023 which were commissioned from December 2016 to February 2023. Depreciation on these assets was calculated from the date of transfer i.e. April 2022 to March 2023 instead of from the date of commissioning of the respective projects. Resultantly, the Company booked less depreciation of ₹ 44.33 crore on these assets.  This resulted in understatement of depreciation and amortisation expense and overstatement of profit by ₹ 44.33 crore during the year 2022-23.
2	Dakshin Haryana Bijli Vitran Nigam Limited	The Company made payment of ₹ 11.28 crore to HPGCL regarding Fuel Price Adjustment bill and ₹ 0.10 crore to Jaypee Power Limited regarding power purchase cost in May and June 2023 respectively. These bills pertained to the year 2022-23 and liability for payment of ₹ 11.38 crore should have been provided in the year 2022-23. However, the Company had not booked any liability against these bills during 2022-23 which resulted in understatement of Other current liabilities by ₹ 11.38 crore and overstatement of profit to the same extent.

**Table-7.3: Impact of the Comments on Financial Position of Government Companies**

Sr. No.	Name of the Company	Comments
1.	<b>Haryana Vidyut Prasaran Nigam Limited</b>	Advance to a supplier amounting to ₹ 2.08 crore was recovered (April 2017) from the running bills of the party but no adjustment entry was passed in this regard. This resulted in overstatement of “Other Non-Current Assets” and understatement of “Capital Work in Progress” by ₹ 2.08 crore.
2	<b>Haryana Power Generation Corporation Limited</b>	Provision amounting ₹ 781.14 crore was understated by ₹ 143.24 crore due to short provision on account of ‘Non funded liability’. Provision of ₹ 156.02 crore has been made against the liability of ₹ 299.26 crore as per Actuarial Valuation report. This resulted in overstatement of ‘Other Equity’ by ₹ 143.24 crore and understatement of ‘Provisions’ to that extent.
3	<b>Uttar Haryana Bijli Vitran Nigam Limited</b>	<p>1. Para 63 of Ind AS-19 requires an entity to recognise the net defined benefit liability (asset) in the balance sheet. As per actuarial valuation report, net defined benefit liability as on 31 March 2023 for funded benefits and non-funded benefits worked out to ₹ 4,742.03 crore and ₹ 393.86 crore respectively. The Company, however, provided liability/provision of ₹ 1,040.08 crore against funded benefits and nil against non-funded benefits in the annual accounts. Resultantly, liability/provision for employee benefits was understated by ₹ 4,095.81 crore and other equity overstated to the same extent.</p> <p>2. Other Financial liabilities did not include ₹ 13.83 crore on account of guarantee fee (₹ six crore) payable to the State Government for availing (March 2023) term loan and cost of power/fuel price adjustment (₹ 7.83 crore) payable to power generating companies relating to period 2022-23 resulting in overstatement of profit to the same extent.</p>

## 7.5 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 Public Sector Enterprises 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 ‘Management Letter’ for taking corrective action. During October 2022 to September 2023, Management Letters were issued to 15 Government Companies and two Statutory Corporations. The deficiencies related to application/interpretation of accounting policies/practices and inadequate or non-disclosure of certain important information were pointed out in the Management Letters.

## **7.6 Conclusions**

As on 31 March 2023, there were 37 SPSEs (two Statutory Corporations and 35 Government Companies (including three inactive Government Companies) in the State under the audit jurisdiction of the CAG. As of 31 March 2023, accounts for the year 2022-23 were due from 34 Government Companies. However, only nine Government Companies submitted their accounts for the year 2022-23 for audit by CAG by 30 September 2023. Accounts of 25 Government Companies and two statutory corporations were in arrears for a period of one to six years.

## **7.7 Recommendations**

The State Government needs to impress upon those SPSEs with arrears in accounts to ensure early finalisation of their Financial Statements as in the absence of their finalisation, Government investments in such SPSEs remains outside the oversight of the State Legislature.