CHAPTER 1

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA ON THE ACCOUNTS OF PSUs

Under Section 619 of the Companies Act, 1956 the Statutory Auditor of a Government Company, appointed by the Comptroller and Auditor General of India (CAG), conducts the audit of accounts of the Government Companies including Deemed Government Companies under Section 619-B of the Act. On the basis of supplementary audit, CAG issues comments upon or supplements the report of the Statutory Auditors. Statutes governing some Corporations also require their accounts to be audited by CAG and a report to be given to the Government.

The details of Government Companies/Deemed Government Companies and Corporations of the Union Government whose accounts for 2003-04 were received and audited by CAG were as under:

	Government Companies	Deemed Government Companies	Corporations	Total
(i) No. of PSUs (List given in Appendix I, II and III)	290	88	6	384
(ii) No. of PSUs whose accounts for 2003-04 were received for audit upto 15 December 2004.	238	61	5	304
(iii) No. of PSUs selected for supplementary audit	202	53	5	260
(iv) No. of PSUs whose accounts were under audit as of 15 December 2004 (see Appendix I, II and III)	7	4	3	14

Note ***The status of audit of accounts of PSUs for 2003-04 (received upto 15 December 2004) has been indicated against each PSU in Appendix I, II and III.***

As a result of supplementary audit of accounts, 15 Government Companies and two Deemed Government Companies revised their accounts for 2003-04. Comments were issued on the accounts of 53 Government Companies and five Deemed Government Companies for 2003-04. Audit Reports on the accounts of two Statutory Corporations (Central Warehousing Corporation and Airports Authority of India) were also sent to the Government/Corporation.

1.1 (A) Revision of Accounts:

As a result of supplementary audit and consequent corrections made in the accounts for the year ended 31 March 2004, the profit in respect of the following Companies increased (+) or decreased (-) as indicated below:

Increase (+) or Decrease (-) of Profit

Name of the Company	**Rupees in crore**
1.Hindustan Aeronautics Limited	(+)10.25
2. Mumbai Rail Vikas Nigam Limited	(+) 2.32
Total Increase (+)	**(+) 12.57**
1.Central Coalfields Limited	(-) 58.29
2.Mahanadhi Coalfields Limited	(-)41.67
3.Northern Coalfields Limited	(-)9.00
4.Dredging Corporation of India Limited	(-) 3.37
5. Western Coalfields Limited	(-)1.34
6. South Eastern Coalfields Limited	(-)1.19
7. Central Mine Planning and Design Institute Limited	(-) 0.70
8 Vibank Housing Finance Limited	(-) 0.01
Total Decrease (-)	**115.57**

In the following Companies, loss for the year increased (-)as given below:

Increase (-)of Loss

Name of the Company	**Rupees in crore**
1. Bharat Coking Coal Limited	(-)13.47
2. ITI Limited	(-)9.50
3. MECON Limited	(-)3.81
4. Eastern Coalfields Limited	(-)3.39
5. National Textiles Corporation (WBAB&O) Limited	(-)1.37
Total Increase (-)	**31.54**

Note: The Accounts of PNB Asset Management Limited and Indian Railway Catering and Tourism Corporation Limited were also revised but there was no financial impact.

1.1 (B) Impact of Comments on Balance Sheet and Profit & Loss Account:

(a) The comments issued by the Comptroller and Auditor General of India on the financial statements of various companies other than the 'Navratna Companies' in respect of which the position has been brought out separately in para 1.1 (B) (b), indicated that in 15 PSUs assets as on 31 March 2004 were overstated by Rs.222.43 crore and in two PSUs these were understated by Rs.101.38 crore. Similarly liabilities were overstated by Rs.1196.79 crore in five PSUs and understated by Rs.167.60 crore in 12 PSUs. In nine PSUs net profit for 2003-04 was overstated by Rs.118.05 crore and in four PSUs it was understated by Rs.1120.84 crore. Similarly, in eight PSUs net loss for 2003-04 was understated by Rs.94.81 crore. The following tables give a Company-wise break up of the financial implication of comments of the Comptroller and Auditor General of India:

(i) Assets overstated (-)/understated (+):

Name of the Company	Rupees in crore
1. Power Grid Corporation of India Limited	(-) 71.75
2. Bharat Sanchar Nigam Limited	(-) 65.48
3. HMT Limited	(-) 27.91
4. Delhi Metro Rail Corporation Limited	(-) 10.01
5. Heavy Engineering Corporation Limited	(-) 9.06
6. PEC Limited	(-) 7.81
7. National Highways Authority of India	(-) 7.24
8. HMT Machine Tools Limited	(-) 6.39
9. National Hydroelectric Power Corporation Limited	(-) 5.25
10. Bharat Earth Movers Limited	(-) 3.44
11. Cochin Refinery Limited	(-) 2.74
12. Bongaigaon Refinery Limited	(-) 2.66
13. Airports Authority of India	(-) 1.83
14. Inland Waterways Authority of India	(-)0.62
15. Indian Iron Steel Company Limited	(-) 0.24
Total overstatement (-)*	**(-) 222.43**
1. Rural Electrification Corporation Limited	(+) 100.79
2. Bharat Refractories Limited	(+) 0.59
Total understatement (+)	**(+) 101.38**

Total assets overstated included Rs.43.99 crore relating to the accounts for the year 2002-03.

(ii) Liabilities understated (+)/overstated (-) :

Name of the Company	Rupees in crore
1. Rural Electrification Corporation Limited	(+)100.79
2. Heavy Engineering Corporation Limited	(+)32.57
3. Airports Authority of India	(+)14.23
4. Air India Limited	(+)6.50
5. Konkan Railway Corporation Limited	(+)4.86
6. National Highways Authority of India	(+)2.58
7. Moradabad Toll Road Company Limited	(+)1.32
8. Indfund Management Limited	(+)1.16
9. HMT Machine Tools Limited	(+)1.15
10. Power Grid Corporation of India Limited	(+) 1.09
11. Agriculture Insurance Company of India Limited	(+)0.92
12. Bharat Refractories Limited	(+)0.43
Total liabilities understated (+)*	**167.60**
1. Bharat Sanchar Nigam Limited	(-)1181.76
2. PEC Limited	(-)7.81
3. MMTC Limited	(-)3.05
4. Bongaigaon Refinery and Petrochemicals Limited	(-)2.68
5. Bharat Electronics Limited	(-)1.49
Total liabilities overstated (-)	**1196.79**

Total liabilities understated included Rs19.28 crore relating to the accounts for the year 2002-03.

(iii)Profit overstated (-)/understated (+):

Name of the Company	(Rs. in crore)
1. Powergrid Corporation of India Limited	(-)72.84
2. Airports Authority of India	(-)16.06
3. National Highways Authority of India	(-)9.82
4. Air India Limited	(-)6.50
5. National Hydroelectric Corporation Limited	(-)5.25
6. Bharat Earth Movers Limited	(-)3.44
7. Cochin Refinery Limited	(-)2.74
8. Indfund Management Limited	(-)1.16
9. Indian Iron Steel Company Limited	(-) 0.24
Total Profit overstated (-)*	**(-) 118.05**
1. Bharat Sanchar Nigam Limited	(+) 1116.28
2. MMTC Limited	(+)3.05
3. Bharat Electronics Limited	(+)1.49
4. Bongaigaon Refinery and Petrochemicals Limited	(+) 0.02
Total Profit understated (+)	**(+) 1120.84**

Total profit overstated included Rs.25.88 crore relating to accounts for the year 2002-03.

(iv)Loss understated (-)/overstated (+):

Name of the Company	(Rs. in crore)
1. Heavy Engineering Corporation Limited	(-)41.63
2. HMT Limited	(-)27.91
3. Delhi Metro Rail Corporation Limited	(-)10.01
4. HMT Machine Tools	(-)7.54
5. Konkan Railway Corporation Limited	(-)4.86
6. Moradbad Toll Road Company Limited	(-)1.32
7 Agriculture Insurance Company of India Limited	(-)0.92
8. Inland Waterways Authority of India	(-)0.62
Total loss understated (-)*	**(-) 94.81**
1. Bharat Refractories Limited	(+) 0.16
Total loss overstated (+)	**(+) 0.16**

Total loss understated included Rs.37.39 crore relating to the accounts for the year 2002-03.

(b)Navratna Companies:

(b) (i) Impact of comments issued by the Comptroller & Auditor General of India on the financial statements on 'Navratna' Public Sector Undertakings for the year 2003-2004 indicated that Assets were over-stated by Rs.380.77 crore in two PSUs and understated by Rs.39.55 crore in one PSU. Similarly liabilities were understated by Rs.200.05 crore in four PSUs and overstated by Rs.12.62 crore in one PSU. The following tables give company-wise break-up of the financial implication of comments of the Comptroller & Auditor General of India.

Assets overstated (-)/understated (+)

Name of the Company	Rs. in crore
1. Indian Oil Corporation Limited	(-)369.06
2. Steel Authority of India Limited	(-)11.71
Total assets overstated (-)	**(-) 380.77**
1. Mahanagar Telephone Nigam Limited	(+)39.55
Total assets understated (+)	**(+) 39.55**

Liabilities understated (-)/overstated (+)

1. Mahanagar Telephone Nigam Limited	(-)96.86
2. Steel Authority of India Limited	(-)62.88
3. GAIL (India) Limited	(-)35.28
4. Bharat Heavy Electricals Limited	(-)5.03
Total liabilities understated (-)	**(-) 200.05**
1. Indian Oil Corporation Limited	(+)12.62
Total liabilities overstated (+)	**(+) 12.62**

(ii) In addition to the above, the impact of CAG's comments on the profit and loss of the 'Navratna' Public Sector Undertakings for the year 2003-04 is given as under:

(Rs.in crore)

Name of the Company	**Net Profit (before tax)/ Loss (-) and prior period adjustments as per accounts**	**Over-statement (+)/ Under-statement (-) of Profit or Loss as commented**	**Impact of comments as a percentage of profit/loss shown as per accounts**
1.	2.	3.	4.
1. Bharat Heavy Electricals Limited	1027.50	(+)5.03	0.49
2. GAIL (India) Limited	2811.83	(+)35.28	1.25
3. Indian Oil Corporation Limited	9645.78	(+) 356.44	3.70
4. Mahanagar Telephone Nigam Limited	1685.95	(+) 57.31	3.40
5. Steel Authority of India Limited	2662.88	(+)74.59	2.80
Total	**17833.94**	**528.65**	

1.2 Salient Comments on Balance Sheet/Profit & Loss Statements

MINISTRY OF CIVIL AVIATION

1.2.1 Air India Limited

The Company had not provided for guarantee fee of Rs.6.43 crore payable to the Government of India on account of guarantees given by the Government on foreign currency loans availed after 1989.

The Management stated that pending decision from the Ministry, disclosure under 'contingent liabilities' was considered adequate instead of creating clear liability.

The above contention of the Management is not tenable as there exists a clear liability in view of the communication received in December 2003 from the Ministry of Civil Aviation conveying the clarification of the Ministry of Finance that there would be no review of cases for waiver of guarantee fee in the case of guarantees given on or after January 1989.

1.2.2 Airports Authority of India

1. The Surplus carried forward to balance sheet for the year 2002-03 was overstated and current liabilities and provision were understated by Rs.23.55 crore due to:

(i) Non-provision for other expenses payable to a private party in accordance with court judgment- Rs.26 lakh.

(ii) Non-provision towards clothing, arms and ammunition charges payable to Central Industrial Security Force (CISF)- Rs.57 lakh.

(iii) Short provision of dividend payable to Government of India and consequent understatement of tax on dividend- Rs.21.57 crore.

(iv) Short provision towards gratuity and leave encashment- Rs.1.15 crore.

2. Fixed assets as well as depreciation were understated by Rs.1.77 crore and Rs.21 lakh respectively due to:

(i) Non-capitalisation of residential building freehold property by Rs.94 lakh resulting in understatement of depreciation by Rs.4 lakh.

(ii) Short capitalisation of expenditure by Rs.83 lakh incurred on installation of other office appliances resulting in understatement of depreciation by Rs.17 lakh.

3. Fixed assets (runways, taxiways, aprons, roads, bridges and culverts) were overstated by Rs.2.95 crore due to inclusion of works, which were in progress. Consequently, depreciation was overstated by Rs.36 lakh.

4. Surplus carried forward to Balance Sheet and sundry debtors were overstated by Rs.1.98 crore due to:

(i) Non-provision of doubtful debts as per Accounting Policy of the Authority- Rs.97 lakh.

(ii) Incorrect reduction of Rs.1.01 crore from prior period income consequent upon receipt of arbitration award instead of withdrawing the same from the existing provision for doubtful debts.

5. Pay and allowances and liabilities were overstated by Rs.9.32 crore due to overestimation of arrears of increments payable to staff.

6. Accounting Policy No. 6 of the Authority was deficient in as much as it allows charging off full value of purchases of stores and spares issued during the year irrespective of actual consumption. Stores and spares valuing Rs.49.18 crore already charged to Profit and Loss Account were lying unconsumed as on 31 March 2003.

7. The reply to Audit Report was not furnished by the Authority.

MINISTRY OF COMMERCE & INDUSTRY

1.2.3 MMTC Limited

Provisions were overstated and profit was understated by Rs.3.05 crore due to provision of Rs.10.45 crore towards leave encashment as against Rs.7.40 crore as per the actuarial valuation.

The Management stated that the excess provision would be adjusted during the year 2004-05.

1.2.4 PEC Limited

1. Current assets and current liabilities were overstated by Rs.7.81 crore due to incorrect inclusion of goods-in-transit (i.e. cost of imported goods, insurance and freight) under current assets, for which the certificate of quantity was issued on 5 April 2004 and documents were also negotiated after 31 March 2004.

The Management stated that the actual shipment was made in March 2004. The shipping documents viz. bills of landing, certificate of origin and commercial invoice were of 31 March 2004. The purchases and stock had been booked in the year as per the past practice.

The above contention of the Management is not tenable because certificate of quantity was issued on 5 April 2004 i.e. after March 2004 without which the seller could not negotiate with the bank.

2. Sales and purchases amounting to Rs.19.76 crore and Rs.19.66 crore respectively effected during the year 2002-2003 were inadvertently booked as sales and purchases for the year 2003-2004. Consequently, the profit for the year had been overstated by Rs.9.64 lakh.

The Management accepted the comment.

MINISTRY OF COMMUNICATIONS

1.2.5 Bharat Sanchar Nigam Limited (BSNL)

1. Gross block of fixed assets was understated by Rs.242.06 crore due to non/short capitalisation of assets, which were commissioned and put to use during the current year or earlier and non/incorrect accountal of assets pertaining to the Department of Telecommunications (DoT) period in 28 units of the Company. This resulted in overstatement of capital work-in-progress, inventories, intra/inter circle remittance, employees' remuneration and benefits, administrative, operating and other expenses, current assets, profit for the year and reserves and surplus by Rs.164.65 crore, Rs.8.87 crore, Rs.53.58 crore, Rs.1.18 crore, Rs.3 lakh, Rs.1.11 crore, Rs.20.25 crore and Rs.14.58 crore respectively with consequent understatement of depreciation, net block of fixed assets, current liabilities, prior period adjustments and other income by Rs.21.53 crore, Rs.216.11 crore, Rs.2.48 crore, Rs.4.86 crore and Rs.seven lakh respectively.

The Management accepted the comment.

2. Gross block of fixed assets was overstated by Rs.96.51 crore due to excess/incorrect capitalisation of capital work-in-progress and revenue expenditure, incorrect booking of overhead charges and non-removal of decommissioned assets from fixed assets in 17 units of the Company. This resulted in overstatement of net block of fixed assets, depreciation, current liabilities and reserves and surplus by Rs.68.20 crore, Rs.17.88 crore, Rs.72 lakh and Rs.4.59 crore respectively with consequent understatement of provisions, inventories, decommissioned assets, capital work-in-progress, loans and advances, intra/inter circle remittance, administrative, operating and other expenses, prior period adjustments and profit for the year by Rs.93 lakh, Rs.1.52 crore, Rs.15.54 crore, Rs.43.21 crore, Rs.2.02 crore, Rs.1.53 crore, Rs.8.79 crore, Rs.3.71 crore, and Rs.9.09 crore respectively.

The Management accepted the comment.

3. Net block of fixed assets was understated by Rs.14.93 crore due to incorrect charging of depreciation in nine units of the Company, which also resulted in understatement of profit for the year by Rs.14.79 crore and reserves and surplus by Rs.14.93 crore with overstatement of depreciation by Rs.14.79 crore and prior period adjustments by Rs.14 lakh.

The Management accepted the comment.

4. Net block of fixed assets was overstated by Rs.37.47 crore due to short/incorrect charging of depreciation on fixed assets/decommissioned assets in 18 units of the Company. Consequently, administrative, operating and other expenses, decommissioned assets and depreciation were understated by Rs.19 lakh, Rs.29.50 crore and Rs.12.94 crore, respectively, with overstatement of profit for the year, prior period adjustments and reserve and surplus by Rs.13.13 crore, Rs.10 lakh and Rs.7.97 crore respectively.

The Management accepted the comment.

5. Capital work-in-progress was understated by Rs.11.00 crore on account of non/short accountal of overhead charges and capital work-in-progress in five units of the Company, which also resulted in understatement of current liabilities by Rs.3.94 crore and profit for the year as well as reserves and surplus by Rs. 1.14 crore, each with consequent overstatement of inventories by Rs.17 lakh, administrative, operating and other expenses by Rs. 1.14 crore and intra/inter circle remittance by Rs.5.75 crore.

The Management accepted the comment.

6. Capital work-in-progress was overstated by Rs.335.41 crore due to incorrect capitalisation of inventories, non-capitalisation of completed works, incorrect accounting of maintenance expenses, etc. in 12 units of the Company, which also resulted in understatement of inventories by Rs.2.57 crore, gross block of fixed assets by Rs.321.72 crore, net block of fixed assets by Rs.274.66 crore, depreciation by Rs.24.36 crore, loans and advances by Rs.4.13 crore, administrative, operating and other expenses by Rs.3.87 crore, provisions by Rs.3.04 crore, intra/inter circle remittance by Rs.3.00 crore and prior period adjustments by Rs 25.02 crore. Consequently, current liabilities, profit for the year and reserves and surplus were overstated by Rs.84 lakh, Rs.28.23 crore and Rs.53.25 crore respectively.

The Management accepted the comment.

7. Inventories were understated by Rs.44.79 crore on account of incorrect accountal of inventories consumed in capital work-in-progress, obsolete inventories of DoT period not taken to stock and short provision of liabilities in 12 units of the Company, which also resulted in understatement of current liabilities by Rs.35 lakh, provisions by Rs.22.81 crore, administrative, operating and other expenses by Rs.1.69 crore and other income by Rs.15 lakh with consequent overstatement of capital work-in-progress by Rs 4.98 crore, intra/inter circle remittance by Rs.13.32 crore, net block of fixed assets by Rs.1.27 crore, depreciation by Rs.3 lakh as well as understatement of profit for the year by Rs.1.87 crore and reserve and surplus by Rs.2.06 crore.

The Management accepted the comment.

8. Inventories were overstated by Rs.45.72 crore on account of non-capitalization of Wireless-in-Local Loop handsets and cables, wrong inclusion of decommissioned assets, non-accountal of loss of obsolete stores and misclassification of inventories in six units of the Company. This also resulted in understatement of capital work-in-progress by Rs.12.22 crore, decommissioned assets by Rs. 5.79 crore, net block of fixed assets by Rs.13.36 crore, prior period adjustments by Rs.49 lakh, Loans and advances by Rs. 18 lakh, depreciation by Rs.1.16 crore and administrative, operating and other expenses by Rs.10.76 crore with consequent overstatement of current liabilities by Rs.1.76 crore, profit for the year by Rs.11.92 crore and reserve and surplus by Rs.12.41 crore.

The Management accepted the comment.

9. Sundry debtors were overstated by Rs.39.27 crore due to non-provision for disputed debtors, double booking of income, excess accountal of income from post-paid cellular connections, wrong accountal of the Subscriber Trunk Dialing (STD)/Public Call Offices (PCO) commission, etc. in 11 units of the Company, which resulted in overstatement of income by Rs.11.52 crore, current liabilities by Rs.6.23 crore and profit for the year as well as reserves and surplus by Rs.31.84 crore, each with consequent understatement of cash and bank balance by Rs.25 lakh, decommissioned assets by Rs.45 lakh, loans and advances by Rs.50 lakh and administrative, operating and other expenses by Rs.20.32 crore.

The Management accepted the comment.

10. Current liabilities were understated by Rs.67.98 crore on account of non-provision of liabilities for capital and revenue expenditure in 23 units of the Company. This also resulted in understatement of capital work-in-progress by Rs.14.15 crore, administrative, operating and other expenses by Rs.36.41 crore, inventories by Rs.3.35 crore, financial expenses by Rs.3.37 crore, employees' remuneration and benefits by Rs15 lakh, loans and advances by Rs.7.73 crore, prior period adjustments by Rs.1.59 crore and net block of fixed assets by Rs 51 lakh with consequent overstatement of income by Rs.72 lakh profit, for the year by Rs.40.65 crore and reserve and surplus by Rs.42.24 crore.

The Management accepted the comment.

11. Provisions were understated by Rs.15.09 crore on account of non-provision of obsolete and non-moving inventories in nine units of the Company. This also resulted in understatement of administrative, operating and other expenses by Rs.15.09 crore with consequent overstatement of profit for the year and reserves and surplus by Rs.15.09 crore.

The Management accepted the comment.

12. Income from services was overstated by Rs.32.21 crore due to excess/incorrect accountal of income, income received in advance and double deduction of service tax from liabilities in 14 units of the Company. This also resulted in understatement of current liabilities, administrative, operating and other expenses, other income and income received in advance by Rs.6.61crore, Rs.1.11 crore, Rs.90 lakh and Rs.29 lakh respectively, besides overstatement of sundry debtors by Rs.11.24 crore, prior period adjustments by Rs.4.28 crore, profit for the year by Rs 32.42 crore and reserves and surplus by Rs 28.14 crore.

The Management accepted the comment.

13. Income from services was understated by Rs.48.05 crore due to non/short accountal of income and surcharges and wrong accountal of discount in 13 units of the Company, which also resulted in understatement of administrative, operating and other expenses by Rs.22.39 crore, sundry debtors by Rs.25.68 crore, current liabilities by Rs.4.37 crore, loans and advances by Rs.4.15 crore, prior period adjustments by Rs.12 lakh with consequent overstatement of provisions by Rs. eight lakh, besides understatement of profit for the year by Rs.25.66 crore and reserves and surplus by Rs.25.54 crore.

The Management accepted the comment.

14. Other income was understated by Rs.10.64 crore due to wrong adjustment of liquidated damages from the capital cost of works, non accountal of interest charges due from private operators for delayed payment and short accountal of other income in four units of the Company. This also resulted in understatement of capital work-in-progress by Rs 8.70 crore, loans and advances by Rs.1.12 crore an d profit for the year as well as reserves and surplus by Rs.10.64 crore, each with overstatement of current liabilities by Rs. 82 lakh.

The Management accepted the comment.

15. Inter connection usage charges included Rs.450.23 crore (refer item 11.2 of the notes to Accounts) against the total amount of Rs. 486.25 crore claimed by the Delhi and Mumbai units of MTNL towards interconnection usage charges (IUC) which resulted in understatement of current liabilities and administrative, operating and other expenses by Rs.36.02 crore each and overstatement of profit for the year as well as reserves and surplus by Rs. 36.02 crore each.

The Management accepted the comment.

16. Current tax was worked out after calculating normal income tax liability instead of working out the same under Section 115 JB of the Income Tax Act, 1961, as the Company was eligible for income tax exemption under Section 80-IA of this Act. The income tax liability of the Company under Section 115 JB of this Act worked out to Rs.735.43 crore. This resulted in overstatement of tax expenses by Rs.1309.77 crore with consequent understatement of profit after taxation as well reserves and surplus by Rs.1309.77 crore each.

The Management accepted the comment.

17 Current tax was understated by Rs. 7.81 crore due to non-provision towards interest liability under Section 234 C of the Income Tax Act, 1961 owing to the Company’s failure to deposit the requisite amount of advance tax on the due dates in the months of June, September and December 2003. Consequently, provisions were understated and profit after tax as well as reserves and surplus were overstated by Rs. 7.81 crore, each.

The Management has accepted the comment.

1.2.6 Mahanagar Telephone Nigam Limited (MTNL)

(1) (a) Non provision of one time permission charges of Rs.24.76 crore payable to the Municipal Corporation of Delhi (MCD) for installation of Base Terminal Stations (BTS) and (b) non/short capitalisation of subscribers’ installations, apparatus & plant (A&P), cables, duct and computer system commissioned during 2003-04 or earlier in Delhi,

Mumbai and Mobile Services units resulted in understatement of gross block of fixed assets, net block of fixed assets, depreciation and current liabilities by Rs.24.76 crore, Rs.21.96 crore, Rs.2.80 crore (including prior period depreciation of Rs.1.46 crore) and Rs.4.47 crore, respectively. Consequently, capital works-in-progress (WIP), profit for the year and reserves & surplus had been overstated by Rs.20.29 crore, Rs.1.34 crore and Rs.2.80 crore respectively.

The Management accepted the comment.

(2). Incorrect inclusion of maintenance works under fixed assets and capital WIP in Delhi unit and charging of overheads on the cost of equipment for turnkey projects by Mobile Services units had resulted in overstatement of gross block of fixed assets, net block of fixed assets, capital WIP, depreciation and profit for the year by Rs.8.49 crore, Rs.8.47 crore, Rs.1.11 crore, Rs.2 lakh and Rs.9.58 crore respectively. Consequently, employees remuneration & benefits and administrative, operating & other expenses were understated by Rs.9.19 crore and Rs.41 lakh respectively.

The Management accepted the comment.

(3) Delay in capitalisation of subscribers’ installations, telephone exchanges, exchange equipment and cables in Delhi unit, resulted in understatement of depreciation by Rs.5.28 crore (including prior period depreciation of Rs 3.60 crore) and capital work-in-progress by Rs.79 lakh. Consequently, gross block and net block of fixed assets were overstated by Rs 79.30 lakh and Rs.6.07 crore respectively, whereas profit for the year and reserves & surplus were also overstated by Rs 16.80 lakh and Rs.5.28 crore respectively.

The Management accepted the comment.

(4) The provisions for doubtful debts and incorrect billing included a provision of Rs.52.74 crore made during the current year or earlier period towards those doubtful debts relating to the Delhi unit which were fully secured against the security deposit already obtained from the concerned subscribers. Thus, considering the secured debtors as doubtful was not only in violation of the provisions of Schedule-VI to the Companies Act, 1956 but also resulted in overstatement of provisions for doubtful debts, administrative, operating & other expenses and prior period expenditure by Rs.52.74 crore, Rs.29.06 crore and Rs.23.68 crore respectively. Consequently, profit for the year was understated by Rs.29.06 crore and reserves & surplus as well as sundry debtors were understated by Rs.52.74 crore, each.

The Management stated that this would be reviewed during the year 2004-05.

(5) Non-provision of liability amounting to Rs.92.39 crore pertaining to the period 2001-02 to 2003-04 on account of leased circuits revenue payable to BSNL in compliance of the decision taken in the meeting held on 27 May 2004 (which was well before approval of accounts by Board of Directors in June 2004) among DoT, MTNL and BSNL, resulted in understatement of current liabilities and expenditure by Rs.92.39 crore each with consequent overstatement of profit for the year by Rs.92.39 crore.

The Management stated that consequent on the meeting held in DoT and the minutes issued thereof, further reconciliation with BSNL was in progress and impact, if any, would be accounted for in the year 2004-05.

The reply was not acceptable as the total billing of the leased circuit revenue in question had been done by MTNL and the amount payable to BSNL, as per the decision taken in the above meeting, was very well known to MTNL. Accordingly, provision for the known liability should have been made.

(6) The provision for liability amounting to Rs.16.63 crore towards cash payment to be made to the employees in lieu of their entitlement of uniform for the years 2001 and 2002 had been incorrectly accounted for as prior period expenditure instead of current year expenditure as this provision was made on account of policy decision taken by the Management in April 2004. Incorrect accountal of the same had resulted in violation of mandatory requirements of AS-5. Employees' remuneration and benefit had been understated and Prior period expenditure as well as Profit for the year had been overstated by Rs.16.63 crore, each.

The Management accepted the comment.

MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

1.2.7 Food Corporation of India.

(A) Accounts of Food Corporation of India (FCI) for the year 2001-02 were audited by CAG, as sole auditor under Section 34 of the Food Corporations Act, 1964 as amended in June 2000. The Audit Report thereon was issued to the Government of India on 6 July 2004.

1. Some important observations made in the Report were as under:

Claims Receivable were overstated by Rs.26.14 crore due to inclusion of the following:

(i) Irrecoverable/ doubtful claims of railways of Rs.23.85 crore, and

(ii) Transit shortages of Rs.2.29 crore recoverable from Handling and Transport contractors remained unrealised for more than three years at District office, New Port Depot and Port Depot in West Bengal region.

The Management in respect of comment (i) stated that regions had been advised to review all these claims and make necessary adjustments in the books of account. In respect of comment (ii) the management stated that matter was being pursued for settlement of the dues of the Corporation.

2. The Corporation excluded carry-over charges paid to the State Agencies from the value of closing stocks. Consequently, claim for food subsidy was increased by Rs.282.97 crore during 2001-02. The change in methodology of valuation of closing stocks alongwith its impact on subsidy was not disclosed.

The Management replied that the change in the methodology of the valuation of closing stocks alongwith its impact on subsidy would be disclosed in the accounts of 2001-02 by way of addendum to the notes to the accounts with the approval of the Board of Directors.

3. Non-provision towards debts, deposits, advances and claims recoverable from Central/ State Governments and other parties and considered doubtful of recovery-Rs.37.11 crore

The Management replied that any provision for bad and doubtful debts was not allowed as an item of expenditure under Income Tax Act, 1961 until and unless it was written off as irrecoverable.

The above contention of the Management is not tenable since accounts prepared were to be as per the approved format of accounts and accepted accounting principles. Thus, provision for doubtful debts, deposits and advances should have been made in the accounts.

(B) Weakness in System of Internal Control and Book Keeping:

1. Internal audit system was not adequate and commensurate with the size and nature of the business of the Corporation.

2. The independence of internal audit stands eroded by a Board decision (December 1999) according to which the internal audit team will report to the concerned field managers instead of the Executive Director (IA)/ Managing Director.

3. Fixed asset registers did not exhibit quantitative details and situation/ location in various districts of West Bengal and Jharkhand regions under East Zone, in certain Districts units in Assam region and North East Zone and district/ regional units of Punjab, Haryana, Himachal Pradesh and J&K.

4. The bank reconciliation statement included discrepant items namely missing debits, excess debits, missing credits and excess credits relating to the period from 1987-88.

The Management stated that the delay in settlement of discrepant items was mainly due to delayed response/ reaction from the bank. The reply of the management is not tenable as proper follow up action and timely clearance of these items was necessary by the management.

5. Deficiencies in Internal Control System.

Internal control system, inter-alia, needed to be strengthened in the following areas:-

(i) Reconciliation of transit/ storage losses as per the records of operating divisions with that of Accounts Division.

(ii) Regularisation of storage and transit losses and fixation of responsibility.

(iii)Recovery of advances from the employees of the Corporation including interest on house building advance, obtaining mortgage-deed against house building advance.

(iv)Preparation of schedules and statement as per the requirements of Accounts Manual of the FCI; and

(v) Implementation of district accounting system computerizations package.

The Management replied that suggestion of audit had been noted for further strengthening of the system.

MINISTRY OF DEFENCE

Department of Defence Production & Supplies

1.2.8 Bharat Electronics Limited

Provision for doubtful debts included Rs.1.49 crore being 15 per cent value of one upgraded flycatcher radar billed in February 1998 and claim disallowed by the customer as the equipment was retained by the Company as a reference unit. The equipment was subsequently despatched in August 2003 and acknowledged by the customer in September 2003. The retention of provision was, thus, not in order and had resulted in overstatement of provisions and understatement of sundry debtors and profit by Rs.1.49 crore.

The Management stated that the provision was continued pending receipt of required amendment to the indent for realisation of the dues and will be withdrawn on realisation of the amount.

The reply is not acceptable as the equipment was supplied by the customer during 2003-04 and there existed no uncertainty in realisation of the debt.

1.2.9 Bharat Earth Movers Limited

1. Inventories included raw materials and components valued at Rs.7.49 crore not moved for more than five years against which the Company had made a provision of Rs.4.05 crore. As this inventory could neither be used for the purpose for which it was procured nor for any alternate use for the last five years, its usability/realisablity was uncertain. Thus, full provision should have been made for obsolescence. Non-provision on this account had resulted in overstatement of inventories and profit by Rs.3.44 crore.

The Management stated that adequate provision for obsolescence had been made as per the norms approved by the Board. Further, mere non-movement over a period of time could not be the basis for 100 per cent provision of obsolescence as certain level of insurance inventory is required to be maintained considering the lead time involved in the procurement of materials. However, necessary provisions had been made wherever the usability/realisability was in doubt.

The reply is not acceptable, as the inventories pertaining to non-current models had no alternative use once the model was discontinued in production. The inventories not moved for more than five years required 100 per cent provision.

2. Sales included Rs.7.44 crore being the sale value of 14 Hydraulic Excavators despatched to a customer vide bill of lading dated 31 March 2004 against a contract for supply, erection, commissioning at site and training. As the stipulated contract terms regarding erection, commissioning etc., were not completed as of 31 March 2004, this should not have been treated as sales. This had resulted in overstatement of sales by Rs.7.44 crore, profit by Rs.95 lakh and understatement of inventory by Rs.6.49 crore.

The Management stated that the risks and rewards of ownership had been transferred to the buyer on 31 March 2004 itself, and the delivery of the equipment had also been completed as on 31 March 2004. Hence, the recognition of revenue was in conformity with AS-9 and was in order. Further, payment had also been received in April 2004.

The reply is not acceptable as it was the responsibility of the Company to deliver the equipment at site and install the equipment. The item was loaded on the ship only on 31 March 2004 and none of the conditions stipulated in the contract regarding commissioning, erection, etc., were completed as on 31 March 2004. Thus, the contract was incomplete and sales should not have been recognised.

MINISTRY OF FINANCE

(Insurance Division)

1.2.10 Agriculture Insurance Company Limited

1. Sundry creditors did not include Rs.92.08 lakh being the interest earned (January 2004 to March 2004) on the corpus fund created with contributions from the Government of India and the State Governments in order to meet catastrophic losses. Interest earned on corpus fund had been credited to revenue account instead of the corpus fund. This had resulted in overstatement of income and understatement of current liabilities and loss by 92.08 lakh.

The Management noted for necessary adjustments in the next financial year.

2. The Company had received ‘on account’ payments from the Government towards implementation of the National Agriculture Insurance Scheme. The interest earned on unspent balance had neither been credited to the Government account nor the accounting policy in this regard had been framed.

The Management noted the comment.

3. Claims incurred (Net) included liability for claims incurred but not reported (IBNR) in respect of annual commercial/horticulture crops. As per terms and conditions of the National Agriculture Insurance Scheme, the implementing agency i.e. the Company was to bear claims upto 150 per cent of the premium in the first three years and 200 per cent of the premium thereafter. The Company after the expiry of the period of three years provided liability upto the limit of 150 per cent of the premium as against the envisaged limit of 200 per cent. The Company had approached the Government for extension of three years’ period but pending decision of the Government it had neither provided for the liability of Rs.50.34 crore on account of IBNR claims nor disclosed it.

The Management replied that pending final decision of the Government for the extension of three years limit, the provision at 150 per cent of the premium was considered adequate. The reply is not tenable because pending receipt of the decision the provision should have been made as per the existing terms and conditions of the scheme.

DEPARTMENT OF BANKING

1.2.11 Indfund Management Limited

Interest from banks included Rs.1.16 crore representing the interest earned from recoveries of Rs.20.11 crore on account of non-performing assets (NPAs), which were invested under short-term deposits. The amounts recovered from NPAs were accounted under current liabilities (Schedule-G), pending receipt of clearance from Securities and Exchange Board of India (SEBI). Accordingly, the interest earned should have also been accounted for under current liabilities instead of accounting as income for the year. Consequently profit for the year stands overstated by Rs.1.16 crore with corresponding understatement of current liabilities.

The Management stated that the amount should naturally be available to the Company after clearance from SEBI in due course. The fact remained that pending approval from SEBI accountal of interest as Company's income is not proper, which resulted in overstatement of profit for the year by Rs.1.16 crore.

MINISTRY OF HEAVY INDUSTRY & PUBLIC ENTERPRISES

1.2.12 Bharat Heavy Electricals Limited

Profit was overstated by Rs.5.03 crore due to non-provision of:

(i) The liquidated damages withheld by a customer owing to delay in electrostatic precipitators package of Vindhyachal (Stage II) power project-Rs.2.41 crore.

(ii) The cost for replacement of damaged 'exhaust gas system' to be incurred by the Company in respect of Baiji project, Iraq- Rs.1.50 crore.

(iii)The amount payable to a customer due to shortfall in guaranteed heat rate in respect of turbo generator package of Unit 7 of Vindhyachal Project- Rs.1.12 crore.

The Management noted the comment (i) and (iii). As regards comment (ii) it was stated that the provision of Rs.17.65 crore retained as warranty obligation for this project would be adequate to meet the cost of replacement. The reply is not tenable since specific provision should have been made for damaged 'exhaust gas system'

The Company recognised revenue at 100 per cent instead of 97.5 per cent of realisable value in respect of ongoing export contracts, which was not in accordance with its accounting policy. Resultantly, turnover as well as the profit was booked in excess by 2.5 per cent of the realisable value in respect of ongoing export contracts. The Management assured to review the policy.

1.2.13 Heavy Engineering Corporation Limited

The loss of the Corporation would increase from Rs.132.68 crore to Rs.635.44 crore if qualifications made in paragraph 3 of the Auditors' Report were considered. The loss would further increase by Rs.41.63 crore in view of the following:

1. Non-provision of penal interest/damages on defaulted contributory provident fund/employees provident fund dues from October–1999 to March 2004 Rs.32.57 crore

The Management stated that interest had been provided at normal rate of 12 per cent. The company being a BIFR referred sick company, waiver of damage/penal interest had been sought for in the proposed revival plan. As such damage assessed upto September 1999 by Provident Fund Authority had been appealed before the appellate tribunal and shown under contingent liability. In the absence of assessment for damages by Provident Fund Authority after September 1999, no provision had been made in the accounts.

The Management's reply is not acceptable in view of the fact that BIFR had not approved the proposed revival plan; instead notice for winding up of the Company had been issued in July 2004. Hence, waiver of damages had not been granted so far. The regional Provident Fund Commissioner had already served notice of demand of Rs.95.02 crore under section 14-B of EPF & Miscellaneous Provision Act, 1952 towards damages assessed upto September 1999.

2. Inventories were overstated by Rs.9.06 crore due to valuing the same at sale price instead of at scrap rate.

The Management stated that the inventory was good and the value was realisable from the probable alternative customer who had been identified for sale. Considering marketability of the goods, it would not be prudent to value it at scrap rate from the propriety point of view.

The Management's reply is not acceptable in view of the fact that the inventories were lying in company's premises for more than three years. The Company had identified Neelanchal Ispat Nigam Limited as a probable customer whose proposal was more than two years old and did not contain any specific commitment to purchase the equipment.

1.2.14 HMT Limited

1. The Company recognised Rs.12.50 crore being deferred tax asset during 2001-02 considering positive evidence of realising the capital gain on projected sale of land and building in the year 2002-03. As the sale of land and building had not materialised, carry forward of deferred tax asset with no positive evidence of realising the capital gain was in deviation of Accounting Standard (AS)-22. This resulted in overstatement of deferred tax assets and understatement of loss by Rs.12.50 crore.

The Management stated that as at the end of 31 March 2003, sale of corporate office building was active and the Company was confident of realising the revenue during 2003-04.

Reply of the Management is not acceptable, as sale had not materialised even during 2003-04 and the Company had taken decision to lease out some floors of the building.

2. Other income was overstated and loss was understated by Rs.15.41 crore due to accountal of profit on sale of land and building allocated to Company's subsidiaries under the 'Scheme of Arrangement'.

The Management stated that in order to facilitate sale of assets of subsidiaries, the Company had undertaken the responsibility for sale on behalf of the subsidiaries. Equivalent price of sale proceeds was made available to subsidiary.

Reply is not acceptable as profit on sale of assets was also to be transferred to subsidiary as per 'Scheme of Arrangement'.

1.2.15 HMT Machine Tools Limited

1. Inventories were overstated and loss understated by Rs.2.65 crore due to non-provision towards value of raw materials and components and work in progress not moved for more than five years.

Though the Management had issued guidelines for provisioning towards non-moving inventory for more than five years all the divisions of the Company were not following the same.

2. Sundry debtors included Rs.1.83 crore being liquidated damages recovered by customers on machines supplied during August 1999 to February 2003. Non-provision for the above resulted in overstatement of sundry debtors and understatement of loss by Rs.1.83 crore.

The Management stated that it was confident of recovering the debts and hence no provision had been considered necessary.

The contention of the Management is not tenable as the customer recovered the liquidated damages, the realisation of which was not certain.

3. Loans and advances included Rs.1.91 crore being unsecured advances to suppliers / others and disallowances outstanding for more than three years. As these old advances were unsecured and unconfirmed, provision should have been made in this regard. Non-provision on this account resulted in overstatement of loans and advances and understatement of loss by Rs.1.91 crore.

The Management stated that unreconciled credit balances in sundry creditors accounts and current liabilities outstanding for more than three years will be reviewed during 2003-04 and necessary adjustments will be carried out.

4. Loss as well as current liabilities were understated by Rs.1.15 crore due to non-provision of:

(i) the minimum interest payable for delay in remittance of provident fund and pension dues to the appropriate authorities- Rs.86.49 lakh;

(ii) the interest payable for delay in remittance of income tax recoveries deducted from the salaries of employees-Rs.28.98 lakh.

The Management stated that no demand had been received from the appropriate authorities. Hence provision had not been made in the accounts.

The above contention of the Management is not tenable as these were statutory dues and hence necessary provision should have been made.

MINISTRY OF PETROLEUM & NATURAL GAS

1.2.16 Bongaigaon Refinery & Petrochemicals Limited

The intangible assets were overstated by Rs.2.68 crore due to non-adjustment of unviable/non-implemented portion of technical know-how fee by Rs.2.37 crore and available technology by Rs.29.59 lakh for the period prior to 1 April 2003 from Revenue

Reserve as required under provisions of AS-26, besides, under amortisation of available technology by Rs.1.47 lakh during the year.

This resulted in overstatement of general reserve by Rs.2.66 crore as well as overstatement of profit for the year by Rs.1.47 lakh.

The Management stated that the agreement with the supplier for supply of various technologies was for a lump sum fee of US $ 850000 (Rs.358.59 lakh). No break-up was spelt out in the agreement against these technologies.

The Management reply is not acceptable as the technology supplier had clearly indicated the break-up of cost for individual technology in their offer dated 26 August 1994.

1.2.17 GAIL (India) Limited

Profit was overstated and current liabilities were understated by Rs.35.28 crore due to non-provision of interest on Rs.94.63 crore retained by the Company from gas pool money towards settlement of its claim for higher price of gas paid to Joint ventures (JV) without approval of the Government of India.

The Management stated that Ministry had intimated (July 1997) that GAIL would not be put to any loss on account of compensation towards higher price. Accordingly, gas pool money was transferred to a separate bank account after retaining Rs.94.63 crore which was being communicated to the Ministry regularly.

The above contention of the Management is not acceptable because retention of Rs.94.63 crore from gas pool money was subject to Cabinet approval. However, no approval for adjustment of the above cited amount had been given by the Cabinet till date. Hence the Company should have provided for interest liability for unauthorised retention.

1.2.18 Indian Oil Corporation Limited

1. Profit was overstated by Rs.3.11 crore due to non-provision of depreciation /amortisation in respect of plant and machinery, which had been condemned.

The Management stated that the possibility of further utilising the SO_2 Compressor for LPG Recovery in Delayed Coker Unit had been explored and the assets have been carried forward in the books at their written down value.

The reply of the Management is not tenable, as the equipment under reference had already outlived its life. Hence as per AS-6, 95 per cent of the original cost of the asset should have been provided as depreciation.

2. (a) Profit and loans and advances were overstated by Rs.9.42 crore due to accounting of refund of entry tax amounting to Rs.9.42 crore as income, pending its acceptance by the competent authority.

The Management stated that the assessing authority had intimated that the claims on account of entry tax would be dealt with by the Department at the time of assessment for the year 2003-2004. Hence, there was certainty in realisation of the claim.

The above contention of the Management is not tenable as the Deputy Commissioner had stated (May 2004) that the case was under examination and the question of adjustment of the claimed amount from the payments during the year 2004-2005 did not arise. As such there existed uncertainty in the realisation.

2 (b) Loans and advances included a claim of Rs.7.96 crore recoverable from Petroleum India International (PII) Consortium on account of withdrawal of membership by the Company, which was subject to withholding of Rs.3.13 crore by the Consortium towards the tax liabilities. As such necessary provision should have been made in the accounts. Non-provision for the same resulted in understatement of provisions and overstatement of profit by Rs.3.13 crore.

The Management stated that the disallowance of tax relief to PII was pending for final outcome of the appeal filed with the Income Tax Appellate Tribunal which was contingent in nature and hence the entire amount had been shown as claims recoverable from PII.

The Management contention is not tenable, as the Consortium of PSU (PII) had withheld Rs.3.13 crore towards tax liabilities and asked for indemnity bond of Rs.6.56 crore to cover such liabilities for which PII had filed an appeal in Income Tax Appellate Tribunal. Hence the claim was uncertain of realisation and should have been provided.

2 (c) Profit as well as loans and advances were overstated by Rs.337.83 crore due to accountal of claims on account of refund of customs duty on self-assessment basis since 1997-98, which was disputed by the Customs Department.

The Management stated that the claims on account of customs duty which arose in the normal course of business, had been booked in accordance with the generally accepted accounting principles of 'going concern' and 'accrual basis.'

The reply of the Management is not tenable because the refund of duty arises only after final assessment is made. Since there is an ongoing dispute with the Customs Department on these claims, the claims were uncertain and therefore should not be recognised in view of Significant Accounting Policy no.9.3 of the Company.

3. Current liabilities and fixed assets were overstated by Rs.16.45 crore, due to providing for withheld amount of customs duty for want of documents from the contractor. The liability is contingent in nature considering the ongoing dispute with the contractor.

4 (i) Profit for the year was overstated by Rs.40 lakh due to overvaluation of closing stock of raw materials

The Management has noted the comment for further action.

(ii) The profit had been overstated by Rs.1.85 crore due to overvaluation of closing stock of finished product due to non-consideration of under recovery of irrecoverable taxes while calculating net realisable value.

The Management stated that the under recovery was of the nature of selling and distribution expenses which were not required to be excluded from the net realisable value

The contention of the Management is not tenable, as the taxes do not form part of selling and distribution expenses.

1.2.19 Kochi Refineries Limited

Inventories were overstated by Rs.6.46 crore due to inclusion of insurance spares, which should have been capitalized and amortized over a period not exceeding useful life of the main equipment in accordance with AS-2 read with AS-10.

This had also resulted in understatement of depreciation by Rs.2.74 crore and consequent overstatement of profit to the same extent.

The Company agreed to make appropriate adjustment in 2004-05.

MINISTRY OF POWER

1.2.20 National Thermal Power Corporation Limited

Consequent upon the coming into force of Electricity Act 2003, with effect from 10 June 2003, the old erstwhile electricity Acts namely Electricity Act 1910, the Electricity (supply) Act 1948 and the Electricity Regulatory Commissions Act 1998 were repealed. As the Electricity Act, 2003 did not stipulate the rates to be adopted for providing depreciation, the power generating companies charged depreciation at different rates as given below:

National Thermal Power Corporation Limited and Satluj Jal Vidyut Nigam Limited had provided for depreciation in its annual accounts for the year ended 31 March 2004 at the rates laid down in the Companies Act, 1956. Narmada Hydroelectric Development Corporation Limited, National Hydroelectric Power Corporation Limited, North Eastern Electric Power Corporation Limited and Power Grid Corporation of India Limited continued to follow the rates of depreciation for the preparation of accounts for the year ended 31 March 2004 as notified by the Central Electricity Regularity Commission in March 2001.

The matter was referred to the Government of India in July 2004 for clarification; its reply was awaited.

1.2.21 National Hydroelectric Power Corporation Limited

Profit for the year was overstated by Rs.5.25 crore due to:

(i) Short provision of depreciation by Rs.2.59 crore due to adoption of rate of 1.8 per cent instead of 2.57 per cent on tunnels in Chamera project (stage II),

(ii) The incorrect capitalisation of the amount of guarantee fee of Rs.1.18 crore payable to the Government.

(iii) Non-provision of Rs.1.48 crore towards insurance claim pending since 1990 for damage to gas insulated switchgear equipment.

The Management noted the comments (i) and (ii). In respect of comment (iii) the Management stated that the claim was still under active consideration by National Insurance Company Limited. As such, no provision was required. The reply is not tenable as the claim was more than 14 years old and had once been rejected.

1.2.22 Power Grid Corporation of India Limited

1. The Company commissioned and capitalised Nathpa Jhakri–Nalagarh transmission line in March 2003, though the same had been considered as completed in May 2001. As the

delay occurred mainly due to recasting of one damaged tower, 'interest during construction' (IDC) amounting to Rs.60.58 crore from the date of completion to the date of actual capitalisation should not have been capitalised but charged to profit and loss account.

The Management stated that the transmission line could not be test-charged even in the absence of a single tower. As such, the line could not be said to be ready for intended use and therefore could not be capitalised. The reply is not tenable since the line was completed in May 2001 as per the completion report sent to the Ministry and the delay in repair of damaged tower did not justify the capitalisation of IDC after the date of completion.

2. The Company capitalised Talcher-Meramundali transmission line in December 2003 and Meramundali-Jeypore transmission line in January 2004, though these lines were completed and ready for charging in March and November 2003, respectively. This resulted in overstatement of net block of fixed assets by Rs.3.31 crore and understatement of depreciation by Rs.94 lakh and overstatement of profit by Rs.4.25 crore.

The Management stated that these lines could not be test-charged due to non-readiness of the respective line bays. The reply is not tenable as both the lines were ready for normal charging/intended use immediately after completion of stringing and should have been capitalised in terms of the accounting policy of the Company.

3. The Company changed the method for creation of Debenture Redemption Reserve (DRR) and created DRR to the extent of 25 per cent of the value of bonds to be redeemed in the next financial year instead of the issue size. This was contrary to the Department of Company Affairs' circular dated 18 April 2002, according to which adequacy of DRR for manufacturing and infrastructure companies was 25 per cent of the value of bonds/debentures issued through private placement. As a result, general reserves stood overstated and Bonds Redemption Reserve understated by Rs.391.60 crore.

The Management stated that the intention of the Companies Act was to ensure availability of DRR to the extent of 25 per cent immediately before the redemption of bonds. The reply is not tenable as the circular ibid clearly mentioned that 25 per cent DRR was to be created in respect of the debenture issued and not on portion thereof.

4. In respect of four cost-plus consultancy cum construction contracts, the income due as per the terms of the agreements worked out to Rs.42 lakh as on 31 March 2004. However, the income booked in the accounts was Rs.6.76 crore, resulting in overstatement of income as well as profit by Rs.6.34 crore.

The Management stated that the scope of these contracts included certain preliminary works, which were already completed before 31 March 2004, and therefore income of Rs.6.76 crore was booked as per the accounting policy. The reply is not tenable as all these contracts were cost-plus and only when the costs were incurred the percentage of cost specified in each agreement was to be taken as income.

5. The employees cost was understated by Rs.1.09 crore due to short provision of liability towards leave encashment and post-retirement medical benefits, resulting in overstatement of profit by Rs.1.09 crore.

The Management noted the comment.

6. The Company spent Rs.1.09 crore towards sponsorship charges and other goodwill gestures during the year, out of which, Rs.57.97 lakh was booked to various ongoing projects as incidental expenditure during construction (IEDC) instead of charging to the profit and loss account. Since the above expenditure was not related to the construction of projects, its capitalisation did not conform to the established accounting principles, which resulted in overstatement of profit and IEDC by Rs.57.97 lakh.

The Management stated that the publicity expenses of Rs.1.09 crore incurred by the Corporate Centre forming part of the common expenditure has been allocated as per the accounting policy. The reply is not tenable as publicity expenses were not related to the project cost and did not qualify for capitalisation. Moreover, the Central Electricity Regulatory Commission also did not allow capitalisation of such expenses for the purpose of tariff.

1.2.23 Rural Electrification Corporation Limited

Unclaimed interest on bonds and Government loans and repayment of principal thereof amounting to Rs.100.79 crore, which was deposited in company's designated Interest/ warrant account was not accounted for in the books of accounts. Consequently, current liabilities and current assets were understated by Rs.100.79 crore.

The Management has noted the comment.

MINISTRY OF RAILWAYS

1.2.24 Konkan Railway Corporation Limited

The Company had not provided interest of Rs.2.09 crore for the year on a long-term loan of Rs.29.81 crore. This had resulted in short provision of finance charges and understatement of loss by Rs.2.09 crore.

The Company had also not provided interest on long-term loan to the extent of Rs.2.77 crore pertaining to the previous year. The cumulative under-provision of finance charges worked out to Rs.4.86 crore resulting in understatement of cumulative loss to that extent.

The Management had assured to provide for the interest after reconciling the finance charges with the Ministry of Railways. However, the Company had not obtained any clarification from the Ministry.

MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

1.2.25 National Highways Authority of India

(i) Interest accrued and due on the loans from the Government of India were understated by Rs.2.58 crore due to non-accountal of penal interest payable over and above the normal interest for the delay in repayment of principal and interest.

The Management stated that the delay in repayment of normal interest was due to non-finalisation of terms and conditions of loans by the Ministry and had requested for waiver of penal interest.

The reply of the Management is not tenable as the Ministry had not waived the penal interest and as such provision should have been made accordingly.

(ii) Land acquired at a cost of Rs. 91.32 crores for laying roads was not accounted for. Consequently, land and capital work-in-progress were understated by Rs.91.32 crores.

The Management had noted the comment.

(iii) Capital work-in-progress was overstated by Rs.5.98 crore due to inclusion of the amount expended on behalf of certain Build Operate Transfer Concessionaires and recoverable from them. Consequently, the loans and advances were understated to that extent.

The Management had noted the comment.

(iv) Capital work-in-progress was overstated by Rs.3.42 crore being the excess amount paid for land acquisition and recoverable from land acquisition authorities. This also resulted in understatement of current assets to that same extent.

The Management had noted the comment.

(v) Recoverable from subsidiary companies was understated by Rs.5.13 crore as the maintenance expenditure incurred till March 2003, for National Highway-24 on behalf of its subsidiary companies was charged as its own expenditure with corresponding provision towards outstanding liabilities. This had resulted in overstatement of maintenance expenditure and current liabilities.

The Management had noted the comment.

1.2.26 Moradabad Toll Road Company Limited

(i) Capital work-in-progress was understated by Rs.3.08 crore due to non-accountal of value of work done by a contractor upto March 2003 in respect of Moradabad by-pass National Highway No.24. Consequently, current liabilities were understated by the same amount.

(ii) Operation, maintenance and financial expenses were understated by Rs.1.32 crore due to accounting of operating and maintenance expenses of Rs.73.23 lakh as against the actual expenditure of Rs.2.05 crore incurred upto March 2003. This had resulted in understatement of loss by Rs.1.32 crore.

MINISTRY OF SHIPPING

1.2.27 Inland Waterways Authority of India

Fixed assets included Rs.61.93 lakh being the cost of 45 sets of buoys with mooring gear and 58 lighting systems, which were washed off/pilfered during April 2002. This had resulted in overstatement of fixed assets and understatement of loss by the same amount.

Though the Management accepted the comment no adjustment was made during 2003-04.

MINISTRY OF STEEL

1.2.28 Bharat Refractories Limited

1. The Government Loan was overstated by 8.50 crore and the secured loan from the bank and term deposit with bank were understated by Rs.13.50 crore and Rs.five crore respectively due to setting off the amount of term deposit with cash credit and incorrect accountal of loans from bank as Government loans.

The Management stated that the necessary corrections would be made during 2004-05.

2. Loss was overstated by Rs.15.60 lakh due to the following:

- Short accountal of accrued interest income of Rs 58.91 lakh on short tem deposits with banks, and
- Short provision of gratuity liability amounting to Rs.43.31 lakh.

The Management accepted the comment.

3. Liability on account of gratuity, leave encashment and post-retirement settlement expenses in respect of 51 ‘Badli Workers’ of Bhandaridah Refractories Plant had not been provided for in accordance with AS 15.

The Management accepted the comment.

1.2.29 Indian Iron & Steel Company Limited

The profit for the year was overstated by Rs.24 lakh due to valuation of rejected/half rolled in-gots at cost price instead of at scrap value.

The Management accepted the comment.

1.2.30 Steel Authority of India Limited

Net profit (after tax) of the Company for the year was overstated by Rs.76.85 crore due to

(i) Understatement of ‘interest and finance charges’ by Rs.62.88 crore due to excess subsidy claimed from Government of India.

The Management stated that the financial and business restructuring proposal of SAIL approved by the Government of India (GOI) in February 2000, inter-alia, provided for the Government of India’s guarantees of Rs.1500 crore with 50 per cent interest subsidy on the funds, to be raised from the market by SAIL for reduction in manpower through voluntary retirement schemes. In line with the decision of GOI, the funds were raised during 2000-01 to 2002-03 from the market and subsidy @ 50 per cent of the interest paid to the Bondholders from the date of allotment of Bonds was claimed and received from GOI.

The Management further stated that as per the Company’s rules, employees were relieved after they settled their dues; vacated company’s accommodation, etc. Thus, the employees were relieved over a period of time and the VRS funds parked in the escrow account were withdrawn and utilized in phases. Interest subsidy had been correctly claimed in line with funds raised and interest paid thereon.

The reply is not acceptable in view of the fact that the Company had drawn the loan and kept the amount in fixed deposit for certain period on which it had earned interest. The Management therefore should have claimed interest subsidy from the Government after adjusting the interest earned from the bank.

(ii) Understatement of depreciation by Rs.13.97 crore due to adoption of lower rate of depreciation in respect of Coil/Slab yards.

The Management stated that the equipment form integral part of main equipments and accordingly had been depreciated at the same rate applicable to main plant and machinery i.e. continuous process plant in line with consistent accounting treatment followed over the years, and so there was no under provision of depreciation.

The above contention of the Management is not tenable since the equipment referred to did not form part of continuous process plant, and as such requires to be depreciated independently at different rates.

(iii) Inventories were understated by Rs.2.26 crore due to non-inclusion of refractories in closing stock. Consequently profit stands understated by the same amount.

The Management had accepted the comment for making adjustment in the accounts for 2004-05.

MINISTRY OF URBAN DEVELOPMENT AND POVERTY ALLEVIATION

1.2.31 Delhi Metro Rail Corporation Limited

1. The loss was understated and intangible assets overstated by Rs.1.06 crore due to amortising the Enterprise Resource Planning system at lower rate of depreciation (10 per cent) as compared to 16.21 per cent taken last year. The Management stated that the amortisation of the intangible asset was limited to 10 years having regard to nature of the asset. The reply is not tenable as the amortisation of the carrying amount of the intangible asset over a longer period as compared to the last year was not in accordance with AS 26.

2. The Company continued to charge depreciation on certain assets at rates lower than the rates envisaged in Schedule XIV of the Companies Act, 1956 which resulted in understatement of loss and overstatement of fixed assets by Rs.8.95 crore. The Management stated that the Company has sought approval of the Department of Company Affairs for adoption of lower rates in respect of these assets in terms of Section 205 of the Companies Act. The fact, however, remains that the approval for adoption of lower rates was not received by the Company till finalisation of the accounts.

1.2.32 Housing and Urban Development Corporation Limited

The Company had made provision of Rs.3.58 crore only against the loans of Rs.7.16 crore given to three companies on the ground that the loans were secured, though the investment of Rs.27 lakh made in the equity shares of these companies had been valued at Re.one each as working status thereof was not available. The adequacy of the above provision could not be ascertained in the absence of determination of the value of these securities.

The Management stated that valuation of the securities would be done during 2004-2005.

MINISTRY OF WATER RESOURCES

1.2.33 National Projects Construction Corporation Limited

1. Fixed assets as on 31 March 2003 were understated by Rs.3.27 crore due to non-accountal of boom hydraulic drilling jumbo received in February 2003 at Maneri Bhali Unit of the Company.

The Management stated that necessary accounting entry would be made during the year 2003-04.

2. Work done for the year 2002-03 included Rs.27.15 crore in respect of the Taj Heritage Corridor Project at Agra, which might be viewed in the light of the following:

(i) The Company did not obtain the approval of the Government of Uttar Pradesh for rates of various items of work/ detailed project report.

(ii) The joint measurement of the work was not supported by the client.

(iii) The Government of Uttar Pradesh had stopped the work and further payments.

(iv) The Government of Uttar Pradesh paid only Rs.17 crore out of Rs.27.15 crore and the Company had shown Rs.10.15 crore as receivable.

(v) The Company had shown Rs.23.61 crore as the total amount due to the sub-contractor without adjusting the advance of Rs.14.90 crore already paid.

(vi) The profit margin of Rs.3.54 crore for this project accounted for by the Comapny as overheads and contingencies could not be vouchsafed in Audit. Further, amount of overheads and contingencies of Rs.1.77 crore claimed by the Comapny from the Government of Uttar Pradesh were more than the approved rates.

The Management stated that final DPR was submitted to the Uttar Pradesh Government in May 2003. Therefore, as per AS-9 submission of final DPR would be treated as services completed and other construction work would be treated as in progress against which the Corporation had already received Rs.17 crore in advance. Further the corporation had filed a writ petition in the Allahbad High Court, Lucknow Bench in July 2003 for the work executed till stoppage of work by U.P. Government, based upon the DPR rates. The Court admitted the petition and the matter is sub-judice.

3. Income was overstated by Rs.1.83 crore due to inclusion of claims for extra items and escalation not admitted by the clients in respect of six projects. This had resulted in understatement of loss by the same amount.

The Management stated that value of work was accounted for in the accounts as per its Accounting Policy and necessary disclosure was made in accounts,.

The reply is not acceptable as Company’s Accounting policy was in deviation of AS-9.

1.3 Review of Accounts:

Name of the Ministry/Company		Brief comments
MINISTRY OF COAL		
1.3.1	**Bharat Coking Coal Limited**	(i) The negative networth of Rs.3779.83 crore and negative working capital of Rs.3415.71 crore on 31 March 2004 indicated precarious financial condition of the Company. (ii) Though the percentage of sundry debtors to sales had decreased, the percentage of doubtful debts to sundry debtors increased from 52.89 in 2002-03 to 64.50 in 2003-04.
1.3.2	**Central Coalfields Limited**	Earning per share of the Company decreased from Rs.409.20 in 2002-03 to Rs.394.03 in 2003-04.
1.3.3	**Eastern Coalfields Limited**	Networth of the Company declined from (-) Rs.2267.82 crore as on 31 March 2003 to (-) Rs.2570.85 crore as on 31 March 2004.
MINISTRY OF COMMUNICATIONS		
1.3.4	**Mahanagar Telephone Nigam Limited**	(i) The percentage of profit before tax to income from services declined from 29.21 per cent during 2001-02 to 21.31 per cent during 2002-03 but marginally increased to 25.15 per cent during 2003-04. (ii) The percentage of profit after tax to equity had declined from 16.68 per cent in 2001-02 to 10.63 per cent in 2002-03 but marginally increased to 12.86 per cent in 2003-04. (iii) The percentage of sundry debtors to 'income from services' had shown an increasing trend and increased from 18.43 per cent in 2001-02 and 27.66 in 2002-03 to 32.14 per cent in 2003-04.
MINISTRY OF DEFENCE		
Department of Defence Production & Supplies		
1.3.5	**Garden Reach Shipbuilders & Engineers Limited**	Profit of Rs.53.11 crore of the Company is to be viewed in the light of non-operational income from interest of Rs.38.71 crore in 2003-04

MINISTRY OF FINANCE

INSURANCE DIVISION

1.3.6	**The New India Assurance Company Limited**	Though the management expenses and commission as percentage to the total net premium decreased from 33.98 per cent in 2001-02 to 30.94 per cent in 2002-03, it increased significantly to 42.76 per cent in 2003-04.
1.3.7	**National Insurance Company Limited**	(i) The percentage of current assets (including loans and advances) to current liabilities (including provisions) decreased from 283.59 in 2001-02 to 273.13 in 2002-03 and to 268.41 in 2003-04. (ii) The management expenses and commission as percentage to the total net premium increased from 29.88 per cent in 2001-02 to 30.33 percent in 2002-03 and 31.97 per cent in 2003-04. (iii) The percentage of claims to net premium increased from 76.01 in 2002-03 to 84.10 in 2003-04.

MINISTRY OF HEAVY INDUSTRY AND PUBLIC ENTERPRISES

1.3.8	**Andrew Yule & Company Limited**	(i) Paid-up capital of the Company stands eroded by negative networth. (ii) Doubtful debts were steadily increasing despite gradual decrease in sales.
1.3.9	**Bridge & Roof Co. (India) Limited**	(i) The profit of Rs.3.18 crore for the year (before Tax) is to be viewed in the light of interest income of Rs.1.03 crore and income from sale of scrap amounting to Rs.1.29 crore (ii) The percentage of profit before tax to capital employed, networth and sales which was 5.13, 9.23 and 1.09 in the year 2002-03, decreased to 3.57, 7.40 and 0.86 respectively in 2003-04. (iii) Earning per share (EPS) decreased to Rs.0.85 in 2003-04 as compared to Rs.1.61 in the year 2002-03.
1.3.10	**Cement Corporation of India Limited**	The paid-up capital and free reserves and surplus stand fully eroded due to accumulated losses of Rs.1933.92 crore.
1.3.11	**Heavy Engineering Corporation Limited**	During 2001-02 to 2003-04, the sundry debtors at the year end ranged from 540 days of sales to 586 days

		of sales and the percentage of bad and doubtful debts during the period ranged from 31.55 to 39.56 of total debtors
1.3.12	**HMT Limited**	(i) The net worth of the Company had decreased from Rs.55.50 crore as on 31 March 2002 to Rs.15.35 crore as on 31 March 2003; (ii) Sundry debtors to sales increased from 72.01 per cent in 2001-02 to 90.50 per cent in 2002-03 reflecting poor recovery of debts.
1.3.13	**HMT Machine Tools Limited**	The net worth of the Company had been negative which deteriorated from (-) Rs.354.32 crore in 2001-02 to (-) Rs.474.70 crore in 2002-03.
1.3.14	**HMT Watches Limited**	Inventories held in excess of norms as on 31st March 2003 were raw materials and components – Rs.21.61 crore, work-in-progress – Rs.17.98 crore and finished goods – Rs.23.30 crore. The debtors over and above the maximum credit period of two months worked out to Rs.41.10 crore as on 31 March 2003.
1.3.15	**Hindustan Photo Films Manufacturing Company Limited**	The accumulated losses increased from Rs.2214.02 crore as on March 2003 to Rs.2657.05 crore as on March 2004.

MINISTRY OF PETROLEUM AND NATURAL GAS

1.3.16	**Balmer Lawrie & Co. Limited**	(i) Profit of Rs.18.58 crore during the year included non-operational income of Rs.5.52 crore. (ii) The inventory increased by Rs.12.29 crore whereas sales increased by Rs.2.37 crore during the year as compared to the previous year.
1.3.17	**Bongaigaon Refinery & Petrochemicals Limited**	Profit of Rs.440 crore for the year is to be viewed in the light of 50 per cent excise duty exemption amounting to Rs.355.26 crore available for North Eastern Refineries
1.3.18	**GAIL (India) Limited**	(i) The percentage of liquidity ratio, which is a measure of solvency, had decreased from 168.35 in 2002-03 to 136.55 in 2003-04 due to decrease in working capital. (ii) The dues from the Government of India, Government companies and private parties constituted 13.47 per cent, 49.40 per cent and 37.13 per cent of the total sundry debtors respectively.

(iii) The dues outstanding for more than three years constituted 18.49 per cent of the total sundry debtors.

1.3.19 Indian Oil Corporation Limited

(i) The liquidity ratio has increased from 124.08 in 2001-02 to 134.91 in 2002-03 and decreased to 133.88 in 2003-04.

(ii) The debtors considered doubtful to the total sundry debtors increased to 6.27 per cent in 2003-04 as compared to 5.56 per cent in 2002-03 and 2.68 per cent in 2001-02.

MINISTRY OF STEEL

1.3.20 Hindustan Steel Works Construction Limited

The net worth of the Company had been negative which deteriorated from (-) Rs.864.47 crore in 2001-02 to (-) Rs.1035.20 crore in 2002-03 and to (-) Rs.1070.24 crore in 2003-04.

1.3.21 Indian Iron & Steel Company Limited

Profit of Rs.27.09 crore was due to waiver of Joint Plant Committee dues of Rs.18.49 crore and interest accrued and due of Rs.47.35 crore payable to financial institutions and banks.

1.3.22 MECON Limited

Increase in the percentage of doubtful debts to total debts from 6.06 as on 31 March 2003 to 8.33 as on 31 March 2004 indicated the poor realisability of the debts.

1.3.23 MSTC Limited

Profit of Rs.33.70 crore during the year is to be viewed in the light of non-operational income from interest and dividend of Rs.33.83 crore in 2003-04.

1.3.24 Steel Authority of India Limited

The percentage of doubtful debts to sundry debtors which was 10.43 in 2001-02 marginally decreased to 10.06 in 2002-03 but increased to 11.42 in 2003-04.

MINISTRY OF SHIPPING

1.3.25 Dredging Corporation of India Limited

The profit before tax (Rs.176.45 crore) for the year ended 31 March 2004 included non-operational income of Rs.18.31 crore.

MINISTRY OF TEXTILES

1.3.26 National Textile Corporation (MN) Limited

The stock of finished goods representing 2.05 months (Rs.5.65 crore) of sales (Rs.33.10 crore) in 2001-02 went upto 2.88 months (Rs.8.75 crore)' sales (Rs.36.42 crore) in 2002-03 and went further upto 3.32 months (Rs.14.81 crore)' sales (Rs.53.42 crore) in 2003-04 indicating piling up of finished goods and delay in disposal.

1.4 Significant findings reported by Statutory Auditors:

As per Section 227 (3) (e) of the Companies Act, 1956, the auditor's report shall also state in thick type or in italics the observations or comments of the auditors, which have any adverse effect on the functioning of the Company. While certifying the accounts of the PSUs for the year 2003-2004, the Statutory Auditors made the following major qualifications highlighting the impact on Balance Sheet and Profit and Loss Account:

MINISTRY OF CHEMICAL & FERTILIZERS

Department of Chemicals and Petrochemicals

1.4.1 Hindustan Organic Chemicals Limited

1. The following amounts were not provided /charged to Profit & Loss Account:

(i) Penal interest of Rs.2.14 crore on overdue loan from Government of India

(ii) Lease rentals in respect of Jawaharlal Nehru Port Trust (JNPT) amounting to Rs.4.61 crore were incorrectly accounted for as capital work in progress.

(iii)Demand of City Industrial Development Corporation of Maharashtra Limited towards forfeiture of advance paid to the extent of Rs.1.08 crore.

(iv)Misappropriation of Company's moneys amounting to Rs.64.81 lakh in earlier year (to the extent identified) by an ex-employee.

(v) Liabilities of wage revision for the period 01 October 1997 to 31 October 2000 amounting to Rs.29.50 crore.

(vi)Minimum guaranteed throughput charges amounting to Rs.6.92 crore payable to JNPT authorities.

2. The precise impact of the following items on the Balance Sheet and Profit and Loss Account could not be ascertained.

(i) Differential interest on overdue principal amount of matured bonds and fixed deposits. The above amount is not ascertainable and thus unable to quantify the impact of the same on Profit and Loss Account.

(ii) Capital work in progress at JNPT Tank Farm Project amounting to Rs.32.85 crore carried in books of account at cost. These assets should have been stated at net realisable value (not ascertained) in accordance with para 24 of AS 10 regarding accounting for fixed assets.

(iii)Plants not in use and considered economically unviable but are carried at cost due to the pending decision of the Company in this regard. No assessment of the expected loss if any, on this account was made and accounted for.

DEPARTMENT OF FERTILIZERS

1.4.2 National Fertilizers Limited

The Company had not identified and disclosed business segment in line with AS-17 on segment reporting.

1.4.3 Project and Development India Limited

The Company had made an estimated provision of Rs.5.56 crore towards salary and wage revision in pursuance of revival scheme submitted to BIFR, which should not have been done without prior approval of the Government of India.

The profit for the year would have been Rs.13.69 crore as against the reported profit of Rs.8.13 crore.

MINISTRY OF CIVIL AVIATION

1.4.4 Indian Airlines Limited

Non-reconciliation of general ledger balances with the subsidiary records.

MINISTRY OF COAL

Department of Coal

1.4.5 Central Coalfields Limited

Fixed assets/ capital work-in progress/prospecting, boring and development expenditure amounting to Rs.2.64 crore on account of sunk cost of dropped project and Rs.1.69 crore towards projects not implemented since 1992-93 had not been charged off in the accounts. This resulted in overstatement of profit by Rs.4.33 crore.

1.4.6 Neyveli Lignite Corporation Limited

The Company on expiry of existing Bulk Power Supply Agreement for the supply of power from its Thermal Power Stations and subject to determination of tariff by the Central Electricity Regulatory Commission (CERC) had made contingency provision of Rs.52 crore in the accounts (previous year Rs.91 crore) which resulted in reduction in profit to that extent.

MINISTRY OF COMMERCE & INDUSTRY

1.4.7 Export Credit Guarantee Corporation of India Limited

The Management's perception and policy followed regarding recognition of revenue towards estimated recoveries of Rs.39.87 crore could not be established with certainty and hence was not in line with AS-9.

1.4.8 India Trade Promotion Organisation

1. Provision towards entertainment tax including interest thereon of Rs.5.91 crore was not made even though appeal filed by the Company before Deputy Commissioner of entertainment tax was rejected.

2. The Company invested its short-term surplus funds of Rs.237.42 crore in bank deposits with nationalised/private banks and public sector financial institutions during the year. These investments were to be handled/processed by a committee duly constituted by the Board as per the Department of Public Enterprises guidelines to facilitate the best interest rates negotiation collectively with banks/financial institutions. However this was done by a single individual official/officer contravening the said guidelines.

1.4.9 MMTC Limited

1. Non-provision of:

(i) Rs.3.77 crore appearing under sundry debtors in respect of gold jewellery;

(ii) Rs.2.03 crore representing advances in respect of gold jewellery; and

(iii) Rs.4.47 crore appearing under sundry debtors recoverable from defaulting parties against value of gold misappropriated.

2. Non-provision of old outstanding balance amounting to Rs.3.14 crore due from PSUs.

1.4.10 The State Trading Corporation of India Limited

Accounting for post retirement medical benefit scheme on payment basis instead of on actuarial basis during the tenure of service of employees was not in conformity with AS 15 on Accounting for retirement benefits-amount unascertained.

Fixed assets registers maintained at corporate office at Delhi and Branch office at Kolkata, were incomplete as they did not contain full details of quantity, situation, cost and depreciation.

MINISTRY OF COMMUNICATIONS

1.4.11 Bharat Sanchar Nigam Limited

For calculating licence fee, a few circles had assumed licence fees on National Long Distance (NLD) revenue, equivalent to revenue from subscriber trunk dialing (STD), and others had estimated NLD revenue as 30 per cent of gross income. In the absence of any system for determination of NLD revenue, it was not possible to quantify the licence fee on actual NLD revenue and its impact on the accounts.

No provision had been made in the accounts for gratuity for directly recruited employees. Further, the liability for leave encashment for absorbed employees and directly recruited employees had been provided on an estimated basis which was not in accordance with the Accounting Standard (AS)-15 on "Accounting for retirement benefits" issued by the Institute of Chartered Accountants of India (ICAI) which required retirement benefits to be provided on the basis of actuarial valuation.

The frauds reported by two circles viz. West Bengal and Andhra Pradesh, were under investigation by the Vigilance wing of the Company. Pending completion of the investigation, the financial impact was not ascertainable.

MINISTRY OF DEFENCE

Department of Defence Production and Supplies

1.4.12 Bharat Earth Movers Limited

In the absence of specific provision in the agreement regarding warranty & unexpired obligation, Auditors could not express their opinion on the obligation towards Rs.18.66 crore provided during the year and quantification of consequential effect on the accounts/results of the Company.

MINISTRY OF FINANCE – DEPARTMENT BANKING

1.4.13 Bobcards Limited

The Visa International did not reimburse to Bobcards Limited the amount of tax deducted at source paid by Bobcards Limited. Hence, Visa international was not entitled to 16A certificate. However, during the financial year 2003-2004 Bobcards Limited gave 16A certificate amounting to Rs.12 lakh to Visa International.

1.4.14 Canbank Financial Services Limited

1. The Company incurred loss of Rs.50.68 crore during the year and the negative networth was Rs.671.58 crore which raised doubts as to whether the Company would be able to continue as a going concern.

2. Based on the observations on the accounts, Auditors were unable to express any opinion as to whether the Balance Sheet and Profit and Loss Account gave a true and fair view.

1.4.15 Cent Bank Home Finance Company Limited

1. Books of accounts were not properly maintained. Every branch of the Company has its own system of accounting and softwares. Cash transactions were not recorded on regular basis. In Poona branch, subsidiary ledgers kept for deposits and loans were not matching

with the general ledger and cash balance was negative on various dates during the year except at the year-end. All this indicated that there did not exist any internal control in respect of financial accounting/ recording.

2. Liability on account of employees provident fund (EPF) in respect of chartered accountants, builders and civil contractors engaged through outside agencies (unregistered with EPF Department) could not be ascertained in the absence of detailed information. This is circumventing the provisions of Labour law.

3. Value of security shown by the branches (Poona, Jabalpur, and Mumbai, etc) in NPA accounts was based on the certificates presented by the branch managers. Based on verification of assets on sample basis and reports/records available at the branches, such value of securities was found to have been inflated.

4. The branches did not disburse loans as per norms prescribed in some cases. The disbursement was made without proper inspection or verification of physical progress of construction. Instalments were disbursed in advance and without covering matching security.

1.4.16 IND Bank Housing Limited

1. In respect of deposits accepted from public, the total borrowing of the Company was in excess of the limits prescribed by National Housing Bank in relation to networth of the Company.

2. The accumulated losses of the Company at the end of the financial year exceeded 50 per cent of its networth. The Company had incurred cash losses in the current financial year and in the immediately preceding financial year.

3. The Company had defaulted in repayment of dues to National Housing Bank (Rs.26.26 crore since September 2003) and Indian Bank (Rs.58.45 crore since July 1999).

1.4.17 INDBANK Merchant Banking Services Limited

The accumulated losses of the Company at the end of the financial year exceeded 50 per cent of its networth.

MINISTRY OF FINANCE –INSURANCE DIVISION

1.4.18 General Insurance Corporation of India Limited

Execution of the conveyance deeds/ receipt of share certificates of the Co-operative Societies in respect of the properties valuing Rs.47.39 crore was pending.

1.4.19 New India Assurance Company Limited

Profits for the year and Miscellaneous expenditure to the extent not written off was overstated by Rs.50.63 crore on account of non-adherence to AS-15 “Accounting for retirement benefits”.

MINISTRY OF HEAVY INDUSTRY AND PUBLIC ENTERPRISES

1.4.20 Andrew Yule & Company Limited

1. Non-provision for liability in respect of pay revision of employees amounting to Rs.8.73 crore.

2. Non-charging of Rs.6.04 crore on account of gratuity and leave encashment paid to employees retired under VRS Scheme.

1.4.21 Burn Standard Company Limited

1. Non-provision of Rs.1.48 crore for property tax payable to Municipal Corporation, Jabalpur.

2. Non-provision of Rs.2.31 crore adjusted by United Bank of India against fixed deposit

1.4.22 Engineering Projects (India) Limited

Income under head 'Exchange variation' amounting to Rs.53.87 crore represented transfer of balance appearing under head 'Exchange variation reserve' created in earlier years to guard against exchange variation in respect of claims and liabilities of foreign projects. This amount did not represent income of current year and as such income of the year was overstated to that extent.

1.4.23 Gangavati Sugars Limited

1. In the absence of sufficient financial support for continuance of operations, Auditors had stated that there was substantial doubt that the Company would be able to continue as a going concern.

2. The Company had not redeemed shares (Rs.45 lakh) due for redemption in June 1989.

3. The Company despite being a listed one had not furnished any returns and paid listing fees as required under obligation of a listed Company to the stock exchanges. Also the Company had not complied with the various other requirements under listing agreement including Corporate Governance.

4. Considering their observations, Auditors were unable to express an opinion as to whether the Balance Sheet and Profit & Loss Account (Loss) gave a true and fair view.

1.4.24 Heavy Engineering Corporation Limited

The company had not made any provision:

1. For liabilities towards energy bills of Bihar State Electricity Board and Jharkand State Electricity Board for delayed payment surcharge amounting to Rs.300.31 crore.

2. For liabilities towards water charges bills amounting to Rs.7.68 crore.

3. Against sundry debtors pending for more than three years amounting to Rs.27.98 crore and Rs.31.55 crore where realisation was uncertain due to pending implementation of Arbitration award since February 1997.

4. Against liquidated damages of Rs.10.91 crore deducted by a customer.

5. Against items of raw materials and stores and spares amounting to Rs.9.44 crore which were non-moving for a period of three years or more, against inventory at Delhi depot of HMTP amounting to Rs. 42 lakh, the age analysis and status of which was not available and against materials amounting to Rs.21 lakh lying with third parties for more than three years and moreover confirmation from the parties was not available.

6 Against capital WIP of Rs.5.55 crore, the erection, commissioning and completion of which were pending for a period of three years or more.

7 For interest on overdue amounts to Small Scale Industrial Undertakings amounting to Rs.0.13 crore.

8. For damages of Rs.95.02 crore levied by Regional provident fund commissioner u/s 14B of the EPF and Miscellaneous Provisions Act'1952 for delayed remittance during the period March 1976 to September 1999.

9 For interest amounting to Rs.10.84 crore on nonplan loan of Rs.413.93 crore.

1.4.25 HMT Limited

1. Share certificates were not issued on allotment of shares amounting to Rs.298.25 crore to Government of India in contravention of section 113 of the Companies Act, 1956;

2. Five year Bonds 1999-2000 amounting to Rs.18.55 crore, being unsecured bonds falling within the definition of deposits, which had matured for redemption, were not redeemed. Interest accrued and due thereon, amounting to Rs.6.09 crore was not discharged resulting in violation of Section 58A of the Companies Act, 1956 and the rules made thereunder;

3. The statutory auditors had given many qualifications. Considering these qualifications the loss for the year would have been Rs.86.32 crore (as against the reported loss of Rs.34.41 crore). As such the statutory auditors observed that the Balance Sheet, Profit & Loss Account and cash flow statement as at 31 March 2003 did not give a true and fair view of the state of affairs of the Company.

1.4.26 HMT (International) Limited

1. Had the provision for doubtful advances relating to three customers aggregating to Rs.2.02 crore been made, it would have resulted in a net loss of Rs.1.82 crore (approximately) as against the reported profit of Rs.19.66 lakh.

2. Considering the inadequacy of current profits for the year the provision for proposed dividend made at 20 per cent amounting to Rs.9.60 lakh was not in conformity with the provisions of Section 205A(3) of Companies Act, 1956 read with the Companies (Declaration of Dividend out of Reserves) Rules, 1975.

In view of the above observations, Auditors had reported that the accounts did not give true and fair view.

1.4.27 HMT Machine Tools Limited

1. The Balance Sheet and Profit & Loss account did not comply with AS-5, 6, 9, 10 and 15.

2. The Statutory auditors had given many qualifications. Considering these qualifications the loss for the year would have been Rs.167.20 crore (as against the reported figure of Rs.102.04 crore). As such the Statutory auditors observed that the Balance Sheet, Profit & Loss Account and Cash Flow statement as at 31 March 2003 did not give a true and fair view of the state of Company's affairs, of the loss and the cash flows for the year ended on that date.

1.4.28 HMT Watches Limited

1. The Balance Sheet and Profit and Loss Account did not comply with AS-2 and 4.

2. The Company had borrowed a sum of Rs.261 crore as against the borrowing power of Rs.250 crore approved by the extraordinary general meeting held on 27 March 2002, which was in contravention of Section 293(1) (d) of the Companies Act.

3. The Statutory auditors had given many qualifications. Considering these qualifications the loss for the year would have been Rs.168.33 crore as against the reported loss of Rs.112.91 crore.

4. Further Auditors were unable to express an opinion on additional impact in respect of un-quantified items like a) Receivables due from RDS, (b) Depreciation and cumulative depreciation on account of subsidiarisation, (c) Liabilities not provided prior to subsidiarisation, (d) Non-provision in respect of employee-related claims, (e) Liabilities towards interest penalties for statutory dues, (f) Non-confirmation of balances and (g) Inventory and Work in progress valuation.

5. In view of the above observations having impact on loss by Rs.55.42 crore and observations expressing disclaimer in quantifying the observations, Auditors were unable to express an opinion as to whether the Balance Sheet and Profit and Loss Account reflect a true and fair view.

1.4.29 Hindustan Photo Films Manufacturing Company Limited

The Company had incurred a net loss of Rs.443.02 crore for the year ended 31 March 2004 and the Company's total liabilities exceeded its total assets by Rs.2657.05 crore. The Company was unable to renegotiate its borrowings from its bankers and financial institutions as it failed to comply with terms and conditions specified in the loan agreements including failure to repay loans and interest thereon. It is doubtful whether the Company would be able to continue as a going concern. Consequently, adjustments may be required to the recorded assets amounts and classification of liabilities.

1.4.30 Hindustan Salts Limited

Loans and advances included Rs.9.43 crore, given to pension fund trust (PFT) as loan without the consent of the Government of India (GOI), and Rs.10.99 crore as interest thereon receivable from PFT. The pension fund had since been depleted and matter regarding taking over this liability of PFT was under consideration of GOI. In the absence of any firm commitment from GOI, the amount recoverable from them and the provision required was not ascertainable.

1.4.31 Instrumentation Limited

1. The retention money amounting to Rs.10.96 crore disclosed under the head sundry debtors was not in accordance with the disclosure requirements specified in Part-I of Schedule-VI to the Companies Act, 1956 wherein it should also show outstanding for a period exceeding six months and otherwise and also any portion thereof considered doubtful or bad and the provision made against it.

2. The Company had not made provision for the arrears of pay and allowances from January 1992 to December 1998. However, the Company had granted advance of Rs.12.19 crore to employees (including Rs.2.50 crore to ex-employees), which would be adjusted from the arrears of pay revision and showed it as advance in the Balance Sheet. As a result thereof, there was understatement of prior period and other adjustments account (expenditure/loss) and current liabilities and provisions by Rs.12.19 crore.

3. The internal control procedures needed to be strengthened with regard to purchase of inventory and fixed assets and needed to be improved with regard to the sale of goods.

4. The Company had not maintained cost records under Section 209 (1) (d) of the Companies Act, 1956 even though Company was directed by the Government to do so.

1.4.32 Rehabilitation Industries Corporation Limited

Short-term fund to the tune of Rs.636.06 crore had been used to finance long-term assets.

1.4.33 Richardson & Cruddas (1972) Limited

1. Though the interest on loan in respect of Rehabilitation scheme amounting to Rs.14.72 crore was accepted as liability, the Company did not make provision, as it had approached the Government for postponement of repayment. Thus, unsecured loans were understated by Rs.14.72 crore.
2. The Company has not strictly followed the accrual basis of accounting as laid down in Section-209 of the Companies Act, 1956.

MINISTRY OF HUMAN RESOURCES DEVELOPMENT

1.4.34 Educational Consultants India Limited

Sundry debtors and advances recoverable included Rs.1.27 crore which were unsecured, unconfirmed and outstanding for a period exceeding three years. Full recovery of such outstanding was doubtful for which adequate provision should have been made to cover the foreseeable losses.

MINISTRY OF INFORMATION TECHNOLOGY

Department of Electronics

1.4.35 Electronics Trade and Technology Development Corporation Limited

1. The Accounting policies disclosed by the Company were on the basis of going concern assumption whereas based on the facts and as per the records, it was not a going concern.

2. Against the doubtful debts of Rs.13.38 crore, a provision of Rs.9.31 crore was made. This resulted in short provision of Rs.4.07 crore.

1.4.36 Semi Conductors Complex Limited

1. The balance amount of Rs.3.24 crore towards arrears salary on account pay revision had not been charged to profit and loss account in the year 2001-02

2 The Company had fully utilised the grant in aid allocated for meeting Research and Development expenses under Very Large Scale Integrated circuits (VLSI) projects. Further expenditure incurred by the Company to the extent of Rs.14.26 crore in 2001-02 & 2002-03 should be treated as revenue expenditure in view of non-receipt of approval of Administrative Ministry for re-appropriation of the expenditure of VLSI project.

Had the observation been considered the accumulated losses would have been Rs.107.75 crore as against reported figure of Rs.90.25 crore.

MINISTRY OF NORTH EAST DEVELOPMENT

1.4.37 North Eastern Handicrafts and Handlooms Development Corporation Limited

1. Non-provision of interest including penal interest Rs.17.76 crore (current year-Rs.2.12 crore and previous years – Rs.15.64 crore)

2. Non-provision of interest on cash credit of Rs.3.58 crore (current year-Rs.0.71 crore and previous years-Rs.2.87 crore)

MINISTRY OF PETROLEUM & NATURAL GAS

1.4.38 ONGC Videsh Limited

1. The fixed assets in which the Company had interest through joint venture which were situated outside India were not physically verified by the Management.

2. The Company had interest in inventories held outside India by operators of joint ventures where Company had participating interest. The Management during the year conducted no physical verification of such inventories.

MINISTRY OF POWER

1.4.39 National Hydroelectric Power Corporation Limited

Profit was overstated by Rs.73.14 crore due to not writing off capital work-in-progress in respect of Koel Karo project since 1980.

1.4.40 Rural Electrification Corporation Limited

The Company had issued debentures (bond) worth Rs.2057.20 crore within the delegation given to Chairman & Managing Director by the Board of Directors. However, in terms of Section 292(1)(b) of the Companies Act, 1956 the power could be exercised only by Board of Directors by means of resolution and there is no provision to delegate such powers.

MINISTRY OF RAILWAYS

1.4.41 Indian Railway Finance Corporation Limited

Non-adoption of AS-22 resulted in non-provision of deferred tax liability of Rs.170.13 crore for the year, thereby profit for the year was overstated to that extent. Similarly non-accounting of accumulated deferred tax liability of Rs.1165.10 crore upto 31 March 2003 resulted in overstatement of reserve and surplus by that amount.

MINISTRY OF SHIPPING

1.4.42 Cochin Shipyard Limited

The Company's claim for set off of carried forward depreciation relating to 1998-99 assessment year had been disallowed and a demand for Rs.9.67 crore was raised by the Income-tax Department. The Company preferred an appeal and therefore no provision was made. Similar claims relating to assessment year 1997-98 were also pending assessment before the department.

1.4.43 Shipping Corporation of India Limited

The present accounting systems of the Corporation did not give the requisite information for preparation of segment Accounts as required by AS-17 "Segment reporting".

MINISTRY OF SMALL INDUSTRIES & AGRO & RURAL INDUSTRIES

1.4.44 National Small Industries Corporation Limited

Non-Provision of penalty on Government guarantee fee on KFW loans amounting to Rs.6.15 crore (including Rs.64.46 lakh for the year) as on 31 March 2004.

MINISTRY OF SOCIAL JUSTICE & EMPOWERMENT

1.4.45 National Backward Classes Finance & Development Corporation

Provision amounting to Rs.3.89 crore should have been made on case-to-case basis by analysing overdue balance of each defaulting borrower and the security cover available.

MINISTRY OF STEEL

1.4.46 Hindustan Steel Construction Company Limited

1. As per the system in vogue, the work-in-progress at the year-end amounting to Rs.25.82 crore had been shown as work done but not billed and included in the value of the contract receipt based on the certificates issued by the Company's engineers, which was not in line with the provisions of AS-7.

2. Sundry debtors included claims on account of escalation of Rs.104.96 crore not accepted by the clients and outstanding for a long time. Chances of recovery of the above claims were remote and full provision should have been made instead of Rs.69.70 crore made by the Company.

3. Pending outcome of long outstanding dues from clients, provision against Sundry Debtors for Rs.43.06 crore had not been made in account.

1.4.47 Kudremukh Iron Ore Company Limited

1. The Supreme Court had passed an order that mining in Kudremukh could be carried out only upto December 2005. The Company has prepared the Accounts on a going concern basis. The effect of this on the Profit/Assets & Liabilities was not ascertainable.

2. The Company has not recognised any interest for the year, on the loan of Rs.227.50 crore advanced during earlier years to Kudremukh Iron and Steel Company Limited, a body corporate, in which some of the Directors were common and this sum was outstanding as on date of Balance Sheet.

1.4.48 Steel Authority of India Limited

1. The Company had equity investments of Rs.374.94 crore in its fully owned subsidiary company, Indian Iron & Steel Company Limited (IISCO) and loans, advances and other recoverable dues of Rs.183.69 crore from the said Company. There was complete erosion of networth of IISCO. The Board of Industrial & Financial reconstruction (BIFR) has approved the revival plan for that company which was under implementation. The Auditors were unable to state the extent to which there may be decline/shortfall in value of equity investment and recovery of loans and other dues.

2. The Company had not carried out the necessary adjustments arising out of the lowering of interest rate with retrospective effect from 1 April 1998 on unsecured loans taken from Steel Development Fund. The impact of the same on the accounts had not been ascertained and accounted for.

MINISTRY OF TEXTILES

1.4.49 Cotton Corporation of India Limited

Non-provision of doubtful debts of Rs.8.99 crore outstanding for more than 10 years from institutional buyers and under litigation had resulted in overstatement of profit to that extent.

1.4.50 The Handicrafts and Handlooms Exports Corporation of India Limited

1. Non-provision for doubtful debts amounting to Rs.12.28 lakh resulted in overstatement of profits for the year to the same extent.

2. In case of Delhi Regional Office, the internal control procedures needed to be strengthened in the areas of (i) purchase procedure, (ii) prompt follow up of receivables, payables and advances, (iii) periodic confirmation of outstanding balance, reconciliation of debtors and creditors and (iv) a well defined credit policy.

1.4.51 National Textile Corporation (MP) Limited

1. The Company incurred net loss of Rs.54.59 crore (before considering the extraordinary income of Rs.302.32 crore on account of profit on sale of assets and interest written back on NTC loans) during the year and its total liabilities exceeded total assets by Rs.894.86 crore. BIFR has ordered revival of two mills and closure of remaining five mills in its rehabilitation scheme sanctioned in February 2002 to be completed within two years of its sanction. But due to delay in the implementation of the scheme, the Company had applied for extension of the implementation period for a period of two years. Accordingly, the Company's continuance as a going concern depended on the success of the rehabilitation scheme.

2. There was delay in depositing contribution with Provident Fund and Employees State Insurance Authorities due to delay in disbursement of salary and wages and a sum of Rs.63.04 lakh (including Rs.25.82 lakh for pre-nationalisation period) was in arrears for more than six months.

3. The Company was not regular in depositing sales tax, property tax, etc and an amount of Rs.90.29 lakh on this account remained outstanding for more than six months.

1.4.52 National Textile Corporation (TN&P) Limited

The Company had defaulted in repayment of Principal and Interest dues to the Industrial Financial Corporation of India (IFCI), Industrial Investment Bank of India (IIBI) and Industrial Development Bank of India (IDBI). The total outstanding towards principal and interest, after waiver of interest, as on 31 March 2004 was Rs.31.27 crore.

1.4.53 National Textile Corporation (UP) Limited

"Sales" included excise duty amounting to Rs.1.62 crore (Rs.88.46 lakh and Rs.73.21 lakh pertaining to Naini and Mau units, respectively, of the Swadeshi Cotton Mills) which should have been shown net of excise duty as required under the clarification to Accounting Standard 9. This had resulted in overstatement of Sales as well as Manufacturing Expenses by Rs.1.62 crore.

1.4.54 National Textile Corporation (WBAB&O) Limited

1. Extraordinary items included income on account of interest on raw material dues written back of Rs.29.69 crore but without any MOU with the parties or actual settlement made during the year.

2. The representation of interest on unsecured loan due to National Textile Corporation Limited (Holding company) amounting to Rs.31.21 crore in accounts is in contradiction to the BIFR sanctioned scheme.

3. As per BIFR scheme, Holding company was to provide Rs.500 crore for modernization, but no funds were provided except for deficiencies in wages payment.

MINISTRY OF TOURISM

1.4.55 India Tourism Development Corporation Limited

1. Claim against the Company not acknowledged as debts of Rs.110.20 crore included the following for which firm liability should have been provided for:

(i) Property tax of Rs.35.67 crore payable to New Delhi Municipal Corporation (in respect of 3 units since disinvested).

(ii) Royalty of Rs.10.72 crore payable to Airports Authority of India in case of Duty Free Shops at International Airports at Delhi, Mumbai, Chennai, Kolkata and Thiruvananthapuram.

2. Damages of Rs.1.44 crore payable to landlord at Mumbai.

3. Non-provision of amount outstanding as sundry debtors/loans and advance in respect of five subsidiary companies to the extent of Rs.10.97 crore including Rs.1.02 crore surrendered towards due of Bihar Industrial Credit and Investment Corporation Limited.

4. Non-accountal of losses of subsidiary companies aggregating to Rs.15.41 crore.

5. Absorption of losses aggregating to Rs.35.15 crore incurred by disinvested units for the period 2000-01 in contradiction to the demerger scheme and corresponding claim of Rs.32.55 crore put upto the Department of Tourism, Government of India without any provision in the demerger scheme or any communication/notification from the Government of India.

6 Short provision of loss on transfer of disinvested units by Rs.1.99 crore by computing the same on the basis of accounts as on 31 March 2001 instead of those as on 31 March 2000 as provided under the approved schemes of de-merger.

7. Non-provision of Rs.13.26 crore shown recoverable from disinvested companies for the period 1 April 2001 to the date of handing over in the absence of confirmations from the concerned parties.

8 Short provision of Rs.6.54 crore in respect of permanent diminution in the value of investment, and

9. Deferred Tax liability as on 31 March 2003 aggregating to Rs.7.79 crore.

MINISTRY OF URBAN DEVELOPMENT & POVERTY ALLEVIATION

1.4.56 Housing & Urban Development Corporation Limited

The Company had adopted accounting policy of making provision in respect of disputed demands under income/interest/wealth tax upon the final decision of appeals preferred by it. Accordingly, the Company has reversed provision of income tax of Rs.9.37 crore made in earlier year, resulting in increase in profit available for appropriation by Rs.9.37 crore.

1.4.57 National Buildings Construction Corporation Limited

1. Non-provision of outstanding dues amounting to Rs.33.12 crore and non-adjustment of Loans and advances amounting to Rs.2.37 crore for expenses and other loans to staff.

2. Sundry debtors included an amount of Rs.6.64 crore which had not been accepted by the client, but this amount was shown as good instead of doubtful.

3. Amount recoverable from Airports Authority of India Rs.14.07 crore and Rs.10.25 crore in respect of Libyan projects was subject matter for arbitration. The arbitrator had given award for Rs.1.76 crore only. The balance amount of Rs.22.56 crore was thus not recoverable but amount had been shown as good for recovery.

4. Non-provision of interest for Rs.6.32 crore on special rupee loan from the Syndicate bank.

5. Non-provision of Rs.1.90 crore withheld by the clients on account of liquidated damages for delay in completion of projects.

6. Non-provision regarding foreseeable losses on contracts, which worked out to Rs.9.33 crore.

7. Non-provision for guarantee fees and penal levy amounting to Rs.21.23 crore on guarantee given by the Government of India for loans taken by the Corporation.