

**CHAPTER 2:
COMMENTS FROM THE SUPPLEMENTARY REPORTS OF THE
STATUTORY AUDITORS**

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report, in long form, upon various aspects including the internal control systems of the functioning of the Company audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas that need improvement.

An illustrative resume of major recommendations made or opinion expressed or comments made by Statutory Auditors on possible improvement in the accounts and system control in some of the 293 Central Government Companies and 89 Deemed Government Companies in existence as on 31 March 2005 and audited by them, is given below: -

NAME OF THE MINISTRY/COMPANY	AREA FOR IMPROVEMENT
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2.1 SYSTEM OF FINANCIAL CONTROL AND ACCOUNTS

Department of Atomic Energy

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| 2.1.1 Electronics Corporation of India Limited | <ul style="list-style-type: none"> (i) The accounting manual prepared 20 years back, needed updation. (ii) The accounting policy on revenue recognition was not in line with AS-9. (iii) The accounting and disclosure of leases was not in line with AS-19. (iv) The accounting policy of the Company regarding accounting of income and expenditure of the computer education division on cash basis needed to be reviewed. |
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MINISTRY OF COMMERCE & INDUSTRY

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| 2.1.2 India Trade Promotion Organisation | The exhibition/fair accounts needed to be finalised within two months of the closure of the fair. |
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MINISTRY OF COMMUNICATIONS

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| 2.1.3 Bharat Sanchar Nigam Limited | <ul style="list-style-type: none"> (i) The system of raising of advice for transfer of debits (ATDs) for completed schemes needed to be reviewed so as to ensure timely commissioning of the assets. (ii) The system for review of old security deposits/ earnest money deposits etc. pending for want of claims from depositors needed to |
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be prescribed.

- (iii) There was no system of accounting of recovered stores arising out of decommissioned/ dismantled assets.
- (iv) The subsidiary ledgers balances of the circles/units needed to be reconciled with control accounts at regular intervals.

2.1.4 Mahanagar Telephone Nigam Limited

- (i) Bills for telephone connection/ services provided to DoT / BSNL were not accounted for in the books of the units as part of reciprocal arrangement with DoT / BSNL.
- (ii) The balances of the control accounts needed to be reconciled with subsidiary accounts at regular interval.

MINISTRY OF HEAVY INDUSTRY & PUBLIC ENTERPRISES

2.1.5 Engineering Projects (India) Limited

- (i) Accounting manual needed to be updated.
- (ii) The system of obtaining confirmation of balances from debtors did not exist.

MINISTRY OF PETROLEUM AND NATURAL GAS

2.1.6 Gas Authority of India Limited

The short billing of Rs.7.44 crore as compared to the intake at Agra and Ferozabad city gas stations during April 2004 to February 2005 needed to be reconciled.

MINISTRY OF SHIPPING

2.1.7 Cochin Shipyard Limited

The accounting system needed to be strengthened with a view to avoid delays in online accounting of goods received/issued.

MINISTRY OF STEEL

2.1.8 ISSCO

The internal control mechanism needed to be strengthened in following areas:

- (i) Accounting of transit loss of raw coal from Jitpur to Chasnala.
- (ii) Variation of weight of washed coal sent to Burnpur

MINISTRY OF TEXTILES

2.1.9 The Handicrafts and Handlooms Exports

- (i) Delegation of financial powers needed to be reviewed.

Corporation of India Limited	(ii)	System of timely recovery of outstanding dues needed to be improved.
	(iii)	System of lodging/ monitoring claims with outside parties was not efficient at Mumbai Branch.
2.1.10 National Handloom Development Corporation		Provision for doubtful debtors amounting to Rs.2.24 crore outstanding more than three years had not been made.

MINISTRY OF URBAN DEVELOPMENT AND POVERTY ALLEVIATION

2.1.11 National Buildings Construction Corporation Limited	(i)	The system for recovery of old dues needed to be strengthened.
	(ii)	Deficiencies were noticed in the booking of value of work done:
	(a)	Running contracts, were not reviewed to assess the foreseeable losses.
	(b)	The system of accounting of raw material consumption at regular intervals needed to be introduced.
	(c)	The outstanding balances of some of the closed units had not been reconciled.

2.2. ASSETS AND INVESTMENTS

MINISTRY OF CHEMICALS AND FERTILIZERS

Department of Fertilizers

2.2.1 Brahmaputra Valley Fertilizer Corporation Limited	The system of monitoring the outstanding dues from tenancy, other than employees, needed to be strengthened.
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MINISTRY OF COAL

2.2.2 Bharat Coking Limited	Coal	There was no system of obtaining confirmation of balances from debtors
2.2.3 Central Limited	Coalfields	There was no system of obtaining confirmation of balances from debtors.
2.2.4 Eastern Limited	Coalfields	The recovery system in respect of public sector dues was deficient.

MINISTRY OF COMMERCE & INDUSTRY

- 2.2.5 India Trade Promotion Organisation** The discrepancies noticed in physical verification report with the fixed assets needed to be reconciled.
- 2.2.6 MMTC Limited** The balances under sundry debtors/claims recoverable/advances to parties had not been confirmed/reconciled.

MINISTRY OF COMMUNICATION

- 2.2.7 Mahanagar Telephone Nigam Limited** Fixed assets registers at many units/ circles did not give complete particulars like description of assets, asset identification mark, quantitative details, location of assets, etc.

MINISTRY OF FINANCE

Insurance Division

- 2.2.8 National Insurance Company Limited** (i) Age wise analysis of sundry debtors was not carried out.
(ii) Internal Control system was ineffective and inadequate.
(iii) Re-insurance department did not take adequate drive to reconcile the dues.

MINISTRY OF HEAVY INDUSTRY & PUBLIC ENTERPRISES

- 2.2.9 Praga Tools Limited** The Company did not have an effective system of confirmation of balances
- 2.2.10 Scooter Limited India Limited** (i) Non-recovery of old outstanding dues amounted to Rs.4.01 crore.
(ii) Balances in the debtors/creditors accounts and loans and advances had neither been confirmed nor reconciled.

2.3 LIABILITIES AND LOANS

MINISTRY OF CHEMICALS AND FERTILIZERS

Department of Chemicals and Petrochemicals

- 2.3.1 Hindustan Fluorocarbons Limited** The default in repayment of loans as on 31 March 2005 amounted to Rs.16.97 crore

MINISTRY OF HEAVY INDUSTRY & PUBLIC ENTERPRISES

- 2.3.2 Andrew Yule & Company Limited** The Company had defaulted in payment of the Government of India loan of Rs.98 lakh and interest (including penal interests) of Rs.19 lakh.
- 2.3.3 Bharat Bhari Udyog Nigam Limited** The Company had defaulted in repayment of loans of Rs.249.85 crore and interest (including penal interest) of Rs.709.08 crore.
- 2.3.4 Braithwaite & Co. Limited** The Company had defaulted in repayment of loans including interest and penal interest of Rs.113.71 crore to the Government of India and Government of West Bengal
- 2.3.5 Burn Standard Company Limited** The Company had defaulted in repayment of Government of India's loan of Rs.355.58 crore and interest (including penal interest) of Rs.209.06 crore.

2.4 INVENTORY AND CONTRACTING

- 2.4.1 PSUs where maximum and minimum limits of stores and spares were not fixed, Economic Order Quantity were not prescribed and ABC analysis to control the inventory was not adopted have been given in Annexure-IV.**

MINISTRY OF COMMUNICATIONS

- 2.4.2 Bharat Sanchar Nigam Limited** (i) Inventories lying with the third parties were not recorded by several units.
(ii) Stock lying with contractors was neither quantified nor confirmed by the contractors.
- 2.4.3 Mahanagar Telephone Nigam Limited** (i) Store accounting required improvement. Before issue of material, head of accounts for revenue and/or WIP needed to be properly checked.
(ii) Accounting of inter-project transfer of stores needed to be streamlined.

MINISTRY OF HEAVY INDUSTRY & PUBLIC ENTERPRISES

- 2.4.4 Praga Tools Limited** Valuation of stock was not in line with the requirements of AS-2.

MINISTRY OF INFORMATION TECHNOLOGY

Department of Electronics

- 2.4.5 National Informatics Centre Services Inc.** System of procurement of inventory needed to be reviewed in the light of scrapping of slow moving VSAT items and Hardware items due to obsolescence.

MINISTRY OF PETROLEUM AND NATURAL GAS

- 2.4.6 Bongaigaon Refinery & Petrochemicals Limited** Stores valuing Rs.6.06 crore had not moved for more than four years.
- 2.4.7 GAIL (India) Limited** Internal control system needed to be improved and coverage of physical verification of items of stores also needed to be increased.
- 2.4.8 Indian Oil Corporation** Non-moving stores held for over five years needed to be disposed off.

MINISTRY OF POWER

- 2.4.9 Maithon Power Limited** The Company did not have any system of tendering for awarding of various contracts.
- 2.4.10 Tehri Hydro Development Corporation Limited** The system for identifying and monitoring the disposal of non-moving, obsolete and surplus items needed to be strengthened.

MINISTRY OF TEXTILES

- 2.4.11 The Handicrafts and Handlooms Exports Corporation of India Limited** (i) Physical verification of inventories was done at the year end. The frequency of verification needed to be increased in case of high value items.
(ii) The system of disposal of non-moving and slow-moving items was inadequate.

MINISTRY OF TELECOMMUNICATION

- 2.4.12 Indian Telephone Industries** Value of stores, raw material declared obsolete and non-moving lying at the end of the year amounted to Rs.5.64 crore and Rs.10.69 crore respectively.

MINISTRY OF URBAN DEVELOPMENT AND POVERTY ALLEVIATION

- 2.4.13 National Buildings Construction Corporation Limited** Reconciliation of physical verification report with the financial books as on 31 March 2005 was pending.

2.5 COSTING

MINISTRY OF COAL

- 2.5.1 Central Coalfields Limited** The Company had no effective system for identification of idle labour hours.

- 2.5.2 Central Mine Planning & Design Institute Limited** The Company had no effective system for identification of idle labour Hours.

MINISTRY OF HEAVY INDUSTRY & PUBLIC ENTERPRISES

- 2.5.3 Bridge & Roof Co. (India) Limited** The Company did not have any laid-down system for identification of idle labour /idle machine hours at Howrah Works.

2.6 INTERNAL AUDIT

MINISTRY OF CHEMICALS AND PETROCHEMICALS

Department of Fertilizers

- 2.6.1 Brahmaputra Valley Fertilizer Corporation Limited** Internal Audit Cell established during the year needed further strengthening.

MINISTRY OF COAL

- 2.6.2 Eastern Coalfields Limited** There was no internal audit manual.

MINISTRY OF COMMERCE & INDUSTRY

- 2.6.3 India Trade Promotion Organisation** The Company did not prescribe internal audit standards/manual/guidelines.

MINISTRY OF COMMUNICATION

- 2.6.4 Bharat Sanchar Nigam Limited** Compliance mechanism on internal audit observations needed to be strengthened at circle/ corporate office level.
- 2.6.5 Mahanagar Telephone Nigam Limited** The extent of coverage of the areas of operation, frequency of reporting and the follow up of the internal audit observation needed to be strengthened.

MINISTRY OF FINANCE

Insurance Division

- 2.6.6 National Insurance Company Limited** In most of the cases internal audit had not been conducted during the year.

MINISTRY OF HEAVY INDUSTRY & PUBLIC ENTERPRISES

- 2.6.7 Engineering Projects India Limited** Internal Audit manual needed to be updated. Scope of internal audit should include audit of P&A, EDP and contract division.
- 2.6.8 Hindustan Newsprint Limited** Internal audit system of the Company is not commensurate with its size and nature of business.
- 2.6.9 Instrumentation Limited** Internal audit system in the Company needed to be strengthened with regard to the size of the Company.

MINISTRY OF INFORMATION TECHNOLOGY

Department of Electronics

- 2.6.10 National Informatics Centre Services Inc.** Internal audit needed to be improved keeping in view the volume of company's business.

MINISTRY OF PETROLEUM AND NATURAL GAS

- 2.6.11 Gas Authority of India Limited** Internal audit of the Company needed to be strengthened.
- 2.6.12 ONGC (Videsh) Limited** Technical persons needed to be inducted in internal audit department in view of the operations of the Company being highly technical.

MINISTRY OF STEEL

- 2.6.13 MSTC Limited**
- (i) The Company did not have any internal audit manual/ guidelines.
 - (ii) Internal audit in respect of some branches where transactions are substantial needed to be strengthened.

MINISTRY OF TELECOMMUNICATION

- 2.6.14 Indian Telephone Industries** The coverage of internal audit is not commensurate with the size and nature of business of the Company and needed to be strengthened.

MINISTRY OF TEXTILES

- 2.6.15 The Handicrafts and Handlooms Exports Corporation of India Limited** (i) Internal audit system needed to be strengthened with respect to timely compliance of follow-up of internal audit reports.

- (ii) All accounts should be brought within the purview of internal audit system particularly with respect to bullion transactions.
- (iii) There was no internal audit manual in the Company.
- 2.6.16 National Centre for Trade Information**
- (i) The quality of internal audit needed to be improved keeping in view of the volume of Company's business.
- (ii) There was no internal audit manual.
- (iii) The Company had not constituted the audit committee.
- 2.6.17 National Textile Corporation. (WBAB&O) Limited** The coverage of internal audit was inadequate.

2.7. GENERAL

MINISTRY OF INFORMATION TECHNOLOGY

- 2.7.1 National Informatics Centre Services Inc.**
- (i) The Company had not developed a customised package for accounts/inventory/HR.
- (ii) The Tally system of accounts as adopted by the Company suffered from inherent defect and needed to be reviewed.

MINISTRY OF PETROLEUM & NATURAL GAS

- 2.7.2 IBP Co. Limited**
- (i) The Company did not have full-fledged approved IT strategy or plan.
- (ii) The Company did not undertake any energy audit during the year.

MINISTRY OF TEXTILES

- 2.7.3 The Handicrafts and Handlooms Exports Corporation of India Limited**
- (i) The Company had not adopted any security policy for software/hardware.
- (ii) In-house software for financial accounting, including inventory needed to be updated with built-in-checks for data entry, validation, modifications and access.

MINISTRY OF URBAN DEVELOPMENT AND POVERTY ALLEVIATION

- 2.7.4 National Buildings Construction Corporation Limited** The Company did not have an Audit Committee.

FOLLOW UP ACTION ON PREVIOUS REPORTS

As per Committee on Public Undertakings (COPU)'s instructions, Ministries/Departments are required to submit to the Committee the follow up action taken notes duly vetted by Audit in respect of comments/paragraphs included in the Report of C&AG of India No.2 (Commercial) presented to Parliament within six months from the date of presentation of the relevant Audit Reports.

A review had revealed that inspite of reminders, the remedial/corrective action taken notes (ATNs) on comments/paragraphs on various PSUs contained in the last five years' Audit Reports No.2 (Commercial) under the administrative control of the Ministry had not been forwarded to Audit for vetting. The details of outstanding ATNs are given in the Report of C&AG of India No.12 (Commercial) of 2006.

New Delhi:
Dated: 28 February 2006

(A. BASU)
Deputy Comptroller and Auditor General
Cum Chairperson, Audit Board

Countersigned

New Delhi
Dated: 1 March 2006

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India