

CHAPTER II

Oversight Role of CAG

2.1 Audit of Public Sector Undertakings

CAG appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. CAG has the right to conduct supplementary audit and issue comments upon or supplement the Audit Report of the statutory auditor. Statutes governing some corporations require that their accounts be audited by the CAG and a report be submitted to the State legislature.

2.2 Appointment of statutory auditors of Public Sector Undertakings by CAG

Sections 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of 180 days from the commencement of the financial year.

Statutory auditors of Companies for the year 2019-20 were appointed during August 2019.

The statutory auditors of such Companies for the year 2019-20 were appointed by the CAG during August 2019¹.

2.3 Submission of accounts by PSUs

2.3.1 Need for timely submission

According to Section 394 and 395 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting (AGM). As soon as may be after such preparation, the Annual Report must be laid before the State Legislature, together with a copy of the Audit Report and comments of the CAG upon or as supplement to the Audit Report. Almost similar provisions exist in the Act regulating the statutory corporation. This mechanism provides the necessary legislative control over the utilization of public funds invested in the companies from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next.

¹ Statutory Auditors of five PSUs which submitted their accounts belatedly were appointed between October 2019 and November 2020 and in respect of one non-working PSU viz., Tamil Nadu Goods Transport Corporation Limited, Statutory Auditors were not appointed.

Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration.

Section 129 (7) of the Companies Act, 2013 also provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

Despite above, annual accounts of various PSUs were pending as on 31 March 2021, as detailed in the following paragraph.

2.3.2 Timeliness in preparation of accounts by Government Companies and Government Controlled Other Companies

As of 31 March 2020, there were 67 Government Companies and nine Government Controlled Other Companies under the purview of CAG's audit. The accounts for the year 2019-20 were due from all these Companies. A total of 54² Government Companies (including one³ defunct Company) and nine⁴ Government Controlled Other Companies submitted their accounts for 2019-20 and two⁵ Government Companies submitted their arrear accounts (2018-19) for audit by CAG. Accounts of 13 Government Companies were in arrears for various reasons. Details of arrears in submission of accounts of Government Companies are given in **Table 2.1** below:

Out of 76 companies, accounts of 13 companies were in arrears

² The certification of accounts of Tamil Nadu Civil Supplies Corporation is under process.

³ Southern Structurals Limited

⁴ Tamil Nadu Newsprint and Papers Limited, TIDEL Park Limited, Nilakottai Food Park Limited, Tamil Nadu Road Development Company Limited, IT Expressway, TICEL Bio Park Limited, TIDEL Park Coimbatore Limited, Chennai Smart City Corporation and Tamil Nadu Infrastructure Fund Management Corporation Limited.

⁵ Tamil Nadu Adi-dravidar Housing and Development Corporation Limited and TNEB Limited

Table: 2.1: Details showing the arrears in submission of accounts

Particulars		Government Companies/Government Controlled Other Companies					
		Government Companies		Government Controlled Other Companies		Total	
Total number of Companies under the purview of CAG's audit as on 31.03.2020		67		9		76	
		Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Listed/Unlisted		0	67	1 ⁶	8	1	75
Less: New Companies from which accounts for 2019-20 were not due		0	0	0	0	0	0
Number of companies from which accounts for 2019-20 were due		0	67	1	8	1	75
Number of companies which presented the accounts for 2019-20 for CAG's audit (including one defunct company)		0	54	1	8	1	62
Number of companies having arrear in accounts		0	13	0	0	0	13
Break- up of Arrears	(i) Under Liquidation	0	1	0	0	0	1
	(ii) Defunct ⁷	0	3	0	0	0	3
	(iii) Others	0	9	0	0	0	9
Age-wise analysis of arrears against 'Others' category	One year (2019-20)	0	9	0	0	0	9
	Two years (2018-19 and 2019-20)	0	0	0	0	0	0
	Three years and more	0	0	0	0	0	0

Source: As per latest finalised accounts received from PSUs.

The names of these companies are indicated in **Appendix XI**.

2.3.3 Timeliness in preparation of accounts by Statutory Corporations

Audit of the lone statutory corporation viz., Tamil Nadu Warehousing Corporation is conducted by CAG i.e., supplementary audit. The Corporation presented its accounts for the year 2019-20 belatedly in February 2021 for audit by CAG.

2.4 CAG's oversight – Audit of accounts and supplementary audit

2.4.1 Financial reporting framework

Companies are required to prepare the financial statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in

⁶ Tamil Nadu Newsprint and Papers Limited

⁷ Defunct companies are those which have not been carrying on any business or operation and defined as "inactive company" under Section 455 of the Companies Act, 2013

consultation with National Advisory Committee on Accounting Standards. The statutory corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the CAG and any other specific provision relating to accounts in the Act governing such corporations.

2.4.2 Audit of accounts of Government Companies by Statutory Auditors

The statutory auditors appointed by the CAG under Section 139 of the Companies Act, 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of public sector undertakings with the overall objective that the statutory auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power to:

- issue directions to the statutory auditors under Section 143 (5) of the Companies Act, 2013 and
- supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

2.4.3 Supplementary Audit of accounts of Government Companies

The prime responsibility for preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is of the management of an entity.

The statutory auditors appointed by the CAG under section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the financial statements under section 143 of the Companies Act, 2013 based on an independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India (ICAI) and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected⁸ Government Companies along with the report of the statutory auditors are reviewed by CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the AGM.

⁸ The accounts of the PSUs were selected for supplementary audit annually, triennially and once in five years based on Paid up capital, Capital employed and Turnover criteria

2.5 Result of CAG's oversight role

2.5.1 Audit of accounts of Government Companies/Government Controlled Other Companies under Section 143 of the Companies Act, 2013

Financial statements for the year 2019-20 were received from 54 Government Companies and nine Government Controlled Other Companies (including one listed company) and one statutory corporation. Further, financial statements for the year 2018-19 were also received from two⁹ Government Companies for audit.

CAG reviewed accounts of 45 companies and one statutory corporation for the year 2019-20.

Of these, based on selection criteria accounts of 38 Government Companies and seven Government Controlled Other Companies and one Statutory Corporation were selected for Supplementary Audit by the CAG.

The results of the review are detailed below:

2.5.1.1 Revision of Auditors Report

As a result of supplementary audit of the financial statements conducted by the CAG, the statutory auditors of seven Government Companies as detailed in **Appendix XII** revised their report before laying of the Financial Statements of these Companies in their AGM.

2.5.1.2 Significant comments of the CAG issued as supplement to the statutory auditors' reports on Government Companies/Government Controlled Other Companies

Subsequent to the audit of the financial statements for the year 2019-20 by statutory auditors, the CAG conducted supplementary audit of the financial statements of the selected Government Companies and all the Government Controlled Other Companies. The list of PSUs in respect of which comments were issued is given in **Appendix XIII**. Some of the significant comments issued on financial statements of Government Companies and Government Controlled Other Companies, the financial impact of which on the profitability was ₹1,933.39 crore and on assets/liabilities was ₹1,370.57 crore, have been tabulated below:

⁹ Tamil Nadu Adi-dravidar Housing and Development Corporation Limited and TNEB Limited

Government Companies

Comments on Financial Position

Sl. No.	Name of the Company	Comment
1	TANCEM (FS for the year 2019-20)	Property Plant and Equipment did not include ₹1,025.39 Lakh (₹172.79 lakh for 2019-20, ₹456.62 lakh for 2018-19 and ₹395.98 lakh for 2017-18) being the expenditure incurred towards the Enterprise Social Commitment, as necessitated by the Ministry of Environment, Forest and Climate Change of the Government of India as a pre-condition for the Ariyalur project expansion clearance. Instead of capitalizing the social commitment expenditure, the Company charged it to Profit & Loss Account as expenses on Corporate Social Responsibility. The above accounting treatment by the Company is not in conformity with the opinion of the Expert Advisory Committee and as per the Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities of the ICAI. This has resulted in understatement of the above head and over statement of Other Administrative Expenses (Note 27) for the year by ₹172.79 Lakh and for Prior Periods by ₹852.60 Lakh with resultant understatement of reserves and surplus to the same extent.
2	TN ZARI (FS for the year 2018-19)	Cost of materials consumed ₹30.94 crore -The statutory auditor while giving disclaimer of opinion has stated that the Silver Thread Purchases Account was debited by ₹91.21 lakh on 31.03.2019 by way of passing one journal entry and crediting Sundry Creditors Account (various parties). The entry was passed without any supporting documents. Detailed examination by Audit revealed that there were multiple errors/omissions committed during the earlier years and current year as well as unrecovered dues from suppliers appearing in the creditors account due to lack of control over individual creditors' ledger accounts. Therefore, audit verified 2,440 purchases (27.10 per cent) valuing ₹49.29 crore (21.02 per cent) out of 9,005 payment vouchers amounting to ₹234.53 crore (from the period 2011-12 to 2018-19) with payments. It was seen that the amount of ₹91.21 lakh included ₹24.64 lakh relating to accounting errors of 2018-19 and ₹66.57 lakh (Net) relating accounting errors of previous years. Consequently, purchases were overstated to the extent of ₹66.57 lakh, (prior period expenditure (Net) were understated by ₹38.89 lakh and advances to suppliers were understated by ₹27.68 lakh). Resultantly, profit before tax is understated by ₹27.68 lakh. Suitable disclosure should be made in the notes to the accounts

Sl. No.	Name of the Company	Comment
		relating to the understatement of ₹38.89 lakh.
3	TANGEDCO (FS for the year 2019-20)	Property, Plant and Equipment (Note 1-a) - ₹59,065.70 crore – NCTPS I has transferred the land valuing ₹85.54 crore to NCTPS-II. The value of the land was deducted from NCTPS I account whereas the same was not accounted in the year 2019-20 by NCTPS II. This has resulted in understatement of land by ₹85.54 crore and overstatement of inter unit accounts to the same extent.
4	TANGEDCO (FS for the year 2019-20)	Financial Assets Trade Receivables (Note 6-a) - ₹10,169.49 crore This includes ₹70.52 crore being the Sundry Debtors balance of HT consumers as on 31 March 2020. However, as per the records of HT section, the balance receivable from HT consumers was only ₹32.51 crore. This has resulted in overstatement of above head and overstatement of Revenue from operation by ₹38.01 crore. Consequently, loss is also understated by this amount.
5	TANGEDCO (FS for the year 2019-20)	Other Equity (Note 9-b) - ₹(-) 78,214.10 crore The above head is understated by ₹302.31 crore due to short accountal of the Contributory Pension Scheme (CPS) liability payable to the employees of the TANGEDCO. As per the Uniform Resource Locator (URL) of the CPS, the actual liability of the CPS as on 31st March 2020 is ₹2,832.23 crore and the interest payable is ₹770.97 crore. However, as per the accounts of the TANGEDCO, the liability of CPS (with interest) as on 31.3.2020 was only ₹2,529.92 crore resulting in short accountal of CPS Fund by ₹302.31 crore. This has resulted in understatement of CPS Fund (GL code 57170) with consequent understatement of loss by ₹302.31 crore. The above head is overstated by ₹17.84 crore due to incorrect accounting of ₹65.61 crore in the accounts instead of ₹47.76 crore as per the balance in the GPF Broad Sheet. Consequently, GPF account is also overstated to that extent.
6	TANGEDCO (FS for the year 2019-20)	Other Current Liabilities (Note 15) – ₹23,538.47 crore (a) TANGEDCO received ₹7.95 crore from Tamil Nadu Adi Dravidar Housing and Development Corporation Limited, Chennai for providing Fast Track Power Supply Scheme (Agriculture service connections to Adi Dravidars) during 2018-19. This should have been accounted as income to TANGEDCO since this is one-

Sl. No.	Name of the Company	Comment
		time fee for effecting service connections in priority. Hence, accounting of ₹7.95 crore as current liabilities has resulted in overstatement of liabilities (deposits) and understatement of income. Resultantly, the loss of the Company is also overstated by this amount. (b) Electricity Tax amount collected from the consumers has to be remitted to Government of Tamil Nadu. However, there was short provision of ₹13.45 crore payable to the Government which has resulted in understatement of the above head and overstatement of Other Income by this amount. Consequently, the loss is also understated to that extent. (c) TANGEDCO made a provision for ex-gratia for an amount of ₹106.98 crore at 11.67 <i>per cent</i> as against 1.67 <i>per cent</i> envisaged in Board proceedings dated 6.11.2020. This resulted in overstatement of current liabilities and employee benefits by ₹53.49 crore. The loss for the year is also overstated by the like amount.
7	TANTRANSCO (FS for the year 2019-20)	Employee Benefits Provisions TANTRANSCO made a provision for ₹18.02 crore towards bonus and ex-gratia at 8.33 <i>per cent</i> and 11.67 <i>per cent</i> (20 <i>per cent</i>) as against 8.33 <i>per cent</i> and 1.67 <i>per cent</i> respectively (10 <i>per cent</i>) as envisaged in Board proceedings dated 6.11.2020. This has resulted in overstatement of the above account head and current liabilities and employee benefits by ₹9.01 crore (50 <i>per cent</i> of ₹18.02 crore). Consequently, loss for the year is overstated by ₹9.01 crore.
8	TANTRANSCO (FS for the year 2019-20)	Trade Receivables (Note 17) - ₹10,850.67 crore Expenses Reimbursable from TANGEDCO - ₹10,005.69 crore This does not include ₹21.06 crore being the GST (@ 18 <i>per cent</i>) on the assets transferred to TANGEDCO and commissioned during 2019-20 (valuing ₹117.01 crore). As per section 7 of GST ACT, 2017 the transfer of asset categorized under supply of material attracts 18 <i>per cent</i> GST. Non-accounting of GST on transferred assets has resulted in understatement of the above head and provisions head by ₹21.06 crore. Due to non-creating provision, the loss for the year is also understated by the like amount.

Source: Comments of CAG in respect of respective PSUs.

Comments on Profitability

Sl. No.	Name of the Company	Comment
1	TANGEDCO (FS for the year 2019-20)	Other Income (Note 19): ₹8,881.71 crore It includes an amount ₹15.01 crore being the rebate availed by TANGEDCO on payment of Transmission charges to TANTRANSCO for the period from April 2019 to March 2020. As there is no agreement between TANGEDCO and TANTRANSCO and the rebate availed by TANGEDCO is not accepted by TANTRANSCO because of non-provision in the Open Access Regulations 2014, treating the same as income from 2017-18 onwards is not in order. Due to accountal of the disputed rebate as income, Other Income is overstated by ₹15.01 Crore and the current liabilities is understated to the same extent. Similarly, the previous year's income is also overstated by ₹33.06 crore (2017-18: ₹12.32 crore, 2018-19: ₹20.74 crore) due to accountal of such rebate as income. As a result, the loss of the Company is also understated by ₹48.07 crore.
2	TANGEDCO (FS for the year 2019-20)	Cost of Power Purchase (Note 20) – ₹47,145.89 crore (a) The above head is understated by ₹648.36 crore due to non/short accountal of cost of solar power (from the date of commissioning to March 2020) purchased by four EDCs (<i>viz.</i>, Palladam, Tirunelveli, Virudhunagar and Dindigul) under preferential tariff and tender schemes. Consequently, loss is also understated to that extent. (b) Under the Power Purchase Agreement with M/s. PPN, TANGEDCO has agreed (30 March 2020) to pay fixed charges due for the period from June 2017 to January 2020 vide monthly invoices as claimed by M/s. PPN amounting to ₹530 crore (after a discount of ₹120 crore) which will be paid in 30 instalments. Out of this amount, ₹50 crore was paid on 10.3.2020 and ₹25 crore was paid on 30.3.2020. For the balance amount of ₹455 crore, no provision has been made in the books of accounts. As a result, the above head of account and the Liability head are understated by ₹455 crore. Consequently, loss is also understated to the same extent.
3	TANGEDCO (FS for the year 2019-20)	Employee benefits (Note 22) – ₹8,887.33 crore The above head is understated by ₹326.15 crore due to charging of 25 <i>per cent</i> of the employee cost to the Capital Work in Progress of Udangudi Thermal Power Project. As the project is being executed through EPC contract, capitalization of 25 <i>per cent</i> of Employee

Sl. No.	Name of the Company	Comment
		Cost in the above project is not in order. This has resulted in understatement of the above head and overstatement of Capital WIP to the extent of ₹326.15 crore. Resultantly, the loss of the Company is also understated by the same amount.

Source: Comments of CAG in respect of respective PSUs.

2.6 Non compliance with provisions of Accounting Standards/ Ind AS

In exercise of the powers conferred by Section 469 of the Companies Act, 2013, read with Section 129 (1), Section 132 and Section 133 of the said Act, the Central Government prescribed Accounting Standards 1 to 7 and 9 to 29. Besides these, the Central Government notified 41 Indian Accounting Standards (Ind AS) through Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) (Amendment) Rules, 2016.

The statutory auditors reported that 13 companies as detailed in **Appendix-XIV** did not comply with mandatory Accounting Standards/Ind AS.

2.7 Management Letters

One of the objectives of financial audit is to establish communication on matters arising from the audit of financial statements between the auditor and those charged with the responsibility of governance of the corporate entity.

The material observations on the financial statements of PSUs were reported as comments by the CAG under Section 143 (5) of the Companies Act, 2013. Besides these comments, irregularities or deficiencies observed by CAG in the Financial Statements or in the reporting process, were also communicated to the Management of the PSU / Administrative department of the Government through a 'Management Letter' for taking corrective action. During the year, CAG issued 'Management Letters' to 34 PSUs / Administrative departments of the PSUs (**Appendix-XV**).

The deficiencies generally related to:

- The failure of the management to take corrective action on the repeated qualifications of statutory auditors,
- non-compliance to Government instructions on accounting of income from investment of unspent Government grants,
- application and interpretation of accounting policies and practices,
- adjustments arising out of audit that could have a significant effect on the financial statements and
- inadequate or non-disclosure of certain information on which management of the concerned PSU gave assurances that corrective action would be taken in the subsequent year.