Report Of The CAG

INTRODUCTION

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report, in the 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 which needed 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 of control of some of the 266 Central Government Companies and 89 Deemed Government Companies in existence as on 31 March 2001 and audited by them, is compiled by the office of CAG in Report No. 02 of 2002. We are reproducing the recommendation/ opinion or comments compiled in the above mentioned report for the benefit of the readers on the following:

- Uranium Corporation of India Limited
- The Fertilizer Corporation of India Limited
- Bharat Gold Mines Limited
- Hindustan Cables Limited

URANIUM CORPORATION OF INDIA LIMITED

Profit before tax was overstated by Rs. 34.18 lakh due to crediting of income earned on sale of ore mined during the period of development of a mine to Profit & Loss account instead of setting off of the same against the development expenditure of the mine capitalized during the year.

Management stated that the job was neither a project nor an expansion of a project. Hence development work was not considered as construction project.

Management contention is not tenable as the Company had treated the expenditure on mines development as capital expenditure. Therefore, the income from this work should also be treated as of capital nature and should have been deducted from the total expenditure so capitalised as per general accounting principles.

THE FERTILIZER CORPORATION OF INDIA LIMITED

Net Loss for the year was understated by Rs.6.72 crore in view of the following:

1. Under-charge of depreciation by Rs.4.13 crore on machinery spares (non-regular use) due to capitalisation only during 2000-01 instead of with effect from 1 April 1999, as required under revised AS-2 and para 8.2 of AS-10.

Management stated that the Corporation had adopted the policy with regard to capitalisation of machinery spares which could be used only with an item of fixed assets and whose use was expected to be irregular in accordance with AS-2 from the year 2000-2001 only. Hence, depreciation was charged as per policy of depreciation of the Corporation.

The reply is not tenable since AS-2 was effective from 1 April 1999 and according to para-17 of AS-5, the non-implementation of AS-2 retrospectively in this case on account of error occurred as a result of mistake in applying accounting policy together with misinterpretation of revised AS-2. Necessary adjustment of depreciation and fixed assets after 1 April 1999 in compliance with AS-5 should have been carried out.

2. Over-valuation of closing stock of urea by Rs.2.26 crore due to non-consideration of estimated marketing expenses which was higher than the marketing expenses allowed by Fertilizers Industries Co-ordination Committee (FICC).

Management stated that the net realisable value of urea stocks was made as per the accounting policy no. 3.5. The primary freight, secondary freight etc. was not part of retention price fixed by FICC. Hence, the same

was not taken into account for arriving at net realisable value of urea.

The reply is not tenable as godown rent, handling charge etc. were also part and parcel of selling and distribution cost. As per AS-2, net realisable value was to be arrived at after deduction of estimated selling and distribution expenses. For conservative point of view, in arriving at net realisable value the expenditure of primary freight incurred by the unit towards despatch of urea to the selling point had been excluded in view of freight subsidy receivable from FICC.

3. Capitalisation of Rs. 0.33 crore being the expenditure incurred on repair and renovation work of existing cooling tower relating to power house of Sindri modernization plant.

Management stated that the jobs were for renovation of cooling tower cells and not for dismantling/replacement and rectification only. Hence, accounting treatment given was in order.

The reply is not tenable as it could not be termed as addition to fixed assets vide para 23 of AS-10.

Bharat Gold Mines Limited

1. Fixed assets included Rs.51.29 lakh being the value of the shaft sinking and main works in respect of abandoned blocks and mines. As the mining activities in these mines and blocks had been abandoned, the value of shaft sinking and main works required to be charged off in terms of accounting policy. This resulted in under-statement of loss and over-statement of fixed assets by Rs.51.29 lakh.

Management stated that they were depreciating these assets at a rate prescribed under Schedule XIV of the Companies Act 1956, as in the past consistently. These shafts were operated and had also produced some gold during the year 2000-01.

The reply is not tenable as the shaft sinking and main works in the mines were abandoned due to stoppage of mining and de-watering operations.

2. Loans and advances included security deposit of Rs.34.90 lakh paid on a contract, which was short closed by the Company during the year. As per the terms of contract the security deposit was liable for forfeiture in the event of non-execution of the work. Non-provision for the forfeiture of security deposit resulted in over-statement of loans and advances and under-statement of loss by Rs.34.90 lakh.

Management stated that the short closure was made as per mutual understanding considering company's present status. There was neither any claim from the party nor intimation to forfeit the security deposit

The reply is not tenable as no consent of the customer was obtained to short close the work without levy of penalty or forfeiture of the security deposit.

Hindustan Cables Limited

Loss of Rs.71.41 crore for the year was understated by Rs.3.92 crore due to treatment of a portion of leave encashment and gratuity, paid to employees on voluntary retirement, as deferred revenue expenditure instead of charging the same to Profit & Loss account.

Management stated that only the portion of leave salary which was in excess of annual actuarial valuation and the portion of gratuity which was not available under Group Gratuity Scheme had been considered as Deferred Revenue Expenditure as these were unusual expenditure which had arisen due to premature separation of large number of employees.

Reply is not acceptable because gratuity and leave encashment paid on VRS accrued in normal course and, therefore, should have been charged to Profit & Loss account.

Qui non est hodic cras minus aptus exit ~ He who is not prepared today will be less so tomorrow

—*Ovid*

We cannot escape the responsibility of tomorrow by evading it today.

—*Abraham Lincoin*