

**COMMITTEE ON PUBLIC  
UNDERTAKINGS  
(1978-79)**

**(SIXTH LOK SABHA)**

**FIFTY-FIFTH REPORT**

**ON**

**APPOINTMENT OF AUDITORS IN  
GOVERNMENT COMPANIES**

*Presented to Lok Sabha and  
laid in Rajya Sabha on April 30, 1979.*



**LOK SABHA SECRETARIAT  
NEW DELHI**

*April, 1979/Vaisakha, 1901 (S)*

*Price: Rs. 1.72*

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Corrigenda of the 55th Report of the Committee  
on Public Undertakings on Appointment of Auditors  
in Government Companies.

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<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Against</u>
21	18(i)	5	Put Central Mine Planning & Design Institute Ltd. after Eastern Coal-fields Ltd.	
	18(i)		Central Maize Products	Punjab Maize Products Co.

APPENDIX

28	19-20	14th-from below	maintain	maintained
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**COMMITTEE ON PUBLIC UNDERTAKINGS  
(1978-79)**

**CHAIRMAN**

**Shri Jyotirmoy Bosu**

**MEMBERS**

2. Shri O. V. Alagesan
3. Shri Maganti Ankineedu
4. Shrimati Chandravati
5. Shri Tridib Chaudhuri
6. Shri Hitendra Desai
7. Shri Anant Ram Jaiswal
8. Shri L. L. Kapoor
9. Shri K. Lakkappa
10. Shri Dharamsinhbhai Patel
11. Shri Raghavji
12. Shri Padmacharan Samantasinhar
13. Shri Bhanu Kumar Shastri
14. Dr. Subramaniam Swamy
15. Shri Madhav Prasad Tripathi
16. Shri S. W. Dhabe
17. Shri K. N. Dhulap
18. Shri H. B. Mahida
19. Shri Murasoli Maran
20. Shri Era Sezhiyan
21. Shri Viren J. Shah
22. Shri Sultan Singh\*

**SECRETARIAT**

**Shri H. G. Paranjpe—*Joint Secretary.***

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\*Elected w.e.f. 26-12-1978 *vice* Shri Deorao Patil died.

**SUB-COMMITTEE ON COMPLAINTS:  
COMMITTEE ON PUBLIC UNDERTAKINGS**

1. Shri Jyotirmoy Bosu—*Chairman*
2. Shri O. V. Alagesan
3. Shrimati Chandravati
4. Shri Anant Ram Jaiswal
5. Shri Padmacharan Samantashinhar

## INTRODUCTION

**1.** Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this 55th Report on "Appointment of Auditors in Government Companies".

**2.** This is the first time that a Parliamentary Committee have gone into the procedure of appointment of auditors in Government Companies. In this Report, the Committee have given additional guidelines regarding the appointment of auditors apart from the criteria laid down by the Comptroller and Auditor General of India for such appointment.

**3.** The Committee have laid emphasis on the need for assigning audit of Government Companies to auditors who have not been assigned such audit so far in order to do away with concentration in a few hands. In order to cover more auditors firms, the Committee have also suggested that the re-appointment of an auditor should be confined to only one year and that too to be done with the specific approval of the Comptroller and Auditor General of India. It is necessary to ensure that no vested interest grows in this sphere.

**4.** The Committee were not at all satisfied with the performance of the Statutory Auditors of the Government Companies and have suggested that a review should be undertaken on the working and performance of such auditors, every year and reported to Parliament.

**5.** The Report was considered and adopted by the sub-Committee on Complaints and the main Committee on 28th April, 1979.

New DELHI;

April 29, 1979

Vaisakha 9, 1901 (S)

JYOTIRMOY BOSU,

Chairman,

Committee on Public Undertakings.

## REPORT

### STATUTORY PROVISION IN RESPECT OF AUDITING OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

Section 619 of the Companies Act, 1956 deals with the auditing of Government Companies. It provides as follows:—

619(2) The auditor of a Government company shall be appointed or re-appointed by the Central Government on the advice of the Comptroller and Auditor-General of India. Provided that the limits specified in sub-sections (IB) and (IC) of section 224 shall apply in relation to the appointment or re-appointment of an auditor under this sub-section.

The limits described in sub-Section (IB) and (IC) of Section 224 are as follows:—

‘(IB) on and from the financial year next following the commencement of the Companies (Amendment) Act, 1974, no company or its Board of Directors shall appoint or re-appoint any person or firm as its auditor if such person or firm is, at the date of such appointment or re-appointment, holding appointment as auditor of the specified number of companies or more than the specified number of companies: Act—41 of 1974:

Provided that in the case of a firm of auditors, “specified number of companies” shall be construed as specified number of companies per partner of the firm:

Provided further that where any partner of the firm is also a partner of any other firm or firms of auditors, the number of companies which may be taken into account, by all the firms together, in relation to such partner shall not exceed the specified number in the aggregate:

Provided also that where any partner of a firm of auditors is also holding office, in his individual capacity, as the auditor of one or more companies, the number of companies which may be taken into account in this case shall not exceed the specified number, in the aggregate.

(IC) For the purpose of enabling a company to comply with the provisions of sub-section (IB), a person or firm holding,



immediately before the commencement of the Companies (Amendment) Act, 1974, appointment as the auditor or a number of companies exceeding the specified number, shall, within sixty days from such commencement, intimate his or its unwillingness to be reappointed as the auditor from the financial year next following such commencement, to the company or companies of which he or it is not willing to be reappointed as the auditor; and shall simultaneously intimate to the Registrar the names of the companies of which he or it is willing to be reappointed as the auditor and forward a copy of the intimation to each of companies referred to therein.

**Explanation I.**—For the purposes of sub-sections (IB) and (IC), “specified number” means—

- (a) in the case of a person or firm holding appointment as auditor of a number of companies which has a paid-up share capital of less than rupees twenty-five lakhs, twenty such companies;
- (b) in any other case, twenty companies, out of which not more than ten shall be companies each of which has a paid-up share capital of rupees twenty-five lakhs or more.

**Explanation II.**—In computing the specified number, the number of companies in respect of which or any part of which any person or firm has been appointed as an auditor, whether singly or in combination with any other person or firm, shall be taken into account’.

2. Thus, it would appear that a firm of auditors is not permitted to hold appointment as auditors of not more than 20 companies at any time construed as specified number of companies per partner of the firm. This limit also applies to individual auditors. In the case of persons who are partners of a firm or firms, the aggregate for such a partner should not exceed twenty companies.

3. Sub-section (3—5) of Section 619 of the Companies Act, 1956 further provide:—

619(3) “The Comptroller and Auditor-General of India shall have power—

- (a) to direct the manner in which the company’s accounts shall be audited by the auditor appointed in pursuance of sub-section (2) and to give such auditor instructions

in regard to any matter relating to the performance of his functions as such:

- (b) to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorise in this behalf; and for the purposes of such audit, to require information or additional information to be furnished to any person or persons so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General may, by general or special order, direct.

619(4) The Auditor aforesaid shall submit a copy of his audit report to the Comptroller and Auditor-General of India who shall have the right to comment upon, or supplement, the audit report in such manner as he may think fit.

619(5) Any such comments upon, or supplement to, the audit report shall be placed before the annual general meeting of the company at the same time and in the same manner as the audit report."

4. Thus, it will be observed that in the case of Government companies, audit is conducted by professional auditors appointed on the advice of the Comptroller and Auditor-General of India but the latter is authorised under Section 619(4) of the Companies Act, 1956 to conduct supplementary or test audit. He is also empowered to comment upon or supplement the report submitted by the professional auditors. The Act further empowers the Comptroller and Auditor-General to issue directives to the auditors in regard to the performance of their functions.

5. In respect of Air India, Indian Airlines, Oil and Natural Gas Commission, Damodar Valley Corporation, International Airport Authority of India and Delhi Transport Corporation, which are statutory organisations, the Comptroller and Auditor-General is the sole auditor, while in respect of the Central Warehousing Corporation and the Food Corporation of India, he has the right to conduct audit independently of the audit conducted by the professional auditors appointed under the Acts constituting these Corporations.

#### *Formation of Panel for Appointment of Auditors for Government Companies*

6. As has already been stated Section 619(2) of the Companies Act, 1956 provides that the auditor of a Government Company shall

be appointed or reappointed by the Central Government on the advice of the Comptroller and Auditor-General of India. The advice is forwarded by the C&AG's Office to the Ministry of Law, Justice and Company Affairs, Department of Company Affairs (Company Law Board) who issues the letter of appointment.

7. For the purpose of tendering advice for appointment of auditors, a panel of auditors is maintained by the C&AG. Firms of Chartered Accountants write to the C&AG's Office from time to time requesting for inclusion of their names in the panel for being considered for assignment of audit or Government Companies. On receipt of such request, the C&AG addresses them to furnish particulars in the following standard proforma:—

*Proforma*

- (a) Qualification and Membership number of the partners of the firms stating also whether they are F.C.A. or A.C.A. and the places where they are practising.

**NOTE:** Indicate also the percentage of interest of each of the partners in the firm.

- (b) Name of the paid Chartered Accountants, if any working in the firm together with his qualifications, and membership number stating also whether he is F.C.A. or A.C.A. and the place where he is working. The date from which he is in the employment of the firm may also be indicated.
- (c) Whether any partner or paid Chartered Accountant working in your firm is also a partner in any other firm or employed with any other firm, Company Industry Organisation etc., if so, the details thereof.

**NOTE:** Indicate the interest of your partner(s) in other firm/firms with which he is associated.

- (d) Whether any partner or paid Chartered Accountant working in your firm is practising independent of the partnership also, if so, the details thereof may be given.
- (e) Indicate number of Partners, Paid CAs and other staff engaged exclusively on audit work (i.e. excluding persons employed on work relating to taxation, management and consultancy etc.)
- (f) Address of the Branch, if any, and the name of the Chartered Accountants supervising the branch.

(g) Date of Registration of the firm as partnership. A copy of Form No. 27 filed before the Institute of Chartered Accountants on the formation of the partnership firm and a copy of the letter received from the Institute in reply may be furnished.

(h) Audit work with the firm.

(i) Total no. of limited companies and the total turnover. (attached a list).

(ii) Names of Banks, Insurance Companies and other financial institutions—together with their total turnover, indicating the information pertaining to branches separately.

(iii) Total no. of other institutions and the total turnover.

(iv) Past experience, if any, in regard to (ii) above with details thereof.

(i) Work with Government Companies:—

Particulars of assignments if any in respect of Government Companies including statutory audit, management services etc. held currently or accepted during the preceding three years and the remuneration therefor (information to be furnished separately for each Government Company).

(j) Any change in the information already sent to C&AG's office be intimated as and when it occurs.

8. The Committee have been informed by the C&AG that the particulars furnished by the firms are classified under one or more of the following categories:

(a) Partnership firms having at least one FCA in partnership;

(b) Partnership firms with at least one FCA in partnership, but where all the partners or all except one of the partners is practising independently;

(c) Partnership firms without even one FCA in partnership (Special panel in UP).

(d) Sole proprietary firms of FCA, (in Assam, J & K and Orissa).

(e) Proprietary firms (not covered in the above categories).

9. The number of applications received in C&AG's office from commencement together with the number of firms of Chartered Accountants in each of the categories is given below:—

Total number of applications received—6735	
(a) Partnership firms having at least one FCA in partnership	1158
(b) Partnership firms with at least one FCA in partnership, but where all the partners or all except one of the partners is practising independently	381
(c) Partnership firms without even one FCA in partnership	2
(d) Sole-proprietary firms of a FCA (In Assam, J & K and Orissa)	8
(e) Proprietary firms (not covered in the above categories)	4153
	<hr/>
TOTAL	5702 (a)
	<hr/>

Firms who have not responded to our references for over one year	515
Firms whose cases for registration are in process of finalisation	116
Firms with whom correspondence is in process	402
	<hr/>
	1033 (b)
	<hr/>

$$(a) + (b) = 6735$$

Firms given audit (mostly from a, a few from b and all from (d))	1017
Number of Govt. Companies/Corporations/other institutions for whom auditors are suggested by C & AG (both in Central and State sectors)	925

#### *Criteria for Selection of Names of Auditors for Audit of Government Companies*

10. The Committee have been informed by the C&AG's office that the selection of names of auditors from the panel for individual companies is based on the following considerations:—

- (i) the locale of the undertaking;
- (ii) the nature and the complexities of the company to be audited;
- (iii) the location of the Chartered Accountants firms;

- (iv) the fee for the audit;
- (v) the organisational strength of the firm of Chartered Accountants; and
- (vi) their record of work and experience.

Note:—Since in recent years, number of audits already allotted and the total fee therefor to particular firm are also given importance.

11. C&AG's office has further informed that ordinarily firm from the same locality, from the same station or from the same State where the public sector unit or branch of the unit is situated are selected. Where, however, the undertaking is unusually large (like Steel Authority of India Ltd., Indian Oil Corporation Ltd., etc.) or where a firm of the required strength or standing is not available, firms of all-India standing and proven capability are chosen, subject to the principle of rotation.

12. Further, partnership firms are preferred to proprietary firms for the reason that in the former category, there is both accumulation of experience and continuity of audit. This provision is, however, relaxed in the case of Orissa, Jammu & Kashmir, Assam, Meghalaya, Arunachal Pradesh, Nagaland, Manipur and Mizoram where proprietary firms are also considered as sufficient number of partnership firms are not available in these regions for entrustment of government audits. However, in partnership firms weightage is given to firms where at least two of the partners do not have independent practice, outside the partnership, or are not employed elsewhere. In areas where sufficient number of partnership firms of the first category, i.e., category 'a' mentioned above are not available or where the existing number of partnership firms of 'a' category have sufficient number of audit, firms belonging to the 'b' category are also chosen (this principle has been extended in Uttar Pradesh, Bihar, Nagpur area of Maharashtra etc.). For small audits up to Rs. 2,000, all-ACA partnership firms i.e., category 'c' mentioned above are also considered.

13. The Committee have been further informed that these 6735 applications received so far since the beginning are from a total of over 10,000 practising Chartered Accountants firms. The number of such applications in 1974 was about 1981 (vide reply to Lok Sabha U.S.Q. No. 1375 by Shri Jyotirmoy Bosu on 2-8-1974). C&AG's office has stated that "in such a situation, the selection of auditors for the Undertakings is becoming increasingly difficult".

14. The C&AG's office has informed that appointment of an auditor of a company is made for a year, only after the accounts of the previous year have been certified. There are many companies whose accounts are in arrears and as a result, appointment of auditor is made much later than the year in which it is due. A list of cases to illustrate the above, as furnished by the C&AG's office is given below:

Name of the Company	Year of appointment	Date on which service was tendered.
1. Coal India Limited	1975-76	30-1-1978
2. Western Coalfields, Ltd.	1975-76	28-4-1977
3. Burn Standard Co., Ltd.	1976-77	20-2-1978
4. Punjab Maize Products	1975-76 (New Company)	8-3-1979
5. N. T. C. (West Bengal, Assam, Orissa and Bihar Ltd.)	1975-76 1976-77	7-1-1978 15-12-1978
6. N. T. C. (D.P.R.) Ltd.	1976-77 1977-78	26-7-1978 18-4-1979

The C. & A.G.'s office has further stated:

"In entrusting audits to firms we take into account the size of the company, the complexity of its transactions, the number of firms of the required strength available for the audit in that region, the capability of the firm, the other audits with the firms and any other relevant factors."

14A. Based on the information furnished by the C&AG's office it is seen that during the last five years (1974—79) there were a number of audit firms each of which handed audit of 5 or more undertakings at different points of time. Some of them are given below:—

S. No.	Name of Auditor	Undertakings	Year
1	Price Water House Peat & Co.	(i) Hindustan Steel	1975-76 1976-77 1977-78
		(i) (b) Rourkela Ispat Ltd.	1977-78

1	2	3	4
		(ii) Indian Oil Corpn	1974-75 1978-79
		(iii) IISCO	1976-77
		(iv) Hindustan Fertilizer	1977-78 1978-79
		(v) National Insurance Co. (Statutory)	1974- 1975
		National Insurance Co. (Branch)	1975*
2.	Ray & Ray, Calcutta	(i) Eastern Coalfields, Ltd.	1975-76
		(ii) SAIL	1978-79
		(iii) IOC	1975-76 1976-77 1977-78
		(iv) HEC	1978-79
		(v) Coburn Properties Ltd.	1975-76
		(vi) H. S. L.	1974-75
		(vii) National Insurance Co. (Statutory)	1974* 1975
		National Insurance (Branch)	1975-76
3.	Fraser & Ross	(i) BEML	1976-77 1977-78 1978-79
		(ii) Bharat Electronics	1975-76 1976-77 1977-78
		(iii) H. A. L.	1974-75 1978-79
		(iv) Kudremukh Iron Ore Ltd.	1976-77 1977-78
		(v) Cochin Refinery	1977-78 1978-79
		(vi) MMTC	1974-75
		(vii) United Indian-Insurance* Co. (Statutory)	1974-75 1975-76
		Do. Branch	1975-76
4.	V. Shankar Aiyar & Co. Bombay/Delhi.	( ) Bharat Petroleum Corpn.	1976-77 1977-78 1978-79

\*All the Insurance close their accounts on 31st December each year.



1	2	3	4
		(ii) Hindustan Zinc Ltd.	1975-76 1976-77 1977-78
		(iii) IDPL . . . . .	1978-79
		(iv) I. T. D. C. . . . .	1974-75
		(v) BHEL . . . . .	1975-76 1976-77 1977-78
		(vi) New India Assurance Co.	1976-77 1977-78 1978-79
		(vii) Oriental Fire and General Insurance Co. (Statutory)	1974-75 1975-76
		Do. (Branch)	1975-76
5. S. R. Bhatliboi & Co. Calcutta.		(i) Central Coalfields	1977-78 1978-79
		(ii) Hindustan Steel Ltd.	1974-75 1975-76 1976-77
		(iii) IOC . . . . .	1978-79
		(iv) Hindustan Steel Works Construction Ltd.	1976-77 1977-78 1978-79
		(v) Bongaigoan Refinery and Petrochemicals, Ltd.	1974-75 1975-76 1976-77
		(vi) National Insurance Co. Ltd. (Statutory)	1976-77 1977-78
		Do. (Branch)	1974-75 1975-76 1976-77 1977-78
6. Brahamayya & Co. Madras		(i) MMTC . . . . .	1975-76 1976-77 1977-78
		(ii) Madras Fertilizers	1974-75 1978-79
		(iii) United India Fire & General Insurance Co. Ltd. (Statutory)	1974-75 1975-76
		Do. (Branch)	1975-76
Brahamayya & Co. Hyderabad.		National Mineral Dev. Corpn. Hyderabad	1975-76 1976-77 1977-78

1	2	3	4
Brahamayya & Co. Viskhapatnam.	(i) Hindustan Shipyard Ltd.	1974-75	
	(ii) BHPV	1975-76 1976-77 1977-78	
	New India Assurance Co.	1976-77 1977-78 1978-79	
Brahamayya & Co. Bangalore.	New India Assurance Co.	1976-77 1977-78 1978-79	
	7. Ford Rhodes & Parks Bombay.	(i) Bhilai Ispat Ltd. (Bhilai)	1976-77 1977-78
	(ii) *Fertiliser Planning Development of India Ltd.	1978-79	
	(iii) Hindustan Steel Ltd.	1976-77 1977-78 1978-79	
	(iv) *Rashtriya Chemicals & Fertilizers Ltd., Bombay.	1978-79	
	(v) SCI	1974-75	
	(vi) New India Assurance Co.	1976-77 1977-78 1978-79	
	(vii) United India Insurance Co. Ltd. (Statutory)	1974-75 1975-76	
	Do. (Branch)	1975-76	
	8. K. N. Gutgutia & Co., Calcutta.	(i) Bharat Coking Coal Ltd.	1977-78
		(ii) Central Coal Fields	1975-76 1976-77 1977-78
(iii) Hindustan Copper		1978-79	
(iv) Balmer Lawrie & Co.		1974-75 1975-76	
(v) SAIL		1978-79	
(vi) National Insurance Co., Ltd. (Branch)		1976 1977	
(vii) United India Insurance Co. (Branch)		1974	

\*These companies are as a result of reorganisation of Fertilizer Corporation of India.

1	2	3	4
9. B. C. Kundu & Co. Calcutta.	(i) Durgapur Misra Ispat		1977-78
	(ii) Hindustan Steel Ltd.		1977-78
	(iii) Hindustan Paper Ltd.		1976-77 1977-78 1978-79
	(iv) SAIL		1978-79
	(v) National Insurance Co. Ltd. (Branch)		1974 1976 1977
	(vi) National Mineral Dev. Corpn.		1976-77 1977-78 1978-79
10. C. C. Choksi & Co. Bombay.	(i) Hindustan Petroleum Corpn.		1975-76 1976-77 1977-78
	(ii) Shipping Corpn. of India		1978-79
	(iii) BHEL (br.)		1974-75
	(iv) SAIL		1978-79
	(v) United India Insurance Co., Branch.		1974-75
C. C. Choksi & Co. Ahmedabad.	(vi) Indian Petrochemicals Corpn. Ltd.		1975-76 1976-77 1977-78
11. A. S. Gupta & Co. Calcutta/Ranchi.	(ia) Hindustan Steel Ltd.		1974-75 1975-76 1976-77
	(ib) Durgapur Misra Ispat		1976-77
	(ii) Modern Bakeries (Br.)		1977-78
	(iii) Pyrites Phosphates and Chemicals Ltd.		1974-75
	(iv) Bharat Coking Coal		1977-78
12. K. K. Mankeshwar & Co. Nagpur/Raipur	(i) Mineral Exploration Corpn. Nagpur.		1975-76 1976-77 1977-78
	(ii) NTC (North Maharashtra)		1974-75 1975-76 1976-77
	(iii) Western Coalfields		1974-75 1975-76

1	2	3	4
		(iv) Manganese Ore Ltd.	1975-76 1976-77 1977-78
		(v) Richardson Cruddas .	1974-75 1975-76
		(vi) Oriental Fire and General Insurance Co. (Branch)	1974-75 1975-76 1976-77
13.	N. M. Raji & Co. Bombay	(i) Bharat Petroleum Co.	1976-77 1977-78 1978-79
		(ii) Fertilizer Corpn. of India	1974-75
		(iii) NTC (North Maharashtra)	1974-75 1975-76 1976-77
		(iv) Western Coalfields .	1975-76 1976-77
		(v) BHEL .	1974-75
		(vi) New India Assurance Co. (Branch)	1975-76 1976-77
14.	Suri & Co. Madras	(i) HPF, Ootacamund	1976-77 1977-78 1978-79
		(ii) IOC	1974-75 1975-76 1976-77
		(iii) Neyveli Lignite Corpn. Ltd.	1977-78 1978-79
		(iv) FACT . . . . .	1974-75 1975-76
		(v) NTC (T. N. I Pondicherry)	1975-76 1976-77
		(vi) United India Insurance Co. Ltd. (Statutory)	1974-75 1975-76 1976-77
		Do. (branch)	1975-76
15.	Gupta, Chaudhri & Ghose, Calcutta.	(f) JCI . . . . .	1977-78 1978-79
		(ii) Bokaro Steel . . . . .	1975-76 1976-77 1977-78

1	2	3	4
		(iii) HSL . . . . .	1974-75 1975-76 1976-77
		(iv) CIWTC . . . . .	1978-79
		(v) National Insurance Co. (Statutory)	1978-79
16. Maheswar Gadre & Co. Jabalpur/Nagpur.		(i) NTC (North Maharashtra) . . . . .	1974-75 1975-76 1976-77
		(ii) Mineral Exploration Corpn. . . . .	1974-75 1978-79
		(iii) Coal India . . . . .	1974-75 1975-76
		(iv) Western Coalfields . . . . .	1975-76 1976-77
		(v) United India Insurance Co.	1978-79
17. P. R. Mehra & Co.		(i) Cement Corpn. of India . . . . .	1977-78 1978-79
		(ii) MMTC . . . . .	1975-76 1976-77 1977-78
		(iii) ITDC . . . . .	1978-79
		(iv) Bharat Aluminium & Co. Ltd. . . . .	1974-75 1975-76 1976-77
		(v) National Insurance Co. (Branch)	1975-76 1976-77 1977-78
		(vi) Oriental Fire and General Insurance Co. Branch.	1974-75
18. P. K. Mitra & Co. Calcutta		(i) Burn Standard Co. . . . .	1976-77
		(ii) Central Coalfields . . . . .	1975-76 1976-77
		(iii) HEC . . . . .	1975-76 1976-77 1977-78
		(iv) Smith stanistreet Pharmaceuticals Ltd.	1978-79
		(v) National Insurance Co. (Statutory)	1976-77 1977-78 1978-79

1	2	3	4
		(vi) National Insurance Co. Branch	1974-75 1976-77 1977-78 1978-79
19.	Anil M. Parikh & Co. Bombay.	(i) ITDC, New Delhi	1975-76 1976-77 1977-78
		(ii) National Small Industries Corpn. Ltd.	1978-79
		(iii) Film Finance Corpn.	1975-76
		(iv) Air-India Charters, Ltd.	1974-75
		(v) United India Fire and General Insurance Co.	1975-76 1976-77 1977-78

The \*following Table shows some cases of firms of Chartered Accountants, who have more than 3 audits of Central Government Companies as of now, as furnished by the Office of the C. & A. G.

Name of the firm	Name of the Company	Year	Remarks
(1)	(2)	(3)	(4)
M/s. S. R. Batliboi & Co. CAs, Calcutta.	National Insurance Co. Ltd.	1978	(Re-appointment 3rd term).
	Hindustan Steel Works Cons- truction Ltd.	1978-79	(Re-appointment 2nd term).
	Central Coalfields Ltd.	1978-79	(Re-appointment 2nd term).
	Indian Oil Co. Ltd.	1978-79	1st term.
M/s. Fraser and Rose CAs., Madras.	Bharat Earth Movers Ltd.	1978-79	3rd term.

\*During factual verification, Audit has informed as follows :

"In taking a view on the number of audits which a firm of auditors has, it is to be seen whether the firm are handling accounts which are current or accounts which are in arrears. When accounts fall into arrears the auditor is not to be blamed, unless of course the delay is caused by reasons attributable to him. Besides, in each of the cases mentioned in the statement there are reasons why a particular firm was chosen for a particular assignment."

1	2	3	4
	Kudremukh Iron Ore Co. Ltd.	1978-79	3rd term.
	Cochin Refinery Ltd.	1978-79	2nd term.
	H. A. L.	1978-79	1st term.
M/s. Shantamurthy & Co., CAs., Bangalore.	B.H.E.L. (Branch audit)	1978-79	3rd term.
	National Insurance Company Ltd.	1978	2nd term.
	United Fire & Gen. Insurance Co. Ltd.	1978	1st term.
	H. M. T. Ltd.	1978-79	1st term.
M/s. Maheshwar Gadre & Co., CAs., Nagpur.	C. M. A.	1975-76	3rd term.
	Western Coalfields Ltd.	1976-77	2nd term.
	United India Fire & Gen. Insurance Co., Ltd.	1978	1st term.
	Mineral Explorations Corporation Ltd.	1978-79	1st term.
M/s. B. C. Kundu & Co., Calcutta.	N. M. D. C.	1978-79	3rd term.
	Hindustan Paper Corpn. Ltd.	1978-79	2nd term.
	S. A. I. L.	1978-79	2nd term.
P. K. Mitra & Co.	National Insurance Co. Ltd.	1978	3rd term.
	Burn Standard Co. Ltd.	1976-77	1st term 4 months.
	Smith Stanistreet Pharmaceuticals, Ltd.	1978-79	1st term.
Lovelock & Lewes Calcutta	Oriental Fire and Gen. Insurance Co. Ltd.	1977	2nd term.
	Coal Mines Authority Ltd.	1975-76	3rd term.
	S. A. I. L.	1978-79	2nd term.

(1)	(2)	(3)	(4)
Price Waterhouse & Co., Calcutta.	IISCO Ltd. . . . .	1977-78	2nd term.
	Hindustan Fertilizers Corpn. Ltd. . . . .	1978-79	2nd term.
	I. O. C. . . . .	1978-79	1st term.
Ray and Ray, Calcutta .	Eastern Coalfields Ltd. . . . .	1975-76	1st term.
	H. E. C. Ltd. . . . .	1978-79	1st term.
	S. A. I. L. . . . .	1978-79	1st term.
Lodha & Co., Calcutta .	Bridge & Roof (I) Ltd. . . . .	1977-78	3rd term.
	New India Assurance Co. Ltd. . . . .	1978	3rd term.
	I. O. C. . . . .	1978-79	1st term.
M. C. Bhandari & Co., Calcutta.	Biecco Lawrie Ltd. . . . .	1978-79	3rd term.
	Central Coalfields . . . . .	1978-79	2nd term.
	H. E. C. . . . .	1978-79	1st term.
V. Sankar Aiyar & Co., Bombay.	Bharat Petroleum Co, Ltd. Ltd. . . . .	1978-79	3rd term.
	New India Assurance Co. Ltd. . . . .	1978	3rd term.
	I. D. P. L. . . . .	1978-79	1st term.
Sorab S. Engineer & Co., Bombay.	C.M.A. . . . .	1975-76	3rd term.
	Mazagon Dock Ltd. . . . .	1978-79	3rd term.
	Bharat Petroleum Ltd. . . . .	1978-79	3rd term.
Jain Sahasbra Budh & Salve, Nagpur.	N.M.D.C. Ltd. . . . .	1978-79	3rd term.
	Western Coalfields, Ltd. . . . .	1976-77	2nd term.
	Oriental Fire & Gen. Insu- rance Co. . . . .	1977	2nd term.
Rao and Swami, Bangalore	H.M.T. . . . .	1978-79	3rd term.
	United India Fire and Gen. Insurance Co., Ltd. . . . .	1978	3rd term.
	Bharat Gold Mines . . . . .	1978-79	1st term.
Watrier and Warier Calicut	Oriental Fire & Gen. In- surance Co. . . . .	1978	1st term.
	N. T. C. (APK). . . . .	1977-78	1st term.
	United India Fire & Gen. Insurance Co., Ltd. . . . .	1978	1st term.



*Report of the High-powered Expert Committee on Companies and MRTP Acts (Sachar Committee)*

15. In its Report, the High-Powered Expert Committee on Companies and MRTP Acts (Known as Sachar Committee) has stated: *vide* P. 267 as follows:—

“We considered the question of audit of Government companies with reference to the provisions contained in section 619 of the Companies Act and the complaints of delay in the appointment of auditors brought to the notice by certain bodies. We suggest that a panel of Chartered Accountants may be maintained by the Comptroller and Auditor General of India from which the Government companies should be free to appoint auditors subject to such conditions with respect to the period etc. which the Comptroller and Auditor General of India may like to impose. In order to ensure that no Chartered Accountant selected by Government company as its auditors has large number of such auditors on his hand, we would recommend the retention of the existing statutory restrictions on the number of audits which a firm of chartered accountants can take at a time and also the principle of rotation of auditors after a specified period as per guideline laid down by the Comptroller and Auditor General and also would be subject to such further restrictions on the number of Government companies whose audit may be taken by a firm of chartered accountants as the Comptroller and Auditor General may lay down in the guidelines. We are also of the view that it would not be advisable to disturb the existing scheme in sub-sections (4) and (5) of section 619 as it is necessary and desirable for the annual general meeting of a Government company to have before it, along with the annual accounts and the statutory audit report, the Comptroller and Auditor General's Supplementary report of comments thereon. At the same time, with a view to avoiding any possible delay on the part of Government companies in the holding of their annual general meetings on account only of the delay in the receipt of the Comptroller and Auditor General's Supplementary audit or comments, the latter should be requested to make avoidable his report or comments within a given time-frame to enable the companies to conform to the time-limit of six months permitted under the law.”

### System of Rotation

16. The C&AG's office has informed the Committee that under the system of rotation of auditors, generally an auditor is retained for three years for the audit of a particular undertaking or concern subject to his performance being satisfactory.

Further, all appointments for first year are done with the specific approval of the C&AG. When the auditor is to continue for the second and third years, the renewal appointments are, under delegation, approved by the Additional Deputy Comptroller and Auditor General (Commercial). Similarly, when a firm of auditors is to be replaced prior to its completing a period of three years then also cases are put up to the Comptroller and Auditor General.

### Non-appointment of Auditors

17. It is also observed from the statement furnished by the C&AG's office that there are a few Companies for which appointments of auditors have not been made for 1978-79 or for earlier years either because the Company has not initiated or the accounts are in arrears etc. They are listed below:—

S. No.	Name of the Company	Appointment	Remarks
(1)	(2)	(3)	(4)
1.	DSIDC	1978-79	Not yet initiated by the Company.
2.	Eastern Coalfields	1976-77 1977-78 1978-79	Accounts are in arrears.
3.	Central Mine Planning and Design Institute Ltd.	1976-77 1977-78 1978-79	Accounts are in arrears.
4.	Bridge and Roof Co. (India) Ltd.	1978-79	Not yet initiated by the Company.
5.	Braithwaite & Co, Ltd.	1978-79	Not yet initiated by the Company.
6.	Central Fisheries Corpn.	1978-79	Accounts are in arrears.
7.	Bharat Coking Coal Ltd.	1978-79	Accounts are in arrears.
8.	Modern Bakeries (India) Ltd.	1978-79	In process.
9.	NTC (West Bengal, Assam, Bihar and Orissa).	1977-78 1978-79	Not yet initiated by the Company as the accounts are in arrears.

(1)	(2)	(3)	(4)
10. NTC (MTP) Ltd.	.	1978-79	Case received recently and is in process.
11. NTC (U) Ltd.	.	1978-79	Case under process.
12. State Farms Corporation India Ltd.	.	1978-79	Case under process.
13. Western Coalfields, Ltd.	.	1977-78 1978-79	Not yet initiated by the Company as the accounts are in arrears.
14. Telecommunications Consultants (India) Ltd.	.	1978-79	Incorporated on 10-3-78. Reference awaited.
15. Semi Conductor Complex Private Ltd.	.	1978-79	Incorporated on 12-1-1978. Clarification awaited from the Company.
16. Eastern Coalfields Ltd.	.	1976-77 1977-78 1978-79	Advice under process.
17. Andaman and Nicobar Islands Forest and Plantation Dev. Corpn. Ltd.	.	1977-78 1978-79	Not initiated.
18. Indian Iron and Steel Ltd.	.	1978-79	Not initiated.
19. Coal India Ltd.	.	1976-77 1977-78 1978-79	Accounts are in arrears.
20. Burn Standard Co.	.	1977-78 1978-79	Accounts are in arrears.
21. Export Credit and Guaranteer Corpn.	.	1978-79	Not yet initiated by the Company as its financial year is ending September, 1979.
22. Hindustan Salts Ltd.	.	1978-79	Not yet initiated by the Company as its financial year is ending December, 1979.
23. Cotton Corpn. of India Ltd.	.	1978-79	Not yet initiated by the Company. Financial year is ending 31st August, 1979.
24. Punjab Maize Products Co., Chandigarh.	.	1976-77 1977-78 1978-79	Not yet initiated by the Company as the accounts are in arrears.
25. NTC (AP, Karnataka, Kerala and Mahe).	.	1978-79	Not yet initiated by the Company as the account are in arrears.

18. It will be observed from the above statement that auditors have not been appointed for 1978-79 or for some earlier years in the case of :—

- (i) 10 companies as the accounts are in arrears, of which 4 undertakings viz. Eastern Coalfields, Central Maize Products and Coal India have accounts in arrears for the last three financial years and 3 Undertakings, viz., NTC (West Bengal, Assam, Bihar, Orissa), Western Coalfields and Burn Standard Company have accounts in arrears for the last two financial years and 3 Undertakings viz. Central Coalfields, BCCH and NTC (AP, Kerala, Karnataka and Mahe) have accounts in arrears for the last one year;
- (ii) in the case of 6 Companies, action has not been initiated by them; and
- (iii) in 4 cases, the appointment of auditors is in process.

19. The Committee note that under the provisions of the Companies Act, 1956, in the case of Government Companies, audit is conducted by professional auditors appointed by the Company Law Board on the advice of the Comptroller and Auditor-General of India. The C&AG is also authorised to conduct supplementary or test audit. C&AG has also the power to direct the manner in which the company's accounts shall be audited by the auditor appointed and to give such auditor instructions in regard to matters relating to the performance of his functions as such. . . . .

20. The Committee note in this connection, a recommendation made by the Sachar Committee suggesting that whereas the panels of auditors should be maintained by the C & A G. appointment of auditors from out of these panels may be made by the public sector undertakings themselves. The Committee are unable to understand why this freedom of selection of auditors should be in the hands of the Companies themselves. The Committee consider that auditing is not a routine requirement. The public whose money has been invested in these Companies has to be satisfied of the proper management of the finances of the Company. This is why the Companies Act has very rightly assigned the responsibility of proper conduct of audit of Government Companies to the C&AG and has granted him the necessary powers. The Committee are of the view that it is totally undesirable that a Government Company should have the choice of the auditor (though from a panel

maintained by the C. & A.G.) and there is no warrant to change or modify the existing wholesome provision in the Companies Act.

21. The Committee note that out of a total of about 10,000 practising Chartered Accountants, 6,735 have applied for registration in C & A.G.'s Office for being appointed as auditors of Government Companies. Thus, the field of choice for choosing auditors for Government Companies by the C. & A.G. on whose advice the Company Law Board appoints is, indeed, very wide.

22. Admittedly, the selection of auditors for Government Companies, in which huge public funds have been invested will have to be done with great care and circumspection.

23. The C. & A.G.'s Office has laid down certain criteria for selection of auditors. Partnership firms are preferred to proprietary firms (except in States where such firms are not in sufficient number) and even among the partnership firms weightage is given to firms where at least two of the partners do not have independent practice outside the partnership or are not employed elsewhere. The other considerations are based on location of the undertakings and the auditor firm, the nature and complexities of the Company to be audited, the fee the audit the organisational strength of the auditor firm, its record of work and experience etc.

24. While the Committee are in general agreement with the above criteria laid down by the C&AG, they would like to point out that considering the large number of practising Chartered Accountants, the policy should be to allot audit of the public sector companies to firms which have not so far been assigned such audit provided they satisfy the criteria.

25. The Committee understand that there have been a number of cases where audit of more than two companies has been entrusted to an auditor at the same time. The Committee are unable to appreciate the logic or necessity of an auditor firm being entrusted the audit of more than two Government Companies at a time. The Committee consider that undertaking of audit of more than two Government companies at a time could lead to concentration and casualness in audit which is bound to result in deterioration in quality. The Committee, therefore, strongly recommend that not more than two Government companies should be assigned to a firm of auditors at the same time as statutory auditors or Branch auditors. They also recommend that for Branch audit, only the

up and coming audit firms should be given preference. The Committee do not foresee any difficulty in the adoption of this principle as there is no dearth of auditors satisfying the criteria laid down by the C & AG to undertake Government Company audit.

26. At present, a firm appointed for auditing a Government Company is generally re-appointed for two more years. The Committee suggest that no auditor should be considered for re-appointment for more than one year.

27. The Committee recommend that when the question of re-appointment of a firm comes up, very strict scrutiny of its performance during the previous year must be made and the recommendation for its re-appointment should be done, with the specific approval of the C & AG of India.

28. The Committee also observe that in the case of 22 Government Companies auditors are yet to be appointed for 1978-79 or for earlier years. Of these 22 Companies, Accounts for the year 1977-78 or for earlier years of as many as 7 Companies are in arrears resulting in non-appointment of auditors. The Committee regret to note that the accounts of such undertakings like Eastern Coalfields and Coal India are in arrears for the past three financial years. The Committee would like to be informed of the reasons for accounts of these 7 Companies running into arrears and the steps taken to ensure that such a situation does not arise in future.

#### *Performance of Statutory Auditors*

29. From a note of the C & A.G. appended to the reply of the Ministry of Shipping and Transport to the recommendations of the Committee at Sl. No. 59, paragraph 2.113 of their Ninth Report on "CIWTC—Mismanagement in Organisation, Administration and Financial Matters", it is seen that there are three distinct phases in regard to reporting of audit, of Government Companies. These are:

- "(i) A review of the balance-sheet and profit and loss account as certified by the professional auditors, appointed by the Government on the advice of the C.A.G., with a view to seeing whether there is anything to comment upon or supplement the points made in the report of the Statutory Auditors. This is undertaken whenever a company is selected for such a review.

- (ii) **Efficiency-cum-propriety audit, the results of which are reflected in the form of audit paragraphs/reviews included in the Reports of the C.A.G. submitted to the President under Article 151 of the Constitution. This is done after the points noticed during audit inspections are examined, the comments of the Management and Ministry concerned obtained and any further information collected.**
- (iii) In the wake of the recommendations of the Administrative Reforms Commission, the Audit Board was constituted with effect from 1st April 1969 under the aegis of the C.A.G. for undertaking appraisal of the working of public sector undertakings selected for such appraisal from time to time.

It has been further stated:—

“In regard to the first item, what the Statutory Auditors certify is that the accounts give a true and fair view of the financial working of the organisation. Subject to any remarks from the accounting point of view that the Statutory Auditors may offer, C&AG’s comments given under Section 9/619A(4) of the Companies Act are with reference to any additional points or comments that Audit may have over and above those of the Statutory Auditors, or relate to the qualifications on the Statutory Auditor’s Reports”.

30. It is seen from a perusal of the Annual Report of a few companies that the C & A.G. has given comments on the Accounts along with the explanation of the Company thereon. The comments made on some of the Company Auditor’s Reports are as follows:—

*Hindustan Petroleum Company Ltd. (1977-78)*

“Schedule 19 Notes”.

1. Note 10

Credit taken for processing of LSHS at the same rate as in the case of processing the incremental crude amounted to

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\*This is only on illustrative list

Rs. 27,87,418 for 1977-78 (Rs. 54,26,649 for 1975-76). Government's approval to this rate has not been sought for.

The impact of the commissioning of the new VPS/Cat Debot facilities in January, 1978 for improving the product yield on the standard pattern of production assumed by the Oil Prices Committee for fixing the retention prices of the Company's products and return on capital, etc. has not been ascertained and disclosed."

*National Small Industries Corporation (1977-78)*

Balance Sheet

Assets

....

Fixed Assets (Schedule IV) Rs. 2,06,16,348

P.D.T.C. Howrah—Land (Free hold)—Rs. 5,88,599

As a result of double accountal, the value of land and Capital Reserve (Schedule I) stand overstated by Rs. 1.99 lakhs.

Current Assets Loans and Advances (Schedule V)—  
Rs. 31,40,75,642.

A. Current Assets

Stores in hand—Rs. 60,43,908

- (1) This includes value of loose tools which should have been shown separately. The value of loose tools in respect of 2 units noticed in audit amounted to Rs. 15.28 lakhs.
- (2) No depreciation on loose tools, valued at Rs. 8.82 lakhs, in use at PDTC Okhla, has charged during the year.
- (3) Work-in-process at cost—Rs. 28,00,5090.

This includes Rs. 1.09 lakhs being the value by completed jobs which have not been accepted by the customers for several years.

(4) Sundry Debtors—Rs. 6,42,81,498

This excludes debts amounting to Rs. 0.78 lakh which were written off prematurely.



(5) Cash and Bank Balances—Rs. 3,23,57,433

Cheques in hand—Rs. 14,50,433

- (i) Cheques and postal orders aggregating Rs. 2.70 lakhs received from customers before 31st March, 1978 were not brought to account.
- (ii) This includes cheques amounting to Rs. 0.26 lakhs deposited with the Banks for over 6 months but not credited by the Banks.

### B. Loans and Advances

Advances recoverable in cash or in kind or for value to be received Rs. 1,28,48,404.

This includes an advance of Rs. 22.95 lakhs for the supply of a machine which had been shipped by the supplier in Feb. 1978 and should, therefore, have been classified as 'Machinery-in-transit'.

Schedule VII—Notes to Balance Sheet, Profit and Loss Accounts and Income and Expenditure Accounts.

### Note No. 2

This does not include capital commitment amounting to Rs. 8.01 lakhs in respect of PDTC Okhla.

### General Trading and Profit and Loss Account

- (i) Salaries and Allowances—Rs. 1,44,94,038
- (ii) Leave Salary, Pension and Provident Fund contributions—Rs. 12,26,110

No provision has been made for Rs. 0.91 lakh on account of additional dearness allowance payable for the period from Jan. to March 1978 and for provident fund contribution thereon. Maintenance of office building—Rs. 1,37,457. This includes Rs. 0.9 lakh in respect of PDTC Howrah which pertain to 1978-79.

### Hindustan Latex Limited (1977-78)

Profit & Loss Account—

Provision for Taxation.

Though the tax liability on the current year's income is estimated to be Rs. 2,35,275, no provision has been made for tax for the year on the ground that the provision already existing as on 31st March, 1977 was adequate to cover the current year's tax liability also. According to the instructions contained in Part II of Schedule VI of the Companies Act, the charge of the income tax relating to the period of the account should have been disclosed in a note to be appended to the Profit & Loss Account."

31. Committee find from a perusal of the comments of the C&AG of India on some of the statutory auditors' Reports of Government Companies that even within the limited scope of statutory audit, there have been cases where the company auditors have failed to bring to light the defects in the accounts and later had to be pointed out by the C&AG in his comments. The Committee have no doubt that if the auditors' performance were to be subjected to a detailed scrutiny by the C&AG of India many cases would be found where irregularities would have been detected by a diligent auditor but had gone unnoticed by the statutory auditor.

32. The Committee feel that the statutory auditor's responsibility needs to be more clearly identified with a view to not only ensuring a thorough scrutiny of the accounts of the Company but also to fix responsibility on the statutory auditor for defects in the accounts which could have been detected with due care and caution by the auditor but had not been so noticed by him.

33. Considering all these factors, the Committee feel that there is an urgent need for review of the working and performance of the statutory auditors.

NEW DELHI;

April 29, 1979.

Vaisakha 9, 1901.

JYOTIRMOY BOSU,

Chairman,

Committee on Public Undertakings.

## APPENDIX

### Summary of Conclusions/Recommendations

S. No.	Reference to Paragraph No. in the Report	Summary of Conclusions/ Recommendations
1	2	3
1	19-20	<p>The Committee note that under the provisions of the Companies Act, 1956, in the case of Government Companies, audit is conducted by professional auditors appointed by the Company Law Board on the advice of the Comptroller and Auditor-General of India. The C&amp;AG is also authorised to conduct supplementary or test audit. C&amp;AG has also the power to direct the manner in which the company's accounts shall be audited by the auditor appointed and to give such auditor instructions in regard to matters relating to the performance of his functions as such.</p> <p>The Committee note in this connection, a recommendation made by the Sachar Committee suggesting that whereas the panels of auditors should be maintain by the C&amp;A.G. appointment auditors from out of these panels may be made by the public sector undertakings themselves. The Committee are, unable to understand why this freedom of selection of auditors should be in the hands of the Companies themselves. The Committee consider that auditing is not a routine requirement. The public whose money has been invested in these Companies has to be satisfied of the proper management of the finances of the Company. This is why the Companies Act has very rightly assigned the responsibility of proper conduct of audit of Government Companies to the C&amp;A.G. and has granted him the necessary</p>

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powers. The Committee are of the view that it is totally undesirable that a Government Company should have the choice of the auditor (though from a panel maintained by the C. & A.G.) and there is no warrant to change or modify the existing wholesome provision in the Companies Act.

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The Committee note that out of a total of about 10,000 practising Chartered Accountants, 6,735 have applied for registration in C&AG's Office for being appointed as auditors of Government Companies. Thus, the field of choice for choosing auditors for Government Companies by the C&AG's on whose advice the Company Law Board appoints is, indeed, very wide.

Admittedly, the selection of auditors for Government Companies, in which huge public funds have been invested will have to be done with great care and circumspection.

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22-24

The C. & A.G.'s Office has laid down certain criteria for selection of auditors. Partnership firms are preferred to proprietary firms (except in States where such firms are not sufficient number) and even among the partnership firms weightage is given to firms where at least two of the partners do not have independent practice outside the partnership or are not employed elsewhere. The other considerations are based on location of the undertakings and the auditor firm, the nature and complexities of the Company to be audited, the fee for the audit, the organisational strength of the auditor firm, its record of work and experience etc.

While the Committee are in general agreement with the above criteria laid down by the C&AG, they would like to point out that considering the large number of practising Chartered Accountants the policy should be to allot audit of the public

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sector companies to firms which have not so far been assigned such auditor provided they satisfy the criteria.

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The Committee understand that there have been a number of cases where audit of more than two companies has been entrusted to an auditor at the same time. The Committee are unable to appreciate the logic or necessity of an auditor firm being entrusted the audit of more than two Government companies at a time. The Committee consider that undertaking of audit of more than two Government companies at a time could lead to concentration and casualness in audit which is bound to result in deterioration in quality. The Committee, therefore, strongly recommend that not more than two Government companies should be assigned to a firm of auditor<sub>s</sub> at the same time as statutory auditors or Branch auditors. They also recommend that for Branch audit, only the up and coming audit firms should be given preference. The Committee do not foresee any difficulty in the adoption of this principle as there is no dearth of auditors satisfying the criteria laid down by the C&AG to undertake Government Company audit.

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26&amp;27

At present, a firm appointed for auditing a Government Company is generally re-appointed for two more years. The Committee suggest that no auditor should be considered for re-appointment for more than one year.

The Committee recommend that when the question of re-appointment of a firm comes up, very strict scrutiny of its performance during the previous year must be made and the recommendation for its re-appointment should be done with the specific approval of the C&AG of India.

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The Committee also observe that in the case of 22 Government Companies auditors are yet to

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be appointed for 1978-79 or for earlier years. Of these 22 Companies, accounts for the year 1977-78 or for earlier years of as many as 7 Companies are in arrears resulting in non-appointment of auditors. The Committee regret to note that the accounts of such undertakings like Eastern Coalfields and Coal India are in arrears for the past three financial years. The Committee would like to be informed of the reasons for accounts of these 7 Companies running into arrears, and the steps taken to ensure that such a situation does not arise in future.

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The Committee find from a perusal of the comments of the C&AG of India on some of the statutory auditors' Reports of Government Companies that even within the limited scope of statutory audit, there have been cases where the company auditors have failed to bring to light the defects in the accounts and later had to be pointed out by the C&AG in his comments. The Committee have no doubt that if the auditors' performance were to be subjected to a detailed scrutiny by the C&AG of India many cases would be found where irregularities would have been detected by a diligent auditor but had gone unnoticed by the statutory auditor.

The Committee feel that the statutory auditor's responsibility needs to be more clearly identified with a view to not only ensuring a thorough scrutiny of the accounts of the Company but also to fix responsibility on the statutory auditor for defects in the accounts which could have been detected with due care and caution by the auditor but had not been so noticed by him.

Considering all these factors, the Committee feel that there is an urgent need for review of the working and performance of the statutory auditors.