



Finance (BPE) Department.
Fort St. George, Secretariat,
Chennai-600 009.

Govt. Lr. No.18062/Fin(BPE)/2012 dt.9.05.2012

From
Thiru S.Krishnan, I.A.S.,
Secretary to Government (Expenditure)

To
The Chief Executive Officers of State Public Sector
Undertakings / Statutory Boards.

Sir / Madam,

Sub : SPSUs/ Statutory Boards- Appointment of Internal Auditors and role of Internal Audit- Consolidation of earlier instructions and revised guidelines-communicated -regarding

Ref : 1) Govt Lr.No.173(A)/Fin(BPE)/84-7 dt.5-5-1987
2) Lr.No.62/DD(K)/Fin(BPE)/92 dt.13.5.1992
3) G.O.Ms.No.705 Fin(BPE)Dept dt.3.9.1992
4) G.O.Ms.No.137 Fin(BPE)Dept dt.17.4.2002
5) Lr.No.35/JD(H)/2004,Fin(BPE)Dept dt.15.9.2004
6) Lr.No.63819/Fin(BPE)Dept/2005 dt.7.10.2005

I am to state that as per Section 292A of Companies Act 1956, Every public company having paid up capital of not less than five crores of rupees shall constitute a Audit Committee which shall consist of not less than three directors other than managing or whole-time directors. In respect of the Companies whose paid up capital is less than Rs.5 crores, even though there is no mandatory provision in the Companies Act, this Govt. has issued orders for constitution of such Audit Committee and prescribed a format for undertaking Internal Audit as per the instructions available in the Government order 4th cited.

2) In this connection, I am to point out that neither the said provisions of the Companies Act nor the instructions of the Government are followed in pith and substance by State Public Sector Undertakings which does not result in getting the results as expected.

3) In this connection, I am to reiterate the provisions of the Companies Act, enclose copies of the relevant instructions pertaining to the subject issued by the Ministry of Corporate Affairs (viz., Corporate Governance Voluntary Guidelines 2009) wherein guidelines have been indicated about the constitution of Audit Committee, enabling powers, role and responsibilities and also about the appointment of Internal Auditors (extract in the Annexure) in an Organisation

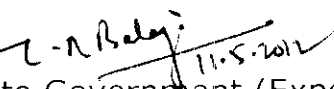
and the instructions issued by this Government on earlier occasions for strict adherence.

4) I am to state that while constituting Audit Committee you may consider the following aspects viz;

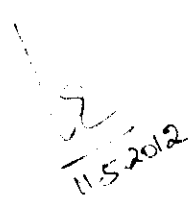
- (i) Directors from Departments other than those drawn from the Administrative Department concerned may be inducted into the Audit Committee;
- (ii) Chairman of the Board of State Public Sector Undertaking / Statutory Board, Managing Director and Whole time Directors need not be inducted as Members of the Audit Committee;
- (iii) Non-Government or Government of India nominees on the Board may be considered for inclusion in the Audit Committee;
- (iv) The services of Internal auditors of the respective State Public Sector Undertakings may be properly utilized for achieving Corporate Governance practices, effective cost control and increasing revenue, tax planning measures etc.,
- (v) It shall be ensured that there is corresponding improvement in the quality or the effectiveness in internal audit reports being furnished by the internal auditors since the financial commitment towards their remuneration being incurred by the State Public Sector Undertakings appears to be increasing over a period of time;
- (vi) the internal auditors of the respective State Public Sector Undertakings shall have to find new ways to deploy its risk-and-control based skills to help the organization in achieving its strategic objectives and thereby enabling value creation in the changing regulatory and business environment.

5) This letter may be placed before the Board of Directors in the next meeting.

Yours faithfully,


for Secretary to Government (Expenditure)

Encl: Annexure



Annexure

The major roles and responsibilities that can be entrusted to the Internal Auditors may be like:

- (a) evaluating and providing reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the organization's objectives and goals to be met
- (b) reporting risk management issues and internal controls deficiencies identified directly to the audit committee and providing recommendations for improving the organization's operations, in terms of both efficient and effective performance
- (c) evaluating information security and associated risk exposures;
- (d) evaluating regulatory compliance program with consultation from legal counsel
- (e) evaluating the organization's readiness in case of business interruption
- (f) maintaining open communication with management and the audit committee
- (g) teaming with other internal and external resources as appropriate
- (h) engaging in continuous educating and staff development
- (i) providing support to the Company's anti-fraud programs
- (j) delivering systematic analysis of business processes and associated controls
- (k) delivering reviews of the existence and value of assets
- (l) delivering a source of information on major frauds
- (m) delivering Adhoc reviews of other areas of concern, including unacceptable levels of risks
- (n) delivering reviews of the compliance framework and specific compliance issues
- (o) delivering reviews of operational and financial performance
- (p) delivering recommendations for more effective and efficient use of resources
- (q) delivering assessments of the accomplishment of Corporate goals and objectives
- (r) delivering feedbacks on adherence to the organization's value and code of conduct /code of ethics.

Recommended coordination between Internal and External Auditors may be:

- (a) There should be proper coordination to ensure adequate audit coverage and to minimize duplication of effort;
- (b) There should be access to each other's audit plans and programs;
- (c) Periodic meetings should be organized to discuss matters of mutual interest;
- (d) There should be an exchange of audit reports;
- (e) Institutional mechanisms should be created to ensure common understanding and sharing of audit techniques and methods;
- (f) Sharing of training and exchange of staff for two-three years in each case;
- (g) The external auditor should review the performance of internal auditors (ie., are they performing according to their objectives and plans?) A quality assessment of their work should be included;
- (h) The external auditor should strengthen the position of the Internal Auditor by reviewing and commenting on lack of action on Internal Audit reports;

The Key considerations for Internal auditors shall be on the following areas:

- (i) focus on the future-take a proactive approach to risk identification (e.g., with a risk and compliance based audit plan);
- (ii) integrate Enterprise Risk Management (ERM) to develop a mix of risk and compliance –based audit efforts;
- (iii) augment skill sets (increasing the role of IT and subject matter professionals) and leverage resources;
- (iv) focus on fraud –control environmental, hotline activities, fraud risk assessments;
- (v) establish and adviser rule –initiatives rationalization, ie., with an ERM focus, internal audit can move beyond its monitoring role to help influence and improve how risks are managed before they become challenges;
- (vi) build continuous audit capability and influence continuous monitoring techniques;
- (vii) maintain independence and objectivity;
- (viii) provide value added services beyond compliance to helping the organization improve overall business performance;
- (ix) leverage access to management.

CORPORATE GOVERNANCE VOLUNTARY GUIDELINES 2009

Audit Committee- Constitution

The Companies should have atleast a three-member Audit Committee with Independent Directors constituting the majority. The Chairman of such Committee should be an Independent Director. All the members of audit committee should have knowledge of financial management, audit or accounts

Audit Committee- Enabling Powers

- I The Audit Committee should have the power to:-
 - have independent back office support and other resources from the Company
 - have access to information contained in the records of the Company and
 - obtain professional advice from external sources
- II. The Audit Committee should also have the facility of separate discussions with both internal and external auditors as well as the Management.

Audit Committee- Role and Responsibilities

- I The Audit Committee should have the responsibility to:-
 - monitor the integrity of the financial statements of the Company
 - review the Company's internal financial controls, internal audit function and risk management systems;
 - make recommendations in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
 - review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process.
- II The Audit Committee should also monitor and approve all Related Party Transactions including any modification /amendment in any such transaction.
- III A statement in a prescribed/structured format giving details about all related party transactions taken place in a particular year should be included in the Board's report for that year for disclosure to various stake holders.

Appointment of Internal Auditor

In order to ensure the independence and credibility of the internal audit process, the Board may appoint an internal auditor and such auditor where appointed should not be an employee of the company

Copy of

Re-Organisation of Internal Audit Teams in the Public Sector Undertakings –Appointment of ‘Accounting Professionals’ as Internal Auditors

At present there is no uniformity of system in the appointment of Internal Auditors in the various State-owned Corporations/ Statutory Boards. While a majority of the Undertakings have appointed the ‘Accounting Professionals’ like Chartered Accountants, Cost Accountants etc. as Internal Auditors, some Corporations /Boards have drafted on deputation basis, the Audit staff from the Accountant-Generals office, Local Fund Audit Department, Treasuries and Accounts Service etc. to work as Internal Auditors in their Organisations, along with their own employees. In a few cases, the Internal Audit Wing is manned fully by the employees of the Undertaking themselves. In order to streamline the internal audit-set-up in the State Public Sector Undertakings and to make them effective, introduction of some uniform system in the appointment of Internal Auditors in the State Public Sector Undertakings is considered necessary.

2. The Government, after careful consideration of the matter, have now decided that it would better serve the purpose, if the “Accounting Professionals” are appointed as ‘Internal Auditors’ in all the State-owned Corporations/Boards instead of taking in deputationist from the Government Departments such as Local Fund Audit Department, Treasuries and Accounts Departments etc. I am therefore, directed to request you to see that only professionally qualified Accountants are appointed as Internal Auditors in your organizations, in future.

3. I am to request you to acknowledge the receipt of this letter

(Lr.No.173 (A)/ BPE/84-7, Fin Dated 5th May 1987)

/True copy/


Assistant Director

GOVERNMENT OF TAMIL NADU

FINANCE (BPE) DEPARTMENT

LETTER NO.62/D.D.(K)/BPE/92 DATED: 13.5.1992

From

Thiru N. Narayanan, I.A.S.,
Secretary to Government.

To

All Chief Executive Officers of State Public Sector
Undertakings/Boards.

Sir, Sub: Appointment of internal Auditors/Tax Auditors-
For not more than 3 years - Guidelines issued.

.....

Instances have come to the notice of the Government wherein, the same firm of Auditors has been auditing the accounts of various funds for more than 3 years.

In principle, change of Auditors atleast once in 3 years is highly desirable, and hence Government after careful consideration direct that for the purpose of internal audit/Tax audit/audit of any funds maintained by the Corporations/Boards (where it is not audited by L.F. or S.T.S.), appointment of same Auditor should not be for more than 3 years.

The Chief Executive Officers of State Public Sector Undertakings/Boards are instructed to place this in the next Board meeting for adoption.

The receipt of this letter may be acknowledged.

Yours faithfully,

DC Govindaraj
for Secretary to Government.

..2..

3/- This G.O. may be placed before the Board of Directors of the Corporation in the next meeting. The receipt of this G.O. may be acknowledged.

(BY ORDER OF THE GOVERNOR)

N. NARAYANAN,
SECRETARY TO GOVERNMENT.

To

The Southern India Regional Council of Institute of Cost
and Works Accountants of India,
65, Montieth Lane, Egmore, Madras.8.
All Chief Executive Officers of Public Sector Undertakings/Roads.
The Accountant General, Madras.18.
The Accountant General, Madras.6.

Copy to:

All Finance Directors.

/forwarded/by order/

J. Venkatesh
ASSISTANT DIRECTOR

96
7-4-82

GOVERNMENT OF TAMIL NADU

ABSTRACT

State Public Sector Undertakings - Audit Committee - Biannual inspection of State Public Sector Undertakings by Audit Committees - Orders - Issued.

-2-

FINANCE (SPE) DEPARTMENT

G.O.Ms.No.137

Dated 17.4.2002

Read:

Letter No.67/JD(D)/BPE/2001 dated 2.3.2001.

..0..

ORDER:

The Government in the Finance (SPE) Department is periodically issuing guidelines or orders on various issues relating to Financial Management, Assets and Materials Management, Personnel Management, and Accounts on audit in respect of State Public Sector Undertakings/Boards. In order to examine whether the State Public Sector Undertakings/Boards are scrupulously following these guidelines and orders, it is considered necessary that biannual inspection of the State Public Sector Undertakings/Boards may be conducted by the Audit Committee of the State Public Sector Undertakings/Boards.

2/- In the letter read above, the Government have communicated the latest amendment made in Sec.292 A of the Indian Companies Act requiring the State Public Sector Undertakings having a paid up capital of not less than 5 crores to constitute an Audit Committee. The Audit Committee is the authority to investigate into any matter in relation to the above section or referred to it by the Board of Directors and for this purpose shall have full access to information contained in the records of the Company and external professional advice, if necessary.

3/- The Government after careful examination have decided to entrust the inspection work of the State Public Sector Undertakings to the respective Audit Committees of the State Public Sector Undertakings. The Audit Committee have to take up the inspection work biannually based on the questionnaire annexed to this Government Order. The Board of Directors of the respective State Public Sector Undertakings may pass a resolution to entrust the responsibility of conducting the inspection to the Audit Committees.

(P.T.O.)

...2..

4/- In respect of the Statutory Boards and State Public Sector Undertakings where the constitution of the Audit Committee is not mandatory, the Chief Executive Officers will arrange to conduct the inspection biannually based on the questionnaire annexed to this Government Order by constituting an Audit Committee with the approval of their Board. The inspection report submitted by the Audit Committee should be placed before the Board of Directors for necessary follow up action.

5/- The Board of Directors of the State Public Sector Undertakings/Boards have to submit a copy of the inspection report with their observations to the Government for scrutiny in the concerned Administrative Department of Secretariat and to the Finance (FPE) Department.

6/- The Chief Executive Officers of all State Public Sector Undertakings/Boards are requested to place this Government Order before the Board of Directors in the next Board Meeting.

(BY ORDER OF THE GOVERNOR)

F. SHANKAR,
CHIEF SECRETARY TO GOVERNMENT.

To

The Chief Executive Officers of all State Public Sector Undertakings/Boards.
All Secretaries to Government.
All Departments of Secretariat.
All Finance Directors.
The Deputy Secretary to Government (PLS), Tamil Nadu Legislative Assembly Secretariat, Chennai.9.

Copy to:

Personnel and Administrative Reforms (Inspn.) Department,
Chennai.9.
The Accountant General, Chennai.13/6.

/forwarded/by order/

[Signature]
19/11/2002
ASSISTANT DIRECTOR.

QUESTIONNAIRE FOR INSPECTION OF SPSUS/BOARDS

I. ASSET MANAGEMENT

1. Purchase of Land

Whether any land has been purchased through private negotiation. If so whether proper procedure as laid down by Govt. has been followed.

II. MATERIALS MANAGEMENT

1. Procurement of Stores etc.

- (i) Whether proper tender procedure followed for procurement of goods and services as per the Tamil Nadu Transparency in Tenders Act, 1998, Tamil Nadu Transparency in Tender Rules 2000 and subsequent amendments issued thereon.
- (ii) Whether all deviations have been reported to the Board and the Govt.
- (iii) Whether the SPSUs/Boards are procuring goods and services with reference to any orders/Manuals codes which are inconsistent with the provisions of the Tamil Nadu Transparency in Tenders Act and Rules framed under it.

2. Embezzlement – Reporting Procedure

Whether the loss of movable and immovable property through embezzlement exceeding Rs.5000/- has been reported to the AG and the Govt. as per the existing orders.

3. Inventory Control

- (i) Whether the Company maintains inventory at optimum level as fixed by the management in respect of its current assets.
- (ii) Details of norms fixed and actual value of inventory as on date, the reason for excess holding of stock, the steps taken to dispose of such excess stock.

III. FINANCIAL MANAGEMENT

1. Banking Policy:

- (i) Whether the existing orders on five bank policy with regard to opening of accounts, investment of surplus funds are being strictly followed.
- (ii) For any deviation, whether the SPSUs/Boards obtaining prior approval of the Board and Govt.
- (iii) The monetary loss if any incurred due to investment of surplus funds and the steps taken so far to recover such loss.

2. Budget: (Please see supplement also)

- (i) Whether Budget-Estimate has been prepared and approved by the Board every year before the due date.
- (ii) Whether approval of Govt. has been obtained for this?
- (iii) If there is any deviation in the Capital Expenditure from the Budget, whether such deviation has been brought to the notice of the Board and its approval obtained.
- (iv) Whether any cost escalation on any Capital Items has been provided and whether this has been brought to the notice of the Board for its approval.
- (v) Whether the Assets created have been put to proper use within the time limit stipulated and if not how long the Assets were kept idle and consequential revenue loss.

3. Investment and Dis-investment

Whether the Govt. guidelines on investment / dis-investment have been followed and whether approval of Govt. obtained where the investment/ dis-investment exceeds the prescribed monetary limits.

4. Economy in Expenditure

Whether the SPSUs/Boards are following the guidelines on various economy in expenditure issued by Govt. in G.O. (Ms) No.27. Finance (BPE) dt.21.1.2002. If not, whether Govt. approval was obtained for any deviations in the guideline.

5. Motor Vehicles:

- (i) Whether Govt. guidelines on acquisition of new vehicles/replacement of old vehicles have been followed.
- (ii) For usage of vehicles by Officers from residence to office and back, whether vehicles have been provided only to those officers who are eligible for such vehicles and whether proper recovery of fixed charges have been made from the salary of such Officers as per the Govt. orders in force.

6. Telephones:

- (i) Whether economy in expenditure is being adopted in the usage of telephones.
- (ii) Whether any excess calls in the residential telephones of the Officers have been admitted by the SPSUs/Boards without obtaining Govt. orders.

7. Income Tax:

- (i) Whether clearance from Govt. is being obtained for payment of Advance Income Tax.
- (ii) Whether the Corporation obtained timely refund of excess Income-Tax paid from Income-Tax Dept.
- (iii) Whether the Corporation is filing Income-Tax returns promptly on due dates with Income-Tax Dept.

8. Government Loan:

- (i) Whether the Corporation is remitting the principal, interest and penal interest to Govt. on due dates.
- (ii) If not, whether the Corporation has written to Govt. for re-schedulement, deferment, waiver et. of these dues.
- (iii) Whether the entire loans, advances and accrued interest has been shown in the Books of Accounts correctly.

9. Government Guarantee:

- (i) Whether the Corporation availed Guarantee from Govt. for any loan availed from Financial Institutions.
- (ii) If so, whether Guarantee Commission for such loans has been paid to Govt. promptly without any arrears.

IV. ACCOUNTS AND AUDIT**1. Maintenance of Records**

Whether the Company is maintaining adequate accounting records in accordance with the provisions of Indian Companies Act.

2. Finalization of Annual Accounts.

- (i) Year upto which accounts were finalized and placed before the Legislature?
- (ii) Whether there is any delay in finalization of Accounts.
- (iii) If so, the No. of years for which such delay has occurred, the reason for the delay, steps taken by the Corporation to complete the finalization upto date?
- (iv) Whether the Audited Annual Accounts has been sent to State Govt. within the stipulated time limit for placing the same before the State Legislature.
- (v) Whether the latest report has been placed before the legislature within the time limit.

3. PUC & Settlement of audit paras:

- (i) No. of audit paras pending settlement at the beginning of the year.
- (ii) No. of audit paras received during the year. Total of (i) & (ii)
- (iii) No. of audit paras settled during the year.
- (iv) No. of audit paras pending at the end of the year.
- (v) Reasons for the pendency.

4. Internal Audit:

- (i) Whether the Corporation is following due procedure as prescribed by Govt. in the appointment of internal Auditors.
- (ii) Whether the Internal Auditor functions without any interference from functional heads and submit reports directly to MD/CEO in time, as prescribed by the Management.
- (iii) Whether the scope of internal audit assigned to him covers all areas.
- (iv) Whether proper follow up action is being taken on the report of the Internal Auditors.
- (v) Whether the Board is informed of the follow up action periodically.
- (vi) Whether Boards directions on such follow up has been implemented promptly.
- (vii) Whether the remuneration and allowances paid to the Internal Auditors are as per the decision of the Board.

V. HUMAN RESOURCES MANAGEMENT

1. Surplus Staff

- (i) Whether any work norms prescribed for the staff and whether the staff strength in each Dept. /Wing in the Corporation is as per the norms.
- (ii) If there is an excess, the steps taken to utilize them gainfully.
- (iii) Whether VRS has been introduced to weed out surplus staff as per the orders issued by Finance (BPE)
- (iv) If so the effect of such VRS on the total establishment cost.
- (v) Whether the staff possesses the required qualification and experience as per the Service Rules of the Corporation.
- (vi) Whether key posts in the Organization have been filled up.
- (vii) Posts which are considered not essential as per the present work norms.
- (viii) Savings in establishment expenditure during the year due to rationalization of work force, reorganization of functional areas, modernization etc.

2. Incentives / Welfare Schemes:

Whether any Welfare Schemes / Incentives have been sanctioned to the staff without prior approval of the Govt.

3. Bonus:

Whether the orders issued from Finance (BPE) have been strictly followed for payment of Bonus to the employees.

4. Service Rules:

- (i) Whether the Govt. approval has been obtained for the Service Rules of the SPSUs/Boards.
- (ii) Whether necessary amendment have been issued to the Service Rules as per the orders issued by Finance (BPE) / the Administrative Dept.

5. Recruitment:

- (i) Whether any persons have been appointed without following the procedure of recruitment through Employment Exchanges other than for Compassionate appointment.
- (ii) Whether proper seniority list of candidates fit for compassionate appointment has been maintained.
- (iii) Whether the rule of reservation as in the case of Government, has been followed for direct recruitment in all categories.
- (iv) Whether approval of Govt. for filling up of posts one level below CEO in respect of each wing/dept. has been followed.
- (v) Whether any retired Govt. servant/PSU/Board employees have been appointed on contract basis or as a consultant without prior approval of the Govt.
- (vi) Whether the system of maintaining confidential reports of the employees are in vogue in the SPSUs/Boards.

6. Scale of pay:

In respect of any of the loss making SPSU, whether the scale of pay for the post has been revised without getting prior approval of the Govt.

7. Medical Reimbursement:

Whether the existing orders issued by Finance (BPE) are strictly followed.

8. Deputation:

Whether terms and conditions issued by Finance (BPE) for deputation of SPSUs/Boards employees have been strictly followed.

9. Legal Officers:

Whether Legal Officers are being appointed from the panel approved by Govt.

10. Enquiry Officer:

Whether Enquiry Officers are being appointed on the basis of guidelines issued by Finance (BPE) Dept.

VI. COMPANY LAW MATTERS

1. Board Meeting

- (i) Whether the Company holds Board Meetings on due dates as stipulated in the Companies Act.
- (ii) Whether it files statutory returns with the Registrar of Companies within the time limit stipulated in the Act.
- (iii) Whether it conducts Annual General Meetings within the stipulated time limit specified in the Act.
- (iv) Whether the annual returns and other documents referred to therein have been filed in time with ROC.
- (v) If there is any delay in this, the reason for such delay and steps taken to rectify the delay.

(G.O.Ms.No.137, Finance (BPE) Department, dated 17.4.2002)

SECRETARY TO GOVERNMENT

FINANCE (EPF) DEPARTMENT
FORT ST. GEORGE
CHENNAI.9.Letter No. 35/JR(H)/04
-----Dated 15th September, 2004.

From

THIRU SPOK KUMAR GUPTA, I.A.S.,
SPECIAL SECRETARY TO GOVERNMENT.The Chief Executive Officer's of all State
Public Sector Undertakings/Boards.

Sir,

Sub:--State Public Sector Undertakings -
Audit Committee - Biannual in-
spection of State Public Sector
Undertakings by Audit Committees -
Orders - Errata - Issued.

Ref:--1. G.O.Ms.No.137, Finance (EPF)
Department, dated 17.4.02.

2. Letter No.53103/EPF/2002,
Finance dated 5.11.2002.

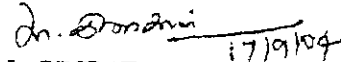
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I am directed to invite a reference to the Government Order and letter cited wherein it was inadvertently indicated that the Audit Committee have to take up the inspection work 'biannually' based on the questionnaire annexed. The following errata is therefore issued to the Government Order and Letter cited above:

ERRATA

In the said Government Order and Letter wherever the word 'biannual' occurs the word 'biennial' shall be substituted.

Yours faithfully,



for SPECIAL SECRETARY TO GOVERNMENT.

Copy to:

All Secretaries to Government.
All Departments of Secretariat.
All Finance Directors.
The Deputy Secretary to Government, (PCT) Tamil Nadu
Legislative Assembly Secretariat.
The Accountant General, Chennai.18./8.

Copy of

Dr. K.Satyagopal, I.A.S.,
Special Secretary to Government



Finance Department.
Secretariat,
Chennai-600 009.

Letter. No.63819/BPE/05 dt.7.10.2005

To
The Chief Executive Officers of all State PSUs

Sir,

- Sub Corporate Governance in State Government Companies- Audit Committee constituted in pursuance to Sec 292A of the Companies Act 1956- Functioning of the Audit Committee-reg
- Ref 1. Govt.Lr.No.67/JD(D)/BPE/2001 Fin, Dt.2.3.01
2. G.O.Ms.No.137 Finance (BPE)Dept dt.17.4.02
3. D.O.Lr.No.AG(C&RA)Rep(C)/AR/2004-05/30-1/209 dt.22.8.05 received from the Accountant General, Chennai-18

In the reference first cited the constitution of Audit Committee U/s 292A of the Companies Act 1956, its functions etc. have been communicated to all PSUs, requesting the PSUs to comply with the provisions of the above Act. In the reference second cited instructions were issued to conduct bi annual inspection of the SPSUs by the above Audit Committee based on the questionnaire annexed therein

The AG in the reference third cited has brought to the attention of the Government that out of 52 Government Companies, 30 Companies have paid up share capital of Rs.5 crore and above and the Audit review in these companies revealed the following deficiencies:

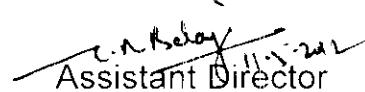
- ❖ Audit Committees of 11 Government Companies mentioned in Annexure (A) did not have discussion with the external auditors before commencement of external audit and after completion in all the four years ended 31.3.2005
- ❖ In eight Government companies, mentioned in Annexure (B) the Statutory and Internal Auditors did not attend the Audit Committee Meetings and in one Government Company mentioned in Annexure(C) the internal auditors did not attend the Audit Committee Meetings during the four years ended 31.3.2005
- ❖ In three Government companies mentioned in Annexure (D) Audit Committee did not review the Annual Financial statements before submission to the Board of Directors.
- ❖ In three Government Companies mentioned in Annexure (E) the Chairman of the Audit Committee did not attend the Annual General Meeting to answer the shareholder's queries.

The A.G has further pointed out that in respect of Companies whose share capital was less than Rs.5 crore though Government directed them in the reference second cited to Constitute Audit Committee with the approval of its Board of Directors, seven companies mentioned in Annexure (F) had not constituted the Audit Committee till date and hence did not conduct biannual inspection of such important matters and that though Tamil Nadu Fisheries Development Corporation has formed Audit Committee it had not conducted the biannual inspection on important matters relating to good governance.

The above observations of the A.G have been examined by Government. I am directed to state that in respect of Companies, whose paid up share capital is Rs.5 crore and above the deficiencies pointed out above should be rectified so that recurrence of such defect does not arise in future. In respect of the other companies even though constitution of Audit Committee is not mandatory under the provision of Companies Act 1956, as instructions were already issued by Government in the reference second cited to constitute audit committee by them also with the approval of their Board and conduct the inspection biannually, they should constitute audit committee immediately and conduct biannual inspection with the approval of its Board of Directors. I am to request you to furnish the action taken report to Government quickly so as to send a suitable reply to A.G

Yours faithfully
(sd.) Xxxx
for Special Secretary to Government

/True copy/


Assistant Director

CC:
Secretary to Government,
All Departments of Secretariat (except Law, LA, Rev, Y.S.H.E,
School Education, P&D, L&E, P&AR, CT, Housing and
Tamil Development & culture)

Annexure A

Name of the Company

- Tamil Nadu Magnesite Limited (TANMAG)
- Tamil Nadu Cements Corporation Limited (TANCEM)
- Poompunar Shipping Corporation Limited (PSC)
- Tamil Nadu Small Industries Corporation Limited (TANSI)
- Tamil Nadu Power Finance and Infrastructure Development Corporation Limited
- Metropolitan Transport Corporation Limited (MTCL)
- Tamil Nadu State Transport Corporation (Madurai) Limited
- Tamil Nadu State Transport Corporation (Coimbatore) Limited
- Tamil Nadu State Transport Corporation (Kumbakonam) Limited
- Tamil Nadu Transport Development Finance Corporation Limited (TDFO)
- State Express Transport Corporation Limited (SETC)

Annexure B

Name of the Company

- Tamil Nadu Magnesite Limited (TANMAG)
- Tamil Nadu Cements Corporation Limited (TANCEM)
- Poompunar Shipping Corporation Limited (PSC)
- Tamil Nadu Power Finance and Infrastructure Development Corporation Limited
- Tamil Nadu State Transport Corporation (Madurai) Limited
- Tamil Nadu State Transport Corporation (Coimbatore) Limited
- Tamil Nadu State Transport Corporation (Kumbakonam) Limited
- Tamil Nadu Transport Development Finance Corporation Limited (TDFO)

Annexure C

Name of the Company

- Tamil Nadu State Marketing Corporation Limited (TASMAC)

Annexure D

Name of the Company

- Tamil Nadu Magnesite Limited (TANMAG)
- Tamil Nadu Tourism Development Corporation Limited (TTDC)
- Perambalur Sugar Mills Limited

Annexure E

Name of the Company

- Tamil Nadu Tourism Development Corporation Limited (TTDC)
- Perambalur Sugar Mills Limited
- Tamil Nadu State Transport Corporation (Coimbatore) Limited

Annexure F

Name of the Company

- Tamil Nadu Zari Limited (Zar)
- Tamil Nadu Handicrafts Development Corporation Limited
- Tamil Nadu Handloom Development Corporation Limited
- Tamil Nadu Ex-servicemen's Corporation Limited
- Tamil Nadu Corporation for Development of Women Limited
- Tamil Nadu Medical Services Corporation Limited
- Pallavan Transport Consultancy Services Limited (PTCS)