

**Separate Audit Report of the Comptroller and Auditor General of India on the
Accounts of the Spices Board, Kochi for the year ended 31 March 2013**

We have audited the attached Balance Sheet of the Spices Board, Kochi as at 31 March 2013 and the Income & Expenditure Account for the year ended 31 March 2013 under Section 19(2) of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 read with Section 24 of the Spices Board Act, 1986. These financial statements include the accounts of units/branches of the Board. These financial statements are the responsibility of the Boards' management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. This separate Audit Report contains the comments of the Comptroller & Auditor General of India (CAG) on the accounting treatment only with regard to classification, conformity with the best accounting practices, accounting standards and disclosure norms, etc. Audit observations on financial transactions with regard to compliance with the Law, Rules and regulations (Propriety and Regularity) and efficiency-cum-performance aspects, etc., if any are reported through Inspection Reports/CAG's Audit Reports separately.
3. We have conducted our audit in accordance with Standards on Auditing generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.
4. Based on our audit, we report that:
 - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (ii) The Balance Sheet and Income and Expenditure Account dealt with by this report have been drawn up in the format approved by the Ministry of Finance, Government of India but Receipt and Payment Account have not been drawn up in the format approved by the Ministry of Finance, Government of India.

(iii) In our opinion, proper books of accounts and other relevant records have been maintained by the Board as required under Section 23 of the Spices Board Act, 1986 read with rule 18(1) of Spices Board Rules, 1987 in so far as it appears from our examination of such books.

(iv) We further report that:

(A) Balance sheet

1.1. Current liabilities and Provisions (Schedule 7) – ₹ 64.89 crore

(a) This stands understated to the extent of ₹69.69 lakh due to non provision of outstanding expenses for 2012-13 and consequently, there is under statement of excess of expenditure over income by the same extent.

(b) This stands understated to the extent of ₹125.26 crore on account of short provision of liability towards pension, leave salary and gratuity of employees as part of terminal benefits. Excess of expenditure over income (i.e., deficit) is also understated by the same extent.

2. Assets

2.1 Fixed assets (Schedule 8) – ₹ 168.72 crore

As per note to Schedule 8 1(b) of Uniform Format to accounts lease premium paid on land has to be amortised over the effective life of lease. Non amortisation has resulted in over statement of leased land by ₹14.70 lakh. and understatement of excess of expenditure over income by that amount.

2.2 Investment from Earmarked/Endowment funds GP Fund Investment Account ₹ 14.98 Crore

This stands understated to the extent of ₹23.76 crore (short term deposits ₹22.76 crore plus ₹ 1.00 crore interest earned) due to accounting investment made out of earmarked funds under 'Current Assets (Schedule – 11)' instead of accounting the same under Investment from Earmarked fund ' (Schedule 9).

2.3 Current Assets, Loans and Advances (Schedule 11) ₹ 57.88 crore

This stands overstated to the extent of ₹45.45 lakh due to non provision for doubtful receipt of analytical charges. Consequently, the Excess of Expenditure over Income (deficit) stands understated to that extent.

(B) Income and Expenditure Account for the year 2012-13

2.4 Schedule 30- Depreciation: ₹17.13 crore; Buildings: ₹ 10.36 Crore

This includes Rs. 2.44 crore representing the adjustment of short provision of depreciation during the years 2010-11 and 2011-12. The amount should have been accounted under prior period debits instead of debiting the same to Income and Expenditure Account for the year. This resulted in overstatement of Excess of Expenditure over Income (deficit) for the year and understatement of Prior Period Adjustments (debit) by Rs. 2.44 crore each.

(C) General

The following disclosures are not in accordance with the prescribed uniform format of accounts;

(1) Schedule 3-Earmarked/Endowment funds: Additions made during the year, corresponding figures for the previous year and conditions attached to the grant.

(2). Schedule -8 Fixed Assets: Land has not been classified as freehold and leasehold. Similarly, buildings have not been classified as (a) On freehold land (b) On lease hold land. (c) Ownership flats/ premises and (d) Superstructures on land not belonging to the entity.

(3) Under bank balances, amount held in bank against earmarked/endowment funds need to be disclosed separately. (Schedule-11)

(4) Schedule-18: Tax Deducted at Source.

(5) Schedule-22: Administrative expenses: where value of individual expenditure is exceeds ₹ 5000 separate line item should be included under "others".

(6) Schedule-23: Against Expenditure on grants and subsidies, the name of the entities, their activities along with the amount of grants/subsidies in each case.

(7) Schedule-66: As per Significant Accounting Policies "investments" should be classified as "long term investments" and "current investment".

However no such classification has been made in the accounts.

(D) Impact of Comments

The net impact of comments given above is that the Liabilities are understated by ₹128.40 crore, and Assets are understated by ₹ 0.60 crore and Excess of Expenditure over income is understated by ₹ 124.12 crore

(E) Grants-in-Aid

During the year grants amounting to ₹ 129.75 was received crore, of which ₹109 crore was utilized leaving a balance of ₹ 20.75 crore as unutilised grant as on 31st March 2013.

(F) Management Letter

Deficiencies which have not been included in the Audit Report have been brought to the notice of the management through a Management Letter issued separately for remedial/corrective action.

- (v) Subject to our observations in the preceding paragraphs, we report that the Balance Sheet and Income & Expenditure Account/Receipt & Payment Account dealt with by this report are in agreement with the books of accounts.
- (vi) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the Accounting Policies and Notes on Accounts, and subject to the significant matters stated above and other matters mentioned in Annexure-I to this Audit Report give a true and fair view in conformity with accounting principles generally accepted in India:
- (a) In so far as it relates to the Balance Sheet of the state of affairs of the Spices Board as at 31 March 2013 and
- (b) In so far as it relates to Income & Expenditure Account of the deficit for the year ended on that date.


(M.V. RAJESWARI)

For and on behalf of C&AG of India
Principal Director of Commercial Audit

Place: Chennai

Date: 01.11.2013

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Annexure-1

1) Adequacy of Internal Control System

Internal control system existing in the Board was inadequate as detailed below

- The Fixed Assets Register was not being updated regularly.
- Proper details /registers are not kept in respect of civil construction works.
- The Board is having accounting software for preparation of financial statement. Due to inherent defects the Board is unable to generate financial statements. Also the trial balance created by Financial Accounting System was erroneous resulting in manual preparation of Trial Balance and financial statements.
- Balance Sheet and Receipts and Payment & account has shown the cash balance at the end of the year 2012-13 as 'Nil' which is factually incorrect as the Board has given imprest and permanent advances to regional offices. The closing cash balance as on 31 March 2013 includes only the cash balance at the Head Office and does not include the cash balances of all the offices under the Spices Board. Further, the cash balances in the financial statements do not include the drafts, cheques in hand, stamps, and the balance in franking machine as on 31 March 2013
- As per Para 3.5.5 of the manual of Office Administration of Spices Board, the actual balance of cash should be verified periodically by the Section Officer and on the closing days of the month by the head of office. Further it states that a certificate of verification of the cash balance at the end of the month should be recorded specifying the balances both in words and figures and also in denominations. However verification of cash balances is being done only in Head Office at Kochi and not done at Marketing offices, Regional offices, Zonal and Field offices.

2) System of physical verification of Assets

As per Rule 192 of GFR 2005, fixed assets should be verified at least once in a year and the outcome of the verification recorded in the corresponding register. Discrepancies, if any, shall be promptly investigated and brought to account. Further as per Para 12.5.3 of the Manual of General Procedures of Spices Board, after the close of the financial year, a physical verification of asset should be carried out by each stock holder and necessary certificates of physical verification recorded in the

case of each item in the register. Although as on 31 March 2013 the Board had fixed assets worth ₹ 168.72 crore, it is yet to conduct physical verification of fixed assets, in violation of GFR and manual of General procedures and same was in arrears for more than ten years.

3) System of physical verification of Inventory

- System of physical verification of inventory was inadequate as detailed below

As per Para 12.8 of Manual of general procedures of Spices Board, a physical verification of stock/stores should be conducted by the officer in charge or his nominee at the close of every financial year and the report along with a certificate of verification with its result should be sent to the Internal Audit Officer before the end of April in every year for review. Further, Para 12.10 and 12.11 of the manual states that physical verification of all the consumable goods should be undertaken once in year and a certification of verification along with findings shall be recorded in the stock register. This has not been complied with.


DEPUTY DIRECTOR