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Research Article

Quality Of Financial Reporting Of Central Public Sector Enterprises In India: A Case Study Of India Infrastructure Finance Company Limited

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ARTICLE INFO	ABSTRACT
	The quality of financial reporting within Central Public Sector Enterprises (CPSEs) in India is a critical aspect of the country's economic landscape, with implications for transparency, accountability, and economic growth. This paper investigates the various categories of errors that can compromise the integrity of financial reporting within India Infrastructure Finance Company Limited (IIFCL), including accounting errors, statutory errors, errors by auditors, errors by directors, and repetitive errors. These errors question the accuracy and reliability of financial reports and their consequences for stakeholders, including investors, regulators, and the public. Through a comprehensive analysis of these issues, the research aims to enhance understanding of the challenges and vulnerabilities in financial reporting within CPSEs and contribute to the ongoing discourse on governance and accountability in the Indian public sector. The findings and insights presented in this study are crucial for fostering transparency and trust in the financial reporting practices of CPSEs in India and also highlights the role of directors, auditors and audit committee in presenting true and fair financial statements to the stakeholders **Keyword** Quality of Financial Statements; Accounting errors, Statutory errors, Role of Directors, Role of Auditors

1. Introduction

The quality of financial reporting within Central Public Sector Enterprises (CPSEs) in India is a subject of profound significance, as it serves as a barometer of not only the financial health of these government-owned entities but also their adherence to transparency, accountability, and good governance. The recent scam in PNB which involved falsification/ fabrication of records costed exchequer to the tune of Rs. 11,000 crores (Mohanty & Agarwal, n.d.). Errors in financial statements, whether stemming from accounting practices, statutory requirements, directorial oversight, auditing lapses, or recurring mistakes, can have profound repercussions. These errors can distort the true financial health of a company, mislead stakeholders, and impact investment decisions. Biiuooo((Bhasin, 2013)) Accounting errors, such as misclassification or miscalculation, can inflate or deflate a company's financial position, potentially leading to unjustified regulatory sanctions or missed growth opportunities. Statutory errors may lead to legal consequences, damaging a firm's reputation and finances. Errors by directors can erode investor trust, as they suggest a lack of due diligence and corporate governance. Auditors must bear responsibility for their oversights, as they are crucial for maintaining the integrity of financial statements. Repetitive errors may indicate systemic issues and call into question a company's ability to self-correct. Ultimately, these errors can undermine financial stability, regulatory compliance, and stakeholder confidence. Major financial reporting frauds must therefore be studied in order to draw lessons from them and develop measures to use going forward. Mitigating and rectifying these errors is essential to ensure the reliability and transparency of financial reporting.
This research paper delves into the intricate landscape of financial reporting practices within CPSEs and, more specifically, examines the various categories of errors that can undermine the integrity and reliability of these financial reports.

1.1 CPSEs in India

Central Public Sector Enterprises (CPSEs) encompasses those Government companies in which the direct holding of the Central Government is 50 per cent or more and subsidiary of such Government companies *(General Purpose Financial Reports of Central Public Sector Enterprises by CAG)*. CPSEs have played a key role in the Indian economy since independence by way of providing industrial growth and fulfilling social responsibilities such as implementing government's flagship programs and providing last mile connectivity and public utilities even in the hinterlands. The CPSEs also generate employment opportunities and act as a vital extension of the Central Government in implementing critical infrastructure and development projects.
Most CPSEs were set up after independence when the private sector was neither forthcoming nor had the capacity for large capital- intensive enterprises. There were only five CPSEs in 1951 but by 1969, the number grew to 84. The number of CPSEs trebled to 260 in FY 2011-12 and increased to 389 in FY 2021-22. The recent trend in number of CPSEs is as follows:

Sl No.	**Particulars**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
1	Total number of CPSEs	339	348	366	389	389
2	Number of operating CPSEs	249	249	256	255	248
3	CPSEs Under Construction	81	86	96	108	95
4	CPSEs under closure/liquidation	9	13	14	26	46
5	Number of listed CPSEs	52	56	58	61	62

Source: *PE Survey 2021-22 (Department of Public Enterprises, Ministry of Finance). Information relating to the year 2022-23 is not available.*

The Department of Public Enterprises (Ministry of Finance) develops policy guidelines on organizational and Board structure of CPSEs. CPSEs are categorized into four schedules - Schedule A, Schedule B, Schedule C, and Schedule D - based on parameters that are both quantitative and qualitative in nature (As on 31st March, 2022, there were 187 scheduled CPSEs which comprised 69 in Schedule A, 69 in Schedule B, 44 in Schedule C, and 5 in Schedule D). Further, CPSEs are awarded Ratna status - Maharatna, Navratna and Miniratna according to their financial performance and operations which devolve greater autonomy to these CPSEs in financial and administrative matters (As of March 2022, 11 CPSEs were classified as Maharatna, 13 as Navratna, 61 as Miniratna Category I, and 12 as Miniratna Category II). (Source: *PE Survey 2021-22 (Department of Public Enterprises, Ministry of Finance)*

1.2 Preparation of Financial Statements and Reporting of Indian CPSEs: Legal Provisions

Sections 128 and 129 of the Companies Act, 2013 require all companies to prepare annual financial statements that provide an accurate depiction of their financial condition. These financial statements, as defined in Section 2(40), encompass a balance sheet, profit and loss account (or income and expenditure account for non-profit companies), cash flow statement, statement of changes in equity (if applicable), and accompanying explanatory notes. Section 139(1) of the Companies Act, 2013 requires companies to appoint an auditor at their annual general meeting, and this auditor serves from one AGM to the sixth AGM. In the case of government companies, Section 139(5) mandates the Comptroller and Auditor-General of India to appoint an auditor within 180 days from the start of the financial year, with their term ending at the AGM.
Section 143(2) of the Companies Act, 2013 mandates that auditors report to the company's members on examined accounts and required financial statements. For government companies, Section 143(5) empowers the Comptroller and Auditor-General of India to appoint auditors, set audit procedures, and receive audit reports. Section 143(6) grants the Comptroller and Auditor-General of India the right to conduct supplementary audits, and their comments are included in the audit report, distributed to stakeholders, and presented at the annual general meeting.
Section 394(1) of the Companies Act, 2013 requires the Central Government, if a member of a Government company, to prepare an annual report on the company's operations within three months of its AGM. This report includes comments from the Comptroller and Auditor-General of India and is presented to both Houses of Parliament along with the audit report and any supplementary comments from the Comptroller and Auditor-General of India.
In summary, these sections of the Companies Act, 2013, outline the requirements for financial statement preparation, auditor appointment, and reporting, with specific provisions for government companies and the involvement of the Comptroller and Auditor-General of India.

1.3 About IIFCL

India Infrastructure Finance Company Limited (IIFCL), a wholly owned Government of India Company, was established in 2006 to provide long-term financial assistance to commercially viable infrastructure projects through the Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called India Infrastructure Finance Company Ltd (IIFCL), broadly referred to as SIFTI. IIFCL has been registered as

a NBFC-ND-IFC with the Reserve Bank of India (RBI) since September 2013. IIFCL comes under the administrative control of Department of Financial Services, Ministry of Finance.
As on 31st March 2023, the authorized and paid-up capital of the company stood at Rs. 10,000 Crore and ₹ 9,999.92 Crore respectively. IIFCL has three wholly owned subsidiaries, namely:

a. IIFC (UK): IFC (UK) was set up in April 2008 to provide financial assistance in foreign currency, for the import of capital equipment, to companies implementing infrastructure projects in India.
b. IIFCL Projects Ltd (IPL): IPL was set up in 2012 as a dedicated project advisory company. It has been extending advisory support in project preparation, transaction structuring and consultancy services to the Central and State Governments including local bodies as well as providing financial appraisal and syndication services for Project Developers and Investors.
c. IIFCL Asset Management Company Ltd. (IAMCL): IAMCL has been appointed as an Asset Management Company (AMC) of the IIFCL Mutual Fund (IDF) by the Trustees vide Investment Management Agreement.

Why IIFCL?

IIFCL plays a pivotal role in financing crucial infrastructure projects in India. Its unique blend of financial instruments, government backing, and impact on economic growth make it an intriguing subject for analysis and learning. Hence, this company has been selected for the purpose of writing this case study.

Key Financials of IIFCL:
(in Crores)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23
Total Assets	43,106	43,544	52,147	55,525	56,964	59,485
Net Worth	6,402	4,689	10,306	10,654	11,737	12,878
Net Profit	-1155	102	51	285	514	1076
Infrastructure Loans	32,585	35,130	33,627	36,689	39,352	42,270

Source:

2. Literature Review

2.1. Financial Reporting Quality:

Financial reporting reflects the accountability of a business entity for its resources, thereby providing a basis for assessing the managers' stewardship roles and economic decisions. The inherent conflicts of interest in the auditor–client relationship and the unobservability of financial statement quality are likely culprits in the recent corporate scandals such as Enron and WorldCom (Ronen, 2006). As the information revealed in Financial Statements is very crucial for the users while taking investment decisions, the management is likely to engage in manipulation of accounting for earnings within standard and regulatory law limitations (Karajeh & Ibrahim, 2017). Good financial reporting quality helps financial market participants such as investors and lenders, make proper decisions and helps to improve the efficiency of financial markets (Hsu & Yang, 2022). Financial Reporting Quality plays a significant role in improving investment efficiency by reducing information asymmetries and agency problems (Houcine et al., 2022).
Financial statement data that are free of error—whether in the form of misestimations, mistakes, biases, or manipulation—are crucial for well-functioning capital markets (*Transparency, Financial Accounting Information, and Corporate Governance*, 2003). Either directly or indirectly, the quality of financial reporting can be evaluated.
The relationship between corporate governance and financial reporting quality is not linear and is complicated by the endogenous relationship among them. Very few studies included a comprehensive financial reporting quality framework and instead investigated one quality construct, ignoring other related constructs (Habib & Jiang, 2015).
Despite abundant literature, financial reporting quality is elusive as it is difficult to directly observe or measure. Due to this, researchers in past have used indirect approaches while studying the quality of financial reporting, using parameters viz. Relevance, Reliability, Comparability, Understandability, Timeliness and faithful representations.

2.1.1: Relevance: Relevance is referred to as the capability "of making a difference in the decisions made by users in their capacity as capital providers" (IASB, 2008: 35). As per prior literature, relevance has been measured in terms of the extent to which annual reports disclose information in terms of business operations, how company measures fair value, etc. (van Beest et al., 2009).
The information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present, or future events or confirming, or correcting, their past evaluations. It is said that financial report information has the quality of relevance when it affects consumers' economic decisions. Additionally, this information is helpful when it enables users to assess, amend, and confirm both recent and

past events (Herath et al., 2017). The definition of relevance requires the identification of the implied user, and the reason why financial reports are prepared, as well as timely provision of the information. (Cheung et al., 2010).

2.1.2: Reliability: "Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent" (ICAA, 2008). Financial objective of financial reporting is concerned with providing useful information for economic decision-making (Nattawut Tontiset & Sirilak Kaiwinit, 2018). The AASB Framework para 31 states that "to be useful, information must also be reliable".
FASB believes that reliability is one of the critical qualities to accounting information (Herath et al., 2017). Reliability is analyzed based on the qualities of faithful, verifiable, and neutral information. Various terms have been developed to represent reliability; however, their meanings are not significantly different from each other and they are interrelated. In simple terms, there is agreement that reliability means that information should be unbiased and non-misleading (neutral) (Cheung et al., 2010). Key concepts encompassing the concept of reliability are: Conservatism, Accuracy, Disclosure, True and Fair presentation & substance over form and neutrality.

2.1.3: Comparability: Comparability is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena (IASB, 2008: 39). In other words, similar situations should be presented the same, while different situations should be presented differently. Comparability includes consistency. "Consistency refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across entities" (IASB, 2008: 39). Comparability also refers to comparability between different companies.
When assessing the comparability of annual reports of different companies, the accounting policies used, the structure of the annual report, and the explanation of transactions and other events are of special importance (Herath et al., 2017). In addition, ratios and index numbers can be useful when comparing companies' performance (van Beest et al., 2009). With greater level of comparability, the quality of financial reporting improves. (Tasios & Bekiaris, 2012) found that comparability is one the fundamental characteristics of financial reporting quality, along with verifiability, timeliness and understandability.

2.1.4: Understandability: Understandability is referred to, when the quality of information enables users to comprehend their meaning (IASB, 2008). According to para 25 of the AASB Framework, understandability aims for "an essential quality of the information provided in financial reports [so] that it is readily understandable by users" (ICAA, 2008).
Understandability is measured using five items that emphasize the transparency and clearness of the information presented in annual reports (van Beest et al., 2009): Organization of information in annual report, Information Disclosure, Use of technical jargon, using words and phrases easy to understand and Narrative Explanations. Achieving the quality of understandability is through effective communication. Thus, the better the understanding of the information from users, the higher the quality that will be achieved (Cheung, Evans, & Wright, 2010). It is one of the enhancing qualitative characteristics that will increase when information is presented and classified clearly and sufficiently (Herath et al., 2017). (Tasios & Bekiaris, 2012) found understandability to be one of the enhancing characteristics of financial reporting quality.

2.1.5: Timeliness: As per IASB Conceptual Framework for Financial Reporting, timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is (IASB 2008).
Timeliness illustrates that information must be available to decision makers before losing its powerful and good influences. When assessing the quality of reporting in an annual report, timeliness is evaluated using the period between the year-end and the issuing date of the auditor's report—the period of days it took for the auditor to sign the report after the financial year-end (van Beest et al., 2009). It assists in improving the decision usefulness when the fundamental qualitative characteristics are recognized (Herath et al., 2017). Timeliness can also be defined as "having information available to decision makers before it loses its capacity to influence decisions" (Tasios & Bekiaris, 2012).

2.1.6: Faithful Representation: To faithfully represent economic phenomena that information purports to represent, annual reports must be complete, neutral, and free from material error (IASB, 2008: 36). Faithful representation is attained when "the depiction of the economic phenomenon is complete, neutral and free from material error" (IASB 2008).
Faithful representation can be measured using five items referring to neutrality, completeness, freedom from material error, and verifiability (van Beest et al., 2009). Faithful representation is the concept of reflecting and representing the real economic position of the financial information that has been reported. This concept has the value of explaining how well the obligations and economic resources, including transactions and events, are fully represented in the financial reporting. Moreover, this quality has neutrality—as a sub notion—which

is about objectivity and balance. Prior studies have concluded that the auditors' report adds value to financial reporting information by providing reasonable assurance about the degree to which the annual report represents economic phenomena faithfully (Herath et al., 2017).

After conducting an extensive literature review on the quality of financial reporting, it has become evident that a most of the previous studies have used indirect method of taking the perception of the accountants or the financial officials regarding the quality of financial reporting based on the given parameters. But the study on prevalence of errors within their financial reporting is very limited. These errors encompass a broad spectrum, including Accounting Errors, Statutory Errors, Errors by Directors, Errors by Auditors, and Repetitive Errors. It is essential to emphasize that these errors have the potential to significantly impact the quality and reliability of financial statements. Despite the critical importance of financial reporting in the context of Central Public Sector Enterprises (CPSEs) in India, there is a conspicuous absence of empirical research investigating the comprehensive evaluation of the Quality of Financial Reporting within these organizations.

Specifically, no prior studies have systematically examined and assessed the occurrence and impact of all these types of errors in CPSE financial reporting. This knowledge gap is significant as it leaves unanswered questions regarding the accuracy, transparency, and reliability of financial information produced by CPSEs, which can have far-reaching implications for stakeholders, governance, and the overall economic environment. Hence, there is a pressing need for research to bridge this gap and enhance our understanding of the quality of financial reporting in Central Public Sector Enterprises, shedding light on potential deficiencies and areas for improvement. Hence, the present study seeks to fill this gap by adopting a comprehensive approach to calculate the number of errors and the seriousness of such errors to quantify for the quality of financial reporting, thus contributing to the literature.

3. Research Methodology:

Empirical research on the quality of financial reporting in Central Public Sector Enterprises (CPSEs) in India is notably absent. No prior studies have systematically assessed various error types, including accounting, statutory, director, auditor, and repetitive errors. This gap hinders the evaluation of CPSEs' financial data accuracy, transparency, and reliability, affecting stakeholders, governance, and the economy. Urgent research is needed to address this knowledge gap and identify areas for improvement.

It is evident that our examination must encompass a wide range of issues within the realm of financial reporting and corporate governance. Key areas that warrant scrutiny include accounting errors, which may have implications for the accuracy of our financial statements. Additionally, we must investigate statutory errors, ensuring that our adherence to legal and regulatory obligations is beyond reproach. Errors committed by directors, such as lapses in fiduciary responsibilities, also demand thorough investigation.

Equally significant are errors committed by auditors, as their role is pivotal in providing an independent and objective assessment of the financial health. A critical evaluation of their work is essential to maintain trust and confidence in our financial reporting process. Furthermore, we must address repetitive errors, as these could signify systemic issues that need rectification to prevent future occurrences. This multifaceted approach to our examination will not only identify existing shortcomings but also serve as a foundation for implementing robust corrective measures, ensuring the integrity and transparency of our financial operations and corporate governance.

With a view to assessing the Quality of Financial Reporting of the selected company, the analysis of the types of errors found in Financial Reports of approximately 30 CPSEs has been made to identify different sub errors that occur under each head. This is based on secondary information collected from Independent Auditor Report of the Statutory Auditor, Supplementary Audit report of the C&AG of India, Compliance Audit Report of Annual Reports the C&AG of India, Annual Report of CPSEs etc.

In our study we assessed following parameters to measure the quality of financial statements:

(a) Accounting Errors: Errors which have been committed while preparing Financial Statements may be due to omission or commission, having impact on Assets, Liabilities, Profit, Losses etc. One of the core concerns this paper explores is the prevalence of accounting errors within CPSEs. These errors can manifest as inaccuracies in financial statements, miscalculations, or the misapplication of accounting principles. Accounting errors can distort a company's financial health and mislead stakeholders, impacting investment decisions and public trust.

(b) Statutory Errors: Errors committed ignoring or bypassing the statutes in place like The Payment of Gratuity Rules, 1972; Companies Act, 2013; SEBI (LODR) Regulations 2015; DPE Guidelines on Corporate Governance for CPSEs etc. Compliance with statutory regulations is paramount for CPSEs. Statutory errors can include non-compliance with legal and regulatory requirements, such as tax laws, financial reporting standards, and other governmental mandates. Failure to adhere to these statutes can result in severe legal repercussions and tarnish the entity's reputation.

(c) Errors by Directors: Errors committed by Directors like: Non-compliance with rules, directives, procedure, terms and conditions of the contract etc., non-safeguarding of financial interest of organizations, Defective/ deficient planning, Inadequate/ deficient monitoring etc. The role of the board of directors within CPSEs is pivotal in ensuring sound financial reporting. This study examines situations where errors occur due to the actions or decisions of directors. Whether through negligence, lack of expertise, or conflicts of interest, such errors can have far-reaching consequences. The Satyam scam which involved overstating of Satyam's Balance sheet by USD 1.47 Billion, was mostly attributed to the culture at Satyam, especially dominated by the board (Bhasin, 2013). This highlights the crucial role that BoD play in ensuring the quality of financial reporting.

(d) Errors by Auditors: Accounting errors pointed out by C&AG during supplementary audit (on a test check basis), which were missed by Auditors while preparing Financial Statements. Independent audits are designed to provide assurance regarding the accuracy and completeness of financial reports. The wave of financial scandals at the turn of the 21st century elevated the awareness of fraud and the auditor's responsibilities for detecting it (Bhasin, 2013). This paper investigates the role of auditors in identifying and preventing errors, as well as the implications when auditors themselves make errors, overlook material misstatements, or face conflicts of interest.

(e) Repetitive Errors: Where no remedial action has been taken by CPSE even after being pointed out by the Statutory Auditor or the CAG. Repetitive errors are a particular concern, as they can indicate systemic issues within CPSEs. This research paper seeks to identify patterns of recurring errors and assess their causes, as well as the impact on the credibility and reliability of financial reporting over time.

In exploring these dimensions of financial reporting errors within CPSEs, this research aims to shed light on the challenges and vulnerabilities that can undermine the quality of financial reporting in the Indian public sector. By understanding the nature and implications of these errors, this paper aspires to contribute to the ongoing dialogue surrounding transparency, accountability, and good governance in CPSEs, with the ultimate goal of fostering trust and confidence among stakeholders and the broader public.

Table 1: Type and Sub-Type of Errors for evaluating the Quality of Financial Statements

S. No.	Error	Sub- Type
1	**Accounting Errors**	Overstatement or Understatement of Assets
		Overstatement or Understatement of Equity and Liabilities
		Overstatement or Understatement of Profits/Losses
		Overstatement or Understatement of Cash Flows from Operating/Investing/Financing Activities
2	**Statutory Errors**	Non-providing for Statutory payments
		Non-creation of CSR
		Non-creation of DRR/DRI
		Non-conformity to Schedule III (Companies Act, 2013) Format
3	**Errors by Directors**	Undue benefits to the private parties/ Executives
		Avoidable/ Infructous Expenditure
		Blockage of funds
		Non recovery of dues
		Imprudent financing resulting in loss
		Loss on account of deficiencies in project management
4	**Errors by Auditors**	Non Compliance of CARO (Companies Auditors' Report Order)
		Accounting Errors pointed out by CAG
		Revision of Report by Statutory Auditor (Based on CAG's observations)
		Revision of Financial Statements by Company (Based on CAG's observations)
5	**Repetitive Errors**	Non-compliance of observations pointed out by Statutory Auditor in previous audits
		Non-compliance of observations pointed out by CAG in previous audits

Severity of Errors

This study used the AHP Algorithm on the responses received from the Semi-structured interviews conducted with a diverse group of professionals, including the Chief Financial Officer (CFO), statutory & government auditors, law professionals etc. for assessing the severity of five types of errors viz. 'Accounting Errors', 'Statutory Errors', 'Errors by Directors', 'Errors by Auditors' and 'Repetitive Errors'. The composition of the respondent group is as follows:

Table 2: List of Respondents for Rating types of errors

S. No.	Designation	Type of Organization		Total No. of Professionals
		Govt./ Semi-govt./ PSBs	Private Organization	
1	CEO	6	4	10
2	CFO	2	6	8
3	Directors	6	2	8
4	Independent Directors	6	6	12
5	CA/CS/CMA	-	10	10
6	Law Professionals	-	6	6
Total				54

Using the Analytic Hierarchy Process (AHP), respondents rated error severity on a scale of 1 to 5 in semi-structured interviews. Accounting errors received the highest severity score (4.8), reflecting their significant impact on financial reporting and organizational performance. Errors by directors followed closely with a score of 4.7, highlighting their influence on governance and strategic direction. In contrast, statutory errors were rated lower at 2.2, indicating moderate concern for compliance-related issues. Errors by auditors received a score of 2.7, suggesting less perceived impact on financial accuracy and regulatory compliance. Repetitive errors had the lowest severity rating at 1.8, indicating a lower level of immediate concern despite potential systemic implications.

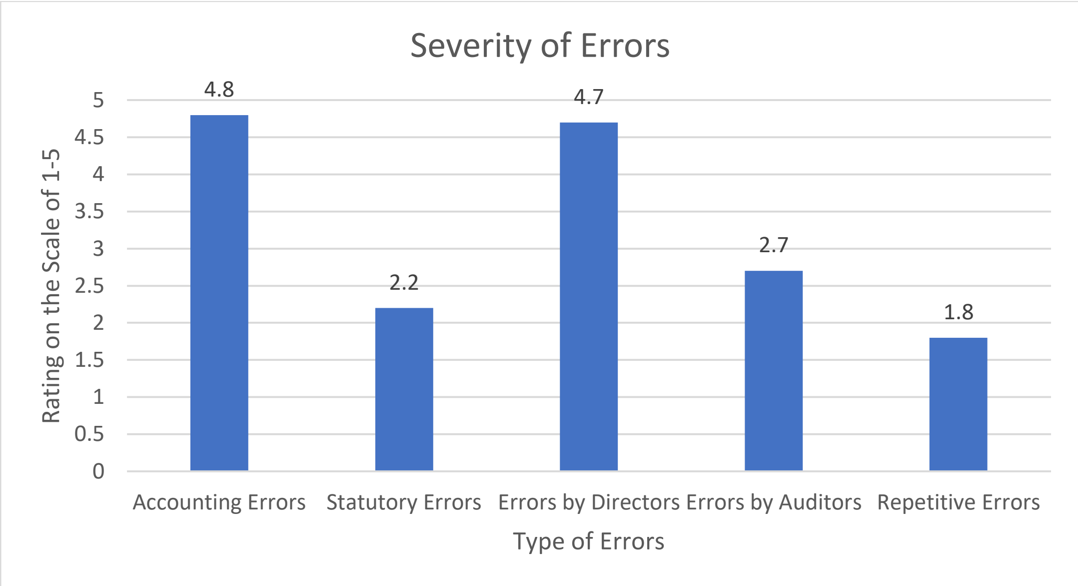

Figure 1: Average Rated score of Severity of Errors

These results emphasize the critical importance of addressing accounting errors and errors by directors to enhance financial integrity and governance. Lower severity ratings for statutory errors, auditor errors, and repetitive errors suggest areas for targeted improvement and risk reassessment within organizational processes. Strategic interventions based on these findings can strengthen operational resilience and stakeholder trust.

4. Result and Discussions

Calculation of Errors in IIFCL

Summary of Errors/ observations pointed out by the Statutory Auditors during Financial Audit and/or by the Comptroller and Auditor General of India during Supplementary Audit on the Financial and Compliance Audit of India Infrastructure Finance Company Limited (IIFCL) for the period 2016-17 to 2022-23 are given below:

Table 3: Number of Different Types of Errors found in Financial Reports of IIFCL

		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total No. of Errors
1	Accounting Errors (AE)	0	2	1	1	2	1	4	11
2	Statutory Errors (SE)	2	0	0	0	0	0	0	2

3	Errors by Directors (ED)	1	0	4	1	0	No Data	No Data	6
4	Errors by Auditors (EA)	0	1	0	3	3	3	4	11
5	Repetitive Errors (RE)	0	0	1	0	1	2	1	4

Quality of FR= AE (4.8) + SE (2.2) + ED (4.7) + EA (2.7) + RE (1.8)
IIFCL Quality of FR= 11(4.8) + 2 (2.2) + 6 (4.7) + 11 (2.7) + 4 (1.8) = 122.3

The quality of financial reporting score is calculated by using the number of errors in the six years under each head multiplied by the weightage given by the experts for each type of errors. The error score of IIFCL is calculated as 122.3. As it is an error score which represents a negative quality of the variable under study, thus the lower the better. The presence of accounting errors, statutory errors, errors by directors, errors by auditors, and repetitive errors in the financial statements of the India Infrastructure Finance Company Limited (IIFCL) has significant implications. These errors can undermine the accuracy and transparency of financial reporting, leading to misinformed decision-making by stakeholders, potential legal repercussions, and damage to the organization's credibility. The credibility of IIFCL's financial information is crucial for attracting investors and lenders. The errors can also hinder effective corporate governance, impacting the overall economic environment. Addressing these errors is vital for restoring trust, ensuring compliance with regulations, and facilitating robust financial management within IIFCL. It becomes the duty of the directors, auditors and the audit committee to look into these errors and try to control them so as it improve the quality of financial reporting.

4.1 Accounting Errors

The examination of India Infrastructure Finance Company Limited's (IIFCL) financial reporting revealed a number of significant accounting errors. These errors encompassed misstatements and inaccuracies in financial statements, which could mislead stakeholders, investors, and regulatory authorities. Our analysis found that these errors were primarily related to issues in revenue recognition, asset valuation, expense accounting etc.

4.2 Statutory Errors

The examination of IIFCL's financial reporting also uncovered several statutory errors like non-providing dividend payable, disbursement of loan without adhering to the RBI Guidelines etc. These errors pertained to the non-compliance with various statutory and regulatory requirements, which are essential for ensuring transparency and accountability in financial reporting.

4.3 Errors by Directors

Examination revealed instances of errors attributable to the board of directors of IIFCL. These errors included lapses in oversight, decision-making, and adherence to corporate governance standards such as disbursement of loan under consortium lending without conducting due diligence, giving mobilization advance without any security etc. This lack of vigilance contributed to the accounting and statutory errors mentioned earlier.

4.4 Errors by Auditors

In addition to errors within the company, the role of external auditors in identifying and rectifying errors is crucial. Our examination revealed inadequacies in the audit process which led to modification of Independent Reports on the basis of observations raised by the Comptroller and Auditor General of India.

4.5 Repetitive Errors

A recurring theme in our analysis was the persistence of errors over time. These errors were not isolated incidents but indicative of systemic deficiencies within the board of directors and audit committees of IIFCL. These deficiencies included non-creation of deferred tax assets, deferment of interest income, investment in India Infrastructure Finance Company (UK) Limited, a subsidiary company of IIFCL, has been valued at carrying cost instead of fair value etc. The lack of robust internal controls within the organization allowed errors to be repeated across multiple reporting periods. This indicated a failure in the implementation of appropriate checks and balances. The audit committee, responsible for reviewing and overseeing financial reporting, demonstrated a lack of due diligence. This deficiency allowed errors to persist and negatively impacted the reliability of IIFCL's financial statements.

Discussions

Traditionally, assessing the quality of financial reports has centered around indirect measures such as relevance, reliability, comparability, understandability, timeliness, and faithful representations. In contrast, this research introduces a novel and direct approach to measuring financial report quality, exemplified by a study conducted at the India Infrastructure Finance Company Limited (IIFCL). This direct method involves analyzing specific types of errors within financial reports viz. Accounting Errors, Statutory Errors, Errors by Directors, Errors by Auditors and Repetitive Errors.

This shift towards a direct assessment approach represents a departure from traditional methods, focusing on tangible indicators of report quality rather than abstract attributes. By employing this innovative approach, this research aims to provide a clearer, more actionable understanding of financial report quality, offering insights into areas of improvement and driving advancements in financial reporting practices.

5. Implications and Conclusion

This research paper investigates the imperative need for addressing financial reporting errors within the India Infrastructure Finance Company Limited (IIFCL) to restore trust, ensure compliance with regulations, and foster robust financial management. The study underscores the profound implications of these errors on the overall financial health of IIFCL and its stakeholders. Through a comprehensive analysis of the challenges posed by inaccuracies in financial reporting, the paper proposes strategies and recommendations to enhance the accuracy, transparency, and reliability of financial information within IIFCL.

To enhance the quality of financial reporting in CPSEs like IIFCL, it is essential to address the root causes of errors and deficiencies by focusing to strengthen corporate governance practices. This means giving more importance to the roles of boards of directors and audit committees. External auditors should conduct thorough and independent audits to find and fix errors. CPSEs should also improve internal controls and follow accounting standards closely to reduce accounting and statutory errors. By following these recommendations, trust in CPSEs' financial reporting can be restored, and transparency, accountability, and reliability in financial practices can be enhanced. This will build confidence among stakeholders and the public in the accuracy of CPSEs' financial reports.

The inclusion of a suitable number of Independent Directors in the Panel of Board of Directors as well as the Audit Committee can assure the quality of financial reporting of Central Public Sector Enterprises which should also be complemented by other corporate governance practices and mechanisms to address the various factors that can affect the accuracy and transparency of financial reporting. Boards of directors seem to effectively monitor the top executives of these firms, which improves their disclosure decisions, including that of increasing the Financial Reporting level (Botti et al., 2014). Prior research has also suggested a positive relationship between size of audit committee and financial reporting quality (Felo et al., 2003). The external auditor also plays a crucial role in helping to promote financial reporting quality (Krishnamoorthy et al., 2004). In the lack of Independent Directors on these panels, the possibility of mitigating the errors affecting the financial reporting like accounting errors, statutory errors, errors by auditor, errors of repetitive nature and errors by Directors causing financial loss to an entity is very high. In order to prevent the chairman from having a monopoly on the board, independent directors are essential (Nanda, n.d.).

Finally, this examination not only sheds light on the specific shortcomings in their financial reporting practices but also underscores the need for proactive measures and reforms to rectify these issues, ultimately enhancing the overall quality and transparency of CPSEs' financial statements. All these errors were found by the Auditors and CAG on the basis of test check. Hence, errors beyond the sample size cannot be commented upon. Further, the year in which compliance audit conducted by CAG was not conducted no comments can be made for those years.

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