

S R GOYAL & CO

CHARTERED ACCOUNTANTS

Auditors' Report

TO THE MEMBERS OF RAJASTHAN RAJYA VIDYUT PRASARAN NIGAM LIMITED

1. We have audited the attached Balance Sheet of **Rajasthan Rajya Vidyut Prasaran Nigam Limited as at 31st March, 2009** and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As the Company is governed by The Electricity Act, 2003 the provisions of the said Act have prevailed wherever they have been inconsistent with the provisions of the Companies Act, 1956.
4. As required by the Companies (Auditor's Report) Order, 2003 as amended issued by the Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure-I, statement on the matters specified in paragraph 4 of the said Order.
5. We draw your attention to:

Accounting policy No.4 (i), regarding determination of tariff for revenue without any return on equity (ROE) in accordance with the terms of Rajasthan Power Sector Financial Restructuring Plans (FRP) issued by Government of Rajasthan, and that the Net Loss of Rs.719.23 Crores for the year ended on 31.03.2009, will be adjusted in tariff of subsequent year(s) as per directions of RERC. The ultimate outcome of the matter cannot presently be determined.
6. Further to **our comments in the Annexure-I {referred to in paragraph 4 above} and Annexure II**, we report that:
 - (a) We have obtained all information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books; **except that the items referred to in paragraph 12 of Significant Accounting Policies are accounted on cash basis instead of on accrual basis as required by Section 209 of the Companies Act, 1956:**
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

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- (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 **except as reported in Annexure-II;**
- (e) As explained to us, being a Govt. Company, clause (g) of sub-section (1) of Section 274 of the Companies Act., 1956 is not applicable as per Notification No. 829 (E) dated 21.10.2003 of Department of Company Affairs.
7. In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read with notes thereon, ***subject to our comments in Annexure-I and II which forms an integral part of this report, the net effect of which on the accounts is not ascertainable***, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:-
- in the case of the Balance Sheet, of the **state of affairs of the Company as at 31st March, 2009;**
 - in the case of the **Profit and Loss Account**, of the **Loss** for the year ended on that date; and
 - in the case of the **Cash Flow Statement**, of the cash flows for the year ended on that date.

For S.R.GOYAL & Co.
Chartered Accountants

Place: Jaipur
Date: 21st Dec.2009

(A.K.ATOLIA)
Partner
Membership No.77201

ANNEXURE – I

ANNEXURE TO THE AUDITOR'S REPORT

(Annexure referred to in and forming integral part of our report dated 21st Dec. 2009 addressed to the members of Rajasthan Rajya Vidyut Prasaran Nigam Ltd. for the year-ended 31.3.2009 being the report on the matters specified on paragraph 4 of the Statement on the Companies (Auditors Report) Order, 2003)

- i. (a) **The company has not maintained proper records of Fixed Assets.** As per explanation given to us the company has prepared a detailed fixed asset register upto 31.03.2008, however the same is yet to be updated for F.Y. 2008-09. Further proper register in respect of fixed assets of shared power projects has not been maintained. Fixed Asset Register is not showing the particulars regarding assets sold, discarded, demolished and destroyed. Also details regarding Impaired Assets, Fictitious Assets, Intangible Assets and assets acquired through finance lease are not been mentioned in the register.
- (b) **Physical verification report of Fixed Assets has not been made available to us in all the cases. As such discrepancies including physical non existence of assets and their not being in working condition cannot be commented upon. The company does not have a regular programme of physical verification of fixed assets. In our opinion, physical verification of fixed assets does not appear to be reasonable having regard to the size and nature of business of the company.**

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- (c) In our opinion and as per the information and explanations given to us, during the year the Company has not disposed off substantial part of its fixed asset affecting the going concern status of the Company
- ii. (a) During the year under review the company has conducted physical verification of inventories other than items of scrap, once in a year.
- (b) **According to explanations given to us, in our opinion the procedure of physical verification of inventories followed by the management are not commensurate in relation to the size and nature of its business and needs to be strengthened and frequency needs to be increased.**
- (c) The company is not maintaining proper records of inventory. Upon physical verification of inventory, some discrepancies were noticed and the same were not adjusted in the accounts.
- iii. (a) The Company has not granted any loans, secured or unsecured to any companies, firms or other parties covered in the Register maintained u/s 301 of The Companies Act, 1956. Therefore, the provisions of clause 4 (iii) (b), (c), (d) are not applicable to the company.
- (e) The company has not taken any loans, secured or unsecured from any companies, firms or other parties covered in the Register maintained u/s 301 of The Companies Act, 1956. Therefore, the provisions of clause 4 (iii) (f) and (g) are not applicable to the company.
- iv. **In our opinion and according to the information and explanations given to us and on the basis of such checks as we considered necessary/appropriate, the Internal Control system in respect of purchases of Inventory and Fixed Assets, for sale of goods and services and issue of material is not adequate and reasonable. Further, it has been observed that the company does not have a proper system for timely adjustment of accounts relating to supply of power.** The procedure of capitalization of fixed assets is not proper.
- Further,** The procedure of capitalizing the works/ projects is not accurate as per the commissioning report provided to us by the company. Company has capitalized the civil and augmentation work without receiving the completion report and after pointing it out during the audit the status of the works as on 31.03.2009 were asked by the respective engineers and the work which were still in progress were transferred back in Capital Work in Progress.
- Further the records relating to employee are also inadequate. **The same is due to continuing failure on the part of management to correct major weaknesses in Internal Controls.**
- v. According to the information and explanations given to us being a Government company contracts entered with another Govt. company is exempt from the provisions of section 297(1) of the Companies Act, 1956 hence Sub clause (a) & (b) of clause (V) are not applicable to the company.
- vi. The Company has not accepted any deposits from the public within the meaning of Section 58A & 58AA or any other relevant provisions of the Companies Act 1956, during the year.
- vii. **The company has made arrangements regarding internal audit of most of its units keeping in view the size and nature of its business. However the extent of coverage of the areas of operations,**

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frequency \ quality of reporting, follow-up of internal audit observations and overall system of internal audit needs to be strengthened.

- viii. As per information and explanation given to us, Cost Records pursuant to the Rules made by the Central Govt. for the maintenance of cost records u/s 209(1) (d) of The Companies Act, 1956 are prepared up to FY 2007-08 however we have not made a detailed examination of such records. Records for the FY 2008-09 are under preparation hence we could not verify the same.
- ix. (a) **As per the information and explanations given to us, we report that the company is generally regular in depositing with appropriate authorities, undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Value Added Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and other material statutory dues to the extent applicable to it, however some delays in depositing the same has been observed. Further in some cases where debit / credit balances in these accounts pertaining to earlier years are being carried over un reconciled / unadjusted / unpaid for which no details / reasons have been furnished to us and as such we are not in position to comment with regard to the genuineness of such dues or otherwise and we are unable to express any opinion thereof.**
- (b) According to information and explanation given to us, there are no pending statutory dues which are not deposited on account of any dispute, **except: -**
- (1) Wealth Tax dues not deposited amounting to Rs. 35.30 Lacs pertaining to the period prior to unbundling of RSEB, as the matter is pending with Rajasthan High Court for adjudication, details of which were not made available to us.
 - (2) It has been observed that complete information relating to LBT of all units is not available with the company hence we cannot comment on the same.
 - (3) House tax pertaining to Jaipur Municipal Corporation amounting to Rs. 488.23 Lacs upto year 2000, as the Writ Petition is pending before the House Tax Revisionary Committee, Nagar Nigam Jaipur for adjudication. Further, amount of Rs. 261.10 Lacs pertaining to period from the year 2000 to 2007, being the difference of House Tax demanded by Jaipur Municipal Corporation and tax assessed and accepted by RVPN on account of rebate claimed as the matter is appealed before the aforesaid committee, which is still pending. The company has also made an appeal to grant exemption from payment of House Tax to the Government.
 - (4) Urban Development Tax liability amounting to Rs.12,21,14,987 payable to Jaipur Municipal Corporation for the year 2008-09 and Rs 10,14,10,785 for 2007-08. Out of which company had paid deposited only Rs 61, 99,544 for 2008-09 and Rs 4,48,70,406 to Jaipur Municipal Corporation and rest amount is still outstanding and matter for the year 2007-08 is pending with Rajasthan High Court.
- X. **In our opinion and according to the information and explanations given to us, the accumulated losses of the company are less than 50% of it's net worth. During the year company has incurred cash losses.**

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- xi.** According to the information and explanation given to us, the company has not defaulted in repayment of dues to any financial institution or bank or debenture holders during the year.
- xii.** The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii.** In our opinion, the company is not a Chit Fund or a Nidhi / Mutual benefit fund / Society and as such the provisions of any special statute applicable to Chit Fund, Nidhi or Mutual Fund Benefit Societies are not applicable to the Company.
- xiv.** In our opinion the Company is not dealing or trading in shares, securities, debentures or other investments and hence the requirement of para 4 (xiv) are not applicable to the Company.
- xv.** According to the information/explanation given to us we are of the opinion that the Company has not given any guarantee for the loans taken by others from Banks/ Financial Institutions.
- xvi.** **In absence of adequate information and records we cannot comment that term loans are applied for the purpose they have taken.**
- xvii.** On the basis of our examination of the cash flow statement and overall examination of Balance Sheet we report that the funds raised on short term basis have not been utilized for long term investments.
- xviii.** The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained u/s 301 of the Companies Act, 1956 during the year.
- xix.** The Company has not issued any Debentures during the year.
- xx.** During the year under review, the company has not received any money by Public Issue.
- xxi.** According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the year, that causes the financial statements to be materially misstated.

For S.R.GOYAL & Co.
Chartered Accountants

Place: Jaipur
Date: 21st Dec.2009

(A.K.ATOLIA)
Partner
Membership No.77201

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ANNEXURE – II

ANNEXURE TO THE AUDITORS' REPORT

(Annexure referred to in and forming integral part of our report dated 21st Dec. 2009 addressed to the members of Rajasthan Raja Vidyut Prasaran Nigam Ltd. for the year-ended 31.3.2009)

ACCOUNTING FOR GOVERNMENT GRANTS

- (1) Refer Accounting policy no 2(i) regarding accounting of grants and subsidies received up to 19.07.2000 as revenue\ Income in Seven Equal Installments with effect from 31.03.2009 instead of in proportion to depreciation charged over the useful life of the assets. This is in contravention of Accounting Standard -12 "Accounting for Government Grants". In the absence of details for identification of these grants with specific assets and useful life of respective assets, the effect of the same on financial statement is not ascertainable.

RETIREMENT BENEFITS

- (2) Refer note no.31 (vi) of notes of accounts of schedule 31, regarding non determination of transitional liability of leave encashment and therefore charging of entire liability as expense in current year, whereas as per accounting practice adopted by the company in respect of accounting of Employee Benefits as per Accounting Standard-15 "Employee Benefits", the transitional liability is charged to profit and loss account in five equal installments. The effect of the same is not ascertainable.
- (3) Refer note no 14 of notes of accounts of schedule 31, regarding reconciliation of balances in the Employees Fund Trusts' account, Gratuity & Superannuation Fund are under progress and hence amount of fund available may vary on final reconciliation. The effect of the same on financial statement is not ascertainable.
- (4) Refer note No. 31 (v) of notes of accounts of schedule 31, regarding, ascertainment of liability of RVPNL at Rs. 1155 Crores against active employees of other successor companies of RSEB for their services up to 19.07.2000 in RSEB. The same could not be verified as no details of employee wise liability are maintained. The effect of the same on financial statement is not ascertainable.

SHARED PROJECTS

- (5) Refer Note No. 3 (a) & (b) of notes of accounts of schedule 31 regarding accounting of purchases\sale\expenses and assets\ liabilities to/from shared projects with MPEB on provisional/ adhoc basis. The accounts of these power projects are not finalized since 2006-07. Therefore the effect on accounts is not ascertainable. Further as required by Accounting standard -27 "Financial Reporting of interests in Joint Ventures", the Joint Venture income \ expenses, assets\liabilities are not disclosed properly.
- (6) The revenue and expenditure in respect of shared project of BBMB, are accounted for on the basis of account received from BBMB. The details of suspense account amounting to Rs.133.38 lacs credited to expenses account and Rs. 57.86 lacs, debited to Capital Work in Progress account, are not available. So we are not able to comment upon the correctness of the same. Further as required by

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Accounting standard -27 “Financial Reporting of interests in Joint Ventures”, the Joint Venture income \ expenses, assets\liabilities are not disclosed properly.

- (7) Credit balance in respect of some of the Fixed Assets of BBMB and Satpura Thermal Project are accounted as deduction in the fixed assets of the company. Profit \ Loss on account of such credit balances has not been determined nor accounted for nor has the same been taken in to account for computing depreciation. The effect of the same on financial statement is not ascertainable.

Loans and Advances

- (8) The following advances are outstanding for a very long period. Neither material nor money is being received back nor these parties are confirming the repayment of the amount outstanding, hence considered doubtful for which no provision has been made by the company.

(Rs.In. Lacs)

a. Amount receivable from Bhakra Beas Management Board	1579.68
b. Advance to Beas Construction Board	114.88
c. Amount deposited with Madhya Pradesh Electricity Board	10.00
d. Amount receivable from Punjab State Electricity Board	714.38
e. Amount receivable from Haryana Vidyut Prasaran Nigam Ltd	13.37
f. Amount deposited Himachal Pradesh State Electricity Board	890.00

Consequently the net loss of the year and Provision for doubtful debts are understated by Rs. 33.22 crores and Loans and advances are overstated to that extent.

- (9) Balances and amounts due to / from Banks in Current Account, Collection Account, Other Vidyut companies of State, Other electricity boards/ Companies such as UPPCL, HPSEB, J&K, PSEB,DVB, PGCIL, HVPNL, MPSEB, etc., Sundry debtors, in some of the cases of balance with Staff Accounts, EMD, SD, RMD, MD, Other deposits. Misc. deposits held\given, Current liabilities and Provisions, Balance with suppliers, contractors, Deposit Works, and other parties, etc and including the Note no.10 and15 of Notes on accounts of schedule 31, are subject to confirmation and have not been fully reconciled, the effect of same on the Financial Statement is not ascertainable.
- (10) Note no 25 of Notes on accounts regarding netting off of various old balances of assets of Rs. 3.34 crores and liabilities of Rs. 34.68 Crores. Net effect of Rs.31.34 Crores is shown as current liability. However no details are provided to us by the company that balances netted off are actually not recoverable or payable by the company. Therefore we are unable to comment on the consequential effect on the Financial Statements.

FIXED ASSETS AND DEPRECIATION

- (11) The following practices and procedures followed by the company in respect of Fixed Assets and Depreciation Accounting, in our opinion are not in accordance with the Accounting Standard-10 “Accounting for Fixed Assets” and Accounting Standard-6 “Depreciation Accounting”.
- a. In case of demolition, discarding, destruction, replacement and retirement from active use, the assets are continued to be valued and shown at original cost less depreciation every year.

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Whereas the Accounting Standard 10 “Accounting for Fixed Assets” prescribes for elimination of such asset and the same should be valued at Net Realizable value.

Further in case of sale of old assets, the sale price are shown as other income and no profit/loss on such sale has been ascertained nor accounted for.

- b. As per the policy of RVPN, Material cost variance i.e. the amount of price variation claims on material which is supplied through stores, is fully charged to revenue. Whereas most of the material issued from stores is charged to capital works. As a result, PV claim of such material is charged to Repair & Maintenance instead of being capitalized. The corresponding impact on fixed assets, works in progress and profit/ loss for the year could not be quantified as details of classification of expenditure are not available.
- c. Capital work in progress of civil works of GSS are accounted in single head and on completion capitalized as buildings instead of its allocation in different heads including buildings, hydraulic work, Plant & Machinery & other civil works. This has resulted in incorrect capitalization and wrong charging of depreciation to that extent.
- d. Due to certain accounting adjustments or rectification of mistakes of earlier year, the historical cost of the assets has undergone a change and adjusted\ accounted accordingly, but the depreciation charged on the same in earlier years has not been revised.
- e. Due to price variation claims received during the year, the historical cost of the some assets has undergone a change and company has considered the same as addition of current year and charged the depreciation accordingly instead of charging depreciation on revised unamortized depreciable amount over the residual useful life of the assets.
- f. Company have not disclosed its share in jointly owned or controlled assets and the proportion of the original cost, accumulated depreciation and written down value of the same.

The corresponding impact on assets and depreciation is not ascertainable.

(12) **Land and Rights:**

- a. Land and Rights (Free hold\lease hold) have been acquired pursuant to power sector reforms scheme. Value of these Land has been incorporated in the books as allocated by the said scheme and differs from the value mention on title deeds and the title deeds pertaining to these lands are still in the name of erstwhile RSEB. Further Jamabandi of 8 Locations of Land are neither in the name of the company nor in the name of erstwhile RSEB.
- b. In case of various pieces of Land amounting to Rs.48.63 Lacs, Title deeds are not on record.
- c. In case of 30 Jamabandis and title deeds of 5 pieces of land are either in the name of RVPN or erstwhile RSEB but not recorded in the books of accounts.

- (13) During the year accounting adjustments have been carried out to give effect of revision in useful life of assets by amortising the balance depreciable amount over the remaining revised use full life of assets since 2006-07. The effect of the same has not been carried out properly, resulting in lesser charge of depreciation for the year by Rs. 58 Lacs and prior period depreciation by Rs.3 Lacs and

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understatement of Net loss by Rs.61 lacs and overstatement of Net Block of Fixed assets to that extent.

(14) The following mistakes in capitalization:

- a. In TCC-V, Kota, Civil works amounting to Rs.58.50 lacs, related to Residential quarter roads etc. are not capitalized.
- b. In most of the cases the capitalization amount is not reconciled with the records maintained by respective C&M and Civil division.
- c. Misclassification observed in various divisional accounts and Intra circle records of CWIP and Fixed assets.
- d. In TCC IX- Bikaner, proper records in respect of CWIP in not maintained and no details are made available to verify the capitalization amount.

has effected charging of depreciation and book value of assets, the corresponding impact cannot be quantified for want of complete details of various works.

DEPOSIT WORKS

(15) The internal control and accounting of the company is inadequate with regard to accounting treatment of deposit works in various circles. Party wise / work wise details of deposit works are not maintained properly.

- (a) There are various cases where credit balances are lying in Deposit work accounts but corresponding work details are not available.
- (b) There are some cases where Work Commence and classified as CWIP/Fixed Assets but corresponding deposit detail not available.
- (c) There are various Deposit Work Completed and transferred to fixed assets but deposit amount has not been transferred to Consumer contribution account.
- (d) In some of the cases amounts transferred from deposit to Consumer contribution is not matching vis a vis to amount capitalized or deposit received.
- (e) Non accounting of Rs.454 Lacs as receivable from RUIDP towards deposit works.
- (f) Capitalization of various deposit works of NHAI on one single date instead of actual date of completion resulting in undercharging of depreciation.
- (g) In some cases Assets created out of deposit works are capitalized with retrospective dates and depreciation has been charged and accounted as prior period expenses, but the corresponding consumer contribution is not identified nor recognized as prior period income.

The corresponding impact on assets, depreciation and deferred income is not ascertainable.

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- (16) Refer note no.8 of notes of accounts, schedule 31, regarding non capitalization of Rs.120 crores as assets on expiry of lease, due to which neither lease rent is provided nor depreciation is charged on assets. The effect of the same on financial statement is not ascertainable.

CURRENT LIABILITIES & PROVISIONS

- (17) Non provision of Service tax payable by the company on some of the transactions of the various taxable services such as Consulting engineer service, Works contract service or Erection, commissioning or Installation services rendered by the company. The effect of the same on financial statement is not ascertainable.

GENERAL

- (18) Refer note no.27 of notes of accounts, schedule 31, Regarding that the company has not ascertained the value of impaired asset, if any, as required by Accounting Standard-28 "Impairment of Assets". The effect of the same on financial statement is not ascertainable.
- (19) Quantitative information pursuant to the provisions of Part II of Schedule VI of the Companies Act given in the notes of accounts are on provisional basis and the same is subject to finalization of global energy accounts. Hence we cannot comment on the same.
- (20) The company has not identified the enterprises qualifying under the definition of Medium and Small Enterprises, as defined under Micro, Small and Medium Enterprises Development Act 2006 (MSMED). As a result no disclosure is given, as per requirement of Schedule VI to the Companies Act, 1956 vide Notification NO. GSR 719 (E), with regard to amounts unpaid as at 31.03.2009 together with the interest paid/payable under the MSMED Act.
- (21) Figures of the Contingent liability as disclosed in respect of pending court/ arbitration/legal/tax related cases and estimated amount of contract remaining to execute on capital account have not been properly complied and ascertained. In the absence of details of each case with present status and individual detail of contract remaining to be executed on capital account, we could not verify the same.
- (22) Accounting is done on the basis of chargeable head verified by the technical officers, which was observed to be incorrect in some of the cases. Hence, we cannot comment upon the reliability of the expenditure which is charged to the verified head.
- (23) Refer Note No.35 of notes of accounts, schedule 31, regarding Segment reporting which is not in accordance with the Accounting Standard-17 "Segment Reporting".
- (24) Interest during construction (IDC) up to 31.03.2008 was wrongly calculated in many cases which have resulted in overstatement in assets and depreciation. Details of the same were not made available to us.

As per our observation in para (8) and (13) above, the net loss for the year is understated by Rs. 33.80 Crores, Prior Period Expenses is understated by Rs.0.03 crores, Provision for doubtful debts is

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understated by Rs.33.22 Crores and Net Block of Fixed Assets is overstated by Rs. 0.61 Crores. The effect of remaining paras is not ascertainable.

For S.R.GOYAL & Co.
Chartered Accountants

Place: Jaipur
Date: 21st Dec.2009

(A.K.ATOLIA)
Partner
Membership No.77201

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