

NATIONAL PROJECTS CONSTRUCTION CORPORATION LIMITED AUDITORS' REPORT TO THE MEMBERS OF NATIONAL PROJECTS CONSTRUCTION CORPORATION LIMITED

We have audited the attached Balance Sheet of NATIONAL PROJECTS CONSTRUCTION CORPORATION LIMITED as at 31st March, 2011 and the Profit and Loss Account for the year ended on that date, and also the Cash Flow statement for the year ended on that date, in which the accounts of Units, Branches and other offices audited by branch Auditors in accordance with the letter of appointment of the comptroller & Auditor General of India are incorporated. 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.

The reports on the accounts of 94 Units / Branches / offices of the Company that have been audited by three Branch Auditors were forwarded to us and we have incorporated the same in preparing this report

1. We conducted our audit in accordance with Auditing Standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from any 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.
2. As required by the Companies (Auditors Report) Order 2003 and the Companies (Auditor's Report) (Amendment) order, 2004 issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said order.
3. Further to our comments In the Annexure referred to above, we report that
 - a. We have obtained all the information and explanations which to best of our knowledge and belief we necessary for the purpose of our audit;
 - b. In our opinion, proper Books of Accounts as required by law, have been kept by the Company so far as appears from our examination of the books of the Company;
 - c. The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account of the Company;
 - d. In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report, subject to our observations in Para (e) below, comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 to the extent there are applicable.
 - e. In our opinion and to the best of our information and according to the explanations given to us, and subject to:-
 1. a.) Accounting of work done measured by the Company's Engineer Incharge as Turnover is not as per Accounting standard (AS) – 7 and 9 issued by ICAI. Thus the income booked for such work is not in line with AS -7 issued by ICAI. The total of such unmeasured work taken as Turnover is not ascertained by the Managements. The accounting policy No- 4 and 6 needs to be brought in line with the Accounting standard as above.
 - b.) In our opinion, creating of provision for work expenses on self measured and joint measured work, not supported by Sub-Contractors bills debiting to contract expenses is against the Standard Accounting Principles.
 - c.) On overall review and in the absence of specific details in respect of debit balance of Rs.77561 Lacs lying

in Value of Work Done Suspense Account and credit balance of Rs. 86027 Lacs lying against liability for Contract Expenses, which in our opinion, appears to be excess provision of work contract expenses and needs reconciliation and necessary accounting adjustments.

2. Work charge wages paid to the employees of the work sites, which have closed and no constructions activities are carried on, to the Contract Work Expenses Account resulting in as gross loss in the contract in the contract account is not as per the accounting principles.
3. In case of sundry Debtors the Corporation does not have any documented policy for determining the amount outstanding as doubtful and creating provision for the same. The agewise and billwise analysis of outstanding debtors was not made available and as such we are unable to comment whether the provision made for doubtful debts is sufficient to coverup the debt which appears to be not realizable. Out of the total of outstanding debtors Rs. 77615.66 Lakhs, Rs. 8346 Lakhs has been considered as doubtful for which the provision has been made. We are informed that only such debts, as per the practices, which are outstanding more than 5 years old, are considered as doubtful but the debts which are not more than 5 years old are not reviewed to ascertain if any of such debt is also unrealizable and requiring provision for doubtful debts.
4. Fixed deposits Receipt (FDR) from various banks taken several years back to the tune of Rs. 19.86 Lakhs are neither traceable nor any detail like name of the bank and the branch, date of issue and maturity date, rate of interest, etc are available and as such is a total loss and should be written off instead of making provision of bad and doubtful deposits.
5. The closing bank balance certificate as on 31.3.2011 has not been produced before us in respect of following bank account.
 - i.) Rafidian Bank, Iraq
 - ii.) Rasheed Bank, Iraq
 - iii.) Nepal Bank Ltd.
6. In respect of Loans and Advances and security deposits with other and with contractees an adhoc provision of Rs. 2898.02 Lakhs had been made towards amount doubtful of recovery in the previous year without reviewing/ascertaining each outstanding balances in the under mentioned accounts.

S.No.	Particulars	Amount of Deposit (Lakhs)	Amount of Provision (Lakhs)
1.	Security Deposits with contractees (deducted from work bills)	6329.62	957.23
2.	Security Deposits with others	91.40	23.78
3.	Advances to Sub Contractors	12619.76	1917.01

- 7 a.) No Provision has been made on account of Service Tax Liability for Rs. 404 Lakhs assessed by Commissioner of Service tax in respect of Contract executed for NTPC- Sipat for the period from 10.9.2004 to 31.3.2008 vide order PRP/12/2010 dt. 18.3.2010.
- b.) No provision has been made towards liability for interest and penalty on the demand raised by commissioner of Service Tax on the above said amount for the above said period as well as liability for interest and penalty on Service Tax liability of Rs. 145 Lakhs on the contracts executed for NTPC –Sipat for the period from 1.4.2008 to 31.3.2011.
- c.) As the Corporation has executed many other such works, which falls in this very category, the management has not worked out the amount of the expected liability on all on such contracts executed in the past and accounted in the books.

8. Booking of contract revenue on the basis of self certified value of work in cases where measurement / certification remain pending from the contractees. In the absence of acceptance of bills by the contractees till date, we are of the opinion that such value of work should not be considered as turnover. The corporation has not provided / identified the total value of all such cases as on 31.3.2011.
9. The amount of Contingent liability has not been ascertained in respect of delayed projects where the contractees have not yet granted extension of time on account of Liquidated damages.
10. In cases where the contracts awarded to the corporation have been terminated and inturn the corporation terminated the contract of the Sub Contractor as per terms of the contract, consequently resulting into disputes between the corporation, Sub Contractors and the Contractees. The Corporation raised various claim bills on the contractees based on claims from Sub Contractors, such bills have neither been accounted in the books as per Accounting Policy 6(vi) of the company nor any actual details and actual amount not accounted has been provided to us for checking and verification.
11. There is lack of internal Control Mechanism thereby resulting in heavy out standing Debit/ Credit balances appearing in Contractees and Sub-Contractors Accounts and in Remittances, Adjusting Account and Death Relief Account for a very long time which needs to be reconciled and adjusted in regular heads of accounts. Thus the internal control system needs to be strengthened.
12. Debit and Credit balances shown under Sundry Debtors, Loans and Advances taken / given, Sundry creditors, Secured and Unsecured Loan, Security Deposits, EMD from Sub- Contractors, Security Deposits with Contractees are subject to reconciliations confirmation and adjustments.
13. Amount deposited in the court consequent to the orders / directions in respect of suit filed cases has not been shown separately in the annual statement of account.
14. The physical verification of Fixed Assets and machinery has not been carried out, as the method and procedure adopted for such verification is not satisfactory.
15. No verification report is on record in respect of Inventory lying with third parties at some of the sites / location which are under the custody of Contractees. At some of the sites fixed assets Register has not been maintained as per the requirement of CARO.

The overall impact of the above qualification on the Profit and Loss account for the year and state of affairs as on 31.3.2011 of the corporation is not ascertainable for the reasons stated above.

The said accounts together read with other Significant Accounting Policies and other Notes, give the information required by the Companies Act, 1956, in the manner so required, and gives true and fair view, in conformity with the accounting principles generally accepted

- I) In the case of the Balance Sheet, of the state of Company's affairs as at 31st March, 2011 and,
- II) In the case of Profit and loss Account, of the Profit for the year ended on that date.
- III) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For LC Kailash and Associates

Chartered Accountants



(L.C. Gupta)

Sr. Executive Partner

M.No.- 05122

Firm No – 01811N

Place: New Delhi

Date: 05.12.2011

ANNEXURE – I REFERRED TO IN PARAGRAPH 3 OF AUDITORS’ REPORT OF EVEN DATE TO THE MEMBERS OF NATIONAL PROJECTS CONSTRUCTION CORPORATION LIMITED ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH, 2011.

- i) a) The Corporation has maintained records of Fixed Assets, showing full particulars including quantitative details but do not contain the details as prescribed under the CARO like, situation, identification marks, year of purchase, etc.
- b) According to the information and explanation given to us, the Fixed Assets were physically verified by the Management during the year except those under custody of the Contractees and Inter Unit Transfer in Transit. However in our opinion, the methods and procedures adopted for physical verification was not satisfactory, although there exists a system for physical verification, yet in most of the units, audited by us, the reports were not produced before us.
- c) In our opinion, fixed assets disposed off during the year do not effect the going concern assumption.
- ii) a) As informed to us, physical verification of inventory has been conducted by the Management at the end of the year excluding materials in transit and inventory lying with third parties at some of the site locations or under custody of Contractees.
- b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventory followed by the Management are not satisfactory and adequate in relation to the size of the Corporation and nature of its business.
- c) The Corporation has generally maintained proper records of inventory. As explained to us, discrepancies noticed between physical verification as compared to the Book records have been charged /credited to Contract Account.
- iii) a) According to the information and explanations given to us, the Corporation has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the Register required to be maintained under Section 301 of the Companies Act, 1956.
In view, of the above we have nothing to express our opinion on Point iii(b) to iii(d).
- b) According to the information and explanations given to us, the Corporation has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the Register required to be maintained under Section 301 of the Companies Act, 1956.
In view, of the above we have nothing to express our opinion against Point iii(e) to iii(g).
- iv) In our opinion and according to the information and explanations given to us, having regard to the explanations that some of the items purchased are of special nature and suitable alternative sources do not exist for obtaining comparable quotations thereof, we are informed that there exists an adequate internal control system commensurate with the size of the Corporation and nature of its business for the purchase of inventory and fixed Assets. During the course of our audit, we have not observed any failure to correct major weaknesses in internal control system.
- v) According to the information and explanations given to us, there are no transactions that need to be entered into a Register required to be maintained under Section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5,00,000 in respect of any party during the year.
- vi) As per the information given to us, the Corporation has not accepted any Deposits from the Public in terms of Section 58A and Section 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed there under.
- vii) As informed, the Corporation has an internal audit system. However, in our opinion, considering the size and nature of the Corporation's business, the system needs to be strengthened especially with regard to verification, identification and proper accounting of unusable fixed assets, reconciliation of balances of Project Authorities, Sub-contractors and other parties outstanding for many years in Sundry Debtors, Advances and other accounts, Mobilization Advance & Interest thereon, Fixed Deposits in Banks, Suspense and inter unit accounts and Sundry creditors & Other Liabilities. The Scope of the System should be considered to cover all activities and larger number of units.
- viii) We have been informed that the Central Government has not prescribed the Maintenance of Cost records under the Provisions of Section 209(1)(d) of the Companies Act, 1956.

- ix) a) According to the information and explanations given to us and on the basis of our examination of the books of account, the Corporation is not regular in depositing with appropriate authorities undisputed statutory dues including, provident fund, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues applicable to it. However, there are past years arrears of interest on late remittance of Provident Fund dues to the Provident Fund Trust as on 31st March 2011 amounting to Rs. 3394.51 Lakhs (Previous year Rs.3234.39 Lakhs)
We have been informed that Provisions of the Employees State Insurance Act, 1948 are not applicable to the Corporation.
According to the information and explanations given to us, undisputed statutory dues payable in respect of income tax, wealth tax, service tax, sales tax, customs duty, excise duty, and cess which were in arrears, as at 31st March, 2011 are given in Annexure – II to our report.
- b) According to the information and explanations given to us, the details of disputed dues of sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess, which have not been deposited on account of any dispute, are given in Annexure – III to our report.
- x) As at 31st March, 2011, the accumulated losses of the Corporation are more than Fifty percent of its net worth. The Corporation has not incurred cash losses during the reporting financial year as well as in the immediately preceding financial year.
- xi) Based on our audit procedures and as per the information and explanations given by the management, the Company did not have any dues of a financial institution, banks or debenture holders.
- xii) The Corporation has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii) The Corporation is not a chit fund or a nidhi / mutual benefit fund/society.
- xiv) The Corporation is not dealing or trading in shares, securities, debentures and other investments.
- xv) According to the information and explanations given to us, the Corporation has not given any guarantee for loans taken by others from Banks or Financial Institutions
- xvi) In our opinion and according to the information and explanations given to us by the management not term loans were obtained by the Corporation.
- xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- xviii) The Corporation has not made any preferential allotment of shares during the year to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.
- xix) The Corporation has not issued any debentures during the year and therefore the question of creating security or charge in respect thereof does not arise.
- xx) The Corporation has not raised money by public issue during the year.
- xxi) According to the information and explanations given to us, no fraud on or by the Corporation has been noticed or reported during the course of our audit.

For **LC Kailash and Associates**

Chartered Accountants



(L.C. Gupta)

Sr. Executive Partner

M.No.- 05122

Firm No – 01811N

Place: New Delhi

Dated: 05.12.2011

Annexure - II

Undisputed Dues of Sales Tax/Income Tax/Custom Duty/Wealth Tax/Excise Duty/Cess/ Service Tax which have not been deposited (outstanding for more than six months) are as follows :-

Name of Statue	Nature of dues	Department	Amount	Unit
Sales Tax Act	Sales Tax	Bihar sales tax, Bokaro	55370	BTPS
Income Tax Act	TDS	Income Tax Deptt., Bokaro	15680	BTPS (CLOSD)
Income Tax Act	TDS	Income Tax Deptt., CTPS	177318	CTPS Maithon
Sales Tax Act	Sales Tax	Sales Tax Deptt., CTPS	102579	CTPS Maithon
Income Tax Act	TDS	Income Tax Deptt., Tailpool	185277	Tailpool Dam
Income Tax Act	TDS	Income Tax Deptt., Tailpool	32683	Tailpool Dam
Sales Tax Act	Sales Tax	Sales Tax Deptt., Tailpool	293798	Tailpool Dam
Income Tax Act	TDS	Income Tax Deptt., Kopili	81716	Kopili
Professional Tax Act	Professional Tax	Professional Tax, Kopili	19593	Kopili
Income Tax Act	TDS	Income Tax Deptt., Guwahati	126438	NER (W)
Sales Tax Act	Sales Tax	Sales Tax Deptt., Guwahati	476875	NER (W)
Professional Tax Act	Professional Tax	Professional Tax, Karbi	29899	Karbi Langpi
Income Tax Act	TDS	Income Tax Deptt., Karbi	1529	Karbi Langpi
Income Tax Act	TDS	Income Tax Deptt., Pasighat	48856	Pasighat
Royalty Act	Royalty	Royalty Deptt., Pasighat	9380	Pasighat
Income Tax Act	TDS	Income Tax Deptt., Aizwal	11839	kvk AIZWAL
Professional Tax Act	Professional Tax	Professional Tax, Aizwal	22036	kvk AIZWAL
Income Tax Act	TDS	Income Tax Deptt., Manipur	217197	Dolaithabi
Income Tax Act	TDS	Income Tax Deptt., Manipur	235680	Khuga Dam
Income Tax Act	TDS	Income Tax Deptt., Manipur	138362	Singda/Loktak
Income Tax Act	TDS	Income Tax Deptt., Badarpur	8615	BTPS
Income Tax Act	TDS	Income Tax Deptt., Maida	266639	FSTPP-II
Sales Tax Act	Sales Tax	Sales Tax Deptt., Maida	534080	FSTPP-II
EPF	EPF	Provident Tax Deptt., Maida	73453	FSTPP-II
Income Tax Act	TDS	Income Tax Deptt., Purulia	5784	Purulia Tunnel
Professional Tax Act	Professional Tax	Professional Tax, Purulia	720	Purulia Tunnel
Income Tax Act	TDS	Income Tax Deptt., Durgapur	45808	Durgapur
Income Tax Act	TDS	Income Tax Deptt., Bankura	5581	Mejia
Income Tax Act	TDS	Income Tax Deptt., Siliguri	103677	Teesta Ph-III
Income Tax Act	TDS	Income Tax Deptt., Siliguri	121747	Ramam
Sales Tax Act	Sales Tax	Sales Tax Deptt., Durgapur	264156	Durgapur
Professional Tax Act	Professional Tax	Professional Tax, Durgapur	119232	Durgapur
Professional Tax Act	Professional Tax	Professional Tax, Bankura	11598	Mejia
Professional Tax Act	Professional Tax	Professional Tax, Siliguri	42321	Ramam
Income Tax Act	TDS	Income Tax Deptt., Asansol	57343	Bakreshwar
Custom Duty Act	Custom Duty & Intt.	Custom & Excise Deptt., Nagpur	67071000	Nagpur Unit(*)
		Total	3942859	

(*)- NPCC has not received any Demand Notice till date.

Annexure - III

Disputed Dues of Sales Tax/Income Tax/Custom Duty/Wealth Tax/Excise Duty/Cess/ Service Tax which have not been deposited are as follows :-

Name of statute	Nature of Dues	SC/ HC	Appellate Tribunal	Appellate Authority	Joint Secretary/ Commissioner (Appeals)	Revisionary Authorities	Others	Amount (in Rs.)	Unit
Chattisgarh Sales Tax/E.T.	Sales Tax Demand, 1984-87				Commissioner Appeals, Gwalior			1583000	GGDU, koni
Sales Tax	Sales Tax Demand 1999-2000						Asstt. Commissioner of Sales Tax BBSR	692015	Water Center for ER, Orissa
Sales Tax	Sales Tax Demand 1997-1998		Sales Tax Tribunal, Cuttack					130183	Water Center for ER, Orissa
Service Tax	Demand for Service Tax 1997-1998		Appellate Tribunal, Kolkata					14700000	Talchar STPP
Sales Tax	Sales Tax Demand 1997-1998				Commissioner of Commercial Tax, Cuttack			345203	Rourkella
Sales Tax	Sales Tax Demand 1997-1998 to 1999-2000		Sales Tax Tribunal, Cuttack					1729423	NALCO, Cuttack
Central Excise & Service Tax	Service Tax, 2004-05						Commissioner Central Excise Appeal, Allahabad	219000	BHU Unit, Allahabad
West Bengal State Tax	Interest on Liability of Profession Tax				Joint Commissioner Professional Tax, Asansol, WB			67842	Bakeshreswar Dam, West Bengal
Service Tax Silchar	Service Tax				Commission Appeal, Central Excise, Guwahati			918596	Silchar
Service Tax	Service Tax Order upto 2008		Appellate Tribunal, Service Tax					40406000	Korba, Sipat
							Total	60791262	