

ACCOUNTING POLICIES

1. ACCOUNTING FOR INCOME AND EXPENDITURE

Income and Expenditure in general are accounted for in the current year's Financial Statements. Adjustments arising out of change in accounting estimates or those arising of a contingency relating to prior periods are accounted for as a part of the current year's financials.

2. CLASSIFICATION OF EXPENDITURE

All expenditure is accounted for under their natural heads, and wherever necessary, allocation of expenditure on functional basis is presented by way of a note.

3. METHOD OF RECKONING OF PROFIT

Profit from construction/erection contracts spread over plural accounting-years is computed every year based on value of work done and expenditure incurred/accrued during the year.

4. TURNOVER

Value of work done is taken as certified by the Chief Executive of the Corporation and includes: -

- i) The work done measured and certified by the contractees.
- ii) The work done considered realizable and recoverable remaining to be measured upto 31st March by the contractees.
- iii) The work done in earlier years but not accounted for in such years as realization of the same was considered doubtful and settlement for which is reached.
- iv) Quantum of escalation based on the formula mutually accepted with the contractees.
- v) Work done for works where agreements are not signed/executed and for which adjustments are carried out on the basis of rates as per tenders submitted/draft agreements/letters of intent.
- vi) Claims for extra/substituted items and other claims considered realizable by the corporation pending determination of exact amount for settlement of rates etc.

Value of work done, however, excludes: -

Work done in earlier years and taken credit of in such years but is considered doubtful of recovery during the current year.

5. DEPRECIATION

Depreciation on Fixed Assets is charged on Straight Line Method based on the rates specified in Schedule XIV of the amended Companies Act 1956.

Library Books, the unit cost of which is less than Rs.500/- are charged off. Other books are depreciated @ 5.15% p.a.

Temporary Construction and Assets specifically required to be constructed/erected at Contract Sites for enabling the Corporation to execute the Contract are depreciated, after reducing estimated salvage value, on straight line basis during the life of the Project as per latest anticipated programme of completion intimated to the Project Authorities.

6. GRATUITY AND LEAVE SALARY

- i) The liability towards contribution to Gratuity Fund in respect of Regular Establishment is based on actuarial valuation as at the year-end.
- ii) The provision in respect of workers has been made as per Payment of Gratuity Act, 1972.

iii) Liability for Leave Salary is accounted for on actuarial basis.

7. FOREIGN EXCHANGE TRANSACTIONS

- i) The rates of conversion for items of income and expenditure are taken at average rate for 12 months of relevant year.
- ii) Assets and liabilities are translated at closing rates as on 31st March of the relevant year.

8. INVENTORIES

Stock of material, stores and spares including construction materials are valued at cost (using First in First out method).

The above valuation is subject to additions of 3% stock storage in the case of material-at-site routed through stores and upto 1% discrepancy adjustment owing to pricing of inventory.

9. EXPENDITURE ON PAYMENTS TO SUB-CONTRACTORS

Pending receipt of bills from Sub-contractors or finalization of rates, provision is made to the extent and proportionate to the work done if it is included in value of work done.

10. DEFERRED REVENUE EXPENDITURE

Expenditure, if substantial, on items the benefit of which will be available for the period exceeding one financial year during the whole period of the contract is temporarily transferred till the work is completed to "Deferred Revenue Expenditure". This expenditure is charged off in Accounts based on the life of the Project as per latest anticipated programme of completion intimated to Project Authorities.

11. PRIOR PERIOD EXPENSES/INCOME

Transaction related to earlier year(s) in respect of individual items of expenditure/income not exceeding Rs.5000/- in each case are not accounted for in the Prior period Expenditure/Income in the profit and loss account.

12. PREPAID EXPENSES

Expenditure upto Rs.5000/- in each case incurred in advance relating to the subsequent year(s) is accounted for on cash basis. Prepaid expenses exceeding Rs.5000/- only are recognised as Prepaid Expenses.

13. ACCOUNTING OF SCRAP

Revenue on sale of scrap, empties, salvaged or waste material is reckoned on realization.

14. INTEREST

Interest payable and receivable are accounted for on accrual basis except interest receivable on advance to staff, which is accounted for on receipt basis.

15. CONTRACTUAL OBLIGATION

Provision for warranty is not maintained for completed contracts and expenditure incurred on warranty repairs and maintenance are charged to revenue when incurred.

16. EXPORT INCENTIVE

CCS and EXIM Scrip benefits are reckoned on realization.

17. CLAIMS LODGED WITH OTHER PARTIES

Claims lodged by the Corporation with other parties are accounted for on realization.

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

- I. We have examined the attached Revised Balance Sheet of NATIONAL PROJECTS CONSTRUCTION CORPORATION LIMITED as at 31st March, 2007 and the Revised Profit and Loss Account for the year ended on that date, and also the Revised Cash Flow statement for the year ended on that date, which were revised consequent to non adoption by the shareholders (at the 50th Annual General Meeting held on 31-12-2007) of the original Balance Sheet and Profit and Loss Account and Cash Flow statement covered by our audit report dated 06.12.2007.
- II. As per the opinion of the Institute of Chartered Accountants of India and that of department of Company Affairs, a company can not reopen and revise the accounts once adopted by the shareholders at an annual general meeting. However, this case is different from the opinion framed as above, in the case, though accounts were approved by the board but not approved by the shareholders in Annual General Meeting. The Ministry has sought the clarification from CAG and in the opinion of C.A.G., in such a case company can reopen and revised the original accounts. In the light of the opinion of C.A.G., the board of Directors of the Company decided to reopen and revise the original accounts. Accordingly, Audit Committee of the Company in their Meeting held on 18-09-2008 as well as Board in the Board Meeting held on 19-09-2008, agreed to make provisions for removing the qualifications given by us in our earlier Report.
- III. We have considered the earlier Audit Report dated 06-12-2007 on the original accounts and have examined the changes which have resulted in additional provision of Rs. 80.96 Crores (reference invited to our qualification vide Para 3.f. in our Audit Report dated 06-12-2007)
Consequently, the earlier profits of Rs. 4.40 Crores are converted into losses of Rs. 76.56 Crores resulting into reduction of current assets Rs. 80.15 Crores and fixed assets Rs. 0.81 Crores respectively.
- IV. We had 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.
- V. 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.
- VI. 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 were 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 (f) below, comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
- e. As per certificate provided, none of the directors are disqualified from being appointed as director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
- f. In our opinion and to the best of our information and according to the explanations given to us, and subject to: -

1. UNSECURED LOANS Cr. Rs. 6,39,14,25,377/-

The above includes loan fund from Government of India of Rs. 235.24 Crores, which is more than the aggregate of the paid up capital and free reserves. Approval/Ratification of the President of India Under Article 46 of the Articles of Association of the Corporation and by the shareholders as required under Section 293(1)(d) of the Companies Act, 1956 has been applied and approval is still awaited.

2. Accounting policy no. 3, 4 and 15 regarding recognition of Revenue and Provision for warranty are in contravention of "Construction Contracts" (AS-7, Revised) issued by the Institute of Chartered Accountants of India. Further, the Corporation has not followed AS-9 (Revenue Recognition), AS-11 (Effect of Changes in foreign exchange rate) & AS-15 (Accounting For Retirement Benefit).

3. INTER UNIT REMITTANCE CREDIT/ADJUSTING HEAD Dr. Rs. 96,73,085/-(Net)

Non-reconciliation of inter-unit accounts/inter unit Remittance/ other accounts due to unrecognized and unadjusted entries. Such entries, if adjusted properly, could significantly affect the assets and liabilities of the Corporation. Hence, we are unable to comment on it.

4. (i) Pending reconciliation of quantities taken in value of work done and paid to subcontractors at certain Units, the quantum of short provision or excess provision of liabilities, if any, is indeterminate.
- (ii) In case of delayed projects where clients have not yet granted final extension of time the liability on account of liquidated damages for such delay has not been provided as it is not ascertainable at this stage.

5. Non charging of 100% DEPRECIATION ON THE Assets costing upto Rs. 5,000/- is in violation of Schedule XIV read with Section 350 of the Companies Act, 1956 but in the opinion of management it is immaterial considering the overall turnover of the company

6. Branch Auditors observations

In the opinion of management, whatever Provisions have been made now also cover the impact of observations made by Branch Auditors.

The impact of above observation is not quantifiable. The said accounts read with other Significant Accounting Policies and other Notes, give the information required by the Companies Act, 1956, in the manner so required, and give the true and fair view, in conformity with the accounting principles generally accepted in India;

- i) In the case of the Revised Balance Sheet, of the state of Company's affairs as at 31st March, 2007 and,
- ii) In the case of Revised Profit and Loss Account, of the loss for the year ended on that date.
- iii) In the case of the Revised Cash Flow Statement, of the cash flows for the year ended on that date.

For AGIWAL & ASSOCIATES
Chartered Accountants



(P.C. Agiwal)
Partner
M. No. 80475

Place: New Delhi
Date: 04.10.2008

ANNEXURE-I REFERRED TO IN PARA IV OF OUR AUDIT REPORT OF EVEN DATE

- i)
 - a) Subject to the remarks given below, the Corporation has maintained proper records to show full particulars including quantitative details and situation of Fixed Assets *except for Temporary Construction*.
 - b) According to the information and explanation given to us, the Fixed Assets were Physically verified by the Management during the year in a phased manner *except those under custody of clients and inter unit transfers in transit amounting to Rs. 33.67 lakhs (previous year Rs. 50.28 lakhs)*. Although there exists a system for physical verification, *yet in most of the units, the reports were not made available to us to confirm whether or not physical verifications were actually conducted*.

Location of Tools and Plant & Machinery items has not been provided in Tools and Plant Register in most of the units. Also, identification and marking has not been affixed in respect of most of the T&P items including Office Furniture.
 - c) In our opinion, Fixed Assets disposed off during the year do not affect the going concern assumption.
- ii)
 - a) As explained 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 clients*. *However, the reports were not made available to us to confirm whether or not, physical verification was actually conducted*. In the opinion of management it is immaterial.
 - 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 generally reasonable and adequate in relation to the size of the Corporation and nature of its business *subject to adherence of uniform predetermined method of such verification*.
 - 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 *without analyzing the reasons thereof*.
- 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.
 - 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.
- iv) In our opinion and according to explanations given to us, having regard to the explanation 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 in the corporation. During the course of our audit, we have not observed any continuing 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 scrap, reconciliation of balances of Project Authorities, Sub contractors and other parties outstanding for many years in Sundry Debtors, Advances and other amounts, 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 enlarged to cover all activities and larger number of units. Further, Internal Audit Reports along with compliance were not made available to us.
- 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 generally regular in depositing with appropriate authorities undisputed statutory dues including income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues applicable to it except stated below.

However, Provident Fund is being deposited on adhoc basis with the Trust and there is considerable delay in the deposit of difference between the amount required to be deposited and the ad hoc amount deposited. The arrears of Provident Fund dues as on 31st March, 2007 are Rs. 3,051.34 lakhs (Previous year Rs. 3,800.94 Lakhs) subject to reconciliation with Provident Fund Trust. 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, the Company is not regular in depositing 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, 2007

- (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 timely on account of any dispute, are given in Annexure – II to our report.
- x) As at 31st March, 2007, the accumulated losses of the Corporation are more than Fifty percent of its net worth. The Corporation has incurred cash losses during the financial year covered by our audit and in the immediately preceding financial year. Accumulated losses have fully eroded the paid up capital.
- xi) The company has defaulted in repayment of dues to institutions etc. The outstanding due to these lenders are as under:

| Name | Rs. in crores |
|--------|---------------|
| GOI | <u>577.95</u> |
| Total: | <u>577.95</u> |

- 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) In our opinion and 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) The Corporation has received Rs.1580 lakhs as Non Plan Loan Assistance from the Ministry during the year. However, we cannot offer our comments on the correct utilization of the funds for want of details.

- xvii) In the absence of relevant information, we are unable to comment on whether the funds raised on short-term sources are 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 AGIWAL & ASSOCIATES
Chartered Accountants



(P.C. Agiwal)
Partner
M. No. 80475

Place: New Delhi
Date: 04.10.2008

Undisputed

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

| Name of the Statute | Nature of dues | Department | Amount (in Rs.) | Unit |
|----------------------|------------------|-------------------------------------|-----------------|----------------|
| Custom Duty Act | Custom Duty | Custom duty Deptt., Bombay | 6,70,71,759 | Nagpur |
| Income Tax Act | Income Tax | Income Tax Deptt., Siliguri | 7,720 | Torsa |
| Income Tax Act | Income Tax | Income Tax Deptt., Ranchi | 1,600 | BDRL |
| Professional Tax Act | Professional Tax | Professional Tax Deptt., Siliguri | 9,570 | Teesta III |
| Income Tax Act | Income Tax | Income Tax Deptt., Vizag | 11,422 | NTPC Simadhari |
| Income Tax Act | Income Tax | Income Tax Deptt., Dhanbad | 1,84,652 | TPD |
| Sales Tax Act | Sales Tax | Sales Tax Deptt., Patna | 8,36,042 | L N B Patna |
| Income Tax Act | Income Tax | Income Tax Deptt., Singda | 1,38,362 | Singda |
| Income Tax Act | Income Tax | Income Tax Deptt., Manu | 28,620 | Manu |
| Income Tax Act | Income Tax | Income Tax Deptt., Siliguri | 48,442 | Teesta III |
| Income Tax Act | Income Tax | Income Tax Deptt., Siliguri | 57,235 | Teesta III |
| Income Tax Act | Income Tax | Income Tax Deptt., Purulia | 14,961 | Purulia |
| Professional Tax Act | Professional Tax | Professional Tax Deptt., Purulia | 2,460 | Purulia |
| Professional Tax Act | Professional Tax | Professional Tax Deptt., Simadhari | 7,500 | NTPC Simadhari |
| Income Tax Act | Income Tax | Income Tax Deptt., Dholaitabi | 5,74,297 | Dholaitabi |
| Income Tax Act | Income Tax | Income Tax Deptt., Vizag | 79,335 | Muran |
| Professional Tax Act | Professional Tax | Professional Tax Deptt., Siliguri | 5,340 | TRB |
| Professional Tax Act | Professional Tax | Professional Tax Deptt., Siliguri | 42,321 | Ramam |
| Income Tax Act | Income Tax | Income Tax Deptt., Vizag | 89,774 | Nalco |
| Income Tax Act | Income Tax | Income Tax Deptt., Nalco | 19,008 | Nalco |
| Income Tax Act | Income Tax | Income Tax Deptt., Siliguri | 32,873 | TRB |
| Income Tax Act | Income Tax | Income Tax Deptt., Kreis | 81,602 | Kreis (N) |
| Sales Tax Act | Sales Tax | Sales Tax Deptt., Kreis | 3,33,929 | Kreis (N) |
| Professional Tax Act | Professional Tax | Professional Tax Deptt Siliguri | 1,09,322 | Ramam |
| Professional Tax Act | Professional Tax | Professional Tax Deptt., Bennihalla | 16,535 | Bennihalla |
| Sales Tax Act | Sales Tax | Sales Tax Deptt., Bennihalla | 7,156 | Bennihalla |
| Income Tax Act | Income Tax | Income Tax Deptt., Bennihallar | 8,280 | Bennihalla |
| Professional Tax Act | Professional Tax | Professional Tax Deptt., Manjeri | 71,595 | Manjeri |

Annexure - II

Disputed

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

| Name of the Statute | Nature of dues | Forum where dispute is pending | | | | | | | | Unit |
|---------------------|----------------|--------------------------------|---------------------------------|---------------------|----------------------------|---|-------------------------|----------------------------|-----------------|-----------------|
| | | Supreme/ High Court | Appellate Tribunal | Appellate Authority | Adjudging Authority | Joint Secretary/ Commissioner (Appeals) | Revisionary Authorities | Others | Amount (in Rs.) | |
| Sales Tax Act | Sales Tax | — | — | — | — | — | — | Sales Tax Deptt., Bareilly | 47,51,345 | Tanakpur |
| Sales Tax Act | Sales Tax | — | — | — | — | — | — | Sales Tax Deptt., Sitapur | 4,58,632 | Sharda Sahayak |
| Sales Tax Act | Sales Tax | — | Appellate Tribunal, Jeypore | — | — | — | — | — | 5,15,741 | Muran Dam |
| Sales Tax Act | Sales Tax | — | Appellate Tribunal, Bhubneshwar | — | — | — | — | — | 6,35,812 | Angul |
| Sales Tax Act | Sales Tax | — | Appellate Tribunal, Trivendrum | — | — | — | — | — | 25,38,085 | TSW, Trivendrum |
| Custom Tax Act | Custom Duty | — | — | — | Custom Duty. Deptt. Bombay | — | — | — | 6,70,71,759 | Nagpur |