



**COMMENTS OF THE STATUTORY AUDITORS AND MANagements' REPLIES THERETO  
(FORMING PART OF THE DIRECTORS' REPORT)**

**AUDITORS' REPORT TO THE SHARE HOLDERS OF  
NATIONAL BUILDINGS CONSTRUCTION CORPORATION LIMITED**

We have audited the attached Balance Sheet of National Buildings Construction Corporation Limited as at 31st March, 2004 and also the Profit & 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.

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 about whether the financial statements are free of material misstatements. 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 the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with the provisions of Section 227 of the Companies Act, 1956, we report as under:

1. As required by the Companies (Auditors' Report) Order, 2003, issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we annex hereto a statement on matters specified in paragraphs- 4 & 5 of the said Order.
2. The accumulated losses of the Corporation stand at Rs. 89,82,62 thousands as on 31.03.2004. The Corporation has defaulted in timely discharge of statutory dues, repayment of banks and financial institutions loans and interest thereon and Government loan instalments.
3. Further to our comments in annexure referred to in Para-1 and Para-2 above, we report as hereunder.
  - a) We are unable to ascertain and report the impact on the state of affairs / profitability on account of the following.
    - i) Offices / projects outside India have not been visited by us. The value of work of done, exchange fluctuations, other income/expenditure transactions and other balances in respect of foreign projects have been incorporated based on the records available at Head Office as received from these projects and as certified by the Management.
    - ii) Adjustments that may arise on account of reconciliation and final settlement of accounts with various clients, PRWs, Suppliers and others (Refer Para 14 of Schedule 21).



- iii) There are outstanding dues on account of book debts amounting to Rs.33,12,30 thousands in respect of closed inland projects which are not under arbitration disputes and are very old. These have been shown as good for recovery.
- iv) A sum of Rs. 6,75,70 thousands has been shown as advance turnover tax, adjustment of which in the books of accounts, would be made on final assessment.
- v) The accounts of Iraqi & Libyan projects have been translated into Indian - currency at the effective buying rate prevailing as on 31.03.2001 (Refer Para 20 of Schedule 21)
- vi) Bank balances in Iraq and outstanding dues including security deposits with clients in respect of projects completed in Iraq & Libya, realisations of which are subject to lifting of sanctions and outcome of negotiation with the two countries. (Refer Paras 4, 9, 10 (i) and 11(i) of Schedule 21).
- vii) The Company has written-back certain old unclaimed credit balances without proper identification, based on the review/assessment done by the management, as not payable (Refer para 19 of Schedule-21).
- viii) Balances of Debtors, Creditors and loans & advances are subject to confirmation. (Refer Para 15 of Schedule 21)
- ix) In the absence of working of billwise/agewise details of dues, we are unable to verify the classification of Sundry Debtors under 'more than six months & others'.
- x) Corporation has transferred its consultancy and overhead expenses of Rs. 68,71 thousands, being 10% of the prime cost, to the value of work done in respect of MPLADS Gujarat School Works, awarded by the Government of India. These expenses were met by the Corporation out of interest on advance money receipt from the Government of India which had been kept in fixed deposits with banks. Confirmation from the Government for such utilisation by the Corporation is pending.
- xi) Non-deduction of tax on amounts payable to professionals, contractors, rent etc. at the time of credit.
- xii) Para 26 of Schedule 21 regarding redemption of 7% non cumulative preference shares.
- xiii) Inventory worth Rs. 1,30,00 thousands which are surplus to the requirement of certain units, have been transferred to the stockyard at Ghitorni, Delhi and lying in the open unreconciled/unverified. There is a considerable diminution in the value of this stock, financial impact of which is yet to be ascertained by the Corporation.



- xiv) Current liabilities do not include amount payable towards equity participation of NBCC in Joint Venture Co -Jamal-NBCC International Private Limited (Para 30 of Schedule 21).
  - xv) The company has not identified those fixed assets which are not in active use. As per AS-10 Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements. Non-adherence to the requirements of AS-10 resulted in Fixed Assets (Gross Block in Active use) being overstated.
  - xvi) The accounting policy (Reference 9 of Schedule 20 and para 24 of Schedule 21) has been changed to make provision for leave encashment and gratuity in respect of all the employees on actuarial valuation. The impact of this change is unascertainable.
  - xvii) Corporation has reconstructed a bridge on Daman Ganga for which Value of work done booked during the year was for Rs. 4,82,00 thousand. It is reported that the bridge has recently collapsed. Further liability of the Corporation in this respect is not known.
  - xviii) Loans and advances include Rs. 2,37,44 thousands for expenses and other loans to Staff for which adjustments have not been made.
- b) Reference is invited to the Notes forming part of accounts for the year ended 31st March, 2004 (Schedule 21) and other points as mentioned here in below, for which neither expenditure was booked nor provision for liabilities made in the accounts:
- i) Para 3 regarding non-provision against inventory valuing Rs. 21,89 thousands and plant and machinery valuing Rs. 2,08 thousands which are impounded and under the custody of the clients.
  - ii) Current assets representing outstanding book debts/advances/ security deposits etc. in respect of closed inland projects due from clients/contractors amounting to Rs. 34,63,43 thousands are under litigation / arbitration. Further, current assets amounting to Rs. 87,75 thousands recoverable from parties / clients are in dispute. Corporation has shown these dues as good for recovery and has not made any provision.
  - iii) Included in sundry debtors of a running project is an amount of Rs.6,64,27 thousands which has not been accepted by the client, but this amount is still shown as good instead of doubtful.
  - iv) Para 10(ii) and 11(ii) regarding amounts recoverable from Airport Authority of India (AAI) Rs. 14,06,78 thousands and Rs. 10,24,57 thousands respectively, thus aggregating to Rs. 24,31,35 thousands in respect of Libyan projects, which were subject matter for arbitration. The arbitration award had since been obtained in favour of the Corporation for amounts aggregating to Rs. 1,76,06 thousands only. Balance amount of Rs. 22,55,29 thousands is not recoverable, though this amount has been shown as good for recovery.



- v) Advances given by the Corporation to contractors for Libyan / Iraqi / Mauritius projects amounting to Rs. 5,10,11 thousands are doubtful of recovery being under dispute / litigation / arbitration. Moreover, there are advances amounting to Rs. 90,30 thousands for Libyan projects which are very old and no recovery made by the Corporation so far, though shown as good instead of doubtful.
- vi) There are arbitration awards against the Corporation and favouring contractors amounting to Rs. 49,10 thousands in respect of which the Corporation did not give effect in the accounts.
- vii) Para 27 regarding non-provision of interest amounting to Rs.6,32,14 thousands on special rupee loan from the Syndicate Bank.
- viii) Para 8 in respect of 1,89,54 thousands withheld by the clients on account of liquidated damages for delay in completion of projects.
- ix) Para 16(i) regarding foreseeable losses on contracts which have been worked out to be Rs. 9,33,19 thousands.
- x) Para 12 regarding amount of Rs. 13,00,00 thousands receivable from Ministry of Urban Development & Poverty Alleviation, towards grant for repayment of OADB loan.
- xi) Para 21 in respect of interest of Rs. 46,15,39 thousands (including Rs. 6,12,54 thousands for the current year) payable on land cost at Pragati Vihar, New Delhi which has not been paid / provided in terms of the allotment letter.
- xii) Para 22 regarding reversal of a sum of Rs.7,63,08 thousands in 2000-2001 being liability to the Ministry of Urban Development without the Ministry's approval for waiver of such liability.
- xiii) Provision has not been made for non payment of guarantee fees and penal levy amounting to Rs. 21,23,18 thousand (including Rs. 1,27,17 thousand for the current year) in respect of guarantee given by the Government for loans taken by the Corporation.
- xiv) Provision has not been made for stamp duty of Rs. 20,44 thousands in respect of land at Ghitorni resulting understatement of fixed assets and current liabilities.
- xv) Corporation has shown ex-gratia expenses to VRS employees amounting to Rs. 1,22,03 thousands as current year expenses instead of prior period expenses.
- xvi) Value of work done includes sale of real estate to a party for Rs. 4,29,88 thousand without executing deed of sale / agreement to sell and even delivery of possession by 31st March, 2004. This has resulted in the overstatement of value of work done by Rs. 4,29,88 thousands and corresponding expenses by Rs. 78,16 thousands.



- xvii) Accounting policy relating to the value of work done ( Para 2 of Schedule 20) is not in conformity with the Para 30(a) of AS-7 as laid down by the Institute of Chartered Accountants of India. It includes Rs. 2,36,78 thousands value of which was taken in respect of costs incurred in the year in connection with future activity on contracts. This has resulted in overstatement of VWD by Rs. 2,36,78 thousands, overstatement of expenses by Rs. 1,59,92 thousands and consequential overstatement of profit by Rs. 76,86 thousands.
- xviii) Value of work done is overstated by Rs. 45,17 thousands which are neither admissible by nor probable of recovery from the client.
- xix) Balances lying with Canara Bank and Syndicate Bank London at the year end have not been translated at the closing rate, thus resulting in excess bank balance by Rs. 4,41 thousand.

4. Subject to the above.

- a) We have obtained all information and explanations, which to the 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 in so far as appears from our examination of the books.
- c) The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account.
- d) In our opinion, Balance Sheet & Profit & Loss Account have been drawn in accordance with the Accounting Standards referred to clause 3(c) of Section 211 of the Companies Act, 1956 except for Accounting Standards in respect of the following matters:
  - i) AS-5-Refer Para 3(b)(xv)
  - ii) AS-7-Refer Para 3(b)(viii), 3(b)(ix), 3(b)(xvii) & 3(xviii)
  - iii) AS-9-Refer Para 3(b)(xvi)
  - iv) AS-11-Refer Paras 3(a)(v) & 3(b)(xix)
- e) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Accounting Policies and notes thereon give the information required by the Companies Act, 1956 in the manner so required. In respect of observations contained in Paragraph 3(a), we are unable to express our opinion regarding effect on the accounts in respect of the matter specified therein. Further, due to impact of qualifications contained in paragraph 3(b)(i) to (xix) profit of Rs. 14,97,20 thousands shall be converted into loss of Rs.97,97,94 thousands and in addition there will be prior period loss of Rs. 68,85,62 thousands. The total net current assets would have been (-) Rs. 42,31,35 thousands (as against the reported figure of Rs. 139,65,91 thousands) and the net fixed assets would have been Rs. 10,03,36 thousands (as against the reported figure of Rs. 9,86,86 thousands). The accumulated losses would have been Rs. 271,63,38 thousands (as against the reported figure of Rs. 89,82,62 thousands). Accordingly, considering the effect of aforesaid qualifications, we report that the said accounts do not reflect a true and fair view:



- i) In the case of Balance Sheet, of the state of affairs of the Company as at 31st March 2004 and
  - ii) In the case of Profit & Loss Account, of the profit disclosed for the year ended on that date.
  - iii) In the case of the Cash Flow statement, of the cash flow for the year ended on that date.
5. As per information provided to us, the provisions of section 274(1)(g) of the Companies Act, 1956 are not applicable to the Directors of the Company in view of CL V General Circular No.8/2002 dated 22.03.2002.

For Jindal & Company  
Chartered Accountants

Sd/-  
(AKHIL JINDAL)  
Partner

Place: New Delhi  
Dated: 25.08.2004



## **ANNEXURE TO THE AUDITOR'S REPORT**

(Referred to in paragraph 'I' of our report of even date)

- (i) (a) The company has generally maintained proper records to show full particulars including quantitative details and situation of fixed assets.
- (b) According to information and explanations given to us, the fixed assets (except those under custody of clients) were physically verified by the management at the end of the financial year. Physical verification report of fixed assets is pending for reconciliation with the book records.
- (c) Substantial part of fixed assets has not been disposed of by the company during the year.
- (ii) (a) According to information and explanations given to us, physical verification of inventory is conducted at the year end (except those lying with outside parties or under custody of clients) by a team of officials. However, no such physical verification and reconciliation had taken place in respect of materials lying at the company's main stockyard at Ghitorni, Delhi (refer para 3(a)(xiii) of audit report).
- (b) The procedures adopted for physical verification of inventory are generally reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) The company has generally maintained proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material and these have been properly dealt within the books of accounts.
- (iii) The company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Act.
- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedure commensurate with the size of the company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods, except in respect of acquisition of motor vehicles and other assets at the cost of contractor in one of the units. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control.
- (v) Based on the audit procedures applied by us and according to the information and explanations given to us, there are no transactions that need to be entered into a register in pursuance of section 301 of the Act. However, the company does not maintain any register as required under section 301 of the Act.
- (vi) The company has not accepted any deposits under the provisions of section 58-A and 58AA of the Act and the rules framed thereunder.
- (vii) Internal audit department is headed by a senior officer, but for the purpose of internal audit work, staff are drawn from the other departments specially from the finance department, hence to this extent the internal audit is not fool proof. Running units have not been adequately covered under Internal Audit purview during the year. Follow-ups of the reports are not prompt enough. In our opinion, internal audit system needs to be strengthened and improved commensurate with the size of the company and nature of its business.



(viii) We have been informed that the Central Government has not prescribed the maintenance of Cost Records under clause (d) of sub-section(I) of section 209 of the Act.

(ix) (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, certain undisputed statutory dues like Provident Fund, Sales Tax and Income Tax Deducted at Source have not been regularly deposited by the company with the appropriate authorities during the year. We have been informed that the provisions of the Employees State Insurance Act are not applicable to the company. Further the company is not required to remit any amount to Investor Education and Protection Fund.

(b) According to the information and explanations given to us and the records of the company examined by us, the particulars of dues of sales-tax, income tax, customs duty, wealth tax, excise duty and cess as at 31st March, 2004 which have not been deposited on account of a dispute, are as follows:

<b>Nature of dues</b>	<b>Amount due (Rs. in '000)</b>	<b>Forum where pending</b>
Sales Tax	65,60	Commissioner (Sales Tax), Jaipur

(x) The accumulated losses of the Company stand at Rs. 89,82,62 thousands as at 31st March, 2004 and such accumulated losses are more than fifty percent of its net worth. The Company has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.

(xi) The company has defaulted in repayment of dues to bank and Govt. of India. The period and amount of default is as under:

<b>Name of Bank / Financial Institution</b>	<b>Nature of payment (Rs. in '000)</b>	<b>Amount (Rs. in '000)</b>
Syndicate Bank, Delhi	Interest on Special Rupee Loan	4,82,90
Govt. of India	GOI Loan	53,70,84
Govt. Bodies	Interest accrued and due	4,60,00

(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) The company is not a chit fund or a nidhi or a mutual benefit society. Therefore, the provisions of sub para (xiii) of para 4 of the order are not applicable to the company.

(xiv) In our opinion, the company is not dealing or trading in shares, securities, debentures and other investments except investments in fixed deposits with the banks for which proper records have been maintained of the transactions and such fixed deposits have been held by the company, in its own name.

(xv) The company has not given any guarantee for loans taken by others from bank or financial institutions.



- (xvi) The company has not obtained any term loan during the year.
- (xvii) On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on short-term basis which have been used for long-term investment and vice versa.
- (xviii) The company has not made any preferential allotment of shares during the year to parties and companies covered under section 301 of the Companies' Act, 1956.
- (xix) The company has not issued any debentures during the year and therefore the question of creating security in respect thereof does not arise.
- (xx) The company has not made any public issue of any securities during the year and therefore the question of disclosing the end-use of money raised by any public issue does not arise.
- (xxi) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

For Jindal & Company  
Chartered Accountants.

Sd/-  
(AKHIL JINDAL)  
Partner

Place: New Delhi  
Dated: 25.08.2004