



**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, 2005 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 over-all financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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. Further to our comments in the annexure referred to in paragraph-1 here in above and subject to what is stated here in below vide paragraph-3, we report that:-
 - 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 and Loss Account dealt with by this report are in agreement with the books of accounts.
 - d) In our opinion, Balance Sheet and 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) Accounting policy No.6(a)(iii) has been followed in preference to Accounting Standard-11 (AS-11) Accounting for the Effects of changes in Foreign Exchange Rates issued by the Institute of Chartered Accountants of India regarding conversion of accounts of Libyan and Iraqi Projects into Indian Currency. (Refer Para-3(a)(iv) below).
 - ii) No provision has been made for foreseeable losses which is not in agreement with Accounting Standard 7(AS 7) Accounting for Construction Contracts (Refer Para 3(b)(i) below)
 - e) Since Section 274(1)(g) of the Companies Act, 1956 is not applicable to the Government Companies, as per Notification No.GSR 829(E) dated 21.10.2003 issued by Department of Companies Affairs, we have no comments regarding disqualification for appointment of directors.
- 3) Further to our comments in annexure referred to in Para-1 and Para-2 above, we report as under:-
- a) We are unable to ascertain and report the impact on the state of affairs/profitability on account of the following:-
 - i) Office/projects outside India have not been visited by us. The value of work 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 12 of Schedule 22).
 - iii) There are outstanding dues on account of book debts amounting to Rs.61,32,23 thousands in respect of closed inland projects, which includes an amount of Rs.24,88.23 thousand under litigation/arbitration. The same have been shown as good for recovery. (Refer Para 6 of Schedule-22).
 - iv) The accounts of Iraqi and Libyan projects have been translated into Indian Currency at the effective buying rate prevailing as on 31.03.2001 (Refer Para 18 of Schedule-22).
 - v) Dues in respect of projects in Iraq amounting to a sum of Rs.70,01,44 thousand are shown as good for recovery. (Refer Para No.7 of Schedule-22).



- vi) Dues including security deposit in respect of Libyan projects amounting to Rs.57,12,40 thousand are shown as good for recovery. (Refer Para 8(i) and 9(i) of Schedule-22).
- vii) Balances of Debtors, Creditors and loans and advances are subject to confirmation. (Refer Para 13 of Schedule-22).
- viii) Para 21 of Schedule-22 regarding redemption of 7% non-cumulative preference shares.
- ix) The amount payable towards equity participation of NBCC in Joint Venture Co-Jamal-NBCC International Private Limited has not been accounted for. (Refer Para 31 of Schedule-22).
- x) The Company has written-back certain Old unclaimed credit balances of Rs.1,34,92 thousand based on review/ assessment done by the management (Refer Para 17 of Schedule-22).
- xi) There are instances where penal action may be initiated by the concerned statutory authorities.
- xii) The grant receivable from Govt. of India, Ministry of Urban Development for Rs.13,00,00 thousand has been considered receivable from Government in view of letter No.0-17031/22/80-PS dated 13.07.2005 confirming that the settlement of interest due is under consideration of the Government. (Refer Para No.10 Schedule-22).
- xii) An amount of Rs.11,28,60 thousand lying with Rasheed Bank, Iraq has been shown as good for recovery. (Refer Para No.3 of Schedule-22)
- xiii) The liability of Rs.7,63,08 thousand has not been considered in terms of sanction from the Government of India, Ministry of Urban Development. (Refer Para No.19 of Schedule -22).
- xiv) No provision has been made for guarantee fees and penal levy amounting to Rs.22,50,35 thousand (including 1,27,17 thousand for current year) for guarantee given by the government for loans taken by the Corporation in view of issue being under dispute.
- xv) Provision of Rs.22,55,29 thousand has not been considered because the award is under dispute and not acceptable to both the parties (Refer para 8(ii) and 9(ii) of Schedule-22).



- xvi) Advances given by the Corporation to contractors for Libyan/Iraqi/Mauritius projects amounting to Rs.5,10,11 thousand are doubtful of recovery being under dispute/litigation/ arbitration. Moreover, there are advances amounting to Rs.90,30 thousand for Libyan Projects which are very old and no recovery made by the Corporation so far, though shown as good instead of doubtful.
- b) Reference is invited to the Notes forming part of accounts for the year ended 31st March, 2005 (Schedule-22) and other points as mentioned here in below, for which neither expenditure was booked nor provision for liabilities made in the accounts:
- i) Provision of Rs.2,81,62 thousand arising due to arbitration/court award has not been provided for in the accounts.
- ii) No provision has been made for foreseeable losses of Rs.2,22,77 thousand as per Accounting Standard-7. (Refer Para 14 of Schedule-22).

The effect of the various qualifications given above on the profit as well as assets and liabilities of the company could not be ascertained for want of details. However due to qualifications contained in Para No.3(b)(i) and (ii) the profit for the year is overstated by Rs.5,04,39 thousand, liabilities are under stated by Rs.2,22,77 thousand and assets are over stated by Rs.2,81,62 thousand.

Subject to what is stated in paragraph 2(d) (i) and 2(d)(ii) and paragraph 3(a)(i) to (xvii) and 3(b)(i) & (ii) supra, in our opinion and to the best of our information and according to the information and explanations given to us, the said accounts, read with notes thereon, give a true and fair view:-

- i) In the case of Balance Sheet, of the state of affairs of the Company as at 31st March,2005 and
- ii) In the case of Profit & Loss Account, of the profit of the company 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.

For Dinesh Mehta & Company
Chartered Accountants

Place: New Delhi

Date: 25.07.2005

Sd/-
(ANUP MEHTA)
PARTNER
Membership No.93133



ANNEXURE TO THE AUDITORS'S REPORT

(Referred to in paragraph '1' 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 were physically verified by the Management at the end of the financial year. Physical verification report of fixed assets is pending reconciliation with the book records.
- (c) Although some of the fixed assets have been disposed of during the year. In our opinion and according to the information and explanations given to us, the ability of the Company to continue as a going concern is not affected.
- (ii)(a) According to information and explanations given to us, inventories have been physically verified during the year by management (except those lying with outside parties or under custody of clients).
- (b) The procedures adopted for physical verification of inventory in our opinion are 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 with in 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. Since 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 Companies Act 1956, accordingly, clause 4(iii)(b)(c) and (d) of the order are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures 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. Further on the basis of our examination of the books and records of the Company and according to the information and explanations given to us, we have neither come across nor have been informed of any instances of major weaknesses in the aforesaid internal control procedures.



- (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. Accordingly, clause 4(v) (b) of the order is not applicable to the Company.
- (vi) The company has not accepted any deposits under the provisions of Section 58A and 58AA of the Act and the rules framed thereunder.
- (vii) On the basis of the internal audit reports broadly reviewed by us, we are of the opinion that, the coverage of internal audit function carried out by the firms of Chartered Accountants appointed by the management is commensurate with the size of the company and the nature of its business.
- (viii) We have been informed that the Central Govt. 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 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.

- (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, 2005 which have not been deposited on account of a dispute, are as follows:-

<u>Nature of dues</u>	<u>Amount due</u>	<u>Forum where pending</u>
	(Rs. in '000)	
Sales Tax	1792	Commissioner (Sales Tax), Jaipur
Income Tax	4741	Income Tax Appellate Tribunal(Delhi)

- (x) Accumulated losses of the Company as at March 31, 2005 exceeds the net worth of the Company as at that date. However, the Company has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.



- (xi) According to information and explanation given to us and the records examined by us, the company has defaulted in repayment of dues to bank and Govt. of India in respect of the following:-

<u>Name of Bank/ Financial Inst.</u>	<u>Nature of payment</u>	<u>Amount (Rs. in '000)</u>
Syndicate Bank Delhi.	Interest on Spl.Rupee loan	4,82,90
Govt. of India	Interest on GOI Loan	67,13,57
Govt. Bodies	Interest accrued and due	5,60,00

- (xii) According to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of share, debentures and other securities except to its employees for vehicle against execution of necessary documents as per laid down policy of the Company.
- (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) As informed and explained to us, the Company has not dealt/traded in shares, securities, debentures and other investments except investments in fixed deposits with the banks. In our opinion and according to the information and explanations given to us proper records have been maintained for investments in fixed deposits and such fixed deposits have been held by the company, in its own name.
- (xv) According to the information and explanations given to us, the company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) As per information given to us the loan outstanding as at the end of the year were raised and utilised in the period prior to our audit. Hence we are unable to comment whether the same have been applied for the purpose for which they have been raised. The Company has not obtained any term loan during the year.
- (xvii) According to information and explanations given to us and on an overall examination of the Balance Sheet of the Company, We report that the company has not used funds raised on short term basis for long term investments and vice versa.



- (xviii) According to information and explanations given to us, 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) According to information and explanations given to us, the Company has not issued any debentures during the year and therefore the question of creating security in respect thereof does not arise.
- (xx) According to the information and explanations given to us, the Company has not raised any fund by way of public issue.
- (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 or fraud on or by the Company, notices or reported during the year, nor have we been informed of such case by the Management.

For Dinesh Mehta & Company
Chartered Accountants

Place: New Delhi
Date: 25.07.2005

Sd/-
(ANUP MEHTA)
PARTNER
Membership No.93133