

HARIBHAKTI & CO.,
Chartered Accountants
42, Free Press House,
215, Nariman Point,
Mumbai – 400 021

SRB & ASSOCIATES,
Chartered Accountants
5th Floor, IDCO Towers,
Bhubaneswar – 751 022

To
The Board of Directors,
Western Electricity Supply Company of Orissa Ltd.
Plot No. 123, Sector – A, Zone – A,
Mancheswar Industrial Estate,
Bhubaneswar – 751 010.

We have audited the attached Balance Sheet of Western Electricity Supply Company of Orissa Ltd. as at 31st March, 2008 and the Profit and Loss Account of the Company 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.

The audit has been conducted with limited purpose of certification of accounts as per license conditions prescribed by ORISSA ELECTRICITY REGULATORY COMMISSION (OERC) and 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in 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.

As the Company is governed by the Electricity Act, 2003, the provisions of that Act have prevailed, wherever the provisions of the Companies Act, 1956 are inconsistent with the said Electricity Act, 2003.

On the basis of such checks of the books and records as we considered appropriate and the information and explanations given to us during the course of the audit, we annex hereto a statement in **Annexure-1** on certain matters in line with those specified in paragraphs 4 and 5 of the Companies (Auditor's Report) Order, 2003 read with Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956.

Further to our comments in the Annexure referred to in Paragraph 4 above, we report that:

- (a) We have obtained all the 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 account as required by the law have been kept by the Company so far as it appears from our examination of such books;
- (c) The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account;
- (d) In our opinion, the Balance Sheet and the Profit and Loss Account dealt with this Report are prepared in compliance with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956, in so far as they apply to the Company;
- (e) On the basis of written representations received from the Directors and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March 2008 from being appointed as a Director in terms of clause (g) of subsection (1) of Section 274 of the Companies Act, 1956.
- (f)(i) Refer to Note no. A.2 of Schedule – 20, Delayed Payment Surcharge (DPS) collected and Note no. A.2 of Schedule – 20, Interest on Security Deposit paid is accounted for on cash basis.
- (ii) Refer to Note No. B.2.a of Schedule 20 regarding preparation of the accounts of the Company on a “Going Concern” assumption even though the Company’s net worth is fully eroded, due to the reasons stated therein which according to our opinion are considered appropriate at present.
- (iii) *Refer to Note B.5(ii) and 7.2 of Schedule-20 wherein*

Comments of Haribhakti & Co., Chartered Accountants

We are unable to express any opinion, regarding disputes with GRIDCO relating to debits to its account for higher provision for doubtful debts amounting to Rs.46.93 crore and higher actuarial liabilities towards retirement benefits amounting to Rs.108.51 crore, as of 31st March, 1999 and remaining still unsorted and considered for preparation of accounts, which may have impact on the amounts receivable from / payable to GRIDCO as of 31st March, 1999.

Comments of SRB & Associates, Chartered Accountants

Opening Balances brought forward from previous year ended on 31st March 1999 include excess provision for bad and doubtful debts and excess provision for Pension,

Gratuity and Leave encashment etc. of Rs.46.93 crores (Rs.37.26 crores as per C&AG) and Rs.108.51 crores respectively, over liability ascertained by GRIDCO in accordance with Transfer Scheme Notification with a consequential over statement of receivables from GRIDCO were subject matters of adverse comments by C&AG in their report under section 619(4) of the Companies Act, 1956 for the year 1998-99. The aforesaid opening balances continue to remain overstated.

- (iv) Refer to Note No.B.5 (iii)(c) of Schedule-20, in the absence of detailed analysis of individual non-government LT consumers and keeping in view subsequent collection pattern against such debts, further provisions, if any, required against portion of these debts disclosed under “Other Debts”, as good debts, not ascertainable.
- (v) *Refer to Note No.B.1 of Schedule-20 relating to accounting / disclosure carried out as per specific guidelines prescribed by OERC for certification of accounts for the year ended 31st March 2008 and deviation made thereof.*
- (vi) Refer note no.B.6 of schedule 20 regarding investment not made in accordance with Clause IV (2) of the Sixth Schedule of the Electricity Act, 2003.
- (vii) Refer to Note no. B.9 of Schedule – 20 for Power Bond wherein GRIDCO has not agreed to the payment/ adjustment effected by the Company in respect of Power Bonds on the ground that redemption of Power Bonds by way of adjustment is not in terms of the Subscription Agreement dated 25th September, 2001 and Bond Certificates. Resultantly, there is over/under statement of “Payable/ Receivable- Bond and other Adjustment with GRIDCO” to that extent.
- (viii) In absence of adequate details of Opening Balances as on 01-04-1999 with regard to “sundry debits and credits”, the same remain unconfirmed.

The effect, on the Company’s Loss for the year / and on the corresponding debit balance appearing as Profit & Loss Account and corresponding other items of Balance Sheet, arising out of comments given under (f) (iv) to (viii) above are not presently ascertainable.

- (g) *Subject to our observations under (f) above, in our opinion and to the best of our information and according to explanations given to us, the said accounts read together with the accounting policies and other notes appearing in the Schedule including other disclosures on opening balances, give the information required by the Companies Act,*

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1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- i. in the case of the Balance Sheet, of the State of Affairs of the Company as at 31st March, 2008 and
- ii. in the case of the Profit and Loss Account, of the Loss of the Company for the period ended on that date.

For Haribhakti & Co.,
Chartered Accountants

For SRB & Associates
Chartered Accountants

(Hemant Bhatt)
Partner

(S.C. Bhadra)
Partner

Place : Bhubaneswar
Date : 17th day of September 2008 .

ANNEXURE-I TO AUDITOR'S REPORT

(To the Board of Directors of Western Electricity Supply Company of Orissa Ltd.)
(Statement referred in Paragraph 4 of our report of even date)

- (i) (a) The company has generally maintained fixed assets register showing particulars including quantitative details and situation of fixed assets. The legal formalities for transfer of ownership of freehold and leasehold land and land rights are yet to be completed.
- (b) As informed to us, the Company has carried out physical verification of the fixed assets during the year. The discrepancies if any, will be ascertained on completion of the Fixed Asset Register.
- (c) The company has not disposed off substantial part of the Fixed Assets during the year and the going concern status of the company is not affected.
- (ii) (a) The inventory has been physically verified during the year by the external agency being Chartered Accountant firms as per the appointments made by the management. In our opinion, the frequency of verification is reasonable.
- (b) The procedures of physical verification of inventories followed by such external agency are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company has maintained proper records of inventory. As informed, no material discrepancies were noticed on such physical verification as compared to book records.
- (iii) (a) The Company has not granted any loan secured or unsecured to the Companies, Firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4(iii) (b) to (d) of the Order are not applicable.
- e) The Company has taken loan secured or unsecured from the Companies, Firms or other parties listed in the register under section 301 of the Companies Act, 1956. The number of party is one being GRIDCO and the amount involved is Rs.285.69 crore.

- (f) In our opinion, the rate of interest and other terms and conditions on which loans have been taken from GRIDCO are not, prima-facie, prejudicial to the interest of the Company.
- (g) The company was not regular in repaying the principal amounts and has not been regular in the payment of interest. However we have been informed that the Company is in the process of restructuring some of the loans as per the approval of the OERC.
- (iv) In our opinion and according to information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and with regard to the sale of goods and services. 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 provided by the management, the particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 for purchase of goods, materials, services and purchase of energy have been entered into the register required to be maintained under that section and have been made at prices which are reasonable having regard to the prevailing market prices at which transactions for similar goods etc., have been made with other parties and energy purchases being done on the basis of Bulk Supply Tariff rates determined by Orissa Electricity Regulatory Commission.
- (vi) The company has not accepted any deposits from the public during the year.
- (vii) The Company has appointed independent chartered accountant firms for the purpose of internal audit. The terms of reference and scope of work to such internal auditors, in our opinion, are adequate and commensurate with the size and nature of the business of the Company.
- (viii) The Company has generally maintained cost records as prescribed by the Central Government under Section 209(1)(d) of the Companies Act, 1956 vide Govt. Notification No. G.S.R. 913 (E) dated 21st December 2001, which we have broadly reviewed. Further, as per Notification No.52/53/CAB-2008 4th February 2008, issued by the Ministry of Corporate Affairs, the Company is subject to cost audit during the year for which the cost audit report is awaited.

- (ix) (a) The Company has been generally regular in depositing undisputed statutory dues including provident fund, income tax, sales tax and other statutory dues with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of aforementioned dues were in arrears as at 31st March 2008 for a period of more than six months from the date they became payable. However, in the absence of detailed break up of opening outstanding liabilities transferred under transfer scheme, we are unable to make any comment whether any undisputed amounts payable in respect of Statutory dues were outstanding as at the last day of the accounting year for more than six months from the date they became payable.
- (b) According to the information and explanation given to us, there are no dues of income tax, sales tax, which have not been deposited on account of any dispute. However, the particulars of dues of sales tax, income tax at the last day of the financial year which have not been deposited on account of dispute as per the records of the company and information & explanations given to us are as follows:

| Sl. No. | Name of the Statute | Nature of the dues | Amount (Rs.) | Period to which the amount relates | Forum where dispute is pending |
|---------|---------------------|--|--------------|------------------------------------|--------------------------------|
| 1. | Orissa sales tax | Sales tax against meter rent | 172800.00 | 1984-85 to 1986-87 | OST Tribunal |
| 2. | Orissa sales tax | Sales tax against meter rent | 414855.00 | 1999-2000 | OST Tribunal |
| 3. | Orissa sales tax | Sales tax against meter rent | 49854.00 | 1997-98 | Orissa High Court |
| 4. | Orissa sales tax | Sales tax against meter rent | 62452.00 | 1999-00 to 2000-01 | Orissa High Court |
| 5. | Orissa sales tax | Differential tax against use of concessional forms | 279581.00 | 1992-93 to 1998-99 | OST Tribunal |
| 6. | Orissa sales tax | Sundry materials purchased | 1700110.00 | 1998-99 | OST Tribunal |
| 7. | EPF Act | Penalty for delayed de-posit of dues | 402577.00 | July 1980 to Feb 1983 & March 1991 | PF Comissioner, Rourkela |

- (x) In our opinion, the accumulated losses of the company are more than fifty percent of its net worth. The company has cash losses during the financial year covered by our audit and cash profit in the immediately preceding financial year. The cash profit/loss mentioned hereinabove are without taking into consideration the effect of the qualification contained in the audit report.
- (xi) In our opinion and according to the information and explanation given to us, the company has no outstanding dues to a financial institution, bank or debenture holders.
- (xii) According to the information and explanations given to us and based on the documents and records produced, the Company has not granted 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 therefore, the provisions of clause 4(xiii) of the Order are not applicable.
- (xiv) In our opinion, the Company is not dealing or trading in shares securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable.
- (xv) According to the information and explanations given to us, the Company has not given any guarantees for loans taken by others from banks or financial institutions and therefore, the provisions of clause of 4(xv) of the Order are not applicable.
- (xvi) Based on the information and explanations given to us by the management, the Company has taken term loan from Rural Electrification Corporation amounting to Rs.9.86 crore and the amount has been utilized for the purpose for which it was taken.
- (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 the funds on short-term basis have not been prima facie used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares during the year to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.

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- (xix) According to the information and explanations given to us, during the period covered by our audit report, the Company had not issued any debentures and therefore the provisions of clause 4(xix) of the Order are not applicable.
- (xx) The Company has not raised any money through a public issue during the year.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

**For Haribhakti & Co.,
Chartered Accountants,**

**For SRB & Associates,
Chartered Accountants,**

**(Hemant Bhatt)
Partner**

**(S.C. Bhadra)
Partner**

Place: Bhubaneswar.

Date: 17th day of September 2008.