AUDITORS’ REPORT

TO THE MEMBERS OF BHARAT SANCHAR NIGAM LIMITED

A. We have audited the attached Balance Sheet of Bharat Sanchar Nigam Limited as at 31st March 2007 and the related Profit and Loss Account and 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.

B. We conducted our audit in accordance with the 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 the financial statements. An audit also includes assessing the accounting 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 of our opinion.

Our report has taken into consideration the audited accounts and Branch auditors reports of 48 units (circles, districts, regions, training institutions, stores, factories) appointed by the Comptroller and Auditor - General of India and noted by the Board of Directors of the company.

C. As required by the Companies (Auditor’s Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of ‘The Companies Act, 1956 of India (the ‘Act’) and on the basis of such checks as we considered appropriate and according to the information and explanations given to us and reports of other auditors, we set out in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to in paragraph ‘C’ above:

D. Attention is invited to the facts stated in the following paragraph:

1. **Assets taken over from Department of Telecommunications (D.O.T) and D.O.T balances**

   a) As referred to in Note no. 2 on Schedule U, the process of taking over the assets and liabilities from Department of Telecommunications (D.O.T) is still in progress and the fact that the value of net assets identified subsequent to 01.10.2000 has been adjusted to Capital Reserves.

b) As referred to in note no. 5.3 of Schedule – U, the title to the various immovable properties taken over from D.O.T. are yet to be transferred in the name of the Company.

c) As referred to in note no. 5.1 of Schedule – U, the fact that the method of valuation adopted for assets taken over is also the basis for treating them as original cost for the purpose of providing depreciation.

2. **Fixed Assets and Capital Work-in-Progress**

a) As stated at Note no. 1 on Schedule – D, land purchased/ acquired on leasehold/ freehold in certain cases through various authorities, title deeds are yet to be executed.

b) As stated in Note no. 2 on Schedule – D, amortization has been made only in respect of leasehold land which have been identified as leasehold.

c) As referred to in note 5.2 on Schedule - U, about the expiry/ non renewal of lease period of the leasehold lands on which buildings have been constructed and the fact that no provision has been made for the 'surrender value/ written value of the building' in the hope of ultimate renewal of the leases.

d) As referred to in note 5.4 on Schedule - U, the fact that some excess depreciation could have been provided on the analogue exchanges which had been impaired and provided for and the fact that no adjustment has been made to write back such excess depreciation.

e) As referred to in Note No. 5.5 on Schedule – U, certain assets still shown under 'Capital-work-in-progress' though completed and put to use, has not been capitalized and depreciation provided on them.

f) As referred to in Note No. 5.7 on Schedule – U, there are differences in CWIP between subsidiary ledger and financial ledger as such the consequential effect of the same on the CWIP has not been considered.

3. **Depreciation**

As referred to in Accounting Policy 4 in 'Schedule T', depreciation on factory buildings & administrative buildings have been provided at the rate applicable to the normal buildings.

4. **Current Assets, Loans and Advances and Current Liabilities**

a) As referred to in Note No. 7.1 & 8.2 of Schedule – U, the fact that no adjustment has been made for the difference of Rs. 30,022 lacs between the General Ledger and Subsidiary Ledger of Sundry Debtors and the difference between similar sets of accounts in respect of loans and advances and other current assets (amount unascertained) pending reconciliation.

b) As referred to in Note 10.1 on Schedule U, Bank Reconciliation Statements have not been prepared in a few units of certain circles in respect of some bank accounts.

c) As stated in Note No. 10.2 & 10.3 of Schedule – U, Cheques and TTs deposited with the Bank for Rs. 13532 lacs but not credited by the banks and unlinked debit & credit items appearing in Bank Reconciliation for Rs. 1,274 lacs and Rs. 7,180 lacs, respectively are still in the process of reconciliation and hence, no adjustment have been made in the accounts.

d) The balances due to and due from DOT, DOP, M.T.N.L., C-DOT and other government departments / companies on current account are subject to confirmation, reconciliation and consequential adjustments.

5. **Frauds**

Frauds have been reported in 7 circle amounting to Rs. 635.08 lacs of which Rs. 6.67 lacs neither the amount has been recovered nor provision has been made in the accounts.

6. **Inter/ Intra Circle Remittance Account**

As stated in Note No. 14 on Schedule U, about the differences between subsidiary records and corresponding control accounts the possible cumulative effect of reconciliation of inter/intra circle remittances on the income, expenditure, assets and liabilities could not be ascertained.

7. **Others**

(a) **As stated in Note no 25 (d) and 25 (e) on Schedule U, the company has not identified the SSIs and S.M.E.'s with whom they are dealing and hence disclosure as required under Schedule VI and Micro, Small and Medium Enterprises Development Act, 2006 respectively could not be made.**

(b) **As stated in Note no 26(f) on Schedule U, in certain units, contingent liabilities and estimated amount of contracts remaining to be executed have not been ascertained.**

(c) **The fact that certain assumptions as stated in note no. (1) & (2) on Cash Flow Statement have been made for the purpose of preparation of 'Cash Flow Statement'.**

8. **License Fee, Spectrum Charges, Inter connect Usage Charges**

a) **The fact that the licence fee has been accrued based on note no. 13.1 and the inter connect revenue between BSNL & MTNL is based on note no. 12.2 of Schedule – U, and the accounting for the revenues from D.O.T, & M.T.N.L. has been made as stated in the accounting policy 2(c) of Schedule 'T'.**

b) **As referred to in Note 12.3 on Schedule U, no provision has been made for telecom traffic charges payable and receivable to and from Pakistan Telecom Company Limited.**

9. **Revenue**

(a) **The exchange wise reconciliation of outgoing metered calls and calls billed has not been done by the company for 15 circles as reported by the branch auditors. Consequently the completeness and the correctness of the recognition of revenue, provision for revenue sharing as well as for licence fee payable, to that extent, could not be adjusted.**

(b) **The booking of rental income on disconnected telephones as stated in Note no. 12.5 of Schedule – U, quantum not ascertained.**

E. 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 purposes 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 those books and proper returns adequate for the purpose of our audit have been received from the branches not visited by us;

In addition to the matters covered in our report under CARO 2003, the system of accruing income and expenditure is to be strengthened as evidenced by the fact that the large amount of prior period income and expenditure are being accounted for during each of the subsequent years.

(c) We have received reports on accounts of branch offices audited by other auditors and the same has been dealt with by us in our report.

(d) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of accounts and with the audited returns from branches.

(e) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 **except for :**

- **Accounting Standard 2 for valuation of inventory have not been followed in 11 circle as reported by branch auditors and in some of the circles due to pending identification of non-moving, slow moving and obsolete inventories, their valuation has not been done on realizable value.**

- **Accounting Standard 10 for charging of overhead on proportional basis to the Capital Work-in-Progress (Note No. 5.6 of Schedule - U) instead of on actual basis.**

- **Accounting Standard 15 regarding provision for leave encashment of absorbed employees as well as directly recruited employees and gratuity liabilities in respect of eligible employees has been provided for on estimated basis pending ascertainment of liabilities by actuarial valuation.**

(f) On the basis of written representations received from the directors as on 31st March, 2007 and taken on record by the Board of Directors of the Company, we report that none of the directors is disqualified as on 31st March, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

(g) ***Subject to item 2,3,4,5,6,7,8&9 contained in D above, to which attention have been drawn and the consequential effect of adjustment on the value of assets, liabilities, the quantum of income and expenditure and their effect on the profit for the year (which are unascertainable),*** 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, **except for the non disclosure of the matters referred to in Note no. 25 (a) of Schedule 'U' and information relating thereto** 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, 2007; and

(ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date and

(iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date.

For Thakur, Vaidyanath Aiyar & Co.
Chartered Accountants

M.P. Thakur
Partner
M.No. 052473

Place: New Delhi
Date: