

## Annexure to the Auditors' Report

### Referred to in Paragraph C of our report of even date:

#### **Fixed Assets**

- 4(i)(a)] The records maintained by the Company in respect of its fixed assets **are not considered to be proper in so far as records of 29 circles do not give full particulars including quantitative details and situation of fixed assets. The fixed asset register has not been updated in 9 circles as reported by the Branch auditors.**
- 4(i)(b) It has been represented that fixed assets have been **physically verified by the management except in 9 circles during the year** generally at the year end. Circle auditors have stated that no material discrepancies have been noticed between book records and physical verification. **The branch auditors of many (23) circles have however reported that no documentary evidence supporting such physical verification carried out, were made available to them, and hence they are unable to express any opinion on the material discrepancies noticed on such verification.**
- 4(i)(c) The company has not disposed off any substantial part of its fixed assets during the year, which may have any impact on the going concern nature of the company.

#### **Inventory**

- 4(ii)(a) It has been represented that inventory have been **physically verified except in 1 circle** by the management during the year. **The branch auditors have reported that in 16 circle no documentary evidence supporting such physical verification carried out, were made available to them and hence they are unable to express any opinion on the reasonableness and adequacy of the interval of such physical verification.**
- 4(ii)(b) **Based upon observations made by many of the branch auditors that documentation of the physical verification process followed by the company is inadequate, as such we are unable to comment on the reasonableness and adequacy of procedure of physical verification of inventories followed by the management.**
- 4(ii)(c) On the basis of examination of inventory records, as reported by most of the branch auditors, **the Company is not maintaining proper records of inventory at many circles. Consequently the Branch Auditor were unable to express any opinion as to the discrepancies noticed are material or not. However, the discrepancies noticed were properly dealt with in the books.**

**The difference between General Ledger and Stores Sub Ledger amounting to Rs. 18541.26 lacs (net) in respect of 17 circles is still under reconciliation and for 4 circles no reconciliation has been done.**

#### **Loans and Advances**

4 (iii)(a) The Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Act.

4 (iii)(b)  
to  
4 (iii)(d) In view of 4 (iii) (a) above, Clause 4(iii) (b) to 4(iii) (d) of the CARO are not applicable.

4 (iii)(e) The company has not taken any loans, secured or unsecured from companies, firm or other parties covered in the register maintained under Section 301 of the Act.

4 (iii)(f)  
&  
4 (iii)(g) In view of 4(iii) (e), these clauses are not applicable.

#### **Internal Control**

4(iv) In our opinion and according to the information and explanations given by the company, there is adequate internal control system commensurate with the size of the company and the nature of its business with regard to purchase of inventory and fixed assets and for sale of goods and services, **however, on the basis of the branch auditors reports, we are of the opinion that the internal control procedure for material management, capitalization of fixed assets, reconciliation between subsidiary and general ledger and obtaining of confirmation of balances, custody and accounting of prepaid recharge coupons, timely and correct issue of ATD/ ATC, availment of CENVAT Credit & Service Tax etc. need to be strengthened to make it commensurate with the size of the Company.**

**Branch auditors have reported that there is continuing failure to correct major weakness in 6 circles.**

4(v)(a) There are no transactions that need to be entered in the register maintained in pursuance of Section 301 of the Act.

4(v)(b) In view of 4(v) (a) above, Clause 4(v) (b) of the CARO is not applicable.

4 (vi) The Company has not accepted any deposits from the public.

- 4(vii) On the basis of information and explanation provided to us and reports of branch auditors, the Company's **present internal audit system needs to be strengthened by increasing the scope of the audit of billing packages, revenue assurance mechanism for CMTS and inter-operator billing system (IOBAS). There is room for further improvement in the frequency of audit and timely appointment of auditors to bring about the desired improvement.**
- 4(viii) The company has maintained the cost records as prescribed by the Central Government under clause (d) of sub section (1) of section 209 of the Companies Act, 1956 for the financial year 2006-07 except for 35 circles. **The branch auditors of 3 circles have reported that records could not be verified in few circles. Branch auditors of 2 factories have reported that reconciliation between costing book balance and physical verification of closing stock of WIP have not been done.**
- 4(ix)(a) The Company **except in 2 circles** as reported by the Branch Auditors, is generally regular in depositing undisputed statutory dues with the appropriate authorities including provident fund, income tax sales tax, wealth tax, service tax, custom duty, excise duty, cess and other statutory dues.
- The undisputed statutory sales tax dues amounting to Rs. 1039566/- which were outstanding as on 31.03.2007 for a period of more than six months from the date they become payable have since been paid.**
- 4(ix)(b) **The details of disputed dues of provident fund, sales tax, entry tax, property tax, income tax, wealth tax, service tax, excise duty, cess and other statutory dues which have not been deposited are annexed in Appendix I.**
- 4(x) The Company has no accumulated losses at the end of the financial year. It has not incurred cash losses neither during the financial year nor in the immediately preceding financial year.
- 4 (xi) The Company has neither taken any loans from financial institutions or bank nor issued debentures and hence this clause is not applicable.
- 4 (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. Accordingly, the provisions of clause 4(xii) of the Order is not applicable to the company.

- 4(xiii) In our opinion, the company is not a chit fund or a nidhi/ mutual benefit fund/ societies accordingly, the provisions of clause 4(xiii) (a) to (d) of the Order, are not applicable to the company.
- 4(xiv) In our opinion, the company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, this clause is not applicable.
- 4 (xv) The Company has not given any guarantee for loans taken by others from banks or financial institutions during the year, hence this clause is not applicable.
- 4 (xvi) The Company has not obtained any term loan hence this clause is not applicable.
- 4 (xvii) The Company has not raised any fund on short term basis.
- 4(xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
- 4(xix) The company has not issued any debentures since the inception.
- 4(xx) The Company has not raised any money by public issue during the year.
- 4(xxi) ***Frauds amounting to Rs. 635.08 lacs have been brought to the notice of the company. The Appendix II gives the nature of fraud, the amount recovered, the expected recovery thereof and the amount defrauded.***

For Thakur, Vaidyanath Aiyar & Co.  
Chartered Accountants

M.P. Thakur  
Partner  
M.No. 052473

Place: New Delhi  
Date: