

AUDITOR'S REPORT

To,
THE SHAREHOLDERS
Delhi Transco Limited,
New Delhi.

1. We have audited the attached Balance Sheet of Delhi Transco Limited as at 31st March 2006 and the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date. 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.
2. 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 from 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The company is governed by the Electricity Act 2003 w.e.f. 10.06.2003. Though the said Act has repealed the Electricity (Supply) Act 1948 and Electricity Regulatory Commission Act 1998, certain provisions, to the extent they are not inconsistent with the provisions of said Act, continued to be applied by the company while preparing the final statements. Further, the provisions of the said act read with the rules there under, have prevailed wherever the same have been inconsistent with the provisions of the Companies Act, 1956. The company is also governed by the provisions of Delhi Electricity Regulatory Commissions Act, 2000.
4. As required by the Companies (Auditor's Report) order, 2003, read with Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure "A" a statement on the matters specified in paragraphs 4 and 5 of the said order.
5. Further to our comments in Annexure "A" 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 accounts as required by law under section 209 (3) of the Companies Act, 1956 have been kept by the company, so far as appears from our examinations 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 and to the best of our information and according to explanations given to us, the Balance Sheet and the Profit and Loss Account and Cash Flow Statement dealt with by this report are prepared in compliance with the applicable Accounting Standards referred to in Sub-Section (3C) of section 211 of the Companies Act 1956 except as mentioned hereafter in our report.
 - e. The Government of National Capital Territory of Delhi are appointing nominee Directors who are exempt from provisions of section 274(1)(g) of the Companies Act 1956 in view of circular issued No 8/2002 dated 22.03.2002 by the Department of Company Affairs
6. **We further report that:**
- i. **No Power Purchase Agreements has been entered between the company and BTPS, IPGCL and PPCL and Bulk Supply Agreements with NDMC, as such impact of any difference in terms & conditions at subsequent stage can not be ascertained at present**
 - ii. **The company is incurring heavy cash losses since inception on account of huge gap between average selling price and average purchase price of power and in future also there is no indication of any turnaround in the situation for the benefit of the company. The company has already incurred accumulated losses of Rs. 3685.22 Crore against the Capital & Reserves after unamortized Misc. Expenditure of Rs. 208.04 Crore resulting into erosion of net worth up to 1771.39 %. Considering the above, we are of the opinion that the Fundamental Assumption of 'Going Concern' is effected. However during the year the company has earned cash profit after waiver of interest by GNCTD.**
 - iii. **The value of Stores at Rs. 5 crore taken as opening balance as on 1st July 2002 (Refer to in Note 1 and Note 2 (b) in Schedule 22) without the allocation of item-wise quantitative schedule of the opening balances of stores pertaining to the Company. The entire exercise of reconciliation of opening balance of stores as on 01.07.2002 and consequent issues and receipts is stated to be in progress pending which it is neither possible to comment on the actual status of closing balance of stores nor as to the extent of overstatement or understatement of stores as on 31.03.2006.**

The stores and spares at Okhla Centralized Transformer Repair workshop, Rampura and Chandrawal had been transferred to the company from Discoms and Genco which requires proper adjustment entries to be carried out in accordance with transfer scheme, shared facilities agreement and subsequent notifications. However, the same has not been valued as on 31st

March 2006 by the Management during the year under review (Refer to Note 2(d) of Schedule 22).

No comment can be made in regards to charges recoverable for damaged transformers from Discoms in accordance with the proviso of transfer scheme. However, in absence of full and complete adjustment on the basis of detailed analysis, the amounts by which the adjustment of increase/decrease of income/loss/ current assets /Current liabilities of the company are understated/overstated cannot be quantified unless all such amounts are linked up by management.

- iv. The company has not taken insurance policy for any of the assets in which it has insurable interest.
- v. Due to Non-Confirmation/ Reconciliation relating to balances shown under advances, debtors, creditors, material lying with contractors and issued on loan, advance made to others and holding company and resultant adjustments, consequential impact thereof, if any, on the accounts remains unascertained. (Refer to Note 9 of Schedule 22).
- vi. Investments have not been properly classified into Quoted and Non-quoted. No market value has been given. This is not as per AS 13 (Refer note no. 5 in schedule 22)
- vii. CWIP as on 31.03.2006 Rs. 162.02 crore includes some cases which needs capitalization, write off for abandoned cases / charge to revenue, as such needs examination by the company. Therefore impact of such allocation on accounts can not be ascertained at this stage.
- viii. The company has debited all the management expenses relating to the group of companies under the same holding co. to its profit and loss account rather than showing the expenses, other than DTL's share, as recoverable from the group companies and the holding company. This has resulted in understatement of profit of the company and understatement of the debtors to that extent.
- ix. The company has no system of determining unserviceable, slow moving, obsolete or damaged stores and spares. Hence, no adjustments have been made in the accounts for any such stores and spares and the consequential impact thereof on the value of inventory as on 31.03.2006 and on the profit / loss for the year is not ascertainable.
- x. The amount of energy purchased is recorded on provisional basis pending final determination of Tariff by CERC and DERC with retrospective effect. Moreover, the decisions/ orders/ pronouncements/ awards given by the regulatory bodies (CERC, DERC, etc.) is a continuous process and the consequential impact thereof cannot be ascertained and any change in this regard will be given effect as and when the same is received. (Refer to Note 7 of Schedule 22).
- xi. The company is charging depreciation on the gross block of assets of Rs.650 Crore as transferred to the company as per Delhi Electricity

Regulatory Act and not on the net value of the assets as per accounting policy and past practice of the company. (Refer to Note 19 of Schedule 22)

- xii. **Methodology adopted for allocation/ apportionment in respect of capitalization of interest on borrowed funds even to the 'such capital works', and consequently to fixed assets, on which no expenditure was incurred for the last one year or more) does not comply with the proviso of Accounting Standard –16**
 - xiii. **The Company has not valued its inventory at cost or reliable value whichever is less, which is contrary to AS-2. Further the company has also not valued its other scrap and no record has been kept of the other scrap. We are unable to quantify the extent of profit, which is understated.**
7. In our opinion and to the best of our information and according to the explanations given to us, the said accounts, **read with Notes on Accounts and Significant Accounting Policies and subject to our qualifications elsewhere in the report**, give the information required by the Companies Act, 1956 in the manner so required and give true and fair view:
- a. In the case of the Balance Sheet, of the State of Affairs as at 31stMarch2006.
 - b. In case of Profit & Loss Account, of the profit for the year ended on that date.
 - c. In case of cash flow statement, of the cash flows for the year ended on that date.

For Rajendra K. Goel & Co.
Chartered Accountants,

New Delhi
Dated: 23.06.2006

V. K. Issar
M. No. 9519
(Partner)

Annexure – A To The Auditors Report (Referred to in Paragraph 1 of our report Even Date)

Fixed Assets

- i). The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets, **except that distinctive marks/ specification numbers of the assets have not been mentioned on the assets.**
- ii). **The physical verification of fixed assets was carried in the year 2004-05. However these assets have not been physically verified during the year.**
- iii). No substantial part of fixed assets has been disposed off during the year.

Inventories

- i). Inventory has been physically verified during the year **only at Mehrauli store. However inventories lying at other stores have not been verified. The physical verification of inventory should be conducted on a regular basis by the department concerned instead of the present practice of annual stocktaking.**
- ii). **The reconciliation of opening balance of stores as on 01.07.2002 and consequent issues and receipts is stated to be in progress, pending which it is neither possible to comment on the actual status of closing balance of stores nor as to the extent of understatement or overstatement of stores as on 31.03.2006.**
- iii). **The company has not maintained proper records of inventory in respect of scrap.**

Loans & Advances

- I. It has been explained to us that the company has not granted any loan, either secured or unsecured, to any companies, firms or other parties covered under Section 301 of the Companies Act, 1956 and therefore the clause 4(iii)(a), 4(iii)(b), 4(iii)(c) and 4(iii)(d) are not applicable.
- II. The company has taken secured or unsecured loan for Rs.426 cores from its holding company and rate of interest and terms and condition as to repayment of loan are not prima-facie prejudicial to the interest of the company.

Internal Control

There is adequate internal control commensurate with the size of the company and the nature of its business for the purchase of energy, stores, spares, plant and machinery and other assets and for the sale of energy **except there is no system of determining non-serviceable or slow moving or obsolete or damaged stores and spares, generation of scrap and its disposals. Further in our**

opinion there is scope of improvement by way of exercising better control on purchase and issue of stores on pre-numbered slips and conducting periodical verification at reasonable intervals..

As regards to internal controls over transmission losses, it has been explained to us that the transmission losses are subject to scrutiny and acceptance by Delhi Electricity Regulatory Commission but the company does not have any mechanism for review and control of such transmission losses which shows lacunae in the system that needs improvement.

Internal Audit

The company has engaged the services of a practicing firm of Chartered Accountants for internal audit for the financial year 2005-2006 on ***periodical basis. The internal audit should be further strengthened with wide coverage to be commensurate with size and nature of the company's business.***

Old WIP cases needs examination and proper allocation in accounts

Fixed Deposit

As per the information and explanations given to us, the company has not accepted any deposit from the public to which provisions of section 58-A of the Companies Act, 1956, the companies (Acceptance of Deposits) Rules 1975 and Reserves Bank of India guidelines apply.

On the basis of test check carried out during the course of audit and according to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account, other than those payable under the contractual obligation or in accordance with general accepted practice.

Statutory Dues

- i) We were informed that there were no undisputed amount payable in respect of Provident Fund, Investor Education Protection Fund, Employees' State Insurance, Income Tax, Wealth Tax, Sales Tax, Custom Duty and Excise duty, cess and any other statutory dues which were outstanding as at 31st March 2006 for a period of more than six months from the date they became payable.
- ii) We were informed that there was no disputed amount payable in respect of Provident Fund, Investor Education Protection Fund, Employees' State Insurance, Income Tax, Wealth Tax, Sales Tax, Custom Duty and Excise duty, service tax, cess and any other statutory dues which were outstanding as at 31st March 2006.

Cost Records

The Central Government has prescribed maintenance of cost record under section 209(1)(d) of the Companies Act, 1956 with effect from 01.04.2002. We have broadly reviewed the cost records prepared by the company and are of the opinion that, prima facia, the prescribed records have been made.

Others

- I. *Though the company has been in existence for a period less than 5 years, it is worthwhile to report that the accumulated losses of the company as at the end of financial year 2005-06 are more than 17 times of the Net Worth. The company incurred cash losses of Rs.1009 crore in financial year 2002-03, Rs.1753 crore in 2003-04 and Rs. 996.54 crore in financial year 2004-05 and during the year 2005-06 the company earned cash profit after waiver of interest by GNCTD.***
- II. As informed to us, the company has not defaulted in repayment of dues to any financial institution, bank, debenture holders, etc.
- III. The company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- IV. As informed to us, the company has not given any guarantee for loans taken by others from banks or financial institutions.
- V. As informed to us, term loans have not been applied for purposes other than, for which they were granted. As regards the investment in flexi deposits (CLTD), it has been explained to us that the company has been investing funds temporarily in CLTD deposits, aggregating to Rs 31.01 Crore as on 31.03.2006, as a part of proper cash management.
- VI. As informed to us, the funds raised on short-term basis have not been used for long-term investment and vice-versa.

FRAUD

As informed to us, no fraud/ misappropriation of fund/ embezzlement has been noticed by or reported to the management during the year under review.

The provision of clauses 4(xiii), 4(xiv), 4(xix) and 4(xx) of the order do not apply to the Company.

For Rajendra. K. Goal & Co.,
Chartered Accountants,

New Delhi
Dated: 23.06.2006

V. K. Issar
M. No. 9519
(Partner)