

## AUDITORS' REPORT

To the Shareholders of BSES Limited

We have audited the attached Balance Sheet of BSES Limited as at 31st March, 2002 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.

We conducted our audit in accordance with Auditing Standards generally accepted in India. These 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 for our opinion.

As the Company is governed by the Electricity (Supply) Act, 1948, [ESA, 1948] the provisions of that Act, have prevailed, wherever the provisions of the Companies Act, 1956 are inconsistent with the said Electricity (Supply) Act, 1948.

We report as follows :

- I. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988, issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, 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 on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable to the Company.
- II. Further to our comments in the Annexure referred to in paragraph I above:
  - (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 law, have been kept by the Company, so far as it appears from our examination of these 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 and to the best of our information and according to the explanations given to us, the Balance Sheet and the Profit and Loss Account dealt with by this report are prepared in compliance with the applicable Accounting Standards referred to in terms of Section 211(3C) of the Companies Act 1956;
  - (e) on the basis of the written representations received from the Directors of the Company as on 31st March, 2002

and taken on record by the Board of Directors of the Company, we report that prima facie none of the Directors is disqualified as on 31st March, 2002 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

- (f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required;
- (g) we further report as under:
  - (i) as mentioned in Note No. 13 in Schedule 17 forming part of Annual Accounts, the net worth of each of the three subsidiary Companies in Orissa is eroded. However for the reasons explained in the Note, the management has considered that the resulting diminution in the value of investment of Rs. 117 crore in the shares of these Companies is not of a permanent nature and hence no provision for such diminution has been made in the accounts.
  - (ii) as mentioned in Note No. 14 in Schedule 17 forming part of Annual Accounts, the Company has disputed the additional demands of standby charges of Rs. 77 crore for 1999-2000 claimed by The Tata Power Company Limited and the matter is sub-judice. The relevant liability for the subsequent years 2000-01 and 2001-02 has also not yet been crystallized. Hence no provision has been made in the accounts for such liability.
  - (iii) as mentioned in Note No. 11 in Schedule 17 on the Annual Accounts, the special appropriations of amounts aggregating Rs. 64.34 crore made in earlier years are subject to approval of the State Government.

We are unable to express an opinion on the resulting impact of the above matters on the profit for the year and the value of relevant assets and liabilities and the also the effect on the computation of 'capital base' and 'clear profit' in the event of approval of the State Government is not available. Subject to this, the said accounts 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, 2002, and
- (ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date.

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

Place : Mumbai  
Dated : 28th June, 2002

**Chetan Desai**  
*Partner*

## ANNEXURE TO THE AUDITORS' REPORT

(Referred to in Paragraph I of our report of even date)

### Internal Control

1. There are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to the purchase of stores, raw-materials including components, plant and machinery, equipment and other assets and with regard to the sale of energy and other goods.
2. The Company has an internal audit system commensurate with the size and nature of its business.

3. In respect of service activities carried out by the Company:
  - (i) In our opinion, the Company has a reasonable system of recording receipts, issues, and consumption of materials and stores and allocating materials consumed to the relative jobs, commensurate with its size and nature of its business.
  - (ii) In our opinion, the Company has a reasonable system of allocating man-hours utilized to the relative jobs, commensurate with its size and nature of its business.
  - (iii) In our opinion, the Company has a reasonable system

## ANNEXURE TO THE AUDITORS' REPORT

of authorization at proper level and adequate system of internal control, commensurate with the size and nature of its business, on issue of stores and allocation of stores and labour to jobs.

4. The Company has a regular procedure for determination of unserviceable or damaged stores, spares and raw materials. Adequate provision has been made in the accounts for loss arising therefrom.

### Fixed Assets

5. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. We are informed that the fixed assets, except those in "Distribution Systems" were physically verified by the management at regular intervals and no material discrepancies between book records and physical inventories were noticed. We are informed by the management that as the "Distribution Systems" consist largely of underground cables, they are not physically verifiable.
6. None of the fixed assets has been revalued during the year.

### Inventories

7. We are informed that the stocks of finished goods, raw materials and spare parts have been physically verified during the period by the Management. In our opinion, the frequency of verification is reasonable.
8. In our opinion and according to the information and explanations given to us, the procedures and methods of physical verification of stocks followed by the Management are reasonable and adequate in relation to size of the Company and nature of its business.
9. The discrepancies noticed on verification between the physical stocks and book records were not material and these have been properly dealt with in the financial statements.
10. The valuation of stock is fair and proper and in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
11. The value of scrap generated was not material. The Company does not have any realisable by-product.

### Loans and Advances

12. The Company has not taken any loans, secured or unsecured, from Companies, firms or other parties listed in Register maintained under Section 301 of the Companies Act, 1956, or from Companies under the same management, as defined under sub-section (1B) of Section 370 of the Companies Act, 1956.
13. In respect of the loans, secured or unsecured, granted to Companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956 the rate of interest and other terms and conditions are prima-facie, not prejudicial to the interest of the Company.

14. In respect of loans and advances in the nature of loans, given by the Company, to its employees, repayment of principal and interest, wherever applicable, is being made as stipulated.

### Transactions with parties under Section 301 of the Companies Act, 1956

15. The transactions for purchase of goods and materials and for sale of energy made in pursuance of contracts or arrangements entered in the Register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000 or more in respect of each party, have been made at price which are reasonable having regard to the prevailing market prices at which transactions for similar goods have been made with other parties or on the basis of tariff rates applicable during the year under audit. In respect of sale of such services, the rates were not comparable, as similar services were not provided by the Company to any other party.

### Deposits

16. The Company has not accepted during the year deposits from "Public" attracting provisions of Section 58A of the Companies Act 1956 and the Companies (Acceptance of Deposits) Rules, 1975.

### Staff Welfare

17. 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 contractual obligations or in accordance with generally accepted business practice.

### Taxation

18. As per the records of the Company, there were no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty which have remained outstanding as on 31st March, 2002 for a period of more than six months from the date they became payable.

### Legal Compliance

19. We are informed that the Central Government has not prescribed maintenance of cost records as required under section 209(1)(d) of the Companies Act, 1956 for the activities carried on by the Company.
20. According to the records of the Company, the Provident Fund and Employees' State Insurance dues have been regularly deposited during the year with the appropriate authorities.
21. The Company is not a "sick industrial company" within the meaning of Clause (O) of sub-section (1) of section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

For **Haribhakti & Co.**  
Chartered Accountants

Place : Mumbai  
Dated : 28th June, 2002

**Chetan Desai**  
Partner

## AUDITORS' CERTIFICATE

To  
The Board of Directors  
BSES Limited  
Nagin Mahal (6th Floor)  
82, Veer Nariman Road, Mumbai 400 020.

We have examined the attached Cash Flow statement of BSES Limited for the year ended March 31, 2002. The Statement has been prepared by the Company in accordance with the requirements of the listings of the Stock Exchanges and is based on and in agreement with the corresponding Profit and Loss Account and Balance Sheet of the Company covered by our report of even date to the shareholders of the Company.

Mumbai, 28th June, 2002

For **Haribhakti & Co.**  
Chartered Accountants

**Chetan Desai**  
Partner