

## INDEPENDENT AUDITORS' REPORT

To,  
The Members,  
Rural Electrification Corporation Limited  
New Delhi

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Rural Electrification Corporation Limited** (hereinafter referred to as "the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group") and its jointly controlled entity, comprising of the Consolidated Balance Sheet as at 31<sup>st</sup> March, 2016, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the Consolidated Financial Statements").

### Management's Responsibility for the Consolidated Financial Statements

The Holding Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation and presentation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group including its jointly controlled entity in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and MCA General Circular No. 15/2013 dated 13<sup>th</sup> September, 2013. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group & its jointly controlled entity and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of presentation of the Consolidated Financial Statements by the Directors of the Holding Company, as aforesaid.

### Auditor's Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. While conducting an audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the holding Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the holding Company's Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained, is sufficient and appropriate to provide a basis for our audit opinion on the Consolidated Financial Statements.

### Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group and its jointly controlled entity as at 31<sup>st</sup> March, 2016, and their consolidated profit and their consolidated cash flows for the year ended on that date.

### Emphasis of Matter

We draw attention to the following matter in the Notes to the Consolidated Financial Statements:-

- (a) Note No. 13.2.7 in respect of classification of one of the borrower account as standard asset in view of ad-interim order of Hon'ble High Court of Madras. Our opinion is not modified in respect of above matter.

### Other Matters

- (a) We did not audit the financial statements of two subsidiaries whose financial statements reflect total assets of ₹ 350.92 Crores (Previous year ₹ 300.88 Crores) as at 31<sup>st</sup> March, 2016, total revenues of ₹ 195.69 Crores (Previous year ₹ 160.20 Crores) and

net cash flows amounting to ₹ 8.70 Crores (Previous year ₹ 14.33 Crores) for the year ended on 31<sup>st</sup> March, 2016, as considered in the Consolidated Financial Statements. The Consolidated Financial Statements also include the subsidiaries' share of net profit after tax of ₹ 64.97 crores (Previous Year ₹ 82.31 crores) as considered in the Consolidated Financial Statements. These financial statements have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, and our report in terms of sub-sections (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, is based solely on the reports of the other auditors.

- (b) We did not audit the financial statements of one jointly controlled entity, whose financial statements reflect total assets of ₹ 434.54 Crores (Previous year ₹ 78.94 Crores) as at 31<sup>st</sup> March, 2016, total revenues of ₹ 205.87 Crores (Previous year ₹ 17.57 Crores) and net cash flows amounting to ₹ 60.51 Crores (Previous year ₹ 7.04 Crores) for the year ended on 31<sup>st</sup> March, 2016, as considered in the Consolidated Financial Statements. The Consolidated Financial Statements also include the jointly controlled entity's share of net profit after tax of ₹ 9.47 crores (Previous Year ₹ 2.27 crores) as considered in the Consolidated Financial Statements. These financial statements are unaudited and have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of the jointly controlled entity, and our report in terms of sub-sections (3) of Section 143 of the Act in so far as it relates to the aforesaid jointly controlled entity, is based solely on such unaudited financial statements. In our opinion and according to the information and explanations given to us by the Management, these financial statements are not material to the Group & its jointly controlled entity.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements certified by the Management.

#### Report on Other Legal and Regulatory Requirements

1. As required by section 143(3) of the Act, we report that:

- (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid Consolidated Financial Statements.
- (b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid Consolidated Financial Statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.
- (c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, and the Consolidated Cash Flow Statement dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the Consolidated Financial Statements.
- (d) In our opinion, the aforesaid Consolidated Financial Statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and MCA General Circular No. 15/2013 dated 13<sup>th</sup> September, 2013.
- (e) vide Notification No. G.S.R. 463(E) dated 5<sup>th</sup> June, 2015 issued by Ministry of Corporate Affairs, Government Companies have been exempted from applicability of the provisions of Section 164(2) of the Companies Act, 2013.
- (f) with respect to the adequacy of the internal financial controls over financial reporting of the Group and Jointly controlled entity and the operating effectiveness of such controls, refer to our separate report in "Annexure-A"; and
- (g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
  - (i) The Consolidated Financial Statements disclose the impact of pending litigations on the consolidated financial position of the Group and its jointly controlled entity- Refer Note 30.1 to the consolidated financial statements;
  - (ii) The Group and its jointly controlled entity does not have any such long-term contracts including derivative contracts for which there are any material foreseeable losses;
  - (iii) There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies and its jointly controlled entity incorporated in India.

**For Raj Har Gopal & Co.**  
Chartered Accountants  
Firm Regn. No. 002074N

**Gopal Krishan**  
Partner  
M. No. 081085

Place : New Delhi  
Date : 27<sup>th</sup> May, 2016

**For A.R. & Co.**  
Chartered Accountants  
Firm Regn. No. 002744C

**Priyanshu Jain**  
Partner  
M. No. 530262

## ANNEXURE-A TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE CONSOLIDATED FINANCIAL STATEMENTS OF RURAL ELECTRIFICATION CORPORATION LIMITED

### Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

In conjunction with our audit of the consolidated financial statements of the Company as of and for the year ended March 31, 2016, we have audited the internal financial controls over financial reporting of Rural Electrification Corporation Limited (hereinafter referred to as "the Holding Company") and its subsidiary companies and jointly controlled entity, which are companies incorporated in India, as of that date.

#### Management's Responsibility for Internal Financial Controls

The respective Board of Directors of the Holding company, its subsidiary companies, its Jointly controlled entity, which are companies incorporated in India, are responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Group and its jointly controlled entity considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (ICAI). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to the respective company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the internal financial controls over financial reporting of the Group and its jointly controlled entity based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") issued by the ICAI and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained and the audit evidence obtained by the other auditors in terms of their reports referred to in the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls system over financial reporting.

#### Meaning of Internal Financial Controls over Financial Reporting

A Group and its jointly controlled entity's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Group and its jointly controlled entity's internal financial control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Group and its jointly controlled entity;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Group and its jointly controlled entity; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Group and its jointly controlled entity's assets that could have a material effect on the financial statements.

#### Inherent Limitations of Internal Financial Controls over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### Opinion

In our opinion, the Group and its jointly controlled entity has, in all material aspects, an adequate internal financial controls system except improvement in ERP system relating to classification of loans & advances as secured or unsecured, determination of non-performing assets in the ERP system, shift in the moratorium period due to structuring/restructuring, revalidation of the sanctions

of loans and recording of non-entertaining/rejection/disposal of applications of the loans and time frame for furnishing replies of Internal audit reports by concerned offices, over financial reporting and such internal financial controls over financial reporting were operating effectively as of March 31, 2016, based on the internal control over financial reporting criteria established by the Group and its jointly controlled entity considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India.

We have considered the areas of improvement identified which needs further strengthening as reported above in determining the nature, timing, and extent of audit tests applied in our audit of the March 31, 2016 Consolidated financial statements of the Group and its jointly controlled entity. However, these areas of improvement do not affect our opinion on the operating effectiveness of the Internal Financial Control over financial reporting of the Group and its jointly controlled entity.

#### Other Matters

Our aforesaid reports under Section 143(3) (i) of the Act on the adequacy and operating Effectiveness of the internal financial controls over financial reporting in so far as it relates to two subsidiary companies, which are companies incorporated in India, is based on the corresponding reports of the auditors of such companies incorporated in India.

The system of internal financial controls over financial reporting, with regard to its jointly controlled entity, M/s Energy Efficiency Services Ltd. which being unaudited, have not been provided to us to determine whether the company has established adequate internal financial control over financial reporting at the aforesaid jointly controlled entity and whether such internal financial controls were operating effectively as at March 31, 2016. The contribution of the, jointly controlled entity of the company, to the total assets of the group and its jointly controlled entity is not material.

Further, we have considered the disclosure reported above in determining the nature, timing and extent of audit tests applied in our report of the financial statements of the Group and its jointly controlled entity, and the above disclosure does not affect our opinion on the operating effectiveness of the Internal Financial Control over financial reporting of the Group and its jointly controlled entity.

**For Raj Har Gopal & Co.**  
Chartered Accountants  
Firm Regn No. 002074N

**For A.R. & Co.**  
Chartered Accountants  
Firm Regn. No. 002744C

**Gopal Krishan**  
Partner  
M. No. 081085  
Place : New Delhi  
Date : 27<sup>th</sup> May, 2016

**Priyanshu Jain**  
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