

## INDEPENDENT AUDITORS' REPORT

To,  
The Members,  
Rural Electrification Corporation Limited  
New Delhi

### Report on the Standalone Financial Statements

We have audited the accompanying standalone financial statements of Rural Electrification Corporation Limited ("the Company"), which comprise the Balance Sheet as at 31<sup>st</sup> March, 2016, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

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

The 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 standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company 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 Company 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 financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these standalone financial statements based on our 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. 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. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the 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 Company's Directors, as well as evaluating the overall presentation of the 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 standalone financial statements.

### Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone 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:

- (a) In the case of Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2016,
- (b) In the case of Statement of Profit & Loss, of the profit for the year ended on that date,
- (c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

### Emphasis of Matter

We draw attention to the following matter in the notes to the financial statements:-

- (a) Note No. 11.2.7 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.

### Report on Other Legal and Regulatory Requirements

- 1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act, 2013, we give in the Annexure-A, a statement on the matters specified in paragraphs 3 and 4 of the Order.

2. We are enclosing our report in terms of Section 143 (5) of the Act, on the basis of such checks of the books and records of the Company as we have considered appropriate and according to the information and explanations given to us, in Annexure B on the directions and sub-directions issued by Comptroller and Auditor General of India.
3. 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.
  - (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 those books.
  - (c) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.
  - (d) In our opinion, the aforesaid standalone 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 Company and the operating effectiveness of such controls, refer to our separate report in "Annexure-C"; 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 Company has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Note 24.1 to the financial statements;
    - (ii) The Company 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 Company.

**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

**Pawan K Goel**

Partner  
M. No. 072209

## ANNEXURE-A TO THE INDEPENDENT AUDITOR'S REPORT

Referred to in Paragraph 1 under 'Report on Other Legal and Regulatory Requirements' Section of Our Report of Even Date on the Accounts of Rural Electrification Corporation Limited for the Year ended on 31<sup>st</sup> March, 2016

- (I) (a) The Company has maintained fixed assets records to show full particulars including quantitative details and situation of its fixed assets.
- (b) According to the information and explanations given to us, the company has the policy of verifying the fixed assets in a phased manner but the physical verification of IT assets has not been completed during the year. Discrepancies arising from such physical verification have been suitably accounted for in the books of accounts. In our opinion, the periodicity of physical verification is reasonable having regard to the size of the company and the nature of its assets.
- (c) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the title deeds of immovable properties are held in the name of the Company except for the following:

(₹ in Crores)

Particulars	No. of cases	Gross Block	Net Block	Remarks
Freehold Land	1	45.92	45.92	Conveyance Deed by Haryana Urban Development Authority is yet to be executed.
Building	1	4.59	2.39	Conveyance Deed by Standing Committee of Public Enterprises is yet to be executed.

- (II) The company being Non Banking Financial Company (NBFC), does not have any inventory; as such this clause is not applicable.
- (III) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to any Companies, firms or other parties covered in register maintained under section 189 of the Companies Act, 2013. Accordingly, clause 3(iii) (a), (b) and (c) of the Order are not applicable.
- (IV) In our opinion and according to information & explanations given to us, the Company, being NBFC, is exempt from the provisions of Section 185 and 186 of the Act, and the relevant rules in respect of loans and guarantees. Further, in respect of the investments, the Company has complied with the provisions of section 185 and 186 of the Act.
- (V) According to the information and explanations given to us, the Company has not accepted any deposits from public to which the provisions of Sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the Rules framed thereunder, apply.
- (VI) To the best of our knowledge and as explained, the Central Government has not prescribed the maintenance of cost records for the products/services of the Company under Companies (Cost Records and Audit) Rules, 2014, read with Companies (Cost Records and Audit) Amendment Rules, 2014 prescribed by the Central Government under Section 148 of the Companies Act, 2013. Accordingly, this clause of the order is not applicable to the Company.
- (VII) (a) The Company is generally regular in depositing undisputed statutory dues including Provident Fund, employees' State Insurance, Income-tax, Sales-tax, Service Tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities. There were no undisputed statutory dues in arrears as at 31<sup>st</sup> March, 2016 for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us, the disputed statutory dues aggregating to ₹ 0.96 crores have not been deposited on account of matters pending before appropriate authorities as detailed below:

(₹ in Crores)

Name of Statute	Nature of Dues	Amount Disputed	Amount paid/ refund adjusted	Net Amount Unpaid	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax and Interest	22.35	22.35	-	AY 2005-06, AY 2006-07, AY 2008-09 to AY 2011-12	Income Tax Appellate Tribunal, Delhi
Income Tax Act, 1961	Income Tax and Interest	12.08	12.08	-	AY 2012-13, AY 2013-14	Commissioner of Income Tax (Appeals), Delhi
Income Tax Act, 1961	Fringe Benefit Tax	0.48	-	0.48	AY 2008-09	Commissioner of Income Tax (Appeals), Delhi
Income Tax Act, 1961	Tax Deducted at Source	0.12	-	0.12	FY 2007-08 to FY 2015-16	CPC, TDS
Chapter V of Finance Act, 1994	Service Tax, Penal Interest u/s 73(4A)	0.36	-	0.36	FY 2008-09 to 2011-12	Commissioner of Service Tax (LTU), Delhi
	<b>Total</b>	<b>35.39</b>	<b>34.43</b>	<b>0.96</b>		

- (VIII) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the company has not defaulted in repayment of loans or borrowing to a financial institution, bank, government or dues to debenture holders as at the Balance Sheet date.
- (IX) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has utilized the money raised by way of public offer of debt instruments during the year for the purposes for which they were raised. Further, no moneys were raised during the year through further public offer or term loans.
- (X) According to the information and explanations given to us and on the basis of our examination of the records of the Company, no fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year.
- (XI) According to the information and explanations given to us, Central Government has exempted the Government Companies from the provisions of Section 197. Accordingly, this clause of the Order is not applicable to the Company.
- (XII) According to the information and explanations given to us, the Company is not a Nidhi Company. Accordingly, this clause of the Order is not applicable to the Company.
- (XIII) According to the information and explanations given to us and on the basis of our examination of the records of the Company, transactions with the related parties are in compliance with section 177 and 188 of the Act where applicable and the necessary disclosures have been made in the financial statements etc., as required by the applicable accounting standards.
- (XIV) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year.
- (XV) According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not entered into non-cash transactions with directors or persons connected with him. Accordingly, this clause of the Order is not applicable.
- (XVI) According to the information and explanations given to us and based on our examination of the records of the Company, the Company, being a NBFC, is required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934. The registration as required has been duly obtained and registration number issued to the Company is 14.000011.

**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

**Pawan K Goel**

Partner  
M. No. 072209

## ANNEXURE-B TO THE INDEPENDENT AUDITOR'S REPORT

Referred to in Paragraph 2 under 'Report on Other Legal and Regulatory Requirements' Section of Our Report of Even Date on the Accounts of Rural Electrification Corporation Limited for the Year ended on 31<sup>st</sup> March, 2016

Sl. No.	Directions/ Sub-Directions	Action Taken	Impact on Financial Statements
<b>A. Directions</b>			
1.	Whether the company has clear title/ lease deeds for freehold and leasehold land respectively? If not, please state the area of freehold and leasehold land for which title/ lease deeds are not available.	The company has clear title/ lease deeds for freehold and leasehold land respectively. However, the formalities regarding registration of conveyance deed in respect of one freehold residential plot of land allotted to the Company amounting to ₹ 45.92 Crores and measuring 39,770 Sq. Mtrs. and one Land & Building amounting to ₹ 4.59 Crores and measuring 5,911.69 Sq. Mtrs. are yet to be executed.	The impact has already been mentioned in the 'Action Taken' column, which is not material.
2.	Whether there are any cases of waiver/ write off of debts/ loans/ interest etc. If yes, the reasons therefore and amount involved.	Delayed interest/ penal interest amounting to ₹ 11.50 Crores has been waived off after the approval of the competent authority, including ₹ 11.42 Crores waived in pursuance of Ujwal DISCOM Assurance Yojana (UDAY) launched by Ministry of Power (MoP). Further, no prepayment charge has been levied on the DISCOM debt so prepaid under the said scheme.  Further, considering the practical problems being faced by the borrowers in submission and adherence to the drawl schedule, the Company has revised the loan policy by waiving off the clause for requirement of Commitment Charges/ upfront fees for all ongoing as well as future projects of State Sector Generation and T&D projects including waiver of outstanding commitment charges of ₹ 8.83 Crores.  An amount of ₹ 2.30 Crores incurred in respect of Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) scheme without appropriate sanction of Ministry of Power and booked as recoverable in the books of accounts has also been written off with the approval of the Competent Authority in view of the amount pending outstanding since long period.	The impact has already been mentioned in the 'Action Taken' column, which is not material.
3.	Whether proper records are maintained for inventories lying with third parties and assets received as gift/ grant(s) from the Government or other authorities.	The Company, being an NBFC, the clause with respect to inventories lying with third parties and assets received as gifts from Govt. and other authorities is not applicable.	NIL
<b>B. Sub-Directions</b>			
1.	In respect of provisioning requirements of all restructured, rescheduled or renegotiated loan, whether a system of periodical assessment of realizable value of securities available against all such loans is in place and adequate provision has been created during the year?	The company is following a system of periodical assessment of realizable value of securities available against all restructured, rescheduled or renegotiated loan based upon management assessment and review/progress report of lenders engineers, lenders financial advisor and project monitoring group. In our opinion the system of company needs improvement to be commensurate with the size and nature of its business. However, adequate provision as per significant accounting policies of the company has been created during the year on all such loans.	NIL

**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

**Pawan K Goel**

Partner  
M. No. 072209

## ANNEXURE-C TO THE INDEPENDENT AUDITOR'S REPORT

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

We have audited the internal financial controls over financial reporting of the Company as of 31<sup>st</sup> March, 2016 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

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

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company 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 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.

#### Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting 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") 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 applicable to an audit of Internal Financial Controls and, 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 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 company'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 company'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 company;
- (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 company; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company'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 Company 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 Company 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 standalone financial statements of the Company. However, these areas of improvement do not affect our opinion on the standalone financial statements of the Company.

**For Raj Har Gopal & Co.**

Chartered Accountants  
Firm Regn. No. 002074N

**Gopal Krishan**

Partner  
M. No. 081085

**For A.R. & Co.**

Chartered Accountants  
Firm Regn. No. 002744C

**Pawan K Goel**

Partner  
M. No. 072209

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