

AUDITORS' REPORT

To
THE MEMBERS OF
MAHANADI COALFIELDS LIMITED.

1. We have audited the attached Balance Sheet of MAHANADI COALFIELDS LIMITED, SAMBALPUR as at 31st March, 2009, and the Profit & Loss Account for the year ended on that date annexed thereto and the Cash flow statement for the year ended on that date in which are incorporated the Returns from five mine areas and one central workshop of Talcher Field audited by another auditor. The reports of the other auditor have been furnished to us, and in our opinion, in so far as it relates to the amounts included in the financial statements in respect of these areas, is based solely on the reports of the other auditor. 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 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.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the *Annexure* a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. ***Attention is invited to the following paragraphs having effect on the accounts.***
 - 1 *Note No 11.3, 11.6, 11.7 & 11.8 of Notes on Accounts (Schedule-P) and Accounting Policy (Schedule-O) Para 2.2 & 2.3, recognising certain items not on accrual basis which is not in consonance with section 209(3)(b) of the Companies Act 1956.*
 - 2 *Note No 4.2 of Notes on Accounts (Schedule-P) regarding capitalization of interest on enhanced compensations for land.*
 - 3 *Note No. 9.1, 9.2 , 9.4 & 9.5 of Notes on Accounts (Schedule-P) regarding confirmation and reconciliation of various balances.*

- 4 *Note No 15 of Notes on Accounts (Schedule-P) regarding payment of certain charges and contribution to Rehabilitation Fund to holding company M/s Coal India Ltd on the basis of coal production/despatch.*
- 5 *Note No 12.4 of Notes on Accounts (Schedule-P) regarding claims pending in court related to for enhancement of compensation for land acquired from private parties and others have not been ascertained.*
- 6 *Valuation of stores and spares have been done on weighted average method being accounting policy of the company (as mentioned in Para 10.3 of the Accounting Policies). **Since comparison of cost so arrived, with net realizable value is not made as per AS-2 of ICAI, effect of the same on Profits during the year is unascertainable.***
- 7 *Provision of 50% value of stores has been made during the year, in respect of non-moving stores and spares (Refer para 6.1.3 of Notes on Accounts Schedule-P) ; **but in absence of thorough technical review of the position of non-moving obsolete/ unserviceable stores and spares we are unable to comment on the adequacy of the provision made in this respect.***
- 8 *Note No 17.1 of Notes on Accounts (Schedule-P) and Para 2.2(d) Accounting Policy (Schedule-O) recognising subsidy on cash basis which is **not in consonance with AS-12.***
- 9 *Disputed Income Tax Liability aggregating to Rs 36,854.72 lakhs and Disputed Sales Tax Liability aggregating to Rs 4,416.66 lakhs have **not been provided in the accounts, but shown as contingent liability.***
- 10 *Note No 6.2.1 of Notes on Accounts (Schedule-P) regarding shortage of Coal stock **weighing 5.49 lakh tonne Valued at Rs.1,144.01 lakhs remained unadjusted in the Books of Accounts.***
- 11 *Note No 17.9.1 of Notes on Accounts (Schedule-P) regarding the provision for technical and biological reclamation of land on an estimated basis of @ Rs.1,50,000/- per hectre of land mined. Since the technical and biological reclamation of land calculation is a technical assessment, we are unable to express our opinion on the adequacy and correctness of the aforesaid calculation based on technical assessment.*
- 12 *On the basis of the limited review of the books of account and records maintained by the Company **in respect of Coal Production and Over Burden Removal** activities, we are of the opinion that prima facie, the records of production of coal and over burden have been **maintained on estimated basis.** The quantitative details reported/disclosed in Note no 20 F as required by the Schedule-VI **in respect of production is based on estimated basis.** We have not,*

however, made a detailed examination of the same.

- 13 *Note no. 17.8 of Notes on Accounts regarding impairment loss wherein we have relied upon the estimates and assumptions made by the company in arriving at the recoverable value of assets. (AS-28 :Impairment of Assets).*
 - 14 *Note no. 17.9 of Notes on Accounts regarding Provisions contingent Liabilities and contingent Assets, wherein we have relied on the estimates and assumptions made by the company in arriving at the amount of provisions. (AS 29: Provisions, Contingent Liabilities and Contingent Assets).*
 - 15 *Note no 14 of Notes on Accounts regarding the change in average striping ratio for OBR adjustments, wherein we have relied upon the estimates and assumptions made by the company in arriving the revised ratio and the effects thereof.*
 - 16 *The technical data submitted by the management in respect of Advance Stripping, Coal Exposed, Over Burden Removal (OBR), Average Ratio, Current Ratio, Ratio Variance etc, in the matter of Over Burden Accounting including adjustment for substantial variation between standard ratio and current ratio of OBR cost in some areas. Since the OBR calculation is a technical assessment, we are unable to express our opinion on the adequacy and correctness of the aforesaid calculation based on technical assessment.*
5. *Subject to the paragraph no 3 and 4 above and on the basis of audit indicated in paragraph no. 2 above we further report that :*
- 1 *We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;*
 - 2 *In our opinion proper books of account as required by law have been kept by the company so far as appears from our examination of those books and proper returns, adequate for the purposes of our audit have been received from the branches not visited by us;*
 - 3 *The Branch Auditor's Report of five mine areas and one central workshop of Talcher Field forwarded to us have been appropriately dealt with while preparing our report;*
 - 4 *The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account and with the audited returns from the branches;*
 - 5 *In our opinion, **except the accounting standard mentioned in para no 4 above,** the Balance Sheet and Profit and Loss Account dealt with by this report comply*

with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

- 6 *Being a Government company, pursuant to the Notification no. GSR 829(E) dated 17.7.2003 issued by Government of India, provisions of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956, are not applicable to the company;*
- 7 *Subject to items mentioned at Para 4 above which have bearing on accounts, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Accounting Policies and Notes on Accounts thereon give the information required by the Companies Act, 1956 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 the Balance Sheet, of the state of affairs of the Company as at 31st March, 2009;*
 - b. *in the case of the Profit and Loss Account, of the profit for the year ended on that date; and*
 - c. *in the case of Cash Flow Statement, of the cash flows for the year ended on that date.*

For ABP & Associates.
Chartered Accountants

Place : Bhubaneswar
Date : July 7, 2009

CA. Niranjana Agrawalla
Partner
ICAI M. No. 087939

ANNEXURE TO THE AUDITORS' REPORT

Statement referred to in paragraph (3) of our report of even date to the members of M/s MAHANADI COALFIELDS LIMITED on the accounts for the year ended 31st March, 2009

i. (a) *The Company has maintained proper records showing full particulars including quantitative details except the situation of its fixed assets in some cases.*

(b) *As explained to us the Company has appointed outside professional Auditors for the physical verification of Fixed Assets of the value more than Rs.1.00 lakh. In most of the area the shortage/ excess arrived on fixed assets physically found and recorded in the assets register remained unadjusted in the Books of Accounts. Pending adjustment of the same in the accounts, we are unable to offer our comment on the same.*

(c) *In our opinion and according to the information and explanations given to us, no substantial part of fixed assets has been disposed off by the Company during the year thereby not affecting the going concern.*

ii. (a) *As explained to us, the inventories in respect of stores and spare parts have been physically verified by the management through outside agencies during the year. The physical verification of coal is carried out at regular intervals by adopting volumetric measure, the year end coal stock verification has been conducted by a team appointed by M/s Coal India Ltd.*

(b) *In our opinion, the procedures of physical verification of inventories in respect of coal stock followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.*

iii. *According to information and explanations given to us:*

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 Companies Act, 1956. Accordingly sub-clause (b), (c) & (d) are not applicable.*

b) *The Company has not taken any loans secured or un-secured from Companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly sub-clause (f) & (g) are not applicable.*

c) *On the basis of the examination of record we notice that short term loan both interest bearing and interest free are given to Coal India Ltd, Due to inadequate information provided by the management before audit, we are*

unable to offer our comment.

- iv. a) *Based on the information and explanations given to us, on an overall basis, we are of the opinion that internal control system as regards to the*
- i. recording and reporting of production both Coal and OBR;*
 - ii. prospecting, boring, survey and other payments/expenditure through/to CMPDIL;*
 - iii. purchase of inventories and fixed assets; and*
 - iv. for sale of raw coal*

needs to be streamlined and strengthened to make it commensurate with the size of the Company and nature of its business.

b) During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system of the company.

- v.(a) *According to the information and explanations given to us, during the year under audit there have been no contracts or arrangements which need to be entered in the register maintained under section 301 of the Companies Act, 1956.*

(b) In view of clause (v) (a) above, the clause (v) (b) is not applicable.

- vi. *The Company has not accepted any public deposit as on the balance sheet date. Accordingly, paragraph 4(vi) of the Order is not applicable.*

- vii. *In our opinion, the Company's internal audit system needs further improvement to cover*

(a) Tracking of all advances (such as to suppliers, job workers, staff and others) and ensuring that bills are obtained for materials supplied / services rendered for the concerned financial years.

(b) Reconciliation of quantitative details for each contract bill raised to ensure that services, stores and consumables used are booked to expenses in commensurate with, the coal production

(c) Carrying out physical verification of assets and stores by technical persons for identifying obsolete, damaged and non-moving items to enable the management to take appropriate decision in this regard.

(d) Staff advances and loans needs to be identified and reconciled.

(e) Ensuring compliance of various statutory and legal obligations of the company

(f) Ensuring and certifying that all expenses incurred but not paid have been accounted and all expenses incurred are accounted in proper functional head instead of booking of expenses in natural head.

(g) Reconciliation of advances received from customers' against sale of raw coal.

(h) Tracking of expenditure/payments made to CMPDIL.

viii. *The Central Government of India has not prescribed the maintenance of cost records under Section 209(1)(d) of the Act for any of the products of the Company.*

*We have carried out a limited review of the books of account and records maintained by the Company in respect of **Coal and OBR Production activities** and we are of the opinion that prima facie, **the records have been maintained on estimated basis**. We have not, however, made a detailed examination of the same.*

- (a) According to the information and explanation given to us, the Company is generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, VAT, Wealth Tax, Custom Duty, Excise Duty and other Statutory dues as applicable with the appropriate authorities during the year.*
- (b) According to the information and explanations given to us and the records of the Company examined by us, dues of Income-Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty and Cess as at 31st March, 2009, which has been deposited on account of a dispute are as per below:*

<i>Name of the Statute</i>	<i>Name of the Forum where dispute is pending</i>	<i>Total Amount Demand (Rs in Lacs)</i>	<i>Total Amount Deposited (Rs in Lacs)</i>
<i>Central Sales Tax, Orissa Sales Tax, Orissa Entry Tax</i>	<i>High Court, Tribunal and Commission rate</i>	<i>4416.66</i>	<i>937.73</i>
<i>Service Tax (Interest & Penalty)</i>	<i>High Court and Commission rate</i>	<i>61.58</i>	<i>Nil</i>
<i>Income Tax</i>	<i>High Court, Tribunal and Commission rate</i>	<i>36854.72</i>	<i>32889.64</i>
<i>Total</i>		<i>41332.96</i>	<i>33827.37</i>

- As per the books of account of the Company, the Company as at 31st March, 2009 has not registered any loss for last five year period. Accordingly, paragraph 4(x) of the **Order is not applicable**.*

ix. *According to the records of the Company examined by us and the information and explanations given to us, the Company has not defaulted in repayment of dues to bank during the year. Accordingly, paragraph 4(xi) of the **Order is not applicable**.*

x. *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, paragraph 4(xii) of the **Order is not applicable**.*

xi. *The provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund / societies are not applicable to the Company. Accordingly, paragraph 4(xiii) of the **Order is not applicable**.*

- xii. *In our opinion the Company is not a dealer or trader in shares, securities, debentures and other investments. Accordingly, paragraph 4(xiv) of the **Order is not applicable.***
- xiii. *In our opinion and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year. Accordingly, paragraph 4(xv) of the **Order is not applicable.***
- xiv. *According to the records of the Company examined by us and the information and explanations given to us, the Company has not obtained any term loans during the year. Accordingly, paragraph 4(xvi) of the **Order is not applicable.***
- xv. *On the basis of an overall examination of the Balance Sheet of the Company, in our opinion and according to the information and explanations given to us, the Company has not raised any funds on short term basis. Accordingly, paragraph 4(xvii) of the **Order is not applicable.***
- xvi. *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. Accordingly, paragraph 4(xviii) of the **Order is not applicable.***
- xvii. *The Company has not issued any debenture during the year and no amount is outstanding in respect of debenture as on the balance sheet date. Accordingly, paragraph 4(xix) of the **Order is not applicable.***
- xviii. *The Company has not raised/issued any public issues as on the balance sheet date. Accordingly, paragraph 4(xx) of the **Order is not applicable.***
- xix. *During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.*

For **ABP & Associates.**
Chartered Accountants

Place : Bhubaneswar
Date : July 7, 2009

CA. Niranjan Agrawalla
Partner
ICAI M. No. 087939