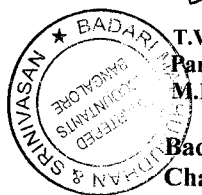


## FORM B

### Format of covering letter of the annual audit report to be filed with the Stock Exchanges

1.	Name of the Company	ITI Ltd.
2.	Annual financial statements for the year ended	31 <sup>st</sup> March 2013
3.	Type of Audit qualification	Subject to
4.	Frequency of qualification	First time / repetitive as per Annexure A.
5.	Draw attention to relevant notes in the annual financial statements and management response to the qualification in the Directors Report:	Drawal of attention to notes in the Annual Financial Statements as per Annexure B. Management response to qualifications in the Auditors Report, forming part of the Directors Report as per Annexure A.
6.	Additional comments from the Board / Audit Committee chair :	As per Annexure A



*T.V. Sudarshan*  
T.V.SUDARSHAN  
Partner  
M.No.019108

*R.K. Agarwal*  
R.K.AGARWAL  
Director Mktg. &  
Addl. Charge of  
Director -Finance

*Ramesh Bhat*  
RAMESH BHAT  
Chairman Audit Committee

*K.L. Dhingra*  
K.L.DHINGRA  
Chairman & Managing Director

Badari, Madhusudhan & Srinivasan  
Chartered Accountants & Statutory Auditors  
FRN005389S

# Annexure A

ITI Limited 2012-13

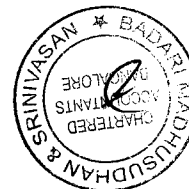
## Audit Qualifications & Company's Response to the Audit Qualifications

Point No.	Statutory Auditors Observations	Company's Remarks	Frequency
Qualifications not quantifiable (a) & 4(ii)	Aggregate inventories as at 31.3.2013 were Rs 13866.29 lakhs against which provision of Rs 3375.58 lakhs is held towards non-moving and obsolescence (net inventory Rs 10490.71 lakhs). In view of Company's production activities having come down substantially and slow movement in the inventory, there is a need for systematic age wise segregation and analysis of the items comprised in the inventory to assess their usefulness/usability in the production & servicing activities, period over which they could be used as also whether the inventory items are capable of being sold/disposed off as standalone items. Pending such an exercise, we are unable to express an opinion as to the adequacy of the provision held towards non moving and obsolete inventories and the eventual realizable amount in respect of the inventories, as also the possible effect on the financial statements	Provision for inventory is made on case to case basis after a review by a technical committee in each unit and then approved by the Board of Directors. The inventory has been reviewed and the existing provision is found to be adequate.	Repetitive-Fourth time
(a) & 4(iii)	In relation to sale of goods & services, scope for improvement in the accounting for contract revenues as also monitoring and recovery of the high level of trade receivables of Rs 413623.42 lakhs as at 31.3.2013 in relation to gross sales turnover of Rs 92199.80 lakhs in 2012-13), including timely adjustment of the advances received from the customers, in the absence of which correct position of trade receivables is not arrived at. Against aggregate receivables of Rs 413623.42 lakhs(of which Rs 272716.91 lakhs are long term), provision held towards doubtful receivables is Rs 6891.08 lakhs(of which Rs 4332.91 lakhs is for long term receivables) and Company follows the practice of making provision for doubtful receivables on a case to case basis(Refer Significant Accounting Policies 17.00). There is a need for systematic age wise segregation, analysis, adjustment of advances received from the customers and reconciliation of the trade receivable accounts. Pending such an exercise, we are unable to express an opinion as to the adequacy of the provision held towards doubtful debts and the eventual realizable amount in respect of the trade receivables, as also the possible effect on the financial statements.	As per our Accounting policy, provision for doubtful debts is being made after review on case to case basis. The existing provision is found to be adequate. Efforts are being made to adjust the outstanding advances against the debtors.	Repetitive-Third time
(b)	Investment of Rs 40.55 lakhs in the unquoted equity shares of a Company being continued to be shown at cost, though the Company remains closed and impairment loss having not been ascertained and provided for(Refer Significant Accounting Policies 5.00 and Note No.17);	The investment of Rs.40.55 lakhs is in M/s ISL, a joint venture company. The asset (Land), which has been revalued by the SBI Panel valuer carries a value very much more than the cost of the investment. Hence, the investment of Rs 40.55 lakhs has been shown at cost.	First time

*[Handwritten Signature]*  
Director



	Pending approval from the Government of India for the lease terms and finalization of the lease terms & agreement, rental on lease of land to the Bangalore Metropolitan Transport Corporation(BMTC)(of the 12.15 acres to be leased, 8.22 acres of land is already in possession of the BMTC), not recognised as income. Rs 285.00 lakhs received earlier from the BMTC is held under deposits(Refer Note 40.17);	The case has been referred to DoT to get approval for leasing the property to BMTC.	First time
(d)	Non provision of interest payable on royalty to C-DoT((Refer Note No. 35) in view of rental dues from the same agency for the premises taken on rent from the Company being more than the royalty amount((Refer Note No. 40.21);	Interest on royalty payable to C-DoT has not been provided in view of substantial dues (which are more than the royalty amount) outstanding for a long time from C-DoT on account of rent payable for the Company's premises leased out to them.	Repetitive - Fifth time
(e)	Interest and penalty, if any, leviable for non remittance of statutory dues on sales accounted on provisional basis(tax incidence on such sales not recognized) and delayed/short remittance of other statutory dues as also non deduction of TDS as per the provisions of Income Tax Act, 1961;	All known liabilities have been accounted for. There are no cases of non-deduction of TDS to the best of our knowledge.	Repetitive - more than 5 years
Qualifications quantifiable (a)	Non provision of Rs 6897.31 lakhs towards claims doubtful of recovery comprising of (i) rent of Rs 5847.90 lakhs for a leased premises up to 31.3.2011, rent from 1.4.2011 for the same premises being deferred for recognition on accrual basis due to uncertainty of realization (Refer Note No. 21); (ii) liquidated damages of Rs 1049.41 lakhs on a supplier, rejected by the Arbitral Tribunal. Had the said amounts been provided in the accounts, loss for the year would have been higher by Rs 6897.31 lakhs and consequently reserves & surplus and current assets would be lower by similar amount,	As regards rent from C-DoT, the subject is being discussed at the highest levels in the Government of India. Company is of the view that provision for Rs 5847.90 lakhs at this juncture is not required till the issue is finally settled. As regards LD of Rs. 1049.41 lakhs, the matter is in the Court. After the Court's verdict, suitable action will be taken .Till then, it is felt that no provision is required to be made.	First time  First time



*[Handwritten signature]*  
Partner

## **Annexure B**

### **ITI Limited 2012-13**

#### **Drawal of attention in the Audit Report to notes in the Annual Financial Statements**

On the following Notes on financial statements, without qualifying our opinion, we draw attention of members:

- (a) Cumulative Redeemable Preference Shares amounting to Rs 30000.00 lakhs overdue for redemption continued to be shown under Share Capital since the redemption is part of the BIFR package envisaged for the Company(Refer Note No. 1);
- (b) Dues to micro, small and medium enterprises being disclosed to the extent to which such enterprises are identified by the Company(Refer Note No. 10);
- (c) Pendency of formal conveyance/lease deeds in respect of lands, excepting part of lands at Bangalore and Mankapur, by the respective State Governments(Refer Note No. 13);
- (d) Change in the Significant Accounting Policy for Revenue Recognition under sales in the year - a) Sales include Excise Duty & Service Tax and excludes Sales Tax(Refer Significant Accounting Policies 10.00 a) and Note No. 27) as against Excise Duty only in the earlier years resulting in higher gross sales turnover of Rs 7406.29 lakhs(Rs 7102.54 lakhs). However, the change has no effect on the net revenue from operations and loss for the year;
- (e) Sales accounted on provisional basis/prices for supply of various equipments and variation, if any, being accounted on determination of final prices(Refer Significant Accounting Policies 10.00 d) and Note No. 27);
- (f) Necessary accounting adjustments for acquisition of 1.375 acres of land by the National Highway Authority of India (NHAI) for public purposes to be made on receipt of compensation, with proportionate cost of the acquired land having been withdrawn from the fixed assets and held as claims recoverable(Refer Note No. 40.18);
- (g) Wage arrears of Rs 16500.00 lakhs to the employees arising as per the Presidential directives and Tripartite agreement on wage settlement with the employees for the period 1.1.1997 to 31.3.2000 having not been provided in view of the same having to be paid by the Company in a phased manner on the improvement of profitability position and on declaration of the Company by the BIFR as a Sick Company and conditions for payment of arrears being not prevalent(Refer Note No. 40.3);
- (h) Balances in the accounts of creditors, advances from customers, debtors, claims recoverable, loans & advances, materials with fabricators, sub contractors/others, material in transit, deposits, loans and other payables/receivables such as Sales Tax, VAT, Excise Duty, CENVAT, Service Tax, TDS etc., being under confirmation/reconciliation(Refer Note 40.4);



- (i) Penalty of Rs 2685 Lakhs for non payment of guarantee fee to the Government of India, having not been provided for, since the Ministry of Communications and IT has agreed in principle to waive the same as part of Company revival package(Refer Note No. 40.10);
- (j) Land measuring 5 acres being used by Karnataka Power Transmission Corporation Limited (KPTCL)(Refer Note 40.19).

