

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	31st March 2015
3.	Type of Audit qualification	Subject to (Qualified Opinion and emphasis matter)
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

As per our report of even date (August 11, 2015)

For M/s Sundar Srini & Sridhar

Chartered Accountants

Firm Reg. No.: 004201S

S. SRIDHAR

Partner Company

M. No. 025504

DR. JANAKI ANANTHAKRISHNAN

Director-Finance/Chief

Financial Officer

K. K. GUPTA

Director-Production

Addl. charge CMD

RAMESH BHAT

Chairman Audit Committee.

Annexure A
ITI LIMITED 2014-15

Audit Qualifications & Company's Response to the Audit Qualifications

Point No.	Statutory Auditor's Observations	Company's Remarks	Frequency
Qualifications Not quantifiable a)	<i>Our comments on the adequacy of provision on non-moving and slow moving inventories and on trade receivables in paras 4(ii) & (iii) in the Annexure to this report containing a statement on the matters specified in paragraphs 3 and 4 of the Companies(Auditor's Report) Order, 2015;</i>	Provision for inventory is made after a review by a technical committee for their usefulness in each unit and then approved by the Board of Directors. The inventory available has been reviewed and the existing provision is found to be adequate. 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 Sixth time
b)	<i>Investment of Rs 40.55 lakhs in the unquoted equity shares of a Joint Venture(JV) Company being continued to be shown at cost, considering networth the JV is totally eroded and Statutory Auditors of the JV have expressed their inability to comment on the going concern concept adopted by the said JV and no impairment loss has been ascertained and provided for(Refer Significant Accounting Policies 5.00 and Note No.17);</i>	The investments 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 show at cost.	Repetitive Third time
c)	<i>Pending approval from the Government of India on the finalization of the lease terms & agreement, rental income on the land leased out to the Bangalore Metropolitan Transport Corporation(BMTC)(to an extent of the 12.15 acres proposed to be leased out is already in possession of the BMTC), has not been recognised as income. Rs 285.00 lakhs</i>	The case has been referred to DoT to get approval for leasing the property to BMTC, which is yet to be finalised.	Repetitive Third time

	<i>received earlier from the BMTC under an agreement to sell is held under deposits(Refer Note 40.17);</i>		
d)	<i>Non provision for the interest payable on royalty due 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. 40.23);</i>	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 More than 5years
e)	<i>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;</i>	Where sales are accounted based on provisional prices, differential sales are accounted in the year in which prices are firmed up and the differential statutory dues are paid/claimed. 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 5years
f)	<i>No lease agreement has been entered with Karnataka Power Transmission Corporation Limited (KPTCL) for the land occupied by KPTCL to an extent of 5 Acres (Refer Note No. 40.19);</i>	Efforts are being made by the company regarding the settlement of KPTL land issues at the earliest.	Repetitive Second time
g)	<i>Our comments on the non-maintenance of proper fixed assets register and no physical verification of fixed assets has been carried out by the company in a few units as stated in para 1(a) in the Annexure to this report containing a statement on the matters specified in paragraphs 3 and 4 of the Companies(Auditor's Report) Order, 2015;</i>	Noted for compliance.	Repetitive Second time

a) Qualifications quantifiable	Non provision of Rs 6897.31 lakhs towards claims doubtful of recovery comprising of (i) rent receivable of Rs 5847.90 lakhs on a premises leased out upto the period ended 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.40.23); (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,	<p>The Company has been vigorously following up with the Ministry / DoT for resolving the pending issue of rent due from C-DoT. Subsequently DoT has informed ITI to present the subject to ITI Board for perusal and for further course of action. Company is of the view that provision for Rs 5847.90 lakhs at this juncture is not required till the issue is finally settled.</p> <p>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.</p>	Repetitive Third time
c)	Amount spent for the creation and maintenance of data enrolment centre for MORD for NPR project totalling to Rs. 1171 lakhs is treated as revenue expenditure and no depreciation is provided as expenditure is not capitalised resulting in overstatement of loss to that extent (Net)	Amount spent for Creation and maintenance of Data Enrollment Center for MORD for NPR project to an extent of Rs.11.71 crore is treated as revenue expenditure by the Palakkad unit. The Management has clarified that no recurring revenue on the investment made in the said Asset will arise in future and hence it is treated as revenue expenditure.	Repetitive First time
1.(a) ANNEXURE TO THE INDEPENDENT AUDITORS' REPORT:	The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets on the basis of available information except for the	Noted for compliance.	Repetitive Second time

	<i>assets located at Bangalore Plant, Bangalore NS Unit, Bangalore RO and Corporate Office where the records are to be updated in relation to situation and adjustment for revaluation.</i>		
b)	According to the information and explanations given to us, fixed assets have been physically verified by the management <i>except for the assets located at the Bangalore Plant, Bangalore NS Unit, Bangalore RO and Corporate Office</i> and no material discrepancies were noticed on such verification. <i>Pending physical verification of fixed assets in the above units, discrepancies, if any, could not be ascertained and accounted for;</i>	Noted for compliance.	Repetitive Second time
2. a)	In our opinion and according to information and explanations given to us, the procedure for physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business other than at <i>Bangalore Plant wherein documentation does not support comparison of the extent of physical verification to the total inventory as also examination of the adequacy of the system of verification followed.</i>	Noted for compliance.	Repetitive More than 5 th time.
b)	In our opinion and according to the information and explanations given to us, the Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification of the inventory <i>other than at Bangalore Plant wherein documentation</i>	Noted for compliance.	Repetitive More than 5 th time.

	<i>does not support comparison of physical balance with book balance resulting in inability to comment on the materiality of discrepancies, if any and whether the same has been dealt with appropriately in the books.</i>		
c)	In our opinion and according to the information and explanations given to us, the Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification of the inventory <i>other than at Bangalore Plant wherein documentation does not support comparison of physical balance with book balance resulting in inability to comment on the materiality of discrepancies, if any and whether the same has been dealt with appropriately in the books.</i>	Noted for compliance.	Repetitive More than 5 th time.
4.i)	<i>Inadequacies in relation to maintenance of fixed asset records, systems of physical verification of fixed assets & inventory, ascertaining discrepancies as also their materiality and proper treatment of the discrepancies as observed in paras 1 & 2 above;</i>	Noted	Repetitive Second time
ii)	<i>Aggregate inventories as at 31.3.2015 were Rs 12,676.66 lakhs against which provision of Rs 3,342.38 lakhs is held towards non-moving and obsolescence (net inventory Rs 9,334.28 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</i>	Inventories are classified as Active, Slow moving, Dormant 1 (not moving for one year and Dormant 2 (not moving for more than 2 years) depending on their movement/usage. Provision for inventory is made after a review by a technical committee for their usefulness in each unit and then approved by the Board of Directors. The inventory available has been reviewed and the	Repetitive More than 5 th time.

	<p>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</p>	<p>existing provision is found to be adequate.</p>	
iii)	<p>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 2,28,661.03 lakhs as at 31.3.2015 in relation to gross sales turnover (including taxes) of Rs 62,095.21 lakhs in 2014-15), 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 2,28,661.03 lakhs (of which Rs 41,129.81 lakhs are long term), provision held towards doubtful receivables is Rs 6,789.57 lakhs (of which Rs 3,339.06 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 18.00). There is a need for systematic age wise segregation, analysis, adjustment of advances received from the customers and</p>	<p>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.</p>	<p>Repetitive Second time</p>

	<p><i>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.</i></p>		
7.a)	<p>The Company has generally been regular in depositing undisputed statutory dues including Provident Fund <i>other than Rs 1,599.54 lakhs and 9,450.93 lakhs and Rs.2,486.20 lakhs and Rs. 713.59 Lakhs pertaining to Naini and Rae Bareli, Mankapur and Bangalore Plant units respectively</i>, Employees State Insurance other than Rs. 0.65 lakhs pertaining to Bangalore NS Unit , <i>Sales Tax & Service Tax other than on sales set up on provisional basis in respect of which tax incidence is not recognised & accounted</i>, Customs Duty, Excise Duty, Cess and other statutory dues. According to the information and explanations given to us, <i>other than to the extent indicated above</i>, no undisputed amounts payable in respect of the aforesaid dues were outstanding as at 31.3.2015 for a period of more than six months from the date they became payable.</p>	<p>Revival package submitted through Operating Agency SBI, has been approved in principle by the Cabinet Committee on Economic Affairs on 12th February 2014. The dues will be cleared once the financial assistance is received from the Ministry.</p> <p>As regards, sales tax and service tax on sales accounted on provisional basis, there are no comments to offer.</p>	Repetitive Second time
8	<p>The accumulated loss of the Company as at 31.03.2015 has exceeded fifty percent of its net worth. The Company has incurred cash loss in the financial year under audit and also in the immediately preceding financial year.</p>	Noted.	Repetitive Second time

Annexure B
ITI LIMITED 2014-15
Drawal of attention in the Audit Report to Notes in the Annual Financial Statements

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

- (a) Cumulative Redeemable Preference Shares amounting to Rs 30,000.00 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) Formal conveyance/lease deeds in respect of lands, excepting part of lands at Bangalore and Mankapur, are yet to be executed by the respective State Governments (Refer Note No. 13);
- (c) 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);
- (d) Balances in the accounts of trade payables, advances from customers, trade receivables, 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. Adjustments, if any will be made on completion of such reconciliation /receipt of confirmation. (Refer Note 40.4);
- (e) Penalty of Rs 2,685 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. 40.9);

- (f) Validity of Claims recoverable from MTNL Delhi & MTNL Mumbai Against LD Damages for Rs. 183.23 lakhs and Rs.82.90 lakhs respectively;
- (g) The Company is Sick Company as per provisions of Sick Industrial Companies Act (SICA), 1985. CCEA has approved a financial assistance of Rs. 4,156.79 Crores in February, 2014, for Revival of ITI under Rehabilitation Scheme (Refer Note No. 40.16)
- (h) No lease agreement has been entered with ESIC for the additional land occupied by the Corporation to an extent of 229 sqmt. (Refer Note 40.20)
- (i) Land measuring 77 Acres have been resumed by the Govt of Kerala and is under adjudication of the Apex Court. The value of land as shown in the Balance Sheet includes the value of land resumed by the Govt Of Kerala (Refer Note 40.21)