



**THE STATE TRADING CORPORATION OF INDIA LTD.**

**AUDITED ANNUAL ACCOUNTS**

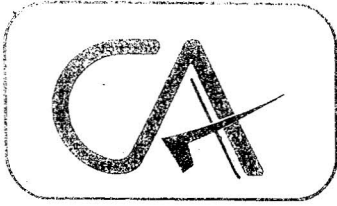
**2008-09**

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# AUDITORS' REPORT

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**AUDITORS' REPORT TO THE MEMBERS OF  
THE STATE TRADING CORPORATION OF INDIA LTD.**

- 1) We have audited the attached Balance Sheet of **THE STATE TRADING CORPORATION OF INDIA LIMITED** as at 31<sup>st</sup> March, 2009, the Profit & Loss Account and the Cash Flow Statement of the Company for the year ended on that date, annexed thereto in which are incorporated the accounts of the corporate office audited by us and the accounts of other branches audited by the other Auditors. 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 the 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 from material mis-statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also include assessing the accounting principles used and significant estimates made by the 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 (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure hereto, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- 4) Further to our comments in the annexure to in paragraph 3 above. We report as follows :
  - a) Reference is invited to Note No.3(a) relating to contracts of scrap, where transactions of purchases and sales and recoveries have not taken place as per contracts with the Associates. As mentioned in the said Notes of accounts and in view of the circumstances, it has become pertinent that the full provision be made hence the remaining of Rs. 1743 lacs have been provided for in the financial year 2007-08. (aggregate provision up to the year end is Rs.8743 lacs) against the outstanding balance of Rs.8743 lacs, considering the realizable value of dismantled plant and other claims made there against, pending the outcome of legal steps initiated for recovery. The Company has alleged fraud by the Associate and the matter has been referred to CBI. We also understand that two ex-Directors and a General Manager have been charge-sheeted. However, in the absence of details of the charge-sheets and the inquiries, we are unable to opine if there is a fraud or suspected Management fraud and comment on any mis-statement made in these accounts in respect of the above transaction.



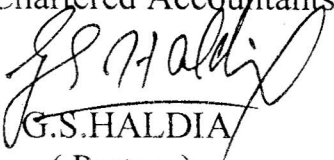
- b) Reference is invited to Note no.3(b) relating to additional liability that may arise under sales tax laws should the Company not be able to substantiate its sale as 'resale'. Estimated liability is provided as Contingent Liabilities for Rs.108 lacs.
- c) Reference is invited to Note no.3(c) relating to wheat transactions undertaken for a Business Associate in respect of which stocks to the extent of Rs.547 lacs have been written off in the financial year 2006-07 and the aggregate provisions and write off made in the accounts to the extent of Rs.4540 lacs. Stocks written off includes 18500 MT out of 26500 MT at Bangladesh of a cancelled export contract, of which 8000 MT were said to have been misappropriated by the Cargo Handling Agent and written off in the financial year 2006-07 and in respect of the balance stocks, no details are available. Stocks written off also includes wheat said to have been damaged in a flood on 5.12.2006 at Kandla in respect of which no quantitative details are available. The write off has been made after adjusting estimated realizable value of estimated saleable stock of 5000 MT at Kandla. As per Contract, the Associate is liable to indemnify the Company for all the losses. In the year 2006-07, reconciliation of accounts with the Business Associate has been made. Guarantee of Rs. 2.5 Crores has been invoked. PDC of Rs.20.00 crores were presented to bank which were dishonored stating "Insufficient Funds" action under section 138 of The Negotiable Instrument Act is in process. However, on consideration of prudence and in view of uncertainty of realizing the total dues, losses in the transaction and provision against the realization have been made in these accounts, In the absence of information about actual state of affairs of the position of stocks at Bangladesh and Kandla, we are unable to comment on any material mis-statements in these accounts in respect of the same.
- d) Reference is invited to Note no.3(d) relating to additional liability that may arise on account of price differential considering the sale as inter-state sale at Open market Sales Scheme (Domestic) for Wheat, instead of the concessional prices charged for exports. Additional amount of central sales tax liability for non-export of 30392.010 MT of wheat procured from FCI is not ascertainable.
- e) Note no.3(f) and 5(a) relating to pending reconciliations of personal accounts and consequential adjustments.
- 5) We further report that :-
- a) 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 except for information pertaining to charges levied on two ex-Directors and a General Manager and details of inquiries in respect of transaction referred to in para 4 (a) above, and further except as otherwise stated in the report, and the record of the cases being handled by the vigilance department of the company and the accounting of the consequential financial effect thereof on the matters under its scrutiny in such cases.
- b) 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 such books and proper returns adequate for the purposes of our audit have been received from the Branches not audited by us. Reports of the branch auditors have been considered while preparing our report.

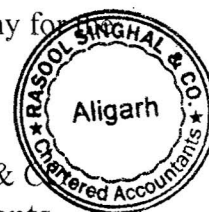


- c) The Balance Sheet, Profit & Loss Account and Cash Flow Statement referred to in this report are in agreement with the books of account;
- d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement comply with the mandatory accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
- e) Nominee directors have been exempted from the provisions of section 247(1)(g) of the Companies Act, 1956. In respect of the remaining directors, on the basis of written representations received from the directors as on 31<sup>st</sup> March, 2009 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on 31<sup>st</sup> March, 2009 from being appointed as a director in terms of clause(g) of sub-section(1) 274 of the Companies Act, 1956.
- f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts, subject to our observations in paragraphs 4(a) to (e) above, provisions and write offs in respect of which have been made in the accounts based on the existent and known circumstances as reported in the said paragraphs and read together with the Significant Accounting Policies and other Notes appearing in the Notes to the Accounts, give the information required by the Companies Act, 1956 in the manner so required and also give a true and fair view in conformity with the accounting principles generally accepted in India.
- (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2009;
- (ii) in the case of the Profit & Loss Account, of the profit of the Company for the year ended on that date; and
- (iii) in the case of the Cash Flow Statement, of the Cash Flows of the Company for year ended on that date.

Place : New Delhi  
Dated : 28.07.2009

FOR RASOOL SINGHAL & CO.  
Chartered Accountants

  
G.S. HALDIA  
( Partner)  
M. NO. 007012





**ANNEXURE TO AUDITORS' REPORT**  
( Referred to in Paragraph 3 of our report of even date )

1. In respect of its fixed assets :
  - a. The Company has maintained proper records showing full particulars including quantitative details and situations of its fixed assets.
  - b. Physical verification of fixed assets has been conducted during the year. We are informed that no material discrepancies were noticed on such physical verification.
  - c. In our opinion, the Company has not disposed off substantial part of fixed assets during the year and the going concern status of the Company is not affected.
2. In respect of its inventories:
  - a. As explained to us, verification of inventories is undertaken by the Company through Surveyors from time to time. In respect of goods in the custody of third parties, certificate is obtained from the Clearing & Handling Agents or the Warehousing Corporation or from the related parties. In our opinion, the verification in case of goods like coal, wheat, etc is not by actual weighment, but by actual receipt and dispatch without accounting for handling losses. In respect of stock of wheat at Bangladesh, no confirmation of stock were available and the stocks of the value of Rs. 368.64 lacs have been written off during the financial year 2006-07. In respect of stock of wheat at Kandla, there is no confirmation of the quantity and quality of stock available and the stocks have been written down to the estimated saleable quantity at its expected realizable value.
  - b. In our opinion, the procedures of physical verification are not reasonable and adequate in relation to the size of the Company and nature of its business. In our opinion, the Management has not laid down proper guidelines with regard to the periodicity and procedure for verification so as to strengthen its control over the materials, which are handled by and are in the custody of third parties.
  - c. The Company is not maintaining any separate Stock Register. However, transaction-wise stock details are compiled for control over the stock and necessary details are obtained from the custodians of stock viz., Port Authorities, Warehouse or Business Associates. Discrepancies, wherever noticed on verification have been properly dealt with, except in case of stock of wheat at Bangladesh and Kandla and Coal procured for NTPC handled at Kolkata.
3.
  - a. As informed, 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, clauses 4 (iii)(b) (c) and (d) of the Order are not applicable to the Company.



- b. As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, clauses 4 (iii) (f) and (g) of the Order are not applicable to the Company..
4. In view of the irregularities noticed and reported in paragraph 4 of our main report , we report that the internal control system for the purchase of inventory and sale needs to be considerably strengthened considering the size and nature of its business. However, no recurrence of defaults of similar nature has come to our notice in the course of our audit. However, internal controls systems are adequate in relation to purchase of fixed assets.
- 5.a According to the information and explanations provided by the management, we are of the opinion that there are no particulars of contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under section 301 of the Act.
- b There was no transaction hence this clause is not applicable.
6. In our opinion and as per the information and explanation provided to us, the provisions of Section 58A and 58AA of the Companies Act 1956 and the rules framed there under are not applicable, as the company has not accepted any deposits from the public.
7. In our opinion, the internal audit system needs enlargement and strengthening in scope in view of the observations contained in paragraph 4 of our main Report.
8. The management has informed us that Central govt. has not prescribed maintenance of cost records under section 209(1) (d) of the Companies Act, 1956 for any of the products of the company.
9. In respect of statutory dues:
- a. According to the records of the Company, undisputed statutory dues including Provident Fund, Investors Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and other Statutory Dues have been generally regularly deposited with the appropriate authorities. There were no undisputed amounts outstanding over six months from the date they became payable.



- b. Disputed Statutory dues are aggregating to Rs.13352.29 lacs on account of sales tax and Rs.327.18 lacs on account of income tax. Matters which are pending before appropriate authorities are given here under:-

Forum where dispute	Nature	Amount ( in lacs)
Sale Tax Tribunal, Patna	Sales Tax	1.53
Commercial Taxes Board, West Bengal	Sales Tax	67.41
West Bengal Sales Tax Tribunal, West Bengal	Sales Tax	0.77
Orissa Sales Tax	Sales Tax	0.37
Commercial Taxes Board	Sales Tax	1.22
Commercial Taxes Board	Sales Tax	0.30
Assam High Court	Sales Tax	1.78
Assam High Court	Sales Tax	0.14
Assam High Court	Sales Tax	0.61
Orissa Sales Tax	Sales Tax	0.68
Additional Commissioner of Sales Tax, W.Bengal	Sales Tax	7.22
TNGST, Tamilnadu	Sales Tax	22.83
Sales Tax Tribunal	Sales Tax	90.48
Penalty for Settlement Return	Sales Tax	0.70
TNGST Penalty	Sales Tax	0.28
Appeals before Tribunal, BST	Sales Tax	0.11
Appeal before the Dy Commissioner, BST	Sales Tax	1406.05
Appeal before MP Appellate Board	Sales Tax	221.85
Reassessment, MPCT	Sales Tax	1.01
Appeals before Tribunal, BST	Sales Tax	0.39
Appeals before Tribunal, CST	Sales Tax	6289.63
Sales Tax, Delhi	Sales Tax	5228.60
Income Tax appellate Tribunal, Delhi	Income Tax	8.32
		327.18

10. The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.
11. Based on our audit procedures and the information and explanations given by the management, the company has not defaulted in payment of dues to any financial institution or Banks.
12. According to information and explanations given to us , the company has not granted loans & advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
14. The Company has maintained proper records of transactions and contracts in respect of trading in securities, debentures and other investments and timely entries have been made therein. All shares, debentures and other investments have been held by the Company in its own name.



15. According to the information and explanations given to us, the company has not given any guarantee for loans taken by others from bank or financial institutions.
16. The Company has neither raised any new term loans during the year nor are there any term loans outstanding.
17. According to the information and explanations given to us and on an overall examinations of the Balance Sheet and Cash Flow statement of the Company, we report that no funds raised on short term basis have been used for long term investment and no long term funds have been used to finance short term assets.
18. The company has not made any preferential allotment of shares during the year to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956 .
19. The Company has not issued any debentures during the year .
20. The Company has not raised any money by way of public issue during the year.
21. a According to the information and explanations given to us, the Company has filed criminal complaints against certain parties for instigating the Company into participating in a transaction for sale of scrap from a dismantled plant based on a Valuation Report which showed much higher quantity and saleable value of scrap.( Refer note no.4(a) ). The matter has been referred to the CBI. In the said case, charge sheets have also been filed against two ex-Directors and a General Manager. However, in the absence of details of the charges levied, we are unable to comment if there is any mis-statement in the financial statements in respect of the said transaction. ( refer paragraph 4(a) of main Audit Report).
- b. In respect of 26500 MT of wheat lying at Bangladesh against a cancelled export contract, misappropriation of 8000 MT by the buyers/CHA without paying for the stock was alleged by the Company and criminal complaints were filed in the financial year 2006-07 and the stolen stocks written off in the books. The status of the said case is not known. Status of the balance stock of 18500 MT at Bangladesh is also not known and the stocks have been written off in the books. In the absence of details of the actual appropriation of stocks, we are unable to express an opinion on any mis-statement in these financial statements on the above account. (refer paragraph 4(c) of main Audit Report).

Place : New Delhi  
Dated : 28.07.2009

FOR RASOOL SINGHAL & CO.

Chartered Accountants

*G.S. Haldia*  
G.S. HALDIA  
( Partner )  
M.NO. 007012

