



प्रभाग  
DIVISION



दि स्टेट ट्रेडिंग कार्पोरेशन ऑफ इंडिया लिमिटेड  
(भारत सरकार का उद्यम)  
**THE STATE TRADING CORPORATION OF INDIA LTD.**  
(A Govt. of India Enterprise)

STC/BS&P/BS/10082/2017/STEX

October 22, 2021

Manager - Listing Compliance Department National Stock Exchange of India Limited Exchange Plaza, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051 Scrip Code : STCINDIA - EQ	Manager – Listing Compliance Department BSE Limited 1 <sup>st</sup> Floor, P.J. Towers, Dalal Street Mumbai – 400001 Scrip Code : 512531
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**Sub: Revised Audit Report on Annual Accounts of the Company for the  
Financial Year 2020-21**

**Dear Sir/Madam,**

This is to inform you that the Board of Directors of the Company have, considered and approved the Revised Audit Report on Annual Accounts (Standalone & Consolidated) of the Company for the Financial Year 2020-21.

Please take note of the above document & information on record.

Thanking you,

Yours sincerely,

For The State Trading Corporation of India Limited

  
22/10/2021

(Vipin Tripathi)

Company Secretary & Compliance Officer

पंजीकृत कार्यालय : जवाहर व्यापार भवन, टॉलस्टॉय मार्ग, नई दिल्ली-110001 / Regd. Office : Jawahar Vyapar Bhawan, Tolstoy Marg, New Delhi-110 001

कॉर्पोरेट पहचान संख्या / Corporate Identity No. : L74899DL1956GOI002674

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“हिन्दी में प्राप्त पत्रों का स्वागत है”



# PSMG & ASSOCIATES

## CHARTERED ACCOUNTANTS

### Head Office

206 B & 207, Jagdamba Tower,  
Commercial Complex,13, Preet  
Vihar, Delhi 110092  
Ph. No: +91-9958709723  
[info@psmg.co.in](mailto:info@psmg.co.in).

### **Independent Auditor's Report**

**To Members of The State Trading Corporation of India Limited**

### **Report on the Audit of the Standalone Financial Statements**

The Revised Report is issued in supersession of our earlier Audit Report dated 25<sup>th</sup> June 2021, at the instance of the Comptroller & Auditor General (C&AG) of India in order to make it more clarificatory, particularly in respect of the reporting requirements of the Companies (Auditor's Report) Order, 2016. Further, we confirm that there is no change in the true & fair view of the financial statements as expressed in the earlier report and also none of the figures have undergone any change in the financial statements of the Company as of 31 March 2021.

### **Qualified Opinion**

We have audited the Standalone Financial Statements of The State Trading Corporation of India Limited ("the Company"), which comprises the Standalone Balance Sheet as at 31st March 2021, the Standalone Statement of Profit and Loss (including Other Comprehensive Income), the Standalone Statement of Changes in Equity and the Standalone Statement of Cash Flows for the year ended on that date, and notes to the financial statements, including a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "The Standalone Financial Statements")

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid Standalone Financial Statements give the information required by



the Companies Act 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies ( India Accounting Standards ) Rule 2015 as amended, ("Ind AS") and other accounting principles generally accepted in India, of the state of affairs of the Company as at 31<sup>st</sup> March 2021 and its loss and total comprehensive loss, changes in equity and its cash flows for the year ended on that date.

#### Basis for Qualified Opinion

**a. Non provision in respect of the items / matters as indicated below, has resulted in the loss being shown understated by Rs. 235.17 crores for the year**

- i. Refer Note No. 39(9), for not providing firm liability of Rs. 3.92 Crores from one of the party, M/s Lichen Metals Private Limited, after adjusting the deposit of Rs. 27.95 crores from Holding Company of the Party. The said Holding Company of the party had approached for arbitration against the adjusted deposit and the arbitration award was in favour of holding Company of the party. Company had filed an appeal before the Hon'ble single bench of High Court against the arbitration award. However, under the Order passed by the Hon'ble Calcutta High Court, company has deposited an amount of Rs 31.92 Crores on losing the case being the adjusted deposit with interest and made a provision for Rs. 27.95 Crores in the books of accounts in the current year.
- ii. Refer Note No. 39(8), for not providing firm Liability of amounting of Rs. 6.96 Crore recoverable from M/s Dankuni Steel Ltd. against supply of met Coke during earlier years. For recovery of the dues, claim has been filed with NCLT through IRP. The company has filed legal and criminal cases against the party.
- iii. Refer Note No. 38(ii), an amount of Rs.4.98 crores shown as a contingent liability against which the Company has not provided firm liability although the Company has lost the court case in Indian Council of Arbitration.
- iv. Refer Note No. 12 & 55, the Company has Deferred Tax Asset worth Rs. 73.01 Crores and MAT credit of Rs. 13.48 crores. However, there is no virtual certainty of profits in the future considering the high value of contingent liabilities, significant decrease in the sales value, negative net worth of the Company and decision of the board of directors regarding Non operative status of the Company dated 05.04.2021. Accordingly, the Deferred tax and MAT credit should be reversed and therefor for loss for the year is understated by Rs. 86.49 crores with consequential effect on 'Retained earnings' by the same amount and overstatement of assets.
- v. Refer Note No. 38, for non-provision of a demand of Rs 132.82 Crores received from Land and Development Office - New Delhi, which has resulted in understatement of loss by Rs. 132.82 Crores and understatement of liabilities.

As a result of matters contained in paras (a) (i) to (v) above, loss for the year is understated by Rs. 235.17 crores, with consequential effect on 'Retained earnings' by the same amount, understatement of 'liabilities' by Rs. 148.68 crore and overstatement of non-current assets by Rs. 86.49 crores.

**b. The Company has not complied with**

- i. Ind AS.10 (regarding Events Occurring after balance sheet date) by not taking into consideration the accounting effects of resolution of The Board of Directors dated 05.04.2021 regarding non-operating status of the Company.
- ii. Ind AS.21 (regarding Effects of Changes in Foreign Exchange) by not revaluing the carrying amounts, in most cases, of foreign currency receivables and payables which are under litigation/disputed.
- iii. Ind AS 116, (regarding Leases) by not ascertaining the carrying value of leasehold properties in case of Jawahar Vyapar Bhawan, Malviya Nagar Housing Colony and plot at Mallet Blunder, Mumbai port trust. Due to unavailability of the lease period in these cases impact of the same is not ascertainable.

**c. The impact of the following is not ascertainable:**

- i. Refer to Note No. 20&55, the view of the default by the company in paying due to interest amount to the banks, STC was declared NPA. The lender banks have initiated DRT proceedings against the company. The memorandum of the OTS (MOTS) proposal with lender banks is in progress and is in line with the minutes of the high level meeting held in 29.08.2019 and the further clarificatory letter dated 13.10.2020 of Ministry. The liability towards banks is proposed to be settled by the way of transfer of title of identified property worth Rs.300 crore on "as is where is basis" as a full and final settlement. However, no any documentation is made available by company with regards to discussion with lenders.  
Pending settlement of OTS, company has not charged interest in its financial statements.
- ii. Refer Note No. 54, in view of non-availability of confirmation of balances of receivables and payables (including direct & indirect taxes).
- iii. Refer Note No. 4, for non-adjustment of value/area in Fixed Assets Register against areas acquired by Delhi Metro Rail Corporation (DMRC) for construction of Metro Station & by L&DO for widening of the Road during Asian Game, as well as the flats/area of land sold by the company to The Handicrafts and Handloom Exports Corporation of India Limited (HHEC) for its Housing colony.
- iv. Refer note no. 9, 11 & 39, for not making credit impairment of trade receivables of Rs. 928.69 crores since the company feels that even if no amount would eventually be recovered, provision is not required as the creditor will be paid by the company only to the extent the amount is realized against such trade receivables, though in most of the cases agreements are not tripartite.

Further in case of M/s Rajat Pharmaceuticals Ltd (RPL), under note no.39, who drew bills of exchange on STC which were accepted upon receipt of overseas buyer's pre-acceptance to STC's bills of exchange. However, the foreign buyers defaulted in making

payments against the export bills and have gone into liquidation. A sum of Rs.527.86 crores has been admitted by the liquidator of one of the foreign buyer's i.e. Loben Trading Co. Pte. Ltd, Singapore. A Decree of Rs 62.47 crores approx. has been passed by Hon'ble Bombay High Court in favour of Company against the dues from another foreign buyer i.e Sweetland Trading Pte Ltd., Singapore. As of current date, RPL has gone into liquidation and official liquidator is appointed by Hon'ble High Court Bombay. The matter is also under investigation by CBI. Banks & Financial institution have filed legal suit against RPL before DRT making STC also a party to the case claiming Rs. 476.47 Crore.

Refer Note No. 39, for matters other than RPL, as all these matters are sub-judice and/or under investigation of CBI we are unable to comment upon the same.

- v. Refer Note No. 24, customer at credit includes amount payable to U.P. Government amounting to Rs 6.03 Crores. As informed by the Branch management, Branch has made various other claims on U.P Government and accordingly dues of Rs. 39.11 Crores is recoverable from U.P. Government for which debit note dated March 10, 2014 was raised. However, the said claim was not recognised in the standalone financial statements of the branch till date, as its ultimate collection was not certain. In absence of information on acceptability of the said claim by UP Government, we are unable to ascertain its possible impact, if any, on the standalone financial statement of the Company.
- vi. As per letter no. L&DO/L-IIA/1236/574 dated 19.12.2019, L&DO has demanded interest @ 10% till the payment is being made by Company, the effect of the same is not considered in the books as on reporting date, which has resulted in understatement of loss. The amount of the interest subsequent to the above letter of L&DO dated 19.12.2019 cannot be quantified due to lack of information in the said regard.
- vii. **Material Uncertainty related to Going Concern (Refer Note 55):-**

The Company has incurred a net loss of Rs. 112.84 crore during the year ended 31<sup>st</sup> March 2020 and Rs. 47.70 crore during the year ended March 31, 2021 and, as of that date, the Company's liquidity position is not strong enough as is evident from the fact that the Current Liabilities exceeded its Current assets by 923.24 crores and net worth is positive only on account of revaluation reserve. Also considering the high value of contingent liabilities amounting to Rs.834.36 crores, significant decrease in the sales volume of the Company and the matter of continuous losses and negative net current assets, there could be material uncertainty for the Company to continue as a going concern. Further, The Board of Directors of Company on 05.04.2021 passed a resolution to continue business of Company as non-operating Company.

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for opinion.



### **Emphasis of Matters:**

- a. Refer Note No. 38(ii), Contingent Liabilities which includes an amount of Rs. 1.30 Crores in respect of pending sales tax liability. The Company has not complied in carrying out corrective actions as suggested by Government Audit Party (GAP) for F.Y. 2014-15 in the accounts as on 31<sup>st</sup> March, 2016 and for F.Y. 2015-16 in the accounts as on 31<sup>st</sup> March, 2017 amounting to Rs. 0.19.Crores, and Rs. 1.11 Crores respectively.
- b. Refers to Note No.38, in respect of litigation matters, their present status and provisioning, if any, required and on-going investigations into the alleged irregularities; further, the Company's past operations have exposed it to the risk of extensive litigation and contractual claims from third parties with increased litigation costs not fully provided for. Due to the range of potential outcomes, voluntary retirement of employees dealing with these cases and the significant uncertainty around the resolution of various claims, the amount of ultimate liabilities, if any, to be recorded in the statements as provision is not ascertainable.
- c. We refer to Note No.56, of the attached financial results relating to challenges faced by the company due to Covid-19, the impact of which in future period cannot be ascertained as on date.

Our opinion is not modified in respect of these matters.

### **Key Audit Matters :**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the basis for qualified opinion section, we have determined the matters described below to be the key audit Matters to be communicated in our report.

- a. **Accuracy of recognition, presentation and disclosures of revenues and other related balances in view of adoption of Ind AS 115 "Revenue from contracts with customers"**

The application of the new revenue accounting standard involves certain key judgments relating to identification of distinct performance obligations, determination of price of the identified performance obligations, the appropriateness of the basis used to measure revenue recognized over the period. Additionally, new revenue accounting standard contains disclosures which involve collation of information in respect of disaggregated revenue and periods over which the remaining performance obligations will be satisfied subsequent to the balance sheet date.

### Principal Audit Procedures followed:

We assessed the Company's process to identify the impact of adoption of the new revenue accounting standard.

Our audit approach consisted testing of the design and operating effectiveness of the internal controls and substantive testing as follows:

- Evaluated design of internal control relating to the implementation of the new revenue accounting standard.
- Selected sample for continuing and new contracts, and tested the operating effectiveness of the internal control, relating to identification of the distinct performance obligations and determination of transaction price. We carried out combination of procedures involving enquiry and observation, re-performance and inspection of evidence in respect of operation of these controls.
- Tested the relevant information technology systems' access and change management controls relating to contracts and related information used in recording and disclosing revenue in accordance with the new revenue accounting standard.
- Selected a sample of continuing and new contracts and performed the following procedures:
  - Read, analyzed and identified the distinct performance obligations in these contracts.
  - Compared these performance obligations with these identified by the company.
  - Considered terms of the contract to determine the transaction price including any variable consideration to verify the transaction price used to compute revenue and to test the basis of estimation of the variable consideration.
  - Samples in respect of revenue were tested with the performance obligations specified in the underlying contracts.
  - Performed analytical procedures for reasonableness of revenue disclosed by type and service offerings
  - We reviewed the collation of information and the logic of the report generated from the budgeting system used to prepare the disclosure relating to the periods over which the remaining performance obligations will be satisfied subsequent to the balance sheet date.

**b. Evaluation of uncertain tax positions and contingent liabilities:**

The company has uncertain material tax positions and contingent liabilities including matters under dispute which involves significant judgment to determine the possible outcomes of these disputes.

Principal Audit procedures followed:

We evaluated management's judgment of tax risks, estimates of tax exposures and contingencies by testing the design implementation and operating effectiveness of the related controls. We obtained details of completed tax assessments and demands for the year ended March 31, 2021 from management. We involved in the detailed discussions with the management for underlying assumptions in estimating the tax provision and the possible outcome of the disputes. Our team also considered legal precedence and other rulings in evaluating management's position on these uncertain tax positions as at April 1, 2020 to evaluate whether any change was required to management's position on these uncertainties.

**c. Adoption of Ind AS 116 – Leases:**



The application and transition to this accounting standard is complex and is an area of focus in our audit since the Company has a large number of leases with different contractual terms. Ind AS 116 introduces a new lease accounting model, wherein lessees are required to recognise a right-of-use (ROU) asset and a lease liability arising from a lease on the balance sheet. The lease liabilities are initially measured by discounting future lease payments during the term as per the contract/ arrangement. Adoption of the standard involves significant judgements and estimates including, determination of the discount rates and the lease term. Additionally, the standard mandates detailed disclosures in respect of transition.

Principal audit procedures on adoption of Ind AS 116 include:

- Assessed and tested new processes and controls in respect of the lease accounting standard (Ind AS 116);
- Assessed the Company's Evaluation on the identification of leases based on the contractual agreements and over knowledge of the business;
- Involved our specialists to evaluate the reasonableness of the discount rates applied in determining the lease liabilities;
- Upon transition as at 1<sup>st</sup> April 2019:
  - Evaluated the method of transition and related adjustments;
  - Tested completeness of the lease data by reconciling the Group's operating lease commitments to data used in computing ROU asset and the lease liabilities.
- On statistical samples, we performed the following procedures:
  - Assessed the key terms and condition of each lease with the underlying lease contracts and then
  - Evaluated computation of lease liabilities and challenged the key estimates such as discount rates and the lease term.
- Assessed and tested the presentation and disclosures relating to Ind AS 116 including, disclosures relating to transition.

**d. IT systems and controls over Financial Reporting**

We identified IT systems and controls over financial reporting as a key audit matter for the Company because its financial accounting and reporting systems are fundamentally reliant on IT systems and IT controls to process significant transaction volumes, specifically with respect to revenue and raw material consumption. Also, due to such large transaction volumes and the increasing challenge to protect the integrity of the Company's systems and data, cyber security has become more significant. Automated accounting procedures and IT environment controls, which include IT governance, IT general controls over program development and changes, access to program and data and IT operations, IT application controls and interfaces between IT applications are required to be designed and to operate effectively to ensure accurate financial reporting.

Principle Procedure followed by us:





- Assessed the complexity of the IT environment by engaging IT specialists and through discussion with the head of IT and internal audit and identified IT applications that are relevant to our audit.
- Assessed the design and evaluation of the operating effectiveness of IT general controls over program development, and changes, access to program and data and IT operations by engaging IT specialists.
- Performed inquiry procedures with the head of cybersecurity at the Company in respect of the overall security architecture and any key threats addressed by the Company in the current year.
- Assessed the design and evaluation of the operating effectiveness of IT application controls in the key processes impacting financial reporting of the Company by engaging IT specialists.
- Assessed the operating effectiveness of controls relating to data transmission through the different IT systems to the financial reporting systems by engaging IT specialists.

### **Information Other than the Financial Statements and Auditor's Report thereon**

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis, Annual Report on CSR activities, Report on Corporate Governance, Secretarial Auditor's Report Information, but does not include the standalone financial statements and our auditor's report thereon. The Management Discussion and Analysis, Annual Report on CSR activities, Report on Corporate Governance, Secretarial Auditor's Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information identified above when it becomes available to us and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated.

When we read such other information as and when made available to us and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **Responsibilities of Management and Those Charged with Governance 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 of these standalone financial statements that give a true and fair view of the financial position, financial

performance, (changes in equity) and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015 as amended. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate implementation and maintenance of 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 statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of Directors are also responsible for overseeing the Company's financial reporting process.

#### **Auditors' Responsibilities for the Audit of the Standalone Financial Statements**

Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal financial controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(r) of the Act, we are also responsible for expressing our opinion on whether the Company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



### 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, and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanation given to us, we give in the Annexure "A" a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.
2. As required by Section 143(3) of the Act, we report that:
  - i. We have sought and obtained all the information and explanations, except for the matters referred in "Basis for Qualified Opinion", which to the best of our knowledge and belief were necessary for the purposes of our audit and if not, the details thereof and the effect of such information on the financial statements.
  - ii. In our opinion, proper books of account as required by law have been kept by the group, except for the matters referred in "Basis for Qualified Opinion", so far as it appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the branches.
  - iii. The Balance Sheet, the Statement of Profit and Loss including the Statement of Other Comprehensive Income, the Cash Flow Statement and Statement of Changes in Equity dealt with by this Report are in agreement with the books of account. Due to outbreak of second wave of COVID19 pandemic, lockdown was imposed by several state government. We could not able to visit branch offices of STC and audit was conducted remotely by us from Corporate Office of STC at New Delhi.
  - iv. In our opinion, the aforesaid standalone financial statements comply with the Indian Accounting Standards, except for the para (b) of Basis for Qualified opinion, specified under Section 133 of the Act, read with the Companies (Indian Accounting Standards) Rules, 2015 as amended.
  - v. The going concern matter described under "Material uncertainty in relation to Going Concern" paragraph above, in our opinion, may have an adverse effect on the functioning of the company.
  - vi. Pursuant to the Notification No. GSR 463(E) dated 5th June 2015 issued by the Ministry of Corporate Affairs, Government of India, provisions of sub-section (2) of Section 164 of the Act are not applicable to the Company, being a Government Company;



- vii. 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 B".
- viii. Pursuant to the Notification No. GSR 463(E) dated 5th June 2015 issued by the Ministry of Corporate Affairs, Government of India, provisions of Section 197 of the Companies Act, 2013, are not applicable to the Company, being a Government Company; and
- ix. 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:
- a. The Company has disclosed the impact of pending litigations on its financial position in its financial statements, refer note 38 & 39 to the financial statements.
- b. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
- c. The Company has transferred Rs.0.003 crores to Investor Education and Protection Fund in FY2020-21 which relates to the year 2012-13. Further, no case is identified for delay in transferring amounts, required to be transferred, to the by the Company during the period under review.
3. We are enclosing our report in terms of Section 143 (5) of the Act, on the directions and sub-directions issued by the Comptroller and Auditor General of India, on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, in **Annexure- C**.

For and on the behalf of

**PSMG & ASSOCIATES**

Chartered Accountants

Firm Reg. No.008567C



Priyanka Jain

Partner

M.NO.423088

UDIN: **21423088AAACJR9220**



Place: New Delhi

Date: 07.09.2021

## ANNEXURE 'A' TO INDEPENDENT AUDITORS' REPORT

Referred to Paragraph 1 under the heading of "Report on Other Legal and Regulatory Requirements" of Independent Auditor's Report of even date to the members of The State Trading Corporation of India Limited on the Standalone Financial Statements for the year ended 31<sup>st</sup> March 2021.

### 1. Fixed Assets

a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets. However, the records are not updated for the financial year under audit. Fixed Assets report is under finalization.

b) The company has a Programme of conducting physical verification of items of fixed assets in a phased manner. The physical verification report of all branches have been received however Physical Verification report of Corporate office (New Delhi) is not provided by company (refer note no. 53 (i)).

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 cases as below :

Location	Description	Area	Audit observations	Gross Block/ Revalued amount ( ` in Crore)	Net Block (in crore)
New Delhi	Lease hold Land at Tolstoy Marg, Jawahar Vayapar Bhawan, New Delhi.	2.599 acres	Execution of lease deed is pending since 1975. Further, out of total area, physical position of land measuring 714.60 sq mtrs is not now with STC (i.e. 388.91 sq mtrs. acquired by DMRC for construction of Metro and 325.69 sq mtrs. by NDMC for widening of the Road during Asian Game) and value the same has not been uploaded in FAR / FAS. Measurement for area under physical position is yet to be done.	581.88	559.29
New Delhi	STC / MMTCC Housing Colony,	16.17 acres	Execution of lease deed (for 50% share of total land measuring 32.33	125.57	123.94

	Aurobindo Marg, New Delhi		acre) allotted for housing colony is still pending. Further, records / details for area given by STC from its own share to HHEC for its housing colony is to be adjusted in the FAR / FAS. Measurement for area under physical position of the company is yet to be done.		
New Delhi	Flats at AGVC, Khel Gaon Marg, New Delhi.	8 Flats (measuring 14424 sq fts)	Execution of lease / conveyance deed is still pending.	27.45	27.20
Mumbai	7.nos. of Flats (refer foot note of note no.4	7997 sq fts	Execution of lease / conveyance deed is still pending.	29.35	19.18
Mumbai	Mallet Bunder	11586.96 sq meters (approx.)	Lease deed expired since 2016 and the company is in the process of surrendering the plot.	36.72	11.67

## 2. Inventories:

According to information and explanations given to us physical verification of inventories is done by the management at a reasonable interval along with the inventories lying with third parties and pledge stock, as per note 52, have been physically verified through surveyor from time to time. However, the same has not been physically verified during the year as mentioned in note no.53(ii). Therefore, we are unable to determine whether there are any material discrepancies or not.

3. According to information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms, limited liability partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013 ('the Act'). Accordingly, clauses (iii) (a), (b) & (c) of paragraph 3 of the Order are not applicable to the Company.
4. According to the information and explanations given to us, the Company has not given any loans, or made any investments or provided any guarantees or security to the parties covered under sections 185 and 186 of the Act. Accordingly, paragraph 3 (iv) of the Order is not applicable to the Company.
5. The Company has not accepted any deposits, in terms of the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act 2013 and the rules framed there under
6. We are of the knowledge and have been explained that the Central Government has not prescribed the maintenance of cost records for the services of the Company under

Companies (Cost Records and Audit) 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

**7. Statutory Dues:**

- a) According to the information and explanations given to us and on the basis of our examination of the books of account, undisputed statutory dues, including provident fund, employees' state insurance, income-tax, sales-tax, goods and service tax, service tax, duty of customs, duty of excise, value added tax, cess and other statutory dues have generally been deposited regularly with the appropriate authorities within the due date According to information and explanation given to us there are no outstanding statutory dues as referred above as at the last day of the financial year under audit for a period of more than six months from the date they became payable.
- b) According to the information and explanations given to us and as per books of account, there are dues outstanding of Sales Tax, Wealth Tax, Custom Duty Excise Duty, Value Added Tax, Service Tax, Goods & Service Tax and Cess which have not been deposited as on 31st March 2021 by the company, on account of any dispute are as under( refer Note no.38(ii) in financial statements)

<u>Name of Statute</u>	<u>Nature of Dues</u>	<u>Period to which Amount relates</u>	<u>Forum where dispute is pending</u>	<u>Amount (in crore)</u>
<b>Income Tax</b>				
Income Tax Act	Income Tax	2008-09	DCIT(A), Delhi	5.20
Income Tax Act	Income Tax	2008-09	ITAT, Delhi	3.88
Income Tax Act	Income Tax	2015-16	ITAT, Delhi	0.02
Income Tax Act	Income Tax	2016-17	ITAT, Delhi	0.69
Income Tax Act	Income Tax	2017-18	ITAT, Delhi	0.0002
<b>Sales Tax &amp; Custom Duty</b>				
Customs Act	Custom Duty	2011-12	CESTAT, Ahmedabad	1.69
Customs Act	Customs	-	Commissioner (Appeals)	0.06
Custom Act	Custom Duty	2017-18	CESTAT, Chennai	4.16
Sales Tax	Sales Tax	1986-87	Kerala High Court	0.50
Orissa Sales Tax Act	Sales tax	1988-89	Commissioner (Appeals), Orissa	0.01
Bihar Sales Tax Act	Sales tax	1989-90	Sales Tax Appellate Tribunal	0.01
Central Sales Tax Act	CST, WB	2003-04	Joint Commissioner, Sales Tax	0.23
West Bengal Vat Act / Central Sales Tax	WBVAT CST, WB	2011-12	Joint Commissioner,	0.02





Act			Commercial Tax	
Central Sales Tax Act	Central Sales Tax Act	1993-94	Hon'ble Assam High Court	0.02
		1994-95		
		1995-96		
Maharashtra Sales Tax Act	Sales Tax	1992-93	Maharashtra Sales Tax Tribunal	0.74
		1996-97		
Maharashtra Sales Tax Act	BST, CST & MVAT	1993-94	Joint Commissioner, Sales Tax	47.69
		2000-01		
		2003-04		
		2006-07		
Maharashtra Sales Tax Act	BST, CST & MVAT	2004-05	Joint Commissioner, Sales Tax	390.36*
		2009-10		
		2011-12		
Maharashtra Sales Tax Act	CST	2008-09	Maharashtra Sales Tax Tribunal	0.50*
Maharashtra Sales Tax Act	TDS on Work Contract	2012-13	Sales Tax Appellate Tribunal, Mumbai	0.21*
TNGST/AST/CST	Sales Tax	1974-75, 1975-76, 1985-86 to 1987-88, 1989-90 & 1991-92	Hon'ble Madras High Court	0.83
<b>Service Tax</b>				
Finance Act, 1994	Service Tax	2005-06 - 2006-07	CESTAT (Stay Granted)	7.29
Finance Act, 1994	Service Tax	01.04.2012-31.03.2015	CESTAT	4.37
Finance Act, 1994	Service Tax	2007-08 -2016-17	CESTAT	6.02
Finance Act, 1994	Service Tax	01.04.2011-31.03.2012	Service Tax Appeal Tribunal	0.13#
Finance Act, 1994	Service Tax	01.10.2004-31.03.2011	Supreme Court, Delhi	24.72
Finance Act, 1994	Service Tax	01.04.2015-30.06.2017	Joint Commissioner of CGST & Central Excise Mumbai	1.24@
<b>Certificate Dues Liability</b>				
BPDRA	Certificate Dues Liability	1971-72,1976-77 to 1978-79	Concerned Department	0.06

\* A Stay order has been received against the amount disputed.

# The appeal filed by the Company against Service Tax Appellate Authority, Mumbai is rejected and the Company has contested the order of Service Tax Appellate Authority with Service Tax Appellate Tribunal.

@ The Company has received a show-cause notice for levy of Service Tax under business auxiliary service category. Being similar nature of matter being contested by the Company for earlier years with the appropriate authorities, the Company has requested service tax authorities to keep the assessment proceedings on hold until disposal of matters for earlier years.

8. In our opinion and according to the information and explanations given to us, the company has defaulted in repayments of loans/borrowings to Bank (refer note no.20 & Basis of Qualified opinion section of our audit report). However, the company does not has any outstanding loan/ borrowing from financial institutions or Government or dues to debenture holders.


Lender-wise details of sum defaulted by company & period of default is as follows-

Name of Banks	Amount of Instalments and interest overdue	Period of Default, as on 31.03.2021 (in days)
Syndicate Bank	280.71	1095 Days
Indian Overseas Bank	188.02	1095 Days
Union Bank of India	140.72	1126 Days
Indian Bank	94.81	1126 Days
Exim Bank	74.43	1642Days
Bank of Baroda	26.27	1014 Days
UBI (Kumily)	1.28	1126 Days
<b>TOTAL</b>	<b>806.24</b>	

9. Based upon the audit procedures performed and the information and explanations given by the management, the company has not raised moneys by way of initial public offer or further public offer including debt instruments and term Loans. Accordingly, the provisions of clause 3 (ix) of the Order are not applicable to the Company and hence not commented upon.
10. According to the information and explanations given to us and as represented by the management and based on our examination of the books and records of the Company and in accordance with generally accepted auditing practices in India, no case of frauds by the Company or any fraud on the Company by its officers or employees has been noticed or reported during the year.
11. As per notification no. GSR 463(E) dated 5 June 2015 issued by the Ministry of Corporate Affairs, Government of India, Section 197 is not applicable to the Government Companies. Accordingly, paragraph 3 (xi) of the Order is not applicable to the Company.

12. The Company is not a nidhi Company and therefore paragraph 3(xii) of the Order related to such companies is not applicable to the Company.
13. In our opinion, all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 and the details have been disclosed in the Financial Statements as required by the applicable accounting standard. (Refer Note No.47)
14. The company has not made preferential allotment or private allotment of share or fully or partly convertible debentures during the year Accordingly, paragraph 3(xiv) of the Order is not applicable to the Company.
15. As per records of the company and according to information and explanation given to us by the management, the company has not entered into any non-cash transactions with directors or persons connected with him & hence the above clause is not applicable.
16. The company is not required to be registered under section 45-IA of Reserve Bank of India Act, 1934.

**For and on the behalf of**  
**PSMG & ASSOCIATES**  
**Chartered Accountants**  
Firm Reg. No.08567C

  
Priyanka Jain  
Partner  
M.NO.423088



UDIN: **21423088AAACJR9220**  
Date:07.09.2021

**"Annexure B" to INDEPENDENT AUDITOR'S REPORT**

**The State Trading Corporation of India Ltd, New Delhi**

**Referred to Clause (vii) of Paragraph 2 under the heading of "Report on other Legal and Regulatory Requirements" of our report of even date on Standalone Financial Statements for the year ended 31<sup>st</sup> March 2021**

**Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")**

We have audited the internal financial controls over financial reporting of **The State Trading Corporation of India Limited ("the Company")** as of March 31, 2021 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 un-authorized 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 (IFCFR)**

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.



### **Basis for Qualified Opinion**

- a) Company is maintaining "Performance Management System", Payroll Software and "Leave Management System" which are not interfaced with each other as well as the accounting software. As a result of above, Manual Accounting entries are being made on periodical basis in the Tally ERP, Accounting software used by company.
- b) Lack of effective Internal control over inventory pledged with the company as in most of the cases periodic physical verification reports have not been submitted by the parties and in certain cases parties are not allowing STC to conduct the physical verification.
- c) Manner of maintenance of Fixed Assets Schedule & register need to be strengthened.
- d) Lack of proper contract management is noticed. Irrespective of completion of contracts the EMD/Security deposits are still being withheld in the books by the company.
- e) Lack of control over the renewal of Rent/lease Agreements on timely basis. There are numerous of agreements which have not been renewed over a long period.
- f) Ineffective implementation of accounting policy in balance confirmation of trade receivable & vendor balance, is noticed. The balances outstanding in the trade receivable account cannot be reconciled in customers' books as balance confirmations are not available for these customers.

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.



## Qualified Opinion

In our opinion, the Company has, except for effects of the material weaknesses described above on achievement objectives of the control criteria, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31st March, 2021, 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, to the extent possible, considered the material weaknesses identified and reported above in determining the nature, timing, and extent of audit tests applied in our audit of the March 31, 2021 standalone financial statements of the Company, and these material weaknesses are not likely to affect our opinion on the standalone financial statements of a Company.

**For and on the behalf of**  
**PSMG & ASSOCIATES**  
**Chartered Accountants**  
Firm Reg. No.008567C

*Priyanka Jain*  
Priyanka Jain  
Partner

M.NO.423088

UDIN: **21423088AAACJR9220**

Date:07.09.2021



**Annexure- 'C' to the INDEPENDENT AUDITORS' REPORT**

**The State Trading Corporation of India Ltd, New Delhi**

**Referred Paragraph 3 under the heading of "Report on other Legal and Regulatory Requirements" of our report of even date on Standalone Financial Statements for the year ended 31<sup>st</sup> March 2021**

1	Whether the company has system in place to process all the accounting transactions through IT System? If yes, the processing of accounting transactions outside IT system on the integrity of the accounts along with the financial implications, if any, may be stated.	Company is maintaining "Performance Management System", Payroll Software and "Leave Management System" which are not interfaced with each other as well as the accounting software. As a result of above, Manual Accounting entries are being made on periodical basis in the Tally ERP Accounting software.
2	Whether there is any restructuring of an existing loan or cases of waiver/write off of debts/loans/interest etc., made by the lender to the company due to company's inability to repay the loan?	<p>The company is in the process of "One time settlement" (OTS) with the Lender Banks for the dues of banks for which Company is in continuing default.</p> <p>In view of default by the company in paying due to interest amount to the banks, STC was declared as NPA. The lender banks have initiated DRT proceeding against the company, which is likely to be withdrawn soon. The Memorandum of the OTS (MOTS) proposal with the lenders bank is at the final stages and is in the line with minutes of the high level meeting held on 29.08.2019 and further clarification letter dated 13.10.2020 of Ministry. The liability towards bank is proposed to be settled by way of transfer of title of identified immovable property worth Rs. 300 crore on "as is where is basis" as a full and final settlement.</p> <p>However, no any documentation is made available by company with regards to discussion with lenders.</p> <p>Pending settlement of OTS, company has not charged interest in its financial statements.</p>



3	Whether the fund received/receivable for specific schemes from Central/State agencies were properly accounted for/ utilized as per its terms and condition? List of cases of deviation.	As per information & explanation given to us, the Company has not received any fund under any scheme of the Central/State Government during the year under report.
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**For and on the behalf of**  
**PSMG & ASSOCIATES**  
**Chartered Accountants**  
Firm Reg. No.08567C



Priyanka Jain

Partner

M:NO.423088

UDIN: **21423088AAACJR9220**

Date:07.09.2021

## COMPLIANCE CERTIFICATE

We have conducted the audit of Standalone Ind AS financial statements of The State Trading Corporation of India Ltd. for the year ended March 31, 2021 in accordance with the directions / sub-directions issued by the Comptroller and Auditor General of India under section 143(5) of the Companies Act, 2013 and certify that to the best of knowledge and belief we have complied with all the directions/sub-directions issued to us.

For and on the behalf of  
**PSMG & ASSOCIATES**  
**Chartered Accountants**  
Firm Reg. No. 008567C



Priyanka Jain

Partner

M.NO.423088

UDIN: **21423088AAACJR9220**

Date: 07.09.2021



# PSMG & ASSOCIATES

## CHARTERED ACCOUNTANTS

### Head Office

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### **Independent Auditors' Report**

**To the members of The State Trading Corporation of India**

### **Report on the Audit of the Consolidated Financial Statements**

The Revised Report is issued in supersession of our earlier Audit Report dated 25<sup>th</sup> June 2021, at the instance of the Comptroller & Auditor General (C&AG) of India in order to make it more clarificatory, particularly in respect of the reporting requirements of the Companies (Auditor's Report) Order, 2016. Further, we confirm that there is no change in the true & fair view of the financial statements as expressed in the earlier report and also none of the figures have undergone any change in the financial statements of the Company as of 31 March 2021.

### **Qualified Opinion**

We have audited the accompanying Statement of Consolidated Financial Statements of **The State Trading Corporation of India Limited ( hereinafter referred to as "the Holding Company")** and its subsidiary (the Holding Company and its subsidiary together referred to as the "Group"), which comprise of the Consolidated Balance Sheet as at March 31, 2021 and the Consolidated Statement of Profit and Loss (including Other Comprehensive Income), the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, and based on the consideration of report of other auditor on separate audited financial



statements / financial information of the subsidiary the aforesaid consolidated financial statements give the information required by the Companies Act, 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards ("Ind AS") prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended and accounting principles generally accepted in India, of their consolidated state of affairs of the Group as at March 31, 2021, their consolidated loss and total comprehensive loss, its consolidated changes in equity, and its consolidated cash flows for the year then ended on that date.

### **Basis for Qualified Opinion**

#### **Qualified Opinion**

- a. Non provision in respect of the items / matters as indicated below, has resulted in the loss being shown lower by Rs. 235.17 crores for the year**
- i. Refer Note No. 39.9, for not providing firm liability of Rs. 3.92 Crores from one of the parties, M/s Lichen Metals Private Limited, after adjusting the deposit of Rs. 27.95 crores from Holding Company of the Party. The said Holding Company of the party had approached for arbitration against the adjusted deposit and the arbitration award was in favor of Holding Company. The Holding Company had filed an appeal before the Hon'ble single bench of High Court against the arbitration award. However, under the Order passed by the Hon'ble Calcutta High Court, the Holding Company has deposited an amount of Rs 31.92 Crores on losing the case being the adjusted deposit with interest and made a provision for Rs. 27.95 Crores in the books of accounts in the current year.
  - ii. Refer Note No. 39.8, for not providing firm Liability of Rs. amount of Rs. 6.96 Crore recoverable from M/s Dankuni Steel Ltd. against supply of met Coke during earlier years. For recovery of the dues, claim has been filed with NCLT through IRP. The Holding Company has filed legal and criminal cases against the party.
  - iii. Refer Note No. 38(ii), an amount of Rs.4.98 crores shown as a contingent liability against which the Holding Company has not provided firm liability although the Holding Company has lost the court case in Indian Council of Arbitration.
  - iv. Refer Note No. 12&55, the Holding Company has Deferred Tax Asset worth Rs. 73.01 Crores and MAT credit of Rs. 13.48 crores. However, there is no virtual certainty of profits in the future considering the high value of contingent liabilities, significant decrease in the sales value, negative net worth of the Holding Company and decision of the board of directors regarding Non operative status of the Holding Company dated 05.04.2021. Accordingly, the Deferred tax and MAT credit should be reversed and therefor for loss for the year is understated by Rs. 86.49 crores with consequential effect on 'Retained earnings' by the same amount and overstatement of assets.
  - v. Refer Note No. 38.3, for non-provision of a demand of Rs 132.82 Crores received from Land and Development Office - New Delhi, which has resulted in understatement of loss by Rs. 132.82 Crores and understatement of liabilities.



As a result of matters contained in paras (a) (i) to (v) above, loss for the year is understated by Rs. 235.17 crores, with consequential effect on 'Retained earnings' by the same amount, understatement of 'liabilities' by Rs. 148.68 crore and overstatement of Non-Current assets by Rs. 86.49 crores.

**b. The Holding Company has not complied with:**

- i. Ind AS 10 (regarding Events Occurring after balance sheet date) by not taking into consideration the accounting effects of resolution of The Board of Directors dated 05.04.2021 regarding non-operating status of the Holding Company.
- ii. Ind AS 21 (regarding Effects of Changes in Foreign Exchange) by not revaluing the carrying amounts, in most cases, of foreign currency receivables and payables which are under litigation/disputed.
- iii. Ind AS 116, (regarding Leases) by not ascertaining the carrying value of leasehold properties in case of Jawahar Vyapar Bhawan, Malviya Nagar Housing Colony, and plot at Mallet Blunder, Mumbai port trust. Due to unavailability of the lease period in these cases, the impact of the same is not ascertainable.

**c. The impact of the following is not ascertainable:**

- i. Refer Note No. 20&55, in the view of the default by the Holding Company in paying due interest amount to the banks, the Holding Company was declared NPA. The lender banks have initiated DRT proceedings against the Holding Company. The memorandum of the OTS (MOTS) proposal with lender banks is at the final stages and is in line with the minutes of the high-level meeting held in 29.08.2019 and the further clarificatory letter dated 13.10.2020 of Ministry. The liability towards banks is proposed to be settled by the way of transfer of title of identified property worth Rs.300 crore on "as is where is basis" as a full and final settlement. (Refer Note No. 3 of the attached financial statements).  
However, no any documentation is made available by company with regards to discussion with lenders.  
Pending settlement of OTS, company has not charged interest in its financial statements.
- ii. Refer Note No. 54, in view of non-availability of confirmation of balances of receivables, payables Business Associates, Security Deposits, Other Creditors and EMD which are under litigation and no confirmation has been received from the parties.
- iii. Refer Note No.4, for non-adjustment of value/area in Fixed Assets Register against areas acquired by Delhi Metro Rail Corporation (DMRC) for construction of Metro Station & by L&DO for widening of the Road during Asian Game, as well as the flats/area of land sold by the Holding company to Handicrafts and Handloom Exports Corporation of India limited (HHEC) HHEC for its Housing colony.
- iv. Refer Note No. 9,11&39, for not making credit impairment of trade receivables of Rs. 928.69 crore since the Holding company feels that even if no amount would eventually be recovered, provision is not required as the creditor will be paid by the Holding company only to the extent



the amount is realized against such trade receivables, though in most of the cases agreements are not tripartite.

Further in case of M/s Rajat Pharmaceuticals Ltd (RPL) who drew bills of exchange on the Holding Company which were accepted upon receipt of overseas buyer's pre-acceptance to the Holding Company's bills of exchange. However, the foreign buyers defaulted in making payments against the export bills and have gone into liquidation. A sum of Rs.527.86 crores has been admitted by the liquidator of one of the foreign buyer's i.e. Loben Trading Co. Pte. Ltd, Singapore. A Decree of Rs 62.47 Crs. approx. has been passed by Hon'ble Bombay High Court in favour of the Holding Company's against the dues from another foreign buyer i.e Sweetland Trading Pte Ltd., Singapore. As of current date, RPL has gone into liquidation and official liquidator is appointed by Hon'ble High Court Bombay. The matter is also under investigation by CBI. Banks & Financial institution have filed legal suit against RPL before DRT making THE Holding Company also a party to the case claiming Rs. 476.47 Crore.

Refer Note No.39, for matters other than RPL, as all these matters are sub-judice and/or under investigation of CBI we are unable to comment upon the same.

- v. Refer Note No. 24, customer at credit includes amount payable to U.P. Government amounting to Rs 6.03 Crores. As informed by the Branch management, Branch has made various other claims on U.P Government and accordingly dues of Rs. 39.11 Crores is recoverable from U.P. Government for which debit note dated March 10, 2014 was raised. However, the said claim was not recognised in the financial results of the branch till date, as its ultimate collection was not certain. In absence of information on acceptability of the said claim by UP Government, we are unable to ascertain its possible impact, if any, on the financial statements of the Holding Company.
- vi. As per letter no. L&DO/L-IIA/1236/574 dated 19.12.2019, L&DO has demanded interest @ 10% till the payment is being made by the Holding Company, the effect of the same is not considered in the books as on reporting date, which has resulted in understatement of loss. The amount of the interest subsequent to the above letter of L&DO dated 19.12.2019 cannot be quantified due to lack of information in the said regard.

In the report of the subsidiary company STCL Limited (STCL), the auditor has given a qualified opinion as below:

- vii. STCL has not provided interest from FY 2018-19 on Cash Credit and Packing Credit advances availed from the consortium of banks on the ground that the prevailing rate of interest is low in comparison to interest provided in earlier years and confirmation of balance from the banks has not been received by STCL. Due to non-provision of interest, the loss has been understated by Rs 27,16,62,75,589/- with consequential reduction in bank liabilities.
- viii. STCL has received Grant from VITC (Visvesvaraiya Industrial Trade Centre) under ASIDE Scheme amounting Rs.1,20,00,000/- for Export Promotion during the year 2006-07 towards Chillyftds Processing Centre-Byadgi. Grant in Aid has been received amounting to Rs, 6,29,00,000/- during the year 2008-09, for Steam Sterilization plant at Chinddawara. STCL has amortized depreciation on assets for which grants were received, at WDV method and has reduced the same from the grants. However, from the FY 2019-20 no grants have been amortized since the possession of such assets for such grant availed has been taken over by the consortium of lenders.



Due to non-availability of conditions relating to disposal or compulsory acquisition, we are unable to opine on the treatment given by STCL in the financial statement on the un-amortized portion of grant to the tune of Rs.1,10,09,432.

**ix. Material Uncertainty related to Going Concern:**

The Holding Company has incurred a net loss of Rs. 112.84 crore during the year ended 31st March 2020 and Rs. 47.70 crore during the year ended March 31, 2021 and, as of that date, the Holding Company's liquidity position is not strong enough as is evident from the fact that the Current Liabilities exceeded its Current assets by 923.24 crore and net worth is positive only on account of revaluation reserve. Also considering the high value of contingent liabilities amounting to Rs.867.67, significant decrease in the sales volume of the Holding Company and the matter of continuous losses and negative net current assets, there could be material uncertainty for the Holding Company to continue as a going concern. Further, The Board of Directors of Holding Company on 05.04.2021 passed a resolution to continue business of Holding Company as non-operating Company.

In the report of the subsidiary company, Spice Trading Corporation Limited (STCL), the auditor has given a qualified opinion as below:

The accounts of STCL are prepared based on the assumption that it is not a going concern due to following reasons:

- i) The Shareholders of STCL in their Extraordinary General Meeting held on 12.09.2013 had approved winding up of the STCL under 433 (a) of the Companies Act, 1956.
- ii) Department of Commerce, Ministry of Commerce and Industry vide its letter dated 26.08.2013 had conveyed approval of the Union Cabinet for winding up of STCL and to offer Voluntary Separation Scheme (VSS) to the Employees.
- iii) STCL had filed winding up petition before the Hon'ble High Court of Karnataka on 26.11.2013.

Accordingly, STCL has drawn the accounts on Liquidation basis i.e., assets have been revalued on realizable basis, whereas the liabilities towards the bank have been stated at book value, in view of legal cases initiated by the banks against STCL for recovery of their dues and all other liabilities at their settlement value.

These events or conditions indicate that a material uncertainty exists that may cast significant doubt on STCL ability to continue as a going concern. Our opinion is not modified in respect of this matters.

We conducted our audit in accordance with the standards of the auditing (SAs) specified under section 143(10) of the Companies Act, 2013 (the Act). Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the financial statement section of this report. We are independent of the Group in accordance with the Code of Ethics issued by the Institute of Chartered Accountant of India together with ethical requirements that are relevant to our audit of the statements under the provisions of the Act and rules thereunder and we have fulfilled our ethical responsibilities in accordance with these requirements and the



Code of Ethics. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion.

**Emphasis of Matters:**

- a. Refer Note No. 38(ii), contingent Liabilities which include an amount of Rs. 1.30 Crores in respect of pending sales tax liability. The Holding Company has not complied in carrying out corrective actions as suggested by Government Audit Party (GAP) for F.Y. 2014-15 in the accounts as on 31<sup>st</sup> March, 2016 and for F.Y. 2015-16 in the accounts as on 31<sup>st</sup> March, 2017 amounting to Rs. 0.19 Crores and Rs. 1.11 Crores respectively.
- b. Reference is invited to Note No.38 of the attached Consolidated financial statements in respect of litigation matters, their present status and provisioning, if any, required and on-going investigations into the alleged irregularities; further, the Holding Company's past operations have exposed it to the risk of extensive litigation and contractual claims from third parties with increased litigation costs not fully provided for. Due to the range of potential outcomes, voluntary retirement of employees dealing with these cases and the significant uncertainty around the resolution of various claims, the amount of ultimate liabilities, if any, to be recorded in the financial statements as provision is not ascertainable.
- c. We refer to Note No.56, of the attached Consolidated financial statements relating to challenges faced by the Holding Company due to Covid-19, the impact of which in future period cannot be ascertained as on date.

Our conclusion is not modified in respect of these matters.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the basis for qualified opinion section, we have determined the matters described below to be the key audit Matters to be communicated in our report.

- a. **Accuracy of recognition, presentation and disclosures of revenues and other related balances in view of adoption of Ind AS 115 "Revenue from contracts with customers"**

The application of the new revenue accounting standard involves certain key judgments relating to identification of distinct performance obligations, determination of price of the identified performance obligations, the appropriateness of the basis used to measure revenue recognized over the period. Additionally, new revenue accounting standard contains disclosures which involve collation of information in respect of disaggregated revenue and periods over which the remaining performance obligations will be satisfied subsequent to the balance sheet date.





**The Principal Audit Procedures followed:**

We assessed the Holding Company's process to identify the impact of adoption of the new revenue accounting standard.

Our audit approach consisted testing of the design and operating effectiveness of the internal controls and substantive testing as follows:

- Evaluated design of internal control relating to the implementation of the new revenue accounting standard.
- Selected sample for continuing and new contracts, and tested the operating effectiveness of the internal control, relating to identification of the distinct performance obligations and determination of transaction price. We carried out combination of procedures involving enquiry and observation, re-performance and inspection of evidence in respect of operation of these controls.
- Tested the relevant information technology systems' access and change management controls relating to contracts and related information used in recording and disclosing revenue in accordance with the new revenue accounting standard.
- Selected a sample of continuing and new contracts and performed the following procedures:
  - Read, analyzed and identified the distinct performance obligations in these contracts.
  - Compared these performance obligations with these identified by the Holding Company.
  - Considered terms of the contract to determine the transaction price including any variable consideration to verify the transaction price used to compute revenue and to test the basis of estimation of the variable consideration.
  - Samples in respect of revenue were tested with the performance obligations specified in the underlying contracts.
  - Performed analytical procedures for reasonableness of revenue disclosed by type and service offerings.
  - We reviewed the collation of information and the logic of the report generated from the budgeting system used to prepare the disclosure relating to the periods over which the remaining performance obligations will be satisfied subsequent to the balance sheet date.

**b. Evaluation of uncertain tax positions and contingent liabilities:**

The company has uncertain material tax positions and contingent liabilities including matters under dispute which involves significant judgment to determine the possible outcomes of these disputes.

**The Principal Audit Procedures followed:**

We evaluated management's judgment of tax risks, estimates of tax exposures and contingencies by testing the design implementation and operating effectiveness of the related controls. We obtained details of completed tax assessments and demands for the year ended March 31, 2021 from management. We involved in the detailed discussions with the management for underlying assumptions in estimating the tax provision and the possible outcome of the disputes. Our team also considered legal precedence and other rulings in



evaluating management's position on these uncertain tax positions as at April 1, 2020g to evaluate whether any change was required to management's position on these uncertainties.

#### **c. Adoption of Ind AS 116 – Leases**

The application and transition to this accounting standard is complex and is an area of focus in our audit since the Holding Company has a large number of leases with different contractual terms.

Ind AS 116 introduces a new lease accounting model, wherein lessees are required to recognise a right-of-use (ROU) asset and a lease liability arising from a lease on the balance sheet. The lease liabilities are initially measured by discounting future lease payments during the lease term as per the contract/ arrangement. Adoption of the standard involves significant judgements and estimates including, determination of the discount rates and the lease term. Additionally, the standard mandates detailed disclosures in respect of transition.

Principal audit procedures on adoption of Ind AS 116 include:

- Assessed and tested new processes and controls in respect of the lease accounting standard (Ind AS 116);
- Assessed the Holding Company's Evaluation on the identification of leases based on the contractual agreements and over knowledge of the business;
- Involved our specialists to evaluate the reasonableness of the discount rates applied in determining the lease liabilities;
- Upon transition as at 1<sup>st</sup> April 2019:
  - Evaluated the method of transition and related adjustments;
  - Tested completeness of the lease data by reconciling the Group's operating lease commitments to data used in computing ROU asset and the lease liabilities.
- On statistical samples, we performed the following procedures:
  - Assessed the key terms and condition of each lease with the underlying lease contracts and then
  - Evaluated computation of lease liabilities and challenged the key estimates such as discount rates and the lease term.
- Assessed and tested the presentation and disclosures relating to Ind AS 116 including, disclosures relating to transition.

#### **d. IT systems and controls over Financial Reporting**

We identified IT systems and controls over financial reporting as a key audit matter for the Holding Company because its financial accounting and reporting systems are fundamentally reliant on IT systems and IT controls to process significant transaction volumes, specifically with respect to revenue and raw material consumption. Also, due to such large transaction volumes and the increasing challenge to protect the integrity of the Holding Company's systems and data, cyber security has become more significant. Automated accounting procedures and IT environment controls, which include IT governance, IT general controls over program development and



changes, access to program and data and IT operations, IT application controls and interfaces between IT applications are required to be designed and to operate effectively to ensure accurate financial reporting.

Principle Procedure followed by us:

- Assessed the complexity of the IT environment by engaging IT specialists and through discussion with the head of IT and internal audit and identified IT applications that are relevant to our audit.
- Assessed the design and evaluation of the operating effectiveness of IT general controls over program development and changes, access to program and data and IT operations by engaging IT specialists.
- Performed inquiry procedures with the head of cybersecurity at the Holding Company in respect of the overall security architecture and any key threats addressed by the Holding Company in the current year.
- Assessed the design and evaluation of the operating effectiveness of IT application controls in the key processes impacting financial reporting of the Holding Company by engaging IT specialists.
- Assessed the operating effectiveness of controls relating to data transmission through the different IT systems to the financial reporting systems by engaging IT specialists.

**Information Other than the Financial Statements and Auditor's Report thereon**

The Holding Company's Board of Directors are responsible for the other information. The other information includes the Management Discussion and Analysis, Annual Report on CSR activities, Report on Corporate Governance, Secretarial Auditor's Report Information, but does not include the consolidated financial statements and our report thereon. The Management Discussion and Analysis, Annual Report on CSR activities, Report on Corporate Governance, Secretarial Auditor's Report Information, are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read such other information as and when made available to us and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**



The Holding Company's Board of Directors is responsible for the preparation and presentation of these consolidated financial statements in term of the requirements of the Companies Act, 2013 that give a true and fair view of the consolidated financial position, consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act. The respective Board of Directors of the companies included in the Group are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group 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 the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring 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, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

In preparing the consolidated financial statements, the respective Board of Directors of the company included in the Group is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The respective Board of Directors of the company included in the Group is responsible for overseeing the financial reporting process of the Group

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the statement as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assessed the risks of material misstatement of the statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal financial controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Company has



adequate internal financial controls system in place with reference to financial statements in place and the operating effectiveness of such controls.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors’.
- Concluded on the appropriateness of the Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the financial statements of such entities included in the consolidated financial statements of which we are the independent auditors. For the other entities included in the consolidated financial statements, which have been audited by other auditors, such other auditors remain responsible for the direction, supervision and performance of the audits carried out by them. We remain solely responsible for our audit opinion.

We communicate with those charged with governance of the Holding company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



### **Other Matters:**

We did not audit the financial statements of 1 (One) subsidiary included in consolidated financial statements, whose financial statements reflects share of total assets of Rs. 3.01 crore as at 31<sup>st</sup> March 2021, share of total revenue of Rs. 0.14 Crores ended 31st March 2021 and share of total net profit after tax (including other comprehensive loss) of Rs. 0.77 crore year ended 31st March 2021 .

These financial statements have been audited by other auditors whose reports have been furnished to us by the Holding Company's Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiary, and our report in terms of sub-section (3) and (11) of section 143 of the Act, in so far as it relates to the aforesaid subsidiary, is based solely on the reports of other auditors.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements/information certified by the Management.

### **Report on Other Legal and Regulatory Requirements:**

As required by Section 143(3) of the Act, we report that:

- i. Companies (Auditors' Report) Order, 2016, issued by the Central Government of India in terms of Section 143(11) of the Act is not applicable on Consolidated Financial Statements as referred in proviso to Para 2 of the Order.
- ii. As required by Section 143(3) of the Act, based on our audit and on the consideration of report of the other auditor on separate financial statements of subsidiary company, as was audited by other auditor, as noted in the 'Other Matters' paragraph we report, to the extent applicable, that:
  - a. We have sought and obtained all the information and explanations, except for the matters referred in "Basis for Qualified Opinion", which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.
  - b. In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept, except for the matters referred in" Basis for Qualified Opinion", so far as it appears from our examination of those books and the reports of the other auditors
  - c. The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, and the Consolidated Cash Flow Statement the Cash Flow Statement and Statement of Changes in Equity dealt with by this Report are in agreement with the books of



- account. Due to outbreak of second wave of COVID19 pandemic, lockdown was imposed by several state government. We could not visit branch offices of the holding company and audit was conducted remotely by us from Corporate Office of the holding company at New Delhi.
- d. In our opinion, the aforesaid Consolidated Financial Statements comply with the Indian Accounting Standards, except for the para (b) of Basis for Qualified opinion, specified under Section 133 of the Act, read with the Companies (Indian Accounting Standards) Rules, 2015 as amended.
- e. The going concern matter described under "Material uncertainty in relation to Going Concern" paragraph above, in our opinion, may have an adverse effect on the functioning of the Group. Further, the Subsidiary Company is in the process of winding up, the issue as to whether an observation or comments of the auditor have any adverse effect on functioning of the Subsidiary Company does not arise.
- f. Pursuant to the Notification No. GSR 463(E) dated 5th June 2015 issued by the Ministry of Corporate Affairs, Government of India, provisions of sub-section (2) of Section 164 of the Act are not applicable to the Holding Company, being a Government Company;
- g. Pursuant to the Notification No. GSR 463(E) dated 5th June 2015 issued by the Ministry of Corporate Affairs, Government of India, provisions of Section 197 of the Companies Act, 2013, are not applicable to the Company, being a Government Company; and
- h. With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company and the operating effectiveness of such controls, refer to our separate Report in "Annexure A".
- i. 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 consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, refer note 38 & 39 to the financial statements.
  - (ii) The Group did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
  - (iii) The Holding Company has transferred Rs.0.003 crores to Investor Education and Protection Fund in FY2020-21 which relates to the year



2012-13. Further, no case is identified for delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company during the period under review.

For and on the behalf of  
**PSMG & ASSOCIATES**  
Chartered Accountants  
Firm Reg. No.008567C



CA Priyanka Jain

Partner

M.NO.423088

UDIN: **21423088AAACJS4150**

Place: New Delhi

Date: 07.09.2021





**"Annexure A" to INDEPENDENT AUDITOR'S REPORT**

**The State Trading Corporation of India Ltd, New Delhi**

**Referred to Clause (g) of Paragraph 2 under the heading of "Report on other Legal and Regulatory Requirements" of our report of even date on Consolidated Financial Statements for the year ended 31<sup>st</sup> March 2021**

**Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")**

In conjunction with our audit of the consolidated financial statements of the company as of and for the year ended March 31, 2021, We have audited the internal financial controls over financial reporting of The State Trading Corporation of India Limited (hereinafter referred to as "the Holding Company") and its subsidiary company (the Holding Company and its subsidiaries together referred to as "the Group"), as of that date.

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

The respective Board of Directors of the of the Holding company, its subsidiary company, , are responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Holding 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 the respective 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 Holding Company, its subsidiary company, , 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") issued by the ICAI 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 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 auditors' 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;
- (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 (IFCFR)**

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.

### **Basis for Qualified Opinion**



- a) Holding Company is maintaining "Performance Management System", Payroll Software and "Leave Management System" which are not interfaced with each other as well as the accounting software. As a result of above, Manual Accounting entries are being made on periodical basis in the Tally ERP, Accounting software used by Holding company.
- b) Lack of effective Internal control over inventory pledged with the Holding Company as in most of the cases periodic physical verification reports have not been submitted by the parties and in certain cases parties are not allowing STC to conduct the physical verification.
- c) Manner of maintenance of Fixed Assets Schedule & register need to be strengthened.
- d) Lack of proper contract management is noticed. Irrespective of completion of contracts the EMD/Security deposits are still being withheld in the books by the holding company.
- e) Lack of control over the renewal of Rent/lease Agreements on timely basis. There are numerous of contracts which have not been renewed over a long period.
- f) Ineffective implementation of accounting policy in balance confirmation of trade receivable & vendor balance, is noticed. The balances outstanding in the trade receivable account cannot be reconciled in customers' books as balance confirmations are not available for these customers.

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Holding Company's annual or interim financial statements will not be prevented or detected on a timely basis.

In the report of the Subsidiary company, Spice Trading Corporation Limited (STCL), the auditor has given a qualified opinion as below:

- i. STCL did not have appropriate Internal control with respect to reconciliation of Trade Receivables, Trade Payables, other creditors and Business Associates, which could result in the material misstatement in books of accounts.
- ii. The lease rent of steam sterilization unit located in Chindwara, Madhya Pradesh was terminated on 03.02.2018 w.e.f. 31.01.2015 due to non-performance. STCL has initiated legal process for recovery of its dues.
- iii. The Board of Directors of STCL had delegated certain powers to the managing director of STCL vide 107<sup>th</sup> board resolution dated 27<sup>th</sup> January, 2006. However, no review of the same has been made subsequently till date. Presently, a General Manager is looking after the activities of STCL and reporting to the board of Directors of STCL.



- iv. STCL has not provided interest during the year on Cash Credit and Packing Credit advances availed from the consortium of banks on the ground that the prevailing rate of interest is low in comparison to interest provided in earlier years and confirmation of balance from the banks has not been received by them. Due to non-provision of interest, the loss has been understated by Rs 1665,89,48,318/- with consequential reduction in bank liabilities.

#### Qualified Opinion

In our opinion, the Holding Company has, except for effects of the material weaknesses described above on achievement objectives of the control criteria, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31st March, 2021, based on the internal control over financial reporting criteria established by the Holding 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, to the extent possible, considered the material weaknesses identified and reported above in determining the nature, timing, and extent of audit tests applied in our audit of the March 31, 2021 consolidated financial statements of the Group, and these material weaknesses are not likely to affect our opinion on the consolidated financial statements of the Group.

#### Other Matters

1. Our aforesaid reports under Section 143(3)(i) of the Act on the adequacy and operating effectiveness of the internal financial controls over financial reporting insofar as it relates to 1 (one) subsidiary, is based on the corresponding reports of the auditors of such company.

Our report is not modified in respect of the above matters.

For and on the behalf of  
**PSMG & ASSOCIATES**  
Chartered Accountants  
Firm Reg. No.008567C

  
Priyanka Jain  
Partner  
M.NO.423088  
UDIN: **21423088AAACJS4150**  
Date:07.09.2021

