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भारत सरकार (रेल मंत्रालय) का उपक्रम
Dedicated Freight Corridor Corporation of India Ltd.
A Govt. of India (Ministry of Railways) Enterprise

Dated :-28/12/2018

S. R. Dinodia & Co. LLP
Chartered Accountants
Delhi Office: K-39 Connaught Circus,
New Delhi – 110 001 | Tel: +91 – 011- 4370 3300

Sub: Management Representation Letter for EDFC-3 Project for FY ended 31.03.2018

Dear Sirs,

This representation letter is provided in connection with your audit of the Project Financial Statements (the "PFS") of the **Eastern Dedicated Freight Corridor Project 3 (under Loan No 8513-IN)** (the "Project") for the year ended on 31.03.2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the expenditure of the Project and sources and uses of funds for the year then ended.

The PFS comprise of the following:

- Statement of Sources and Uses of Funds (IUF-1) for the year April 1, 2017 to March 31, 2018 (**Annexure-I**),
- A list of all Individual Withdrawal Applications during FY 2017-18 (**Annexure-II**), and
- A Statement of Reconciliation of Claims to Total Applications of Funds for the year ended March 31, 2018 (**Annexure-III**).

We acknowledge our responsibility for the fair presentation of these PFS in accordance with the basis of accounting followed by the DFCCIL, and we confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

- The Project financial statements are free of material misstatements, including omissions.
- We are following reimbursement model, i.e., claim for reimbursement of expenses is lodged with the IBRD only on actual payment of expenditure by DFCCIL. Amounts over and above actually received from IBRD reflect contributions by DFCCIL as equity.
- The proceeds of the Loan provided by the IBRD/World Bank have been used only for the purposes for which they were granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations. No other sources of funds except Counterpart Funding - Equity have been received by DFCCIL for incurring the expenditures reflected in IUF-1.
- Project expenditures are eligible for financing under the Loan Agreement.
- The IUFs submitted for FY 2017-18 are supported by adequate documentation maintained in DFCCIL's offices/branches to support claims to the IBRD for reimbursement of expenditure incurred.
- There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the project financial statements.

- Procurement has been carried out as per the agreed procedures. During FY 2017-18, no Procurement Contract was executed which was not prior reviewed by IBRD.
- We have made available to you all books of account and supporting documentation relating to the project.
- We have made available to you all procurement documents relating to the project.
- All complaints received and subsequent correspondence thereof has been made available to you.
- The Project has an adequate internal control system and adheres to the provisions of the Project Implementation Manual in all material aspects.
- The project has complied with the conditions of all relevant legal documents, including the Concession Agreement, Subsidiary Loan Agreement, Loan Agreement, Project Agreement, the Minutes of Negotiations, and the Project Implementation Manual and also the Project Appraisal Document.



A V Reddy

Group General Manager (Finance)

Management Letter EDFC-3 for FY 2017-18

We have audited Project Financial Statements (the "PFS") of the Eastern Dedicated Freight Corridor Project 3 (EDFC-3) as per Terms of Reference stated in the appointment letter dated 2nd August 2018 for the year ended 31st March 2018.

We present the "Management Letter" as required by the Terms of Reference. This Management Letter confirms our mutual understanding of previously discussed observations relating to audit of the PFS and areas of improvement in existing internal control system. The matters raised during our discussion of PFS are only those which came to our attention during the course of audit exercise and are not necessarily a comprehensive statement of all improvements that might be required to be made. Our audit procedures have been designed in a manner such that any material irregularity has a reasonable probability of discovery but the responsibility of maintaining sound system of internal control rests with the Management. Under generally accepted auditing standards, auditors are required to report on significant deficiencies in the design or the operation of the internal control structure which, in the auditor's judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the PFS.

Audit Methodology:

We have adopted following methodology for conducting the audit:

- Reviewed financial covenants of loan agreements and compliance thereof.
- Verified selected sample transactions along with supporting documents & records to ensure adequate segregation of duties, authorization as per defined SOP, compliance with terms of the Contracts, related controls, etc.
- Verified on sample basis that expenditures have been correctly claimed and no ineligible expenditure have been claimed.
- During the course of our audit, we interacted with the DFCCIL Officials to take insight of the Project and to understand their concerns.
- We have considered the pending key internal audit observations, observations of CAG of India, PMC reports and Aide Memoire/s of IBRD. However, we have not reproduced the observations in this management letter as we understand that they are already in the knowledge of the management.
- Executive Summary is given hereunder and detailed observations are listed in Annexure IV-A attached to this Management Letter.



Executive Summary

S. No.	Observations	Recommendations	Management's Comments
1.	<p>Expenditure of ₹ 376,860,250 (22% of total expenses claimed during FY 2017-18 in IUFR) eligible for reimbursement under contract have not been claimed in IUFR.</p> <p>Contractor Name: GIL-TPL (JV)-LDH Voucher No: BV2017UMB0956 Voucher Date: 27-03-2018</p>	<p>A list of all eligible contracts should be prepared and all contractor's ledgers should be obtained from accounts division and checked before submission of IUFR. The checking at HO should not be limited to only those contract ledgers where expenditure is reported by Project Units.</p>	<p>As an assistance, a Finance Officer is hired & reconciliation will be done in each QTR.</p> <p>Timeline for completion:- 2nd Week of Feb,2018</p>
2.	<ul style="list-style-type: none"> ➤ Effect of price variation due to change in base year of all India whole sale price index from 2004-05 to 2011-12 has not been taken into account into the IUFR of the Project unit for the FY ended March 31st, 2018 ➤ Project units have not followed a uniform policy for payment of price variation. ALE & ALW units have paid 90% of the total price variation, Ambala unit has paid 100% of total price variation and Tundla unit has not paid anything. 	<p>To take approval of the Contracting Authority for price variation.</p>	<p>Interim payments made after approval and as and when final impact is worked out, its impact on finance of the Company will be considered</p> <p>Time line for Completion: At the earliest possible time.</p>
3.	<p>Contractors are yet to submit GST impact analysis. The same has neither been certified by Board of Directors nor by the Statutory Auditor of the Contractors as required by circular 46 read with circular 52 issued by DFCCIL.</p> <p>Payments are still being made on estimated basis.</p>	<p>To finalize GST impact in a time bound manner</p>	<p>The Contractor is yet to submit/substantiate clarification on the realistic calculations of the Tax components and to obtain certification form the statutory auditors/tax consultants.</p> <p>Time line for Completion: At the earliest possible time.</p>

This Management Letter is intended solely for the information and use of Board of Directors and the management of DFCCIL/World Bank.

For S.R. Dinodia & Co. LLP.

Chartered Accountants,

Firm Registration Number 001478N/N500005



(Sandeep Dinodia)

Partner

Membership No.: 083689



Place of Signature: New Delhi

Date: 28 DEC 2018