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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-1 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 1 (under Loan No 8066-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.

A. VENKATA REDDY
Group General Manager / Finance
Dedicated Freight Corridor Corporation of India Ltd.
(A Government of India (Ministry of Railways) Enterprise)

- 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)

A. VENKATA REDDY
Group General Manager / Finance/
Dedicated Freight Corridor Corporation of India Ltd.
(A Government of India (Ministry of Railways) Enterprise)
Pragati Maidan Metro Station,
Bldg. Complex, New Delhi-110 001

Management Letter – EDFC 1 for FY 2017-18

We have audited Project Financial Statements (the “PFS”) of the Eastern Dedicated Freight Corridor Project 1 (EDFC 1) as per Terms of Reference stated in the appointment letter dated August 2, 2018 for the year ended 31st March 2018.

We present this “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 Project financial statements (PFS) and areas of improvement in existing internal control system. The matters raised during our discussion of the 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 such a manner 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 judgment, 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 the Loan Agreement 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 visit at Tundla/Agra Project Unit, we interacted with the DFCCIL Officials, PMC and Contractors to take insight of the Project and to understand their concerns.
- We have conducted physical verification at Tundla Junction Station, observed tracks and equipment. We have not noted any significant observation during the course of physical verification.
- We have reviewed the pending key internal audit observations, observations of Statutory Auditor and CAG of India, if any and have not reproduced them except long pending critical observations.
- We have also reviewed the 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.



- We have also reviewed the pending actions relating to Financial Management Action Plan and have given updated status in **Annexure IV-C**.
- **Executive Summary** of our critical observations is given hereunder:

S No	Observations	Recommendation	Management Comments
1.	Eligible expenditure for ₹ 1,61,61,197 not claimed in IUFR. Expenditure claimed as per IUFR and as per subsidiary ledgers are not reconciled.	To perform reconciliation of claims submitted by Projects units with Contractors' ledgers as per books before submitting periodic IUFR to ensure completeness and accuracy. To perform yearly reconciliation of contract wise expenditure reported till date in IUFR and that of subsidiary records maintained by Project units.	An assistant (Finance Officer) is available to off load the work pressure. The recommendations will be taken care off to avoid mistakes in future. Timelines: Before filing next IUFR i.e. 2 nd week of Feb, 2019
2.	The monthly payments through IPC are released on adhoc basis pending determination of final GST Impact.	It is advised to determine and finalize the impact of GST on Contract price at the earliest possible.	Instructions have been issued to PMC for obtaining relevant documents from the Contractor for early determination of GST Implementation. Timelines: At the earliest possible
3.	Adjustment of Price Variation due to change in All India Whole Sale Price Indices from 2004-05 to 2011-12 is yet to be finalized and given effect.	To give effect to DFCCIL HQ letter dated 29.10.2018 requiring amendment in the Contracts. To determine the impact of changes in WPI indices and make necessary payment adjustment in subsequent IPC.	Till necessary amendments are introduced in the Contract, the ad-hoc payment has been approved by the Competent authority. Timelines: At the earliest possible
4.	Dispute cases of around ₹ 950 crores between DFCCIL and Contractors are pending with DAB and Arbitrations viz-a-viz a total contracts value of ₹ 4,763 crores.	In order to improve the efficiency of Project Unit in project execution, it is advised to hire an expert agency having domain knowledge dedicated for dispute and arbitration cases to ensure expeditious settlement of all pending dispute.	PMC has been requested to hire an expert agency having domain knowledge for dispute and arbitration cases to best defend the interest of DFCCIL. Timelines: At the earliest possible



- Detailed observations are listed attached to this Management Letter as under:

Annexure IV-A: Our Audit Observations

Annexure IV-B: Pending Critical Internal Audit Observations

Annexure IV-C: Status of pending actions related to Financial Management Action Plan

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

