Annexure III

Annexure to the Independent Auditor's Report of even date on the Standalone Financial Statements of Mazagon Dock Shipbuilders Limited

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 Mazagon Dock Shipbuilders Limited ('the Company') as of 31st March, 2016 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. 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, 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 auditor's judgement, 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 qualified 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 authorisations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised 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

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.

Qualified Opinion on operating effectiveness of Internal Financial Controls Over Financial Reporting and unmodified opinion on adequacy of such controls

Qualified opinion

According to the information and explanations given to us and based on our audit, the following material weaknesses have been identified in the operating effectiveness of the Company's internal financial controls over financial reporting as at 31st March, 2016:

a) The Company's internal financial controls over booking of cost and liability on material supplied directly on ship were not operating effectively which could potentially result in incorrect reflection of contract work-in-progress and understatement of liability.

b) The Company's internal financial controls over booking of advances received from the Navy to the correct project code account was not operating effectively resulting in advances being booked to the wrong project code which could potentially result in incorrect adjustments at the time of final reconciliation with the Navy in respect of completed projects.

c) The Company's internal financial controls over booking of remuneration in the nature of commission on supplies of B & D spares to Navy were not operating effectively which could potentially result in the Company booking incorrect income as well as not booking it on timely basis.

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.

In our opinion, the Company has, in all material respects, maintained adequate internal financial controls over financial reporting as of 31st March, 2016, 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, and except for the effects/possible effects of the material weakness described above on the achievement of the objectives of the control criteria, the Company's internal financial controls over financial reporting were operating effectively as of 31st March, 2016.

We have considered the material weaknesses identified and reported above in determining the nature, timing, and extent of audit tests applied in our audit of the 31st March, 2016 standalone financial statements of the Company, and these material weaknesses do not affect our opinion on the standalone financial statements of the Company.

For Ford Rhodes Parks & Co. LLP

Chartered Accountants
Firm's Registration No. 102860W / W100089

Sd/-
Shrikant Prabhu
Partner
Membership No. 35296

Place: Mumbai
Date: 04 Aug '16