



G R C & ASSOCIATES

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CA. T. S. Chandrasekar, B.Com., FCA., CISA., CRISC (USA) - Partner

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GULBARGA ELECTRICITY SUPPLY COMPANY LIMITED, (GESCOM) KALABURAGI - 585 102

I. Report on the Ind AS financial Statements

1. We have audited the accompanying financial statements of Gulbarga Electricity Supply Company Limited ("the Company") which comprise of Balance Sheet as at 31st March 2018, the Statement of profit and loss account including Other Comprehensive Income, the Statement of changes in Equity and the Cash Flow Statement for the year ended on that date, and a summary of the significant accounting policies and other explanatory information.
2. The Balance Sheet, statement of Profit & Loss Accounts, including Other Comprehensive Income, the Statement of changes in Equity and the Cash Flow Statement was approved by the Board of Directors on 26-10-2018 and in the light of observation arising from the Audit by the Comptroller & Auditor General of India under section 143(6)(b) of the Companies Act, 2013, and this revised report supersedes our report dated: 26-10-2018

Management's Responsibility for the Financial Statements:

3. 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 financial statements that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the company in accordance with the Indian Accounting standards (IND AS) prescribed u/s 133 of the Companies Act, 2013 read with, companies (Indian Accounting Standards) Rules, 2015, as amended and other accounting principles generally accepted in India and the accounting system laid down in the Electricity

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G R C & Associates, CA'S

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(Supply) Annual Accounts Rules, 1985 framed under the Electricity (Supply) Act, 1948 (54 of 1948) now repealed by virtue of Section 185(2)(d) of the Electricity Act, 2003.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the company 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 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 statements that give a true and view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility:

4. Our responsibility is to express an opinion on these financial statements based on our audit.
5. In conducting our Audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made there under and the order issued u/s.143 (11) of the act.
6. We conducted our audit in accordance with the Standards on auditing specified under section 143(10) of the Act. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
7. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. 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. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the



Company's directors, as well as evaluating the overall presentation of the financial statements.

8. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

II. Basis for Qualified Opinion

Attention of the members is invited to the following qualifications:

1. Inventories:

- a. Company's inventories lying at various locations have become obsolete and lying idle for a considerable long period of time. The usefulness and the serviceability of these inventories are subject to verification, identification and inspection by the management. Pending verification, identification and inspection by the management and subsequent adjustment entries to be passed in the books of accounts, we are unable to ascertain the effect of the same on the loss for the year.
- b. Inventories, stores and spares include the value of scrapped assets and the value of faulty and dismantled assets for reuse, which are retained at written down value in stores records.
- c. Materials lying with employees (material imprest account) shown as a part of inventory amounting to Rs.180.11 lakhs (previous year Rs.73.05 lakhs) includes old items yet to be regularized.

2. Cash and Cash Equivalents:

- a. The cash balance stated in the books of the Company other than imprest cash, cash deposits from consumers includes cheques / DDs collected, Cash suspense – advance / salary and other allowance paid to employees. But not regularized for the past several years and fraud amounts pending enquiry which is not in compliance with Ind AS-7.
- b. Difference in Cash and Bank Balance with the Trial Balance :



- i. As reported in earlier auditor's report, in respect of Gulbarga O&M division I, there is a difference in cash and bank balances between Trial Balance and Cash / Bank Book. These are differences long pending since the formation of the company. The Company has not made any provision for these shortages and is shown as part of cash and bank balance, which is inconsistent with Ind AS
 - ii. Further as reported in earlier auditor's report in respect of Bidar O&M division and Gulbarga O&M (Kadaganchi sub division), there is a difference in bank balance between trail balance and bank book to the extent of Rs. 3.67 lakhs and Rs. 14.30 lakhs respectively due to fraud. Further there is a difference in cash balances between trial balance and cash books for various divisions to the extent of Rs. 261.04 Lakhs due to cash misappropriation during the period from Jan-2013 to March-2016.
 - iii. In 2016-17, the division wise bifurcation for such differences are a.Shahabad Sub-Division Rs.1.12 Lakhs, b.O&M Section Mudhal Rs.0.85 Lakhs, c. Wadi Section Rs.0.95 Lakhs, d.Sub-Division Hagaribomman Halli Rs.0.06 Lakhs, and e.CSD-2 Kalaburagi Rs.83.95 lakhs, and pending reconciliation the amount could not be quantified.
- i) For the above amounts, no provision has been made in the books.

3. Tangible Assets:

- a. An amount of Rs.8479.80 lakhs is shown as Capital Work-in-Progress and Rs.740.18 lakhs under Intangible assets under development. However, without adequate documents with regard to stage of completion of capital works (for example : R-APDRP Part A & B works, NJY works station and other capital works) and also due to want of Completion Certificates in the divisions, we are unable to comment whether categorization of works have been made as and when the assets have been put to use. Further, Capital Advance have a balance of Rs.17139.28 lakhs. Without adequate information regarding the same, we are unable to ascertain whether any portion of its have to be transferred to Capital Work in Progress.
- b. Material imprest account of Bellary O&M division includes Rs. 7.76 lakhs (previous year Rs. 7.76 lakhs) for the period till July 11, 2005. These amounts are outstanding in individual employee's names though the same may have been utilized towards fixed assets. Pending regularization of the material imprest account, fixed assets have been understated to this extent consequently depreciation on these assets has not been provided. In the absence of the documents supporting the actual date of



installation of the fixed asset, we are unable to quantify the effect of provision of depreciation. In the absence of detailed information we are not able to comment on the impact of the above in case of other divisions.

- c. There are instances where assets (transformers) received for repairs are originally valued at WDV, but when these assets are re-issued to works on bulk quantities, issue value is reckoned at average rate instead of considering WDV of the respective assets. In our opinion, this treatment is not in accordance with generally accepted accounting standards prevalent in India and ought to have been recognized at the WDV of the reissued asset, including the improvements (if the same increases the original life of the asset satisfying conditions stipulated in Ind - AS. This may also lead to revision in the useful life of the assets).
- d. The Accounting policy of the Company on Capitalizing the Assets after the receipt of final bill and the approved by the competent authority is not in compliance with para 7 of Ind AS - 16. Attention of the members is invited to Para 2.4 of note 1 - Significant Accounting Policies - forming part of financial statements. Regarding delay in capitalization of fixed assets and providing depreciation on the assets from the date of capitalization and not from the date when the asset was ready for intended use, in the absence of documents supporting the actual date when the asset was ready to use, we are unable to ascertain the effect of short provision of depreciation in the statement of profit & loss.
- e. Reconductoring works and Scada works being carried out in Koppal division has been stopped and enquiry has been initiated. Total value of works suspended amounting to Rs. 2,225.01 lakhs as on 31 March, 2015 is shown under Capital Works in Progress due to disputes. Pending bills of the contractor have been accounted for. Though the asset has been put to use, it has not been capitalized and depreciated appropriately.
- f. There is Allegation of Misconduct in the allotment of Works contract involving huge amount for the works relating to Transformer Fencing and Fixing aerial Fuse Board by many Divisions during the financial year 2015 - 16. We were informed that an Enquiry was ordered in this regard by Government of Karnataka. The enquiry has been completed but order is awaited. In the meanwhile, all the Pending works were suspended. In the absence of detailed Information on the nature, Value and award of such work contract, violation of the laid down procedures and the Enquiry Order by



Karnataka Government, we are not able to comment on the nature of misconduct and its Impact on the Financials of the Company.

- g. The Tangible Assets – Property, Plant and Equipment for which clear title doesn't exist with the Company have been incorrectly revalued and accounted resulting in excess accounting of Tangible Assets and other Equity to an extent of Rs.24.79 Crores.
- h. In the absence of comprehensive information and pending capitalization we are not in a position to ascertain the impact of the above qualifications in the financial statement of the company.

4. Borrowing Costs:

The Company has availed loans from PFC released through several installments towards R-APDRP scheme, viz, Part A and Part B.

The disbursed loan amounts were invested under fixed deposits on a renewal basis. No amount of interest has been capitalized during the year as Borrowing Costs. We are unable to ascertain the impact on the financial statements.

5. Deferred Tax:

- a. The company has not provided for deferred tax asset / liability on account of timing differences of taxing its income, which would reverse after the carry forward loss is fully set-off in the IT Assessment. Since, the company is having huge carry forward loss to be set-off against future profits, the eventuality of setoff of the entire loss will not happen in the near future.
- b. Also, all additions to fixed assets made during the year for the purposes of depreciation under Income Tax Act have been considered at less than six months. The impact of such non provisioning of the timing differences mentioned above on the financial statements of the company is not ascertainable.

6. Impairment of Assets

The company has not identified the assets which have been impaired and hence we are not in a position to comment on the compliance of Ind AS 109 and its impact on financial statements of the company.



7. Regulatory Income / (Expenses) (Net) - Note 15

The Company has recognized Rs.45634.70 Lakhs as Income during the year, on account of Creation of Regulatory Assets to that extent, for recovering the increase in the actual power purchase cost over and above the power purchase cost approved by KERC.

The lack of certainty in realizing the future economic benefit associated with regulatory assets has resulted in the Overstatement of **Regulatory Deferral Account – Assets - (Note-15)** and understatement of loss to the extent of Rs.45634.70 Lakhs.

8. Note 42 forming part of Financial statement, regarding balance from certain debtors, secured and unsecured loans, transformers sent to repairs, other loan funds, loans and advances to suppliers , deposit with others, bank suppliers, amount due to contractors and creditors, in the absence of balance confirmation, we are unable to ascertain the impact on the financial statement.
9. Documents of title deeds, (about 10%) in respect of certain Land & Building and vehicles, transferred by M/s. KPTCL to the Company consequent to unbundling of distribution operation are not held in the name of the company.
10. The amount shown under the head "Inter Unit Accounts ('IUT')" amounting to Rs.685.44 lakhs (Debit) as on 31st March 2018 [opening balance outstanding Rs.1188.95 Lakhs (Credit) as on 31st March 2017] is the un-reconciled balances pertaining to fund transfer, material transfer, assets transfer, entries for demerger of divisions and other employee transfer related entries. In the absence of IUT balances being reconciled we are not in a position to (i) comment on the incorporation of transferred assets, liabilities, income and expenses in newly created divisions and (ii) ascertain the impact of un-reconciled IUT balances on the financial statements.
11. Para 8.1 of Note 1-Significant Accounting policies – forming part of financial statements, provisions for bad and doubtful debts is made at 4% (as per Para 4.2 of Annexure V of ESAAR, 1985) on the balance of sundry debtors for sale of power outstanding as at the end of the year in the case of LT Consumers. The Company is having old outstanding dues receivable (under LT category) from IP set installations, including interest to the extent provided, pertaining to the period prior to 31/07/2008, not recoverable from Govt. of Karnataka (prior to subsidy era needs to be collected from ultimate consumer) amounting to **Rs. 70870.23 Lakhs**. Recovery of these outstanding trade receivables seems to be doubtful and consequently bad debts



provision enhanced from @ 4% pa to @ 10% pa seems to be insufficient. Effect on revenue is not ascertainable.

12. The control account balances as reflected by the general ledger at divisions and subsidiary registers at sub divisions in the matter of consumer security deposits are not fully reconciled. The impact of the same the financial statements is not readily ascertainable.
13. Under Micro, Small and Medium Enterprises Development Act,2006 read with notification no':8-7-2006-CDN dated 17/05/2007,certain disclosures are required to be made relating to Micro, Small and Medium Enterprises.

As per **Note 22** forming part official statements; regarding non-disclosure of dues to Micro, Small and Medium Enterprises and non-provision of interest if any for delayed payments as per the said Act, effect on loss for the year is unascertainable.

14. Ageing of trade receivables and balances as per DCB are based on the statements provided by the individual divisions, which are yet to be reconciled with the consumer wise ledger maintained and managed by the third party. We have relied on the statements provided by management for the correctness of the same.
15. Classification of advances to suppliers and contractors, deposits and receivables from the GOK and liabilities are verified to the extent of relevant records, schedules and statements maintained and provided for our review.
16. Attention is drawn to **Note 47** forming part of financial statements, regarding frauds committed by employees of the Company. Management has represented to us that KPTCL is conducting enquiry and the final orders are awaited. No provision for the same has been made in the books.

17. Additional Qualifications:

1. Attention is drawn to the Significant Accounting Policy of the Company clause 9.1 of Note 1 as per which the Capital Grants received from the Government have been depicted under the



Capital Reserve. The same is not in compliance with Ind AS 20 which requires the Grants received from Government to be depicted as Deferred Income. The Contribution received from Consumers towards Capital Assets have also been depicted in the same way.

2. Misclassification of the cashflow have been observed in the Cashflow Statement prepared by the Company which have resulted in overstatement of Cash flow from Operating Activities and from Investing Activities by Rs 216.43 lakhs and 3748.42 lakhs respectively. The cash flow from Financing Activities have been understated by Rs 3965. 86 lakhs
3. Power Purchase bills for Rs.613.90 lakhs have not been included in the cost of power purchase and the corresponding liability is not included in the current liabilities- Trade Payables This omission has resulted in under statement of cost of power purchase (Note 29), loss for the year and current liabilities – Trade Payables to that extent.
4. The Company has not disclosed the details of leases and it's impact on the financials for the year which is not in compliance to the requirements of IND-AS 17.

III. Qualified Opinion:

In our opinion and to the best of our knowledge and according to the information and explanations given to us, except for the effects of the matters described in **Point II** of the Basis for Qualified Opinion paragraph and the possible effects of matters described in points 1 to 16 of the “**Basis for Qualified Opinion**” paragraphs, the said financial statements give the information required by the Act in the manner so required; give a true and fair view in conformity with the accounting principles generally accepted in India.

1. In the case of the Balance Sheet of the state of affairs of the Company as at March 31, 2018 and the changes in equity.
2. In the case of Statement of Profit and Loss, including other comprehensive income, of the **LOSS** for the year ended on that date and
3. In the case of Cash Flow Statement, of the cash flows for the year ended on that date.



IV. Emphasis of Matter:

Without qualifying our report, attention is drawn, in respect of the following;

- a. The Company has adopted the accounting policies and procedures followed by KPTCL and is consistently following the accounting system laid down in the Electricity (Supply) Annual Accounts Rules, 1985 framed under the Electricity (Supply) Act, 1948 (54 of 1948) now repealed by virtue of Section 185(2)(d) of the Electricity Act, 2003.
- b. The appropriation of energy balancing done among various ESCOMS which is confirmed is on a notional basis taking average rates.
- c. The company's revenue management involving consumer billing, collection and ledger maintenance under R-APDRP has been done under Infosys software in selected town areas of 21 towns. The software generates various reports viz, DCB Report, Counter wise Cash collection reports, Installation wise collection reports and Tariff wise DCB reports. However, during the course of our audit, it was observed that there were inconsistencies in the reports generated through the Infosys software which was have a bearing on the accounts of the company regarding revenue and demand collection and receivables.

Further, it was also observed during the course of audit that the above mentioned reports could be generated only up to 3 months from "Live data" and for earlier periods from the system archived data. With this constraint of time and volume, we were unable to quantify the impact of these issues on the revenue.

- d. The Company has accounted Rs. 740.17 Lakhs as Intangible Assets under Development for which depreciation is not provided on the part of assets (Computer Hardware System and Network related assets) already put to use which is not in accordance with the Company's significant accounting policy stated vide Clause 2 and 3 of note 1. The impact of non-compliance with the accounting policy on the financials of the Company could not be ascertained.
- e. There is no follow-up and no Action taken on Exceptional reports on Revenue Leakage like MNR (Meter Not Recorded), NRG (No Reading Generated) and Zero



Consumption, available in the billing software (RAPDRP and Software implemented by TRM-Total Revenue Management agencies) even though such reports are available for generation at all levels of hierarchy. A close monitoring and timely action on these exceptional reports could generate significant revenue to the Company.

V. Report on Other Legal and Regulatory Requirements (CARO 2016):

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, we give in the Annexure – A, a statement on the matters specified in paragraphs 3 and 4.
2. As required by section 143 (3) of the companies Act, 2013, we report that:
 - a. We have sought and obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b. In our opinion, proper books of account as required by law have been kept by the Company 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 divisions not visited by us, subject to our remarks below:
 - i. The company has maintained its books of accounts as per the Electricity (Supply) Annual Accounts Rules (ESAAR), 1985 which came into existence as per Section 69 of the Electricity (Supply) Act, 1948 (repealed by Electricity Act, 2003).
 - ii. The Present system of accounts keeping is neither robust nor Integrated and highly susceptible to alteration / Modification and takes a lot of time and effort for the preparation Financial Statements.
 - iii. However, the following registers are under process of updating viz. Fixed Deposits register, Fixed asset Register, Assets categorization register, Staff loans and advances register, Leave Encashment Register, Sundry Creditors for materials and contractors, transformers repairs register, scrap sales and miscellaneous revenue.



- iv. The Company is not having integrated Computerized accounting system Commensurate with the complexities and volume and value of its Business.
- c. In our opinion the company does not have Internal Audit control system commensurate with the size, nature, complexity, volume and value of its business transaction
- d. The Balance Sheet, Statement of Profit and Loss account including other comprehensive income, changes in equity and Cash Flow Statement dealt with by this report are in agreement with the books of accounts.
- e. In our opinion, except for the effects of the matters described in point II and the possible effect of matters described in points **1 to 17** of the Basis for Qualified Opinion paragraph and clauses 1, 7, 8,10 and 17 of Annexure-A and Annexure-B read with the other notes, the Balance Sheet, Statement of Profit and Loss account including other comprehensive income and the Cash Flow Statement dealt with by this report, comply with the Ind AS specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2015.
- f. The Government of India vide General Notification No. G.S.R 463 (E) dt 05.06.2015 has exempted the Directors of the Government Companies from the provisions of disqualification. Hence, the provision for disqualification of directors of the Government Companies under section 164 (2) of the Companies Act, 2013 are not applicable.
- g. 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**". Our Report expresses an unmodified opinion on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting.
- h. 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 Company does not have any pending litigations which would impact its financial position subject to the contingent liabilities reported vide Note 26 to the Financial Statements and our responses given to Item No. 4 of the "**Annexure - C**"
 - ii. The Company did not have any long term contracts including derivative contracts for which there were any material foreseeable losses – Refer Note 48 to the Financial Statements
 - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company, - Refer Note 49 to the Financial Statement.
3. As required by section 143 (5) of the Act, we have considered the directions issued by the Comptroller and Auditor General of India, the action taken there on and its impact on the accounts and financial statements of the company is, herewith enclosed as "**Annexure – C**"

Chennai
21-11-2018



**For G R C & Associates,
Chartered Accountants
Firm Reg. No. 002437S**

A handwritten signature in black ink, appearing to read "T.S. Chandrasekar".

**T.S.Chandrasekar, FCA
Partner, M. No. 022052**



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CA. T. S. Chandrasekar, B.Com., FCA., CISA., CRISC (USA) - Partner

“ANNEXURE – A” to the Independent Auditor’s Report

Referred To In **Paragraph 1** under the Heading “Report On Other Legal and Regulatory Requirements” of Our Report of Even Date to The Members of

GULBARGA ELECTRICITY SUPPLY COMPANY LIMITED, (GESCOM) KALABURAGI - 585 102,
For the year ended 31st March 2018.

1. a) The Company has maintained records for fixed assets. However the same does not give particulars about quantitative details and situation of fixed assets in the Fixed Assets Register.
b) We are informed that Company has carried out the physical verification of its fixed assets during the period of review as per the scheme of physical verification regularly followed.
c) However, the documents of physical verification have not been made available to us. Hence, we are not in a position to comment on the discrepancies, if any between the physical and book balances.
2. a. The inventory was physically verified during the year by the management.
b. The company is maintaining proper records of inventory. According to the information and explanations given to us the discrepancies noticed during physical verification between the physical stocks and the book records have been properly dealt in the books of the company.
3. The Company has not granted/ taken any loans, secured or unsecured, to/ from companies, firms or other parties listed in the register maintained under section 189 of



the Companies Act, 2013 and accordingly, clause (iii)(a) and (iii)(b) of paragraph 3 of the Order are not applicable;

4. In our opinion and according to the information and explanations given to us, the company has complied with the provisions of section 185 and 186 of the Companies Act, 2013 in respect of loans, in respect of loans, investments, guarantees and security.
 5. The Company has not accepted any deposits from public; hence in our opinion the provisions of section 73 and 76 of the Companies Act, 2013 and the Companies (Acceptance of deposits) Rules, 2014 are not applicable.
 6. As explained to us, the Company has maintained cost records under Companies (Cost Records and Audit) Rules, 2014. According to the information and explanation given to us, the Company has maintained cost records as required under the 'Cost accounting Records (Electricity Industry) Rules 2001 read with Companies (Cost Records and Audit) Rules, 2014. However we have not made a detailed examination of the records. Further, the Cost Audit Report was not verified by us as the Company is yet to obtain the same.
 7. According to information and explanation given to us, the Company has been regular in depositing undisputed statutory dues including provident fund, income tax, sales tax and other statutory dues including provident fund, income tax, sales tax and other statutory dues to the appropriate authorities, except in following cases;
 - a) An amount of Rs. 10.37 lakhs in Koppal division and Rs. 7.98 lakhs in Bellary rural division is shown under the head 'Employee Welfare Trust' as on 31 March, 2016. The amounts have not been remitted to the Trust, neither a separate schedule as required has been maintained.
 - b) The Company has received intimation, from the Department of Income Tax (TDS) regarding default in TDS Statements for short deduction/ short payments/ late deduction/ late payments/ late filings and interest thereon for the financial years starting from 2007 and onwards amounting to Rs. 392.24 lakhs.
- b. There are no outstanding disputed amounts payable on account of sales tax, income tax that were in arrears, as at March 31, 2018 for a period of more than six months from the date they became payable, other than one furnished below:

Name of the Statute	Nature of dues	Amount (Rs. In lakhs)	Amount paid (Rs. In lakhs)	Forum where the dispute is pending
Central Sales	'C' Form issued on purchase of CFL	165.10	82.55	Karnataka Sales



Tax Act, 1956	bulbs and DTC meters			Tax Tribunal
Income Tax Act, 1961	Default in TDS statements for short deduction/ short payments/ late deduction/ late payments/ late filings and interest thereon for financial years starting from 2007 and onwards	364.96	Nil	Department of Income Tax (TDS)

c. As per the records maintained by the Company, there is no amount required to be transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, 2013 and Rules made there under.

8. In our opinion and according to the information and explanations given to us, the company has not defaulted in the repayment of dues to bank.

The company has not executed any documents with the financial institutions nor does it possess any documents in respect of loans transferred from KPTCL to the Company consequent to unbundling of transmission and distribution activities. Hence we are unable to comment on default made in repayment of these dues to a financial institution or bank.

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. As per the information and explanations furnished to us by the management, following frauds on the Company have been reported.

Description	Amount (Rs. In lakhs)	Recovery (Rs. In lakhs)	Write-off (Rs. In lakhs)	Provision (Rs. In lakhs)
Hospet Urban (FY 14-15)	92.53 lakhs	0	0	0
CSD Division Gulbarga (FY 14-15)	6.77 lakhs	0	0	0



Devadurga Sub Divisions(FY 14-15)	96.37 lakhs	0	0	0
Bellary Urban (FY 14-15)	10.87 lakhs	7.89 lakhs	0	0
Gulbarga CSD 2 (FY 15-16)	62.39 lakhs	0	0	0
Shahabad Sub-division and Wadi Section (FY 16-17)	1.12 lakhs	0	0	0
O & M Section Mudhol (FY 16-17)	0.86 lakhs	0	0	0
Wadi Section Shahabad Sub-Division(FY 16-17)	0.95 lakhs	0	0	0
Sub-divison Hagaribomman Halli (FY 16-17)	0.06 lakhs	0	0	0
CSD-2 Kalaburagi (FY 16-17)	83.95 lakhs	0	0	0

11. Based upon the audit procedures performed and the information and explanations given by the management, the managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act;

As per Notification dated 05.06.2015 the Provisions relating to section 197 of Companies Act, 2013 is not applicable to the Government Company.

Hence the Company is not required to comply with the above Provision.

12. In our opinion, the Company is not a Nidhi Company. Therefore, the provisions of clause 3 (xii) of the Order are 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 standards.

14. Based upon the audit procedures performed and the information and explanations given by the management, the company has not made any preferential allotment or private



placement of shares or fully or partly convertible debentures during the year under review. Accordingly, the provisions of clause 3 (xiv) of the Order are not applicable to the Company and hence not commented upon.

15. Based upon the audit procedures performed and the information and explanations given by the management, the company has not entered into any non-cash transactions with directors or persons connected with him. Accordingly, the provisions of clause 3 (xv) of the Order are not applicable to the Company and hence not commented upon.

16. In our opinion, the company is not required to be registered under section 45 IA of the Reserve Bank of India Act, 1934 and accordingly, the provisions of clause 3 (xvi) of the Order are not applicable to the Company and hence not commented upon.

Chennai
21-11-2018



**For G R C & Associates,
Chartered Accountants
Firm Reg. No. 002437S**

A handwritten signature in black ink, appearing to read "T.S. Chandrasekar".

**T.S. Chandrasekar, FCA
Partner, M. No. 022052**



G R C & ASSOCIATES
Chartered Accountants

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Branch : # 5, 1st Main Road, Lakshmi Nagar (Opp. to State Bank of India) Adambakkam, Chennai - 600 088.

CA. T. S. Chandrasekar, B.Com., FCA., CISA., CRISC (USA) - Partner

“ANNEXURE – B” to the Independent Auditor’s Report

Referred To In **Paragraph 2(g)** under the Heading “Report On Other Legal and Regulatory Requirements” of Our Report of Even Date to The Members of

GULBARGA ELECTRICITY SUPPLY COMPANY LIMITED, (GESCOM) KALABURAGI - 585 102,
For the year ended 31st March 2018.

We have audited the internal financial controls over financial reporting of **GULBARGA ELECTRICITY SUPPLY COMPANY LIMITED (“the Company”)** as of March 31, 2018 in conjunction with our audit of the 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, 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.

Qualified Opinion

According to information and explanation given to us and based on the audit evidence obtained by doing sample audit, the following material weakness, control lapses have been identified as at 31st March 2018 in its internal financial control over financial reporting of its operations:

1. The company did not have appropriate / adequate internal control procedures commensurate with the size, nature, complexity, volume and value of its business operation with regard to
 - 1.1. Maintenance of account books, periodical reconciliation between daily cash collection as per



cash book and MIS DCB considering huge volume of transactions involved and the control risk could not be ascertained.

1.2. Updation of registers, physical verification and reconciliation to the books of accounts at regular interval.

1.3. Transfer from capital work in progress to fixed assets register on the basis of completion of work and related documents.

2. In our opinion, subject to the material weakness and control lapses in the internal financial control over financial reporting listed above, the Company has, 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 March 31, 2018, 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.

Chennai
21-11-2018



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“ANNEXURE – C”

Directions indicating the areas to be examined by the Statutory Auditors

Directions to the Statutory Auditors of the Company, issued by the Comptroller & Auditor General of India under Section 143 (5) of the Companies Act, 2013 and the actions taken there on during the course of audit of annual accounts of Gulbarga Electricity Supply Company Limited for the year 2017-18

We have generated this report as per the information and explanation given to us by the management during the course of audit.

Sl. No.	Directions	Responses
1.	Whether the Company has clear title / lease deeds for freehold and leasehold land respectively? If not please state the area of freehold and leasehold land for which title / lease deeds are not available.	YES Reference is drawn to clause 9 of our audit report to the members of GESCOM on its Financial Statements where we have indicated that about 10% of the title deeds of the land assets are not held in the name of the company
2	Please report whether there are any cases of waiver/ write off of debts / loans/ interest etc., if yes, the reasons there for and the amount involved.	According to information and explanations given to us, there are no cases of waiver/ write off of debts/ loans/ interest etc.



3	Whether proper records are maintained for inventories lying with third parties & assets received as gift from Govt. or other authorities.	Proper records are being maintained for the inventories lying with the parties & assets received as gift from Govt. or other authorities. However, during the year there is no case of assets received as gift from Govt. or other authorities.															
4	A report on age-wise analysis of pending legal/ arbitration cases including the reasons of pendency and existence / effectiveness of a monitoring mechanism for expenditure on all legal cases (foreign and local) may be given.	<p>Age-wise analysis of pending legal & arbitration cases and pending industrial dispute cases as under:</p> <table border="1" data-bbox="764 701 1297 1029"> <thead> <tr> <th>Age as on 31.03.2018</th> <th>No. of Cases</th> <th>Amount wherever ascertainable (Rs. In Lakhs)</th> </tr> </thead> <tbody> <tr> <td>Upto - 2006</td> <td>2</td> <td>15.63</td> </tr> <tr> <td>2007 - 2011</td> <td>13</td> <td>2035.52</td> </tr> <tr> <td>2012 - 2017</td> <td>220</td> <td>2705.82</td> </tr> <tr> <td>2017 - 2018</td> <td>46</td> <td>100.52</td> </tr> </tbody> </table> <p>Reasons for their pendency is that the legal cases entail procedural rules being adhered to and are finally heard/ disposed of by the court at their own turn.</p>	Age as on 31.03.2018	No. of Cases	Amount wherever ascertainable (Rs. In Lakhs)	Upto - 2006	2	15.63	2007 - 2011	13	2035.52	2012 - 2017	220	2705.82	2017 - 2018	46	100.52
Age as on 31.03.2018	No. of Cases	Amount wherever ascertainable (Rs. In Lakhs)															
Upto - 2006	2	15.63															
2007 - 2011	13	2035.52															
2012 - 2017	220	2705.82															
2017 - 2018	46	100.52															

Additional Company Specific Directions:

Sl. No.	Directions	Responses	Impact On Ind AS Financial Statements
a.	Report on the efficacy of the system of billing and collection of revenue in the Company. Whether tamper proof meters have been installed for all consumers? If not then, examine how	➤ Presently, there are two software's implemented throughout GESCOM FOR Billing, collection and consumer ledger maintenance.	Not ascertainable



	<p>accuracy of billing was ensured.</p>	<p>a. Software developed under the R-APDRP and being implemented as per the specifications prescribed by the central Government through ministry of power and PFC.</p> <p>This software has been put to use with all modules in the urban areas of GESCOM covering 21 towns, though there were issues during the initial phase of the implementations of this scheme.</p> <p>b. In the other areas, software developed by M/s. N Soft Ltd and M/s. BCIT Ltd have been installed whose scope is limited to billing, collection and ledger account maintenance.</p> <p>➤ Tamper proof meters are being installed in the urban areas of the GESCOM under the R-APDRP Program and as of now the work is not yet completed.</p> <p>Refer point (c) under Emphasis of Matter paragraph of auditor's report regarding consumer billing, collection and ledger accounts maintenance under R-APDRP Scheme.</p>	
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b.	Whether the reconciliation of receivables and payables between the generation, distribution and transmission companies has been completed. The reasons for difference may be examined.	<ul style="list-style-type: none"> ➤ It is informed that Reconciliation of receivables/ payables between Distribution companies/ Transmission Companies is in progress. ➤ In this regard, refer note 42 of the financial Statements 	Not ascertainable
c.	Whether the Company has been recovering and accounting, the State Electricity Regulatory Commission (SERC) approved Fuel and Power purchase Adjustment Cost (FPPCA)?	It is informed that Fuel Escalation adjustment is approved by State Electricity Regulatory Commission and the same is considered for billing to Consumers to the extent of the period of approval and is accounted as revenue.	Not ascertainable
d.	How much tariff roll back subsidies have been allowed and booked in the accounts during the year? Whether the same is being reimbursed regularly by the State Government?	It is informed that no roll back tariff subsidies have been received during the year.	Not applicable
e.	If the audited entity has computerized its operations or part of it, assess and report, how much of the data in the company is in electronic format, which of the area such as accounting, sales personnel information, payroll, inventory etc. have been computerized and the company has evolved proper security	<ul style="list-style-type: none"> ➤ The Company has computerized only areas related to revenue billing, collections and consumer ledger maintenance. However Company does not have proper security policy for data, software and hardware. ➤ It is understood that no specific IS audit has been 	Not ascertainable



	evolved proper security policy for data/ software/ hardware?	carried out during the financial year in this area.	
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Chennai
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