D. RANGARAJAN, B.Sc., F.C.A
Partner

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

I. Report on the 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 2017, the Statement of profit and loss account and the Cash Flow Statement for the year ended on that date, and a summary of accounting policies and other explanatory information.
   The Balance Sheet, Statement of Profit & Loss Cash Flow Statement approved by the Board of Directors on 13th November 2017 and reported by us on 13th November 2017 have been revised in the light of the Observation arising from the audit by the Comptroller & Auditor General of India under section 143(6)(b) of the Companies Act,2013. This report supersedes our report dated 13th November 2017.

Management's Responsibility for the Financial Statements:

2. 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 and cash flows of the company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and 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the Electricity (Supply) Annual Accounts Rules, 1985 framed under the Electricity (Supply) Act, 1948 (54 of 1948) now repealed by virtue of Section 185(2)(d) of the Electricity Act, 2003. 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.

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Auditor's Responsibility:

3. Our responsibility is to express an opinion on these financial statements based on our audit.

4. 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.

5. 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.

6. 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.

7. 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.

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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. 73.05 lakhs (previous year Rs.110.50lakhs) includes old items yet to be regularized.

   d. In respect of Koppal division, there is theft of stores material to the extent of Rs. 2.76 Lakhs (2012 – 13).

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 AS-3.

   b. Difference in Cash and Bank Balance with the Trail 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 AS-3.

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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. 14,933.10 lakhs is shown as Capital Work-in-Progress and Rs. 718.92 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. 8,742.41 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 deprecation. 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 AS 10). This may also lead to revision in the useful life of the assets.

d. 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 Koppel 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 it's Impact on the Financials of the Company.

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g. 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 setoff in the IT Assessment .Since, the company is having huge carry forward loss to be setoff 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 AS 28 and its impact on financial statements of the company.

7. **Revenue From Operation -Note-24(3)**

The Company has recognized Rs 35376.60 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 Trade Receivable (Note-19) and understatement of loss to the extent of Rs 35376.60 Lakhs.

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8. Note 40 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 the name of the company.

10. The amount shown under the head "Inter Unit Accounts ('IUT')" amounting to Rs. 1188.95 lakhs (Credit) as on 31/03/2017 [opening balance outstanding Rs. 1380.20 Lakhs (Credit) as on 31st March 2016] 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.

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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 9 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. Share application money pending allotment of Rs 19395.00 Lakhs outstanding for a period of more than 75 days, to be reckoned as a deposit. Consequently, the Companies (Acceptance of Deposits) Rules, 2014 have not been complied.

17. Attention is drawn to Note 45 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.

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 17 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.

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1. In the case of the Balance Sheet of the state of affairs of the Company as at March 31, 2017.
2. In the case of Statement of Profit and Loss, 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 Section185(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.

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d. The Company has accounted Rs 718.92 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, l948 (repealed by Electricity Act, 2003).

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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 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 and 10 of Annexure-A and Annexure-B read with the other notes, the Balance Sheet, Statement of Profit and Loss account and the Cash Flow Statement dealt with by this report, comply with the accounting standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

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"**

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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 23 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 46 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 47 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**"
4. As required under gazette notification No.244 dated 30-03-2017, and new Rule 11 (d) of the Companies (Audit and Auditors) Rules 2014, the company has not disclosed the holding and dealings of Specified Bank Notes during the period from 8th November2016 to 30th December2016, in the notes to schedule – III , as such, not complied with the requirements under company law.

Chennai
15-12-2017

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