Addendum to Auditors Qualification FY19

No	Auditor's Qualifications	Management Reply
1.	**Ind AS 2 on Inventories**	
a.	In accordance with the Ind As-2, the Company is required to value its inventories at lower of cost and Net Realizable Value. However, the Company is using standard cost for accounting of purchases and average cost for valuing the closing stock. Inventories include the value of scrapped assets, faulty & dismantled assets for reuse and repaired good items, which are carried at written down value. This constitutes a departure from the Indian Accounting Standards prescribed under section 133 of the Companies Act, 2013. Due to the fact that, no impact analysis has been done by the management, the impact of this deviation, on the financial statements is not ascertainable.	The same is as per the Accounting Policy of the company on Inventories is indicated under clause 2.19 of Note 2 of Financial statements FY19. The standard rate is determined considering the present market rates and the likely increase / decrease in the future prices for the period. These accounting policies have been framed according to the Electricity Supply Annual Account Rules 1985.
b.	There is a need for assessment on ageing, usefulness and the serviceability of the inventories lying at various locations in order to ascertain the requirement of provision for obsolete and idle inventories. Due to the fact that, no assessment has been carried out by the management, we are unable to comment on provision requirement on obsolete and idle inventories and related impact on financial statements.	The Annual Store Counting at each store of the Company is taken up during January, during which, each item of the inventory held in Stock as on date is physically verified with respect to its quantity mentioned in the numerical ledger and actual stock. In case, any of the store item is found not useable / repairable then recommendation is made to competent authority to scrap such items duly following the norms. The differential amount between value as per books and the amount realized is recognized and brought to the Profit & Loss Account during the financial year.
c.	Materials lying with employees (material imprest account) amounting to Rs.216.44 lakhs (previous year Rs.180.11 lakhs) shown as part of inventory includes old items pending for regularisation. We are unable to comment on impact of above on financial statement due to non regularisation of these materials lying with employees.	The materials drawn by the field officers is for ongoing urgent works (restoration of power supply) and the employee wise records for the same are available at the Accounting units. These are regularized with regular work orders and documentation the along with the completion reports. The process of all the material are monitored continuously for regularization
d.	The Company is carrying the stock of inventory which includes items for ultimate use in supply of services and expected to be used for more than one period. As the intention / ultimate use of such items of inventory is towards creation of "Plant & Equipment", the same needs to be separately identified and classified as Capital Work-in-progress.	The materials/inventory is used for both Capital as well as Repairs and maintenance. Materials at stores cannot be classified until it is drawn for use i.e either Capital or Revenue. In view of this classifying the entire Inventory as Capital Work in Progress and subsequently may require issue of materials for Revenue nature of works. In view of the same these are not classified as Capital Works in Progress

<table>
<tr><td>e.</td><td>The company’s inventories include Rs.195.73 lakhs (PY Rs. 186.08) material issued for temporary installations to contractor/employees and are actually lying / being used at the site. Such material at site is being classified as inventory under the head “material with contractor” under current assets. In our opinion this classification is inappropriate, as the material issued to contractor is a notional entry in the stock records of the Company and needs to be disclosed as part of Work in progress. Due to this, the value of current assets is overstated and work in progress / Tangible assets is understated to the extent of the amount specified above.</td><td>Materials issued for service of temporary installations are required to be returned back to store consequent to closing of the installation and dismantling of the infrastructure.
The infrastructure for service of Temporary is not permanent in nature as this infrastructure would be redundant once the underlying temporary installations are surrendered.
Classification in Work in Progress is done with an ultimate intention of Capitalization of the Works and Creating new Fixed Assets. In this case there are no Fixed Assets Created and hence disclosure of the material issued towards infrastructure of Temporary Installations as capital work in progress and later returning back to inventory would serve no purpose.</td></tr>
<tr><td>2.</td><td>Cash and Cash Equivalents:</td><td></td></tr>
<tr><td>a.</td><td>Cash and Cash Equivalents include amounts relating to cheques / DDs collected but not realised, Cash suspense balances of employees not regularized, Trial balance differences and cash misappropriations pending enquiry as summarized below:
<table>
<tr><th></th><th>Name of the Accounting Unit</th><th>Nature of difference</th><th>Rs. In lakhs</th><th>Pertaining to the year</th></tr>
<tr><td>I</td><td>Gulbarga O&M division I</td><td>Difference between Trial Balance and Cash/Bank book</td><td>95.57</td><td>Since formation of the Company on demerger</td></tr>
<tr><td>Ii</td><td>Various Accounting Units</td><td>Pending enquiry on account of frauds as per Special Audit</td><td>678.78</td><td>2012-13 to 2018-19</td></tr>
</table>
Due to this, cash and cash equivalents as compared to the actual balances are overstated and the loss on account of possible non-recovery is not provided for on account of pendency of the issues. To the extent of overstatement of the cash and cash equivalent, the cash flow statement is in non-compliance with Ind AS-7 -</td><td>The shortage of balance in cash and the un reconciled bank balances in the books of accounts of O&M Division 1 Gulbarga, are pertaining to the period prior to the formation of the company. The matter is being pursued with KPTCL. Necessary adjustments would be accounted on obtaining the details from KPTCL.

Special Audit Reports on the shortages/Misappropriations of cash have been finalised and enquiries are initiated/being initiated on the concerned employees as per the report of the Internal Audit.
Based on the outcome of the enquiry, suitable disciplinary action will be initiated against the defaulting employees and also to recover the shortages from the concerned.</td></tr>
</table>

	"Statement of Cash flows."	
b.	The method of accounting, reporting and the process of reconciliation of non-operative bank accounts for the account code 24.3 (Cash Balance) needs to be revisited, because the format of Bank Reconciliation Statement (BRS) does not give the cumulative value of unrealized cheques as at the date of reconciliation. Further, the Trial Balance at accounting unit levels should reflect each non-operative bank account instead of routing through the single common code 24.3. Uniform format for BRS should be used for operative as well as non-operative bank accounts.	The existing process of Bank reconciliation is the prescribed method and is practiced across all the ESCOMs on same line. Trial Balance of the units has to depict the summary balance of the transactions and not necessarily that each bank account/party balances to be individually reported in the Trial Balance. There are subsidiary registers (cash books) for eachaccount which will provide the break up details of all the accounts held by the accounting unit.
c.	The company has tie up with various electronic service providers for web based electronic payments received from consumers. On our test checks with the accounting units we visited, it is observed that these collections were not being reconciled periodically with the bank statement. In some cases the differences are parked in "Erroneous Credits By the Bank From Online (RTGS) A/c code 46.973" (Koppal Unit). There is a need for periodical reconciliation and monitoring of these transactions.	Guidelines have been issued for accounting of the transaction under online payment. The services with the Online payment Service providers is on the basis of T+2 for remittance of the collections done by them on behalf of the Company. The money not received by the service provider but receipts generated is instructed to be accounted as In-Transit Remittance. In these cases, the money is yet to receive and hence does not fall under the category of transactions were the money is received in Bank to be treated as Erroneous. However, the reasons for a unit to operate Erroneous Credits by the Banks is that some of the Government Departments/HT consumers directly transfer the money to be paid to the Company to our non-operative Bank Account without routing the transaction through our online payment portal or other prescribed digital payment modes. As such the details for corresponding posting in the consumer ledger details are not known to the accounting units until the paying party comes to office with the RTGS transfer reference documents and gets it posted against his account outstanding dues. On regulatisation this amount is withdrawn from the Erroneous Credit Account and transferred to Consumer account.
3.	**Ind AS 16 on Property, Plant and Equipment:**	
a.	An amount of Rs. 30032.07 lakhs is shown as Capital Work-in-Progress and Rs.749.23 lakhs under Intangible assets under development. The company does not	Policy of the Company on Capitalization of Assets is indicated under Clause 2.4 of Note 2of the Financial statements for FY19.

	possess the detailed listing / analysis of the value of work-in-progress disclosed in the financial statements viz. aging of the pending work orders, amount involved, and date of completion as per the work order and the actual progress as at the reporting date. Due to this, there is possibility of non-capitalization in spite of the assets already put to use. Further, due to inadequate information regarding Capital Advance amounting to Rs.33608.73 lakhs, we are unable to comment on the correctness of this classification, as value of works against these advances requires conversion in to Capital Work in Progress or categorization as Property, Plant & Equipment. Due to this, we are unable to comment on correctness of classification, value of Tangible assets, Intangible assets, and depreciation and amortization impact on the financial statements.	Capital Advances are made to the Contractors / suppliers as per the conditions of the Contract and the same are adjusted in the running bills. In most of the cases only 50% of the value of materials is paid on supply and balance is retained as Retention Money of the Contract. The value of material lying with the Contractor until such time the erections have been reported are treated as Capital advance. On completion of the works and submission of the final bills, these advances are adjusted and Assets Capitalized. Until the final invoices are raised and certified measurements are not recorded in the Measurement Books it will not be possible to capitalize the works and close the work accounts. Once the final bills are passed and in case there is any time difference in the actual asset being put to use and the date of final measurements, the Depreciation is instructed to be charged from the date of asset being put to use.
b.	Ind AS 16 on Property, Plant and Equipment requires the cost of dismantling to be estimated and included in arriving at the cost of the item for capitalization. The Company has not included the estimated cost of dismantling for capitalization .The impact of this on the financial statements is not ascertainable.	The Estimates/work awards are prepared as per the Cost Data Sheets prescribed in the Common Schedule of Rates in vouge in all the ESCOMs. This does not include the cost of dismantling and hence the cost of dismantling is not part of Asset while capitalization. Any expenditure on dismantling of the assets are nominal as compared to the Asset Value and the same is charged to revenue.
c.	Assets retired from active use are stated at written down value and the same is not tested for comparative net realizable value. These assets are disclosed as Inventories, Stores and Spares under the head WDV of obsolete / scrapped assets. Such assets are reissued after repairs at the average cost of inventory and not at its WDV. This is not in accordance with the Indian Accounting Standard 16 - Property, Plant and Equipment (PPE). As per the policy, charge of depreciation is stopped from the date of decommissioning till the assets are reissued & capitalized. Such reissued asset is capitalized at the average cost and depreciated over their original life and not on the remaining useful life. This practice is not in accordance with the Ind AS	The same is as per the Significant accounting policy of the Company under clause 2.4 of Note 2 of the financial statements. Depreciation on Assets is charges while the assets are in use and on release of assets on failure or other wise these are treated as inventory until such time they are put back to use.

	16. The effect of the same on the financial statements is not quantifiable.	
d.	The Company capitalizes the Assets after the receipt of final bill and approval by the competent authority is not in compliance with Ind AS – 16. Further, there are delays 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 absence of documents supporting the actual date when the asset was ready to use, we are unable to ascertain the effect of lower charge of depreciation in the statement of profit & loss.	This is due to the time difference of the actual asset being put to use and the formalities required for the closure of the account viz., Certification of Measurement, Material utilized etc being forwarded to the Accounts Dept. However, in light of the audit observation care will be taken to ensure that the Depreciation/Interest will not be capitalized since commissioning of the Assets / put to use of Asset.
e.	As reported in the audit report for the financial year ending 31-03-2018 by the predecessor auditor, reconductoring works and Scada works carried out in Koppal division were stopped and enquiry was initiated. The total value of such works suspended was Rs. 2,225.01 lakhs as on 31 March, 2015 and was shown under Capital Works in Progress due to pending disputes and these assets, though put to use, were not capitalized and depreciated appropriately. No documentary evidence including the updated status of the issue, as at the date of financial statements for the year, was available for our review. Hence, we are unable to comment on the impact of the issue on the financial statements for the year**.**	The final Bills are pending to submit by the contractor and need to be processed. Hence the works could not be measured and capitalized in full. Even after repeated efforts, the contractor has not turned up for completing these works and closing of the work accounts are pending for this reason.
f.	The following qualification was made by the predecessor auditor in the audit report for the financial year ending 31-03-2018: “There was 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 and an Enquiry was ordered in this regard by Government of Karnataka. The enquiry was completed but order was 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” No documentary evidence including the updated status of the issue, as at the date of financial statements for the year, was available for our review. Hence, we are unable to comment on the impact of the issue on the financial statements for the year.	An enquiry in the matter has been conducted by a committee formed by the Energy Department, GoK. Also detailed enquiries regarding all the works carried out under this heads in the said period have be subjected for extensive field verification for loss assessment . The enquiries on all the defaulting officers/officials has been initiated by KPTCL. Necessary financial transactions will be incorporated on the outcome of the enquiry proceedings.

4.	In respect of loan availed from Power Finance Corporation (RAPDRP A –Originally disbursed amount Rs.3604 lakhs and Balance as on 31-3-2019 Rs.1261.92 lakhs), we were informed that, the said loan was under the scheme of conversion in to grant. The Company has not recognised interest cost for the year of Rs.9.27 crores and also reversed Rs. 7.21 crores of interest expenses recognised in earlier years based on the loan balance confirmation given by PFC. There is no specific confirmation regarding approval for conversion of loan /reversal of previous years' interest and waiver of current year's interest. This resulted in understatement of finance costs and overstatement of profit for the year by Rs. 16.48 crores.	PFC authority have not issued monthly EMI demand notice since Aug -18 against RAPDRP (Part A) project. Further, during Aug -18 an amount of Rs. 1.07 Crores has been reduced in EMI demand notice. It has been a practice to obtain the details of the accrued interest from all the lenders/financial institutions as on the balance sheet date, accordingly a request for informing interest accrued but not due as on 31-03-19 was made vide GESCOM letter No. 988 dated 03-04-2019.The PFC authority has responded to the same during May -19 and the same was initially accounted. However, during consultation / discussion with the concerned Projects team/Technical wing, we were informed about the project closure process initiated by MoP and also the MoP, GoI official memorandum no. 26/1/2015-IPDS(Vol-IV)-Part-(1) dated 18-06-2019 wherein it was clearly mentioned that the loans would qualify to be converted to grants and hence the interest liability does not arise based on the same, the provision created towards interest on RAPDRP (Part A) releases has been reversed. As such there is no Interest liability and hence it was reversed.
5.	Ind AS 12 Income Taxes:	
a.	The Company has not created deferred tax assets /liabilities in respect of timing differences on account of depreciation, employee related costs allowed for tax purposes on payment basis, deferred revenue items and brought forward losses adjustable against future profits under the Income Tax Act. Due to this non availability of the proper data and information, we are unable to comment on the related impact on deferred tax and statement of profit and loss.	The same is as per the accounting policy laid down under clause 2.16 of the Financial statements. Necessary disclosure for accounting of the deferred tax computation has been made in the financials.
b.	Further, the Company has created deferred tax liability on the amount of revaluation reserve of freehold land as at 1-4-2016. As the ultimate intention of holding of these properties is for use in the business and not to sell such assets in near future, we are of the opinion that, creation of deferred tax liability was not appropriate and needs to be reversed. Due to this, the amount of Deferred Tax Liability is overstated and Revaluation reserve is understated by Rs. 20,726.93 lakhs.	
c.	Further, all additions to fixed assets made during the year for the purposes of depreciation under Income Tax Act have been considered as additions for less than 180	Considering the numerous assets build and constructed each year it is difficult for the company to provide proof of date of

	days. Due to this, lower depreciation has been claimed under Income Tax Act. We are unable to quantify such amount and the related impact on deferred taxes and statement of profit and loss due to non-availability of date wise additions to assets.	commissioning for each assets to the Income Tax authorities. However, this will only result in marginal impact on the tax computation for the year and will get adjusted during the balance lifetime of the assets.
6.	**Ind AS 36 Impairment of Assets**: The company has not carried out the process of identifying the impaired assets in accordance with Ind AS 36 and hence we are not in a position to comment on the related compliance and impact on the financial statements of the Company.	During the year, no such assets were found which could be classified as impaired.
7.	**(Ind AS) 19 on Employee Benefits**	
a.	The company is making contributions to Pension and Gratuity Trust based on the percentage of salary towards Gratuity and Pension liability as intimated from time to time. The Company does not possess the data relating to actuarial valuation made by the Trust for the year and correspondingly does not have any actuarial valuation provision in the financial statement against such employee benefits. Due to this, we are unable to comment on the correctness of cost of employee benefits charged to statement of profit and loss as per actuarial valuation and the disclosure as required by the Ind AS-19 in the financial statements.	Policy of the company on contribution to Pension & Gratuity trust is indicated under clause 2.13 of Note 2 of Financial statements FY19. The liability of the Company ceases once the contribution is made at the prescribed rates to the Trust. The onus of actuarial Valuation on the actual requirement funds for discharging the pension liability and for fixing the rate of contribution is on the Trust and not on GESCOM. The P & G Trust get the actuarial valuation done on a periodical basis and shared with all the representatives of the ESCOMs who are on the Board of Trustees of the P&G Trust besides the representatives from the various employee's union/associations and also representatives from the Government. Once the same is approved by the trustees, the rates of contribution is determined and informed to the ESCOM for contribution.
b.	The Company has not ascertained the applicability of provisions of Payment of Gratuity to employees covered under NDCPS scheme. As informed to us, there are no clear directions regarding applicability of Gratuity to such employees and hence no provision has been made for the accrued gratuity liability, if any.	No such guidelines are prescribed by the trust during the year under review. Hence no provision has been incorporated.
8.	**Ind AS 113 - Fair Value Measurement and Ind AS 109 - Financial Instruments**	
a.	The Company has adopted revaluation model in respect of freehold land as at the date of transition to Ind As regime. As 3 years have elapsed since initial measurement, there is a need to revisit the same for fair value as at the date of balance sheet. In absence of remeasurement, we are unable to quantify the impact on the financial statements for the year.	Policy of the company on Inventories is indicated under clause 2.24 of Note 2 of Financial statements FY19. Disclosures for revaluation of Property, Plant & Equipment is disclosed in Note 50 of Financial statements

b.	The Company has investment in equity shares of Power Company of Karnataka Limited amounting to Rs. 251 lakhs. These investments have not been fair valued as at the date of balance sheet. Due to this, we are unable to comment on the impact on the financial statements for the year and the compliance with the Ind AS.	Necessary disclosure has been made in Note 6 to the financial statements.
c.	The security deposits received from contractor/suppliers and retention money from contractors is not carried at amortised cost as required by Ind AS 109, as expected realization date of these deposits is not ascertainable. Accordingly we are unable to comment on its impact on amounts of deposit and retention money and related impact on statement of profit and loss.	The exact date of realization could not be determined on the date of balance sheet and hence these have not been amortised.
9.	**Indian Accounting Standard (Ind AS) 17 –Leases** We understand that the Company has given / taken immovable properties on lease. In some cases (leases with KPTCL) there are no terms and conditions on record. We observed instances of demands sent by the lessor towards lease rent and the same were not accounted for in the books of the company. Further, the Company has not complied with the disclosure requirements as required by the Ind AS 17.	As of now GESCOM has not leased any of its assets to others. Hence no disclosure was made in the financials. Necessary disclosure regarding financials is disclosed in Note 41 of financial statements.
10.	**Indian Accounting Standard (Ind AS) 20- Government Grants** Grants/subsidies received from the government or other authorities towards capital expenditure as well as consumers' contribution to capital works are treated initially under deferred income and taken to income based on the depreciation that is charged to the class of asset for which such Grants/subsidies are received. However as per Ind AS 20, the release from deferred income to statement of profit and loss has to be made based on systematic basis over useful life of the asset. The company is not in a position to demarcate the capital grants against particular asset. Accordingly, the impact of over or under charge to statement of profit and loss from deferred income cannot be ascertained. Also company has no data for bifurcation of deferred income into current and noncurrent portion and hence the entire balance of deferred income has been shown in non-current liabilities. Accordingly we are unable to comment on its related impact on bifurcation into current and noncurrent portion in financial statement.	Necessary disclosure has been made vide clause 2.7 under note 2 of the financial statements.
11.	Indian Accounting standard (Ind AS) – 115- Contract with customers. With respect to supervision charges charged by the company towards capital assets contributed by consumers; Company recognises revenue on such	The date of rendering of service cannot be ascertained while drawl of the receipt of the supervision charges. The progress and completion of the works completely depends on the contracts given by the consumer and

	supervision charges on the grounds of application made from consumer. Company does not determine the timing of satisfaction of performance obligation as derived from contract of customer as required under Ind AS-115. The company does not possess the relevant information to assess the impact of above deviation. Accordingly we are unable to comment on related impact on financial statement.	company has no control over the exact period of the completion of the work. As such the same is taken to revenue on receipt.
12.	The amount shown under the head "Inter Unit Accounts ('IUT')" as at the end of the year amounting to Rs 1504.21 (CR) lakhs (previous year Rs. 685.44 (DR) Lakhs) under "Other Current Liabilities" is the un-reconciled balance pertaining to fund transfer, material transfer, assets transfer, entries for demerger of divisions and other employee transfer related entries. In absence of reconciliation of these balances, we are unable to comment on the impact on the financial statements.	The reconciliation of the IUA transaction is in progress but it has not been possible to fully reconcile the difference. Some of the differences in the IUA are on account of the transactions initiated prior to formation of the ESCOMs but terminated after formation of the Company. Efforts are being made to trace the details and reconcile the differences in Inter Unit Account.
13.	The Company makes provision for bad and doubtful debts (Refer Para 2.12 "Significant Accounting policies") 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 case of LT Consumers. The Company is having old outstanding dues receivable (under LT category) from IP set installations, including interest, 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. 70628.96 Lakhs. The Company is making provision @ 10% on these dues and the same appears to be inadequate as the entire dues are doubtful. As at the date of balance sheet, the un-provided portion of the dues is Rs. 43868.56 lakhs. Accordingly, had the same been provided fully, profit under the statement of profit and loss would have been lower by Rs. 43868.56 lakhs and the balance of Other Financial Assets would have been lower to that extent.	The total amount of Rs. 1438.61Crores Outstanding arrears include a major receivables Towards w/s and street lighting installations and is due from Government Departments which the company has considered as good. An amount of Rs.1013.60Crores is outstanding against the IP Set installations, BJ/KJ, Street light and Water Supply installations. It is to be noted that the above dues are fully secured to an extent of Rs. 531.79 crores by way of Consumer Security Deposits available with the Company. Besides the above a provision of Rs. 423.75 crores towards Bad & doubtful dues, is made by GESCOM. this includes Rs. 267.60 Crores towards IP set Dues where provisioning has been enhanced to 100% subjected to 10% per year w.e.f FY16 and onwards Considering the dues from the Departments of Government of Karnataka out of the total dues, the provisions made by the Company is adequate.
14.	Confirmation of balances / Reconciliation**:** The Company does not have the procedure of obtaining confirmations and	The company is providing services to around 30 lakh consumers and also a substantial number

	reconciliation of balances from/to KPTCL, KPCL, PCKL and other ESCOMs, sundry debtors, sundry creditors, advances, deposits from/to suppliers / contractors / government authorities / consumers / employees, loans and other receivables from various parties. The effect of the adjustment arising from reconciliation and settlement of old dues and possible loss which may arise on account of non-recovery or partial recovery of such dues is not ascertained. Accordingly we are unable to comment on the impact of such provisioning on statement of profit and loss.	of small and big contractors carryout various works from whom the task of obtaining of confirmation of balance is extremely difficult. The fact that the payments from consumers are made without any dispute or acceptance of payment is considered as confirmation. Efforts are made to obtain confirmation form all the power producers but not all power producers confirm the balances. However, Necessary disclosure is made vide note 52 of the financial statements
15.	Reserve for Material Cost Variance: As described in Note No. 2.20 of the Accounting policies, material cost variance is being adjusted to Reserve & Surplus instead of charging to Statement of Profit & Loss which is not in accordance with the Generally Accepted Accounting Principles	The policy of the company is in consonance with Commercial Accounting System laid down in the Electricity (Supply) (Annual Accounts) Rules, 1985. The Material cost variance is adjusted to Reserves & Surplus at the end of each financial year. The same is also disclosed in the significant accounting policy 2.20
16.	Other noncurrent financial liabilities includes Provision made by GOK towards consumers amounting to Rs. 596.95 lakhs, BRP II Adjustment given by GOK i.r.o SMIORE Rs. 1293.06 lakhs and Other Payables to GoKRs. 335.28 Lakhs. These balances are pending from many years and company has no information with respect to these balances. Accordingly we are unable to comment on any write back or any provision to be made under these balances and its related impact on financial statement.	We have received these balances in the opening balance of the Company. These are against the Sundry Debtors outstanding as on 31/5/2002 for which 100% provision is made by GoK and transferred to the Company for subsequent adjustment against the consumer dues on compliance from their side.
17.	Other noncurrent liabilities include deposit contribution work amounting to Negative amount of Rs. 75.86 lakhs for the year ended March 31, 2018. Company has no information for reason to be negative amount and accordingly we are unable to comment on its related impact on financial statement.	GESCOM carries out several works of social obligation such as creating of infrastructure for power supply to Water Supply Installations on directions from the Government in the events of droughts / floods etc. The monies are due from local bodies towards these works. Works are carried out under these accounts without connected deposits and hence these accounts indicate negative balance.
18.	Following Expenses Account Heads grouped under “Other Expenses” are showing negative balances. Reasons for the same were not satisfactorily explained. These amounts should have been regrouped to Income Account Heads: 1. Freight and other material related expenses-Rs.-376.26 lakhs (PY Rs. 83.42 lakhs) 2. Miscellaneous losses- Rs.-516.29 lakhs (PY Not	Reversal of previous years excess provisions under these accounts have resulted in the negative balances under these accounts.

	applicable)	Instructions will be issued to the accounting units to re-classify such transactions as income in the event of the provisions made during previous years are more than the actual invoices received during the year.
19.	The Company has not made provision for interest claimed by generators pertaining to the year 2011 to 2018 amounting to Rs. 467.69 lakhs and the reasons for the same were not explained satisfactorily.	The calculations for claims of interest were not accepted by the Company and hence in absence of crystallization of the interest claims, the same were not accounted in the year under review.
20.	The Company has written back to income amounting Rs. 618.36 lakhs towards the unidentified credits in Bank Statement for more than 3 years. This write back is not based on the individual ageing of such credit entries and hence we are unable to comment on the correctness of this writeback.	As per the policy amounts outstanding in the liability accounts for more than 3 years are provisionally written back at Corporate Office on the balance sheet date and instructions issued to the units to check individual transactions for and reasons to continue these liabilities. Such transactions are verified and written back by the units in the following year and the provisional entry passed at Corporate Office is reversed to negate the impact.
21.	Indian Accounting Standard (Ind AS) 33 - Earnings per Share The cumulative effect on account of all the deviations / qualifications, on the profit for the year, taxes on income, net income and shareholders' funds and cash flow statement for the year is not ascertainable. Further, the impact on earnings- per share and the disclosures required as per Ind AS 33 is not ascertainable.	Factual.
22.	**Non-Compliance with the requirements of Schedule III to the Companies Act 2013**	
a.	As per Schedule III to the Companies Act 2013, a receivable shall be classified as 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business. However, receivable from Government in respect of sale of electricity which are discharged by Government on behalf of consumers of IP sets / BJKJ installations/ RDPR dues amounting to Rs. 1,39,019.28 lakhs as at the balance sheet date are classified by the Company under "Other Financial Assets as against the requirement of classifying them as "Trade Receivables". In our opinion, Trade receivables are understated and Other Financial Assets are overstated to the extent of the amount stated above.	As per the policy of the free power to the IP Set Consumers, we are required to bill the consumer for the energy consumed and the same amount is taken as collection by transferring to the Government account. These installations are in the consumer name and do not depict any balance. Government is not out actual consumer for the purpose of IP Set Subsidy. All the debtors accounts are indicated in the Trade Receivables for the purpose and not the Government who pays on behalf of the Consumers.
b.	The process followed by the company to identify the suppliers covered Under Micro, Small and Medium Enterprises Development Act, 2006 and the delays in payment to them, is not documented and appears to be	Disclosure have been made only after ascertaining that dues towards the MSME as per the Act are Nil.

	inadequate & not verifiable. In view of this, we are unable to comment on the compliance with the MSMED Act 2006 and disclosure requirements as per Schedule III to the Companies Act 2013.	
c.	Disclosure of capital and other commitments at the year-end prescribed under Schedule III to the Companies Act, 2013 has not been made in the financial statements in absence of related data.	Efforts will be made to collect the necessary data required for these disclosures.
d.	The financial statements drawn up in compliance with the Companies (Indian Accounting Standards) Rules, 2015 shall round off the figures appearing in the financial statements to the nearest, lakhs, millions or crores, or decimals thereof, if turnover is one hundred crore rupees or more. However, the Company has prepared the financial statements with figures in rupees.	Factual
e.	The Company has received share application money from Government of Karnataka and such amounts are kept under share deposit pending allotment of shares beyond 60 days from the receipt of money. This in not in compliance with the provisions of Section 42 of Companies Act 2013.	The Company has obtained the approval of the share holders to enhance the Share capital from Rs. 1200 Crores to Rs 2000 Crores. However, the approval process and payment of stamp duty and other formalities could only be completed in the current financial year. Share deposits have been disclosed in Other equity since previous several years and the procedure is consistently followed by the Company. The share certificates would be issued during the year and hence it is requested to not insist for a revision on this count and to drop the enquiry.
23.	The cash flow statement prepared by the company is in non-compliance with Ind AS-7 to the extent of the impact which could have been drawn on financial statement as a result of qualifications enumerated above. Accordingly we are unable to comment on the correctness of the change in cash flow arising from operating, financing, investing activities to the extent of the impact of above qualifications.	Factual
24.	The Company has provided an amount of Rs. 4.66 crores as Provision for Family Benefit Fund. However, as per the Actuarial Report for the period ended 31 March, 2019,an amount of Rs.5.53 crores should have been recognised as Non-Current Liability. As a result, Non-Current Provisions, Employee cost is understated and Profit for the year is overstated by Rs. 0.86 crores. Further this amounts to non-compliance with Ind AS 19.	Necessary correction in recognition of FBF liability would be incorporated in the financial year FY 20.
25.	The Company has not provided Rs. 3.54 crores towards interest claimed by suppliers on delayed payments. Due to this Finance cost and Current provisions are	The Interest claims were not accepted by the Company as on the date of the balance sheet date and hence not accounted in the year

	understated and profit for the year is overstated to that extent.	under review. Necessary accounting entries would be incorporated in FY20 once the Interest claim is accepted by the Company.
26.	The Company has accounted Rs 206.13 Crore as interest receivable from Government of Karnataka for sale of power to Water Supply and Public Lighting to Gramapanchayath. The Government of Karnataka vide its order dated EN 3 PSR 2016/P3, dated 31-03-2017 accorded approval for securitisation of Gram panchayath dues (including interest) of Rs 748.48 crore. The company has levied an interest of Rs 206.13 crore on the funded amount and accounted the same as receivable from Government of Karnataka. The issue is not acknowledged by the Government of Karnataka. As informed to us, the matter of charging interest on subsidy dues shall be taken up by the GESCOM with the Government, as non-release of subsidy results in borrowing from other sources by paying necessary interest to pay liabilities which cannot be passed on to the consumers. In this regard, correspondence to GOK was made vide T.O. Letter No. GESCOM/FA/CA/DCA/AO/AAO(DCB)/2018-19/14843 Dtd.28th June 2018 requesting to release the Outstanding Subsidy Dues & Interest thereon. Pending outcome of the issue, we are unable to comment on the ultimate recoverability of the amount receivable.	Reference is drawn to the following orders/regulations of KERC on levying of Interest on outstanding dues: a. Clause 5 (5) of KERC Notification No. Y/02/7 Dated 19th February 2008 states that "As on date of these Regulations, if there are any arrears (Principal & Interest), payable by any consumer or class of consumers towards the tariff and the same is waived off by the GoK, the GoK shall make good the affected Person/Licensee such amounts within 3 months from the date of waiver." b. Clause 29.05 (i) of Conditions of Supply of Electricity to Distribution Licensees in the state of Karnataka states that "In case of belated payment, charge shall be levied at the rate of 1% per month on actual number of days of delay from the expiry of due date, subject to a minimum of Re.1/- for LT installations and Rs.100/ for HT Installations." c. The Hon'ble KERC in Tariff Order 2018 of GESCOM, Chapter-3: Appendix -1 under Objection No.29 directed as " The reply is noted. The matter of charging interest on subsidy dues shall be taken up by the GESCOM with the Government, as non-release of subsidy results un borrowing from other sources by paying necessary interest to pay liabilities which cannot be passed on to the consumers." In this regard, correspondence to GOK was made vide T.O. Letter No. GESCOM/FA/CA/DCA/AO/AAO(DCB)/2018-19/14843 Dtd.28th June 2018 requesting to release the Outstanding Subsidy Dues & Interest thereon. In view of the above reasons, GESCOM levied the Interest on arrears of the Water Supply & Public Lighting to Grampanchayat as Government Department is one of the consumers of GESCOM & there shall be no preferential treatment towards any consumer

		& waiver of interest will result in pass on of the burden on other consumers. Copies of the above orders/regulations are enclosed for ready reference. As there was delay in securitization and receiving of the proceeds, the levy of interest on the part of Company is correct and in accordance with the KERC instructions.
27.	Fixed deposits with State Bank India (CLTD) and interest accrued thereon have not been reconciled with the balance in books. Due to inadequate information, we were unable comment on the correctness of Interest income, accrued interest and amount of fixed deposits as at the end of the year. Further, in respect of Fixed deposit with Pragati Krishna Grameena Bank, interest accrued has been overstated by Rs. 2.09 crores due to non-reversal of earlier years' accrued interest and interest income / profit for the year is overstated by Rs.3.15 crores due to recognition of interest pertaining to earlier years.	The reconciliation of the accrued interest and reversal made in the financial year is in process. Necessary correction would be incorporated in FY 20.
28.	The Company has not provided Rs.6.33 crores towards the Open Access charges (POC Charges) and UI charges claimed by PGCIL and PCKL(towards purchase of power from Global energy private limited) pertaining to the current financial year. Due to this, Cost of power purchase is understated to that extent. In the opinion of the Management, this will not have impact on the net profit for the year, as the same would result in increase of regulatory income for the year to that extent.	GESCOM has received bills during IInd quarter of the financial year 2019-20 and as such the same could not be incorporated in the accounts of the concerned. However, as the Company is accounting for the regulatory Income to the extent of the difference in the Actual and Approved power purchase cost. As such, any changes in the power purchase cost, would result in the equal contra impact in the Regulatory Income calculation and there would not be any resultant impact on the profits.