Addendum to Directors' Report

Replies offered on the observations / comments of the Statutory Auditors on the accounts of the Company for the year 2017-18 are as follows:

Sl No.	Statutory Auditor's Observation	Management Replies
1.	**Accrual System:** As per sec 128(1) of the Companies Act, 2013, proper books of Account shall not be deemed to have been kept , if such books are not kept on accrual basis and according to the double entry system of Accounting. As stated in Significant Accounting policy no 4.2, the Company recognizes the transactions pertaining to Grants and subsidies from the Govt. in respect of Capital assets and interest on delayed payment to Power Producers on receipt basis, which are contrary to the accrual system of Accounting as prescribed under sec 128(1) of the Companies act, 2013.	Factual. Grants and subsidies received from the Government in respect of Capital assets is accounted on receipt basis only since Company cannot quantify or assess the Capital Grant/ Capital Subsidy receivable nor Government communicates the quantum of grant/ subsidy, to account on accrual basis.
2.	**Indian Accounting Standard 2 in relation Inventories:** The Company is required to value its inventories at lower of cost or NRV. However , the Company values the assets that are scrapped at WDV .The impact of such deviation from the Accounting standard is not ascertainable.	Net realizable value of each item cannot be arrived due to largeness of volume of items held in the store house. Further, majority of the materials held in MESCOM Stores are made of Copper or Aluminium or Iron, existing market rates of which are much higher when compared to the rates of purchase. Normally, the Market rate of these materials does not decrease at later dates also i.e., 'Net Realisable Value' is always higher as compared to book value. As such, it is appropriate to continue the existing procedure of showing the value of scrapped assets at book value.
3.	**Indian Accounting Standard 16 in relation to Property, Plant and Equipment:** This Standard requires the cost of dismantling to be estimated and included in arriving at the cost of the item for capitalization. As indicated in Para 4.5 of the Accounting policies, Company has not included the estimated cost of dismantling for capitalization .The impact of this is not ascertainable.	Factual. Owing to the peculiar nature of power distribution business, arriving at the estimated cost of dismantling of PPE during capitalization is not possible.
4.	**Indian Accounting Standards 12 - Income Taxes:** The Company has not accounted for deferred tax assets / deferred tax liabilities as required by Indian Accounting Standard 12- Income Taxes. The effect of this on the financial statements is not ascertainable.	Factual. Necessary action will be taken to comply with the observations in the ensuing years.

Sl No.	Statutory Auditor's Observation	Management Replies
5.	Items of fixed assets retired from active use are stated at book value and their value is not tested in comparison to net realizable value which is not in accordance with Ind AS 2. These assets are disclosed under current assets and grouped under Inventories, Stores and Spares under the head WDV of obsolete / scrapped assets. When the asset is reissued, the company has taken its value at the average rate for the asset and not at its WDV. This is not in accordance with the Indian Accounting Standard 16 - Property, Plant and Equipment (PPE). The company has also discontinued providing for depreciation till reissue when the asset has been moved to Non-Current assets. Further when these fixed assets are reissued again for reuse, they are being taken at the average rate as mentioned above as the base value and depreciated over their original life and not on the remaining useful life. These are not in accordance with the Indian Accounting Standard 16 - Property, Plant and Equipment (PPE). The effect of the same on the financial statements is not quantifiable.	Factual. Necessary action has already been taken to comply with the observations.
6.	The Company has not been recognizing impairment of Trade Receivables on Expected Credit Loss method as provided for in Ind AS 109.	Company is providing for provision towards bad debts at the rate of 4% on closing debtors as at the end of the year. Since the Company is having sufficient quantum of provision for bad debts, recognizing impairment of Trade Receivables on Expected Credit Loss method is not required.
7.	**Intangible asset under Development-Energy Sync-Energy Management Suite'** - A project has been taken up by the MESCOM for computerization of all activities. The company has incurred a sum of ₹ 678.54 lakhs held in CWIP. The company has not capitalized this intangible asset (even though the same has been put to use for many applications) due to non-receipt of user acceptance test report. As the package is already being utilized, it tantamount to commissioning, the depreciation should have been provided on such intangible assets. The impact of the above deviation is not ascertainable.	This Project is still under development and the cost incurred by the Company for this project can only be capitalized after completion of the project duly performing user acceptance test.

Sl No.	Statutory Auditor's Observation	Management Replies
8.	While passing the scheme of entries for financial year 2016-17 Vide GO no EN 67 PSR 2017 Bangalore dated 31.07.2017, for transfer of subsidy receivable from GOK as well as principal and interest outstanding to KPCL from KPTCL's books , the Company had not accounted the interest expenses for ₹ 3660.00 Lakhs. This had resulted in overstatement of Income by ₹ 3660.00 lakhs and understatement of Proposed adjust ment to Networth by a like figure. The same is continued during the Current year also.	Company has passed the accounting entries in accordance with the guidelines issued by GoK vide order dated 31.07.2017. In the said order GoK has directed to write back the interest amount transferred by KPTCL to the extent of ₹ 36.60 Crs. However the issue will be discussed with KPTCL and GoK and action will be taken as per the instructions of GoK / KPTCL in the ensuing year.
9.	The Company has an internal audit system. However, considering the size of the Company and volume of its business, we are of the opinion that the present system requires to be strengthened and audit department needs to be adequately staffed. The audit system needs to cover Systems Audit, technical audit, materials, inventory, stores and compliance and adherence to various provisions of Tax Laws and Labour Laws in particular	Company has an Internal Audit Wing headed by AO rank working in each accounting division to verify and report any shortcoming regarding cash, revenue, work accounts, cost register, material audit, inventory and stock records. Further, at Company's Corporate Office, Financial Advisor (Internal Audit) is monitoring and supervising the work of Internal Audit Wing of each Division and rendering periodical reports to management regarding any shortcomings observed. Company has an 'in-built' system of internal control for each activity.
10.	**Balance Confirmation/Reconciliation:** The Company has not obtained confirmations and reconciles the balances as on 31/03/2018 from/to KPTCL, KPCL and other ESCOMs and PCKL, 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. The company also has a practice of booking power purchase at lesser than the amount billed by supplier based either on KERC Notification/on account of mistakes committed by suppliers. However the short bookings etc. are not intimated to the suppliers by way of debit note on them (or) obtaining a credit note from them. This could compound the problem of reconciliation. Thus we are unable to comment upon the impact thereof on the accounts and profit for the period.	As disclosed under note 46.18, the balances in respect of Sundry Debtors, Sundry Creditors, Loans and Advances to Suppliers and other borrowings are subject to confirmation. However the energy balancing dues among the ESCOMs as on 31.03.2018 are reconciled. The reconciliation of other balances with KPTCL and ESCOMs is under process for which due action is taken from MESCOM side by intimating the details for the balance. Further, action has already initiated to intimate the short bookings etc. to the concerned power suppliers by means of debit notes.

Sl No.	Statutory Auditor's Observation	Management Replies
11.	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 and Meter Security Deposits are not fully reconciled.	During the balance sheet restructuring plan III, a portion of meter security deposit was capitalized as per the direction of the Govt. Though the amount was capitalized, the amount is still outstanding in the consumers' ledger account. But the meter security deposit as per accounts was reduced to that extent in the accounts of the Company, leading to difference between the balance as per consumers' ledger account maintained at Sub-Divisions and as per accounts of the Division Offices. Further, the deposit registers are being maintained at Sub-divisional / Section levels and the accounts are maintained at divisional levels. The Company has made efforts to reconcile the balances between the deposit registers and accounts during the financial year. Since the task is voluminous, efforts are being made to complete the same.
12.	The Fixed Asset Register maintained by the Company does not show full particulars such as asset identification number and its situation.	Owing to the peculiar nature of power distribution business, it has not been possible to allot asset identification numbers to all assets of the Company. However, Fixed Asset registers maintained at the Accounting Units will give particulars about the nature of assets, year of installation etc.
13.	In the absence of adequate report on physical verification of Fixed Assets, we are unable to comment about the reasonableness of intervals at which Fixed Assets have been verified and accounting of discrepancies noticed thereon if any.	The Company carries out physical verification of assets situated at power station level. Other assets like poles and distribution lines could not be physically verified since it is spread throughout the service area.
14.	Based on our checking, we report that the title deeds of Immovable Properties are held in the name of the Company except in a couple of cases where the value of lands is Rs 51.57 Lakhs.	Title deeds in respect of Mulki Section Office Land and Mulki 33 KV Sub-station Land are to be transferred in the name of the Company. The process will be completed in the ensuing year.
15.	The Company has accepted share application advance which either remains unalloted for over 60 days or was allotted after 60 days from the receipt, in violation of the Companies (Acceptance of deposit) rules 2014. The amount involved is ₹ 10513 Lakhs.	Company is having ₹ 10513 Lakhs in Share deposit Account as on 31.03.2018 out of which shares are issued for ₹ 9113.00 lakhs during the month of August 2018. Balance amount of ₹ 1400.00 lakhs is pertaining to the MESCOM's share of allocation given by GoK out of total payment of ₹ 70 Crs made to M/s Jurala Power Project through M/s PCKL as an Investment in Power Utilities. As there is no specific direction as to issue of shares to GoK, correspondence with regard to issue of shares is in progress.

Place : Mangaluru
Date : 27/09/2018

Sd/-
(Dr. S.Selva Kumar)
Chairman

INDEPENDENT AUDITORS REPORT

TO THE MEMBERS OF MANGALORE ELECTRICITY SUPPLY COMPANY LIMITED

On completion of audit of accounts of Mangalore Electricity Supply Company, for the year ended 31st March 2018, we have issued our audit report on 25h of August 2018. Subsequent to our report, in the light of the observations arising from the audit of **Comptroller and Auditor General of India,** the Accounts of the Company have been revised . In view of this , we are issuing a fresh Audit report on the revised accounts for the year ended 31.03.2018 . The revised Audit report supersedes our earlier report

REPORT ON THE Ind AS FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Mangalore Electricity Supply Company Limited** ("the Company"), which comprise the Balance Sheet as at March 31, 2018, the Statement of Profit and Loss (including other Comprehensive Income), the Statement of Cash Flow and the Statement of Changes in Equity for the year then ended and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE Ind AS FINANCIAL STATEMENTS

The Company's Board of Directors and Management are responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these Ind AS financial statements that give a true and fair view of the financial position, financial performance (including Other Comprehensive Income), the changes in equity and cash flows of the Company in accordance with the accounting principles generally accepted in India including the Indian Accounting Standards specified under Section 133 of the Act, read with Companies (Indian Accounting Standards) Rules, 2015 and provisions 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 Ind AS financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these Ind AS financial statements based on 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 made under sec 143(11) of the Act.

We conducted our audit of Ind AS financial statements 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 Ind AS financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Ind AS financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Ind AS 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 Ind AS financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of 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 Ind AS financial statements.

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

Basis for Qualified Opinion

1) **Accrual System :** As per sec 128(1) of the Companies Act, 2013, proper books of Account shall not be deemed to have been kept , if such books are not kept on accrual basis and according to the double entry system of Accounting . As stated in Significant Accounting policy no 2.2, the Company recognizes the transactions pertaining to Grants and subsidies from the Govt. in respect of Capital assets and interest on delayed payment to Power Producers on receipt basis, which are contrary to the accrual system of Accounting as prescribed under sec 128(1) of the Companies act, 2013.

2) **Deviations from Accounting Standards :**

   a) **Indian Accounting Standard 2 in relation Inventories:** The Company is required to value its inventories at lower of cost or NRV. However , the Company values the assets that are scrapped at WDV .The impact of such deviation from the Accounting standard is not ascertainable.

   b) **Indian Accounting Standard 16 in relation to Property, Plant and Equipment:** This Standard requires the cost of dismantling to be estimated and included in arriving at the cost of the item for capitalization. As indicated in Para 4.5 of the Accounting policies, Company has not included the estimated cost of dismantling for capitalization .The impact of this is not ascertainable.

   c) **Indian Accounting Standards 12 – Income Taxes:** The Company has not accounted for deferred tax assets / deferred tax liabilities as required by Indian Accounting Standard 12- Income Taxes. The effect of this on the financial statements is not ascertainable.

   d) Items of fixed assets retired from active use are stated at book value and their value is not tested in comparison to net realizable value which is not in accordance with Ind AS 2. These assets are disclosed under current assets and grouped under Inventories, Stores and Spares under the head WDV of obsolete / scrapped assets. When the asset is reissued, the company has taken its value at the average rate for the asset and not at its WDV. This is not in accordance with the Indian Accounting Standard 16 - Property, Plant and Equipment (PPE). The company has also discontinued providing for depreciation till reissue when the asset has been moved to Non-Current assets. Further when these fixed assets are reissued again for reuse, they are being taken at the average rate as mentioned above as the base value and depreciated over their original life and not on the remaining useful life. These are not in accordance with the Indian Accounting Standard 16 - Property, Plant and Equipment (PPE). The effect of the same on the financial statements is not quantifiable.

   e) The Company has not been recognizing impairment of Trade Receivables on Expected Credit Loss method as provided for in Ind AS 109.

3) **Intangible asset under Development- Energy Sync-Energy Management Suite' –** A project has been taken up by the MESCOM for computerization of all activities. The company has incurred a sum of ₹ 678.54 lakhs held in CWIP. The company has not capitalized this intangible asset (even though the same has been put to use for many applications) due to non-receipt of user acceptance test report. As the package is already being utilized, it tantamount to commissioning, the depreciation should have been provided on such intangible assets. The impact of the above deviation is not ascertainable.

4) While passing the scheme of entries for financial year 2016-17 Vide GO no EN 67 PSR 2017 Bangalore dated 31.07.2017, for transfer of subsidy receivable from GOK as well as principal and interest outstanding to KPCL from KPTCL's books , the Company had not accounted the interest expenses for ₹ 3660.00 Lakhs. This had resulted in overstatement of Income by ₹ 3660.00 lakhs and understatement of Proposed adjustment to Networth by a like figure. The same is continued during the Current year also.

Further to the above,

I) The Company has an internal audit system. However, considering the size of the Company and volume of its business, we are of the opinion that the present system requires to be strengthened and audit department needs to be adequately staffed. The audit system needs to cover Systems Audit, technical audit, materials, inventory, stores and compliance and adherence to various provisions of Tax Laws and Labour Laws in particular.

II) **Balance Confirmation/Reconciliation:** The Company has not obtained confirmations and reconciles the balances as on 31/03/2018 from/to KPTCL, KPCL and other ESCOMs and PCKL, 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. The company also has a practice of booking power purchase at lesser than the amount billed by supplier based either on KERC Notification/on account of mistakes committed by suppliers. However the short bookings etc. are not intimated to the suppliers by way of debit note on them (or) obtaining a credit note from them. This could compound the problem of reconciliation. Thus we are unable to comment upon the impact thereof on the accounts and profit for the period.

III) 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 and Meter Security Deposits are not fully reconciled.

The Company had prepared its balance sheet as at 31.03.2018 and the statement of Profit and loss for the year ended as on that date together with cash flow statement which was approved by the Board of Directors of the Company on 25.08.2018 and was forwarded to us for our report thereon and we had issued our report on 25.08.2018. Thereafter, the accounts of the Company have been reviewed by Comptroller and Auditor General of India and have been revised in the light of observation made by them.

The companies Accounts that are approved by the Board on 25.08.2018 have been revised in the light of observations made by the Comptroller and Auditor General of India. The said revision has resulted in increase in Property Plant and Equipment by ₹ 36.41 lakhs, increase in Capital Work in Progress by ₹ 9.41 lakhs, increase in Intangible Assets under development by ₹ 204.96 lakhs, decrease in other non-current assets by ₹ 1666.0 lakhs, decrease in other financial Assets by ₹ 2.14 lakhs, decrease in Regulatory deferral Account by ₹ 562.94 lakh, decrease in Non-current Trade payables by ₹ 2566.14 lakhs, decrease Current Trade payables by ₹ 1297.84 lakhs, increase in other financial liabilities by ₹ 1245.74 lakhs, increase in Other Current liabilities by ₹637.94 lakhs. As a result the total assets and liabilities have decreased ₹ 1980.30 lakhs.

OPINION

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the basis for qualified opinion paragraph which includes a sum of ₹ 3660.00 Lakhs as mentioned in Para 4 of " Basis for Qualified opinion " , the aforesaid Ind AS financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India including the Ind AS, of the financial position of the Company as at March 31, 2018, its financial performance including other Comprehensive Income , cash flows and the changes in Equity for the year ended on that date.

EMPHASIS OF MATTER

We draw attention to the following.

a) The Company had been charging Interest on its dues to KPCL as of March 31, 2014 up to Financial Year 2014-15. From the financial year 2015-16 the Company has not charged interest on its dues to KPCL as of March 2014. For the Financial years 2015-16, 2016-17 and 2017-18, the interest amounts to ₹ 29125 Lakhs.

b) The fair value of security deposits and retention money is not estimated, as expected realization date is not available.

c) Non provision of guarantee commission in respect of securitization of Receivables with PCKL – Please refer Note no 46.15.8 of Notes.

d) Classification of a sum of ₹ 951.27 Lakhs taken as Loan from PFCL under the head " Government Grants towards Cost of capital Asset " – Please refer note no 25.4 of Notes.

Our opinion is not modified in respect of these matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government in terms of sub section 11 of Section 143 of the Act, we give in the **Annexure I** , a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

2. As required under the Provisions of section 143(5) of the Companies Act, 2013, we have given in **Annexure III** , a report on the Directions as well as Additional Company specific Directions issued under the aforesaid section by the Comptroller and Auditor General of India, based on the verification of Records of the Company and based on information and explanations given to us.

3. As required by Section 143(3) of the Act, we report that:

   i) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

   ii) Except for the possible effects on the matters described in qualified opinion paragraph above, 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.

   iii) The Balance Sheet, the Statement of Profit and Loss, the Statement of Cash Flow and the statement of changes in Equity dealt with by this Report are in agreement with the books of account.

   iv) In our opinion, subject to basis for qualified opinion Para stated above, the aforesaid Ind AS financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with relevant rules issued thereunder

   v) As per Notification No.: GSR 463(E) dated 05.06.2015, Government companies are exempted from the provisions of sub section (2) of section 164 of the Companies Act, 2013.

   vi) 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 II** and

   vii) 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:

      (1) The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note 46.15. 5 to the financial statements.

      (2) The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long term contracts.

      (3) There were no amounts required to be transferred to the Investor Education and Protection Fund by the Company.

For Gopalaiyer and Subramanian
Chartered Accountants
(F.R.No.:000960S)
Sd/-
(KR Suresh)
Partner
M.No.: 025453

Place: Bengaluru
Date : 18.09.2018

ANNEXURE-I TO INDEPENDENT AUDITORS' REPORT

(Referred to in paragraph 1 of Report on other legal and regulatory requirements of our Audit Report of even date)

In terms of the information and explanations sought by us and given by the company and the books and records examined by us in the normal course of audit and to the best of our knowledge and belief, we report the following.

I). a) The Fixed Asset Register maintained by the Company does not show full particulars such as asset identification number and its situation.

b) In the absence of adequate report on physical verification of Fixed Assets, we are unable to comment about the reasonableness of intervals at which Fixed Assets have been verified and accounting of discrepancies noticed thereon if any.

c) Based on our checking, we report that the title deeds of Immovable Properties are held in the name of the Company except in a couple of cases where the value of lands is ₹ 51.57 Lakhs .

Also the title deeds of the immovable properties of the company do not reconcile with the breakup shown under the fixed assets Schedule.

ii) The physical verification of inventory has been conducted at reasonable intervals during the year by the management and material discrepancies noticed on physical verification have been properly dealt with in the books of account.

iii) The company has not granted loans, secured or unsecured, to companies, firms, LLP's or other parties covered in the register maintained U/s.189 of the Companies Act,2013. In view of this clauses iii (a), iii (b) and iii(c) are not applicable.

iv) The Company has not given any given loans / investments / guarantees to which the provisions of Sec 185 and 186 of the Companies Act, 2013 apply.

v) The Company has accepted share application advance which either remains unalloted for over 60 days or was allotted after 60 days from the receipt, in violation of the Companies (Acceptance of deposit) rules 2014. The amount involved is ₹ 10513.00 Lakhs

vi) We have broadly reviewed the books of account maintained by the company pursuant to the rules made by the Central Government for maintenance of cost records under sub section (1) of section 148 of the companies Act, 2013 in respect of distribution of electricity and are of the opinion that prima facie, the prescribed accounts and records have been maintained. We have not, however made a detailed examination of the cost records with a view to determining whether they are accurate or complete.

vii) a) The Company has been generally regular in depositing with the appropriate authorities undisputed statutory dues viz., provident fund, employee state insurance, Income-tax, Sales-tax, service tax, duty of customs, duty of excise, value added tax, Goods and Services tax , cess and any other statutory dues except the following which were outstanding for a period of more than 6 months from the date they became payable as on the Balance sheet date i.e., 31st March, 2018.

Name of Statute	Nature of dues	Amount ₹	Period to which the amount relates	Due Date	Date of payment	Remarks, if any
Finance act, 1994	Service tax	317698.00	2017-18	06/07/2017		
Karnataka state value added tax act, 2003	Vat	109453.00	2017-18	20/07/2017		

b) According to the information and explanation given to us and the records examined by us, there are no dues of sales tax, customs duty and VAT which have not been deposited on account of any dispute. The particulars of EPF, Service tax, Income Tax which has not been deposited on account of disputes pending are as under

Sl. No	Nature of payment	Demand Raised	Amount paid	Year to which demand relates	Forum where dispute is pending
1	EPF of Contract Employees - error in calculation of demand	₹ 4,44,06,265/-	₹ 1,77,63,000/-	2007	Case remanded back to PF Office Mangaluru. the order of RP is awaited
2	Tax on Goods Transport Agency Services	Service Tax - ₹ 45,95,328/- and Penalty ₹ 45,95,328/-	Not paid		CESTAT Bengaluru.
3	Provident Fund - For payment of Interest and Damages as per section 7Q and 14B.- Mangaluru Division	Interest- ₹ 83,25,618/- Damages ₹ 1,06,95,493/-	Fully paid	2002 to 2012	Provident Fund Appellate Tribunal New Delhi
4	Provident Fund - For payment of Interest and Damages as per section 7Q and 14B.- Puttur Division	Interest- ₹ 64,36,970/- Damages ₹ 83,43,738/-	Fully paid	01.06.02 to 2008 Mazdoor Gangmen	Provident Fund Appellate Tribunal New Delhi
5	Provident Fund - For payment of Interest and Damages as per section 7Q and 14B.- Shimoga Division	Interest- ₹ 7,57,961/- Damages ₹ 3,83,386/-	Fully paid	LC Work 3/06 to 7/2013	Provident Fund Appellate Tribunal New Delhi
6	Provident Fund - For payment of Interest and Damages as per section 7Q and 14B.- Sagara Division	Interest- ₹ 38,28,351/- Damages ₹ 33,77,361/-	Interest- ₹ 38,28,351/- Damages ₹ 25,33,021/-	Mazdoor Gangmen 1999-05	Provident Fund Appellate Tribunal New Delhi
7	Provident Fund - For payment of Interest and Damages as per section 7Q and 14B.- Chikmagaluru Division	Interest- ₹ 65,40,760/- Damages ₹ 74,99,653/-	Fully paid	2002 to 2010 Mazdoor Gangmen	Provident Fund Appellate Tribunal New Delhi

8	Provident Fund - For payment of Interest and Damages as per section 7Q and 14B.- Kadur Division	Interest- ₹ 5,99,890/- Damages ₹ 11,05,063/-	Fully paid	08/2006 to 3/2010 Mazdoor Gangmen	Provident Fund Appellate Tribunal New Delhi
9	Income Tax - in respect of disallowance of 80 IA claim of MESCOM relating to AY 2006-07	₹ 25,61,62,603	Fully paid	AY 2006-07	High Court of Karnataka

viii) Based on our audit procedures, we are of the opinion the company has not defaulted in repayment of dues to banks, financial institutions or Government.

ix) The Company has not raised any moneys by initial public offer / further public offer during the year. In our opinion, the moneys raised by way of term loans during the year have been applied for the purposes for which those were raised.

x) Based on our audit procedures performed, we report that no fraud by the Company or any material fraud on the Company by its officers or Employees has been noticed or reported during the year material fraud by the company has been noticed or reported during the course of audit.

xi) The provisions of sec 197 of the Companies Act, 2013 are not applicable to Government Companies as per notification no G.S.R. 463 (E) dated 05.06.2015 .

xii) The Company is not a Nidhi Co. and therefore clause 3(12) of the Order is not applicable to the company.

xiii) Based on our audit procedures, all the related party transactions entered into by the company during the year are in compliance with the provisions of Sec 177 and 188 of the Companies Act,2013 and the details thereof have been disclosed in the financial statements as required by the Accounting standards and the Act.

xiv) The Company has not made any preferential allotment / private placement of shares during the year and therefore clause 3(xiv) of the Order is not applicable to the Company.

xv) The company has not entered into any non-cash transactions with directors/persons connected with him as stipulated u/s.192 of the Act. Clause 3(xv) of the order is therefore not applicable to the company.

xvi) In our opinion, the Company is not required to be registered u/s 45-IA of the Reserve Bank of India Act, 1934

For Gopalaiyer and Subramanian
Chartered Accountants
(Firm Regn No : 000960S)

Sd/-
(KR Suresh)
Partner
Membership No : 025453

Place: Bengaluru
Date : 18.09.2018

Annexure - II to the Independent Auditors' Report of even date on the financial statements of Mangalore Electricity Supply Company Limited.

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of Mangalore Electricity Supply Company Limited ("the Company") as at 31 March 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 ('ICAI'). 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.

Meaning of Internal Financial Controls over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A company's internal financial control over financial reporting includes those policies and procedures that

(1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

According to the information and explanations given to us, the company has not established its internal financial control over financial reporting on the criteria based on or 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. Because of this reason, we are unable to obtain sufficient and appropriate evidence to provide a basis for our opinion whether the company had adequate internal financial controls over financial reporting and whether such internal financial controls were operating effectively as on March 31, 2018.

We have considered the disclaimer reported above in determining the nature, timing and extent of audit tests applied in our audit of the financial statements of the company and the disclaimer does not affect our opinion on the financial statements of the company.

For Gopalaiyer and Subramanian
Chartered Accountants
(Firm Regn No : 000960S)

Sd/-
(KR Suresh)
Partner
Membership No : 025453

Place: Mangaluru
Date : 18.09.2018

ANNEXURE III TO INDEPENDENT AUDITOR'S REPORT

Sl No.	Directions	Reply of Auditor	Impact on Ind AS Financial Statements
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.	Company is having clear title/lease deeds for all freehold and leasehold land respectively except for Mulki Section Office land (S No 57/1A, 0.48 acres) and Mulki 33 KV Sub-station land (S.No 59/C , 5.92 acres)	Nil
2.	Please report whether there are any cases of waiver/write off of debts/ loans/interest etc., if yes, the reasons thereof and the amount involved.	Receivables from the consumers to the extent of ₹ 51.70 Lakhs have been written off as Bad debts during the year 2017-18 . ROR subsidy receivable from GoK pertaining to the years prior to FY 2004-05 amounting to ₹ 4847.86 lakh has been written off from the books during the year, as per the instructions of GoK vide letter No. EN 117 PSR 2018 dated 04/08/2018.	₹ 4899.56 lakhs
3.	Whether proper records are maintained for inventories lying with third parties & assets received as gift from Govt. or other authorities	No inventories are lying with third parties but in few cases inventories (Meters) are held with employees for immediate replacement for which proper control is exercised based on the records maintained. Further faulty Transformers/ Meters amounting to ₹ 353.33 Lakhs (A/c 26.604) are issued to the Suppliers/ Contractors for repairs/ replacement for which proper documents are being maintained by the Company. No assets have been received as gift from Government or other authorities during the year under report.	Nil

ADDITIONAL COMPANY SPECIFIC DIRECTIONS :

Sl No.	Directions	Reply of Auditor	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 accuracy of billing was ensured.	The task of Metering, Billing and Collection of revenue has been entrusted to TRM (Total Revenue Management) Agencies. Meters are being read monthly on specified dates and bills are issued to Consumers using spot billing machines. The Billing efficiency and collection efficiency of the Company for FY 2017-18 are 99.77 % & 105.33 % respectively. In the absence of technical confirmation, we are unable to comment whether tamper proof meters have been installed for all consumers.	Nil Not ascertainable
(b)	Whether the reconciliation of receivable and payables between the generation, distribution and transmission companies has been completed. The reasons for difference may be examined.	No reconciliation of receivables and payables between generation, distribution and transmissions companies have been undertaken as there is no response from the generation, distribution and transmission companies in this respect. However efforts are being made by the company for reconcilia-tion of receivable and payable transactions during the year.	Not ascertainable
(c)	Whether the company recovers and accounts, the State Electricity Regulatory Commission (SERC) approved Fuel and Power Purchase Adjustment Cost (FPPCA)?	The Company generally recovers and accounts KERC/ CERC approved fuel and Power purchase adjustment cost save for a few instances as detailed in notes to accounts - Please refer from Note no 38.6.1, 38.6.2, 38.6.3, 38.6.4 and 38.6.10.	Not ascertainable
(d)	How much tariff roll back subsides have been allowed and booked in the accounts during the year? Whether the same is being reimbursed regularly by the State Government?	During the year 2017-18, the company has accounted ₹ 89788.20 lakh as subsidy receivable from Government of Karnataka towards free power supply to the IP set consumers (upto 10HP) and BJ/KJ consumers having monthly consumptions upto 18 units. Out of these ₹ 64464.00 lakh has	₹ 89788.20 lakhs

Sl No.	Directions	Reply of Auditor	Impact on Ind AS Financial Statements
		been released by Government of Karnataka during the year and balance of ₹ 25324.20 lakh is accounted as receivable as on 31.03.2018. The total closing balance as on 31.03.2018 including the current year's arrears of ₹ 25324.20 lakhs is ₹ 64737.28 lakhs . ROR subsidy receivable from GoK pertaining to the years prior to FY 2004-05 amounting to ₹ 4847.86 lakh has been written off from the books during the year, as per the instructions of GoK vide letter No. EN 117 PSR 2018 dated 04/08/2018.	
(e)	If the audited entity has computerised 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 computerised and the company has evolved proper security policy for data/ software/hardware?	Barring Billings, all other sections/ operations are not computerized. The task of Metering, Billing and Collection of revenue has been entrusted to TRM (Total Revenue Management) Agencies. Meters are being read monthly on specified dates and bills are issued to Consumers using spot billing machines. The Software/ Data are managed and controlled by the system administrator. Alteration or modification of any data cannot be made without proper admin access. So, there is a centralized mechanism that provides a sense of security to data and the software. However, being more of system and technical operations, we suggest that a Systems audit be done by system trained audit professionals to ensure proper security in place.	Nil

For Gopalaiyer and Subramanian
Chartered Accountants
(Firm Regn No : 000960S)
Sd/-
(KR Suresh)
Partner
Membership No : 025453

Place: Bengaluru
Date : 18.09.2018

COMMENTS OF THE COMPTROLLER AND AUDITOR GENRAL OF INDIA UNDER SECTION 143(6) (b) OF THE COMPANIES ACT, 2013 ON THE FINANCIAL STATEMENTS OF MANGALORE ELECTRICITY SUPPLY COMPANY LIMITED, MANGALORE, FOR THE YEAR ENDED 31 MARCH 2018.

No.AG (E&RSA)/ES-II/PS-II/2018-19/K:03/16/B-100 Dated: 20.09.2018

The preparation of financial statements of **Mangalore Electricity Supply Company Limited, Mangalore** for the year ended **31st March 2018** in accordance with the financial reporting framework prescribed under the Companies Act, 2013(Act) is the responsibility of the management of the company. The Statutory Auditors appointed by the Comptroller and Auditor General of India under section 139 (5) of the Act are responsible for expressing opinion on the financial statements under section 143 of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143(10) of the Act. This is stated to have been done by them vide their Revised Audit Report dated:18.09.2018 which supersedes their earlier Audit Report dated 25.08.2018

I, on behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit of the Act of the financial statements of **Mangalore Electricity Supply Company Limited, Mangalore** for the year **ended 31 March 2018** under section 143(6)(a) of the Act. The supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records.

In view of the revisions made in the financial statements by the management, as indicated in Note No. 48 of the financial statements, to give effect to some of my audit observations raised during supplementary audit, I have no further comments to offer upon or supplement to the statutory auditors' report under section 143(6)(b) of the Act.

For and on behalf of the
Comptroller & Auditor General of India

Sd/-
(BIJIT KUMAR MUKHERJEE)
ACCOUNTANT GENERAL
(ECONOMIC & REVENUE SECTOR AUDIT)
KARNATAKA, BENGALURU

PLACE: BENGALURU
DATED: 20.09.2018