Addendum to Directors' Report

Replies offered on the observations / comments of the Statutory Auditors on the accounts of the Company for the year 2021-22 are as follows:

	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 the Significant Accounting policy section No 2.2 under Notes to accounts, the Company recognizes the transactions pertaining to interest on delayed payment to Power Producers on cash basis, which are contrary to the accrual system of accounting as prescribed under the act.	Factual. Company is prompt in clearing its power purchase dues and availing rebate for early payments from the generators. The interest payable if any in rare cases will be accounted as and when such orders are passed by the Competent Authorities.
2.	**Ind AS 16-Property Plant and Equipment:** As per significant accounting Policy No 2.7 read with 2.12, the company is required to capitalize the borrowing costs directly attributable to the acquisition or construction of an asset and such costs should cease to be capitalized when substantially all the activities necessary to prepare the qualifying asset for its intended use were complete. However, the company has not capitalized the interest during the construction period as required by IND AS 23-Borrowing Cost. Further, the impact of such deviation on the carrying value of property, plant and equipment, depreciation charged to the statement of profit and loss is not considered in the accompanying financial statements. The borrowing cost which is required to be capitalized has been charged directly to the statement of profit and loss with respect to Property, plant and equipment. Further, due to non-capitalization of PPE in the concerned Financial Year, there is an	Factual. Necessary action will be taken to comply with the observations in the ensuing year with respect to capitalization of borrowing cost. The cost of dismantling of the assets created by the Company is not being capitalized since the same cannot be ascertained as the date of dismantling itself will not be known. The necessity of dismantling of the assets created by the Company is also seldom required as these assets are being used for distribution of power to consumers continuously. Further, the capital expenditure booked in respect of ongoing capital works will be capitalized once the Completion reports are received or on declaration of the

	Statutory Auditor's Observation	Management Replies
	understatement of PPE and depreciation charged. Further, 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 site on the financial statements is not ascertainable.	date of commissioning by the field executives. Entire cost booked till the date of completion will be capitalized. The additional cost incurred on account of variations will be capitalized once the deviations are approved by the Competent Authority. However, the depreciation will be charged retrospectively from the date of commissioning itself. Hence there will not be any short provision for depreciation.
3.	**IND AS 12 – Income Taxes:** The Company has not accounted for deferred tax assets / deferred tax liabilities as required by IND AS 12- Income Taxes. The effect of this on the financial statements is not ascertainable. (Refer Significant accounting Policy 2.19 read with Note No. 45.11.1)	Factual. As on 31.03.2022 Company is having accumulated losses of Rs. 338.88 Crs as per Income Tax Computation. Since payment of Regular Tax does not arise, Company has not provided for deferred tax assets/ liabilities.
4.	**IND AS 109- Classification, reclassification, measurement and impairment of financial instruments:** The Company has not been recognizing impairment of Trade Receivables on Expected Credit Loss method as provided for in Ind AS 109. (Refer Significant accounting Policy No 2.16 read with Note No 45.9.1)	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.
5.	**IND AS 116- Leases:** The Company has not identified, accounted and presented ROU Assets, Lease liabilities, Depreciation and interest on Leased Assets both as Lessor and Lessee in respect of the lease agreement entered prior to 01.04.2021. Impact of such deviation from IND AS 116 is not ascertainable. (Refer Significant accounting policy 2.22 read with Note 45.1).	Factual. Company has complied with this Standard with respect to lease agreements entered into during FY 2021-22. Necessary action will be taken to comply with the observations with respect to lease agreement entered prior to 01.04.2021 in ensuing year.

	Statutory Auditor's Observation	Management Replies
6.	**IND AS 19- Employee benefits:** As per Significant accounting policy No 2.17, the Company has not obtained actuarial valuations at the end of annual reporting period for Gratuity and Pension obligation other than recognizing the actual contribution to the P & G trust through the statement of profit and loss. Impact of such deviation from IND AS 19, on the financial statements is not ascertainable. (Refer Significant accounting policy 2.17 read with Note 45.2.2.)	The actuarial valuation exercise for Gratuity and Pension obligation of all the ESCOMs is done through KPTCL/ ESCOMs Pension & Gratuity Trust. The actuarial valuation for FY 2021-22 was not finalized by the Trust until the finalization of accounts of the Company. In the absence of actuarial valuation report for the period, no adjustments could be made in the accounts. The issue will be taken up with the Trust and necessary action will be taken in the ensuing year.
7.	**Ind AS 36- Impairment of Asset:** The Company has not assessed as at the balance sheet date the existence of impairment, if any, of its assets situated outside the premises of the company. (Refer Significant accounting policy 2.11)	The assets created by the Company are scattered throughout the geographical area of the Company which involves a network of various equipments, lines, cables etc. As the assets of the Company are being utilized for providing reliable and continuous power supply to the consumers, in the opinion of the Company the recoverable value of the assets will always be higher than the book value. If any indication of impairment is noticed, suitable action will be taken then and there itself so that power supply will not be hampered.
8.	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 is not sufficient in order to identify the internal control gaps. The Scope of work for the internal audit does not cover the adequacy of internal controls with respect to systems, materials, inventories, stores, Payments and compliance/adherence	Company has an Internal Audit Wing headed by AO rank Officer 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,

	Statutory Auditor's Observation	Management Replies
	to various provisions of Tax Laws and Labor Laws in particular.	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 which monitors various compliances to Tax and Labour laws.
9.	**Balance Confirmation/Reconciliation:** The Company has not obtained confirmations and reconciled the balances as on 31st March 2022 with respect to sundry debtors, sundry creditors, advances, deposits from/to suppliers / contractors / government authorities / consumers / employees, loans and other receivables from various parties and other ESCOMS, KPTCL, KPCL and PCKL. 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.	As disclosed under note 45.17, 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 31.03.2022 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.
10.	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.

	Statutory Auditor's Observation	Management Replies
		Further, the deposit registers are being maintained at sub-divisional / section levels and the accounts are maintained at divisional levels. The Company has already taken actions 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 in the ensuing year.
11.	The Control account balances as reflected by the General Ledger at Divisions and Subsidiary Registers at sub-divisions in the matter of Receivables from Sale of Power-Water Supply and Public Lighting to Village Panchayath and Town Panchayath are not fully reconciled	Action will be taken to reconcile the difference between the balance as per General Ledger and Subsidiary Registers at sub-divisions in the matter of Receivables from Sale of Power- Water Supply and Public Lighting to Village Panchayath and Town Panchayath, in the ensuing year.
12.	The company has not adopted any accounting policy for writing-off the investment made in Andhra Pradesh Power Generation Corporation Ltd., of ₹ 1400.00 Lakhs towards investment in Priyadarshini Jurala Hydro Electric Project and the same is continued as Deposit with Andhra Pradesh Power Generation Corporation Ltd. (Refer note 8.1.1(a)).	MESCOM has addressed letter to M/s PCKL vide Letter No. I/14489/2022 dated 21.03.2022 seeking directions on the accounting treatments to be given in respect of the investment made in Andhra Pradesh Power Generation Corporation Ltd. Action will be taken in this regard once the directions are received from the Government.
13.	**Other Current Financial Assets:** Total amount includes ₹ 22,476.92 Lakhs receivable from ChESCOM from the date of De-merger of ChESCOM from the company during 2005. No order is given by GoK regarding the settlement of this amount with CESC/KPCL dues. (Refer note 15.1)	The difference of Rs. 22,476.92 Lakhs arisen on account of excess of assets transferred to M/s CESO during de-merger of CESCO from MESCOM is accounted as receivable from CESCO in the books of the Company. Company is

<table>
<tr><th></th><th>Statutory Auditor's Observation</th><th>Management Replies</th></tr>
<tr><td></td><td></td><td>continuously pursuing the issue with the State Govt. for settlement of this amount.</td></tr>
<tr><td>14.</td><td>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 is inadequate and hence 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</td><td>Action will be taken to maintain the records of suppliers covered under Micro, Small and Medium Enterprises development Act, 2006 from the ensuing year.</td></tr>
<tr><td>15.</td><td>The provision made for interest on security deposits and the actual interest payment differs due to error in provision computation and the impact of the same on the financial statements is not ascertained.</td><td>Action will be taken to create provision for actual amount of interest payable on consumer security deposits to avoid any excess/ short provisions from the ensuing year.</td></tr>
<tr><td>16.</td><td>Receivables long pending cases: An analysis of part of receivables is as below
<table>
<tr><th>Particulars</th><th>Amount (In Lakhs)</th></tr>
<tr><td>Permanently Disconnected Consumers</td><td>587.36</td></tr>
<tr><td>LT4 (IP Set Consumers) - prior to 2008</td><td>10739.53</td></tr>
<tr><td>Mysore Paper Mills Ltd - Long overdue</td><td>20221.20</td></tr>
<tr><td>M/s Thungabhadra Sugar Works Pvt. Limited - HT pending from 2010</td><td>94.00</td></tr>
<tr><td>M/s JBF Petrochemicals Pvt. Limited</td><td>466.88</td></tr>
<tr><td>Recoverable from Panchayath towards rural water supply - Long outstanding</td><td>1277.71</td></tr>
<tr><td>Total Receivables (A)</td><td>33386.68</td></tr>
<tr><td>Security Deposit Held</td><td></td></tr>
<tr><td>Mysore Paper Mills Ltd</td><td>373.32</td></tr>
</table></td><td>The receivables quoted in the observations mainly include the electricity dues receivables from IP set installations and Government installations. No additional provision for bad and doubtful debts has been created in the books as these dues are not liable for writing off in the books of the Company. As at the year end Company is having provision to the extent of Rs. 6279.64 laks, which is adequate in the view of the Company.</td></tr>
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<tr><th></th><th>Statutory Auditor's Observation</th><th>Management Replies</th></tr>
<tr><td></td><td>
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<tr><td>IP Sets</td><td>8236.89</td></tr>
<tr><td>Total Secured (B)</td><td>8610.21</td></tr>
<tr><td>Unsecured (C=A-B)</td><td>24776.47</td></tr>
<tr><td>Provision received from KPTCL</td><td>3571.94</td></tr>
<tr><td>Provision created by MESCOM</td><td>2707.71</td></tr>
<tr><td>Receivables in excess of provision and security deposit</td><td>18496.83</td></tr>
<tr><td>Receivables at risk (In %)</td><td>55.40%</td></tr>
</table>
The company is of the view that the above provision of Rs 6279.64 Lakhs is adequate.</td><td></td></tr>
<tr><td>17.</td><td>The Register for Property, Plant and Equipment & Intangible assets maintained by the Company does not show full particulars such as asset identification number and its situation.</td><td>Assigning asset identification number for all the assets belonging to MESCOM is not feasible as the company deals with the distribution of power which involves usage of numerous number of assets scattered across wide geographical area and assigning AIN to these assets is not possible. However, fixed asset registers maintained at the accounting units will give particulars about the nature of assets, year of installation etc.</td></tr>
<tr><td>18.</td><td>In the absence of adequate report on physical verification of Property, Plant and Equipment, 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.</td><td>The Company carries out the physical verification of assets situated in power stations. Carrying out physical verification of poles and other associated assets is not feasible because these assets are scattered across a wide geographical area.</td></tr>
<tr><td>19.</td><td>Based on the examination of the conveyance deeds / registered sale deed provided to us, we report that, the title deeds, comprising all the immovable properties of land and buildings which are free hold and lease hold, are held in the name of the Company as at the balance sheet date except land in Mulki section, the land allotted by PWD for construction of divisional office in Kundapura and Land</td><td>Title deeds in respect of Mulki Section Office Land, land allotted by PWD for construction of divisional office in Kundapura Land allotted to MESCOM in Karkala Village for construction of 33/11 kv Sub-station are to be transferred in the name of the Company. The process will be completed in the</td></tr>
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	Statutory Auditor's Observation	Management Replies
	allotted to MESCOM in Karkala Village for construction of 33/11 kv Sub-station (refer Note 3.2 and 3.4)	ensuing year.
20.	As per section 42(6) of the Companies act 2013, the Company has accepted Share Application Advance from the State Government of Karnataka which remains unallotted for over 60 days or was allotted after 60 days from the receipt. The amount involved is 1400.00 lakhs. Refer Note No. 21.1(a) and 34.1 (a).	An amount of ₹ 1400.00 Lakhs is MESCOM's share of allocation given by GoK out of total payment of ₹70.00 Crs made to M/s Jurala Power Project through M/s PCKL as an Investment in Power Utilities for consideration at the time of filing of power tariff before KERC. As per the directions of the GoK vide Letter No. Energy/305/PSR/2022 dated 18.11.2022, M/s PCKL has informed the Company vide letter No: PCKL/A12/508/2014-15/V3P/5638-48 dated 30.11.2022 to treat this amount as Equity Contribution from GoK. Necessary action will be taken to issue shares in this regard to GoK in the ensuing year.

Place: Mangaluru
Date : 16.12.2022

16/12

D. Padmavati
Director (Tech)

16/12

Prashant Kumar Mishra, IAS
Managing Director