

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MANGALORE ELECTRICITY SUPPLY COMPANY LIMITED

Report on the Audit of Ind AS Financial Statements

QUALIFIED OPINION

This report supersedes our original report dated 05.11.2022. Pursuant to the observations made by Comptroller and Auditor General of India under section 143(6)(a) of the Companies Act, 2013 the accounts approved by the Board of Directors on 05.11.2022 have been revised to incorporate the observations made by the Comptroller and Auditor General of India on the financial statements and books of account of the company. The impact of the revision in the accounts of the company is stated in Note 46 to the accounts. Our audit procedure on events subsequent to the date of the original report is restricted solely to the amendments made vide note 46 to notes forming part of accounts and SI No. a) of Emphasis of Matter, Para i(c), Para (v), Para (xvii) of Annexure I to Independent Auditor's Report and Para h(i) of Report on Other Legal and Regulatory Requirements.

We have audited the accompanying Ind AS financial statements of **MANGALORE ELECTRICITY SUPPLY COMPANY LIMITED ("the Company")**, which comprises the Balance Sheet as at 31st March 2022, the Statement of Profit and Loss (including Other Comprehensive Income), the Cash Flow Statement and the Statement of Changes in Equity for the year then ended, and Notes to the Ind AS Financial Statements, including a summary of Significant Accounting Policies and other explanatory information (hereinafter referred to as "financial statements")

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements give the information required by the Companies Act, 2013 ("The Act") in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015 as amended ("Ind AS"), and other accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March 2022 and its income (including Other Comprehensive income), its cash flows and changes in equity for the year ended on that date.



Basis for Qualified Opinion

Deviations from prescribed generally accepted accounting conventions and principles:

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.

Deviations from IND AS:

- a) **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 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.

- b) **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)
- c) **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)
- d) **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).
- e) **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.)

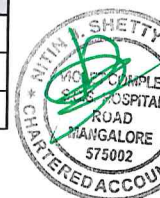


f) **Ind AS 36- Impairment of Asset:** The Company has not assessed as at the balance sheet date the existence of impairment, if any, of its assets situated outside the premises of the company. (Refer Significant accounting policy 2.11)

Other Items:

- a) 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 to various provisions of Tax Laws and Labor Laws in particular.
- b) **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.
- c) 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.
- d) 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.
- e) 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)).
- f) **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)
- g) 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.
- h) 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.
- i) **Receivables long pending cases:** An analysis of part of receivables is as below

| Particulars | Amount (In |
|--|------------|
| Permanently Disconnected Consumers | 587.36 |
| LT4 (IP Set Consumers) - prior to 2008 | 10739.53 |
| Mysore Paper Mills Ltd - Long overdue | 20221.20 |



| | |
|---|-----------------|
| M/s Thungabhadra Sugar Works Pvt. Limited - HT pending from 2010 | 94.00 |
| M/s JBF Petrochemicals Pvt. Limited | 466.88 |
| Recoverable from Panchayath towards rural water supply - Long outstanding | 1277.71 |
| Total Receivables (A) | 33386.68 |
| Security Deposit Held | |
| Mysore Paper Mills Ltd | 373.32 |
| IP Sets | 8236.89 |
| Total Secured (B) | 8610.21 |
| Unsecured (C=A-B) | 24776.47 |
| Provision received from KPTCL | 3571.94 |
| Provision created by MESCOM | 2707.70 |
| Receivables in excess of provision and security deposit | 18496.83 |
| Receivables at risk (In %) | 55.40% |

The company is of the view that the above provision of Rs. 6279.64 Lakhs is adequate.

We conducted our audit of the financial statements in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Act. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India (ICAI) together with the independence requirements that are relevant to our audit of the financial statements under the provisions of the Act and the Rules made there under, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the IND AS financial statements.

Emphasis of Matter

We draw attention to the following.

- Note No 37.14 – as regards the non-charging of Interest on the dues payable to KPCL from Financial Year 2017-18 till 2021-22.
- Note 45.9 – as regards the non-estimation of fair value of security deposits and retention money due to non-availability of expected realization date.
- Note 37 – as regards the provisional rates at which Power Purchases are accounted and the impact on actual cost of power purchase which depends on final claims of Power Generators based on the decisions from various appellate authorities and CERC and KERC regulations.
- Note no. 8.1.3(a) as regards the subsidy/grant receivable from GoK - ₹ 3,179.74 Lakhs which is outstanding since FY 2010-11 and past subsidy of ₹ 7,722.00 lakh transferred by KPTCL which is outstanding since FY 2016-17.
- Note no. 37.19 and Note No. 45.14.6- as regards the non-provision for Security and Water charges and Lignite transfer price of ₹ 696.90 Lakhs claimed by M/s. Neyveli Lignite Corporation India Ltd., (NLC Ltd) and interest there on, of ₹ 281.96 Lakhs for the year 2020-21 awaiting CERC Regulation/Order.
- Note No.38.5, as regards non-accounting of gratuity and family pension payable to the deceased employees covered under NDCPS Scheme.
- Note 34.1(a), as regards Share Application money received from GoK and pending allotment- ₹ 1400.00 lakhs which are outstanding beyond 60 days from the date of receipt, which is not in compliance with the provisions of Section 42 of The Companies Act, 2013.

Our opinion is not modified in respect of the above matters.



Information Other than the Financial Statements and Auditor's Report Thereon

The Company's Board of Directors is responsible for the preparation of the other information. The other information comprises the information included in the Annual report, but does not include the Ind AS financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance /conclusion thereon.

In connection with our audit of the IND AS financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these financial statements that give a true and fair view of the financial position, profit or loss (financial performance including other comprehensive income), changes in equity and cash flows of the Company in accordance with the Indian Accounting Standards (IND AS) and other accounting principles generally accepted in India.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Company has adequate internal controls system in place and the operating effectiveness of such controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matters

1. The comparative financial information of the Company for the year ended 31st March, 2021 included in these Ind AS financial statements, are based on the previously issued statutory financial statements audited by a predecessor auditor (Shabbir and Ganesh, FRN: 009033S) whose report for the year ended 31st March, 2021 dated 4th November 2021 expressed a Qualified Opinion on those financial statements.
2. The Accounting process is manually done by the Company and not through a Software application. With respect to Customer Billing, the same is done through a Billing Software.

Further In order to mitigate the chances of fraudulent transactions or manipulation in the books of accounts, Ministry of Corporate Affairs vide notification dated 24-03-2021 amended the Companies (Accounts) Rules, which requires the company to use the accounting software that has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled with effect from the financial year commencing on or after 1st April 2022.

Subsequently, MCA has notified the Companies (Accounts) Second Amendment Rules



2022. As per the amendment notification dated 31st March 2022, the MCA has extended the implementation of Audit Trail software to a financial year commencing on or after April 1, 2023 earlier such provision was applicable from April 01, 2022.

Considering the above amendment, it is mandatory for the company to have accounting software with audit trail with effect from financial year commencing on or after 1st April 2023.

Our opinion is not qualified in respect of this matter.

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 of India in terms of Section 143(11) of the Act, we give in "Annexure I" a statement on the matters specified in paragraphs 3 and 4 of the Order.
2. Based on the verification of Records of the Company and based on the information and explanations given to us, we give in "Annexure III" a report on the Directions and Sub- Directions issued by the Comptroller and Auditor General of India in terms of Sec 143(5) of the Companies Act, 2013.
3. As required by Section 143(3) of the Act, based on our audit we report that:
 - a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit,
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.
 - c) The Balance Sheet, Statement of Profit or loss (including other comprehensive income), the Statement of Cash Flow and the Statement of Changes in Equity dealt with by this Report are in agreement with the relevant books of account.
 - d) In our opinion, the aforesaid IND AS financial statements comply with the Indian Accounting Standards specified under section 133 of the Companies Act, 2013 read with the companies (Indian Accounting Standards) Rules 2015 except for the matters stated in the paragraph Basis for Qualified Opinion.
 - e) In view of the exemption given vide notification no. G.S.R 463(E) dated June 5, 2015, issued by Ministry of Corporate Affairs, provisions of Section 164(2) of the Act regarding disqualification of Directors, are not applicable to the Company.
 - f) 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". Our report expresses a modified opinion on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting.
 - g) With respect to the other matters to be included in the Auditors' Report in accordance with the requirements of Section 197(16) of the Act, we offer no comments as the Company is exempted from the provisions of Section 197 vide notification no. G.S.R. 463(E) dated June 5, 2015.
 - h) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014 in our opinion and to the best of our information and according to the explanations given to us:
 - i. The Company has disclosed the impact of pending litigations, if any, on its financial position in its financial statements. However, an appeal was preferred by MESCOM regarding disallowance of 80 IA pertaining to 2006-07 and the matter was disposed off by Honorable High Court and Income Tax Authorities refunded



an amount of Rs. 42.98 crore in May 2022 as per the High Court Order dated 26.03.2021. The company accounted the interest amount of Rs. 17.28 crore paid by IT authorities as other income and adjusted balance against the advance income tax paid and cleared the issue as on 31.03.2021 itself. However, the IT authorities gone on appeal in Honorable Supreme Court on 02.12.2021. Company is hopeful of winning the case, no provision is created in the books of accounts in this regard. Refer Note 45.14 to the Ind AS financial statements.

- ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts, subject to points in Emphasis of Matter Paragraph. The Company did not have any derivative contracts as at March 31, 2022.
 - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.
- i) We also Report that :
- a) The management has represented that, to the best of its knowledge and belief, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;
 - b) The management has represented that, to the best of its knowledge and belief, no funds have been received by the Company from any person or entity, including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the Company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and
 - c) Based on such audit procedures that were considered reasonable and appropriate in the circumstances, nothing has come to our notice that has caused us to believe that the representations under sub-clause (a) and (b) contain any material misstatement.
- j) No dividend has been declared or paid during the year by the Company.

For **NITIN J. SHETTY & CO.**
Chartered Accountants
Firm Reg. No 008891S

UDIN : 22250601BCKGCQ3030





CA. DHANUSH D. BOLAR,
Partner
Membership No. 250601
UDIN: 2250601BFGZLT8058

Place : Mangaluru

Date : 12-12-2022

ANNEXURE-I
TO THE INDEPENDENT AUDITORS' REPORT

Annexure referred to in paragraph 1 under the heading "Report on Other Legal and Regulatory Requirements of our Independent Auditors report of even date on the IND AS financial statements of M/s Mangalore Electricity Supply Company Limited ('the Company') for the year ended 31 March, 2022

We report the following:

(I) Property, Plant and Equipment:

- a) 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.
- b) 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.
- c) According to the information and explanations given to us, the records examined by us and 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 mentioned below (refer Note 3.2 and 3.4)

| Description of the property | Gross carrying value | Held in the name of | Whether promoter, director or their relative or employee | Period held | Reason |
|--|----------------------|---------------------|--|-------------|---|
| Mulki Section Office land (57/1A) and Mulki 33 KV Sub-station land (59/C). | 20.72 lakhs | KEB | NA | 31.10.1981 | The said property is Agricultural land. Conversion not done yet. As per Tahsildar Mulky vide letter no. 2018-19 Dated 30.09.2020, has requested EE Kavoor apply for conversion. |
| Land allotted by PWD for the construction of Kundapura Divisional Office | 8.37 lakhs | Revenue Department | NA | 09.09.2020 | Conversion not done yet. Letter Correspondence was made with District Commissioner for transferring the title deeds to MESCOM. |
| Land allotted to MESCOM in Karkala Village for construction of 33/11 kv | 22.45 Lakhs | GoK | NA | 18.02.2022 | Pending change of name as per revenue records. |



- d) Company has not revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year.
- e) No proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder.

- (ii) a) 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. No discrepancies of 10% or more in the aggregate for each class of inventory were noticed. The coverage and procedure of such verification by the management is appropriate.
- b) The company has been sanctioned working capital limits in excess of five crore rupees from 3 Banks namely Union Bank of India, Canara Bank and State Bank of India. The maximum drawing power sanctioned to the company is Rs.500 Crs and the outstanding balance as on 31.03.2022 is Rs. 433.62 Crs. The details regarding the working capital balance as on 31.03.2022 is given below. The quarterly statements filed by the company with bank are in agreement with the books of accounts.

[₹ In Lakhs]

| S I. N o | Name of the Bank / Lender | OD Limit | Loan Drawn | Charge ID No | Floating Rate of Interest as on 31.03.22 (%) | Loan Balance as on 01.04.21 | Loan Drawn during 2021-22 | Repayment during 2021-22 | Loan Balance as on 31.03.22 |
|----------|--|----------|------------|--------------|--|-----------------------------|---------------------------|--------------------------|-----------------------------|
| B | Overdrafts | | | | | | | | |
| 1 | Union Bank of India Secured by Hypothication of the entire Current Assets of the Company (Present and future) along with the other WC lenders on First Pari Passu basis. | 26500.00 | 26500.00 | 100080207 | 7.20 | 21036.28 | 79883.41 | 77846.82 | 23072.87 |
| 2 | Canara Bank Secured by Hypothication of the entire Current Assets of the Company (Present and future) along with the other WC lenders on First Pari Passu basis. | 10000.00 | 10000.00 | 100070176 | 7.25 | 7918.24 | 164801.52 | 163987.06 | 8732.70 |



| | | | | | | | | | |
|----------|---|----------------------------|----------------------------|---------------|------|----------------------------|-----------------------------|-----------------------------|----------------------------|
| 3 | State Bank of India Secured by Hypothication of the entire Receivables of the Company on First Pari Passu charge basis. | 13500. 00 | 13500. 00 | 1001017 49 | 7.65 | 10880. 47 | 95865.0 6 | 95189.3 1 | 11556. 22 |
| | Sub-Total | 50000 .00 | 50000 .00 | | | 39834 .99 | 340549 .99 | 337023 .19 | 43361 .79 |

- (iii) According to the information and explanations given to us, during the year the company has not made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties.
- (iv) According to the information and explanations given to us, 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. Accordingly, reporting under clause 3 (iv) of the Order does not arise.
- (v) 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).
- (vi) Pursuant to the rules made by the Central Government of India, the Company is required to maintain cost records as specified under Section 148(1) of the Act in respect of its specified products. We have broadly reviewed the same, and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- (vii)
- a) According to the information and explanation given to us and on the basis of our examination of the records of the Company, amount deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees State Insurance, Income tax, Sales Tax, Service Tax, Customs Duty and Excise Duty, Value added tax, Goods and Service tax, cess and any other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities.
- b) According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees State Insurance, Income tax, Sales Tax, Service Tax, Customs Duty and Excise Duty, Value added tax, Goods and Service tax, cess and other material Statutory dues were in arrears as at 31st March 2022 for a period of more than six months from the date they became payable.
- c) According to the information and explanation given to us and the records examined by us read with Note No 45.14.1 to 45.14.3, the particulars of EPF, Service tax, Income Tax which has not been deposited on account of disputes pending are as under:

(Amount in Lakhs)



| Sl. No | Nature of payment | Demand Raised | Amount paid under protest | Year to which demand relates | Forum where dispute is pending | Appeal No. & date |
|--------|--|---------------|---------------------------|------------------------------|---|---|
| 1 | EPF of Contract Employees - error in calculation of demand | 444.06 | 177.00 | 2007 | Case remanded back to PF Office Mangaluru the order of RP is awaited. | Appeal No. 489(6)/07 WP no.33264/20 11GM-PF |
| 2. | EPF-O & M division Sagar | 72.06 | 63.61 | - | Employee provident Fund appellate tribunal New Delhi | ATA No. 1084(6)/20 15 |

| Particulars | Service Tax | Education Cess | Total Service Tax | Penalty | Total Demand |
|---|-------------|----------------|-------------------|---------|--------------|
| No. IV/09/114/2010 Hqrs. Adjn 1/2295 dated 28.01.2011 | 3.09 | 0.09 | 3.18 | 3.18 | 6.37 |
| No. IV/09/114/2010/Hqrs Adj(1)/17109 dated 26.10.2010 | 41.69 | 1.08 | 42.77 | 42.77 | 85.53 |

- viii) According to information and explanation given to us, there was no transactions not recorded in the books of account, have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961),
- ix) a) According to the records of the Company examined by us and the information and explanation given to us, the company has not defaulted in repayment of loans or borrowings to any lender or dues to debenture holders as at the Balance Sheet date.
- b) Further, company has not been declared willful defaulter by any bank or financial institution or government or any government authority.
- c) According to the information and explanations given to us and based on records examined by us we are of the opinion that the moneys raised by way of term loans during the year have been applied for the purposes for which those were raised. There was no fund raised on short term basis.
- d) Company do not have any subsidiaries, joint ventures or associate company. Accordingly, reporting under clause ix (e) and (f) of the Order does not arise.
- x) a) The Company did not raise any money by way of initial public offer or further public offer (including debt instruments) during the year.
- b) During the year, the company has made preferential allotment/private placement of shares to State Government of Karnataka. In respect of the same, in our opinion, the Company has complied with the requirement of Section 42 of the Act. Further, in our, opinion, the amounts so raised have been used for the purposes for which the funds were raised. During the year, the Company did not make preferential allotment/private placement of fully/ partly convertible debentures.



- x) a) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud by the Company or on the Company by its officers or employees, noticed or reported during the year, nor have we been informed of any such case by the Management.
- b) No report under sub-section (12) of section 143 of the Companies Act has been filed in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government, during the year and up to the date of this report.
- c) There are no whistle blower complaints received by the company during the year.
- xii) In our opinion and according to the information and explanations given to us, the Company is not a Nidhi Company. Accordingly, paragraph 3(xii) of the order is not applicable.
- xiii) According to the information and explanations given to us and based on our examinations of the records of the Company transactions with related party for the period under reporting are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details of such related party transactions have been disclosed in the Ind AS financial statements as required under Indian Accounting Standard (Ind AS) 24, 'Related Party Disclosures' specified under Section 133 of the Act.
- xiv) a) The Company has an inhouse 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 to various provisions of Tax Laws and Labor Laws in particular.
- b) In the absence of adequate report on internal audit, we are unable to comment on the same.
- 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) According to the information and explanations given to us, the Company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. Also the company has not conducted any Non-Banking Financial or Housing financial activities without a valid Certificate of Registration (CoR). The company is not a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India. Accordingly, reporting under clause (xvi) of paragraph 3 of the Order are not applicable to the company.
- xvii) Company has not incurred cash losses in the financial year and in the immediately preceding financial year.
- xviii) There has been no resignation of the statutory auditors of the Company during the year. However, the statutory Auditors Shabbir and Ganesh Chartered Accountants Udipi who were Statutory Auditors of MESCOM for the year 2020-21



was again appointed as SA for the year 2021-22 on 24.08.2021. But they did not agree to continue as statutory auditors for the current year 2021-22 due to issue relating to fixation of remuneration and new Statutory Auditors were appointed by CAG on 28.08.2022.

- xix) On the basis of analysis of information relating to financial ratios, ageing and expected dates of realisation of financial assets and payment of liabilities, other information accompanying the financial statements, our knowledge of the Board of Directors and Management plan and based on our examination, evidence and supporting assumptions, we are of the opinion that no material uncertainty exist on the date of audit report and the company is capable of meeting its existing liabilities at the date Balance Sheet as and when they fall due within one year from the date of Balance Sheet. We, however, state that this is not an assurance as to the future viability of the company. We further state that our reporting is based on the facts up to the date of the audit report and we neither give any guarantee nor any assurance that all liabilities falling due within a period of one year from the balance sheet date, will get discharged by the company as and when they fall due.
- xx) As per the information and explanation provided and based on our verification of records there was no unspent amount towards Corporate Social Responsibility (CSR). Further there was no ongoing projects as on 31/03/2022. Accordingly, reporting under clause 3 (xx)(a) and (b) of the Order is not applicable for the year.

For **NITIN J. SHETTY & CO.**

UDIN : 22250601BFGZLT8058

Chartered Accountants

Firm Reg. No. 008891S





CA.DHANUSH D. BOLAR, Partner

Membership No. 250601

Place : Mangaluru

Date : 12-12-2022

ANNEXURE-II

TO THE INDEPENDENT AUDITORS' REPORT

Report on the Internal Financial Controls with reference to Financial Statements under clause (i) of sub-section 3 of section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls with reference to financial statements of **M/s Mangalore Electricity Supply Company Limited ("the Company")** as of 31 March 2022 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 modified audit opinion on the Company's internal financial controls system over financial reporting.



Meaning of Internal Financial Controls over Financial Reporting with reference to financial statements

A company's internal financial control over financial reporting with reference to financial statements 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 authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized 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 with reference to financial statements

Because of the inherent limitations of internal financial controls over financial reporting with reference to financial statements, 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.

Disclaimer of Opinion

In our opinion, to the best of our information and according to the 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. 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, 2022. 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 **NITIN J. SHETTY & CO.**

Chartered Accountants

Firm Reg. No. 008891S



UDIN : 22250601BFGZLT8058

Dhanush D. Bolan
CA. DHANUSH D. BOLAR, Partner

Membership No. 250601

Place : Mangaluru

Date : 12-12-2022

ANNEXURE - III
TO INDEPENDENT AUDITORS' REPORT

Annexure referred to in paragraph 2 under the heading "Report on Other Legal and Regulatory Requirements of our Independent Auditors report of even date on the IND AS financial statements of M/s Mangalore Electricity Supply Company Limited ('the Company') for the year ended 31 March, 2022

| SI No | Directions | Reply of Auditor |
|-------|--|--|
| 1 | Whether the company has system in place to process all accounting transactions through IT System? If yes, the implications of processing of accounting transactions outside IT system on the integrity of the accounts along with the financial implications, if any, may be stated. | <p>The Accounting process is manually done by the Company and not through a Software application. With respect to Customer Billing, the same is done through a Billing Software.</p> <p>Further In order to mitigate the chances of fraudulent transactions or manipulation in the books of accounts, Ministry of Corporate Affairs vide notification dated 24-03-2021 amended the Companies (Accounts) Rules, which requires the company to use the accounting software that has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled with effect from the financial year commencing on or after 1st April 2022.</p> <p>Subsequently, MCA has notified the Companies (Accounts) Second Amendment Rules, 2022. As per the amendment notification dated 31st March 2022, the MCA has extended the implementation of Audit Trail software to a financial year commencing on or after April 1, 2023 earlier such provision was applicable from April 01, 2022.</p> <p>Considering the above amendment, it is mandatory for the company to have accounting software with audit trail with effect from financial year commencing on or after 1st April 2023.</p> |
| 2. | Whether there is any restructuring of an existing loan or cases of waiver/write off to debts/loans/interest etc. made by the lender to the company due to the company's inability to repay the loan? If yes, the financial impact may be stated. | Management confirms that no such restructuring of loans is taken up by the Company during the year ended 31st March 2022. Also, there is no case of waiver/write off made by the lender. |



| | | |
|----|---|--|
| 3. | Whether funds received / receivable for specific schemes from Central/State agencies were properly accounted for/utilized as per its terms and conditions? List the cases of deviation. | Management confirms that the funds received for specific schemes from Central/State Govt are properly accounted and utilized as per terms & conditions of the specific projects. |
|----|---|--|

ADDITIONAL COMPANY SPECIFIC DIRECTIONS:

| SI No | Directions | Reply of Auditor |
|-------|--|--|
| (a) | All the items with regard to Cash and Bank balances as in the Annexure-III-I shall be verified and report the cases of specific non-compliances. Details of unexplained balances/balances operated under suspense head may also be examined. | Non-compliances are as per Annexure III-I below. |
| (b) | 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. | Management represents that 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 2021-22 are around 99.99 % & 99.31% respectively. As per the information furnished by the Company, the work of replacement of single phase and three phases Electromechanical meters by Electrostatic meters are under process. |
| (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 except for a few instances as detailed in notes to accounts – (Please refer Note no 37.8, 37.9, 37.10 and 37.12) |



| | | |
|-----|--|---|
| (d) | Comment on the confirmation of balances of trade receivables, trade payables, advances and other similar balances and whether an effective mechanism for reconciliation of the same exists. | No reconciliation of trade receivables, trade payables, advances and other similar balances has been completed as there is no response from the Debtors, generation, distribution and transmission companies and Material and service vendors in this respect. |
| (e) | Whether system of monitoring the execution of works in case of sub-stations and lines vis- à-vis the milestone stipulated in the agreement is in existence and the impact of cost escalation, if any, abandoned projects, if any, revenues/losses from contracts, etc., have been properly accounted for in the books. | A system for monitoring of Sub-station works and line works is in existence. A separate section headed by a Superintendent Engineer (Ele) is established in Corporate Office for monitoring of Projects. However, no accounting has been done during the year towards the impact of cost escalation, if any, abandoned projects, if any, revenues/losses from contracts, etc. |



Annexure III-I

Refer SI No.a) of Additional Company Specific Directions

| S.N | Items in Check list | Remarks |
|------------|--|---|
| 1 | Whether all Banks Accounts/Fixed Deposit have been opened with banks/proper authorization and approvals as per the aforesaid delegation of powers? | Yes, as per our sample verification, Banks Accounts /Fixed Deposit have been opened with proper authorization and approvals as per the delegation of powers |
| 2 | Whether there was a periodical system of preparation of Bank reconciliation statement and whether they were produced for verification to audit? | Yes. As per our verification, the Bank Reconciliation statement are done on monthly basis and are produced for verification to Audit. |
| 3 | Whether Bank reconciliation of the main account and all subsidiary bank accounts were done? | Yes, as per our sample verification, Bank reconciliation of the Disbursement accounts, Collection accounts and Office accounts are done on monthly basis. |
| 4 | Was the authorization to operate the bank accounts given to a single signatory? | No, as per our sample verification, all bank accounts are operated under joint signatures. |
| 5 | Whether the interest for the entire duration of Fixed Deposits was accounted in the books of accounts? | Yes, both interest received and accrued for the year are accounted in the books of accounts. |
| 6 | Whether physical verification of cash has taken place periodically? | Yes, as per our sample verification, the Physical verification of Cash are done on daily basis. |
| 7 | Whether the cash in hand as shown in the Balance Sheet tallies with the certificate of physical verification of cash? | Yes, the cash in hand as shown in the Balance Sheet tallies with the certificate of physical verification of cash. |
| 8 | Is there a register of Fixed deposits showing amounts, maturity dates, rates of interest and dates for payment of interest? | Yes, The Company is maintaining a register of Fixed deposits showing amounts, maturity dates, rates of interest and dates for payment of interest. |
| 9 | Is there a follow-up system to ensure that interest on Fixed Deposits is received on due dates? | Yes, as per our sample verification, the Company has a system to ensure that Interest on Fixed Deposits is received on due dates. |
| 10 | Is there a follow-up system to ensure that transfer of matured amount of Fixed Deposits is done without any delay? | Yes, as per our test check, the Company has a system to ensure that transfer of matured amount of Fixed Deposits is done without any delay. |
| 11 | Whether bank confirmation statements are obtained periodically from the banks for all accounts: SB accounts, Current accounts and Fixed Deposits? | The Confirmation Statements from Banks are obtained only for the Year-end Balances. |
| 12 | Whether confirmations of balances in respect of all bank balances tally with the Bank Statements? | Yes, Confirmation of Balances in respect of all bank balances tally with the Bank Statements. |



| | | |
|----|---|---|
| 13 | Whether Fixed Deposits and interests as per Fixed Deposits Register tally with the confirmation/ certificate issued by the bank? | Yes, Fixed Deposits and interests as per Fixed Deposits Register tally with the confirmation/ certificate issued by the bank. |
| 14 | Whether the confirmation statements received from banks are authenticated and in the letter head by the bank? | Yes, confirmation statements received from banks are authenticated and, in the System, generated certificates by the bank. |
| 15 | In case of any difference observed in the above check, whether the same was adjusted in the subsequent year? | We have not observed any difference between Bank Confirmation Certificate and Bank Statements. Few divisions have not accounted bank charges debited by bank in anticipation of waive-off of bank charges which are disclosed in the reconciliation. Other unidentified debits and credits in bank accounts which are not traced till finalization of trial balance are disclosed in the reconciliation. |
| 16 | Whether external confirmations were obtained from Banks in the test checked cases, if so details thereof with. | We have received external confirmation from banks and the balances tally with the Statements. |
| 17 | Whether any of the aforesaid lapses were brought out in the Report of the Internal Financial Controls by the Statutory Auditor, if not, whether Audit Enquiry was issued? | We have issued Disclaimer of Opinion in the Report of the Internal Financial Controls. |

For **NITIN J. SHETTY & CO.**

Chartered Accountants

Firm Reg. No. 008891S



CA. DHANUSH D. BOLAR,

Partner

Membership No. 250601

Place : Mangaluru

Date : 12-12-2022

UDIN : 22250601BFGZLT8058

