Independent Auditor's Report

To,

The Members of Meghalaya Power Distribution Corporation Limited

1. Report on the Standalone Ind AS Financial Statements

We have audited the accompanying standalone Ind AS Financial Statements of Meghalaya Power Distribution Corporation 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.(hereinafter referred to as Standalone Ind AS Financial Statements)

2. Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation and presentation of these standalone Ind AS financial statements that give a true and fair view of the financial position, financial performance (including other comprehensive income), cash flows and changes in equity of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under Section 133 of the Act, read with relevant rules issued there under and accounting system laid down under the provisions of the Electricity Act,2003 and relevant Central Electricity Regulatory Commission(CERC) regulation in respect of Depreciation and other recognized accounting practices and policies.

This responsibility also includes the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company 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 standalone Ind AS financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

3. Auditor's Responsibility

Our responsibility is to express an opinion on these standalone Ind AS financial statements based on our audit. While conducting the audit we have taken into account the provisions of the Act, the Electricity Act,2003 CERC Regulations and 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 thereunder.

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We conducted our audit in accordance with the Standards on Auditing specified under section 143(10) of the Companies Act, 2013. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the standalone Ind AS financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the standalone Ind AS financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the standalone 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 standalone Ind AS financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by Company Directors, as well as evaluating the overall presentation of the standalone 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 standalone Ind AS financial statements.

4. Basis for Qualified Opinion

1. ***NON CURRENT ASSETS: NOTE 1:PROPERTY PLANT & EQUIPMENT & CAPITAL WORK IN PROGRESS:***

a. The point no III(g) of Note 28 :- Significant Accounting Policies on Property Plant & Equipment(PPE) does not clearly state the method of depreciation used and the useful lives or depreciation rates used for each class of Property plant and equipment. This is not in line with the disclosure requirement mentioned in Ind AS 16 on Property plant and equipment

b. Note 28 Significant accounting policies point III(g) on Property Plant and equipment states that the rates of depreciation or amortization and estimated lives thereon as prescribed by CERC for the purpose of tariff are being followed by the Company. However, we observed that CERC has prescribed depreciation rate in case of "IT Equipment includes software" as 15% but the Company is charging depreciation @ 6.33% which is incorrect. The financial impact of the less charging of depreciation could not be readily calculated for lack of complete details however, there is overstatement of PPE and understatement of loss due to less charging of depreciation.

c. Land Rs. 12755088.84: Title deeds of freehold land and lease agreements were not made available to us for our verification, further it was stated that all the immovable properties utilized by the company are not in the name of Company but are in the name of the holding company Meghalaya Energy Corporation Limited. Also stated in point XII of Note 30 Additional Information that the value wise details of Assets on Lease cannot be provided.

d. We refer to paragraph 1(ii), of Annexure A to our Report (Annexure to Independent Auditor's Report) regarding inadequate physical verification of fixed assets, as a result of which adjustment(s) that might have been necessary (which may be material) could not be carried out by the Company at this stage.

e. The Company has not identified any asset that might have to be impaired at the balance sheet date, and as such, no adjustments have been made as required by Ind AS-36 on 'Impairment of Assets' specified under Section 133 of the Act and there is no disclosure of this fact in the financial statements.

f. As per Ind AS 16 'Property, Plant and Equipment' residual value and useful life of each asset shall be reviewed at each financial year. However, from the records verified it seems that residual value and useful life of assets classified under PPE had not been assessed by the Company in FY 2017-18.

g. As per IndAS-16 on 'Property, Plant and Equipment' Items of fixed assets that have been retired from active use and are held for disposal should be stated at the lower of their net book value and net realisable value and should be shown separately in the financial statements. Any expected loss is required to be recognised immediately in the profit and loss statement. However, Company has not complied with the above requirements.

h. Regarding the Capital work in progress (CWIP) Rs. 6,54,28,04,770.63, detailed particulars have not been made available for verification such as status of the work, reasons for delay in capitalization etc. hence we are not in a position to comment on the correctness of CWIP figure. Further, CWIP figure may include certain WIP which have in fact been completed but still are shown under CWIP head due to non-receipt of completion certificates. Further, capital work- in- progress includes projects which are lying under capital work- in- progress for many years. The reasons for long pending projects and the reasons for no progress in some projects were not explained to us. Short/ excess provision to respective fixed assets, if any, could not be quantified in the absence of adequate information / records

PUROHIT & CO. K K Tower Guwahati Chartered Accountants relating to capital work in progress. No provision for loss/deterioration in assets has been made during the year for these projects.

i. IND AS 23 on Borrowing Costs requires that an entity shall capitalise the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them. As observed during the course of audit, RAPDRP assets are lying in CWIP whereas the interest paid/ payable on RAPDRP loan amounting to Rs. 5,37,08,079.00 has been charged to Profit and Loss A/c. Thus, the accounting treatment regarding the same is inconsistent with the principles of IND AS 23.

j. It is observed that Depreciation on property plant and equipment converted from CWIP to assets during the year related to East Khasi Hills charged less by Rs. 10,21,80,366.06 thereby overstating the value of PPE by the above amount and understating the loss figure by the same amount.

2. CURRENT ASSETS: NOTE 4: INVENTORIES Rs. 31,94,10,433.33

a. **IND AS 2** on **Inventories** prescribes that the inventories shall be measured at the lower of cost and net realisable value, and the valuation method shall be disclosed. However, no such method is being followed for the preparation of the financial statements and the method of valuation of inventory applied is also not being disclosed in the financials of the Company. Thus, the above non-disclosure of accounting policies proves to be inconsistent with the requirements of the mentioned **IND AS**.

b. We are unable to express our opinion on the authenticity and valuation of stated inventory amounting to Rs. 31.94 Crores. in absence of details with respect to:
   i. age wise bifurcation of closing inventory,
   ii. proper reconciliation of physical inventory with General Ledger,
   iii. item wise identification of possibility of usability of the stocked inventory,
   iv. the amount of obsolete inventories due to technical changes or due to rusting or damages.

c. Under mentioned stock items are showing Closing Credit Balance in the Consolidated Ledgers , which apparently shows the wrong valuation and / or wrong accounting entries of the stated inventories:

Particulars	Closing Credit Balance (Rs.)
22.602 (Cement-Materials Stock Account (Capital))	690.00
22.611 (GI Sheets-Materials Stock Account (Capital))	60071.00
22.612 (GI Pipes-Materials Stock Account (Capital))	1986818.88
22.631 (GI Sheets-Materials Stock Accounts (O & M))	39801.06
Total Credit Balance	2087380.94

d. Stock details provided by the Head Office show value of stores, with the Revenue Division, Shillong amounting to Rs. 2.47 crores whereas the value of stores as per Physical Verification report submitted by the division is Rs. 30.96 lakhs. Therefore, there is an abnormally large difference in stores value of Rs. 2.16 crores. Similarly there may exist differences in other divisions also.

e. It is stated by Management that "the physical verification of inventories has been conducted in various Divisional & sub-divisional units as on 31st March,2018. However the data furnished by the Divisions is not complete and adequate to determine the material discrepancies if any." Thus the identification of non-moving, slow moving, obsolete and damaged items of inventory are pending in most of the Divisional & sub-divisional units of the Company. Also where the identification has been done the same has not been segregated from good inventory. Further, no provision has been made in books towards non-moving, slow moving, obsolete and damaged items of inventory.

3. CURRENT ASSETS: NOTE 5 (a): TRADE RECEIVABLES: Rs.6129729051.22

a. Closing balance of trade receivables as on 31.03.2018 against Unsecured considered good is Rs.612.79 crores as compared to Rs.554.33 crores as on 31.03.2017. Thus there is increase of Rs.58.46 crores whereas additional provision against Doubtful debts is made for Rs.91.10 lakhs only.

b. Trade receivables Rs.612.79 crores as at 31.3.2018 is 74.81% of the total sales of Rs.819.08 crores for the financial year 2017-18, which shows poor recovery from consumers.

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c. Note 5(a).2 Receivables towards Delayed Payment Surcharge (DPS): In the calculation provided Rs. 1484082709.84 is DPS outstanding as on 31.03.2018 and the whole amount is doubtful of recovery and it was proposed to write off @ 20% every year but no such provision has been made for the year 2017-18 and therefore it can be construed that the trade receivables of Rs.6129729051.22 are entirely not good.

d. In absence of detail with respect to age wise bifurcation of debtors and reconciliation of Debtors Ledgers with Concerned Divisions and Circle Debtors Ledgers and in absence of confirmation of Debtors balance at least with institutional buyers, we are unable to express our opinion on the authenticity of Closing Debtors amounting to Rs.612.79 crores.

e. It was pointed by the C&AG audit of the accounts of the year ended 31st March, 2017 that "The trade debtors include Rs.32.77 crore against 4561 consumers of the Company whose power supply was disconnected during the period from February 2002 to March 2015. The Company created a provision of bad and doubtful debt only for three percent of the total Trade receivables amounting to Rs. 11.81crores. Since 4561 consumers were untraceable and their electricity connection had been cut for last more than 2 years, the outstanding against them of Rs. 32.77 crores was doubtful of recovery. Therefore full provision should have been made against outstanding of these 4561 consumers. The non-provision of the same has resulted in over-statement of Trade Receivables by Rs.31.79 crores with corresponding understatement of loss to an equal extent." The management reply against this was that the matter has been taken up for further reconciliation but no disclosure has been made in the statements of FY 2017-18. Further, as per the Ind AS 109 the above trade receivables were not separately reported as "Trade Receivables which have significant increase in credit risk"

4. <u>CURRENT ASSETS: NOTE 5 (b): CASH & CASH EQUIVALENTS: Rs.1434532747.54</u>

a. As per the Division II - Ind AS Schedule III to the Companies Act 2013

(i) Cash and cash equivalents shall be classified as:

(a) Balances with banks (of the nature of cash and cash equivalents);

(b) Cheques, drafts on hand;

(c) Cash on hand;

(d) Others (specify nature).

(ii) Bank balances other than cash and cash equivalents as above shall be disclosed below cash and cash equivalents on the face of the Balance Sheet

However, the presentation in Balance sheet is not in the above order.

b. Cash on hand Rs.34871496.88: This balance is not pure cash but consists of cheques in hand also, and thus not a correct depiction of cash on hand. The exact amount of cheques included in the cash balance is not made available. Further, the Cash on Hand Balance seems to be factually incorrect as the said Cash in Hand Balance is after set off of under mentioned credit balance of Cash in Hand amounting to Rs 28.52 Lakhs, as per under mentioned details:

Particulars	Closing Balance as per Consolidated trial Balance (Rs.)
24.163(A) (Revenue Cash & Cheque Coll-Cherrapunjee Rev S/D)	113440.00
24.161(N) (Revenue Cas & Cheque Coll-Bajengdoba S/D)	17.00
24.161(P) (Revenue Cash & Cheque Coll-Tura Rev S/D)	210648.92
24.110(C) (Cash for Chest)	3599.03
24.161 (T) (Revenue Cash & Cheque Coll-Ampati Rev S/D)	128732.40
24.161(A) (Revenue Cah & Cheque Coll-Rev Div I&II)	1889591.53
24.161(C) (Revenue Cash & Cheque Coll-Nongpoh Rev S/D)	506344.46

It is observed that the closing balances of cash & bank as per Distribution revenue division books do not match with the respective figures maintained in the Head office compilation section. Pending reconciliation the effect of these differences on the balances appearing in the books cannot be ascertained.

c. Balance with banks Rs.550180411.74
Most of the bank accounts appearing in the books are in the name of the holding company Meghalaya Energy Corporation Limited. It was explained that the request for changing the name of the account holder in the banks is under process. Since the company has a separate legal entity and therefore the assets and liabilities recorded in its books must be in its own name.
Under mentioned Bank Balances showing Credit Balances are subject to confirmation and reconciliation of the said balances:-

Head of Accounts	Closing Balance as per Consolidated Trial Balance (Rs.)
24.301 (O) (Collecting Bank-Mahandraganj Rev S/D)	521124.92

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24.301 (T) (Collecting Bank-Ampati Rev S/D)	820073.92
24.301(B) (Collecting Bank-Umiam Rev S/D)	1527947.6
24.301(E) (Collecting Bank Jowai Rev S/D)	32401461.83
24.301(F) (Collecting Bank-Mawsynram Rev S/D)	412089.89
24.301(G) (Collecting Bank-Pynursla Rev S/D)	305043.8
24.301(H) (Collecting Bank-Nongstoin Rev S/D)	522030.1
24.301(I) (Collecting Bank-Mairang Rev S/D)	112865.0
24.301(J) (Collecting Bank-Mawkyrwat Rev S/D)	1256257.38
24.301(P) (Collection Bank - Tura - SBI)	2183129.63
24.301(Q) (Collecting Bank-Phulwari Rev S/D)	147484.0
24.301(S) (Collecting Bank-Williamnagar Rev S/D)	12148.0
24.302(A) (Collecting Bank-Khliehriat Rev S/D)	1838905.8
24.303(A) (Collecting Bank-Cherrapunjee Rev S/D)	137721.0
24.305(A) (Collecting Bank-Rev Div I&II(A))	64407.54
24.306(B) (Collecting Bank-Mawryngkneng Rev S/D(B))	758310.77
24.715 (S.G.H) (RGGVY SOUTH GARO HILLS A/C)	5316.50
24.715 (W.G.H.) (RGGVY WEST GARO HILLS A/C)	9974.75
24.715 (W.K.H.) (RGGVY WEST KHASI HILLS A/C)	2529.50
24.715 (E.G.H.) (RGGVY EAST GARO HILLS A/C)	5134.00
24.734 (MePDCL IPDS A/c)	115.00

d. Cash imprest with staff Rs.9289408.92: Detailed list of employee wise imprest was requested however not provided and a list of imprest account of divisions was provided which showed an amount of Rs.4204015.27 against the heading "Opening balance of 2014-15". Further, three divisions namely Byrnihaat, Jowai and R.E Construction division, Shillong are showing negative balances. Thus the management could not justify the correctness of this amount and the reason for treating such old balance as cash.

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e. Other Bank Balances (Term deposits): Rs.840191430/- We observed that the term deposits are in the name of the holding company Meghalaya Energy Corporation Limited but are shown in the books of the company, and this is totally incorrect accounting as legally the deposits are not in the name of the company. Further classifying these under Cash and bank balances is also not correct.
Further the Company accepts that the figures reported may not be correct as it states in Note 5 (b).1 " During the Financial Year 2017-18, in certain instances, booking of redemption of 'Investments in Term Deposits' of the company had been erroneously passed in the books of other related parties within the MeECL Group (i.e., the Holding Company and/or its other subsidiaries). Similarly, in certain instances, redemptions pertaining to the company had also been erroneously passed in the books of other related parties within the MeECL Group (i.e., the Holding Company and/or its other subsidiaries). Furthermore, during the Financial Year 2017-18, inadvertent errors had also surfaced in booking of interests on such investments, initial booking of investments, etc. Consequent to the said discrepancies, reconciliation of 'Investments in Term Deposits' for the Financial Year 2017-18 have been undertaken, to rectify the aforementioned errors."

5. <u>NOTE 7: Other Current Assets: Rs.13042244834.76</u>

a. Capital Advance Rs. 22,10,25,264.89: As per Ind AS Schedule III, capital advances should be included under other non- current assets Thus, there is overstatement of current assets by Rs. 22,10,25,264.89 and understatement of Non-Current Assets by the same amount. Further, detailed list of parties to whom the above amount had been advanced was not provided therefore we cannot comment on the correctness or otherwise of the amount.

b. Operational and maintenance advance Rs.43743113.06: The Management could not explain the reason about opening credit balance amounting to Rs. 29420.29 under the head expenses recoverable from suppliers and why it has been shown under the head Operational and maintenance advance.

c. Staff related advances amounting to Rs. 21272786.62/- includes credit balances against House Building advance and Scooter advance which shows that there is some mistake in these heads. Further management could not explain why the unadjusted advances/ liabilities carried forward as it is from the preceding year could not be shown and classified under Non-Current assets Or Non-Current Liabilities.

Chart showing discrepancies in staff related advances and related party receivables:-

Particulars	Opening Balance (Rs.)	*Debit During the Year (Rs.)*	*Credit During the Year (Rs.)*	Closing Balance (Rs.)	Remarks
27.101 (Houses Building Advances)	1183586.57 Cr	*902.00*		1182684.57Cr	How Credit Balance can be possible under this head.
27.102 (Motor Car)	90991.02 Dr			90991.02 Dr	Why Opening advance could not recovered during the Year.
27.103 (Scooter/ Motor Cycle)	162459.87 Cr			162459.87Cr	How Credit Balance can be possible under this head.
27.201 (TA)	4884606.31 Dr	*974820*	*1185359*	4674067.31Dr.	Why adjustment could be made only for Rs.210539/- against the opening advance of Rs. 4884606.31, inspite of having its nature of temporary advance.
27.202 (Salary)	12115.57 Dr			12115.57 Dr	Why Opening advance could not

					be recovered during the Year.
27.207 (LTC)	173045.00 Dr		*105045.00*	68000.00 Dr	Why adjustment could not be made, inspite of having its nature of temporary advance.
27.820 (Adv Payment for Staff Welfare, Misappropriation, Sports and Games, Independence Day, Corp Day Etc (If Sanctioned As Advance))	22085.54 Dr			22085.54 Dr	Why adjustment could not be made, inspite of having its nature of temporary advance.

d. Related party Receivables: Rs. 12756203670.30

Meghalaya Energy Corporation Limited (MeECL)-	Amount (Rs.)	Amount confirmed by the Related party
Receivables against Remittances of Cash and Cash Equivalents	3302648586.69	3302648586.69
Receivables against Remittances of Fuel, Materials, Personnel and Others	123385724.38	123385724.38
Receivables against Operations, Capital and Others	7181748647.51	7181748647.51
Meghalaya Power Generation Corporation Limited (MePGCL)-		
Receivables against Operations, Capital and Others	350076974.73	350076974.73
Meghalaya Power Transmission Corporation Limited (MePTCL)-		
Receivables against Operations, Capital and Others	0.00	0.00
Others	1798343736.88	0.00

Thus the amount of Rs.1798343736.88 under the heading Others is being carried forward since 2016 and as per the Balance confirmations dated 23.08.2019 provided to us by the Company this amount of Rs.

1798343736.88 has not been acknowledged as being payable by any of the related parties. The management could not provide us the details about the related parties from whom such huge balance of Rs.179, 83, 43,736.99 is receivables. In absence of any valid explanations and confirmations from any related party, it clearly reflects that there is overstatement of Other Current Assets by Rs. 179.83 Crores as on 31st March 2018.

6. **NOTE 9: OTHER EQUITY: Rs. (10523769259.84)**

a. **Reserve against "Consumers' Contribution Towards Cost of Capital Asset" Rs.402000376.32**

As stated in Note 9.4- Reserve against "Consumers' Contribution Towards Cost of Capital Asset" has been created against capital receipts from consumers towards service connections.

Further, the cost of providing service connection is capitalized and treated as property plant and equipment by the Company and depreciation is charged thereon. The depreciation so charged should have been adjusted from this Reserve amount as the contribution is kept as a liability and amortization of amount equal to depreciation should have been done. Thus, the reserves are overstated by the amount of depreciation charged and loss is also overstated by that amount.

Assets created under this account are booked as under:-

10.622 Service Connections - 33 KV	- Rs. 1,04,09,436.87
10.623 Service Connections - 11 KV	- Rs. 26,29,92,149.87
10.624 Service Connections - LT	- Rs. 20,10,22,298.71
	Rs. 47,44,23,885.45

Depreciation charged for 31/03/2018

Addition	12,30,102.20
HV	11,20,502.98
MLV	1,65,68,205.30
	1,89,18,810.48

b. **Equity share capital pending allotment Rs.338186508.03**: The statutory time limit prescribed by the Companies Act, 2013 for allotment and refund of share application money has not been complied with.

7. **NOTE 10: FINANCIAL LIABILITIES (BORROWINGS): Rs.4920901340.00**

a. Under mentioned book balances of Financial Liabilities are subject to confirmation and reconciliation with concerned lenders:

Name of Lender	Closing Book Balances
Vehicle Loan from Central Bank of India	Rs. 1946904/-
8% Loan from REC (Restructured)	Rs. 325238880/-
9% Loan from PFC (R-APDRP-Part A)	Rs. 1219400000/-
9% Loan from PFC (R-APDRP-Part B)	Rs. 591200000/-

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12.15% Loan from PFC Ltd.	Rs. 3250000000/-
9.31% Loan from state Govt.	Rs. 40996100/-

b. Current maturities of long term debts Rs.456825891/-: It is observed that current maturity not considered in case of Vehicle Loan from Central Bank of India ,Loans from PFC (R-APDRP-Part A) and Loan from PFC (R-APDRP-Part B)

c. In absence of verification of details of utilization mode of Term Loan we are unable to express our opinion on "whether the term loan has been utilised for the same purpose for it has been obtained".

8. **NOTE 11: GRANT & SUBSIDIES: Rs. 2429054186.93 :**

a. Rs.8673215.00 received from World bank towards NERPSIP was amortised in deviation from amortisation procedure as mentioned in the Significant Accounting Policies X of the Company.

b. IND AS 20 on Accounting for Government Grants and Disclosure of Government Assistance: This standard prescribes that the Government grants relating to assets may be presented as deferred income which is recognised in the profit or loss account on a systematic and rational basis over the useful life of the asset. Para X on Grants and Subsidies from the Government in the Note 28 -Significant Amounting Policies attached to the Financial Statements, states Grants and subsidies are amortized in proportion of depreciation on related assets (thereby, amortized based on the expected lives of the related assets), and presented within 'Other Income'. However, the note further states that the rate so arrived at is 5.28% as per CERC Guidelines for the related assets mentioned. In tandem with the operations of the previous years, it has been observed that creation of assets against capital grants received during the period generally take more than a year for completion. Hence, Grants and subsidies are amortized at 5.28% of their opening balances.

Thus the notes to accounts are contradictory with the former part of the note on grants as well as with the principles of IND AS 20.

9. **NOTE 12: OTHER CURRENT LIABILITIES:**

a. Rs. 483061491.03 In response to our query for the details we were provided the division wise outstanding against this heading in which one account head had the largest amount i.e "Opening balances 2014-15" Rs.248178384.52 and few divisions showed debit balance against this heading. From the details it may be concluded that the management does not have complete/correct list of parties from whom it has received the amounts booked under this heading.

b. Other Current Liabilities includes Deposit from Temporary Service Connection amounting to Rs. 529870/- , Deposits For Service Connections LT Rs. 13872783/- Miscellaneous Deposit From Consumers Rs.267627737.98 . The receipts booked under these heads may contain service charges which might not have been transferred to income heads thus these items need reconciliation and adjustment.

c. Other Current Liabilities include under mentioned balances carried forwards since preceding years. The management explained that the credit balances have arisen mostly due to trifurcation of the Meghalaya Energy Corporation Limited(MeECL) into Generation, Transmission and Distribution utilities and making MeECL the Holding Company thereof as on 1.4.2012. The balances have been obtained from Transfer Notification No. Power – 79/2009/Pt-1/422 dated 29.04.2015 issued by the government of Meghalaya. However, certain balances are subject to reconciliation:

Liabilities for Capital Supplies	**Closing Credit Balance**
42.200 (Suppliers Control Account Capital)	Rs.89406711.53
42.500 (Contractor's Control(Capital))	Rs. 2515533.18
Liabilities for Operational and Maintenance Related Supplies	
43.100 (Liability, For Supply Of Materials Works-O & M)	Rs. 3374253.72
43.200 (Suppliers Control Account- (O & M))	Rs. 720768.20
43.500 (Contractor's Control (O&M))	Rs. 1158979.00

d. **Security Deposits and Retention Moneys Payable** Rs. 78,53,87,491.13 The party wise details could not be produced and explained by the management and nor the management could explain the reason of classification of the said liabilities under the head Current Liabilities instead of under the Head Non-Current Liabilities. In absence of complete details we are unable to express opinion on correctness of the above amount.

e. Liability for Expenses Rs. 186952441.63 includes is the net liability after netting off under mentioned reflected debit and credit balances.

46.430 (Provision For Liability For Expenses)	Rs. 183781930.63 Cr
46.932 (Excess Payment Recoverable From Contractors/suppliers)	Rs. 3170571.00 Cr
49.102 (Other Misc Liability)	Rs. 60.00 Dr
Total of Net Credit Balance	Rs. 186952441.63 Cr

i. Liability under the head 46.430 amounting to Rs. 183781930.63 Cr: The opening balance under this heading was Rs. 168994747.63 and there is net addition of Rs.14787183/- as new provisions. Further, as per division wise details provided an amount of Rs.128308874.63 is outstanding against "Opening balance 2014-15" and few divisions are showing debit balances under this head . Thus this account needs immediate reconciliation and adjustment to decide to what extent this liability is actually payable and the management also could not provide the details of items booked against this heading.

ii. 46.932 (Excess Payment Recoverable From Contractors/suppliers) Rs. 3170571.00 Cr: The management could not provide us due justification about the credit balances i.e. payable under the head of recoverable. Further the management also could not provide us party wise details of such stated liabilities.

10. NOTE 13 (b): FINANCIAL LIABILITIES (TRADE PAYABLES):

a. Trade Payable against purchase of Power from Outside Parties amounting to Rs. 7905911893/- and Payables against Wheeling Charges Rs. 355821352/- are subject to confirmation and reconciliation with the power suppliers.

b. Further as evident from the note no 13(b) 1 There is difference of Rs. 83733942/- in Balances of 'Payables against Purchase of Power from Outside Parties' as per Financial statements and as per Statement of Superintendent Engineer (EM), MePDCL. Similarly there is a difference of Rs.9767903/- in the balances of 'Payables against Wheeling Charges' as per financial statements and as per Statement of Superintendent Engineer (EM).

c. Hence in view of non-availability of party wise confirmation from power suppliers and the internal differences of Financial Figures related to Power Purchases & Opening Balance and Closing Balances of concerned suppliers, we are unable to express our opinion on the authenticity of balances appearing under this head.

11. NOTE 13 (c): OTHER FINANCIAL LIABILITIES:

a. Interest accrued on borrowings – Payable to others Rs. 345534881/- includes under mentioned interest payable to the lenders amounting to Rs 299270634/- but against these parties there is no principal loan payable. Thus it clearly reflects that these are result of wrong accounting entries in past years and are being carry forwarded and these liabilities may not be actually payable. And hence there is consequential over statement of Financial Liabilities by Rs 299270634/

Ledger Head as per Consolidated Trial Balance	Closing Credit Balance Cr. (Rs.)
51.202 (Interest Accrued and Due Loan From LIC)	298003443.0
51.215 (Interest Accrued and Due on IOB Loan)	1267191.0
Total	Rs 299270634.0

b. Interest payable to the government: Rs.82125716.92 The same amount is carried forward from FY 2016-2017 and there is no change in this amount during FY 2017-18. It was explained by the management that the interest payable to the Government is the interest income arising out of the investment made from RGGVY funds and during the year 2017-18 no further liability recognized as payable to Government. On a similar principle the management should have recognized liability of interest on the amounts received against the DDUGJY. Due to lack of complete information on the amounts outstanding invested we cannot quantify the amount less booked as liability during the year.

12. NOTE 16: OTHER CURRENT LIABILITIES: Rs. 15831906500

a. Staff related liabilities of Rs. 28, 99, 67,232.03/- is the net liability after netting off under mentioned balances debit and credit balances. Many of the accounts have corresponding debit and credit balances which have not been reconciled and have not been set off and the reason thereof also could not be explained by the management. Further there is no provision of liability during the current financial year for some certain accrued liabilities like Gratuity, Pension, Bonus, as the balances thereof have been carried forward and kept as same as at 31st March 2017. Many of liabilities balances under this head have been carried forward from the preceding years but the balances thereof remained unchanged during the current financial years but the party wise details thereof could not be produced and explained by the management and nor the management could explain the reason of classification of the said liabilities under the head Current Liabilities instead of under the Head Non-Current Liabilities. This facts is evident from under mentioned details:

PARTICULARS	OPENING BALANCE	TRANSACTION DEBIT	TRANSACTION CREDIT	BALANCE AS AT 31.03.2018	REMARKS
44.110 (Provision For Gratuity)	6735601.81 Cr			6735601.81 Cr	
44.120 (Provision For Pension)	2180987.25 Cr			2180987.25 Cr	
44.130 (Provision For Bonus)	123178.00 Cr			123178.00 Cr	

44.140 (Provision For Pay and Allowances)	2179995.44 Cr	3,71,168.00	94,863.00	1903690.44 Cr	Opening provision not reversed/adjusted fully.
44.150 (Provision For Other Staff Related Liabilities)	7328612.13 Cr	33,91,438.00	66,59,281.00	10596455.13 Cr	
44.210 (Unpaid Salaries)	134278.00 Cr			134278.00 Cr	
44.310 (Net Salaries Payable)	62790946.09 Cr	71,80,48,857.00	72,86,52,548.00	73394637.09 Cr	
44.310(ADA) (Arrear DA)	21259604.00 Dr	1,40,630.00	1,40,630.00	21259604.00 Dr	
44.330 (Liabilities For Medical Expenses)	2644123.05 Cr	19,29,372.00	10,70,539.00	1785290.05 Cr	
44.340 (Liabilities Earned Leave Encashment)	1491952.45 Cr			1491952.45 Cr	Opening Closing remained unchanged.
44.360 (Leave Ssalary , Pension for Corp Employee Deputed Outside)	27496180.75 Cr		85,368.00	27581548.75 Cr	
44.402 (Employees Contribution to CPS)	5268.34 Cr	95,53,640.00	95,71,948.00	23576.34 Cr	
44.404 (Liability for Corporation's Contribution to CPS)	41796.83 Cr	95,53,640.00	95,75,130.00	63286.83 Cr	
44.406 (A) (LIC Recovery)	29206444.00 Cr	1,91,709.00	72,22,973.00	36237708.00 Cr	
44.406 (B) (LIC Payment)	28774275.00 Dr	70,85,951.00	1,05,727.00	35754499.00 Dr	
44.406 (LIC Recovered)	762463.76 Cr			762463.76 Cr	Opening Closing remained unchanged.
44.410 (Emp Cont to ESIS)	85334.94 Cr			85334.94 Cr	
44.429 (Misc Recoveries)	418000.34 Cr	45,36,468.00	44,76,849.00	358381.34 Cr	
44.429 D (Miscellaneo	231960.00 Dr			231960.00 Dr	Opening Closing

us Recoveries From Staff - Deputationis ts)					remained unchanged.
44.429 H/Rent to Govt Qtr. (Misc. Rec. - H/Rent to Govt. Qtr.)	8477.00 Dr			8477.00 Dr	
44.429 Society (Misc Recoveries - Society)	250615.00 Cr			250615.00 Cr	
44.429(B) (BANK LOAN PAYMENT)	14865821.00 Dr	45,91,696.00	19,794.00	19437723.00 Dr	
44.429(M) (Maintenance Allowance)	8000.00 Cr	1,13,000.00	1,19,500.00	14500.00 Cr	
44.429(M) (MAINTENANCE)	64800.00 Cr	7,20,500.00	7,31,400.00	75700.00 Cr	
44429(A) (Bank Loan (Staff))	161052.00 Cr	5,47,977.00	5,05,224.00	118299.00 Cr	
44429(A) (BANK LOAN RECOVERY)	14978639.00 Cr	8,26,370.00	54,28,142.00	19580411.00 Cr	
46.930 (Amounts Recd From LIC for Claims Under Group Insurance Scheme)	351564.26 Cr			351564.26 Cr	Opening Closing remained unchanged.
46.936 (Liability for CPS Fund Emp and Corp Emp and Corp (Board of Trustees of CPF))	23670499.34 Cr	2,75,53,799.00	1,91,07,280.00	15223980.34 Cr	

13. NOTE 17: REVENUE FROM OPERATION:

a. The statement of Profit and Loss for the year ended 31st March 2018 shows Sales at Rs. 814.35 crores whereas Power Purchase costs are shown as Rs. 921.74 crores. Thus, there is a gross loss of Rs. 89.84 crores. The quantitative details of power purchased during the FY 2017-18 and power sold during FY 2017-18 are as under.:-

Total Power purchased= 2857.100 (MU) (Note 21)
Total Power sold = 1895.706 (MU) (Note 17.1)
Difference = 961.394 (MU)

We sought an explanation from the management regarding the above difference in power purchased and power sold however no convincing reply could be provided.

b. Revenue from Operation is inclusive of rebate on purchase of Energy amounting to Rs. 1,97,033/- , which is absolutely related with Purchases of Power and hence should be deduction from Power Purchases Cost under Note 21 of the Financial Statement. Thus both the Sale and purchases are apparently overstated by Rs. 1,97,033/-.

c. Note 17.3 gives the quantitative details of sale of power outside the state of 880.09 MU which includes sale through swapping, exchange however, we were not provided with the complete information and documents related to the transactions and therefore we are not in a position to comment on the correctness of the sale figure reported against the aforesaid items.

14. NOTE 21: POWER PURCHASE COSTS:

As per details provided by the Company the surcharge on power purchase from North Eastern Electric Power Corporation (NEEPCO) Limited for the year 2017-18 was Rs. 22.85 crores however only Rs.9.64 crores was reflected in the purchase cost. Thus the power purchase costs are understated by Rs.13.21 crores resulting in understatement of loss by the said amount of Rs.13.21 crores.

15. NOTE 28: SIGNIGICANT ACCOUNTING POLICIES

a. IND AS 8 on Accounting Policies, Changes in Accounting Estimates and Errors requires to correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:-

   i. Restating the comparative amounts for the prior periods presented in which the error occurred or;
   ii. If the error occurred before the earliest period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

   However, in the presented Financial Statements for the current period, such adjustments of Prior period items, incomes and expenses have not been made and have been shown in the balance sheet under a separate ledger head. Thus, such treatment of prior period items is observed to be inconsistent with the principles of IND AS 8.

16. OTHERS

a. IND AS 10 on Events after the Reporting Period states that Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Events that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the period) are one of the type of adjusting events.

We found that the Company has not complied with the principle laid down in INDAS in the following transactions:

i. Surcharge payable to NEEPCO prior to 2012 amounting to Rs. 4.67 crores was found to be incorrect and it was approved in Board Meeting No. 60 held on 25/09/2018.

ii. Waiver of 60% of the delayed payment charges of M/s MCCL amounting to Rs. 6,08,24,601.60/- was resolved in Board meeting No. 57 dated 04/04/2018

The accounts for the Financial year 2017-18 were approved by Board of Directors on 20/03/2019 thus the above two events were before the approval of the financial statements and therefore should have been provided for in the financial statements of Financial year 2017-18.
Thus, the above instances are observed to be inconsistent with the provisions of IND AS 10.

5. Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of matters reported by us in point 4 Basis of qualified opinion paragraph and the possible effects of matters described therein, the accompanying, aforesaid standalone 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,

a. In the case of the Balance Sheet, of the State of Affairs of the Company as at March 31,2018. and
b. In the case of the Statement of Profit and Loss (including other Comprehensive Income), of the Loss for the Financial Year ended as at 31st March 2018;

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c. in the case of the Cash Flow Statement, of the Cash Flows for the Financial Year ended as at 31st March 2018;
d. in the case of Changes in Equity for the Financial Year ended as at 31st March 2018;

6. **Emphasis of matter:**

We draw attention to the following matters related to financial statements

a. The Company has adopted Indian Accounting Standards (IND AS) during the financial year 2016-17 and accordingly its financial statements for that year included three years balance sheets however for the present financial year it has again prepared three years Balance sheets which were not required.

b. NOTE 3: FINANCIAL ASSETS (OTHERS) Rs. 6439959.92 Note 3.1 states that the amount is recoverable from the State Government and it is subject to confirmation and reconciliation.

c. NOTE 6: CURRENT TAX ASSETS: Rs.402328.00 the note 6.1 states that this amount is subject to reconciliation and its actual status as current/non-current can be known after reconciliation is completed.

d. Note 15.1 on Current Liabilities amounting to Rs. 32,28,52,132.54 states that the determination of actual status of Tax Liabilities and their corresponding reconciliation with book balances is under process.

e. As per the Tripartite Memorandum of Understanding amongst Ministry of Power, Government of India, Government of Meghalaya and Meghalaya Power Distribution Company Limited under the Ujwal Discom Assurance Yojana (UDAY) scheme dated 9th March, 2017, it was decided that for the 25% of the debt remaining with MePDCL, DISCOM to fully/ partially issue state government guaranteed bonds or get them converted by GoM/ banks/ FIs into loans or bonds with interest not more than the bank base rate plus 0.1%.

However, it has been observed that in some cases, interest on loans is being charged at a much higher rate as compared to average base rate of SBI prevailing during the relevant period of audit, i.e. 8.875 %. The above mentioned cases are as follows :-

Sl No.	PARTICULARS	LOAN AMOUNT (Rs)	INTEREST RATE CHARGED	EXCESS AS COMPARED TO BASE RATE
1	Rural Electrification Corporation (REC) Limitied (MTL-II)	6,24,99,998.00	12.75%	3.875%
2	Power Finance	3,25,00,00,000.00	12.15%	3.275%

	Corporation (PFC) Limited			
3	Meghalaya Energy Corporation Limited, MeECL (Holding Company)	98,39,05,349.00	11.75%	2.875%

f. Further, to point (d) above as per the Tripartite Memorandum of Understanding amongst Ministry of Power, Government of India, Government of Meghalaya and Meghalaya Power Distribution Company Limited under the Ujwal Discom Assurance Yojana (UDAY) scheme dated 9th March, 2017, MePDCL had proposed to reduce the level of AT & C losses to 27.50% by the end of Financial Year, 2017-18. However, if the difference in sale of power as mentioned in point 01 above is considered then the AT & C loss comes to 33.65% for the FY 2017-18 which is 6.15% in excess of the projected losses for the year, i.e. 27.50%

Moreover, Internal Audit Inspection Report of the Central Revenue Division of MePDCL (one of the largest revenue division) for the period from 1st April, 2016 to 31st March, 2018, mentions the reasons for high AT & C losses due to billing inefficiencies stating that the division has not been performing up to the mark in terms of recovery of energy dues from the consumers. There are a number of consumers with large outstanding balances who are not paying but are still enjoying power supply. The observation applies to other divisions also.

g. Under Micro, Small and Medium Enterprises Development Act, 2006 read with MCA notification GSR 719(E) dated 16/11/2007 certain disclosures are required to be made relating to Micro, Small and Medium Enterprises

Section 22. Requirement to specify unpaid amount with interest in the annual statement of accounts.-

Where any buyer is required to get his annual accounts audited under any law for the time being in force, such buyer shall furnish the following additional information in his annual statement of accounts, namely:—

h. the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier as at the end of each accounting year;

i. the amount of interest paid by the buyer in terms of section 16, along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;

j. the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act;

k. the amount of interest accrued and remaining unpaid at the end of each accounting year; and

l. the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of dis allowance as a deductible expenditure under section 23.

The above disclosures have not been made by the Company.

7. Report on Other Legal and Regulatory Requirements

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

b. 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 subject to the observations made in point 4 and 6 above.

ii. 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 (including other Comprehensive Income), the Statement of Cash Flows and the Statement of Changes in the Equity dealt with by this Report are in agreement with the Books of Account;

iv. Except for the possible effects of the matters described in paragraph 4 Basis for Qualified Opinion in our opinion, the aforesaid standalone Ind AS financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules,2014;

v. In pursuance to the Notification No. G.S.R 463 (E) dated 05-06-2015 issued by the Ministry of Corporate Affairs , Section 164 (2) of the Companies Act, 2013 pertaining to disqualification of Directors, is not applicable to the Government Company.

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 B.** 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:

i) the Company has not disclosed the impact of pending litigation on its financial position in its standalone Ind AS financial statements.

ii) the Company has not made provisions, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long term contracts.

iii) There are no amounts required to be transferred to the Investor Education and Protection Fund by the Company.

FOR & ON BEHALF OF

B.L. PUROHIT & CO.
CHARTERED ACCOUNTANTS
FRN 311056E

SUBHASH PUROHIT, FCA
PARTNER
MEMBERSHIP NO. 059631

DATED: 08/11/2019
CAMP AT SHILLONG

Meghalaya Power Distribution Corporation Limited

Annexure A to the Independent Auditor's Report for the Financial Year 2017-18
Referred to in paragraph 7(a) of Independent Auditor's Report to the members of the Company on the Standalone Ind AS Financial Statements.

i) a) The company has maintained Fixed assets Register at its head office on the basis of records procured from the concerned accounting head. However, such fixed assets register does not contain quantitative details and exact situation of its fixed assets. Further, the fixed assets register is not in the standard format. The value of assets as per the register and as per the financial records does not match.

b) With regard to Physical Verification of Fixed assets, we were informed that Physical Verification was not done at regular intervals.

c) The title deeds of immovable properties were not produced to us for our verification; hence we are unable to comment that the company has recorded title deeds in its own name in respect of all the immovable properties in the possession of companies. The management has informed us that the company is in the process of getting its name incorporated in the various assets and liabilities transferred to it from its holding company, as per provisions of "The Meghalaya Power Sector Reforms Transfer Scheme 2010" and till date major part of the assets transferred to the Company is still in the name of its Holding Company i.e. Meghalaya Energy Corporation Limited .

ii) As explained and informed, the Company has conducted physical verification of its inventories at various divisional and sub divisional offices as on 31st March, 2018. However, the data furnished by the divisions is not complete and adequate to determine the material discrepancies if any.
The procedure of physical verification of inventory followed by the management is not reasonable and adequate and is not commensurate with the size of the company and nature of the business of the company.

iii) The Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 189 of the Companies Act, 2013. However , the company has given/ taken advances from the company to / and from companies , firms or other parties covered in the register maintained under section 189 of the Companies Act, which were during the normal course of business transactions carried on at arm's length.

B. L. PUROHIT & CO. K.K. Tower Ulubari Guwahati Chartered Accountants

iv) As explained and informed, the Company has complied with the provisions of section 185 and 186 of the Companies Act 2013 in respect of loans, investments, guarantees and security provided by it.

v) The company has not accepted any deposits from the public and hence the directives issued by the Reserve Bank of India and Provisions of Section 73 to 76 or any other relevant provisions of the Act and the Companies (Acceptance of Deposit) Rules, 2015 with regards to deposits accepted from the public are not applicable.

vi) We have broadly reviewed the cost records maintained by the company pursuant to the rules made by the Central Government for maintenance of cost records under Section 148(1) of the Companies Act, 2013 and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained. However the Company could produce for our verification Cost Audit Report only up to the Financial Year 2016-17

vii) a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts 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, Duty of customs, Duty of excise, Value added tax, and any other material statutory dues have been deposited during the year by the Company with the appropriate authorities. However, electricity duty payable remains outstanding as on 31st March, 2018 under Account Head 46.301 (E.D. and other Levies Payable to the Government) amounting to Rs. 30,49,79,663.33. Further, the management has stated that the undisputed arrears of statutory dues as at 31st March, 2018, for a period of more than six months from the date they became payable is not reported from the field units.

b) According to the information and explanations given to us by the management there are no dues outstanding in respect of Income Tax, sales tax or service tax or duty of customs or duty of excise or value added tax which have not been deposited on account of dispute.

viii) Based on our audit , and as per the information & explanation given by the management, the company has defaulted in the repayment of dues of principal or interest on loan to the financial institutions, banks and Government. Lender wise default details have been disclosed in Note 10 of Financial Statement.

ix) Based on our audit and according to the information and explanations given to us no moneys were raised by way of initial public offer or further public offer (including debt instruments) and no term loans have been taken by the Company during the year.

x) We have not been provided with the information regarding fraud by the Company or on the Company hence we cannot report on this matter.

xi) Based on our audit and according to the information and explanations given to us the managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act.

xii) The company is not a Nidhi company. Therefore the provision of clause 4 (xii) of the Order are not applicable on the Company.

xiii) Based on our audit and according to the information and explanations given to us the transactions entered by the company with the related parties are in compliance with section 177 and 188 of the Companies Act, 2013, where ever applicable and the details have been disclosed in the Financial Statements, as required by the applicable accounting standards.

xiv) Based on our audit and according to the information and explanations given to us the company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review.

Meghalaya Power Distribution Corporation Limited

Annexure A to the Independent Auditor's Report for the Financial Year 2017-18
Referred to in paragraph 7(a) of Independent Auditor's Report to the members of the Company on the Standalone Ind AS Financial Statements.

xv) According to the information and explanations given to us by the management, the company has not entered into any non–cash transactions with directors or persons connected with them.

xvi) The company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934.

FOR & ON BEHALF OF
B.L. PUROHIT & CO.,
CHARTERED ACCOUNTANTS
FRN 311056E

B.L. PUROHIT & CO. K.K. Tower Ulubari Guwahati Chartered Accountants

SUBHASH PUROHIT, FCA
PARTNER
M. NO. 059631
DATED: 08/11/2019
Camp at Shillong

Meghalaya Power Distribution Corporation Limited

Annexure –B to the Auditors' Report

Referred to in paragraph 7(b)(vi) of Independent Auditor's Report to the members of the Company on the Standalone Ind AS Financial Statements for the Financial Year 2017-18

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 Meghalaya Power Distribution Corporation Limited (the Company') as of 31st 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 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). The 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 the 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 to 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 were 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 bases on the assessed risk. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error.

K.K. Tower Ulubari Guwahati Chartered Accountants

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 authorization of the Management of the Company, and (3) provided 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

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.

Qualified Opinion

As explained and informed by the Management the Company and based on the audit evidence obtained by doing sample audit and as evident from the various notes and disclosures made in relation to the financial statements of the year ended 31st March, 2018 the following material weakness, control lapses have been identified as at 31st March 2018 in its internal financial control over financial reporting of its operations:

1. The Company did not have appropriate/adequate internal control procedure commensurate with the size, nature, complexity of its business operations with regard to:
   - Maintenance of books of accounts: Lack of uniformity in system of maintenance of accounts at the division and head quarter levels.

K.K. Tower
Ulubari
Guwahati

Meghalaya Power Distribution Corporation Limited

Annexure –B to the Auditors' Report

Referred to in paragraph 7(b)(vi) of Independent Auditor's Report to the members of the Company on the Standalone Ind AS Financial Statements for the Financial Year 2017-18

- Lack of periodical reconciliation between daily cash collection as per cash book and Monthly statements submitted by divisions/sub divisions. Lack of authenticity of physical verification certificates with regards to Capital work-in-progress, fixed Assets, Cash and Bank balance and inventories.
- Lack of updation of registers, reconciliation of books at regular intervals and the cascading effect of long pending unresolved balances and negative balances reflected in the books of accounts.
- Substantial unreconciled figures with regards to inter-division transaction
- Delay in transfer from capital work in progress to fixed assets on the basis of completion certificates.
- Deficiency in maintenance of party wise details with respect to third party transaction.
- Lack of segregation of financials between the parent company and its subsidiaries, in the actual sense of the statement.
- Entitlement of assets and liabilities especially Term Deposits, Loan, Bank Accounts) remaining centralized at the level of the holding company, instead of titles being handed over in reality.

2. Further, formal reviewing procedures are yet to be established with regards to Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India.

FOR & ON BEHALF OF
B.L. PUROHIT & CO.
CHARTERED ACCOUNTANTS
FRN 311056E

SUBHASH PUROHIT, FCA
PARTNER
M. NO. 059631
DATED: 08/11/2019
Camp at Shillong