

## **INDEPENDENT AUDITORS' REPORT**

**TO THE MEMBERS OF MEGHALAYA POWER GENERATION CORPORATION LIMITED**

### **1. Report on the Financial Statements**

We have audited the accompanying financial statements of **MEGHALAYA POWER GENERATION CORPORATION LIMITED** ("the Company"), which comprise the Balance Sheet as at 31 March 2017, the Statement of Profit and Loss, the Cash Flow Statement and the Statement of Changes in Equity for the year ended on that date, and a summary of significant Accounting Policies and other explanatory information, which we have signed under reference to this report.

### **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 financial statements that give a true and fair view of the financial position, financial performance and cash flows 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 Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes the maintenance of adequate accounting records in accordance with the provision of the Act for safeguarding of the assets of the Company and for preventing and detecting the 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 control, 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.

### **3. Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

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



amounts and disclosures in the financial statements. 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. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give 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 control system over financial reporting and operating effectiveness of such controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by Company's Directors, as well as evaluating the overall presentation of the 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 financial statements.

#### **4. Basis for Qualified Opinion**

(A) Fixed assets have not been identified individually and also fixed assets register is not maintained properly showing full particulars with cost and date of purchase of assets, as a result of which we are unable to comment on the correctness of depreciation charged during the year. Effect of the same on the financial result of the Company is not ascertainable.

(B) Fixed Asset schedule in 2015-16 included Rs. 3110.50 lakhs as Land and Land Rights whereas the same schedule of 2016-17 shows the same amount as Land only. The reason for deleting Land Rights from the schedule is not explained.

(C) Overdraft account No. 3081551270 maintained with Central Bank of India has been closed by premature closure of MMDC on 27.04.2016. In the Financial Statement as on 31.03.2017 the Overdraft balance of Rs. 3,19,42,250 is still appearing. The impact of the reconciliation in the account is not ascertainable.

(D) In Trial Balance under the head Security Deposit in Cash-O&M (A) (46.121) as on 31.03.2016 balance is Rs. 47,54,123.00 (Cr.) and as on 01.04.2016 balance is Rs. 47,39,123.00 (Cr.). The difference of Rs. 15,000.00 could not be explained.

(E) Deferred Tax calculation as per Ind AS 12 has not been carried out and impact of the same in the financial statements is not ascertainable.

(F) TDS of Rs. 88,200 deducted by Federal Bank on payment of interest has been wrongly booked under Holding Company (MeECL) instead of MeGCL. Current Tax Asset (Not 6) is understated by the same amount.

(G) The Company has not valued employees retirement benefits as contemplated in Ind AS 19 'Employee Benefit'. Hence the impact of the same on the financial statement is not ascertainable.



**(H) Capital work in progress includes Rs. 306.16 lakhs on account of completed projects lying in the books for a long period of time which should either be capitalized to the respective Projects or written-off . The financial impact of the same is not ascertainable at this stage.**

**(I) Survey and Investigation works include Rs. 48.82 lakhs lying in the books for a long period of time which should be scrutinized and appropriate adjustments should be made in the books of account. The financial impact of the same is not ascertainable at this stage.**

**(J) In Generation III Byrnihat Project Switchgear including cable connection transmission amounting to Rs. 1,18,70,948.24 has been commissioned in 2009 but has been capitalized in the books in 2016-17. Consequently, depreciation of Rs. 43,87,502.00 has not been charged from 2009-10 to 2015-16 resulting in understatement of depreciation of Rs.43,87,502.00 over the years.**

**(K) Insurance claim has been lodged for Rs. 59,53,775.00 towards Damage to Radial Gate No.2 Stage II at Kyrdemkulai. The claim has been settled for Rs. 36,47,691.00 of which Rs. 850,000.00 received on 12.04.2016 has not yet been accounted for and is appearing in the Bank Reconciliation Statement. Rs. 27,97,691.00 received on 10.03.2017 has been considered as income as Exceptional Item without adjusting the same against the value of asset as per records. Based on the available records and considering that the insurance claim has been lodged for the book value of asset (details not available) loss on settlement of insurance claim amounting to Rs. 23,06,084.00 has not been accounted for. Consequently the loss for the year is understated by Rs.51,03,775.00 (Rs.27,97,691.00 insurance claimed received has been considered as income instead of adjustment against the value of assets and Rs.23,06,084 being the short settlement of insurance claim).**

**(L) In Generation I Sumer Project Hydel power generating plant amounting to Rs. 12,61,94,133.00 has been commissioned on 6<sup>th</sup> January 2012 but has been capitalized in the books in 2016-17. Consequently, depreciation of Rs. 2,77,62,708.00 has not been charged from 2011-12 to 2015-16 resulting in understatement of depreciation of Rs.12,61,94,133.00 over the years.**

**(M) Assets not in use amounting to Rs. 15,54,504.14 included under Property, Plant and Equipment (Note 1) are appearing in the books from prior to 1994-95. Adequate provision for reduction in value of assets has not been made in the accounts.**

**(N) Term Deposits of the company are held in the name of the MeECL (Holding Company) and all transactions relating to the same are handled by them. Based on the advice/intimation given by the holding Company to MeGCL necessary accounting entries are recorded in the books of the company.**

**During the year under review the closing balance of Term Deposits in the books of the MeGCL as on 31.03.2017 stood at Rs. 16,48,67,809.00 – (Credit Balance) after taking into consideration the opening balance on 01.04.2016, investments and redemptions made during the period based on the advices received from the Holding Company.**



The Board of Directors of the Company at its meeting held on 24.11.2017 has recorded that the actual value of Term Deposits as on 31.03.2017 (as per confirmation) is Rs. 45,45,40,878.86. Hence, in order to match the negative Term Deposit balance in the books of Rs. (16,48,67,809.00) with the confirmation balance of Rs 45,45,40,878.86, entries have been passed in the books recording Rs. 61,94,08,687.86 as various credits presumably not recorded in the books over a period of time spanning from 2008-09 to 2016-17.

Out of Rs. 61,94,08,687.86, only Rs. 2,81,61,831.00 has been considered as income for the year 2016-2017, Rs. 12,78,84,805.77 as prior period income and Rs. 46,33,62,051.59 as Retained Earnings. We find from the details provided to us that out of Rs. 46,33,62,051.59 (total Retained Earnings), Rs. 40,02,69,343.59 has been considered as "bifurcation of remaining difference in booking of initial investment" for which details are not available. The above amount of Rs. 40,02,69,343.59 along with Rs. 6,30,92,708.00 (which has been considered as interest income earned before the incorporation of the company) have been considered as Retained Earnings.

We have been provided with confirmations from the Holding Company (MeECL) as to the total value of Term Deposits of Rs. 45,45,40,878.86 as on 31.03.2017. The details of Rs. 40,02,69,343.59 (bifurcation of remaining difference) treated as Retained Earnings and the reason for treating Rs. 6,30,92,708.00 as Retained Earnings instead of Prior Period Income are not available. Hence we are unable to comment on correctness/accuracy of considering Rs. 46,33,62,051.59 as Retained Earnings in 2016-2017 (Statement of changes in Equity). Impact of income tax, if any, on the above amount cannot be ascertained.

(O) Significant Accounting Policies (Note 27) states that :-

the Company has prepared the Financial Statements of 2016-17 in accordance with the Indian Accounting Standard (Ind AS) and has complied with the requisite provisions of the Standard for the previous and current reporting period. It has also been stated that Compliance with Ind AS is an ongoing process and the degree of implementation has been carried out to the extent pragmatic for the company.

Additional Information (Note 29) discloses :-

various reasons under Prior Period Adjustments (Para X) and Reconciliation (Para XI) highlighting several shortcomings and difficulties to restate the figures of previous periods accurately and has concluded that :-

"In the light of the aforementioned bottlenecks existent during the process of preparation of Financial Statement, ascertainment of fair values in accordance with the relevant Indian Accounting Standards (Ind- AS) on a ledger-to-ledger basis has been rendered incapacitated. Remedial action to mitigate this problem is under process."



The company has entrusted the assignment of implementation of Ind AS to an outside agency who has inter-alia stated :-

“the adherence to multiple recognition, measurement, discounting and fair-value related requirements as enumerated in the Indian Accounting Standards (Ind-AS) has been rendered practically impossible due to umpteen inherent problems woven deep into the existing operations and maintenance of finance.”

The aforesaid agency has also confirmed that :-

(i) “with regard to revision of figures of earlier years to arrive at Opening Balances as 1st April 2017, only grouping changes have been made as mandated by Schedule III, Division II of the Companies Act 2013. No Ind AS related entries have been passed to change the book values of Opening Balances of Ledgers for the Financial Year 2016-17.”

(ii) “with regard to Ind AS implementation for the Financial Year 2016-17, only Disclosures have been made, subject to the points mentioned supra. No entries have been passed to incorporate specific needs of recognition vide Discounting, Fair Value Measurements of Recognition in Other Comprehensive Incomes or Statement of Profit or Loss, due to the reasons stated supra.”

In view of what has been stated above by the Company and the agency engaged for Ind-AS implementation, we are of the opinion that first time adoption of Ind-AS by the Company is not complete and comprehensive. Rearranging/regrouping of figures of previous years and consequential effect of the same, if any, in the current year remain unverified in the absence of due reconciliation of the same.

Cumulative financial impact of the above observations on the Financial Statements of the Company for the year 2016-2017 is not ascertainable.

## **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 the matters described in Paragraph 4, (Basis for Qualified Opinion) Paragraph 5 (Emphasis of Matter) and our opinion on Internal Financial Control (Annexure – III), the aforesaid 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 Ind AS specified under section 133 of the Act:

(A) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March 2017;

(B) in the case of the Statement of Profit and Loss of the loss for the year ended on that date;



(C) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date;

(D) changes in Equity for the year ended on that date.

## **6. Emphasis of Matter**

We draw attention to the following matters :-

(A) Equity Capital pending allotment as on 31.3.2017 stood at Rs. 92,19,00,500 which attracts Sec. 42(6) of the Companies Act, 2013 as the Share Application Money pending Allotment is outstanding for more than 60 days which is non-compliance of the Companies Act, 2013.

(B) In the course of our audit we have verified the Trial Balance and observed that certain account codes have negative balances as follows:-

<u>Account Code</u>	<u>Particulars</u>	<u>(Rs.)</u>
22.231	GI Sheet O&M	(57,356.00)
22.501	Steel-Materials Stock Adjustment Account	(3,30,830.00)
22.613	NUHEP- Others Stock Account (Capital 2)	(9,21,773.00)
22.646	Electric Light fittings materials at Site Accounts	(14,98,544.00)
22.647	GI sheets Materials at Site Accounts Capital	(3,27,167.00)
22.648	GI Pipes- Materials at Site Accounts Capital	(569,468.00)
22.649	Others- Materials at Site Accounts Capital	(90,90,046.78)

(C) A comprehensive statement should be prepared showing total Bank deposits held in the name of the Company and the Holding Company, borrowing against fixed deposit of Holding Company, fixed deposit transferred by Holding Company to the Company, fixed deposit created out of grant and loans received and interest earned on the above fixed deposits. These statement/reconciliation is necessary to clearly understand the ownership and movement of deposits, liabilities created etc.



- (D) Inventory valuation by the Company is not as per Ind AS 2 "Valuation of Inventories". Hence the impact of the same in the financial statements is not ascertainable. In the financial statements Note – 4, Inventories include Rs.55,49,345.55(Credit Balance) as Capital Stock (Work-in-progress). The account should be reconciled.
- (E) The common expenses of Holding Company (MeECL) are allocated into the books of accounts of Company (MePGCL).The basis of allocation is not ascertainable. Hence we are unable to comment on the impact of the same in Financial Statement.
- (F) The Net balance of Current Tax Liabilities is Rs. 468614.87 – (Debit Balance). The account should be reconciled.
- (G) During the year Rs 2399.70 lakhs due from MePDCL (a group company) has been written off as Related Party Expenses (Note 24) on the basis of a resolution passed by the Board of Directors. There is no established policy with regard to provision/write off of Related Party Expenses / Bad Debts.
- (H) Rs. 1377.20 Lacs and Rs. 1128.03 Lacs received by the Company from State Government (OECF) and (JBIC) appearing in the books respectively since 2012-13 have been treated as Borrowing as per Note 10 of the financial statements. There is no repayment of principal and no interest liability has been accounted for since there is no stipulation to that effect. It has been explained by the company that the above loans are, strictly speaking, in the nature of grant received from the Government and the liability of repayment of the principal amount and interest lies with the Government concerned and not with the company. The correct nature of the liability should be ascertained and the necessary entries in terms of Ind AS should be passed in the books.
- (I) As per MSERC directives, the Company is required to create a Depreciation Reserve for future Investments and R&M but the same has not been done.



(J) Party wise/age wise details should be maintained for the following:-

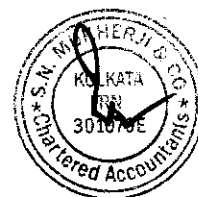
	<u>(Rs. in lakhs)</u>
Liabilities for Capital Suppliers	2791.92
Liabilities for O&M related Supplies	1346.52
Staff related Liabilities	1673.94
Security Deposit and Retention Money Payable	1007.89
Liabilities for Expenses	4553.87
Others	132511.60

(K) Insurance claim has been lodged for Rs. 26,17,400.00 for damage to HMI Display at Power Station-2 in 2016. The claim has not been settled. No provision for possible loss has been assessed and accounted for.

(L) During the year under review internal audit has been carried out by In-house internal audit team for one DDO only out of sixteen DDOs. The area and scope of audit should be suitably expanded / modified and approved by the Audit Committee of the Board to cover all the operating and financial areas in the company.

(M) In the course of our audit it was observed that the debit balance and the credit balance of the same account codes are being adjusted and the net balance are reflected in the financial Statement. Company should state the debit and credit balances separately provided they are for different types of transactions.

(N) Receivables against Temporary Sale of Power is Rs.64,09,297.00 (Credit Balance) is appearing in Note 5(a). The account should be reconciled.



(O) On the basis of the Financial Statements produced to us for audit we observe the following:

	<u>(Rs.)</u>	<u>(Rs.)</u>	<u>(Rs.)</u>
(i)	<b>Audited Accounts 2014-15</b>	<b>Regrouped Accounts 2014-15</b>	<b><u>Difference</u></b>
Total of Balance Sheet	<u>2104,06,77,500.00</u>	<u>2413,98,73,965.77</u>	<u>309,91,96,465.77</u>

Increase in Debit Balance has been made as follows

a) Related Party Receivables	(Note 7)	309,85,33,714.79
b) Staff Related Advances & Claims Receivable	(Note 7)	<u>6,62,750.98</u>
		<u>309,91,96,465.77</u>

	<u>(Rs.)</u>	<u>(Rs.)</u>	<u>(Rs.)</u>
(ii)	<b>Audited Accounts 2015-16</b>	<b>Revised Accounts 2015-16</b>	<b><u>Difference</u></b>
Total of Balance Sheet	<u>2135,06,94,405.00</u>	<u>2615,03,98,539.46</u>	<u>479,97,04,134.46</u>

Increase in Debit Balance has been made as follows

i) Related Party Receivables (Note 7)	<u>479,97,04,134.46</u>
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The reason for such increase in respective balances as mentioned above, as also, the corresponding credit entries remain unexplained.

(P) Debit and Credit balances appearing in the statements in the names of MeECL, MeDCL and MeETL (group companies) are subject to confirmation by the respective Companies.



## 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 the "Annexure I" a statement on the matters specified in paragraphs 3 and 4 of the Order.

2. As required by section 143(5) of the Act, we give in "Annexure II" a statement based on the directions issued and matters specified by the Comptroller and Auditor General of India.

3. As required by section 143 (3) of the Act, 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 purpose of our audit;

(B) in our opinion proper books of account, subject to our observations in Basis for Qualified Opinion and Emphasis of Matter (Para 4 and 6 respectively), as required by law have been kept by the Company so far as it appears from our examination of those books;

(C) Secretarial Audit has been carried out for the year 2016-2017 and the audit report inter-alia states :-

- (i) "there was no proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively". (Para vii).
- (ii) "that there are inadequate systems and processes in the Company commensurate with the size and operations of the Company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines".

(D) the Company does not have any branch, as such provisions of Section 143(8) of the Act is not applicable to the Company.

(E) the financial statements dealt with by this report are in agreement with the books of account.

(F) in our opinion , the aforesaid financial statements do not comply with the Ind AS specified under section 133 of the Act, in view of our observations in 'Basis for Qualified Opinion' and "Emphasis of Matter" (Para 4 and 6 respectively).

(G) The provision of Section 164(2) of the Companies Act, 2013 do not apply to the Company being a Government Company, in terms of notification no G.S.R 463 (E) dated 05.06.2015 under section 462 of the Companies Act 2013 issued by Ministry of Corporate Affairs, Government of India.

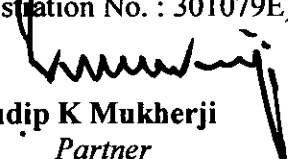


- (H) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate report in "Annexure III".
- (I) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014 (as amended), in our opinion and to the best of our information and according to the explanations given to us:-
- (i) the Company does not have any pending litigations which would impact its financial position, other than those mentioned in the Notes to Accounts.
  - (ii) the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
  - (iii) there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

Place: Kolkata  
Date: 14.09.2018



For S.N.Mukherji & Co.  
Chartered Accountants  
(Firm Registration No. : 301079E)

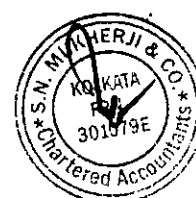
  
Sudip K Mukherji  
Partner  
(Membership No 013321)

**MEGHALAYA POWER GENERATION CORPORATION LIMITED, SHILLONG**

**Annexure I to the Independent Auditors' Report**

[Referred to in paragraph 1 under 'Report on Other Legal and Regulatory Requirements' of our Report of even date to the members of **MEGHALAYA POWER GENERATION CORPORATION LIMITED** on the accounts of the Company for the year ended 31<sup>st</sup> March, 2017]

- 1) (a) The Company has not maintained proper records showing full particulars, including item wise quantitative details and situation of fixed assets;
- (b) The Company has not carried out physical verification of fixed assets during the year 2016-17. So, we are unable to comment on the material discrepancies existing as on 31.03.2017.
- (c) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the title deeds of immovable properties are held in the name of Holding Company (MeECL) (Refer Note 29 IV).
- 2) (a) On the basis of our audit and according to the information and explanations given to us, the management has not conducted physical verification of inventory at reasonable intervals. So we are unable to comment on the material discrepancies between physical inventory and those appearing in the financial statements.
- (b) On the basis of our audit and according to the information and explanations given to us, the management did not undertake the valuation of inventory as contemplated in Indian Accounting Standard 2 'Valuation of Inventories'.
- 3) During the year the Company has neither granted nor taken any loan, secured or unsecured to / from Companies, Firms, Limited Liability Partnerships or other parties covered in the Register maintained under section 189 of the Act other than the transactions between the Holding Company and fellow Subsidiaries.
- 4) In our opinion and according to the information and explanations given to us, 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 made other than the transactions between the holding company and fellow subsidiaries.
- 5) The Company has not accepted any deposit from the public.
- 6) No cost records have been maintained by the Company. Cost Audit has not been carried out for the year 2016-2017.



7) In respect of Statutory Dues :-

- (a) According to the books and records as examined by us, the Company is generally not regular in depositing undisputed statutory dues with the appropriate authorities.
- (b) In the absence of the relevant information, we are unable to comment, whether no undisputed amounts payable in respect of Income-Tax, Wealth-Tax, Sales Tax, VAT, Labour Cess, Customs Duty, Excise Duty and Cess were in arrears as at 31.03.2017 for a period of more than six months from the date they became payable.
- (c) According to the information and explanations given to us, the following statutory dues are outstanding as at March 31, 2017:-

	(Rs.) <u>As per Management letter</u> <u>Dt 22.05.2018</u>	(Rs.) <u>As per Financial Statements</u> <u>as at 31.03.2017</u>
i) Labour Cess	1,01,69,494.00	45,26,448.55
ii) VAT	1,30,04,582.00	
iii) VAT	<u>1,53,66,702.00</u>	2,83,71,284.00
iv) Education Cess	Not available	Not available
v) Service Tax	NIL	10,77,172.04
vi) MFT	NIL	1,26,02,292.12

- (d) In respect of TDS on salary, contract, professional fees, consultancy fees etc. the same is being done with the TAN of MeECL. Also there were default in deduction of TDS, delays in depositing the same with the Income Tax Department as well as delays in filing Quarterly TDS Returns.

8) We have been informed that all the pending litigations are handled by the Holding Company.

9) As per records, the Company has defaulted in repayment of dues to financial institutions and banks.



(10) Based upon the audit procedures performed and the information and explanations given by the management, the Company has not raised moneys by way of initial public offer or further public offer including debt instruments. However, a term loan has been obtained from MeECL (Holding Company) for a period of 5 years and the balance outstanding is Rs.58.54 Crores as on 31.03.2017 which is repayable in 60 monthly instalments (Refer Note 10).

(11) According to the information and explanations given by the management, we state that no fraud by the Company or on the company by its officers or employees has been noticed or reported during the year.

(12) According to the information and explanations given to us and based on our examination of the records of the Company, the Company was not required to pay/ provide for managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with schedule V to the Act.

(13) In our opinion, the Company is not a Nidhi Company. Accordingly, paragraph 3(xii) of the Order is not applicable.

(14) The Company is totally controlled by the Government of Meghalaya through the Meghalaya Energy Corporation Ltd. (Holding Company) and its nominees. Hence no disclosure is required as per Ind AS 24 (refer Note 29 IV).

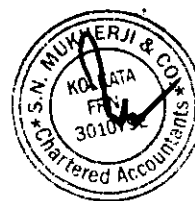
(15) According to the information and explanations given to us and based on our examination of the records, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year.

(16) Based upon the audit procedures performed and the information and explanations given to us, the company has not entered into any non-cash transactions with Directors or persons connected with them. Accordingly, paragraph 3(xv) of the Order is not applicable.

(17) In our opinion, the Company is not required to be registered under section 45 IA of the Reserve Bank of India Act, 1934.

For **S.N.Mukherji & Co.**  
Chartered Accountants  
(Firm Registration No. : 301079E)

Place : Kolkata  
Date : 14.09.2018



**Sudip K. Mukherji**  
Partner  
(Membership No.013321 )

**MEGHALAYA POWER GENERATION CORPORATION LIMITED, SHILLONG**

**Annexure- II**

General Directions under Section 143(5) of the Companies Act, 2013 applicable for the accounting year 2016-17.

SL. No.	Directions	Remarks						
1.	Whether the company has clear title/ lease deeds for freehold and leasehold land respectively? If not please state the area of freehold and leasehold land for which title/lease deeds are not available.	<p>As per Note 29 IV “the company is continuing the process of getting its name incorporated in the various assets and liabilities transferred to it from the Holding company, ie. Meghalaya Energy Corporation Limited (MeECL), as per the provisions of “The Meghalaya Power Sector Reforms Transfer Scheme, 2010”</p> <p>The Company is undertaking the process of ascertaining all similar assets which it has taken on lease. Furthermore, the proper bifurcation of such assets amongst the respective companies within the group is also under reconciliation. Note No. 29(XIII)</p>						
2.	Whether there are any cases of waiver/write off of debts/loans/interest etc., if yes, the reasons thereof and the amount involved.	<p>Yes. Amount involved: Rs. 23,99,70,568.04</p> <p>During the FY 2015-16 the sale of power bills to MePDCL was raised by the Corporation amounting to Rs. 205,74,52,069.04. There has been no direct transfer of funds from MePDCL to MePGCL to settle the bills raised. However, it may be stated that the expenses of MePGCI forthe FY 2015-16 had been met from the Revenue Collection of MePDCL through transfer of funds from the Holding Company. The same is taken as a case of indirect settlement ofthe Sale of Power by MePGCL to MePDCL. The detailed calculation is as under:</p> <table><tr><td>A. Bills raised to MePDCL for FY 2015-16</td><td>205,74,52,069.04</td></tr><tr><td>B. Expenses met from MePDCL</td><td>1,81,74,81,501</td></tr><tr><td>Difference (A-B)</td><td>23,99,70,568.04</td></tr></table> <p>Rs. 2399.70 Lakhs due from Meghalaya Power Distribution Corporation Limited has been treated as non-realisable and written off as Related Party Expenses.</p>	A. Bills raised to MePDCL for FY 2015-16	205,74,52,069.04	B. Expenses met from MePDCL	1,81,74,81,501	Difference (A-B)	23,99,70,568.04
A. Bills raised to MePDCL for FY 2015-16	205,74,52,069.04							
B. Expenses met from MePDCL	1,81,74,81,501							
Difference (A-B)	23,99,70,568.04							
3.	<p>Whether proper records are maintained for inventories lying with third parties ?</p> <p>Whether proper records are maintained for assets received as gift/ grants(s) from Govt. or other authorities.</p>	<p>Yes</p> <p>Records are maintained in respect of grants received from Government or other authorities.</p>						

Place: Kolkata  
Date: 14.09.2018



For S.N. Mukherji & Co.  
Chartered Accountants  
(Firm Registration No. : 301079E)

**Sudip K Mukherji**  
Partner  
(Membership No 013321)

**MEGHALAYA POWER GENERATION CORPORATION LIMITED, SHILLONG**

**ANNEXURE "III" to the Independent Auditor's Report of the even date on the Financial Statements of MEGHALAYA POWER GENERATION CORPORATION LIMITED**

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

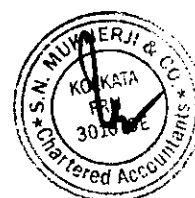
We have audited the internal financial controls over financial reporting **MEGHALAYA POWER GENERATION CORPORATION LIMITED** ("the company") as of 31 March, 2017 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

**MANAGEMENT'S RESPONSIBILITY FOR INTERNAL FINANCIAL CONTROLS**

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal controls over financial reporting criteria established by the Company considering the essential components of internal controls 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 ("the Act").

**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 Act 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 ICAI. 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

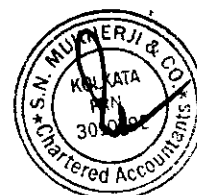
controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal controls based on the assessed risk. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial control system over financial reporting.

## **MEANING OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING**

A company's internal financial controls 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 controls over financial reporting includes those policies and procedures that :-

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



## **INHERENT LIMITATIONS OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING**

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

## **OPINION**

In our opinion, the Company has, an internal financial control system over financial reporting but in view of our various observations in the Independent Auditors Report under the head Basis for Qualified Opinion (Para 4) and Emphasis of Matter (Para 5) and the Secretarial Audit Report, we are of the opinion that such system should be carefully scrutinised and re-organised to make it commensurate with the operational and the financial requirements, based on the internal controls over financial reporting criteria established by the Company considering the essential components of internal controls stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by ICAI.

Place : Kolkata  
Date : 14.09.2018

For S.N.Mukherji & Co.  
Chartered Accountants  
(Firm Registration No. : 301079E)



A handwritten signature in black ink, appearing to read "Sudip K Mukherji".

**Sudip K Mukherji**  
Partner  
(Membership No 013321)