



**OFFICE OF THE
PRINCIPAL ACCOUNTANT GENERAL (AUDIT)
MEGHALAYA, SHILLONG-793 001**

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Speed Post/Hand

Ltr.No. ES-II/5-7/2018-19/30

Date: 24 April 2019

To

**The Chairman cum Managing Director,
Meghalaya Power Generation Corporation Limited
Lumjingshai, Short Round Road,
Shillong –793003.**

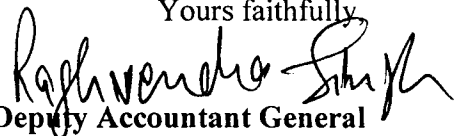
Sub: Comments of the Comptroller and Auditor General of India under Section 143(6) of the Companies Act, 2013 on the accounts of Meghalaya Power Generation Corporation Limited for the year ended 31 March 2017.

Sir,

I am to forward herewith the Comments of the Comptroller and Auditor General of India under Section 143(6) of the Companies Act, 2013 on the accounts of Meghalaya Power Generation Corporation Limited for the year ended 31 March 2017 for necessary action at your end.

2. The date of adoption of the above comments in the Annual General Meeting of the Company may be intimated to this office.
3. Five copies of the printed Annual Reports, when ready may be sent to this office and its date of placing in the State Legislature may also be communicated.
4. Receipt of the letter along with enclosures may kindly be acknowledged.

Encl: As stated above

Yours faithfully,

**Deputy Accountant General
Economic Sector-II**

**COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF
INDIA UNDER SECTION 143(6)(b) OF THE COMPANIES ACT, 2013 ON
THE FINANCIAL STATEMENTS OF MEGHALAYA POWER
GENERATION CORPORATION LIMITED FOR THE YEAR ENDED
31 MARCH 2017**

The preparation of financial statements of Meghalaya Power Generation Corporation Limited for the year ended 31 March 2017 in accordance with the financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the company. The statutory auditor/auditors appointed by the Comptroller and Auditor General of India under section 139(5) of the Act is responsible for expressing opinion on the financial statements under section 143 of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143(10) of the Act. This is stated to have been done by them vide their Audit Report dated **14 September 2018**.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 143(6)(a) of the Act of the financial statements of Meghalaya Power Generation Corporation Limited for the year ended 31 March 2017. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. Based on my supplementary audit, I would like to highlight the following significant matters under section 143(6)(b) of the Act which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related audit report:

A. Statement of Profit and Loss

Finance Costs (Note -22)

Interest: ₹143.66 crore

The above does not include ₹0.34 crore being the penal interest payable against outstanding loans and not provided for in the Book of Accounts. This has corresponding, resulted in understatement of Loss for the year by ₹0.34 crore.

B. Independent Auditors' Report

1. Refer paragraph 2 of Auditors' Report on 'Management's Responsibility for the Financial Statements'. The Statutory Auditors had omitted the words 'changes in equity' while describing the Management's role in preparation of the Financial Statements contrary to the format prescribed under the Standard on Auditing (SA 700).
2. Refer paragraph 9 of Annexure 1 to Independent Auditors' Report regarding Company's default in repayment of dues of financial institutions and banks. The auditors,

however, had neither mentioned the period and amount of said default nor reported about the loans from State Government (₹ 125.96 crore) and Bonds (₹ 170 crore) outstanding as on 31 March 2017 as per the requirements of the Companies (Auditor's Report) Order, 2016 (clause 3 (viii)).

Thus, the Report of the Auditors was deficient to that extent.

C. General

1. No Physical verification of stores was conducted during the year 2016-17. In absence of physical verification report for the year 2016-17, audit could not ascertain the value of stores and spares appearing in the balance sheet.
2. As per IND AS 16 -Property, Plant & Equipment (PPE) residual value and useful life of each asset shall be reviewed at each financial year. However, useful life of assets classified under PPE has not been assessed by the Company in 2016-17. Further, the Company did not conduct physical verification of Assets during the year 2016-17. In absence of physical verification report, audit could not verify the existence and value of assets appearing in the balance sheet.
3. As per IND AS 36 (para-9) – an entity shall assess at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indications exist, the entity shall estimate the recoverable amount of the asset. Non testing of impairment of asset is a non-compliance of the provision of IND AS.
4. As per the Guidance Note on Audit of Property, Plant and Equipment issued by ICAI, the assets which are under construction and shown under CWIP should be reviewed with respect to the intention and ability of management to carry forward and bring the assets to its state of intended use. Accordingly, the expenses which are not eligible for being capitalized are identified and charged to revenue. As on 31 March 2017, MePGCL had classified assets valuing ₹710.33 crore under Capital Work-in-Progress (CWIP) (Note-2). The details of CWIP, stage of completion and even after lapse of many years, the above assets are still shown under CWIP. In absence of physical verification report of CWIP, Audit could not ascertain the value of CWIP appearing in Balance Sheet. This needs to be reconciled.
5. The Other Current Assets (Note 7) includes ₹28.94 crore¹ being the Capital Advance to Suppliers/contractors) lying unadjusted since 2012-13. The Company has not obtained confirmation of these advances from the parties concerned.
6. Capital Work in Progress includes ₹ 3.02 crore being expenditure towards Survey and Investigation on two projects (Upper Khri ₹ 2.96 crore and Garo Hills Thermal Plant ₹ 0.06

¹Capital Interest free (L) (₹26.66 crore), Advances other than Capital Advances (O&M) (₹2.25 crore) and Claims Receivables (₹0.03 crore).

crore) which were withdrawn by the Government of Meghalaya from the Company. This fact should have been disclosed suitably in the accounts.

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



**(Stephen Hongray)
Principal Accountant General (Audit)**

**Place: Shillong
Date: 24 April 2019**