S. N. Mukherji & Co.
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

MEGHALAYA POWER GENERATION CORPORATION LIMITED

1. Opinion

We have audited the accompanying financial statements of **MEGHALAYA POWER GENERATION CORPORATION LIMITED (*"the Company"*)** which comprise the Balance Sheet as at March 31, 2018, the Statement of Profit and Loss, Statement of Cash Flows and Statement of Changes in Equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Companies Act 2013 (**"the Act"**) in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2018, and its loss, its cash flows and changes in equity for the year ended on that date.

2. Basis for Opinion

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

S. N. MUKHERJI & CO. KOLKATA Chartered Accountants

EMERALD HOUSE, 1-B, OLD POST OFFICE STREET, KOLKATA - 700 001, INDIA
PHONE : 2248-1726, 2230-7281, FAX : 033-2230-7281, E-mail : snm_calcutta@hotmail.com

3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and we have determined the matters described below to the key audit matters to be communicated in our report.

Key Audit Matters	How our audit addressed the Key Audit Matters
1. **<u>Change in Accounting Policy for recognition of Revenue :</u>**	Our audit procedures in relation to the change of Accounting Policy relating to recognition of revenue in 2017-18 vis-a-vis the policy followed upto 2016-17 included but were not limited to the following :- • Obtained an understanding of the nature of invoices raised by the Company for sale of Power to MePDCL (a group company) and discussed the key developments during the year which has resulted in changing the Accounting Policy followed so far. • Evaluated the assessment of the management as to the recognition of revenue in line with the provisions of IND-AS 18 specially on the issue of fair value of consideration received or receivable. • Assessed the accounting treatment given by the Company in the Financial Statements for the year 2017-18. Out of total billed revenue of Rs.356.14 Crores during the year 2017-18, the entire uncollected amount of Rs. 164.79 Crores has been adjusted against the said billed revenue and net amount of Rs. 191.36 Crores has been considered as Revenue from Operations during the year. • Note 27.3.5 of The Financial Statements has tabulated the methodology adopted for recognition of revenue during the year 2017-2018. The said table states that total value of bills raised on MePDCL during the current financial year is Rs.356.14 Crores **confirming that revenue has been recognised and**

	booked as and when the bills have been raised. The said table also shows that **Rs.164.79 Crores has not been recognised as revenue due to uncertainty of realisation.** • IND-AS 18 defines Sale of goods and Recognition of Revenue which states – "when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised."

2. **<u>Non-recognition of Bad Debts against Sale of Power to MePDCL :</u>**	• The Company had been consistently following uniform accounting practice of writing off the uncollected amount against Sale of Power to MePDCL as Bad Debt under the head "other expenses" in the Statement of Profit & Loss. • Following this practice Rs.23.99 Crores has been written off in the Financial Statement of 2016-17. However, such uncollected amount of Rs.201.87 Crores for the year 2016-17 has not been written off in the Financial Statements of 2017-18 and has been stated as Receivable as on 31.03.2018 on the ground that because of the change in the accounting policy from the year 2017-2018 there is no scope for treating the unrealised Debtors of earlier year as bad debt though the same is not realisable. • Following the established practice and policy the said amount of Rs. 201.87 Crores should have been considered as Bad Debt and duly treated as expense in the Financial Statement of 2017-18.
3. **<u>Total Borrowing exceeds the borrowing power approved by the Board of Directors of the Company :</u>** **<u>Total Borrowing exceeds the aggregate of Paid-up Share Capital and Free Reserves as mandated by Section 180 of the Companies Act 2013 :</u>**	• Balance as at 31.03.2018: Borrowings Rs. 1254.88 Crores Share Capital & Free Reserves Rs. 435.21 Crores • As per Board resolution dated 7th july, 2017 the Borrowing Power of the Company has been fixed at Rs. 1128.22 crores. • Total Borrowing of the Company as on 31.03.2018 as per annual accounts of the Company is Rs. 1254.88 Crores (Note 10). • The Company does not consider loan from State Government of Rs.200.02 Crores and from MeECL (Holding Company) of Rs.48.64 Crores as Borrowings for the purpose of determination of Borrowing Capacity which requires approval of the members of the company in general meeting. According to the Company, loan from State Government is

	never paid back and there is no obligation for repayment. MeECL (Holding Company) has availed loan from Rural Electrification Corporation Limited and has segregated certain portion of the same to the Company for its utilisation. Both the above outstanding loans have been shown as Borrowings in the Financial Statements. In the event the said Borrowings are not repayable, then accounting of the same should undergo a change and presentation in the Financial Statements should be done accordingly. • In terms of Section 180 of the Companies Act 2013 a Special Resolution of the Company is required where the total borrowing exceeds the Paid-up Share Capital and Free Reserves of the Company. A Special Resolution to this effect has been passed at the Annual General Meeting of the Company held on 4th December, 2017 approving total borrowing at Rs. 1128.22 Crores . S. N. MUKHERJI & CO. KOLKATA Chartered Accountants

4. **Property, Plant and Equipment:- Non-determination of residual value and useful life, impairment and physical verification:**	• The Company has not maintained comprehensive records of Fixed Assets and has not carried out physical verification of the asset. • Review has not been carried out during the year to assess the useful life and residual value of assets in terms of IND-AS 16. • Assessment has not been carried out during the year to determine impairment of asset, if any, as per IND-AS 36.
5. **Non-compliance of IND-AS in preparation and presentation of Financial Statements :**	• The Company has not been able to prepare its Financial Statements by adopting IND-AS in 2016-17 for various reasons and duly reported by us in our Independent Auditors Report. • During the year 2017-18 the same situation has continued and accordingly the Financial Statement under review are not IND-AS compliant. • The Board of Directors of the Company vide its resolution dated 28th of January,2019 has decided to adopt IND-AS 18 for the purpose of Revenue Recognition since accounts only confirms that IND-AS adoption by the Company is not complete and comprehensive.
6. **Repayment obligation of Borrowing vis-a-vis negative Cash Flow:**	• The financial performance of the Company shows the following – a) Continuous net loss for last 3 years. b) Uncollected revenue on Sale of Power due from group company amounting to Rs. 220.57 written off in last 3 years c) Increased borrowing to overcome the negative Cash Flow. d) Current maturity of borrowing i.e repayable by 31.03.2019 is Rs. 240.22 Crores. e) Total Borrowing far exceeds the Shareholders Fund.

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	• The above table highlights highly stressed financial position of the Company and the capacity to repay current maturity of Borrowings by 31.03.2019 appears to be doubtful without due support from the stakeholders.

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4. Responsibility of Management 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 of these financial statements that give a true and fair view of the financial position, financial performance, (changes in equity) and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate implementation and maintenance of 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 statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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

Those Board of Directors are also responsible for overseeing the company's financial reporting process.

5. Auditor's Responsibility for the Audit of the Financial Statements

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

As part of an audit in accordance with Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve

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collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for explaining our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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6. Basis for Qualified Opinion

i) **Uncollected Debt of Rs. 164.79 Crores has been written off by reducing the billed revenue for the year in contravention of IND-AS 18. This has resulted in understatement of revenue and expenses by the same amount in the Financial Statements.**

ii) **There has been a change in the accounting policy for the Financial year 2017-18 for revenue recognition from sale of power. As per the said revised policy, revenue has been recognised on the basis of current realisability. In accordance with the accounting policy and practice adopted by the Company no provision has been made for billed and uncollected revenue amounting to Rs. 201.87 Crores due from MePDCL for the year 2016-17. This has resulted in understatement of loss for the year and overstatement of Current Assets by equal amount.**

iii) **Total Borrowing of the Company as at 31.12.2018 is Rs. 1254.88 Crores as against approval of the shareholders for Rs. 1128.22 Crores which is not in line with the provisions of Section 180 of the Companies Act,2013.**

iv) **Review has not been carried out during the year to assess the useful life and residual value of Property, Plant and Equipment in terms of IND-AS 16 and assessment has not been carried out during the year to determine impairment of the said assets ,if any, as per IND-AS 36.**

v) **In view of various statements and comments by the Company and the agency engaged for Ind-AS implementation on preparation of Financial Statements for the year 2016-17 broadly stating that adoption of Ind-AS has been rendered practically impossible and the accounting policy adopted for the year 2017-18 also confirming that compliance of Ind-AS has been an ongoing process, we are of the opinion that adoption of Ind-AS by the Company is not complete and comprehensive.**

vi) **Term Loan from Federal Bank shows a difference of Rs. 2.12 Crores which has not been reconciled.**

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vii) **The Company has not ascertained the financial obligations towards employees retirement benefits in terms of Ind-AS 19 'Employee Benefits'. Hence, the impact of the same on the financial statement is not ascertainable.**

viii) **Capital Work-in-Progress (Note-2) includes Rs. 1.75 Crores on account of completed/abandoned projects which have not been capitalised/ adjusted having consequential impact in the Financial Statement.**

ix) **Survey and Investigation work (Note-2) includes Rs.7.37 Crores on account of completed project/abandoned works which have not been capitalised/ adjusted having consequential impact in the Financial Statement.**
The Company has stated in Note 2.1 that it follows a process of systematically writing off over an ascertained period of time the cost incurred on investigation, research, survey etc. if the project is not viable. The said process of systematic write off has not been indicated/ documented and consequently we have not been able to verify whether the stated policy has been followed or not.

x) **'Assets not in use' amounting to Rs. 15,54,504.14 included under Property, Plant and Equipment (Note 1) is appearing in the books since 1994-95 against which adequate provision for reduction in value of assets has not been made in the accounts.**

xi) **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 MePGCL necessary accounting entries are recorded in the books of the company. We have relied on the above method of accounting and do not comment on the same.**

xii) **On the basis of the Financial Statements produced to us for audit, we observe the following :-**

(a) For the year 2015-16	**(Rs.)**	**(Rs.)**	**(Rs.)**
	Audited Accounts	**Revised Accounts**	**Difference**
Total of Balance Sheet	**2615,03,98,539.46**	**2583,76,66,040.46**	**(31,27,32,499.00)**
Adjustment entries passed :-			
Inter-Company Bad debt			**(31,78,69,811.00)**
Transfer from Trade Receivable (negative balance) to Current Liability			**51,37,312.00**
Net Change in Balance Sheet			**(31,27,32,499.00)**

(b) For the year 2016-17

	(Rs.)	(Rs.)	(Rs.)
	Audited Accounts	Revised Accounts	Difference
Total of Balance Sheet	2984,01,57,765.40	2928,87,26,683.36	(55,14,31,082.04)
Adjustment entries passed:-			
Inter-Company Bad debt			(55,78,40,379.04)
Transfer from Trade Receivable (negative balance) to Current Liability			64,09,297.00
Net Change in Balance Sheet			(55,14,31,082.04)

The reasons for such changes in respective balances as mentioned above, as also, the corresponding entries passed remain unexplained and we are unable to express an opinion on the same.

xiii) Capital Advance to Contractors and others as on 31.03.2018 is Rs. 29.28 Crores from which credit balance of Rs. 9.42 Crores has been deducted and a net advance of Rs. 19.86 Crores (Note 7) has been shown in the Financial Statements. Consequently the Current Assets and Current Liabilities are understated by Rs. 9.42 Crores respectively as on 31.03.2018.
Details of total outstanding debit balance of Rs. 29.28 Crores has not been provided to us and we are unable to express our opinion on the realisability or otherwise and consequential impact of the same in the Financial Statements. With regard to credit balance of Rs. 9.42 Crores, details could not be provided to us for our verification.

xiv) Operational and Maintenance advances (Note 7) of Rs. 2.25 Crores and claims receivable of Rs. 64,639.28 are outstanding for a long period of time for which no provision has been made in the accounts and the loss of the company is understated and Current Assets overstated to that extent.
Age-wise details of Staff Related Advances (Note7) of Rs. 93.25 lakhs (Net of 6.78 lakhs - credit balance) has not been provided to us and we are unable to express our opinion on the realisability or otherwise and consequential impact of the same in the Financial Statements.

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xv) **Interest on Term Loan obtained from Power Finance Corporation Limited for MLHEP is considered as Finance cost in the Financial Statements. Such interest amounting to Rs. 18,627,601.00 for 2016-17 and Rs. 13,117,833 for 2017-18 totalling to Rs. 317,45,434.00 has been provided in excess due to wrong interpretation of the terms of the agreement.**

7. Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, subject to limitations of audit referred in Para 4 and 5 above and except for the effects of the matters described in Paragraph 6 (Basis for Qualified Opinion) 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.

(A) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2018;

(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) in the case of Statement of Changes in Equity of the changes for the year ended on that date.

8. Emphasis of Matter

Without qualifying our opinion we draw attention to the following matters :-

i) 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.

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ii) In the financial statements Note – 4,Inventory valuation is not as per Ind-AS 2 " Valuation of Inventories" and includes Rs. 80,81,334.55(Credit Balance) as Capital Stock (Work-in-progress). Pending reconciliation impact of the same in the financial statements is not ascertainable.

iii) The Net balance of Current Tax Liability is Rs. 28,62,287.87 – (Debit Balance) signifying deposit of tax in excess of the amount deducted from payments made. Pending reconciliation impact of the same in the financial statements is not ascertainable.

iv) 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 adjustments in terms of Ind AS should be made in the Financial Statements.

v) 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.

vi) Insurance Claims received in 2016-17 and 2017-18 amounting to Rs. 2.35 Crores have not been adjusted against the value of respective assets which has resulted in overstatement of 'Fixed Assets' (Note 1) and consequently overstatement of 'other Current Liabilities' (Note 15).

vii) During the year under review internal audit has been carried out by In-house internal audit team for two DDOs only out of eighteen DDOs. The area and scope of audit are not comprehensive and should be suitably expanded / modified with due approval of the Audit Committee of the Board to cover all the operating and financial areas of the company.

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

ix) Recoverable from State Government Rs. 1.44 lakhs in Financial Assets (Note 3) is outstanding for a long period of time which appears to be doubtful of recovery.

x) Direct Tax Assets (Note 6) of Rs.35,14,117 as on 31st March, 2018 is on account of Advance Income Tax and Tax Deductions at Source. Out of the said balance, Rs. 16,69,694 relates to tax deducted by M/s Patel Engineering Limited during the year of which Rs. 4,08,142 has been deposited by the party which is reflected in the Statement of 26AS for the year 2017-18 relating to the Assessment Year 2018-19. The Company has filed Income Tax return for the year claiming only Rs. 4,08,142 as TDS. This has resulted in a loss of Rs. 12,61,552 to the Company.

xi) The Company carries out 'Deposit Works' on behalf of clients but does not reflect the value of work done as Revenue Income. However, the amount of GST billed is duly deposited with the authorities. This system of not reflecting revenue income in the Financial Statements is not in line with the Generally Accepted Accounting Principles (GAAP).

xii) Cash Flow Statement for the year 2017-18 prepared and included in the Financial Statements could not be fully explained to us by the Company. Based on the information and explanations given to us, we are of the view that the presentation of the Cash Flow Statement is not in accordance with the general accepted practice and does not correctly disclose the flow of funds from various activities (inflow/outflow).

xiii) Contingent Liability for Capital Commitments and other issues have not been quantified and disclosed in the Financial Statements.

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xiv) Figures of previous year have not been regrouped, where necessary, and no effect of the same has been given in the Financial Statements. In such cases comparison of figures of current year with that of the previous year is not possible.

9. Report on Other Legal and Regulatory Requirements

I. 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 Companies Act, 2013, we give in the **Annexure – I** a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

II. 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.

III. Further to our comments in Annexure I, as required by Section 143(3) of the Act, we report that:

(A) We have sought and obtained all the information and explanations, except in certain instances, 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 as required by law have been kept by the Company so far as it appears from our examination of those books.

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

(D) Secretarial Audit has been carried out for the year 2017-2018 and the audit report inter-alia states :-

i) "Finalization of company's accounts and to get them audited within due time has not been complied with, as per section" (Point no. vi)

ii) "Share application money, pending allotment kept in bank account for a period of more than 60 days time and such amount appearing in the audited balance sheet; Section 42(6) has not been complied with"

In Para 3 of the report the auditor has stated that "the Company has taken necessary steps to comply with other laws as specifically applicable to the Company" based on the representation made by the management of the Company. The auditor has not opined on compliance with applicable laws, rules, regulations and guidelines but stated that steps have been taken by the Company in this regard.

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

(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 6 and 8 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) The provisions of Section 197 of the Company Act, 2013 regarding Managerial Remuneration are not applicable to a Govt Company.

(I) Equity Capital pending allotment as on 31.3.2018 stood at Rs. 16,12,21,000.97 (including Rs. 2,13,25,200.00 received during the year) which is outstanding for more than 60 days and attracts the provisions of Sec. 42(6) of the Companies Act, 2013.

(J) 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**".

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(K) 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:

1. the Company does not have any pending litigation (as informed by the Company) which would impact its financial position, other than those mentioned in the Notes to Accounts.

2. the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses as at 31st March, 2018.

3. there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company during the year ended 31st March, 2018.

For **S. N. Mukherji & Co.**
Chartered Accountants
Firm Reg No: 301079E

S. N. MUKHERJI & CO. KOLKATA Chartered Accountants

Sudip K Mukherji
Partner
Membership No 013321

Place : Kolkata
Date : 23.10.2019

Annexure -I

MEGHALAYA POWER GENERATION CORPORATION LIMITED

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 31st March, 2018]

(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 2017-18. Hence, we are unable to comment on the material discrepancies existing as on 31.03.2018.

(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).

(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 not granted 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 Companies Act 2013 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 within the meaning of Sections 73 to 76 of the Companies Act 2013 and the Companies Rules, 2014 (as Amended).

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(6) The Central Government (MCA) has prescribed set of Rules for the maintenance of the Cost records under section 148(1) of the Companies Act, 2013, for its activities applicable to the company. Cost Auditor has been appointed for the year under audit but no audit has been carried out.during the year.

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 31.03.2018 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, 2018:-

Sl No.	Particulars	As per Statement of Accounts (Rs.)
1	44.401 Income Tax Deducted at Source from Staff Payments	88,157.48
2	44.407 (A) Profession Tax Recovery	11,74,020.92
3	46.924 (A) ITDS on Payment to Contractors	77,83,336.19
4	46.440 Provision for Service Tax	10,77172.04
5	46.926 MFT	1,26,02,292.12
6	46.927 (B) Value Added Tax Remitted to Govt.	3,08,47,509.71
7	46.929 (B) Labour Cess Remitted to Govt.	1,50,73,223.55

(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. Complete details in this regard are not available for our verification.

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8) We have been informed that all the pending litigations of the group companies are handled by the Holding Company for which details are not available.

9) As per records, the Company has defaulted in repayment of dues to financial institutions and banks. The details are as follows:

Sl. No	**Particulars**	**Amount of default in repayment as at 31st March,2018 (Rs.)**
1.	11.15% Term Loan from Central Bank of India	2,08,33,334.00
2.	12.75% Term Loan from Power Finance Corporation(PFC) Limited	9.00
3.	12.65% (12.15%-12.65 %) Term Loan from Power Finance Corporation (PFC) Limited.	7,86,25,000.00
4.	14%(8.50%-14%) Loan from Rural Electrification Corporation (REC) Limited.	6,32,60,588.00
5.	11.25% Loan from Rural Electrification Corporation(REC) Limited	2,06,89,655.00
6.	Unsecured Loans from State Government	35,74,77,764.00
7.	11.75% Loan from Meghalaya Energy Corporation Limited (MeECL)- Holding Company	3,22,51,182.00
	Total Amount	**57,31,37,532.00**

(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, two term loans totalling to Rs.177.21 Crores have been taken from Power Finance Corporation Limited and Rural Electrification Corporation Limited during the year.

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

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(12) According to the information and explanations given to us and based on our examination of the records produced, 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 28 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 Reg No: 301079E

S. N. MUKHERJI & CO. KOLKATA Chartered Accountants

Place : Kolkata
Date : 23.10.2019

Sudip K Mukherji
Partner
Membership No 013321

MEGHALAYA POWER GENERATION CORPORATION LIMITED, SHILLONG

Annexure- II

General Directions under Sec.143(5) of the Companies Act, 2013 applicable for the accounting year 2017-18.

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.	As per Note 28 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" The Company is undertaking the process of ascertaining all similar assets which it has taken on lease. Furthermore, proper bifurcation of such assets amongst the respective companies within the group is also under reconciliation. Note No. 28(XII)
2.	Whether there are any cases of waiver/write off of debts/loans/interest etc., if yes, the reasons thereof and the amount involved.	There are no cases of waiver/write off of debts/loans/interest etc., during the year.
3.	Whether proper records are maintained for inventories lying with third parties ? Whether proper records are maintained for assets received as gift/ grants(s) from Govt. or other authorities.	No inventory is lying with third parties. Records are maintained in respect of Grants received from Government or other authorities.

For **S. N. Mukherji & Co.**
Chartered Accountants
Firm Reg No: 301079E

Place : Kolkata
Date : 23.10.2019

S. N. MUKHERJI & CO. KOLKATA Chartered Accountants

Sudip K Mukherji
Partner
Membership No 013321

Annexure III

MEGHALAYA POWER GENERATION CORPORATION LIMITED

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, 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'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

S. N. MUKHERJI & CO. KOLKATA Chartered Accountants

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) pertains 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.

S. N. MUKHERJI & CO. KOLKATA Chartered Accountants

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 6) and Emphasis of Matter (Para 8) we are of the opinion that such system should be critically reviewed and re-organised to make it commensurate with the growing operational and the financial requirements and to ensure proper flow of information from various operating units/departments, 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.

For **S. N. Mukherji & Co.**
Chartered Accountants
Firm Reg No: 301079E

S. N. MUKHERJI & CO. KOLKATA Chartered Accountants

Place : Kolkata
Date : 23.10.2019

Sudip K Mukherji
Partner
Membership No 013321