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INDEPENDENT AUDITORS' REPORT

To,
The Members of
M/s Kanpur Electricity Supply Company Limited (KESCO),

Report on the Audit of Indian Accounting Standards (IND AS) Financial Statements

Qualified Opinion

We have audited the accompanying Ind AS Financial Statements of **Kanpur Electricity Supply Company Limited (KESCO) ("the Company")** which comprise the Balance Sheet as at 31st March2019, the Statement of Profit & Loss, the Statement of Changes in Equity and the statement of Cash Flows 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 explanations given to us, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the aforesaid Ind AS Financial Statements give the information required by the Companies Act,2013 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, of the state of affairs of the Company as at 31stMarch 2019 and its loss, changes in equity and its cash flows for the year ended on that date.

Basis for Qualified Opinion

Balance Sheet

1. **Non-Current Assets**

1.1 Property, Plant and Equipment

i. *The land of the company is on lease from UPPCL at Re.1/- per month as per transfer scheme. The value of such land is yet to be ascertained by UPPCL (Refer Point No. 9(d) of Notes on Accounts). However, we have not been produced with the Lease Agreement pertaining to such land. As a result of which we are unable to check whether the lease is in financial nature or operating.*

ii. *The detail of individual fixed assets which have been created through matching deposits from customers which is subsequently amortized in the proportion of the depreciation amount is unavailable.*

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iii. *According to Ind AS- 16 the carrying amount of an item of property, plant and equipment shall be derecognized on disposal or when no future economic benefits are expected from its use or disposal. In our opinion there may be property, plant & equipment from which no future economic benefits are expected and the same have not been derecognized. The company has a prevalent practice of derecognizing property plant & equipment as and when it is sold as scrap which is in violation to Ind AS 16 (Impact not ascertainable).*

1.2 Capital Work in Progress

Advance to capital Contractors included in the value of Capital work in Progress as per Note No. 3 of Balance Sheet includes Rs. 14,63,92,997/- on account of Cash Advance given to contractors for execution of capital projects. In our opinion this should have been booked under the head Other Current Financial Assets rather than Capital WIP. Therefore, the Capital WIP as at 31/03/2019 is overstated and Other Current Financial Assets as at 31/03/2019 is understated by Rs. 14,63,92,997/-.

2. **Current Assets**

2.1 Inventories

i. *According to information and explanations given to us and as per the prevalent practice of the company, inventory of Stores and Spares is considered as an inventory only when the same is accounted for in the measurement book after due verification and quality check of the said items. Thus, liability in respect of Suppliers is accounted for only when the inventory is accounted for in the measurement book. Thus, in our opinion the liability as well as corresponding current assets to this extent in respect of material supplied is understated. This is also a violation of the provisions of section 128 of the Companies Act, 2013, which advocates the maintenance of books of account on accrual basis of accounting (Impact not ascertainable).*

ii. *As per the extant accounting policy of the company "Stores and Spares are valued at cost", which is not in consonance with the requirements of Ind AS-2, "Inventories", which advocates valuation of inventories at lower of cost or net realizable value. (Impact not ascertainable).*

iii. *According to information and explanations given to us, inventories lying with third parties are accounted for on the basis of consumption statements received in this regard and are grouped under "Capital Work in Progress" and "Other Current Assets". However, no confirmation and reconciliation of the said inventory with the said third parties has been done at the year end. (Impact if any not ascertainable).*

iv. *According to information and explanations given to us Obsolete, defective and unused store items have not been identified as Scrap during the financial year ended 31st March, 2019, pending identification by the committee formed in this regard (Impact not ascertainable).*

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2.2 *Trade Receivables*

i. *It has been observed that inoperative debtors have been continuously billed on the basis of IDF/RDF for more than 2 billing cycles which is in contravention of the provisions of Electricity Supply Code 2005. (Impact not ascertainable)*

ii. *The trade receivables include amount due from closed units. The provision for doubtful debts on these debtors has been made at the uniform rate of 5% on incremental value of debtors, which in our opinion should have been made on the basis of assessment of individual cases. (Impact not ascertainable).*

2.3 *Other Current Financial Assets*

Loans and Advances to Employees include an amount of Rs. 96,61,315/- outstanding since FY 2015-16, which pertains to loss of inventory due to fire, which should have been transferred to the statement of profit and loss in the year ended 31st March, 2016. Therefore, the other current financial assets as at 31/03/2019 is overstated and balance of deficit (Other Equity) as at 31/03/2019is understated by Rs. 96,61,315/-.

3. Other Equity

3.1 *Restructuring Reserve: According to information and explanations given to us the Restructuring Reserve amounting to Rs. 14,45,68,024/- pertains to the transaction affecting the opening balance of KESCO as per the transfer scheme of KESA pending final adjustments/ reconciliation.*

3.2 *During financial year 2016-17 and F.Y. 2015-16, the company was in receipt of a Government financial assistance of Rs.660,30,25,760/- and 1408,15,96,065/- respectively under the 'UDAY' Scheme. As per the terms of the scheme the said fund was to be treated as follows:*

a. *25% of the fund was to be treated as Equity; and*

b. *25% of the fund was to be treated as interest free loan;*

c. *50% of the fund was to be treated as Subsidy / Grant.*

On verification of the aforesaid the following was observed:

Particulars	*2015-16 (Amount in Rs.)*	*2016-17 (Amount in Rs.)*	*Treatment in Ind AS Financial Statements*
Amount treated as Equity	3520399016	1650756440	*Under Share Application Money*
Amount treated as Interest Free Loan	3520399016	1650756440	*Non-Current Borrowings*
Amount treated as Subsidy	6836059417	3242838262	*Capital Reserves (Other Equity)*
Amount treated as Subsidy for repayment of interest	204738616	58674618	*Other Income*
Total Amount	14081596065	6603025760	

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Ind AS 20 requires all grants to be recognized as income over the period which bear the cost of meeting the obligation. As such 50% of the amount of total grant amounting to Rs. 3,24,28,38,262/- for F.Y. 2016-17 and Rs. 683,60,59,417/-for F.Y. 2015-16 which is treated as Subsidy (Capital Reserve) should have been recognized as income. Thus, the profit for F.Y. 2015-16 is understated by Rs. 6836059417/- and Capital Reserve is overstated by Rs. 6836059417/- similarly profit for F.Y. 2016-17 is understated by Rs. 3242838262/- (cumulative Rs. 1007,88,97,679/-) and Capital Reserve for F.Y. 2016-17 is overstated by Rs. 3242838262/- (cumulative Rs. 1007,88,97,679/-)

Considering above the balance of Deficit (Other Equity) as at 31/03/2019 is overstated by Rs 1007,88,97,679/- and Capital reserve as at 31/03/2019 is overstated by Rs. 1007,88,97,679/-)

However C&AG in their draft comments for FY 2016-17 have advised that "As per Ind AS 20, a government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized in profit or loss of the period in which it becomes receivable. The above compensation also met against loan payable in installment in future, thus, the treatment of reimbursable amount of loan in future should only have been treated as Capital Reserve" for which we have submitted our comments. Since the final comments of C&AG for FY 2016-17 are awaited, the above observation for treatment of grant is subject to their final comments.

3.3 *During the year, Subsidy for repayment of loan was received for Rs 36,47,48,297/- from Government of U.P. As per the information and explanation given by the management, the above amount includes Rs. 7,43,50,044/- for repayment of Interest and Rs. 29,03,98,253/- towards repayment of Principal. Although Rs. 7,43,50,044/- has been booked in Profit & Loss under other income, the amount received for Rs 29,03,98,253/- towards repayment of Principal has been credited to Capital Reserve which as per Ind AS 20 should have been recognized as income in F.Y. 2018-19.*

Similarly, during F.Y. 2017-18, and FY 2016-17, Subsidy for repayment of loan was received for Rs 39,94,58,986/- and Rs 40,08,67,327/- respectively from Government of U.P. As per the information and explanation given by the management, the above amount includes Rs. 29,03,98,253/-(for FY 2017-18) and Rs 20,40,51,004/- (for FY 2016-17) towards repayment of Principal which has been credited to Capital Reserve but as per Ind AS 20, the same should have been recognized as income.

Thus, the loss for F.Y. 2018-19 is overstated by Rs. 29,03,98,253/-, balance of deficit (Other Equity) as at 31/03/2019 is overstated by Rs. 78,48,47,510/--and Capital Reserve as at 31/03/2019is overstated by Rs. 78,48,47,510/-.

3.4 *Consumer Contribution (under the head Capital Reserve) includes an amount of Rs. 46,00,000/- received in FY 2017-18 towards Capital Assets from UPPCL. In our opinion being a grant amount, the same should have been recognized as income over the period which bears the cost of meeting the obligation. (Impact not ascertainable)*

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3.5 *The company has not complied with section 42 of the Companies Act, 2013 which states that the shares should be allotted within 60 days from the receipt of the share application money.*

4 *Current Liabilities*

4.1 *Amount due to Micro, Small and Medium Enterprises (under the MSMED Act, 2006) could not be ascertained and interest thereon could not be provided for want of sufficient related information. Refer Point No.17 of Notes on Accounts. (Impact not ascertainable).*

4.2 *"Interest Payable on Electricity Duty" amounting to Rs. 450,43,15,515/- as at 31.03.2019 which has not been paid to the State Government in view of non-recovery of the same from consumers. This liability includes a provision of Rs. 64,38,19,831 made during the year. As explained by the management, the matter of waiving/adjusting the same from Government Grant is under process. It is further noted that as per the UP Electricity Duty Act 1952 Section 4, the company is required to pay interest @18% per annum on overdue amount of Electricity duty remaining unpaid until payment thereof. The company is making interest provision at simple rate of interest on the total unpaid amount of electricity duty instead of overdue unpaid amount. (Impact not ascertainable)*

4.3 *According to Ind AS 10 'Events after the reporting period', an entity shall adjust the amounts recognized in its Ind AS financial statements to reflect adjusting events after the reporting period. In this regard the company has not adjusted the liability of pending litigations as at 31st March, 2019 which have been settled till the date of approval of Ind AS financial statements by the Board of Directors. Also, no details have been made available for our verification (Impact not ascertainable).*

4.4 *The company has not complied with the requirements of Ind AS -19 'Employee Benefits'. The accounting of earned leave payable to staff has not been accounted for on actuarial valuation method as required by Ind AS- 19.*

The Liability for Pension and Gratuity in respect of employees being in the nature of post employment defined benefit plan has been accounted for on the basis of 16.70% and 2.38% respectively on the amount of Basic Pay and Dearness Allowance paid to the employees, on the basis of Actuarial valuation report of M/s Price Waterhouse Coopers dated 09.11.2000.

In our opinion, the actuarial valuation report is not valid due to the following reasons:

1] The valuation done in the year 2000 cannot be taken as the basis of determining the liability in respect of gratuity and pension for the year under audit;

2] The valuation method adopted by the actuary is the 'Attained Age Method' while the standard advocates the 'Projected Unit Credit Method';(Impact not ascertainable)

4.5 *Sundry liabilities include Rs 1,26,82,788/- towards liability for stale cheque. However, cheques issued between January 19 to March 19 which became stale later on have not been included in the above amount.*

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As the details for the cheques issued between January 19 to March 19 which became stale later on have not been provided to us, the impact of the same cannot be ascertained.

Profit and Loss Account

5.1 Sale of Energy

i. *Major portion of sale comprises of sale to consumers which is recorded on the basis of processed data given by an outside agency deputed for generation of bills to such consumers. Instances were observed wherein the consumers are billed on provisional basis due to no reading, defective meter, defective reading etc.; in contravention to the provisions of Electricity Supply Code, 2005 as well as Ind AS- 115 "Revenue from contracts with customers" (Impact not ascertainable)*

ii. *According to the information and explanations given to us the figures of sales accounted for on actual spot billing the date of which is not fixed. In the absence of billing on 31st of March, 2019, the impact of the same on revenue is not ascertainable.*

iii. *On account of noncompliance of the Internal Audit Observations for F.Y. 2017-18 till date, the balance of Deficit (Other Equity) as at 31/03/2019 is overstated by Rs 85,30,452/- and Trade Receivables as at 31/03/2019 have been understated by Rs 85,30,452/-.*

5.2 Other Income

i. As per the extant accounting policy of the company late payment surcharge recoverable from consumers on energy bills is accounted for on cash basis. (Refer Point No. 3. VI(b) of Accounting Policy)

6. Power Purchase

6.1 *According to information and explanations given to us the joint meter reading for purchase of power from UPPCL is taken at twelve sub stations (supply points from UPPCL) on the first day of each month at 08:00 AM by the Executive Engineer (Transmission) UPPCL and Executive Engineer (Test) KESCO. In the absence of the reading being taken at 12 midnight on the 31st of March 2019, the impact of such a method on the reported loss for the year on account of the amount of power purchase is incorrect. (Impact not ascertainable).*

7. Bad Debts & Provisions

7.1 *Provision for Bad & Doubtful Debts against revenue from sale of power has been made @5% on the incremental debtors during the year, without making any qualitative analysis of all the debtors at the year end. Refer Point No: 11(a) of Notes on Accounts. (Impact not ascertainable)*

7.2 *Provision for Doubtful loans and advances has been made on the unadjusted advances outstanding for more than two years, without making any qualitative analysis of all the unadjusted advances at the year end. Refer Point No: 11(b) of Notes on Accounts. (Impact not ascertainable).*

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8. Other Observations

8.1 *The following balances appearing in the financial statements are subject to confirmation/verification/reconciliation:*

(a) Amount recoverable from Employees amounting to Rs. 58,17,468/- (Net of Provision) appearing under Other Current Financial Assets.

(b) Details pertaining to Rs.64,85,235/- (Net of Provision) appearing in 'Miscellaneous Recovery' account under Other Current Assets

(c) Balances in 'Security Deposit& Retention Money from Suppliers& Others amounting to Rs.87,97,94,809/- under Other Current Financial Liabilities

(d) Balance payable to U.P. Power Sector Employees Trust of Rs. 2,76,44,703/- appearing under Other Current Financial Liabilities.

8.2 *The Company has not disclosed the impact of Rs. 35.67 Crores pertaining to interest payable to Government of Uttar Pradesh on account of conversion of Najul land to freehold land. Out of this Rs. 29.55 crores pertain till F.Y. 2015-16 and Rs. 6.12 crores pertain to F.Y. 2016-17. The final comments of Comptroller and Auditor General of India for F.Y. 2016-17 have not been received yet. Hence, the deficit as at 31st March,2019 is understated by Rs. 29.55 crores and other current financial liability is understated by Rs. 29.55 crores (The impact of Rs. 6.12crores has not been considered in our report awaiting final comments of Comptroller and Auditor General of India for FY 2016-17)*

8.3 *The Company has not complied with the following disclosure requirements envisaged by Schedule III to the Companies Act, 2013:*

Disclosure requirements as stipulated by point no. 6.9 of Division II of Schedule III to the Companies Act, 2013, has not been complied with;

- *In respect of Share Capital:*

  During the period 15th Jan, 2000 to 31st March, 2000, 59999300 Equity Shares were allotted to UPPCL (Holding Company) as fully paid up pursuant to Uttar Pradesh Transfer of KESA Zone Electricity Distribution Scheme, 2000 without payment being received in cash.
- *In respect of Long-Term Borrowings:*

  Terms of repayment of term loans and other loans have not been classified.

8.4 *The Company has not identified and segregated the fixed assets which are impaired as required under Ind AS 36. (Impact not ascertainable.)*

8.5 *The company has not produced any documents for creation of charge with the Registrar of Companies in respect of borrowings from UPPCL, PFC and REC.*

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The impact of the matters referred to in the paragraphs 1.1iii; 2.1.i; 2.1.ii; 2.1.iii; 2.1.iv; 2.2.i; 2.2.ii; 3.4, 4.1; 4.2; 4.3; 4.4;4.5;5.1(i) ;5.1(ii); 6.1; 7.1; 7.2;.8.4;on the assets/liabilities and/or income/expenditure and loss for the year is not ascertainable.

The impact of the matters referred to in the paragraph 1.2;.2.3;3.2; 3.3;5.1(iii);8.2; is as follows:

a. *Capital Work in Progress is overstated by Rs. 14,63,92,997/-. Had the same been accounted for the Balance of Capital Work in Progress would have been Rs 159,64,94,084/-*
b. *Trade Receivables is understated by Rs 85,30,452/-. Had the same been accounted for, the balance of Trade Receivables would have been Rs 2731,54,17,405/-*
c. *Other Current Financial Assets is understated by Rs. 13,67,31,682/-. Had the same been accounted for the balance of Other Current Financial Assets would have been appeared as Rs. 106,76,62,602/-*
d. *Other Equity (Capital Reserve) is overstated by Rs.1086,37,45,189/-. Had the same been accounted for the balance of Capital Reserve would have been appeared as Rs.505,23,61,179/-*
e. *Other Equity (Deficit) is overstated by Rs.1056,71,97,471/-. Had the same been accounted for the balance of Other Equity (Deficit) would have been appeared as (Rs.2514,93,59,662/-)*
f. *Loss for the current financial year is understated by Rs 50,18,602/-. Had the same been accounted for the loss for the current financial year would have been Rs 450,14,30,495/-*
g. *Other Current Financial Liabilities is understated by Rs.29,54,16,855/-. Had the same been accounted for the other current financial liabilities would have been Rs. 428,75,13,622/-*

Emphasis of Matter

i. The Annual Accounts for F.Y. 2016-17and FY 2017-18have not yet been adopted at the Annual General Meeting of the company as final comments of C&AG for FY 2016-17 are awaited and the Supplementary Audit by C&AG for FY 2017-18 is yet to be started (Refer Point no. 30 of notes on accounts). On account of the aforesaid, the opening balances as at 01st April 2018, in the books of the company are for the year under audit are those appearing in the audited accounts for the year ended 31st March 2018 (except for changes required by Ind AS) which is yet to be adopted by the shareholders in the Annual General Meeting.
Our opinion is not qualified in respect of the above-mentioned matter.

ii. Since final comments of Comptroller and Auditor General ofIndiafor F.Y. 2016-17 have not yet been received and the Supplementary Audit by C&AG for FY 2017-18 is yet to be started,the compliance of the same by the company could not be verified by us.(Refer Point no. 30 of notes on accounts)
Our opinion is not qualified in respect to the above-mentioned matter.

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iii. As stated in Point No. 2 (a) of Accounting Policy attached to and forming part of the balance sheet as at 31/03/2019, "the Ind AS Financial Statements are prepared in accordance with the provisions of the Companies Act, 2013. However, where there is a deviation from the provisions of the Companies Act, 2013 in preparation of these accounts, the corresponding provisions of Electricity (Supply) (Annual Accounts) Rules 1985 have been adopted".

Our opinion is not qualified in respect to the above mentioned matter.

iv. According to information and explanations given to us in view of assessed accumulated losses for earlier Assessment Years provision for tax has not been made. (Refer Note no. 24of the notes on accounts.)

Our opinion is not qualified in respect of the above mentioned matter.

v. As stated in Point No.3 of Note on Accounts "The amount of Loans, Subsidies and Grants were received from the State Government by the Uttar Pradesh Power Corporation Limited centrally, being the Holding Company and distributed by the Holding Company to the DISCOMs, which have been accounted for accordingly.

Our opinion is not qualified in respect of the above mentioned matter.

Responsibilities of Management for the Ind AS 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 Ind AS Financial Statements that give a true and fair view of the state of Affairs (financial position), Profit or Loss (financial performance), cash flows and changes in equity of the company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) Rules, 2015 (as amended) 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 accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the Ind AS Financial Statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors 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.

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Auditor's Responsibilities for the Audit of the Ind AS Financial Statements

Our objectives are to obtain reasonable assurance about whether the Ind AS 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 SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve 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 Companies Act, 2013, we are also responsible for expressing 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 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.

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Other Matters

i. The company has not appointed a full time company secretary in accordance with the requirements of Section 203 of the Companies Act, 2013

ii. During the year, the company has allotted shares amounting to Rs 3288174126 (328817412 No. of shares) to its holding company but the same has not been updated in the records of Registrar of Companies.

iii. As informed Information System Audit has not been conducted in respect of online billing system followed by the company.

iv. As informed the loans of New Okhla Industrial Development Authority are guaranteed by Government of UP. The loan was payable within one month after passing 2012-13 budget.

v. The Company has not complied with the Order dt 22.01.2019 issued under section 405 of Companies Act,2013 in respect to filling of MSME Form I

vi. The Government of UP has vide its order no. 3188 dated 24.10.2003 and 1077 dated 17.04.2008 decided that the Electricity Duty and interest payable for the period from 15.01.2000 to 31.03.2003 and 01.04.2003 to 31.03.2008 respectively would be adjusted against the balance subsidy payable to UPPCL by the State Government accordingly the amount of Electricity Duty and interest thereon payable due to pending adjustment by the State Government has been shown under Note 18 "Other Current Liabilities" under head Electricity Duty and Other Levies Payable to Government.

vii. Internal energy consumed is valued as per tariff order of UPERC. Our opinion is not qualified in respect of the above mentioned matters.

Report on Other Legal and Regulatory Requirements

i. As required under Section 143(5) of the Companies Act, 2013, we give in **Annexure 'A& A-1'** a statement on the directions and sub-directions issued by the Comptroller and Auditor General of India after complying with the suggested methodology of audit, the action taken thereon and the impact on the accounts and Ind AS financial statement of the Company.

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

iii. As required by section 143(3) of the Act we report that:

We have sought and, except for matters described in the Basis for Qualified Opinion Paragraph, Emphasis of Matter paragraph and under the Report on Other Legal and Regulatory Requirements above, obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

a. In our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books subject to the following:

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- Party wise sub ledgers of creditors are maintained but are incomplete, in the absence of which the existence of individual's liabilities cannot be ascertained at any given point of time.

- Subsidiary records of debtors maintained with the outside agency are suffering from severe errors like negative balances, truncation errors etc. In the absence of proper and correct sub ledgers of debtors, the existence of identifiable debtors cannot be ascertained at any given point of time.

b. The Balance Sheet, the Statement of Profit and Loss, the statement of changes in Equity and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.

c. Except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, the aforesaid Ind AS financial statements comply with the Indian Accounting Standards prescribed under Section 133 of the Act read with relevant rules issued there under;

d. In pursuance to notification number GSR 463(E) dated 05-06-2015, issued by the Ministry of Corporate Affairs, Section 164(2) of the Companies Act, 2013, pertaining to provisions of disqualification of directors are not applicable to a government company.

e. 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 'C'**.

f. With respect to other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us and as confirmed by the management of the company:

   i. Although the Company has disclosed the impact of pending litigations in Point No. 21(b) of NotesonAccounts forming part of Ind AS Financial Statements, in the absence of the case wise details and present status being made available to us, we are unable to ascertain the impact, if any of the same on its financial position.

   ii. The Company did not have any long-term contracts including derivative contracts for which it was required to make a provision towards material foreseeable losses under any law or Ind AS;

   iii. There were no amounts required to be transferred, to the Investor Education and Protection Fund by the company.

Place: Kanpur
Dated: 30th September,2019

For Gupta & Shah
Chartered Accountants
FRN: 001416C

GUPTA & SHAH KANPUR CHARTERED ACCOUNTANTS

CA Sharad Kumar Shah
Partner
M. No. 070601
UDIN- 19070601AAAACL8233

Annexure 'A' referred to in paragraph (i) under the heading of "Report on Other Legal and Regulatory Requirements" of our Independent Auditor's Report of even date to the members of Kanpur Electricity Supply Company Limited (hereinafter referred to as KESCO) on the Ind AS financial statements for the year ended 31st March, 2019. We report that:

S. No.	Directions	Remarks
1.	Whether the Company has clear title/ lease deeds for freehold and leasehold respectively? If not please state the area of freehold and leasehold land for which title/ lease deeds are not available?	Yes, the Company is having leasehold land from UPPCL (Holding Company) for which lease agreement is not available. Hence, we are unable to furnish the area of land.
2.	Whether there are any cases of waiver/write off of debts/loans/interest etc., if yes, the reasons there for and the amount involved.	No, there is no such case of waiver/write off of debts/loans/interest/etc. during FY 2018-19.
3.	Whether proper records are maintained for inventories lying with third parties and assets received as gift/ grant (s) from the Government or other authorities.	Yes, proper records are maintained by the company for inventories lying with third parties. However, the same are subject to reconciliation/confirmation as stated in sub point No. 2.1(iii) above.

Place: Kanpur
Dated: 30th September, 2019

For Gupta & Shah
Chartered Accountants
FRN: 001416C

GUPTA & SHAH KANPUR CHARTERED ACCOUNTANTS

CA Sharad Kumar Shah
Partner
M. No. 070601

Annexure 'A-1' referred to in paragraph (i) under the heading of "Report on Other Legal and Regulatory Requirements" of our Independent Auditor's Report of even date to the members of Kanpur Electricity Supply Company Limited (hereinafter referred to as KESCO) on the Ind AS financial statements for the year ended 31st March, 2019. We report that:

S. No.	Directions	Remarks
1.	Has the company entered into agreements with franchise for distribution of electricity in selected areas and revenue sharing agreements adequately protect the financial interest of the company?	No, the company has not entered into any such agreement
2.	Report on the efficacy of the system of billing and collection of revenue in the company.	The company is having online billing system and the system is working efficiently except as that stated in Point No 5.1(i) and Point No. (iii)(a) of Report on Other Legal and Regulatory Requirements of our Audit report
3.	Whether tamper proof meters have been installed for all consumers? If not then, examine how accuracy of billing is ensured.	Yes, as per the explanation and information given to us by the management, the company has installed tamper proof meters for all consumers.
4.	Whether the reconciliation of receivables and payables between the generation, distribution and transmission companies has been completed. The reasons for difference may be examined.	Yes, the Inter-Discom balances and balances with UPPCL (Holding Company) and UPPTCL (transmission company for wheeling charges) have been duly reconciled except for the following for which Balance Confirmation Certificate were not observed to be on record- (i)Net Receivable from UPPTCL- Rs 1046.42 lakhs as stated in Note No. 9 "Other Current Financial Assets" (ii) Receivable from UPRVUNL Rs 0.23 lakh as stated in Note No. 9 "Other Current Financial Assets"
5.	Whether the Company is supplying power to franchises, if so, whether the Company is not supplying power to franchisee at below its average cost of purchase.	No, the company is not supplying power to any franchisee.

Place: Kanpur
Dated: 30 September, 2019

For Gupta & Shah
Chartered Accountants
FRN: 001416C

CA Sharad Kumar Shah
Partner
M. No. 070601

Annexure 'B' referred to in paragraph (ii) under the heading of "Report on Other Legal and Regulatory Requirements" of our Independent Auditor's Report of even date to the members of Kanpur Electricity Supply Company Limited (hereinafter referred to as KESCO) on the Ind AS financial statements for the year ended 31st March, 2019

Based on test checks and other generally accepted auditing procedures carried on by us and according to the information and explanations given to us, we report that: -

(i) a) The Fixed Assets records maintained by the company do not contain sufficient description of the assets to make identification possible including make/type/situation, assets that have been retired from active use and held for disposal etc. Further, separate records in this respect of company's own assets and assets constructed on behalf of the consumers have not been maintained. The internal control system with regard to fixed assets needs to be further strengthened.

b) The Fixed Assets of the company has not been physically verified by the management at any time during the year. In the absence of physical verification of the fixed asset, any material discrepancies could not be identified.

c) According to the information and explanations given to us and on the basis of our examination of the records of the company, in the absence of the title deeds/lease agreements being available, we have not been able to confirm whether immovable properties were held in the name of the company as at the year end.

(ii) The inventory has been physically verified by the management during the year. No material discrepancies were noticed on such verification by the management.
Further, on the basis of our examination of the inventory records, in our opinion, the company is maintaining proper records of inventory except:

a) Stock of scrap spares and damaged spares have not been valued and has been shown at NIL value.

b) It has also been observed that the stock record of used/burnt transformers has not been maintained.

c) Further, the company is not segregating the slow, non-moving and obsolete items. The internal controls on the inventory need to be strengthened by the company.

(iii) The Company has not granted any loans secured or unsecured to companies, firms, limited liability partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013 ('the Act').

(iv) In our opinion and according to the information and explanations given to us, the Company has not granted any loans, investments or given guarantees/security under the provisions of section 185& 186of the Companies Act, 2013. Therefore, the provisions of paragraph 3 (iv) of the Order are not applicable to the company.

(v) According to the records of the Company examined by us and the information and explanation given to us the Company has not accepted any public deposits except security deposits received from consumers.

(vi) The Central Government has prescribed the maintenance of the cost records under section 148(1) of the Act. Such accounts and records are made and maintained up to F.Y. 2017-18. No cost records for FY2018-19 have been maintained till date.

GUPTA & SHAH
KANPUR
CHARTERED ACCOUNTANTS

(vii) (a) According to the information and explanations given to us and the records of the company produced and examined by us, in our opinion the company has generally been regular in depositing with appropriate authorities undisputed statutory dues including Provident fund (to the trust), TDS, Sales tax/VAT/GST, Service tax and other statutory dues applicable to it. The provisions relating to Employee State Insurance Act are not applicable to the company.

The undisputed amounts payable in respect of Provident Fund, Income tax, Sales tax/VAT/GST, Service Tax, Electricity Duty and any other Statutory Levies & dues in arrears as at 31st March, 2019 outstanding for a period more than six months from the date on which they became payable are detailed below:

Name of the Statue	Nature of the dues	Amount (Rs. in lakh)	Period to which the amount relates	Due Date	Date of Payment
U.P. Government	Electricity Duty*	38826.10	-	-	-

*The above stated amount is the total outstanding amount of electricity duty (excluding interest payable) as at 31/03/2019 and in the absence of proper record, we are unable to specify the outstanding amount of electricity duty payable for more than six months.

(b) According to the information and explanations given to us and the records of the company produced and examined by us, the details of Income Tax, Sales Tax/VAT/GST, Provident Fund which have not been deposited as on 31st March 2019, on account of disputes are given below:

i.

Name of the Statue	Nature of the disputed statutory dues	Disputed Amount (Rs in lakh)	Period to which the amount relates	Forum where the dispute is pending
Payment of Gratuity Act, 1972	Gratuity	267.03	Indeterminate	Labour Court

ii Income Tax assessment for the assessment year 2005-06; 2006-07; 2007-08; 2009-10; 2011-12; 2012-13; 2013-14; 2014-15; 2015-16; 2016-17; have been completed and the additions made by the Assessing Officer are pending with Appellate Authority (CIT(A)/ITAT/Hon'ble High Court). We have been explained by the management that considering the brought forward losses there will be no liability of tax even if the cases are decided against the company.

(viii) According to the records of the Company examined by us and the information and explanation given to us by the management, the Company has not defaulted in repayment of loans and borrowings to a financial institution, banks governments or dues to debenture holders.

(ix) According to the records of the Company examined by us and the information and explanation given to us, the Company did not raise any money by way of initial public offer or further public offer (including debt instruments) during the year. Apart from loan taken by UPPCL(Holding Company) on behalf of KESCO, the Company hastaken loan from Power Finance Corporation (PFC) during the year and according to the records of the Company examined by us and the information and explanation given to us by the management, the amount was duly applied for the purpose for which it was raised.

(x) During the course of our examination of the books and records of the Company carried out in accordance with the auditing standards generally accepted in India, we have not noticed or come across any instance of fraud by the Company or any fraud on the company by its officers or employees. Further, we have also been informed by the management that no such cases were noticed or reported during the year.

(xi) Regarding the payment/provision of managerial remuneration in accordance with the requisite approvals mandated by the provisions of Section 197 read with Schedule V to the Companies Act, 2013 the said clause of the "Order" is not applicable to company.

(xii) As the Company is not a Nidhi company, accordingly paragraph 3(xii) of the Order is not applicable.

(xiii) Theprovisions of section 188 of the act are not applicable to the company and accordingly the related clause 4 (iv) of section 177 is not applicable. Although related party disclosure has been made at point no. 23 of notes on accounts as per the requirement of Ind AS 24 Related Party Disclosures.

(xiv) According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year. Accordingly, paragraph 3(xiv) of the Order is not applicable.

(xv) According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not entered into non-cash transactions with directors or persons connected with him. Accordingly, paragraph 3(xv) of the Order is not applicable.

(xvi) The Company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. Accordingly, paragraph 3(xvi) of the Order is not applicable.

Place: Kanpur
Dated: 30th September, 2019

For Gupta & Shah
Chartered Accountants
FRN: 001416C

CA Sharad Kumar Shah
Partner
M. No. 070601

GUPTA & SHAH KANPUR CHARTERED ACCOUNTANTS

Annexure 'C' referred to in paragraph (iii)(e) under the heading of "Report on Other Legal and Regulatory Requirements" of our Independent Auditor's Report to the Members of Kanpur Electricity Supply Company Limited (hereinafter referred to as KESCO) on the Ind AS financial statements for the Year Ended 31st March, 2019.

We have audited the internal financial controls over financial reporting **of Kanpur Electricity Supply Company Limited (hereinafter referred to as KESCO)** as at 31st March, 2019 in conjunction with our audit of the Ind AS financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India ('ICAI'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls over Financial Reporting (the "Guidance Note") and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Ind AS 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 controls system over financial reporting.

GUPTA & SHAH KANPUR CHARTERED ACCOUNTANTS

Meaning of Internal Financial Controls over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Ind AS financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that:

(1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of Ind AS financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the Ind AS financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

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

Opinion

Subject to our observations in our audit report in our opinion, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31st March 2019, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

Place: Kanpur
Dated: 30th September, 2019

For Gupta & Shah
Chartered Accountants
FRN: 001416C

CA Sharad Kumar Shah
Partner
M. No. 070601