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| **M/s.RAMRAJ&CO., CHARTERED ACCOUNTANTS, TIRUPATI H.O. BANGALORE** | **SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED** |
| **AUDITORS’ REPORT** | **Replies of the Company forming part of the Director’s Report to the members under Section 217(3) of the Companies Act, 2013.** |
| 1. ***In the absence of relevant information we are unable assess the impact on accounts could not be determined / quantified on the following issues:*** |  |
| ***i. As stated in Note Nos.-- 3.1b, 3.2 and 26-1 to the Financial Statements on loan from REC to an extent of Rs.47.03Crores ( Rs. 79.20 Crores) which is still in the name of APTRANSCO, Balances in ‘Loan Funds’ pertaining to Govt. of AP and current assets and current liabilities respectively, which are subject to confirmation / reconciliation / adjustments.*** | A letter will be addressed to APTRANSCO for confirmation/ reconciliation/adjustment of loan balances. |
| ***ii. Note No.6 para c non consideration of interest on loans transferred under merger scheme*** | No interest has been considered/ paid in the accounts against the loans transferred under Merger Scheme on account of AP State bifurcation as per AP Reorganization Act-2014, due to non availability of details. Further the said loans’ documentation in the name of APSPDCL is not yet completed as balances of loans are adopted subject to modifications after verification, reconciliation and approval as disclosed under Note-26. |
| ***iii. Note No: 9-1 Deferred Tax asset / liability has not been recognized in the accounts as required under AS-22 “Accounting for Taxes on Income”.*** | This subject will be examined in detail and action will be taken according to AS-22 in the ensuing years. |
| ***iv. Note No. 10-***  ***a).Accumulated depreciation on assets sold/discarded during the year is not written back in accordance with AS-6 “Depreciation Accounting”.*** | This subject will be examined in detail and action will be taken according to AS-6 in the ensuing years. |
| ***b) In the event of replacement of an old asset with a new asset (Except Distribution Transformers), the new asset is capitalized at acquisition cost less the weighted average cost of replaced asset instead of deducting.*** | This subject will be examined in detail and action will be taken according to Standards in the ensuing years. |
| ***c) The WDV of the replaced asset, which is not in accordance with AS-10 “Accounting for Fixed Assets”.*** | This subject will be examined in detail and action will be taken according to AS-10 in the ensuing years. |
| ***d) In the absence of uniform practice/system for closure of work orders, capitalization of such works is not as per the requirements of AS-10 and consequential effects on charge of Depreciation and non compliance of AS-6 “Depreciation Accounting”*** | This subject will be examined in detail and action will be taken according to AS-10 and AS-6 in the ensuing years. |
| ***e) Assets purchased under RGGVY scheme from Government grants is not shown separately as required under AS-12 “Accounting for Government Grants”.*** | This subject will be examined in detail and action will be taken according to AS-12 in the ensuing years. |
| ***f) As relevant information is not made available with regard to Impairment of Assets , we could not ascertain the status and provision, if any as required as per AS-28*** | This subject will be examined in detail and action will be taken according to AS-28 in the ensuing years. |
| ***V. Note No 10 Para 3.3. The depreciation is not provided on certain unidentified assets transferred from APCPDCL pertaining to the operation circles merged with the company.*** | In the absence of details of unidentified assets depreciation is not provided. Action will be initiated for verification and identification of the said unidentified assets and appropriate action will be taken in the ensuing years. |
| ***vi) Note No. 10 Para 4 is invited wherein , Consequent upon amendment to second transfer scheme vide G.O.Ms 142 dt 29.09.2001 and the third transfer scheme vide G.O.Ms.396 dt.09.06.2005, the Company adopted the assets & liabilities and the balances against Power Purchase, loan liabilities, and receivables from Govt. of A.P at values stipulated in the respective government notifications, which are provisional and subject to further adjustment as may be determined by the State Government and audit. In the absence of relevant information, we are unable to express our opinion on the closing balances of such assets / liabilities transferred to the company under the aforementioned transfer schemes.*** | A letter will be addressed to AP Transco and Govt. of AP for appropriate action on the stated subject. On receipt information/orders on the subject necessary entries will be made in the books of account. |
| ***vii. Note No.10 Para 5 The input controls in the SAP in respect of capturing data and recording of transactions, access control system, disaster data recovery plans and backups needs to be reviewed and duly certified by independent agency as regards to its adequacy.*** | As per the Standard: ISO/IEC27001:2013 Information Security management System, all measures including database backup is implemented. Third parties (Cyber Security, Cyber Q) reviewed and audited as regard to its adequacy and their recommendations have been complied. Business continuity Disaster Recovery plan implementation is under process and it will be completed at an early date as per the audit advice. |
| ***viii. PURCHASE OF POWER:*** |  |
| ***a).Note No. 7-1 &2 accounting of power purchase bills, debit / credit notes and non confirmation / reconciliation of balances of the power suppliers.*** | A letter will be addressed to APPCC with regard to plan of action for completion and confirmation/reconciliation of balances of the power suppliers. |
| ***b). Note No. 15 Para 1.1 on non confirmation of bank balance in the name of Andhra Pradesh Power Distribution Companies Pool Account and the Company’s share thereon.*** | A letter will be addressed to APPCC to discard pool account operation and to operate Discom bank accounts direct for power purchase transactions to enable bank balances confirmation automatically. |
| ***c) Note No: 21 Para 1 constitution of Andhra Pradesh Power Coordination Committee to facilitate purchase and trading of Power on behalf of distributions companies in the State of Andhra Pradesh and legal status of the same could not be ascertained.*** | A letter will be addressed to AP Transco and Govt. of AP for appropriate action in this regard. |
| ***d).Note No. 21 Para 2- accounting of cost of power purchase and Inter State sale as intimated by the APPCC, Hyderabad and certified by the Independent Firm of Chartered Accountants are incorporated in the books of the Company. In the absence of relevant information on quantitative details, swap transactions, metering, claims made by the power suppliers and disputes on power purchase etc.., the said cost could not be reviewed by us.*** | A letter will be addressed to AP Transco and APPCC for appropriate action for furnishing the required information to audit. |
| ***e). Note No 21 para 3.1 regarding the Transfer of Power Purchase Agreements vide G.O.Ms. No. 396 dt. 09.06.2005, from APTRANSCO to Distribution Companies in specified ratio with effect from 09.06.2005 and subsequent revision of the said ratio vide G.O.Ms. No. 53, Energy (Power –III) dated 28-04-2008 with retrospective effect from 09-06-2005 and implementation of the same from April 2008 onwards and differential impact on non implementation retrospectively.*** | A letter will be addressed to APPCC, AP Transco and Govt. of AP for appropriate action in this regard. |
| ***ix. Note No: 13. – Inventories: - In case of devolution of materials to stores, the rate adopted by the SAP, is at current purchase price and not the price at which it was issued.*** | The difference between actual issued price and devolution price is being adjusted through price variation general ledger. The net balance of price variation general ledger as at the end of the year is being transferred to asset account and hence no impact on accounts. However the subject will be examined in detail and action will be initiated in future years in accordance with Accounting Standards |
| ***x. Note No. 19: Non recognition of* income *on Deposit Contributory Work. Which is not ascertainable*** | The subject will be examined in detail and system will be evolved to recognize income/loss |
| ***xi. Note No.8 Para 1 non reconciliation of Inter Unit accounts to the extent of Rs. 38.24 Crores.*** | The subject will be examined in detail and system will be evolved for auto reconciliation by the end of each financial year. |
| ***xii. Note No 26 Para 7- Consequent to AP State Re-organisation Act, 2014 operation circles of Kurnool and Ananthapur of erstwhile APCPDCL (TSSPDCL) were transferred as per scheme framed in the said ACT. There are certain variations to the audited financial statements of the said circles as at 1st June 2014 to the merged data and also certain principles for bifurcation of assets and liabilities as stipulated in the said re-organisation Act have not been followed. In the absence of relevant information, we are unable assess the impact on accounts such assets / liabilities transferred to the company under the aforementioned transfer schemes.*** | Consequent to AP Reorganization Act, 2014, the Assets and Liabilities of operation circles of Anantapuram and Kurnool of TSSPDCL (APCPDCL) were required to be merged with APSPDCL. The Assets and Liabilities are adopted in to APSPDCL accounts, subject to modifications after verification and reconciliation by both the entities and approval by the Expert committee, Govt. of AP, APSPDCL, TSSPDCL and Govt. of Telangana. |
| ***xiii. Note No: 26 para 8- Contingent Liabilities reported are, in our opinion, are exclusive of court cases pertaining to power purchases & Undrawn/ under drawn power in case of open access purchases.*** | A letter will be addressed to APPCC and action will be initiated to disclose such contingent liabilities if any in future years |
| ***B. Assets/Liabilities are overstated/understated and loss understated/overstated to an extent of the following :*** |  |
| ***i. Note No. 5- Para 1 - Provision for pension, Gratuity, leave encashment and other retirement’s benefits made does not comply with requirements of AS-15 “Employee benefits”, since the company has made an adhoc provision of Rs.700 Crores against liability determined as per actuarial valuation of Rs.2097.30 Crores resultant understatement of Loss and current liabilities to an extent of Rs.1397.30 Crores.*** | For the year 2014-15, the Company has paid ₹189.70 Crores (Previous year ₹65.04 Crores) to the Pension and Gratuity Trust. The company also made an adhoc provision of ₹700.00 Crores (Previous year ₹310.40 Crores) out of Actuarial valuation liabilities on 31.03.2015 of ₹2097.30 Crores towards Gratuity and Pension benefits, pending final allotment of erstwhile APCPDCL staff (the staff now transferred to APSPDCL is only based on order to serve basis) and their share towards terminal benefits from Pension and Gratuity trust of erstwhile APCPDCL. |
| ***ii. Note No. 14 para 2.3- Non provision of bad and doubtful debts in consonance with the accounting policy of the Company for the current year to the extent of Rs. 143.57 Crores resultant understatement of Loss and overstatement of Sundry Debtors to that extent*** | The accounting policy provision will be studied in detail and appropriate action will be taken in future years. |
| ***iii. Note No.13 para 1a Non provision of shortage of physical inventory to the extent of Rs. 6.33 lakhs resultant understatement of loss and overstatement of Inventories to that extent.*** | The subject will be examined in detail and appropriate action will be taken evolving accounting policy on the subject on provision for shortage of Physical inventory against book balances. |
| M/s RAMRAJ &CO For and on behalf of the Board  Chartered Accountants  Sd/-  (CA M.C. Venkatanath/Partner) Director/Finance Chairman & Managing Director  Place : Tirupati Place : Tirupati  Date : 02-11-2015 Date : 02-11-2015 | |
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| **M/s.RAMRAJ&CO., CHARTERED ACCOUNTANTS, TIRUPATI**  **H.O. BANGALORE** | | **SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED** |
| **AUDITORS’ REPORT-Annexure - A** | | **Replies of the Company forming part of the Director’s Report to the members under Section 217(3) of the Companies Act, 2013.** |
| ***i. a.      The Company has maintained proper records showing full particulars, including quantitative Details and situation of fixed assets subject to updation except certain unidentified fixed assets transferred from TSSPDCL occasioned by AP State bifurcation (pertaining to Kurnool and Ananthapur circles).*** | | Un-identified Fixed assets from TSSPDCL occasioned by AP Reorganisation Act,2014 will be reconciled in future years. |
| ***b. We were informed that the fixed assets have not been physically verified by the management during the year; hence we are unable to comment on the discrepancy, if any between the physical balance and book records.*** | | Physical Assets verification reports will be developed for each class of assets and verification will be undertaken as per periodic standards in future years. |
| ***ii.b.   In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventory followed by the management needs to be strengthened in relation to the size of the Company and the nature of its business more particularly in identifying, obsolescence, non- moving and slow moving stores.*** | | Action will be initiated to strengthen the physical verification for identification of obsolescence, non- moving and slow moving stores. |
| ***iv).The company needs to strengthen internal control procedures to make them commensurate with the size of the Company and the nature of its business, with regard to SAP implementation including reconciliation of accounts, accounting of capital work orders, recording of transactions, adequate training of personnel and Cash Management and HR Module*** | | The best practices and controls available in SAP standard ERP are ensured. The principal Finance and logistics modules are functioning effectively.SAP core team members are attending training centers at Kadapa, Nellore and Vijayawada as per the schedule to train the end users. Audit recommendations will be examined for further effective usage of SAP for company's business requirements. |
| ***vi) The Central Government of India has prescribed the maintenance of Cost records under Section 148(1) of the Act. The Cost records are not produced for verification. Hence, the contents of these accounts and records have not been examined by us.*** | | Cost Accounting records are compiled after closure of financial accounts for each financial year and e-filing of FORM-I XBRL is done through Cost Auditors of the Company. A study will be conducted for compilation of cost records simultaneously in SAP in future years. |
| ***ix According to the records of the company examined by us and the information and explanations given to us, the company has not defaulted in repayment of dues to the financial institutions or banks or debenture holders except certain loans transferred on merger of Ananthapur & Kurnool operation circles, which are unascertained.*** | | Under Merger Scheme on account of AP State bifurcation as per AP Reorganization Act-2014, Loan balances are transferred from TSSPDCL (APCPDCL).Due to non availability of details, the balances of loans are adopted subject to modifications after verification, reconciliation and approval as disclosed under Note-26. Further,the said loans’ documentation in the name of APSPDCL is not yet completed |

M/s RAMRAJ & CO For and on behalf of the Board

Chartered Accountants

Sd/-

(CA M.C. Venkatanath/partner ) Director/Finance Chairman & Managing Director

Place : Tirupati Place : Tirupati

Date : 02-11-2015 Date : 02-11-2015