M/s Komandoor & Co LLP, Chartered Accountants, Firm Reg. No.001420S/ S200034	**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

Basis for Disclaimer Opinion

Purchase of Power: a. With attention to the Note No. 7-1 & 2 of financial statements, relating to accounting of power purchase bills, debit / credit notes which are provisional and are subject to revision at a later date. The consequential impact on creditors balances, loss for the year, if any, is presently not ascertainable	All the Power Purchase Cost pertaining to 2015 – 16 taken in the Books of Accounts. However Supplementary Claims pertaining to 2015 – 16 which was claimed in 2016 – 17 (Up to June'2016 bills) also taken in the APDISCOMS Books of Accounts.
b. Non-confirmation / reconciliation of balances of the power suppliers for an amount of Rs.5020.85 crore (Previous Year Rs.2402.8 crore).	Vendor wise balances list furnished to end of 31.03.16 and efforts are being taken to reconcile the same and confirm the same.
c. 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.	APSPDCL Bank balance as on 31.03.16 in APPDCL Pool Account is 'NIL'. However Internal Auditor certification has also been furnished along with Bank Scroll.
d. 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.	Since Govt. of AP has issued orders vide Go.Ms.No.59 dated 07.08.2015 & G.o.Ms.No.21 dated 12.5.2014,for formation and functioning of APPCC
e. Note No. 21 para 2- accounting of cost of power purchase, Inter Discom power transactions and Inter State sale incorporated in the books of the Company as intimated by the APPCC, Hyderabad and certified by the internal Auditors of APPCC who are an Independent Firm of Chartered Accountants. In the absence of relevant information on swap transactions, metering claims made by the power suppliers, confirmations/ reconciliations and disputes on power purchase etc., the said cost could not be reviewed by us.	With regard to accounting of Power Purchase and ICD Internal Auditor Report have been furnished. Further, Inter Discom, Discom to Discom, Purchase and Sale, month wise entries have also been furnished.

Merger of Two Circles with the company Consequent to the promulgation of AP Reorganization Bill 2014 (The Act), the Assets and Liabilities of operation circles of Anantapur and Kurnool of TSSPDCL (APCPDCL) are merged with APSPDCL. M/s TSSPDCL have furnished financial statements as at 01.06.2014 duly audited by independent Chartered Accountant on the allocation of Assets and Liabilities as at 01.06.2014 and income and expenditure from 01.04.2014 to 01.06.2014. Allocation has been carried out as per the Act except apportionment of employee related liabilities / receivables such as Liability on account of GIS Insurance, Savings fund and Self-funding Medical Scheme, Employee Liabilities towards Gratuity and Leave encashment, Liabilities of Pension & Gratuity Trust and APCPDCL GPF Trust, Loans & Advances of employees and Receivable towards APSEE Master P & G Trust which are not in conformity with Annexure 2 referred to in Clause XVIII of the G.O.Ms No 24.	
Further, such Assets and Liabilities transferred should be adopted into company accounts, subject to modifications after verification and reconciliation by both TSSPDCL, APSPDCL and approval by the Expert committee, Government of Andhra Pradesh, and Government of Telangana. However, such reconciliation is not carried out as on the date of our Audit. However, Company incorporated the Assets and Liabilities balances on account of merger into certain suspense GL accounts, pending reconciliation. Further, company during the year transferred certain account balances into regular GL accounts pending said reconciliation exercise and leaving residual balances in said suspense GL accounts. Further, company has not recognized depreciation loss on fixed assets which are lying in the suspense GL account, interest expense on loans, dividend income or interest income accrued on loans and investments transferred in pursuant to merger. Further, ownership instruments/title deeds of immovable properties, loans and investments are not transferred in the name of the company. The consequential impact of above said transactions on Assets, Liabilities, Profit and loss for the year, if any, is presently not ascertainable.	Action is being taken to get the reconciliation of accounts of Assets & Liabilities adopted into the Company Accounts

Basis for Qualified Opinion In the absence of relevant information we are unable assess the impact on accounts could not be quantified on the following issues:	
I. Loans Availed by the Company As stated in Note 3.1, 3.2 3.3 26.1 to the Financial Statements and in the absence of external confirmations, which are subject to further reconciliation / adjustments a.On certain loan to an extent of Rs.14.80 Crores (Previous Year Rs. 47.03 Crores) which is still in the name of APTRANSCO; b.On Loans availed from certain banks, public financial institutions and other agencies including bonds for an amount of Rs. 3443.98 crores (Previous year Rs.3153.31 crores) The consequential impact on the Loan balances, interest payable, interest and loss for the year, if any, is presently not ascertainable	It is Third Transfer Scheme Loans and it is still in the name of AP Transco which is not endorsed to ASPDCL separately. Since statement of Account of Loans as at 31.3.2016 obtained from Banks/Financial Institutions are furnished and efforts are being taken to reconcile the bank balances.
II.Fixed Assets a. In respect of Freehold lands of carrying value Rs. 5.02 crores (previous year Rs. 4.88 crores), data on lands acquired by purchase, gift or alignment by government are not available with the company. Further, the ownership documents viz. sale deed, gift deed on such lands are not fully available with the company. In the absence of the above said information we are unable to determine the state of ownership, any adjustments to the carrying amounts required.	Continuous efforts are being made to obtain the requisite ownership documents of the lands.
b. Capital work-in-progress, inter alia, includes balances pending capitalisation for long-periods of time owing to pending analysis of status, value and obtaining of commissioning certificates. The consequential impact of adjustment, if any, on the financial statements is currently not ascertainable.	Action is being taken to capitalize the long pending capital work in progress works.
c. Note 27.7, Statement on Accounting policies, Company is capitalizing Overheads and Employees cost @ 8.5% and 1.5% respectively of the capital working progress. During the year company has capitalized Rs. 112.14 crores such expenditure. However, AS-10 prescribes to capitalize only such expenses attributable to the specific assets. The said policy is in non compliance of the Accounting Standard -10.	A consistent accounting policy of Capitalizing overheads and employee cost @ 8.5% and 1.5% respectively of the Capital work in progress is being followed since long back.

d. Accumulated depreciation on assets sold/discarded during the year is not written back in accordance with AS-6 "Depreciation Accounting". 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. However, such old assets are not retired from the books. The consequential impact on Asset balances, depreciation loss on financial statements is not ascertainable.	The comment of Statutory auditors on deprecation accounting is noted and efforts will be initiated to comply AS-6.
e. In the event of retirement of distribution transformers, instead of retiring the actual asset company is retiring the retiring the asset on FIFO basis. The consequential impact on Asset balances, depreciation loss on financial statements is not ascertainable.	Since the company is following consistent policy on retirement of Distribution Transformers on FIFO basis only.
f. The Company has not carried out any Techno-economic assessment during the year ended 31st March 2016 and hence identification of impairment loss and provision thereof, if any, has not been made. The same is not in accordance with the notified Accounting Standard 28 on Impairment of asset. The consequential impact of adjustment, if any, on the financial statements is currently not ascertainable. Refer Note no. 10.2 of Financial statements	The observation of the Statutory auditors is noted and efforts will be taken to carry out such Techno-economic assessment on Impairment of Assets.
g. Note No 10 Para 3.3, depreciation is not provided on certain unidentified assets transferred from APCPDCL pertaining to the operation circles merged with the company.	Since finalization of transfer of unidentified Assets pertaining to Anantapur & Kurnool circles is not yet completed no depreciation has been provided on such Assets.
h. 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. The consequential impact on the capital work-in progress, fixed assets, depreciation and amortisation and loss for the year owing to above stated qualifications, if any, is presently not ascertainable.	A letter will be addressed to AP Transco and Govt. of AP for appropriate action on the stated subject. On receipt of information /orders on the subject necessary entries will be made in the books of accounts.

III. Inventories a. The company is valuing the stores & spares, obsolete stock and scrap materials on weighted average cost. However, it should be valued at cost or NRV whichever is lower leading to non compliance with AS -2. In absence of relevant information and audit trail we are not in a position to quantify the impact thereof.	The stores, Obsolete stock and Scrap are valued at weighted average cost. Since consistent policy of valuing the materials i.e., Stores and Spares is being adopted from the inception of the Company. However the Obsolete stock and scrap materials used are unique in nature and also having limited market, hence they cannot be ascertained.
b. 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 consistence policy of pricing the material devoluted is being followed
IV EMPLOYEE BENEFITS 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". However, company had made an adhoc provision of Rs.300 crores against liability determined as per actuarial valuation of Rs.2006.08 crores resulting in understatement of loss and liabilities to an extent of Rs. 1707.08 crores. Further, the disclosure requirements as per Schedule III of Companies Act 2013 are not complied in total.	Actuarial valuation has been done for the FY 2015-16, and an amount of Rs.300 crore has been provided as provision for the FY 2015-16
V. Government Grants a. Assets purchased under RGGVY scheme from Government grants is not shown separately as required under AS-12 "Accounting for Government Grants".	The subject will be examined in detail and action will be taken according to AS-12 in the ensuing years.
VI. Borrowing Costs a. Note 27.10 of Statement of Accounting policies states that interest during construction is calculated and capitalized at the rate specified for each scheme from the date of expenditure incurred till the date of Capitalization. However, company is unable to identify the borrowing cost incurred specifically for a particular asset and hence, capitalizing the interest cost at the weighted average rate of borrowing cost incurred during the previous year. *However, Accounting standard -16 prescribes a different method for capitalization of borrowing costs for general borrowings. The capitalization rate should be the weighted average of borrowings costs applicable to the borrowings that are outstanding during the year. Accordingly, capitalization should be determined by applying the rate arrived as per standard.* The consequential impact on the capital work-in progress, fixed assets, depreciation and amortization and loss for the year owing to above deviation from accounting standard, if any, is presently not ascertainable	Since the Borrowing cost incurred specifically for a particular asset cannot be identified, a consistent policy of capitalization of interest is being followed as and when works are completed.

VII. Taxes on Income Deferred Tax asset / liability has not been recognized in the accounts as required under AS-22 "Accounting for Taxes on Income".	The subject will be examined in detail and action will be taken according to AS-22 in the ensuing years.
VIII. Earnings per Share The cumulative effect of the non-compliance of the above and other qualifications in the para below, on the Earnings per share vide Accounting standard 20 is not quantifiable since adequate information is not presently available with the Company to quantify the financial impact on non-compliance of these Accounting Standards.	Action will be initiated to provide adequate information in future so as to comply Accounting Standard-20
IX. Assets/Liabilities are overstated/understated and loss understated/overstated to an extent of the following : i. 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.377.97 Crores resultant understatement of Loss and overstatement of Sundry Debtors to that extent.	In order to overcome the difficulties associated in determining the Sundry debtors balances pending collection for more than 4 years, action is being taken to evolve a leak-prof system to determine the amounts to be provided towards bad and doubtful debts.
ii. Note No.8 para 1 non reconciliation of **Inter Unit accounts** to the extent of Rs. 45.18 Crores (previous year Rs. 38.24 crores).	Efforts are being taken to reconcile the Inter unit accounts.
iii. The company has not booked accrued interest on certain bank deposits amounting Rs. 58.14 lacs resulting in overstatement of loss and understatement of current assets to that extent.	Due to non receipt of information from the Banks concerned provision could not be made on the interest accrued on certain Bank Deposits. Proper attention will be taken in future on such issues.
iv. In case of certain bank accounts, the balance as per Bank statement is higher than the books of Account by an amount of Rs.21.97 crores resulted in understatement of Cash & Cash equivalents and overstatement of receivables or Other Current Assets to that extent	In the absence of conformation whether the said bank excess pertains to APSPDCL or not? It is not just and reasonable to account for the same as cash or cash equivalents. And hence there is no overstatement of receivables /under statements of cash & cash equivalents. However efforts are being taken on such balances.
X. Others: a. 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. However, no such independent system Audit of SAP implementation is not carried out since *Go-live of the project*	The input controls in SAP such as Data capturing, recording of transaction access control system and backup are being done regularly /periodically. Action will be taken to provide disaster data recovery.

b. Note No 19 -Non recognition of income on Deposit Contributory Work, which is not ascertainable.	Action is being taken to recognize the income portion out of the Deposit and will be accounted for accordingly.
c. Note No: 26 para 8- Contingent Liabilities reported are, in our opinion, exclusive of court cases pertaining to power purchases & Undrawn/ under drawn power in case of open access purchases.	Since Contingent liabilities in respect of Power Purchase could not be quantified in the absence of outcome of Court Cases.
d. Non-disclosure of capital and other commitments at the year-end prescribed under Schedule III to the Companies Act, 2013.	Since the Capital and other commitments has been provided.

For Komandoor & Co LLP,
Chartered Accountants,
Firm Reg. No.001420S/ S200034

For and on behalf of the Board

(Nagendranadh Tadikonda)
Partner
Membership No.226246

Director (Finance) Chairman & Managing Director

Date: 02-08-2016
Place:Tirupati

Date:02-08-2016
Place: Tirupati

M/s Komandoor & Co LLP, Chartered Accountants, Firm Reg. No.001420S/ S200034	**Southern Power Distribution Company of Andhra Pradesh Limited**
AUDITOR'S 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 in SAP**. ***However, the said details are not available for certain unidentified fixed assets transferred from TSSPDCL (formerly APCPDCL) occasioned by AP State bifurcation (pertaining to Kurnool and Ananthapur circles).***	Un-identified fixed assets from TSSPDCL occasioned by AP Reorganization 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.
c. According to the information provided to us and audit procedures conducted by us, the ownership documents viz. sale deed, gift deed etc. on immovable properties are not fully available with the company. Further, the immovable properties transferred in pursuant to Demerger TSSPDCL (Formerly APCPDCL) are not registered in the name of the company. In the absence of the above said information we are unable to determine the state of ownership and titles against such properties.	Action is being taken to get the immovable properties transferred in the name of APSPDCL
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.**	Since the cost records maintained have been furnished to the Cost Auditors for verification

vii. (a) Based on our examination of books of accounts and according to the information and explanations given to us in our opinion the company is regular in depositing the undisputed statutory dues, including Provident Fund, , Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Custom Duty, Excise Duty and other material statutory dues, as applicable, with the appropriate authorities and there were no arrears of such dues at the year-end which have remained outstanding for a period of more than six months from the date they become payable, except ***service tax on supervisory charges on deposit contributory works, service tax on police guard charges, TDS on certain payments towards professional charges, consultancy charges, legal charges and honorarium under provisions of Income Tax Act, 1961. The company has not made any provision for the said expenditures.*** In the absence of such information, we are unable to quantify the liability payable.	Action is being taken to obtain opinion from Service tax consultant on the issue raised by the statutory auditors and action will be taken after receipt of opinion
viii. 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 on certain loans transferred on merger of Ananthapur & Kurnool operation circles, which are unascertained.	Since the details of loans transferred on merger pertaining to Anantapur and Kurnool circles are not received, no provision has been made in the accounts.

x. During the course of our examination of the books and records of the company, carried in accordance with the auditing standards generally accepted in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company noticed or reported during the course of our audit nor have we been informed of any such instance by the Management. However, there exist an amount of Rs. 85 lakhs accumulated balances of fraud on account of theft of cash and Rs.5.48 Crores on account of theft of energy, which are yet to be resolved. Further, company has written off certain assets of carrying value of Rs. 97.17 lacs on account of theft of Distribution transformers happened in earlier years.	Since Management has issued final order vide referenceNO:CGM/HRD/JS/GM/DGM(DC)/PO(DC)/JPO.4/F103/VJA/D.NO.718/16DATED.25.4.2016 to recover the entire embezzlement amount from the responsible officers/employees in respect of accumulated balances of fraud on account of theft of cash of Rs.85 lacs. Regarding on account of theft of Energy of Rs.5.48 Crores and on account of theft of Distribution transformers of Rs.97.17 lacs proper action will be taken to recover the amount.

For Komandoor & Co LLP,
Chartered Accountants,
Firm Reg. No.001420S/ S200034

KOMANDOOR & CO., LLP
REG.No.
001420S/S200034
TIRUPATI
CHARTERED ACCOUNTANTS

For and on behalf of the Board

(Nagendranadh Tadikonda)
Partner
Membership No.226246

Director (Finance)

Chairman & Managing Director

Date: 02-08-2016
Place: Tirupati

Date: 02-08-2016
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