INDEPENDENT AUDITOR'S REPORT

To the Members of

JAMMU POWER DISTRIBUTION COMPANY LIMITED

Gladni Narwal, Jammu (180006), Jammu & Kashmir

CIN: U40300JK2013SGC003898

EXECUTIVE SUMMARY

This Auditor's Report presents our comprehensive findings and professional observations arising from the audit of the financial statements of Jammu Power Distribution Company Limited for the financial year ended 31st March 2025. Our audit was conducted in accordance with the Standards on Auditing specified under Section 143 of the Companies Act, 2013, and the requirements of the Companies (Auditor's Report) Order (CARO), 2020. The financial statements examined comprise the Balance Sheet as at 31st March 2025, the Statement of Profit and Loss for the year ended 31st March 2025, and the Cash Flow Statement for the corresponding period, together with a comprehensive summary of significant accounting policies and explanatory information. This report is issued with a qualified opinion, subject to the material exceptions and observations detailed herein.

REPORT ON FINANCIAL STATEMENTS

1. Scope and Composition of Audit

We have conducted a thorough audit of the accompanying financial statements of **JAMMU POWER DISTRIBUTION COMPANY LIMITED**, encompassing:

- The Balance Sheet as of 31st March 2025
- The Statement of Profit and Loss for the financial year ended 31st March 2025
- The Cash Flow Statement for the financial year ended 31st March 2025
- Supporting schedules and notes containing significant accounting policies and supplementary explanatory information

The audit was performed with professional diligence and skepticism, employing systematic procedures to ensure comprehensive examination of all material financial transactions and balances.

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2. Management's Responsibility for Financial Statement Preparation and Presentation

The Board of Directors of the Company bears the primary responsibility for the preparation and fair presentation of these financial statements. This responsibility encompasses:

1. **Preparation of Financial Statements**: Ensuring that the financial statements present a true and fair view of the Company's financial position, financial performance, and cash flows in accordance with Indian Accounting Principles and Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, and the Companies (Accounts) Rules, 2014.

2. **Asset Safeguarding and Record Maintenance**: Establishing and maintaining adequate systems of internal accounting controls and comprehensive accounting records in accordance with the statutory requirements, with the objective of safeguarding the Company's assets and preventing unauthorized transactions.

3. **Fraud Prevention and Detection**: Designing and implementing preventive and detective mechanisms to identify and prevent fraudulent activities and irregularities in the conduct of business operations.

4. **Accounting Policy Selection**: Selecting and consistently applying appropriate accounting policies that provide meaningful and reliable financial reporting.

5. **Estimates and Judgments**: Making reasonable and prudent accounting estimates and judgments based on available information and professional experience.

6. **Internal Control Implementation**: Designing, implementing, and maintaining a comprehensive framework of internal financial controls, including segregation of duties, authorization matrices, and verification procedures.

3. Auditor's Responsibility and Audit Standards Applied

Our responsibility, as the statutory auditors, is to express a professional opinion on the fairness of the financial statements based on evidence obtained during the audit process. We have conducted our audit in accordance with the Standards on Auditing (SAs) issued by the Institute of Chartered Accountants of India (ICAI) and specified under sub-section 10 of Section 143 of the Companies Act, 2013.

These Standards require that we comply with strict ethical requirements and plan and perform our audit procedures to obtain reasonable assurance regarding the absence of material misstatements in the financial statements, whether arising from fraud or error. Our audit procedures have included:

- **Risk Assessment**: Identifying and evaluating the risks of material misstatement in the financial statements at both the overall financial statement level and at the individual transaction level.

- **Audit Evidence Collection**: Performing substantive audit procedures including testing of transactions, examination of supporting documentation, physical verification where applicable, and obtaining confirmations from external parties.

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- **Accounting Policy Evaluation**: Assessing whether management's selection and application of accounting policies is consistent with applicable accounting standards and appropriately reflects the economic substance of transactions.
- **Accounting Estimate Validation**: Evaluating the reasonableness of accounting estimates and judgments made by management in preparing the financial statements.
- **Subsequent Event Review**: Examining events occurring subsequent to the balance sheet date for potential financial statement impact.
- **Overall Statement Evaluation**: Assessing the overall presentation, structure, and disclosures in the financial statements to ensure compliance with applicable disclosure requirements.

We are satisfied that the audit evidence obtained is sufficient and appropriate to provide a reasonable basis for our qualified audit opinion.

QUALIFIED AUDIT OPINION

Based on our comprehensive audit procedures and professional evaluation of the financial statements, we express a **qualified opinion** subject to the significant exceptions and limitations noted hereinafter.

In our opinion, subject to the material qualifications and limitations identified in this report, and to the best of our knowledge and information and according to the explanations provided by the management, the aforesaid financial statements:

1. Comply with the disclosure requirements prescribed under the Companies Act, 2013, and present the information in the manner required by law;
2. Present a substantially fair view, in conformity with the accounting principles generally accepted in India, of:
   - The financial position and state of affairs of the Company as at 31st March 2025
   - The financial performance and profitability of the Company for the year ended 31st March 2025
   - The cash flows and liquidity position of the Company for the year ended 31st March 2025

However, the aforesaid opinion is qualified by the material limitations and exceptions detailed in subsequent sections of this report, particularly those relating to bank reconciliations, fixed assets verification, and incomplete computerization of accounting systems.

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KEY AUDIT OBSERVATIONS AND FINDINGS

OBSERVATION 1: BANK RECONCILIATION DISCREPANCIES AND CASH MANAGEMENT DEFICIENCIES

1.1 Nature and Scope of Observations

One of the most material audit findings relates to significant and persistent discrepancies between cash book balances recorded at various divisions and the corresponding balances reflected in bank statements as on the audit date of 31st March 2025. A comprehensive review of bank reconciliation processes revealed that no formal reconciliation statements had been prepared or maintained by the divisions at the time of our audit engagement.

The examination of cashbooks, bank statements, and BUSY accounting software records across all operational divisions identified substantial variations, with some divisions presenting differences that trace back to previous financial years. The absence of documented reconciliation procedures has resulted in our inability to provide absolute assurance regarding the completeness and accuracy of reported bank balances.

1.2 Detailed Division-wise Analysis of Material Discrepancies

Division/Branch	Cash Book Balance (₹)	Bank Statement Balance (₹)	Reconciliation Variance (₹)	Classification and Nature
STD-1 (Samba)	34,226,415	36,651,063	2,424,648	Inherited variance from prior financial years
ED-3 (Electricity Division)	50,379,525	51,108,209	728,684	Unreconciled opening balance carried forward
ED BATOTE	78,04,126	15,66,436	62,37,690	**Under investigation - Embezzlement allegation**
STD-2	31,970,181	32,306,821	336,640	Normal reconciliation variance

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ED-2	31,834,348	31,864,925	30,577	Clerical/data entry discrepancies
ED-1	55,424,697	45,292,061	10,132,636	Significant unreconciled difference
CENTRAL STORE	77,994,314	77,992,991	1,323	Minimal variance
EC WORKSHOP DIVISION (JAMMU)	3,810,750	3,809,750	1,000	Immaterial variance
ED-VIJAYPUR	74,291,803	74,629,907	338,104	Processing timing differences
STD-KATHUA	3,033,273	3,901,584	868,311	Significant unreconciled amount
ED-POONCH	16,914,731	14,668,014	2,246,717	Major outstanding items
ED-UDHAMPUR	15,973,339	17,238,966	1,265,627	Substantial timing differences
STD-UDHAMPUR	11,457,460	11,552,234	94,774	Minor variance
ED-REASI	30,635,966	31,483,980	848,014	Prior year variance continuation
ED-DODA	6,951,469	4,508,472	2,442,997	Significant difference requiring investigation

1.3 Critical Observations Regarding ED-BATOTE Division

The ED Batote division presents an exceptionally large variance of ₹62.37 lakhs between the cash book and bank statement balances. Our inquiries and investigation revealed that this discrepancy arises from an alleged embezzlement incident currently under investigation by the local crime branch authorities. The investigation officer, Ankush Chib (Crime Branch, Jammu), is actively pursuing this matter. Consequently, the resolution of this bank reconciliation is contingent upon the completion of the criminal investigation and recovery proceedings.

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1.4 Systemic Deficiencies Identified

Our examination identified the following systemic and procedural deficiencies in bank reconciliation practices:

1. **Absence of Formalized Reconciliation Procedures**: No divisions maintain documented, periodic bank reconciliation statements. The reconciliation process, where conducted informally, lacks proper authorization and review controls.

2. **Lack of Segregation of Duties**: The individual responsible for maintaining cash books frequently performs the bank reconciliation without independent review or supervision.

3. **Inadequate Documentation**: Supporting documentation for reconciling items such as outstanding checks, deposits in transit, and bank adjustments is not systematically maintained.

4. **BUSY Software Integration Issues**: Data entry into the BUSY accounting software is performed manually from divisional cash books, with no automated reconciliation features or exception reporting.

5. **Absence of Timeliness in Reconciliation**: Reconciliations, where attempted, are prepared several months after the relevant accounting period.

1.5 Recommendations for Remediation

Management should implement the following corrective measures:

- Establish a formal, documented bank reconciliation policy applicable to all divisions and sub-divisions
- Conduct complete reconciliation of all historical unreconciled differences
- Implement a monthly reconciliation schedule with independent review and sign-off
- Segregate the duties of cash book maintenance and reconciliation
- Enhance BUSY software integration to include automated bank-to-book reconciliation features
- Establish a contingency reserve for the embezzled amount pending crime branch investigation closure

1.6 Opening Balances Difference

Rs.42,531.20 lakhs is reversal of CSS Funds Grant which is adjusted in opening balance of Capital Reserves (for booking at Nominal Values In Fixed Assets.)while preparing comparative current balance sheet. Closing balance as on 31/03/2024 of capital reserve in previous attested balance sheet is Rs4,82,319.98 lakhs. While opening balance of capital reserve as on 01/04/2024 in current balance sheet is Rs.4,39,788.78 lakhs

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OBSERVATION 2: FIXED ASSETS VALUATION, IDENTIFICATION, AND DEPRECIATION METHODOLOGY DEFICIENCIES

2.1 Scope of Fixed Asset Portfolio and Audit Limitations

The Balance Sheet reflects fixed assets with a recorded net book value of approximately ₹3,544.58 crores, which were transferred to the Company at book value during the financial year 2019-20. These assets form a substantial component of the Company's asset base and are fundamental to the valuation and presentation of the financial statements.

Despite the materiality and significance of these fixed assets, our audit procedures were substantially constrained by the absence of supporting documentation, physical verification records, and asset schedules. Consequently, we are unable to provide reasonable assurance regarding the completeness, accuracy, and valuation of the fixed asset balances as reported in the financial statements.

2.2 Deficiencies in Fixed Asset Management and Documentation

Our examination revealed the following material deficiencies in fixed asset management and internal controls:

1. **Absence of Asset Identification and Valuation at Transfer**: At the time of the 2019-20 transfer, the Company did not conduct a comprehensive physical verification and independent valuation of the transferred assets. The location, identification codes, technical specifications, and fair market valuations were not ascertained or documented.

2. **Incomplete Useful Life Assessment**: The remaining economic (useful) life of the transferred assets was not independently assessed. This assessment is essential for determining appropriate depreciation rates and useful life parameters.

3. **Non-Performance of Physical Asset Verification**: No **comprehensive** physical verification of fixed assets has been conducted during the audit period or in recent years. Without such verification, the existence, condition, and location of reported assets cannot be confirmed.

4. **Absence of Asset Records at Headquarters Level**: Centralized fixed asset and MRO (Maintenance, Repair & Operations) inventory registers are not maintained at the corporate headquarters level, preventing consolidated asset monitoring and control.

5. **Inadequate Division-Level Asset Documentation**: At the individual division level, fixed asset schedules and registers are either not maintained or were not made available for audit examination. This represents a critical control deficiency.

6. **Unmapped Asset Movement Register**: Central stores maintain an asset movement register with associated values; however, these records cannot be correlated or reconciled with official asset schedules maintained elsewhere in the organization.

7. **Failure to Remove Non-Performing Assets**: Fixed assets that have been damaged, become technologically obsolete, or are no longer operational are not removed from the books through appropriate write-off or disposal procedures.

2.3 Depreciation Methodology and Accounting Policy Deficiencies

The Company's depreciation methodology presents several significant concerns:

1. **Depreciation of Assets in Inventory Status**: Fixed assets that remain in central stores or divisional stores (functioning as inventory reserves pending deployment) are nevertheless subject to depreciation. This practice of depreciating idle assets not yet in operational service is not consistent with the matching principle and substance-over-form doctrine of accounting.

2. **Time Lag Between Purchase and Operational Deployment**: A significant temporal gap typically exists between the date of asset purchase and the date the asset is placed in operational service. The Company's accounting practice does not appropriately reflect this distinction.

3. **Undocumented Asset Capitalization Policy**: The Company has not established and documented a formal asset capitalization policy defining:

   - Minimum capitalization thresholds
   - Criteria for determining capital versus maintenance expenditures

2.4 Financial Statement Impact Assessment

The identified deficiencies in fixed asset accounting and management have resulted in:

- Potential overstatement of fixed asset valuations due to depreciation of non-operational assets
- Misstatement of depreciation expense in the profit and loss statement
- Inaccurate useful life assumptions affecting future depreciation schedules
- Incomplete disclosure of asset additions, disposals, and retirements

2.5 Recommendations for Fixed Asset Management Enhancement

Management should undertake the following corrective measures:

- Commission an independent valuation of the 2019-20 transferred asset portfolio

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- Conduct a comprehensive physical verification and asset tagging program
- Establish centralized asset registers with unique identification codes and location tracking
- Implement depreciation only for assets placed in operational service
- Remove non-performing, damaged, and obsolete assets through formal disposal procedures
- Document and formalize the asset capitalization policy with Board approval
- Establish separate accounting for work-in-progress assets under construction
- Implement an integrated fixed asset management system with depreciation scheduling capabilities

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OBSERVATION 3: COMPUTERIZATION AND ACCOUNTING SYSTEMS DEFICIENCIES

3.1 Current State of Computerization

A comprehensive assessment of the Company's information technology infrastructure and accounting system architecture reveals that the organization has achieved only partial computerization of its accounting and transaction processing functions.

Current computerization status:

1. **Manual Transaction Recording**: Day-to-day operational transactions are recorded manually in cash books and daybooks at divisional and sub-divisional levels. No direct at electronic transaction entry system is operational the operational levels.
2. **Manual Record Maintenance**: All subsidiary records beyond basic cash recording (including fixed assets, inventory, supplier accounts, and customer accounts) are maintained manually at the division and sub-division levels.
3. **Delayed Consolidation**: The consolidation and summary posting of transactions from divisional cash books into the centralized BUSY accounting software occurs only after a significant time lag, often weeks or months after the original transaction.
4. **Limited BUSY Functionality**: The BUSY software is utilized only for final consolidation and financial statement generation, not for real-time transaction recording or integrated accounting control.Moreover data entry is done from decentralized division without narrations.
5. **Absent Audit Trail Functionality**: The current system configuration does not provide complete and visible audit trails documenting all transactions, modifications, and user activities, which are essential for effective internal audit and external audit procedures. Deleted entry record not available.
6. **Software Anomalies**: Instances have been observed where the BUSY software has produced unexpected or illogical results, suggesting potential configuration issues or data integrity problems.

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3.2 Audit Implications and Increased Audit Risk

The deficient state of computerization has resulted in significantly enhanced audit risk and uncertainty:

- **Increased Manual Error Risk**: Manual transaction recording and consolidation processes are inherently susceptible to transcription errors, mathematical errors, and omissions.
- **Weak Internal Controls**: The manual system provides limited opportunity for preventive or detective controls such as automated reconciliations, duplicate transaction detection, or logical validation.
- **Compromised Audit Trail**: The absence of system-generated audit trails makes it difficult to trace transactions through the accounting process and identify the source of discrepancies.
- **Inefficient Audit Process**: Our audit procedures must include extensive testing and verification of manually recorded transactions, substantially increasing audit time and cost. But however due to contradiction between manual accounting and computerized accounting with cash book (central stores) difference of Rs.7.27 crores , the audit process remain floating between manual vs computerized accounting. As stated in previous Form-3Cd prepared as per The Income Tax Act,books are computerized and final accounts are also prepared extracting consolidating data from BUSY.

3.3 Recommendations for Computerization Enhancement

Management should prioritize the following system enhancements:

- Implement a modern, integrated accounting software system with real-time transaction entry capabilities
- Establish computerized transaction recording at all divisional and operational levels
- Configure the system to automatically generate audit trails and maintain transaction history
- Implement role-based access controls and user responsibility tracking
- Establish automated reconciliation and exception reporting features
- Provide comprehensive training to all users on the new system
- Conduct a full system audit and data migration under independent supervision
- Establish a dedicated IT governance committee to oversee system maintenance and enhancements

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OBSERVATION 4: TAX COMPLIANCE AND STATUTORY DEDUCTION DEFICIENCIES

4.1 Tax Deduction at Source (TDS) Compliance Issues

Our examination of TDS compliance across various divisions identified systematic failures in TDS calculation, deduction, and timely remittance. Specific deficiencies noted include:

Central Store Division Observations:

- TDS has been deducted at a flat rate of 2% under Section 194C in certain instances without properly considering the constitutional status (proprietorship, partnership, or company) of the service provider, which determines the applicable TDS rate. TDS rates under Section 194C vary from 1% to 2% depending on the recipient's classification.

ED-1 Division Observations:

- Similar TDS rate errors were identified, with 2% TDS deducted on payments to proprietorship concerns (e.g., Payal Building Tech) when the applicable rate should have been 1%.

ED-2 Division Observations:

- Excess TDS was deducted at rates higher than the applicable rates under Section 194C
- TDS deducted at 1% instead of the required 2% in certain cases

STD Doda Division Observations:

- Labour Cess charges levied on contractor payments were less than the statutory 1% requirement, violating labour law provisions
- Multiple instances of underpayment of Labour Cess on payments to contractors such as Pushpa Hans Associates, Guardian Engineers, and Chaudhary Electrical Works

General TDS Deficiencies Across Divisions:

- Non-compliance with the February 7th deposit deadline for TDS collections, with deposits made after the 7th of the month in August, October, December, and January
- Absence of systematic TDS compliance monitoring and exception reporting

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4.2 Goods and Services Tax (GST) Compliance Failures

Our GST compliance review identified pervasive deficiencies in GST documentation and Input Tax Credit (ITC) management:

ED Batote Division:
Multiple supplier invoices lack the recipient's (ED Batote's) GST Registration Number, including:

- Shah Electrical Engineers & Co.
- Surya Enterprises
- Satyam Construction
- RK Electricals
- Shakeel Ahmed Sheikh Enterprises
- Wincare

EC Workshop Division (Jammu):

- Invoices from SS Trading Co. (proprietary firm) do not specify GST amounts,

IT & C Division:

- Invoices from Vishavkarma Enterprises lack GST specification

ED Vijaypur Division:

- Multiple supplier invoices from proprietary firms (Munish Tour & Travels, Guardian Engineering, Nana Shakti Electrical Works, Hitech Electrical Construction & Supplier, Vinayak Engineer) omit GST amounts

STD Kathua Division:

- GST amounts not mentioned on invoices from proprietary suppliers (Engineering Service, Rhavya Electric Works, Sudesh Construction, Gem Bills)

4.3 NPS (National Pension Scheme) Contribution Compliance

- NPS contributions deducted from employee salaries are not being regularly and timely credited to the NPS trust accounts
- This represents both a compliance failure and a potential employee grievance issue

4.4 Impact and Recommendations

The identified tax compliance deficiencies have resulted in:

- Unnecessary increase in tax liability and potential penalties for late TDS deposit
- Potential interest and penalties from tax authorities
- Employee relations issues regarding delayed NPS contributions

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Corrective Actions Required:

- Establish a comprehensive tax compliance calendar with applicable rates and deadlines
- Implement TDS calculation validation procedures considering supplier constitutional status
- Conduct vendor management program requiring proper GST registration and invoice documentation
- Establish monthly tax compliance review meetings with divisional finance managers
- Implement system controls to alert for TDS deposit deadlines

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OBSERVATION 5: INTERNAL CONTROL AND GOVERNANCE DEFICIENCIES

5.1 Voucher Documentation and Evidence Management

Our audit procedures revealed that numerous expenses recorded in the cashbooks lack corresponding supporting vouchers or documentary evidence. This represents a significant internal control deficiency and audit impediment:

- Expenses in certain divisions could not be traced to underlying supporting documentation
- Estimates of affected transactions suggest this deficiency affects transactions of material magnitude

Remedial Action: Establish a comprehensive voucher documentation policy requiring all expenses to be supported by pre-numbered, properly authorized vouchers with full documentary evidence attached.

5.2 Annual General Meeting Compliance

The Company has not yet held Annual General Meeting meetings during the financial year 2023-24. The Company should ensure continuous compliance with annual general meeting requirements.

5.3 Asset Insurance Coverage

The Company's assets are not adequately insured against operational, casualty, and liability risks. A comprehensive insurance program should be established to protect the Company's substantial asset base.

5.4 Rent Agreements and Estate Management

Some rent payments are being made without corresponding formal rent agreements in place. Additionally, no dedicated estate manager is employed for maintaining estate records and ensuring compliance with lease terms. This represents a control deficiency in real property management.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Compliance with Companies (Auditor's Report) Order, 2020 (CARO 2020)

In accordance with the Companies (Auditor's Report) Order, 2020, we report the following:

A. Information and Explanations

We have sought and obtained all information and explanations which, to the best of our knowledge and belief, were necessary and relevant for conducting our audit examination. The Company management has cooperated reasonably in providing access to books of account, supporting documentation, and personnel for our inquiries.

B. Books of Account Maintenance

In our professional opinion, the Company has maintained proper books of account as required by the Companies Act, 2013, subject to the qualifications and exceptions noted in this report. The existence and extent of exceptions noted regarding bank reconciliations, fixed asset documentation, and computerization should be viewed as significant areas requiring management attention and corrective action.

C. Agreement of Financial Statements with Books of Account

The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement, as presented, agree with the underlying books of account and records maintained by the Company, subject to the qualifications noted regarding unreconciled bank balances and unsupported fixed asset balances.

D. Compliance with Accounting Standards

Subject to the exceptions and qualifications noted in the foregoing sections of this report, the financial statements comply with the Accounting Standards specified under Section 133 of the Companies Act, 2013.

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DIVISION-WISE AUDIT FINDINGS SUMMARY

STD-1 (Samba) Division

- Unreconciled bank balance variance of ₹24.25 lakhs between cash book and bank statement dating to prior financial year
- Absence of documented reconciliation supporting the difference
- No clearing of variance in FY 2024-25
- Minor bank reconciliation difference

ED-2 Division

- **Clerical data entry error of ₹20 in cash book versus bank statement. Mistake occurred in recording balance of bank statement . Balance as on 31/03/2025 as per bank statement is Rs.61,465 , but bank balance entered in cash book is Rs.61,485. Further difference of Rs.20 brought forward for next year escaping reconciliation process as reconciliation is made with Rs.61,465 , and difference still occurred during audit**
- Erroneous TDS deduction rates (1% instead of 2%) on certain service payments without going to constitutional status of deductee.

ED-3 Division

- Unreconciled bank balance variance of ₹7.29 lakhs persisting from prior financial year
- No reconciliation documentation available

Central Store

There is heavy reconciliation difference exist amounting ₹7,47,53,646 the details of which are undermentioned.

- ₹7,47,53,646 is old balance of earlier years which is taken into consideration in cash book on 12-2024 to cover the reconciliation difference arising between bank balance as cash book and balance as per bank statement. Further this amount is not taken in busy from where annual accounts are finalized laeding to huge gap in monetary values of manual vs computerized accounting.
- Prior year balance of ₹5.13 lakhs not considered in opening balance but taken during the year and subsequently surrendered
- Incorrect TDS rate application (2% flat instead of 1% in appropriate cases)

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ED-1 (Electricity Division)

- Unreconciled bank balance variance of ₹1.01 crores
- No bank reconciliation statement prepared through audit date
- Systematic TDS rate errors (2% applied to proprietorship concerns)

ED Vijaypur

- Delayed TDS deposits (post-7th of month in multiple instances)

STD Kathua

- Systematic GST documentation issues with multiple proprietary supplier invoices

ED Poonch

- CGST and SGST deduction (1% each) on March 24, 2025 transaction not deposited by year-end
- Outstanding tax liability not recorded in books

JPDCL (Rajouri) PAO

- High-volume payment transactions (approximately ₹14 crores) lacking supporting vouchers
- GST compliance verified through GSTR-7 but original voucher documentation unavailable at the time of conduct of audit.

ED Reasi

- Unreconciled bank balance variance of ₹8.48 lakhs with only partial adjustment in FY 2024-25

STD Kalakot

- TDS deduction less than 1% on vendor bill from Saroch Electricals

ED Kathua

- Service Tax stamp (0040) still being used despite abolition of service tax even in FY2024-25
- Stamp should be updated to reflect CGST/SGST deductions

ED Rajouri

- Systematic TDS underpayment (less than 1%) on bills from National Trading Company

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STD Doda

- Labour Cess charged less than 1% on multiple contractor payments (violation of labour law)

ED Batote

- **Critical Finding**: Embezzlement involving approximately ₹62 lakhs currently under investigation by crime branch
- Unauthorized bank withdrawal under criminal investigation with case officer Ankush Chib
- Multiple supplier invoices lacking ED Batote's GST registration number
- TDS non-deduction on advertisement single bill payments exceeding ₹30,000

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AUDIT CONCLUSIONS AND STRATEGIC RECOMMENDATIONS

Summary of Key Findings

The audit has identified significant deficiencies across multiple dimensions of the Company's financial reporting, operational controls, and statutory compliance infrastructure. While the financial statements, subject to the qualifications noted, present the required financial information, the extensive exceptions and limitations significantly constrain the degree of assurance that can be provided regarding the completeness, accuracy, and reliability of reported balances.

Critical Recommendations for Management Action

Immediate Priority (Within 30 days):

1. Initiate complete bank reconciliation for all divisions, prioritizing those with material variances
2. Establish documented monthly bank reconciliation procedures with independent review
3. Implement segregation of duties between cash book maintenance and reconciliation
4. Suspend depreciation of assets not yet placed in operational service

Short-term Priority (Within 90 days):

1. Commission independent valuation of the 2019-20 transferred asset portfolio
2. Establish formal asset capitalization policy with Board approval
3. Initiate comprehensive physical asset verification program
4. Establish centralized fixed asset and inventory registers with unique identification codes
5. Implement formal TDS compliance calendar and validation procedures
6. Conduct vendor education program on GST documentation requirements
7. Reconcile all NPS contributions and establish regular crediting schedule

Medium-term Priority (Within 180 days):

1. Implement modern integrated accounting software with real-time transaction entry
2. Establish centralized asset management system with depreciation scheduling
3. Conduct comprehensive IT system audit and full data migration
4. Remove non-performing, damaged, and obsolete assets with proper documentation
5. Establish internal audit department with regular reporting to management
6. Implement comprehensive contingency liability tracking and disclosure system
7. Establish comprehensive asset insurance program

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Long-term Strategic Priority:

1. Complete organization-wide computerization of all accounting and operational systems
2. Establish modern internal control framework with documented policies and procedures
3. Implement business process re-engineering to strengthen organizational governance
4. Establish continuous monitoring and compliance assessment mechanisms
5. Develop capacity for periodic independent peer review of audit quality and effectiveness

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AUDITOR INFORMATION

For M. Mahajan & Associates
Chartered Accountants
Firm Registration Number: 016626N

CA Abhimanyu Saini
Partner
Membership Number: 529370
ICAI Registration: 016626N
Place: Jammu
Date: 24th January 2026

UDIN: 26529370MHOPUH3876

ANNEXURE TO THE INDEPENDENT AUDITOR'S REPORT

JAMMU POWER DISTRIBUTION COMPANY LIMITED
Gladni Narwal, Jammu (180006), J&K
CIN: U40300JK2013SGC003898

Annexure - A to the Independent Auditors' Report

[Referred to in paragraph under 'Report on Other Legal and Regulatory Requirements' of our Report of even date to the members of JAMMU POWER DISTRIBUTION COMPANY LIMITED on the accounts of the company for the year ended 31st March 2025.]

Based on the audit procedures performed for the purpose of reporting a true and fair view on the financial statements of the Company and taking into consideration the information and explanations given to us and the books of account and other records examined by us in the normal course of audit, and to the best of our knowledge and belief, we report that:

(i) Property, Plant and Equipment and Intangible Assets:

(a)
(A) The Company has maintained proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. However, exceptions are noted below:

- The company has not maintained comprehensive asset registers with proper classification and cross-reference to the corresponding accounting entries.
- Lack of proper asset tagging and categorization has created difficulties in reconciling the physical existence of assets with the balance sheet values.
- Management should establish a robust fixed asset management system that includes detailed registers, unique identification codes for each asset, periodic physical verification schedules, and depreciation computation methodologies compliant with the Accounting Standards.

(B) The Company has maintained proper records showing full particulars of intangible assets. [No specific exceptions noted]

(b)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not provided complete documentation regarding physical verification of Property, Plant and Equipment during the year. No regular programme of verification exists to cover all items over a period of three years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Management confirmation has been obtained regarding ownership title over all fixed assets, but physical verification procedures need to be formalized.

(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 (other than properties where the Company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the Company, based on management confirmation. [No specific exceptions noted regarding title deeds]

(d)
The Company has not revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year. Accordingly, clause 3(i)(d) of the Order is not applicable.

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(e)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, there are no proceedings initiated or pending against the Company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 and rules made thereunder. Accordingly, clause 3(i)(e) of the Order is not applicable.

(ii) Inventory:

(a)
The inventories, except stock lying with third parties, have not been physically verified by the management during the year at reasonable intervals. No records were provided to confirm that physical verification of the inventory was conducted as per the provisions of law (except provided by STD-1 where physical verification was conducted by team designated by management).

During our audit, we noted the absence of documented physical stock verification procedures for the Maintenance, Repair and Operation (MRO) inventory held at various divisional locations. The company should implement a formal periodic physical verification schedule with proper documentation, including pre-verification counts, reconciliation of differences, and authorization by responsible officials.

Critical Issue: The inventory of items used for repairs & maintenance and emergency replacements of existing assets are not categorized and recorded separately. These items are still included in fixed assets and depreciated. The inventory shown in the balance sheet is nil while MRO inventory is not recognized at all.

(b)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not been sanctioned any working capital limits in excess of five crore rupees in aggregate from banks or financial institutions on the basis of security of current assets at any point of time of the year. No working capital was sanctioned from banks or any financial institution. The company runs entirely on government grants received during the financial year 2024-25. Accordingly, clause 3(ii)(b) of the Order is not applicable.

(iii) Investments, Guarantees, Security and Loans:

(a)
According to the information and explanations given to us and records examined by us, the Company has not provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties during the year. Accordingly, clauses 3(iii)(a), 3(iii)(b), 3(iii)(c), 3(iii)(d), 3(iii)(e) and 3(iii)(f) of the Order are not applicable.

(iv) Compliance with Sections 185 and 186:

According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not granted any loans or made any investments, or provided any guarantee or security as specified under Section 185 and 186 of the Companies Act, 2013. Accordingly, clause 3(iv) of the Order is not applicable.

(v) Deposits:

According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not accepted any deposits within the meaning of Sections 73 to 76 of the Act and the Companies (Acceptance of Deposits) Rules, 2014 (as amended). Accordingly, clause 3(v) of the Order is not applicable.

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(vi) Cost Records:

According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under sub-section (1) of Section 148 of the Act, in respect of the activities carried on by the Company. Accordingly, clause 3(vi) of the Order is not applicable.

(vii) Statutory Dues:

(a)
Critical Non-Compliance - Income Tax Returns:

According to the records of the Company examined by us and the information and explanation given to us, the Company has generally been regular in depositing undisputed statutory dues including Goods and Services Tax, Provident Fund, Employees State Insurance, Income-tax, Sales Tax, Service Tax, duty of Customs, duty of Excise, Value added Tax, Cess and other material statutory dues, as applicable, with the appropriate authorities.

However, a matter of significant regulatory concern has been noted: The company has not filed income tax returns from the inception of the company till AY 2024-25.However, Income tax return for AY 2025-26 has been filed.
Recommendation: The company, being a statutory authority managing power distribution in the Jammu region, should clarify its tax filing obligations with the Income Tax Department and take corrective measures. We recommend that the company obtain a formal letter from the Income Tax Department confirming its tax status and exemption, if applicable, or immediately initiate the filing process for all pending assessment years. Further, we recommend getting audit conducted in stipulated time frame so that income tax return is filed only after tax audit.

According to the information and explanations given to us, no undisputed amounts payable in respect of such statutory dues were in arrears as at 31st March 2025 for a period of more than six months from the date they became payable.

(b)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, there are no statutory dues referred to in sub-clause (a) which have not been deposited on account of any dispute.

(c)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, there are no amounts which are required to be transferred to the Investor Education and Protection Fund by the Company in accordance with the relevant provisions of the Companies Act, 2013 and rules made thereunder. Accordingly, clause 3(vii)(c) of the Order is not applicable.

(viii) Unrecorded Income and Surrender:

(a)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, no transactions were surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961, which have not been previously recorded in the books of account. Accordingly, clause 3(viii)(a) of the Order is not applicable.

(b)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not been declared as a willful defaulter by any bank or financial institution or government or any government authority. Accordingly, clause 3(viii)(b) of the Order is not applicable.

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(c)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not taken any term loan during the year. Accordingly, clause 3(viii)(c) of the Order is not applicable.

(d)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, no funds have been raised by the Company on short-term basis. Accordingly, clause 3(viii)(d) of the Order is not applicable.

(e)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries. The Company does not have any subsidiaries. Accordingly, clause 3(viii)(e) of the Order is not applicable.

(f)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not raised any loans during the year on the pledge of securities held in its subsidiaries. The Company does not have any subsidiaries. Accordingly, clause 3(viii)(f) of the Order is not applicable.

(ix) Default in Repayment of Loans:

(a)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not raised moneys by way of initial public offer or further public offer (including debt instruments) during the year. Accordingly, clause 3(ix)(a) of the Order is not applicable.

(b)
According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year. Accordingly, clause 3(ix)(b) of the Order is not applicable.

(x) Fraud by the Company or on the Company:

(a)
Based on the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and according to the information and explanations given by the management, To the best of our knowledge and according to the information and explanation given to us, embezzlement of approx. 62 lakh is found at ED Batote and is under investigation with crime branch and departmental investigation is also going on during the financial year 2024-25. We are reporting it as per CARO 2020 requirement.

(b)
During the year, no report under sub-section (12) of Section 143 of the Companies Act, 2013 has been filed by the auditors in Form ADT-4 as prescribed under Rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government.

(c)
As represented to us by the management, there are no whistle-blower complaints received by the Company during the year.

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(xi) Managerial Remuneration:

According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not paid/provided any managerial remuneration during the year. Accordingly, clause 3(xi) of the Order is not applicable.

(xii) Nidhi Company:

According to the information and explanations given to us, the Company is not a Nidhi Company. Accordingly, clause 3(xii) of the Order is not applicable.

Detailed Observation: Jammu Power Distribution Company Limited is a power distribution company engaged in the business of generating, transmitting, and distributing electrical power in the Jammu region. The company's objects as stated in the Memorandum of Association do not fall within the definition of a Nidhi Company as per Section 406 of the Companies Act, 2013. The company's operations and regulatory framework are governed by the Electricity Act, 2003, and relevant State regulations.

(xiii) Related Party Transactions:

According to the information and explanations given to us and on the basis of our examination of the records of the Company, all transactions with the related parties are in compliance with Sections 177 and 188 of the Act where applicable.

No related party transactions have taken place during the financial year 2024-25 as observed by us and explained to us by the company as per Section 177 & 188 of the Companies Act.

Governance Recommendation: However, given the size and nature of the company's operations in managing critical power distribution infrastructure for the Jammu region, the establishment of an Audit Committee comprising qualified directors would enhance governance and provide appropriate oversight of audit functions, internal controls, risk management, and financial reporting processes. The constitution of an Audit Committee would also strengthen stakeholder confidence in the company's internal control environment.

(xiv) Internal Audit System:

According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company does not have an internal audit system commensurate with the size and nature of its business.

Current Status: The company has outsourced the financial statement compilation work to a professional who compiles the financial statements and suggests changes and corrections to maintain the accuracy of books. However, there is no internal audit department constituted within the company. There are no periodical reports prepared and available.

Recommendation: We strongly recommend that the company establish a formal internal audit function or engage an internal audit firm to conduct regular and comprehensive audits of operational and financial processes. Internal audit plays a critical role in evaluating the effectiveness of internal controls, identifying process inefficiencies, and providing management with assurance that organizational objectives are being met. Periodic internal audit reports should be submitted to the Audit Committee (once constituted) and senior management for timely remediation of identified issues.

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(xv) Non-cash Transactions with Directors:

According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not entered into any non-cash transactions with its directors or persons connected with its directors and hence, provisions of Section 192 of the Act are not applicable to the Company. There are no cash transactions with directors or their related persons as per the explanation given to us by the company.

(xvi) Registration under RBI Act:

(a)
According to the information and explanations given to us, the Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934. Accordingly, clause 3(xvi)(a) of the Order is not applicable.

(b)
According to the information and explanations given to us, the Company has not conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934. Accordingly, clause 3(xvi)(b) of the Order is not applicable.

(c)
According to the information and explanations given to us, the Company is not a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India. Accordingly, clause 3(xvi)(c) of the Order is not applicable.

(d)
According to the information and explanations given to us, the Group does not have any CICs, which are part of the Group. Accordingly, clause 3(xvi)(d) of the Order is not applicable.

(xvii) Cash Losses:

According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has incurred cash loss of ₹58.23 Crores during the financial year covered by our audit.

The Company had cash surplus of ₹94.41 Crores in the immediately preceding financial year (2023-24).

Analysis: The shift from cash surplus to cash loss indicates operational challenges that require strategic intervention. While the company has received government grants and is managing cash outflows, the operational performance is not covering costs. Management should conduct a comprehensive review of its business operations, cost structure, tariff realizations, and efficiency metrics to identify areas for improvement. A detailed turnaround plan addressing the root causes of losses and outlining specific actions to achieve operational profitability should be prepared and implemented.

(xviii) Resignation of Statutory Auditors:

There has been resignation of the statutory Auditors by way of rotation. Previous statutory auditor Nehru & Associates is resignation by rotation.

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(xix) Financial Ratios, Ageing, and Going Concern:

(a)
On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, our knowledge of the Board of Directors and management plans and based on our examination of the evidence supporting the assumptions, nothing has come to our attention, which causes us to believe that any material uncertainty exists as on the date of the audit report that Company is not capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date.

Note: The Company runs entirely on government grants received during the financial year 2024-25, indicating dependence on budgetary allocations from the government for operational and capital requirements.

(b)
According to the information and explanations given to us, pursuant to the provisions of Section 135 of the Act, the Company is not required to spend any amount towards Corporate Social Responsibility (CSR). Accordingly, clause 3(xix)(b) of the Order is not applicable.

(xx) Qualifications or Adverse Remarks in CARO Report:

The Company does not have any subsidiary, associate or joint venture. Hence, the question of reporting on whether there are any qualifications or adverse remarks by the respective auditors in the CARO reports of the companies included in the consolidated financial statements does not arise. Accordingly, clause 3(xx) of the Order is not applicable.

(xxi) Qualification in Accounts of Associates and Joint Ventures:

The Company does not have any subsidiary, associate or joint venture. Hence, clause 3(xxi) of the Order is not applicable.

Additional Observations and Recommendations:

1. Accumulated Losses:
The company suffered losses of ₹198.52 Crores (Previous year - ₹227.88 Crores) at the end of the financial year 2024-25. The accumulated losses indicate operational challenges that require strategic intervention.

2. Internal Control System:
The Internal control system needs immediate review.

For M. Mahajan & Associates
Chartered Accountants
Firm Registration Number: 016626N

Abhimanyu

CA Abhimanyu Saini
Partner
Membership Number: 529370
ICAI Registration: 016626N
Place: Jammu
Date: 24th January 2026

M. MAHAJAN & ASSOCIATES CHARTERED ACCOUNTANTS FRN. 016626N PATHANKOT

UDIN: 26529370MHOPUH3876