ANNEXURE - II

ADDENDUM TO THE DIRECTORS' REPORT

Management Reply to the comment of the Comptroller and Auditor General of India under Section 143(6)(b) of the Companies Act, 2013 on the Accounts of Gujarat Energy Transmission Corporation Limited, Vadodara for the year ended March 31, 2018

Sr. No.	Comment	Reply
A.	**COMMENT ON FINANCIAL POSITION** **1. Balance Sheet** **Deferred Government Grants, Subsidies & Consumer Contribution (Note No.19): - Rs. 1660.80 crore** With effect from 01 April 2016, the Company has changed the method of computing the grants/consumer contribution received against depreciable assets to be recognized in statement of profit and loss from reducing balance method to the straight line method and consequently the rates at which grant is recognized in the statement of profit and loss. The Company has determined that the change to recognize grants in proportion of the depreciation expenses is a change in accounting estimates and is to be applied prospectively." As per Accounting Standard AS-12, Grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Indian Accounting Standard AS 20 also state that grants related to depreciable	It is to mention that the comment of the C&AG is the repeat comment which was mentioned by C&AG on the financial position of F.Y. 2016-17. GETCO as well as GUVNL (Holding Company) has replied to C&AG on various occasions which are as under; 1. GETCO Management reply on the comment of the C&AG on the accounts of GETCO for the year ended 31 March 2017, also included in GETCO's Annual Report of FY 2016-17. 2. GUVNL Management reply on the matter/comment of the C&AG on the consolidated accounts of GUVNL group for the year ended 31 March 2017, also included in GUVNL Annual Report of FY 2016-17. We have made detailed submissions as mentioned above stating GETCO's position and reasons behind the same with specific reference to both Ind AS and Previous GAAP (Indian GAAP) requirements, we briefly give excerpts of detailed response as under. The first Ind AS Financial Statements of GETCO were for the Financial Year ended 31 March

	assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised. The above change in method was made by the Company as there was a mismatch of the grants recognized in the Statement of Profit and Loss versus the related depreciation expense. Thus, the Company has changed the method of recognition of deferred income in order to align the recognition of deferred income with the related depreciation expense. As the provision for treatment of deferred income to be recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset are same in AS-12 and Ind AS 20, the change was not mandated by Ind AS 20. **Hence, the Company changed the method in order to correct an error.** Since the depreciable assets related to which grants/ consumer contribution received have been capitalized in the books of accounts, the effect of such change should be worked out retrospectively and accounted for in the opening balance of Deferred Government Grants, subsidies and Consumer contribution. This has resulted in overstatement of retained earnings and understatement of balances of Deferred Government Grants, Subsidies and Consumer Contribution	2017 and hence for the preparation of Ind AS Financial Statements, compliance with Ind AS 101: First time Adoption of Indian Accounting Standards' was mandatory. As per this standard, an opening Ind AS Balance Sheet and the first comparative period (in the instant case Balance Sheet as on 1 April 2015 and the financial statements for the year ended 31 March 2016) was required to be prepared and presented as per Ind AS accounting policies which comply with the Indian Accounting Standards. The opening Ind AS Balance Sheet which is the starting point for Ind AS accounting and the same was prepared in line with the applicable Ind AS requirements including for the comparative period. The estimates to be used for preparation of opening Ind AS Balance Sheet and the comparative period must be based on the estimates made in the Previous GAAP and cannot be changed on hindsight basis. The subsequent change in the estimate i.e. SLM from 1st April 2016 had to be done prospectively from the year when such estimate has changed. The change in method being a change in estimate had to be accounted per Ind AS 8 i.e. change had to be accounted on a prospective basis and cannot be on a retrospective basis. As stated above, once the opening Ind AS Balance Sheet is made per Ind AS requirements, any change in accounting policy, estimate or error must be seen in the context of Ind AS and not compared with Previous GAAP. There is

	towards capital assets by Rs. 403.57 crore as at 31 March 2017. Despite being pointed out in previous year, no corrective action has been taken by the Company during 2017-18.	disagreement with the views of C&AG that the change in the method is to correct an error because such a change is not mandated by Ind AS 20. Here, it is to mention that Ind AS 20 does not mandate any specific basis / method to recognize grants, it only mandates a systematic basis. So, C&AG's office view that Ind AS 20 does not mandate the change of a base used is not appropriate as there is no mandate for any specific base even otherwise. We agree with C&AG conclusion that this is a change in the method, however not with C&AG view that this is to correct an error. As per error definition, for anything to be recognised as a correction of error in any year, it must be first, an error in the earlier / prior year. To label any accounting treatment as a prior period error, it usually warrants substantive corroboration and evidence explicitly demonstrating the accounting treatment being an error in view of the specific accounting framework as applicable. However, as can be noted from the audited financial statements of the earlier year i.e. financial year ended 31st March 2016 including consideration of C&AG additional comments, the accounting treatment was found to be in compliance with the relevant accounting framework – Previous GAAP. The accounting treatment was found to be compliant not just for the financial year ended 31st March 2016, but even for previous 5-year financial statements. Here it is to mention that, had the accounting treatment – method adopted were to be an error, based on an

		objective review of the relevant accounting framework, given the nature and impact of such an error, would have been a subject matter of audit qualification by the statutory auditors in addition to C&AG comments on the financial statements to that effect. Hence we are of the firm view that the change from WDV method to SLM method for recognition of government grants is perfectly appropriate in terms of generally accepted accounting principles, both Ind AS and Previous GAAP, and cannot be construed as a correction of error by any means. Thus, though there was no apparent error, as already clarified in previous submission, GETCO noted that the WDV method of recognizing grants though in compliance with AS-12 as well as Ind AS 20, results into a variation in the depreciation expense recognized and the amount of grant recognized in Statement of Profit & Loss every year. It was also considered that using the same method of recognizing grants would reduce the variation of depreciation and grants recognized during any year. Accordingly, GETCO has changed the method of recognizing Grants in the Statement of Profit & Loss w.e.f 01.04.2016 to more appropriately match with the method used to depreciate the assets against which the grants were received. Here, it appears from the comment, that, had the Company persisted with the previous methodology as in the earlier years, the Company would have been compliant with the

		accounting framework, but a change in the methodology with a view to reduce the variation would be a correction of error. This appears to be a contradiction. Hence to conclude, GETCO's accounting is compliant with Ind AS requirements, both in the previous year as well as in the current year. In considered view, the proposition by C&AG that the change in methodology to be applied retrospectively would be a noncompliance of Ind AS itself. In view of above, Deferred Govt. Grants, Subsidies and Consumer Contribution and retained earnings are correctly reflected in the Financial Statements in compliance with IndAS and there is no over-statement of retained earnings and under-statement of balance of Deferred Govt. Grant & Subsidies and Consumer contribution towards Capital Assets by Rs. 403.57 crores as at 31st March, 2017.