



**INDEPENDENT AUDITORS' REPORT**

To,

**The Members of Karnataka State Financial Corporation, Bengaluru.**

**Report on the Financial Statements**

**Opinion**

We have audited the accompanying financial statements of Karnataka State Financial Corporation, Bengaluru. ("The Corporation"), which comprise of the Balance Sheet as at March 31, 2020, Profit and Loss Account and Cash Flow Statement for the year ended, and including a summary of the significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by and in accordance with the Schedule I, II of General Regulations and SIDBI directives and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Corporation as at 31<sup>st</sup> March 2020, and profit and its cash flows for the year ended on that date.

**Basis for opinion**

We conducted our audit in accordance with the Standards on Auditing ('SAs'). Our responsibilities under those SAs are further described in our report of the Auditor's Responsibilities for the Audit of the financial statements Section of our report. We are independent of the Corporation in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the Rules there under, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





**Emphasis of matter**

We draw the attention to notes of Schedule (O) as under:

1. Note No 7- regarding share capital & share application money

A sum of ₹ 10,000.00 lacs was given by Government of Karnataka towards equity share capital during the year and was kept in share application money account and the total amount stood at ₹ 31,845.00 lacs as at the end of the year.

2. a) Note No. 06(b)& (c) regarding the contingent liability on Bank Guarantee issued on behalf of M/s B.L. Industries (India) Limited for ₹ 550 lacs. The matter before the DRAT, Kolkata has been disposed on 03/07/2017 in favour of the Corporation (KSFC). The Corporation has provided a contingent reserve of ₹ 655.20 lacs during the year and the total reserve is ₹ 2013.15 lacs as on 31/03/2020 which is 100% of the total contingent liability.

b) Note No.6(c)- The total contingent liability against the Corporation stood at ₹ 2013.15 lacs as on 31/03/2020, including 6(b) above which is not acknowledged as debt by the Corporation, excluding letter of credit of ₹ 182.28 lacs

3. Note No.11- Contingency deposits of ₹ 126.16 lacs

A sum of ₹ 84.45 lacs was paid against the demand from the commercial tax department and appeals were filed for related assessment years. The appeals made for the AY 95-96 and AY 96-97 has been decided in favour of Corporation and the refund is due.

4. Note No 17- A sum of ₹ 672.78 lacs (including accrued Interest) which was received from sale of secured asset in respect of an assisted unit was contested and Hon'ble High court of Karnataka has ordered restraining the corporation from taking the possession of the property and directed to deposit the money in fixed deposit. Till date a sum of ₹ 351.45 lacs is deposited in the bank in respect of various accounts received under litigation. The total deposit being ₹ 1024.23 lacs are disclosed as other deposits under current asset [Schedule (I)].





Our observations above 1 to 4 on account of issues set out in the notes concerned are either subjective or depending on future developments/resolutions and the financial impact in the current year's net profits and on the assets & liabilities of the Corporation is not ascertainable. Subject to above as per Para 1 to 4, in our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with significant accounting policies and other explanatory information give the information required by the Corporation's General Regulations in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- In case of the Balance Sheet, of the state of affairs of the corporation as at 31<sup>st</sup> March, 2020;
- In case of the Profit and Loss Account, of the profit for the year ended on that date; and
- In case of the Cash Flow Statement, of the cash flows for the year ended on that date

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters

#### Key audit matter

Identification of Non-Performing Assets ('NPAs') and Provisions on Advances

Charge:	₹ 2,010.48 Lacs for year ended 31 <sup>st</sup> March 2020
Provision:	₹ 13,264.15 Lacs as at 31 <sup>st</sup> March 2020





### **Significant estimates and judgment involved**

Identification of NPAs and provisions in respect of NPAs and restructured advances are made based on management's assessment of the degree of impairment of the advances subject to and guided by the minimum provisioning levels prescribed under the RBI guidelines with regard to the Prudential Norms on Income Recognition, Asset Classification & Provisioning, prescribed from time to time

The provisions on NPA are also based on the valuation of the security available. In case of restructured accounts, provision is made for erosion/diminution in fair value of restructured loans, in accordance with the RBI guidelines. In addition, the contingency provision that the Corporation has established in the current year on assets currently not classified as NPAs is based on management's judgment. We identified identification of NPAs and provision on advances as a key audit matter because of the level of management judgment involved in determining the provision (including the provisions on assets which are not classified as NPAs) and the valuation of the security of the NPA loans and on account of the significance to these estimates to the financial statements of the Corporation

### **Our key audit procedures included:**

#### **Substantive tests**

Test of details for a selection of exposures over calculation of NPA provisions including valuation of collaterals for NPAs as at 31 March 2020; the borrower-wise NPA identification and provisioning determined by the Corporation and also testing related disclosures by assessing the completeness, accuracy and relevance of data and to ensure that the same is in compliance with the RBI guidelines with regard to the Prudential Norms on Income Recognition, Asset Classification & Provisioning. We also selected a number of loans to test potential cases of loans repaid by a customer during the period by fresh disbursement(s) to these higher risk loans. We selected a sample (based on quantitative and qualitative thresholds) of major clients where impairment indicators had been identified by management. We obtained management's assessment of the recoverability of these exposures (including individual provisions calculations) and whether individual impairment provisions, or lack of it were appropriate.





Reviewing the statement of accounts, approval process, board minutes, credit review of customer, review of Special Mention Accounts reports and other related documents to assess recoverability and the classification of the facility; and For a risk based sample of loans not identified as displaying indicators of impairment by management, by reviewing the historical performance of the customer and assessing whether any impairment indicators were present.

**INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON**

The Corporation's Management and Board of Directors are responsible for the other information. The other information comprises the information included in the Corporation's Annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so to consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report the fact and we have nothing to report in this regard

**RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENT**

Corporation's Management is responsible for the preparation of the financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Corporation in accordance with the Schedule I, II of General Regulations and SIDBI directives and give the information as required to be given in terms of the provisions of Corporation's General Regulations. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.





In preparing the financial statements, management and the Board of Directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are also responsible for overseeing the Corporation's financial reporting process

### **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing as issued by the Institute of Chartered Accountants of India. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.





We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a Corporation to cease to continue as a going concern.





- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication







**Report of Other Legal and Regulatory Requirements**

In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement (as per SIDBI directive) dealt with by this report are in agreement with the books of account and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India to the extent applicable and conform to the statutory requirements prescribed under the State Financial Corporations Act, 1951, circulars and guidelines issued from time to time by the Small Industries Development Bank of India.

Date: 04<sup>th</sup> July 2020  
Place: Bengaluru

For Patel Mohan Ramesh & Co  
Chartered Accountants  
Firm Reg No.02597S



*Harshad S. Patel*

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