



Independent Auditor's Report

To The Members
The Karnataka State Forest Industries Corporation Limited
Vanavikas, 3rd floor, 18th Cross,
Malleshwaram, Bengaluru - 560003

Report on the Audit of the standalone Financial Statements

1. Qualified Opinion

We have audited the accompanying standalone financial statements of **The Karnataka State Forest Industries Corporation Limited** ("the Company"), which comprise the Balance Sheet as at March 31, 2023, the Statement of Profit and Loss, the Cash Flow Statement and a summary of the significant accounting policies and other explanatory information for the year then ended and submitted our report on 25.08.2023. Subsequently the report has undergone a revision in the light of observations of the Comptroller and Auditor General of India. This supersedes our earlier report dated 25.08.2023.

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph section of our report, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the State of Affairs of the Company as at March 31, 2023 and its Profit and its Cash Flows for the year ended on that date.

2. Basis for Qualified Opinion

- i. Pending confirmation and reconciliation thereon from various creditors, debtors, loans & advances, and lapses the internal controls as mentioned in our report, **the effect of which is not ascertainable.**
- ii. As at the close of 31.03.2023, trade receivables (unsecured, considered good) amounting to **Rs.18,46,90,835.** (PY Rs.17,20,92,113) are outstanding for a period exceeding six months. There are trade receivables outstanding for over one to over three years and the management has prepared age wise analysis of these trade receivables. But there is no action for followed up with the parties



concerned. Periodical age-wise classifications of trade receivable were also not placed before the Board Meeting. Further, no confirmation has been obtained from the parties in respect of debts outstanding for more than six months. As per management response Trade receivables are mainly from forest department and other government department. In respect of forest department age wise outstanding balance reports has been submitted to concern department for payments. At the time of meeting with chamber of ACS, Forest Ecology and Environment Department, the outstanding balance of Rs.29,83,74,827/- as on March 2023 and forest department release amount based on release from the government on quarterly basis and requested to release the outstanding amount of Rs.29,83,74,827/- on priority basis to KSFIC. **However the impact, if any, on the financial statements is not ascertainable at this stage. (Kindly refer sl.no.33 of note 31 in the financial statement).**

- iii. Regarding accounting of sale of 6202.793 cubic meters of confiscated granite blocks in the year 1994-95 subject to lifting of the material by the buyers. Till March 31, 2005 only 1575.302 cubic meters have been lifted by various buyers. The balance was not lifted due to non-issue of permits in view of non-payment by the Tenderers as per terms and conditions of tender. The Company has not carried out Physical verification of un-lifted balance stock lying in the field so far. The Company has neither taken any steps to ascertain whether the un-lifted granite stock is available nor obtained any confirmation from the Forest Department. Advance received for Granite Rs. 22,88,594 (P.Y. Rs. 22,88,954) Trade receivables for Granite Rs. 72,37,934 (P.Y. Rs. 72,37,934) and Amount Payable to forest Department for Granite Rs.60,88,064 (P.Y. Rs. 60,88,064) have not been adjusted as the same are subject to review and reconciled. As per management response, the Karnataka Forest department confiscated the granite blocks and still in their possession the role of KSFIC is to sell the granite blocks through tenders on behalf of the KFD. Further one M/s.SGR Traders approached the Hon'ble High Court in WP No.8840/2012 and in the judgment dated:27.06.2022 passed orders to refund Rs.6,74,388/- with interest @ 6% pa. On the advice of the Advocate general in letter dated:07.09.2022 and Government letter No.FPG 32 FPC 2018 dated:30.09.2022 filed writ appeal No. 1034/2022 against the judgment. The matter is before the Hon'ble High Court. Since the Granite blocks confiscated by the KFD and still in their possession they have been requested to conduct physical verification and to assess the blocks. **The company as not provided for any interest and refund till date. No provision of interest made in books of accounts as per the court order. Pending reconciliation and verification of granite blocks is not ascertainable at this stage. Hence, we are unable to quantify the impact of profit and loss for the year. (Kindly refer sl.no.5 of note 31 in the financial statement).**
- iv. Regarding non-provision of Rs. 12,85,000 suits disposed in favor of M/S Maheshwara Traders, against which the Company has filed an appeal before the Hon'ble High Court. As per management response they obtained stay order against the judgment. Further the Hon'ble High Court on 06.06.2023 suggested for settlement as the case is a decade old. The KSFIC through advocate requested for time to convey the consent after obtaining the approval of the Board. **The above liability is not provided in the books of accounts and to**



that extent profit for the year is overstated. (Kindly refer sl.no.8 of note 31 in the financial statement).

- v. Regarding non-provision of Rs. **92,41,400** suits filed by Sri Venkateshwara Traders, Kolar against which the Company has filed an appeal before the Hon'ble High Court of Karnataka. **The above liability is not provided in the books of accounts and to that extent profit for the year is overstated.**
- vi. Regarding title deeds of the land at Shivamogga (WPP) 18 acres 35 guntas and Dandeli 15 acres 23 guntas value in aggregate to Rs.1,89,879 have not been conveyed in the name of the Company since 1975. As per the management response The DC Shivamogga has been requested vide letter No.RM/SMG/RTC/2022-23/411, dt:02.02.2023 to direct the Tahsildar Shivamogga to register the property in the name of KSFIC in the RTC.In respect of Dandeli there is a proposal to revive the saw mill and action will be initiated to valuate entire property. However, KSFIC is paying the property Tax to the concerned local body. Since it is registered in the name of KSFIC. **Impact on the financial statements is not ascertainable at this stage. (Kindly refer sl.no.10 of note 31 in the financial statement).**
- vii. Regarding non accounting of land in the books of Company at Timber Yard Layout, Mysore Road, Bangalore pending finalization of the value since 1990. As per management response the land and building in the response of survey no 45A,46,47,48,49 of new timber yard layout, have been registered in the BBMP records and property tax has been paid up to the date. **Impact on the financial statements is not ascertainable. (Kindly refer sl.no.12 of note 31 in the financial statement).**
- viii. The possession of certain immovable property of Murkal Unit having a value of Rs.1,27,678 (PY Rs.1,27,678) has been handed over to the KFDC, the Company has continued to show such assets as assets of the Company and depreciation also charged on such assets. As per management response the unit has been handed over to KFDC and the value of deprecation is not accounted in the books of KSFIC. **In the absence of proper documentation, the impact of financial statements is not quantifiable. (Kindly refer sl.no.13 of note 31 in the financial statement).**
- ix. Regarding acquisition of 9750 sq. ft. of office space valued at Rs. 45,21,797/- (NBV as at 31.03.2023-Rs.23,01,695 (PY Rs.23,78,569)) in "Vanavikas", Malleshwaram, Bangalore from KFDC and charging depreciation from the financial year 1990-91, pending conveyance of title deeds. The reconciliation and valuation of payment consideration along with transfer of Murkal Property. for further action of conveyance of title deeds, is pending for a long time. The Company has paid property tax and requested KFDC to transfer title deeds. As per management response Murkal unit has been handed over to KFDC in exchange for Building property. However, the government has ordered for merging of KSFIC with KFDC and KCDC. Once the merger is affected the entire property will be in the possession of KFDC. **Impact on the financial statements is not quantifiable. (Kindly refer sl.no.14 of note 31 in the financial statement).**



- x. The Company has leased 15 cents of land at Mangalore to Zilla Parishad, Mangalore during 1993-94 on a lease rental of Rs.30,000/- p.a. The Zilla Parishad authorities requested to waive the lease rent, the same has been rejected and insisting for payment. The 15 cents land leased to the DCF social forestry division Mangalore for construction of residence to the DCF.As per management response. In principal land belongs to the Forest Department which was handed over to KSFIC vide order No. AFD 202 FDP 73 dt:27.03.1975, The Zilla panchayath DK Mangalore stated that the social forestry division and KSFIC belongs to Karnataka Forest Department and requested vide letter dt:10.01.2012 to drop the issue of payment of lease rent. The PCCF (HoFF) vide DO letter No. A5 CFN CR 263/1993-94, dt:03.02.1994 addressed to the Government indicated that the land is under the control of KFD, the residential quarters constructed out of funds of Forest Department. Since the building is under the control of KFD, the lease rent shall be waived off by the Government. **Hence no provision is made in book of accounts. However, in the absence of necessary documentation the impact is not ascertainable. (Kindly refer sl.no.15 of note 31 in the financial statement).**
- xi. Regarding loans advances due from Mysore Match Company Limited, a subsidiary of the Company amounting to Rs. **23,33,830/-** (PY Rs.23,33,830), which has been shown under Long Term Loans and advances. The Company has also made short term loans and advances of Rs. **51,42,569** (PY Rs.45,81,031) to the said subsidiary. The loans and advances due from the said subsidiary company as at the close of 31.03.2023, aggregate to Rs. **74,76,399** (PY Rs. 69,14,861). The subsidiary is not carrying on any activities since a long time and the substratum is lost and a decision has been taken to wind up the subsidiary long back and no provision has been made by the Company towards the said advances for the reason that the value of assets of the subsidiary are about Rs. 45,68,00,000 and the Company is certain of recovering the loans and advances. The winding up process under the provisions of Companies Act, 2013, is yet to be initiated from the company. the Government of Karnataka ordered for voluntary winding up of Company. However as per the resolution in the KSFIC 260th Board meeting held on 2.11.2022 addressed the CMD MMC to place it in the next Shareholder's meeting obtained approval for disposal of Land and clearance of outstanding loans and payments to shareholders and file before NCLT for closure as per rules. As per management response, The shareholders in the annual general meeting held on 29.05.2023 resolved that subject to approval of government, to sell the property through public auction, clear the liabilities and pay the amount to the shareholders as per rules and authorized the chairman & managing director to take appropriate action. **Hence, since the winding up process is yet to be initiated. we are unable to express our opinion on the same. (Kindly refer sl.no.4&16 of note 31 in the financial statement).**
- xii. Regarding non accounting of rental income receivable in the books of accounts of Dandeli Saw Mills. As per management response, the quarters which were constructed during 1939 and 1950, handed over from KFD at the time of formation of KSFIC, they are in dilapidated condition. After depreciation the current value will be zero. However, notices have been issued to all tenants for settlement of arrears and also to vacate the houses which may cause loss of life of occupants for which KSFIC will not take the responsibility. However, some



of the occupants are paying nominal rent once in 3 to 4 months. **We are unable to quantify the impact on the financial statements. (Kindly refer sl.no.21 of note 31 in the financial statement).**

- xiii. Regarding stay obtained by the West Coast Paper Mills and Harihara Poly Fibers from the Hon'ble High Court of Karnataka for collection of Forest Development Fee on pulpwood supply, collection of which has been stopped in respect of supplies effected after 21.03.2018, aggregating to Rs. **74,73,772 (PY Rs. 73,82,920)**. The liability, if any, in respect of Forest Development Fee already collected has neither been ascertained nor disclosed in the said note. Further no undertaking from Harihara Poly Fibers has been obtained. Still the case is under High court. **No provision has been made towards such FDF liability. The impact on the financial statements are not ascertainable. (Kindly refer sl.no.26 of note 31 in the financial statement).**
- xiv. It has been mentioned that depreciation in respect of Assets as on 31.03.2023 including the additions made during the year are calculated /accounted on the basis of useful life of the assets as per Part C of Schedule II of the Companies Act, 2013, whereas as per accounting policy disclosed in 2.1.B(b), it has been stated that in respect of additions made during the year, depreciation is charged for the whole of the year irrespective of the date of addition and in the case of deletions made, during the year, no depreciation is charged, irrespective of date of deletion. This is not in accordance with Part C of Schedule II of the Companies Act, 2013. No action has been placed by the management for change in accounting policy. **Impact on the financial statements is not ascertainable. (Kindly refer sl.no.28 of note 31 in financial statements).**
- xv. Regarding constitution of Corporate Social Responsibility Committee, by the Board of Directors, pursuant to the provisions of Section 135(1) of the Companies Act, 2013. As per the said provisions of the Act, an amount of Rs. 51,77,406 should have been spent for the period from 2015-16 to 2018-19. However, only Rs. 2,98,602/- has been spent under this policy up to 31.03.2018. During the year 2018-19 no amount has been spent and the cumulative unspent amount aggregated to Rs. 48,78,804. Thus, the Company has not complied with the mandatory requirements of Section 135 of the said Act and the rules framed there under. Further, as stated in the said note, it is observed that no provision has been made in the annual budgetary plan during the year 2021-22. During the year 2021-22 an amount of Rs. 48,79,000/- has been allocated to CSR activities out of which Rs.45,00,000/- has been incurred as per the above sanction. But for the balance amount of Rs.3,79,000 is unspent. **Hence, no provision has been made during the year 2022-23 for the balance amount. (Kindly refer sl.no.29 of note 31 in the financial statement).**
- xvi. Regarding non provision of Interest of Rs. 8,17,000 being the interest on loan sanctioned by Government of Karnataka for the period from April to October 2001. As per management response, The Government has convened a meeting on 19.08.2010 and discussed the subject in detail and agreed that since the principal amount has been converted into equity, there is justification to convert this also. there is no need to reject this and decided to send the proposal to Finance Department for initiating necessary action to issue orders. **Hence, no**



provision as been created for the above interest. The impact on the financial statements are not ascertainable. (Kindly refer sl.no.9 of note 31 in the financial statement).

- xvii. The Company has standing trees in its office premises for e.g.: Shimoga and other units. The Company has not prepared list of such standing trees by carrying out physical verification/enumeration of the species/classification and disclosed in the accounts. As per management responses, the 12 Red Sanders trees naturally grown up in the premises of KSFIC, Shivamogga unit which were dried up and fallen have been cut and transported by the Karnataka Forest Department and kept in the Sandal wood godown of Forest department for safety purpose. The total output is 23560 kgs and the same has to be sold through public auction after obtaining approval from the competent authorities. In this regard the APCCF (FRM), has been requested vide letter No. KSFIC/RM/Red sanders/2023-24 dated: 08.05.2023 to fix the rate through public auction and transfer the amount to KSFIC after deducting the preparation and transportation charges. Till such time it is not possible to assess the value and taken to account. **Management as not done valuation for those 12 trees. Hence, we are unable to quantify the impact of the same on the profit and assets and liabilities during the year. (Kindly refer sl.no.35 of note 31 in the financial statement).**
- xviii. The special audit on Fraud committed by Employee for the period from 01.04.2019 to 30.09.2022 to reveled amount recoverable from Sri. Sudheendra Nayak (logging Supervisor) is Rs.8,35,38,991 which includes amount receivable from the contractors Rs.2,66,40,233. The net recoverable from Sri. Sudheendra Nayak is Rs.5,68,98,780. Action has been initiated for recovery of outstanding balance from the contractors and Rs.87,40,239 has been recovered and balance is Rs.1,78,99,972. The contractors have given an undertaking that they will pay the balance amount. Regarding outstanding from Sri. Sudheendra Nayak is Rs.5,68,98,780. Departmental enquiry is already initiated against Sri. Sudheendra Nayak and action will be taken as per the finding of the enquiry. **As enquiry is under process. Impact, if any, on the financial statements are not ascertainable at this stage. (Kindly refer sl.no. 34 of note 31 in the financial statement).**
- xix. The Advance recoverable in cash or value to be recovered shown under short term Loans and Advances in Balance sheet included Income Tax Refund of 157.65 lakh. Pertaining to the period from 2011-12 to 2018-19, due from Income Tax Department. The matter is being consistently pursued with the income tax department. An amount of Rs.53,28,525/- which inclusive interest amount of Rs.3,77,778/- refunded in FY 2020-21 and amount of Rs.50,94,746 which inclusive interest amount of Rs.9,97,391/- refunded in FY 2021-22 and is being accounted in the Books of Accounts. The balance outstanding Rs.68.58 lakhs which has been ordered for refund by the Income Tax department for the years 2011-12, 2012-13 and 2014-15 is still to be transferred to the account of KSFIC for which an application for grievances cell is filed for early settlement. Soon after the refund it will be taken to the accounts. **Since the pending refund as not been received during the year. The impact, if any, on the financial statements are not quantifiable. (Kindly refer sl.no. 32 of note 31 in the financial statement).**



- xx. Due to covid-19 pandemic in 2019-20, 2020-21, and 2021-22, there was delay in holding AGM and caused delay in filing of IT returns. As per the board resolution, application preferred before the CBDT, for condonation of delay in filing the IT returns for 2019-20 and onwards. **Pending disposal of such application. No provision is made in the Accounts for any interest, penalty, late fee, payable as per the Act. The Impact, if any, on the financial statements are not ascertainable.**
- xxi. The Advance recoverable in cash or kind to be recovered shown under short term loans and advances in balance sheet as on 31.03.2023, Rs.16,17,76,726/- out of which recoverable for more than 5 years is Rs.1,47,36,873.
- xxii. The Company has not assessed the impairment of assets in respect of Plants and machinery at Dandeli. As the sawing is based on the local demand hence the usage is not as per the set norms. **Impact, if any, on the financial statements are not ascertainable in accordance with the Ind AS- 28.**
- xxiii. In respect of own plantations, the Company has disclosed, the particulars of extent of own plantation, year of plantation, expenditure incurred, expected maturity/harvesting date, yield, etc., and have ascertained the status of these own plantations. No physical verification has been carried out. During the year 22-23, there is no harvesting/realization of plantations. The harvesting is expected to be carried out in the year 2023-24. **The impact, if any, on the financial statements are not quantifiable. (Kindly refer sl.no.19 of note 31 in the financial statement).**
- xxiv. Upon request by the Chairman of the Company, the Principal Director, Karnataka State Audit &Accounts Department, Bengaluru, has carried out the audit on the functions of the Company for the year 2018-19 and 2019-20 and submitted a report. The Board of Directors in their meeting held on 07.12.2020, vide Item No. 256.10, while noting the details provided in the Agenda Notes on the said report has deferred the discussions of the subject and directed the management to submit the replies on the report. It is observed that the Report has not been placed before the Board and a conspectus of the Report furnished to us, we observe that there are serious irregularities, short comings, non- compliance with procurement procedure, logging expenses and advances, non-reconciliation of advances, etc. In the summary of the Report Rs. 46,72,10,709 is held under audit objections and Rs. 1,90,24,986 as amount recoverable. According to management response, the report has been placed before the board in the 256th board meeting held on 07th dec 2020 and replies has been furnished to the finance department. However, pending direction from the government, no action has been taken by the company. **Hence, the effect is not able to ascertainable at this stage.**
- xxv. The balance sheet as on 31.03.2023, Assets-Current Assets (Note 17) Cash and cash equivalents of Rs.14,47,35,684/- out of which Accrued interest as been included. Accrued interest must be disclosed separately under other current assets. The classification is not done as per Schedule iii of the Companies Act, 2013. **Since, management has not provided proper**



documentation and evidence for the above accrued interest. There is non-Compliance of schedule III of The Companies Act, 2013 in financial statements. The Impact, if any, on the financial statements are not ascertainable.

- xxvi. Details of legal cases pending and the present status are annexed. As the outcome is not known, so no provision is made for any liability. **The impact, if any, on the financial statements are not quantifiable.**
- xxvii. The Company has not disclosed the financial ratio Debt Equity Ratio, Debt services credit ratio and Return on capital employed. **There is no impact on the profit for the year however there is non- compliance of schedule III of The Companies Act, 2013.**
- xxviii. The overall effect/impact of the above information is not ascertainable as per the information is provided by the company at the time of our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

3. Emphasis of Matter

- i. The financial statements which disclose that Government vide its order dated: 22.11.2004 and in accordance with the recent proceedings of the Government dated: 13.12.2014 has approved the merger of the Company with Karnataka Forest Development Corporation (the "KFDC") and ordered merger of Companies coming under Forest Ecology and Environment, to merge Rubber Division of KFDC with KCDC and Company with KFDC. The KFDC has appointed valuers and Transactional Advisers to complete this process. The subject of merging the Company with KFDC was placed in the 234th Board meeting held on 28.07.2015 and after discussion, the Board had authorized the Managing Director to take up the action required for the merger. Further, the Board of the Company in its 242nd Board meeting after discussion has approved the revised Scheme of Amalgamation in view of merger proposal to be filed with NCLT instead of High Court of Karnataka and it was also resolved to communicate to the Government for re-examination of Scheme of Amalgamation as decided in the Board and communicated to Government in May 2017. the government ordered for the merger of KSFIC and KCDC with KFDC and to continue as Karnataka Forest Corporation for the same action will be taken as per government orders. As per management response, the board of directors of ksfc in the 261st meeting held on 07.03.2023 taken note of the government order dated:05.08.2022 and authorized the managing director to take all administrative steps for the merger of the companies. All necessary information and material have been furnished to the nodal agency, the KFDC. The merger process is being taken up by the KFDC. **Our opinion is not qualified in respect of this matter. (Kindly refer sl.no.27 of note 31 in the financial statement).**
- ii. Regarding permission granted by Government in order dated 14.11.2014 to exchange 5.89 acres of land In favor of Deputy Commissioner, D.K. District



for the proposed construction of District Office Complex and in lieu, the DC, Mangalore to transfer 4.50 Acres of the company, subject to fulfillment of certain terms and conditions. Pending compliance terms and conditions, the land has not been physically handed over to the Government and no entries regarding Incorporated in the books of account. During the year 2018-19, the Company got the building demolished on auction basis towards the materials retrieved, without obtaining the approval of Board of directors for demolishing the property and realized the Amount of Rs 2,75,000/-. **Our opinion is not qualified in respect of this matter. (Kindly refer sl.no.11 of note 31 in the financial statement).**

- iii. Regarding non provision of interest on loans of Rs.8,00,000 sanctioned in December 2001, by Government of Karnataka for financial requirement of Mysore Match Company, Shivamogga, Subsidiary of the Company to meet the payment towards VRS, repayable on receipt of principal amount on disposal of assets. Further, the Government of Karnataka had also provided financial assistance through the Company for settlement of a court case by the said subsidiary through the Company. The Company has not provided for interest on the loans, in the absence of rate of interest specified by the Government of Karnataka. However, as per Section 190 of The Karnataka Financial Code, 1958, rate of interest has been prescribed. As per management response there is no prescribed rate of interest, therefore loan is free of interest and no adjustment were made in respect of refund of loans availed from government through corporation. **Hence, no provision is been made by them. Our opinion is not qualified in respect of this matter. (Kindly refer sl.no.17 of note 31 in the financial statement)**
- iv. Regarding Rs.3,33,000 receivables from Karnataka Housing Board, Yelahanka. The matter is pending for settlement for a long time being over 4 years and the settlement of final bills of the Company has not yet been made so far by Karnataka Housing Board, Yelahanka. As per management response the KSFIC as written letter to Chief Engineer KHB requested to release Rs 3,32,626/- recovery of receivables from KHB. **Our opinion is not qualified in respect of this matter. (Kindly refer sl.no.23 of note 31 in the financial statement).**
- v. Regarding enquiry initiated in Shivamogga unit against an employee towards irregular logging advances. Criminal case was filed against one employee T S Basappa vide case no. PCR/3/2018 dated 05.04.2018 from whom the amount is outstanding. However, it is observed that the case has been disposed as "uncontested — dismissed" vide decision dated 13.08.2018. The matter has not been placed before the Board. As informed by the management, the enquiry report Disciplinary authority ordered for recovery of Rs 14,90,290 from Sri. T. S. Basappa, on his request Rs. 6,22,080/- being the retirement benefits has been adjusted and remaining balance is Rs 8,68,222/- in spite of several notices he has failed to make good the loss of Rs 8,68,222/- therefore a criminal case has been filed. The case is under investigation of the police. **Our opinion is not qualified in respect of this matter. (Kindly refer sl.no.24 of note 31 in the financial statement).**



- vi. Regarding levy and collection of Forest Development Tax (the "FDT") on sale of pulpwood and payment of FOT by the Company only on purchase value on the seignior-age rate, resulting non levy of FDT and short payment to the Forest Department amounting to Rs. 2.02 Crores. The matter is under examination by various authorities and pending the decision, the Company has collected FDT on sale of pulpwood from 2013-14 and the differential amount between Sale Value and Purchase Value amounting to Rs.8,21,26,516. (PY RS. 8,23,30,292) (net) is included under other current liability till further decisions are taken in the matter. According to information and explanation provided by management the FDT collected on sale of pulpwood is kept under liability accounts and the same will be disposed after the decision of joint meeting. **Our opinion is not qualified in respect of this matter. (Kindly refer sl.no.25 of note 31 in the financial statement).**
- vii. During the earlier year, while going through the master data maintained by the Ministry of Corporate Affairs, we have observed under charges an amount of Rs. 25,00,000 has been shown in respect of charge created on 11.02.1994. Status of the charge has been shown as open and there are no assets under charge. There is no updation of directors list of the company. The company has not been regular in updating in its master data. As per management response the company does not have any charge of assets. The company is in the process of reconciling and initiated cancelling/rectifying the register of charges in the MCA. Waiting for bank confirmation for the above. **Our opinion is not qualified in respect of this matter.**
- viii. The above matters are reported by earlier auditors and continuing for more than three years, for which the company has provided information about the status as 31st March 2023, pending appropriate action and closure formalities.

4. Information Other than the Financial Statements and Auditors Report Thereon

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the 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 do 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, consider whether the other information is materially inconsistent with the 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 that fact. The Company has not reported the matters relating to CSR activities and has not hosted the particulars on its website as required under Section 135 of the Companies Act, 2013, Companies (Corporate Social Responsibilities) Rules, 2014 and Schedule VII.

5. Management's Responsibilities for the Standalone Financial Statements



The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in the India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making Judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, 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 is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is also responsible for overseeing the Company's financial reporting process.

6. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 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. Under section 143(3)(i) of the Companies Act, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- 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 Company'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 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 the Company 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.

7. Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2020 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in "Annexure A", a statement on the matters specified in the paragraph 3 and 4 of the order, to the extent applicable.

As required by Section 143(3) of the Act, we report that:

- a) We have sought and obtained all the information and explanation which to the best of our knowledge and belief where necessary for the purpose of the audit.
- b) Except for the effects of the matters described in the basis for qualified opinion in Para 2 above in our opinion proper books of accounts as required by law relating to preparation of financial statements have been kept so far as it appears from our examination of those books and the report of the other auditors.
- c) The Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement by this report are in agreement with the books of account.
- d) In our opinion, the standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the

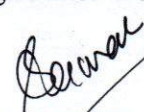


Companies (Accounts) Rules, 2014, subject to the Qualified Opinion stated above.

- e) According to the information and explanations given to us, the company is a Government Company; therefore, the Provisions of Section 164 (2) of the Companies Act, 2013 are not applicable pursuant to the Gazette Notification No. GSR 829(E) dated 21.10.2003 issued by the Government of India.
- f) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in "Annexure B ". Our report expresses qualified opinion on the Company's internal financial controls over financial reporting.
- g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements Refer SI. No. 40 of Note 31 to the financial statements.
 - ii. The Company did not have any long-term contracts including derivative contracts for which there are any material foreseeable losses.
 - iii. There are no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.
- h) The Comptroller & Auditor General of India has issued directions indicating the areas to be examined in terms of sub-section (5) of Section 143 of the Companies Act, 2013, the compliance of which is set out in Annexure - C.

Date: 15-11-2023
Place: Bangalore
UDIN: 23207600BGTZVJ2562

for **T Ramachandran & Co.,**
Chartered Accountants
Firm registration No.009009S


(**T Ramachandran**)
Partner

Membership No: 207600



ANNEXURE A REFERRED TO IN PARAGRAPH (1) OF OUR REPORT OF EVEN DATE TO THE FINANCIAL STATEMENTS OF THE KARNATAKA STATE FOREST INDUSTRIES CORPORATION LIMITED.

i. Property, Plant and Equipment.

- a) (A) Though the company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets, certain units have not maintained proper records of fixed assets as to classification of assets. Further, the fixed assets records have not been updated.
- (B) The company does not have any intangible assets. Therefore, the provisions of Clause (i)(a)(B) of paragraph 3 of the order are not applicable to the company.
- b) The Company has a regular program for physical verification of its fixed assets. Though these fixed assets have been physically verified by the management at reasonable intervals, the actual physically verified balances are not recorded in the reports and not compared with the book balances. In the absence of proper maintenance of records as stated above and not recording the physically verified balances, we are unable to express our opinion on material discrepancies, if any, on such verification. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets.
- c) According to the information and explanations given to us, the title deeds of immovable properties, as disclosed in Note 11 to the standalone financial statements, are held in the name of the Company, except for the following, the disclosure of which has been made in Note 31 of standalone financial statements:

Reference to Sl. Nos. of Note 31	Particulars
10	The Title Deeds of land at Shimoga (WPP) 18acres 35guntas and Dandeli 15acres 23guntas and the book value of the land being Rs.1,89,879 have not yet been conveyed in the name of the Company, since 1975
11	The Government in their order No. FEE 104 FPC 2014 dated 14.11.2014 have granted permission to exchange the KSFIC land bearing Sy.23/6AIB2,234B,23-12B23-6A2B,23-6B & 23/3(portion) totally measuring 5-89 acres in favor of Deputy Commissioner D.K District for the proposed construction of District office Complex. In lieu thereof, the Deputy Commissioner, Dakshina Kannada District Mangaluru has to exchange lands to an extent of 4-50 acres in Sy.38-1A of Bangrakuluru Village of Mangalore Taluk to KSFIC Mangalore subject to certain conditions imposed in the order cited above. Accordingly, the entries in the R.T.C of the above-said land has been incorporated. The Conditions imposed viz., construction of compound, granting of further 3.50 acres to compensate the excess 1-39 acres taken over,

	allotment of 5000sqft building in new building, etc. are yet to be fulfilled. Pending fulfillment of the conditions the lands have not been physically handed over to the Government & thus entries have not been incorporated in the books of accounts.
13	In pursuance of the Government letter No.FFD.190:FWL.82.dt 21-08-1985, the Company has handed over the possession of certain immovable property of Murkal Unit to the Karnataka Forest Development Corporation Ltd., Pending finalization of the purchase consideration and conveyance of the property, the Company has charged depreciation on these assets. The value of the property of Rs.1, 27,678/- (Rs.1, 27,678/-) is continued to be shown in the books of the Company. The subject was discussed in the 216th Board Meeting on 29.06.2010 and was instructed to carry out reconciliation with KFDC for further action in this regard and the matter is pending.
14	The Company has acquired 9,750 sq. of office space in "Vanavikas", Malleshwaram, and Bangalore from the Karnataka Forest Development Corporation Limited. Pending conveyance of the title deeds, depreciation has been charged from the financial year 1990-91 onwards. Further, the Board had instructed to carry out reconciliation and valuation of payments consideration along with transfer of Murkal property for taking further action for conveyance of title deeds. The company has paid property tax and made a request to KFDC for arranging transfer of title deeds. KFDC has not responded to the letter dated 28.06.2012 till date nor convey the title deeds

Further, values in respect of land at Timber Yard Layout, Mysore Road, Bengaluru (referred to in Sl. Nos. 13 of Note 31 to standalone financial statements).

- d) According to the information and explanation given to us on the basis of our examination of the records of the company, the company has not revalued its Property, Plant and Equipment (Including right to use of the asset) or intangible asset or both during the year.
- e) The provision of Benami Property Transaction 1988, and rules made thereunder is not applicable for the Government Companies.

ii. Inventories.

- a) The management, except in respect of confiscated granite blocks, stocks not lifted lying in the field, referred to in Sl. No.5 of Note 31, and has conducted physical verification of inventory during the year which is not adequate and need to be strengthened. In the absence of reconciliation of Granite blocks and valuation of plantations, we are unable to express our opinion on material discrepancies, if any.



- b) Based on the information and explanation furnished us to by the Company there is no loan sanctioned for working capital.

iii. Loans, Guarantee and Security to directors and Interested Parties.

In our opinion and according to information and explanations given to us, the Company has not granted any loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Act. Accordingly, paragraph 3(iii)(a) of the Order is not applicable to the Company.

iv. Loans, Investments, Guarantees made by Company.

The Company has not granted any loans or provided any guarantees or security to the parties covered under Section 185 of the Act. The Company has complied with the provisions of Section 186 of the Act in respect of investments made or loans or guarantee or security provided to the parties covered under Section 186.

v. Fixed Deposits.

The Company has not accepted any deposits as applicable under the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other provisions of the Act and rules framed under.

vi. Cost Records.

We have been informed by the management that no cost records have been prescribed under section 148(1) of the Companies Act, 2013 in respect of the operations of the company. Accordingly, reporting under paragraph 3(vi) of the Order is not applicable.

vii. Statutory Dues:

- a) According to the information and explanations given to us, and the records of the company examined by us, in our opinion, the company is regular in depositing the undisputed statutory dues including the provident fund, Employees State Insurance, Income tax, Professional tax, GST and cess and any other material statutory dues as may be applicable with the appropriate authorities.
- b) According to the information and explanations given to us, no undisputed dues payable in respect of Income tax, Duty of Customs, Sales tax, Value Added Tax (VAT), Service tax, GST, excise duty, and cess were outstanding as at 31st March 2023 for a period more than six months from the date they became payable.
- c) According to the information and explanations given to us and records provided there are no dues of sales tax/income tax/VAT/customs duty/Service tax/excise duty/cess/GST which have not been deposited on account of any dispute.



viii. Unrecorded Income.

The company has not surrendered or disclosed any transaction, previously unrecorded in the books of account, in the tax assessments under the Income Tax Act, 1961 as income during the year. Accordingly, the requirement to report on clause 3(viii) of the order is not applicable to the company.

ix. Default in Repayment of Dues.

In our opinion and according to the information and explanations given to us, Company has not defaulted in repayment of loans to bank, financial institutions, or Government. In our opinion and according to the information and explanations given to us, the Company has neither obtained any loans nor borrowed from financial institutions or banks. The Company had obtained loans from Government of Karnataka amounting to Rs.23,20,000 towards extending loan facility to Mysore Match Company Limited, a subsidiary of the Company, which is under voluntary winding up. The said loan is proposed to be repaid on receipt of proceeds from disposal of assets of the subsidiary company. The Company has not issued any debentures.

x. Application of Funds.

- a) The Company has not raised money by way of an initial public offer or further public offer (including debt instruments). Therefore, the provisions of Clause (x)(a) of paragraph 3 of the order are not applicable to the Company.
- b) According to the Information and explanations given to us and based on our examination of the records the company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year.

xi. Reporting of Frauds.

- a) According to the information and explanations given to us, no fraud by the company or on the company by its officers or employees has been noticed or reported during the year, accept the following.
- b) As per our observation, for the year 2021-22 the company has appointed an independent CA firm to conduct a special audit on certain suspicions transactions in relation to advances.
- c) As per special audit report,
 - Nature of fraud – logging advances.
 - Parties involved in fraud- Sri. Sudheendra Nayak
 - Amount of fraud- 8,35,38,991.
 - Kindly refer sl.no 34 of note 31 in financial statement.
- d) Pending Final report from Departmental Enquiry, no provision is made in the financial statements. These has been resulted in overstatement of profit for the year.



xii. Nidhi Company.

In our opinion and according to the information and explanation provided to us, the company is not a Nidhi Company. Accordingly, Paragraph 3(xii) of the Order is not applicable.

xiii. Related Party Transactions.

The company is a government company within the meaning of Sec.2(45) of the Companies Act, 2013 and provisions relating to Related Party Transactions are not applicable, since all the Directors are appointed by the Government of Karnataka. Accordingly, Paragraph 3(xiii) of the Order is not applicable.

xiv. Internal Audit System.

- a) The company has an internal audit system commensurate with the size and nature of business.
- b) The internal audit reports of the company issued till the date of the audit report, for the period under audit have been considered by us.

xv. Non – Cash Transaction.

The Company has not entered into any non-cash transactions with directors or persons connected with him for the year under review. Therefore, the provisions of Clause (xv) of paragraph 3 of the order are not applicable to the Company.

xvi. Non – Banking Financial Institution.

- a) The company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. Accordingly, the provisions of clause 3(xvi) of the order are not applicable to the company.
- b) The company is not engaged in any Non – Banking Financial or Housing Finance activities. Accordingly, the requirement to report on clause (xvi)(b) of the order is not applicable to the company.
- c) The company is not a core investment company as defined in the regulations made by Reserve Bank of India. Accordingly, the requirement to report on clause 3(xvi) of the order is not applicable to the company.

xvii. Cash Losses.

The company has not incurred cash losses in the current year and in the immediately preceding financial year.

xviii. Resignation of Previous Years Auditors.

There has been no resignation of the statutory auditors during the year and accordingly requirement to report on clause 3(xviii) of the order is not applicable to the company.



xix. Ability to meet Liabilities.

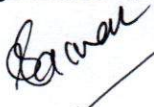
On the basis of financial ratios, ageing and expected dates of realization of financial assets and payment of financial liabilities, other information accompanying the financial statements and our knowledge of the Board of Directors and Management plans and based on our examination of the evidence supporting 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 indicating 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. We, however, state that this is not an assurance as to the future viability of the Company. We further state that our reporting is based on the facts up to the date of the audit report and we neither give any guarantee nor any assurance that all liabilities falling due within a period of one year from the balance sheet date, will get discharged by the Company as and when they fall due. **(Kindly refer sl.no. 38 of note 31 of financial statements.)**

xx. Corporate Social Responsibility.

According to the information and explanations given to us and on the basis of our examination of the records, there are no amounts unspent in respect of corporate social responsibility towards ongoing or other than ongoing projects and hence reporting under cause 3(xx)(a) and (b) of the Order is not applicable to the Company. **(Kindly refer sl.no. 29 of note 31 of financial statements.)**

Date: 15-11-2023
Place: Bangalore
UDIN: 23207600BGTZVJ2562

for **T Ramachandran & Co.,**
Chartered Accountants
Firm registration No.009009S


(T Ramachandran)
Partner
Membership No: 207600



Annexure B to the Independent Auditors' Report
(Referred to in Paragraph 7 of our report of even date)

Report on the Internal Financial Controls Over Financial Reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

1. We have audited the internal financial controls over financial reporting of The Karnataka State Forest Industries Corporation Limited ("the Company") as of March 31, 2023 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Control

2. The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditor's Responsibility

3. Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls over Financial Reporting (the "Guidance Note") and the Standards on Auditing issued by the Institute of Chartered Accountants of India and deemed to be prescribed under Section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.
4. We believe that the audit evidence we have obtained and audit evidence obtained by the other auditors in the terms of their report referred to in the other matter paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the company's internal financial controls system over financial reporting.



Meaning of Internal Financial Controls Over Financial Reporting

5. A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purpose in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedure that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with generally accepted accounting principles, and that receipt and that receipts and expenditure of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or reasonable of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financials Control over Financial Reporting

6. Because of the inherent limitation of internal financial control over financial reporting, including the possibility of collusion or improved management override of control, materials misstatements due to error or fraud may occur and not be detected. Also, projection of any evaluation of the internal financial control over financial reporting may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

Qualified Opinion

7. According to the information and explanations given to us and based on our audit, the internal control system weaknesses have been identified as at 31.03.2023
- a. There is no system of obtaining periodical confirmation of account balances and reconciliation thereof relating to
 - i. Trade receivables
 - ii. Trade payables
 - iii. Advance from customers
 - iv. Loans and advances
 - b. Account balances have not been reviewed periodically resulting in many long pending items in the books of accounts which are repeatedly disclosed in financial statements year after year.



- c. Internal financial Control System over recovery of outstanding dues needs to be strengthened by reviewing the long outstanding dues, reasons for such over dues and steps taken to recover the dues.
- d. Data access rights with respect to tally accounting has not been defined and put in place.
- e. Internal Control System in place needs to be strengthened in respect of trade creditors, especially long outstanding payable, Earnest Money deposit held though tenders have been finalized and other liabilities.
- f. Internal Financial Controls over establishing credit limits to the customer's needs to be well defined, reviewed from time to time and credit limits be regulated with reference to the security deposit/bank guarantee.
- g. Internal Control over the inventories and its valuation need to be strengthen at all levels.
- h. The Board of Directors of the company is yet to formulate a comprehensive internal finance control policy for steam lining and strengthening the internal control over financial reporting, identifying and documenting entity level controls, Document process flows and narratives to document the Key financial processes, Document Fraud Risk Controls, Process level controls and IT General for these processes in Risk Control Matrices (RCM).
- i. During the year 2022-23, only 3 Board meetings were held on 22.09.2022(after a gap of 41 days), 02.11.2022, (after a gap of 124 days),07.03.2023. Thus, the company has contravened the provision of section 173 of the companies Act. On cursory review of the items discussed at these Board Meetings it is observed that no review of financial performance vis a vis the budget has been made by the Board thereby implying that the performance of the company, which is not in accordance with the carons of Corporate Governance.
- j. The Delegation of Powers was framed by the Board of Directors in the year 1982 and has not been revised/updated. Therefore, the powers exercised by the Managing Director and officers are beyond the delegation of powers. Further as per the delegation of financial powers framed in 1982, the managing Director has neither been delegated the extent of investment of surplus funds nor approval of Board obtained for investment of surplus funds. This is not accordance with section 179 of the Companies Act, 2013.
- k. In our opinion, expect for the effects/possible effects of the material weakness, described above on the achievement of the objectives of the control criteria to the best of our information and according to the explanations given to us, the Holding company and its subsidiary company, which are based on the consideration of the report of the other auditors of the subsidiary company, incorporated in India, referred to in the Other Matters paragraph below, the



company and its subsidiary company , have in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2023. Based on the internal control over financial reporting criteria established by the respective companies considering the essential components of internal control stated in the guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

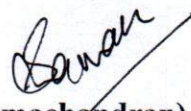
1. Most of the control issues were reported and continuing in the report for more than 3 years. But no action has been taken by management to rectify.

Others Matters

Our aforesaid report under section 143(3)(i) of the Act on the adequacy and operating effectiveness of internal financial control over financial reporting in so far as it relates to the said subsidiary company, incorporated in India, is solely on corresponding report of the auditors of the subsidiary company.

Date: 15-11-2023
Place: Bangalore
UDIN: 23207600BGTZVJ2562

for **T Ramachandran & Co.,**
Chartered Accountants
Firm registration No.009009S


(**T Ramachandran**)
Partner
Membership No: 207600



Annexure-C
(Referred to in Paragraph 7(h) of the report)

The Karnataka State Forest Industries Corporation Limited

a. Directions under section 143(5) of Companies Act 2013.

Sl. No	Directions	Comments
1	Whether the company has system in place to process all the accounting transactions through IT system? If yes, the implications of processing of accounting transactions outside IT system on the integrity of the accounts along with the financial implications, if any, may be stated.	The KSFIC is maintaining the accounts in tally and the internal auditor checked the accounts on quarterly basis.
2	Whether there is any restricting of an existing loan or cases of waiver/write off to debts/loans/interest etc., made by a lender to the company due to the company's inability to repay the loan? If yes, the financial impact may be stated. Whether such cases are properly accounted for? (In case, lender is a Government company, then this direction is also applicable for statutory auditor of lender company)	There were no restructuring of existing or cases of waiver/write off to debts/loans/interest.
3	Whether funds (grant/subsidy etc.) received/receivable for specific schemes from Central/State Government or its agencies were properly accounted for utilized as per its term and conditions? List the cases of deviation.	No grants are being given by State/Central Governments.

b. Additional Sub- Directions:

Sl. No	Directions	Comments
1	All items with regard to Cash and Bank balance as per Anenexure-1 shall be verified and the cases of specific non-compliances to be reported. Details of unexplained balances/balances operated under suspense head may also be examined.	The details are furnished in Annexure-I.



2	Whether requisite permission for clearing of existing forest plants, etc., have been obtained under the prevailing rules and regulations in compliance to the Forest Conservation Act so as to protect/preserve forest cover. Has the company taken adequate steps to stop unauthorized felling of trees for conservation and spread of forest cover?	<p>The Company has been obtaining requisite permission for clearing of forest existing plants and generally ensured compliance of Forest Conservation Act.</p> <p>During the year the Company has not taken up own plantation work.</p>
3	Indicate whether the company has devised a proper system for timely taking over of marked forest lots for felling, extraction of timber and its safeguard against deterioration of timber during the year may be highlighted.	<p>The Company has devised proper system for timely taking over of marked forest lots for felling, extraction of timber and to safe guard against deterioration during extraction, transportation and storage.</p> <p>With respect to recovery of stock shortages during transportation, the Company has complied with our observations for recovery at selling price instead of cost-plus profit margin basis.</p>
4	Whether the company has a proper system to collect the maintenance charges receivable from Forest Department in respect of firewood depots and whether claims related to logging work are raised on time with the Forest Department and periodical reconciliation carried out.	As soon as products transported and delivered to marked depots of KFD, the FAC are obtained and bills for logging works raised and submitted to the KFD. The KFD release the amount as per the Budget provisions. The outstanding balances are being reconciled and KSFIC regularly remind KFD for early payment of claims.
5	Whether the pricing policy of items manufactured covers all fixed cost, variable cost and allocation of over heads.	The pricing is being done by the KFD. The KSFIC under take logging activities, engage transport contractors through tenders and the operational costs are being fixed so as to retain minimum 30% profit to KSFIC.

Date: 15-11-2023

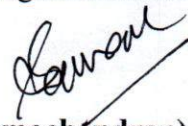
Place: Bangalore

UDIN: 23207600BGTZVJ2562

for **T Ramachandran & Co.,**

Chartered Accountants

Firm registration No.009009S


(**T Ramachandran**)

Partner

Membership No: 207600



Annexure-I

Sl. No	Items in Check List	Remarks
1	Whether all Banks Accounts/Fixed Deposits have been opened with banks proper authorization and approval as per the aforesaid delegation of powers?	Yes
2	Whether there was a periodical system of preparation of Bank reconciliation statement and whether they were produced for verification to audit?	The BRS prepared every month end after closing of accounts. The BRS produces for under.
3	Whether Bank reconciliation of the main account and all subsidiary bank accounts were done?	Yes
4	Was the authorization to operate the bank accounts were given to a single signatory?	The Bank Accounts operated with the Joint Signature of Managing Director & Deputy Manager.
5	Whether the interest for the entire duration of Fixed Deposits was accounted in the books of accounts?	Yes
6	Whether physical verification of cash has taken place periodically?	Yes
7	Whether the cash in hand as shown in the Balance Sheet tallies with the certificate of physical verification of cash?	Yes
8	Is there a register of Fixed Deposits showing amounts, maturity dated, rates of interest and dates for payment of interest?	Maintained Register
9	Is there a follow-up system to ensure that interest on Fixed Deposits is received on due dates?	Yes
10	Is there a follow-up system to ensure that transfer of matured amount of Fixed Deposits is done without delay?	Yes
11	Whether bank confirmation statements are obtained periodically from the banks for all accounts: SB Accounts, Current Accounts and Fixed Deposits?	Every Month confirmation statement obtained
12	Whether confirmations of balances in respect of all bank balances tally with the Bank Statements?	Yes
13	Whether Fixed Deposits and interest as per Fixed Deposits register tally with the confirmation/certificate issued by the bank?	Yes
14	Whether the confirmation statements received from banks are authenticated and in the letter head by the bank?	Confirmation letter
15	In case of any difference observed in the above check, whether the same was adjusted in the subsequent year?	No differences
16	Whether external confirmations were obtained from banks in the test checked cases, if so details thereof with.	Yes
17	Whether any of the aforesaid lapses were brought out in the report of internal financial controls by the statutory auditor, if not, whether audit enquiry was issued?	Since all the procedures case down are followed, no audit enquiry issued.



