

SEPARATE AUDIT REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA ON THE ACCOUNTS OF VISAKHAPATNAM URBAN DEVELOPMENT AUTHORITY (VUDA), VISAKHAPATNAM FOR THE YEAR ENDED 31ST MARCH 2015

We have audited the attached balance sheet of Visakhapatnam Urban Development Authority (VUDA) as on 31 March 2015 and the Income & Expenditure account and Receipts and Payments account for the year ended on that date, under Section 20(1) of the Comptroller & Auditor General of India (Duties, Powers and Conditions of service) Act, 1971 read with Section 24 of the Andhra Pradesh Urban Areas (Development) Act, 1975. The audit has been entrusted for the period from 2010-11 onwards. These financial statements are the responsibility of the VUDA's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. This Separate Audit Report contains the comments of the Comptroller & Auditor General of India (CAG) on the accounting treatment only with regard to classification, conformity with best accounting practices, accounting standards, disclosure norms, etc. Audit observations on financial transactions with regard to compliance with the law, rules and regulations (Propriety & Regularity) and efficiency cum performance aspects, etc if any, are reported through inspection reports/ CAG's audit reports separately.

3. We have conducted our audit in accordance with auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidences, supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

4. Based on our Audit, we report that:

i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit:

ii) The Balance sheet and Income & Expenditure account and Receipts & Payments Account dealt with by this report have been drawn up based on the generally accepted Accounting Principles.

iii) In our opinion, proper books of accounts and other relevant records have been maintained by the VUDA, Visakhapatnam in so far as it appears from our examination of such books.

iv) We further report that

Comments on accounts

A. BALANCE SHEET

1. Liabilities

1.1 Reserves & Surplus

Income over Expenditure: (-) ₹160.15crore

The Authority had obtained loans from various banks against the FDs and provided funds to the Govt. of AP during 2007-08 to 2009-10 to meet the target of resource mobilization. The differential interest charged by the banks (i.e., between interest on loan payable to Bank and interest on FDs) on loans was partly met out of VUDA funds which amounted to ₹13.39 crore. The interest payments were incorrectly accounted for as expenditure under Income and Expenditure A/c of previous years instead of accounting

the same as receivable from Govt. of AP. This has resulted in overstatement of 'Income over Expenditure (minus balance) in Reserves & Surplus' with corresponding understatement of 'Advances Recoverable' by ₹13.39 crore.

2. Assets

2.1 Bank Balances-(Schedule-N): ₹1.81 crore

The above figure was arrived at by adjusting negative balances of ₹3.17 crore in two bank accounts. This incorrect adjustment has resulted in understatement of 'Bank Balances' as well as 'Current Liabilities' by similar amount.

2.2 Loans, Advances & Deposits

2.2.1 Advances Recoverable (Schedule-H): ₹3.71 crore

The Authority has spent an amount of ₹20 crore out of its funds for maintenance of Airport lawns in 2007-08 on behalf of Govt. and accounted for it as expenditure in the Income & Expenditure A/c of that year (Schedule-05). Since the expenditure was incurred on behalf of the Govt., the Authority should have accounted for the transaction as advance recoverable from Government. This has resulted in overstatement of 'Reserves and Surplus – Income over Expenditure (minus balance)' and understatement of 'Advances Recoverable'.

2.2.2 An amount of ₹52.01 lakh was provided in 01/2011 as deposit with Government Department to acquire land for formation of 80feet road at Srikakulam. The Government department has returned the amount in 04/2011 to the Authority which was incorrectly accounted for as receipt against Development Work (Schedule-F) instead of reducing the Advances Recoverable (Schedule-H). This has resulted in overstatement of Development Works and Advances Recoverable by that amount.

2.2.3 As per schedule H the amount deposited with the Government Department through SDC-LA in respect of certain litigations regarding title in the year 2010-11 are- Debits-₹2.72 crore, Credits-₹2.20, crore & Closing Balance-₹0.52 crore. Subsequently, there were no transactions. However, as seen from the records, the Government department had deposited on 03.08.2011 an amount of ₹24.76 lakh in civil court under Section 30 & 31(2) of Land Acquisition Act and an amount of ₹13.90 lakh was deposited on 25.11.2011 with court as Revenue Deposit. These amounts i.e. ₹38.66 lakh (₹24.76+ ₹13.90) have to be accounted for under 'VUDA Deposits with Banks and Others (Schedule-G)' instead of 'Advances Recoverable (Schedule-H)'.

2.3 Govt. Account - (Schedule-I): ₹96.12 crore

2.3.1 This includes a loan of ₹9.61 crore provided by the Authority which should have been exhibited under Advances Recoverable (Schedule-H). This has resulted in overstatement of Government Account and understatement of Advances Recoverable by the said amount.

2.3.2 This also includes an amount of ₹9.00 crore in the invest/withdrawal/Flexi-IOB-3333 A/c opened and operated by the Authority which should have been exhibited under 'VUDA deposits with Bank and others (Schedule-G)'. This has resulted in overstatement of Government Account and understatement of 'VUDA Deposits with Banks and Others (Schedule G)'.

2.3.3 The above includes an amount of ₹1.08 crore balance in IOB-3333 A/c operated by the Authority; which should have been exhibited under Bank balances (Schedule-N). Non-accounting this amount accordingly has resulted in overstatement of Government Account and understatement of Bank Balances.

B. INCOME & EXPENDITURE

3. Income

3.1 General Receipts (Schedule-06): ₹20.00 crore

As per GO Ms No.439 of June,2007, only 15 % of amount collected towards regularisation charges and development Charges should be accounted for as income and 85% should be transferred to Development fund. Not doing so and accounting the entire amount as income has resulted in overstatement of current year income by ₹0.56 crore (previous years ₹1.52 crore) and understatement of Development works (Schedule-F) by ₹2.08 crore. Consequently, it has resulted in understatement of 'Reserves & Surplus - Income over Expenditure (minus balance)' by ₹2.08 crore.

3.2 Interest Income (Schedule: 07) - ₹17.39 crore

The amount received during FYs 2011-12 to 2014-15 towards development charges was ₹157.28 crore, which has to be deposited in a separate bank account as per G.O.Ms No.439. However, this was not done. The Authority considered the total interest earned on these funds as its own income instead of crediting to the Development Works (Schedule F). In the absence of details, the impact of effect on Income, Reserves & Surplus could not be quantified.

3.3 Rents from Parks, Shops (Schedule-M) - ₹5.24 crore

3.3.1 Though the actual demand raised towards rents from Shops was ₹1.47 crore, an amount of ₹0.71 crore was accounted for as income in the current year; this has resulted in understatement of current year's income and Rents Receivable by ₹0.76 crore. Consequently, the Excess of Expenditure over Income was overstated by the same extent.

3.3.2 Though the demand for rents from establishments for the current year was ₹1.00 crore, the Authority has accounted for the income on rents as ₹2.53 crore which includes ₹1.53 crore pertaining to previous years resulting in overstatement of income by ₹1.53 crore. Consequently, the Excess of Expenditure over Income was understated and overstatement of rents receivable to the same extent.

3.3.3 An amount of ₹10.56 lakh was received towards rents on auditoriums/theatres for the current year. The amount received for the current year was not accounted for as income for the current year but was incorrectly adjusted towards the rents receivable resulting in understatement of current year's income (rent on auditoriums/theatres) and Rents Receivable by ₹10.56 lakh. Consequently, the Excess of Expenditure over Income was overstated by similar amount.

3.4 An amount of ₹14.24 lakh was received in the current year as penalties for late payment of rents by the tenants on shops, establishments and parks, being income of the Authority. This was not accounted for as income for the current year but incorrectly adjusted towards the rents receivable resulting in understatement of current year's income and Rents Receivable by ₹14.24 lakh. Consequently, the Excess of Expenditure over Income was overstated by similar amount.

4. Expenditure

4.1 Administrative & other revenue Expenditure (Schedule-05): ₹34.32 crore

The credit balances in various accounts stated to have been brought forward from over the long period were analyzed by the Income Tax authorities. The Authority has confirmed that these credit balances were not collectable due to the age of these accounts and the cost and strain in digging over the past records. In order to close such old balances, they were incorrectly set-off against credit balances instead of writing off. The details are as under

(i)	Statutory Reserves -85% surplus funds (Schedule L)	₹3.72 crore
(ii)	Deposit Work (Schedule -E)	₹ 5.48 crore.
(iii)	Development Works (Schedule -F)	₹29.98 crore
(iv)	Recoveries from remittances (Schedule -Q)	₹4.13 lakh
(v)	Allottees House receipt/Exp (Schedule -C)	(a) ₹15.84 lakh
		(b) ₹5 lakh
	Total	₹39.43 crore

Not writing off these non-recoverable amounts with the approval of Board/Authority has resulted in understatement of 'Administrative and Other Revenue Expenditure (Schedule-05)' and the above stated head of account under liability side by ₹39.43 crore. Consequently, Excess of Expenditure over Income is understated by the said amount.

4.2 The Authority has incorrectly accounted the electricity charges of ₹28.89 lakh (₹5.39 lakh in previous year) paid in the current year on behalf of the tenants as its expenditure instead of accounting the same as advances recoverable from tenants. This incorrect practice has resulted in overstatement of VUDA Assets maintenance including Electric Charges (Schedule-03) by ₹28.89 lakh, Prior Period Expenditure by ₹5.39 lakh and understatement of Advances Recoverable-Electricity Charges by ₹34.28 lakh. Consequently, 'Reserves & Surplus- Income over Expenditure (minus balance)' was overstated by similar amount.

4.3 Welfare benefits & Allowances (Schedule -02) – ₹4.38 crore

4.3.1 Group Superannuation Pension Scheme LIC- ₹2.00 crore

The demand raised by LIC towards the fund requirement for the group superannuation policy (534348) for the year 2014-15 was ₹15.65 crore which included ₹11.19 crore towards the initial contribution and ₹4.46 crore which is the minimum annual contribution for the year. The payments made to LIC against the Group Superannuation scheme for the year was ₹2.00 crore. The Authority did not make provision for the differential amount of ₹13.65 crore (₹15.65 crore – ₹2.00 crore). This has resulted in understatement of Current year's expenditure (Group superannuation pension scheme LIC Schedule-02) by ₹2.46 crore, prior period expenditure by ₹11.19 crore and Liabilities (expenses payable – Schedule R) by ₹13.65 crore. Consequently, 'Reserves & Surplus - Income over Expenditure (minus balance)' is understated by ₹13.65 crore.

4.3.2 Group Gratuity Premium – ₹0.15 crore

LIC has raised a demand of ₹33.33 lakh towards the fund requirement for the group gratuity policy (64658) for the year 2014-15 which included ₹17.33 lakh towards the balance fund requirement and ₹16.00 lakh towards the yearly contribution. The payments made to LIC against the above head were ₹15.00 lakh. The Authority did not make provision for the differential amount of ₹18.33lakh (₹33.33 lakh – ₹15.00 lakh). This has resulted in understatement of current year's expenditure (Group gratuity premium) by ₹1.00 lakh and prior period expenditure by ₹17.33 lakh. Liabilities (expenses payable-schedule R) are also understated by ₹18.33 lakh. Consequently, 'Reserves & Surplus - Income over Expenditure (minus balance)' is understated by ₹18.33 lakh.

5. Significant Accounting Policies & Notes to Accounts

5.1 As the Authority disclosed the fact of pendency of cases in Judiciary against cancellation of 12A registration by the IT Department, it should have also quantified the probable liability of ₹544.57 crore for the period 2005-06 to 2013-14 as contingent liability. This was not done.

5.2 The records of VUDA exhibit that there are seven PPP Projects completed under BOT (built-operate-transfer) basis with private parties (details as per Annexure). The Authority is earning a regular income of ₹1.12 crore p.a. on the said projects and one of the project is under progress. However, the Authority has not disclosed these details in Notes to Accounts.

5.3 The records of VUDA revealed that two PPP Projects were proposed in collaboration with M/s Chaitanya Educational Society, for which the party has paid an amount of ₹2.02 crore towards developmental charges and partly towards cost of the site. The said project is under cancellation and it was decided to refund the amount to the party. However, the Authority has not disclosed these details in Notes to Accounts.

6. General

6.1 Excess of expenditure over Income: ₹19.81 crore -The above figure was arrived at by adjusting the negative balance of prior period expenditure of ₹2.54 crore. Consequently excess of expenditure for the current year was understated by ₹2.54 crore. Prior Period expenditure should have been adjusted against Reserves & Surplus of current year.

6.2 Layout development Fund (Schedule-K): ₹959.23 crore-Excess of expenditure over Income of earlier years of ₹6.73 crore was incorrectly adjusted under above head resulting in understatement of negative balance of Income and Expenditure under Reserves and Surplus by that amount.

6.3 VUDA's own lands - Land to an extent of 144.75 acres was acquired at Vepagunta between Sep 1981 & Aug 1982 at a cost of ₹32.38 lakh, out of VUDA's own funds. The transaction was not recorded in the financial statements/ records. Further, there was a dispute over its title with few parties and the same was not indicated in the Notes on Accounts.

6.4 The Authority has not bi-furcated the interest and principal amounts on house/sites installments received.

6.5 Reconciliation of subsidiary registers like advance register, statutory payment register etc with general ledger balances was not carried out.

6.6 The Authority has not maintained Fixed Assets Register indicating the name of the asset, location of asset, gross value of the asset, date of acquisition of the asset, rate of depreciation, depreciation provided net value of asset and impairment of the asset if any.

6.7 The Authority has not maintained JE (Journal Entry) Register for the financial year 2014-15.

6.8 The Authority has not prepared annual statement of accounts including the Balance Sheet so far in the prescribed format as required under section 24 of Andhra Pradesh Urban Areas (Development) Act, 1975.

6.9 The Authority has not prepared physical verification report on Fixed Assets, Investments. They neither framed Investment policy nor prepared Administrative reports.

6.10 The Authority did not record the receipt of 19,36,000 equity shares @ ₹10 each valued at ₹1.94 crore under assets side. Further, it has not recorded the value of 02 acres of land in the books of accounts which was transferred to Vizag IT Park Ltd at Visakhapatnam in exchange of such equity shares. In the absence of these details, Audit could not quantify the gain in the transaction.

6.11 An amount of ₹52.01 lakh deposited by the Government Department through SDC-LA was accounted for under Advances Recoverable (Schedule H). As seen from the records, the Government Department has deposited ₹38.66 lakhs and as per the details submitted by Government department balance available with them is shown as 'Nil'. This requires reconciliation.

C. Grants-in-Aid

The Authority has not received any grant-in-aid from the Government during the year.

D. Effect of Audit Comments

The net impact of audit comments for the year 2014-15 is that there was understatement of Assets by ₹35.86 crore, understatement of Liabilities by ₹91.38 crore, understatement of Expenditure by ₹52.92 crore and overstatement of Income by ₹2.60 crore.

- v) Subject to our observations in the preceding paragraphs, we report that Balance Sheet and Income & Expenditure account / Receipts & Payments account dealt with by this report are in agreement with books of accounts.
- vi) In our opinion and to the best of our information and according to the explanations to the extent given to us the said Financial Statements, read together with the Accounting Policies and Notes on Accounts, and subject to the significant matters stated above and other matters mentioned in Annexure to this Separate Audit Report, give a true and fair view in conformity with accounting principles generally accepted in India:
 - a. In so far as it relates to the Balance Sheet of the state of affairs of the "Visakhapatnam Urban Development Authority" as at 31st March, 2015; and
 - b. In so far as it relates to Income and Expenditure Account, of the deficit for the year ended on 31st March 2015.

On behalf of the Comptroller & Auditor General of India



Accountant General (G&SSA)