

Separate Audit Report of the Comptroller and Auditor General of India on the accounts of Visakhapatnam Urban Development Authority (VUDA) for the year ended 31 March 2014

We have audited the attached balance sheet of Visakhapatnam Urban Development Authority (VUDA) as on 31 March 2014 and the Income & Expenditure account and Receipts & 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 Statutory reserve-85% Surplus Funds (Schedule-M-1): ₹26.31 crore

The above amount was arrived at by setting off ₹3.72 crore receivable from various parties with the balance of ₹30.03 crore payable to various parties. The receivables should be accounted for on Assets side and payables on Liability side separately. Incorrect setting off of receivables with payables resulted in understatement of liabilities by ₹3.72 crore and amounts recoverable (Assets) by similar amount.

Similar comment was issued in SAR for 2012-13, but no action was taken by the Authority.

1.2 Deposit Works (Schedule-F): ₹ 21.18 crore

The above amount was arrived at by setting off ₹5.48 crore receivable from various parties with the balance of ₹26.66 crore payable to various parties. The receivables should be accounted for on Assets side and payables on Liability side separately. Incorrect setting off of receivables with payables resulted in understatement of liabilities by ₹ 5.48 crore and amounts recoverable (Assets) by similar amount.

Similar comment was issued in SAR for 2012-13, but no action was taken by the Authority.

1.3 Non – Provision of Liability: ₹7.34 crore

As per Actuarial Report dated 28-01-2014 issued by LIC of India (Pension & Group Scheme Unit), Vishakapatnam in connection with Group Superannuation Scheme of VUDA, the Authority has to pay/contribute an amount of ₹7.34 crore towards funding required for operation of the Scheme. Hence, there exists a definite Liability as on 31-03-2014.

Non – inclusion of this has resulted in understatement of 'Liabilities' by ₹7.34 crore and 'Expenditure-Welfare Benefits and Allowances' by ₹7.34 crore with consequential impact of understatement of excess of expenditure over income by similar amount.

1.4 Development Works (Schedule-G): ₹39.86 crore

The above amount was arrived at by setting off ₹29.98 crore receivable from various parties with the balance of ₹69.84 crore payable to various parties. The receivables should be accounted for on Assets side and payables on Liability side separately. Incorrect setting off of receivables with payables resulted in understatement of liabilities by ₹29.98 crore and amounts recoverable (Assets) by similar amount.

Similar comment was issued in SAR for 2012-13 but no action was taken by the Authority.

1.5 Recoveries for Remittance (Schedule-R) ₹10.83 crore

The above amount was arrived at by setting off ₹4.13 lakh receivable from various parties with the balance of ₹10.87 crore payable to various parties. The receivables should be accounted for on Assets side and payables on Liability side separately. Incorrect setting off of receivables with payables resulted in understatement of Liabilities by ₹4.13 lakh and amounts recoverable (Assets) by similar amount.

Similar comment was issued in SAR for 2012-13 but no action was taken by the Authority.

1.6 Expenses Payable- (Schedule-R.01) : ₹ 1.21 crore

The Authority has to pay Audit Fee of ₹2.81 lakh for the year 2013-14 (paid ₹5.62 lakh on 29.12.2014 for the years 2011-12 & 2012-13) to O/o the Principal Accountant General (G&SSA), AP & Telangana for conducting of audit of annual accounts of the Authority. However, no provision was made for the audit fee in the Accounts for the year 2013-14 though the accounts were open.

This has resulted in understatement of 'Liabilities- Expenses Payable' by ₹2.81 lakh and 'Prior period expenditure' by ₹5.62 lakh with consequential impact of understatement of excess of expenditure over income by ₹2.81 lakh.

1.7 BRS & LRS recoveries (Schedule-Q): ₹112.29 crore

The Authority has accounted for the entire amount of ₹3.05 crore received towards LRS/BRS Charges for the year 2013-14 under BRS & LRS recoveries in Liabilities (payable to Government). It has not accounted for the 15 percent of the amount i.e. ₹0.46 crore so received as Administrative and Maintenance Charges under Income as per the GO. This has resulted in understatement of Income-General Receipts (Schedule No.06) and overstatement of liability-BRS & LRS recoveries (Schedule-Q) by ₹0.46 crore. Consequently, the excess of expenditure over income was overstated by ₹0.46 crore.

Similar comment was issued in SAR for 2012-13 but no action was taken by the Authority.

1.8.1 Allottees House Receipt/Expenditure (Schedule-D): ₹6.82 crore

The above amount was arrived at by setting off ₹15.84 lakh receivable from various parties with the balance of ₹698.23 lakh payable to various parties. The receivables should have been accounted for on Assets side and payables on Liability side separately. Incorrect setting off of receivables with payables resulted in understatement of liabilities by ₹15.84 lakh and Amounts Recoverable from - allottees under asset by similar amount.

1.8.2 Allottees Site Receipt/Expenditure (Schedule-D): ₹2.46 lakh

The above amount was arrived at by setting off ₹5.00 lakh receivable from various parties with the balance of ₹ 7.46 lakh payable to various parties. The receivables should be accounted for on Assets side and payables on Liability side separately. Incorrect setting off of receivables with payables resulted in understatement of liabilities by ₹5.00 lakh and Amounts Recoverable from allottees assets side by similar amount.

2. ASSETS

2.1 Assets under work in progress (Schedule-U): ₹6.31 crore

2.1.1 The Expenditure incurred on Kailash Hill Health Areana Jogging Track which is of capital nature amounting to ₹4.86 crore (₹1.76 crore for the year 2012-13 and ₹3.10 crore for the year 2013-14) was accounted for as revenue expenditure. This has resulted in understatement of 'Assets under work in progress' by ₹4.86 crore as well as overstatement of expenditure by ₹3.10 crore and prior period expenditure by ₹1.76 crore.

Similar comment was issued in SAR for 2012-13 but no action was taken by the Authority.

2.1.2 Kailash Hill World Telugu Cultural & Heritage Museum: ₹ 72.63 lakh

The Authority incurred expenditure (₹ 45.46 lakh) for 'Kailash Hill World Telugu Cultural & Heritage Museum' which was charged to Income & Expenditure Account during the years 2010-11 & 2011-12 instead of showing it under work in progress of the above asset. The Authority, while rectifying the same, passed the incorrect entry by debiting the Work-in-progress of the above asset with ₹ 45.46 lakh, crediting the 'Prior Period Income' with ₹45.46 lakh instead of crediting the 'Prior Period Expenditure' with ₹45.46 lakh. This has resulted in overstatement of 'Prior Period Income' by ₹ 45.46 lakh and understatement of 'Prior Period Expenditure' by ₹ 45.46 lakh with consequential impact of understatement of excess of expenditure over income by ₹90.92 lakh.

Similar comment was issued in SAR for 2012-13 but no action was taken by the Authority.

2.2 VUDA deposits with Banks and Others (Schedule-H): ₹316.65 crore Invest/withdrawal/Flexi-12-13: ₹ (-) 12.96 crore

As per G.O.Ms. No. 902 dated 31-12-2007 and G.O. Ms.No. 111 dated 29-03-2011, the amounts collected on account of LRS and BPS should be kept in a separate escrow account and utilized for specific purposes and the interest earned on them should be credited to the same escrow account. Contrary to the above orders, the Authority had paid an amount of ₹ 10.00 crore out of the LRS funds (kept in separate account no. I.O.B. S.B 4555) to LIC of India, Vishakapatnam) for Group Superannuation Scheme. This payment should be met from the General Funds of the Authority. This has resulted in understatement of 'LRS Funds-IOB-4555' by ₹10.00 crore and overstatement of 'General Funds-IOB-4444' by similar amount.

2.3 Other Current Assets

Provident Fund & Contributory Pension Scheme-Schedule-S: (-) ₹2.80 crore

The above includes an amount of (-) ₹2.93 crore pertaining to Provident Fund (in respect of the employees employed prior to 1-04-2004) maintained by the Authority. This should have rightly been shown under liabilities instead of showing as Minus Balance under Other Current Assets as this amount belongs to employees of the Authority. This has resulted in understatement of 'Provident Fund & Contributory Pension Scheme-Schedule-S' by ₹2.93 crore and understatement of 'Liabilities' by similar amount.

B. INCOME & EXPENDITURE

3. Income

3.1 General receipts (Schedule-06) ₹15.83 crore

Sc Paradesipalem: ₹0.01 crore

The Authority received an amount of ₹37.42 crore from auction of Paradesipalem land under land pooling programme which was considered as income (Schedule-06) and expenditure amounting to ₹11.76 crore (Schedule-03) was considered as expenditure.

As per the general accounting principles unless site was handed over in fully developed shape with sale agreement, the expenditure has to be shown in Current Assets and sale should be shown in Current Liabilities. Not doing so had resulted in overstatement of Prior Period Income and income by ₹37.41 crore and ₹0.01 crore respectively and understatement of Current Liabilities by ₹37.42 crore. It also resulted in overstatement of Expenditure and Prior Period

Expenditure by ₹0.92 crore and ₹10.84 crore respectively and understatement of Current Assets by ₹11.76 crore.

Similar comments were issued in SAR for 2012-13 but no action was taken by the Authority.

3.2 Interest Income (Schedule-6.1): ₹33.98 crore

The above includes an amount of ₹3.84 crore pertaining to interest income on Fixed Deposits made out of LRS and BPS Funds. This has resulted in overstatement of 'Income-Interest income' and understatement of 'Current Liabilities' by ₹3.84 crore with consequential impact of understatement of excess of expenditure over the income' by similar amount.

4. Expenditure

4.1 VUDA ASSETS MAINTENANCE INCLUDING ELECTRICAL CHARGES –(Sch-03) Form 60 Road From Ganesh Nagar via Sivashakti Nagar: ₹ 2.56 crore

The above represents 60 feet road from Ganesh Nagar via Sivashakti Nagar formed and the expenditure of which was met out of the LRS Funds kept in the bank (IOB 4555). This expenditure should be debited to 'LRS & BRS Recoveries-Schedule- Q' under Liabilities side of Balance Sheet instead of debiting to Vuda Assets Maintenance including Electrical Charges-Schedule-03 under Expenditure side of Income & Expenditure Account.

This has resulted in overstatement of 'Vuda Assets Maintenance including Electrical Charges-Schedule-03' by ₹ 2.56 crore and overstatement of 'LRS & BRS Recoveries-Schedule- Q' by ₹ 2.56 crore with consequential impact of overstatement of 'Excess of Expenditure over Income for the year' by similar amount.

5. SIGNIFICANT ACCOUNTING POLICIES & NOTES TO ACCOUNTS

5.1 i) The Authority did not disclose the practice of calculating depreciation at 100% in respect of assets acquired for a period exceeding six months and at 50% in respect of assets for a period of less than six months during the year.

ii) The details of 137 legal cases and an amount involved have not been brought in Note 3A.

iii) The fact of tie up with LIC of India regarding superannuation policy for its employees was not brought in Note 3B

5.2 The item no. 7 of SIGNIFICANT ACCOUNTING POLICIES & NOTES TO ACCOUNTS i.e 'on interest bearing loans and advances which are sanctioned to staff, interest component was not identified separately and hence the same also could not be considered as income' is factually incorrect, in view of the following:

The Authority worked out and accounted for an amount of ₹31.11 lakh during the year 2012-13 towards total interest receivable on advances given to its staff (Schedule-T of Balance Sheet as at 31-03-2013). Out of this an amount of ₹0.17 lakh was recovered from its staff during the year 2013-14 and the remaining amount of ₹30.94 lakh (Schedule-T) was shown in financial statements for the year 2013-14.

6. GENERAL

6.1 The Authority is not bi-furcating the interest and principal amounts on house/sites installments received.

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

6.3 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.

6.4 The Authority has not maintained JE (Journal Entry) Register for the financial year 2013-14.

6.5 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, stipulated for.

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

6.7 There is a difference of ₹144.01 lakh between closing balance as on 31-03-2014 and opening balance as on 01-04-2014 in respect of 'Parks & Plants' under fixed assets. The details of difference amount of ₹144.01 lakh were not furnished to audit. In the absence of these details, the correctness of 'Parks and Plants' and 'Electronic Equipment' accounted for during the year 2013-14 could not be ensured in audit.

6.8 The closing balance of investments (FDs) as per accounts was ₹316.65 crore but the balance ascertained by the bank was ₹323.91 crore. Thus, there is a difference of ₹7.26 crore. In addition to this, an amount of ₹(-)12.96 crore also needs reconciliation.

6.9 **Accrued Interest (Schedule-L):** As per the accounts, while interest accrued to the end of March 2014 was ₹18.62 crore, an amount of ₹15.36 crore was only depicted. Thus there was a difference of ₹3.25 crore which also needs reconciliation.

6.10 Details of land/Land Bank

The details of lands held/utilized/sold by the Authority during the period from 1-4-2013 to date was not furnished by Authority. In the absence of this information, the lands held by Authority could not be verified in audit.

6.11 Outstanding Advances - ₹1.04 crore

The following Advances were pending adjustment for more than two years

Sl No.	Particulars	Amount (₹)
1.	SDC LA temporary advance (Special Deputy Collector/Land Acquisition)	1,04,01,148
2.	SDC Tour Advance/FA/EA/MA (Special Deputy Collector)	64,042
3.	T.T.A.Advance	(-) 51,000
	Total	104,14,190

The above items needs to reviewed and immediate action taken to adjust them.

6.12 Due to incorrect carry forward of closing balances of Accrued interest on FDRs & Flexi deposits (3.65 crore & 8.61 crore) to opening balances of current year (3.28 crore & 7.46 crore), there is a difference of (-) ₹1.52 crore which needs rectification.

C. Grants-in-Aid

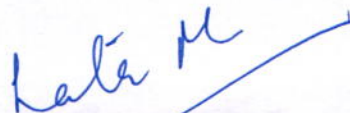
The Authority has not received any grant-in-aid from the Government during the year.

D. Effect of Audit Comments

The net impact of audit comments for the year 2013-14 is that there was understatement of Assets by ₹58.98 crore, Liabilities by ₹87.97 crore, overstatement of Expenditure by ₹11.36 crore and Income by ₹41.25 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:
- 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, 2014; and
 - In so far as it relates to Income and Expenditure Account, of the deficit for the year ended on 31st March 2014.

On behalf of the Comptroller & Auditor General of India



Accountant General (G&SSA)