

SEPARATE AUDIT REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA ON THE ACCOUNTS OF VISAKHAPATNAM URBAN DEVELOPMENT AUTHORITY (VUDA) FOR THE YEAR ENDED 31st MARCH 2013

We have audited the attached balance sheet of Visakhapatnam Urban Development Authority (VUDA) as on 31 March 2013 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 Development Works (Schedule- G) ₹ 42.86 crore

The above amount was arrived at by setting off ₹ 8.78 crore receivable from various parties with the balance of ₹ 51.64 crore payable to various parties. The receivables should be exhibited on Assets side and payables on Liability side separately. Incorrect setting off of receivables with payables resulted in understatement of liabilities and amounts recoverable (Assets) by ₹ 8.78 crore.

1.2 Other Deposits (Schedule-E) ₹ 30.76 crore

Payable to GVMC ₹ 8.99 crore

The above head is overstated by ₹ 8.99 crore due to exhibition of amounts payable to GVMC under other deposits. The other liabilities were understated to the same extent.

1.3 Deposit works (Schedule F) ₹ 21.54 crore

The above amount was arrived at by setting off ₹5.23 crore receivable from various parties with the balance of ₹ 26.77 crore payable to various parties. The receivables should be exhibited on Assets side and payables on Liability side separately. Incorrect setting off of receivables with payables resulted in understatement of the above head and amounts recoverable (Assets) by ₹5.23 crore.

1.4 Loans and borrowings (Schedule R) ₹ 31.43 crore

Recoveries for Remittance (-) ₹ 37.99 lakh

a) The above amount was arrived at by setting off ₹107.90 lakh receivable from various parties with an amount of ₹69.91 lakh payable to various parties. The receivables should be exhibited on Assets side and payables on Liability side separately. Incorrect setting off of receivables with payables resulted in understatement of Liabilities and amounts recoverable (Assets) by ₹107.90 lakh.

b) Provision for Audit Fee (Nil)

The Audit Fee payable to Office of the Principal Accountant General (GSSA) towards certification of 2012-13 accounts has not been provided for in the accounts under the head Recoveries for Remittance. This has resulted in understatement of expenditure on Audit Fee by ₹0.83 lakh and understatement of Recoveries for Remittance by ₹ 0.83 lakh. Consequently, the excess of expenditure over income was understated by ₹ 0.83 lakh.

1.5 BRS& LRS recoveries (Schedule Q) ₹ 109.23 crore

a) The Authority has accounted for the entire amount of ₹ 22.68 crore received towards LRS/BRS Charges for the year 2012-13 under BRS & LRS recoveries in Liabilities (payable to Government). It has not accounted for the 15 percent of the amount i.e., ₹ 3.40 crore so received as Administration 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 ₹ 3.40 crore. Consequently, the excess of expenditure over income was overstated by ₹ 3.40 crore.

b) The Authority has incurred an expenditure of ₹ 1.35 crore (₹ 30.41 lakh-various maintenance works, ₹ 8.62 lakh towards Visakhapatnam Metro Region 2021 Master Plan and ₹ 95.47 lakh towards various construction works) not related to VUDA. The expenditure of ₹ 30.41 lakh was accounted for under VUDA Assets Maintenance (Schedule- 03) and ₹ 1.04 crore was accounted for under VUDA Administrative and Other Revenue expenditure(Schedule -05) on expenditure side. This should have been debited to the BRS & LRS Recoveries (reserve) (Schedule-Q) as these works do not pertain to VUDA. This has resulted in overstatement of expenditure and Liability (BRS & LRS Recoveries - Schedule- Q) by ₹ 1.35 crore. Consequently, excess of expenditure over income was overstated by the same extent.

1.6 Layout Development Fund (Schedule- M) ₹ 869.05 crore

The Authority has accounted for an amount of ₹ 5.95 crore (₹ 0.49 crore received towards sale permission charges and ₹ 1.41 crore towards development charges under processing fee, 3rd Party transfer – ₹0.04 crore, Conversion charges – ₹ 3.30 crore, Development Charges – ₹ 0.05 crore, Regularization charges – ₹ 0.66 crore) under income for 2012-13. It has not transferred 85 percent of the amount accounted i.e. ₹5.06 crore to the Lay out Development Fund as per the GO. This has resulted in overstatement of income – General Receipts (Schedule-06) and understatement of Liabilities – Layout Development Fund (Schedule-M) by ₹ 5.06 crore. Consequently, excess of expenditure over income was understated by ₹ 5.06 crore.

2. Assets

2.1. Fixed Assets (Schedule- A) ₹ 27.93 crore

2.1.1. Parks and plants ₹ 11.01 crore

The Authority has incurred an expenditure of ₹ 1.44 crore in the year 2012-13 towards civil works relating to Parks &Plants. Though the work continued till 2013-14, the Authority debited this amount as Capital Asset (Schedule-A) instead of exhibiting as Work-in-Progress Schedule-I. This has resulted in understatement of Work-in progress by ₹ 1.44 crore and over statement of Fixed Assets to the same extent.

2.2 Investments (Schedule-H) ₹ 328.26 crore

- a) The closing balance of investments (FDs) as per accounts is ₹ 328.26 crore and as per the details (as certified by the Bank) is ₹ 301.52 crore which are not tallying. Non reconciliation of above amounts has resulted in overstatement of investments (FDs) and understatement of prior period expenditure to the extent of ₹ 26.74 crore.
- b) The entire investments exhibited in the Schedule amounting to ₹ 328.26 crore are in the nature of FDs and should be disclosed under Current Assets. Incorrect exhibition resulted in overstatement of investments and understatement of current assets by the said amount.
- c) The Authority claimed an amount of ₹ 102.12crore from State Government relating to the payments made in excess of realization. The Authority exhibited this amount as receivable from

Government Schedule-K, but erroneously credited to investment account. This has resulted in understatement of Investments and Reserves & Surplus by an amount of ₹ 102.12 crore.

2.3 Loans & Advances & Deposits

Advances Recoverable (Schedule-J) ₹ 3.12 crore

The Authority is debiting principal advance sanctioned (HBA and other advances) and crediting the recoveries i.e. principal including interest without bifurcation. This system has resulted in understatement of Loans & Advances and Interest Income to the extent of ₹ 49.55 lakh (Medical Advance: ₹ 2.47 lakh + HBA: ₹ 46.57 lakh + TTA: ₹ 0.51 lakh).

2.4 Development works

a) Work in Progress (Schedule-I) ₹ 0.00 lakh

The Authority has incurred an expenditure of ₹ 1.28 crore (upto 2011-12 ₹0.45lakh) on work related to construction of World Telugu Cultural & Heritage museum at Kailasa Hill. This expenditure was accounted for under VUDA Assets Maintenance (Schedule- 03) in Income & Expenditure account instead of Work in Progress (Schedule-I) as this is own capital work of VUDA being undertaken in its premises. This has resulted in understatement of Assets (Work in Progress- Schedule I) by ₹ 1.28 crore. It also resulted in overstatement of current year expenditure by ₹0.83 crore and prior period expenditure by ₹0.45 crore. Consequently, excess of expenditure over income was overstated by ₹ 0.83 crore for the year and Reserves & Surplus (General Reserve) was understated by ₹ 1.28 crore (₹ 0.83 crore current year and ₹ 0.45 crore up to previous year).

b) Capital Work-in-progress ₹ 0.00 lakh

The Expenditure incurred on Kailash Hill Health Areana Jogging Track which is of capital nature amounting to ₹ 1.76crore was exhibited as revenue expenditure. This has resulted in understatement of Capital Work-in-Progress by ₹ 1.76 crore and overstatement of VUDA Assets Maintenance - Kailash Hill Health Areana Jogging Track (Schedule-3) by ₹ 1.76 crore. Consequently, the excess of expenditure over income was overstated by ₹ 1.76 crore.

The Authority paid an amount of ₹ 28.56 lakh towards construction of Health Arena at Kailasagiri in 2012-13. However, it was booked in 2013-14. This has resulted in understatement of Liabilities and understatement of Capital Work-in-Progress in 2012-13 accounts by ₹ 28.56 lakh.

2.5 Other Accruals

Rents receivable (Schedule- N) ₹ 4.98 crore.

The Authority received an amount of ₹ 2.35 crore from Vaibhav Skyscrapers (p) ltd towards lease rentals and premium during the year 2012-13 and exhibited under General Receipts (schedule-6) instead of crediting Rent Receivable (Schedule-N). This has resulted in overstatement of Rent Receivable and General Receipts (Schedule-6) by ₹ 2.35 crore. Consequently, the excess of expenditure over income was understated to the same extent.

B. Income and Expenditure

3. Expenditure

3.1 Prior period expenditure (Schedule-14) ₹ 5.09 lakh

The Authority had taken Board's approval (subject 125) in December 2012 for closing certain accounts whose opening balances were continuing for the last 10 to 12 years where currently no transactions are being carried out. The Authority passed JV nos. 197, 214, 215, 223 & 234 for an amount of ₹ 5.09 lakh. The Authority had indicated that work was already completed long back and hence the amount was taken to prior period expenditure and all the debit balances (receivables from other parties) were closed. This has resulted in overstatement of Prior Period Expenditure and understatement of Current Year Expenditure to the extent of ₹ 5.09 lakh.

3.2 The Authority incurred an amount of ₹ 3.16 lakh towards Registration charges and ₹ 3.64 lakh towards Demolition of Children Theatre. This expenditure totalling to ₹ 6.80 lakh was deducted from income instead of debiting to Income and Expenditure account for the period 31.3.2013. This resulted in understatement of Income and Expenditure.

3.3 Schedule of expenses payable (Schedule R.01) ₹ 1.05 crore

The Authority has paid an amount of ₹ 19.25 lakh towards Asset Maintenance (watering, cleaning, security guards salary, and maintenance of plants) during 2013-14 though this expenditure pertains to 2012-13. No provision was made for Asset Maintenance. This has resulted in understatement of Liabilities and Maintenance Expenditure. Consequently excess of expenditure over income was understated by ₹ 19.25 lakh.

4. Income

4.1 General receipts (Schedule- 06) ₹ 13.36 crore

SC Paradesipalem ₹ 0.00 lakh

The Authority received an amount of ₹ 37.41 crore from auction of Paradesipalem land under land pooling programme which was considered as income (Schedule-06) and expenditure amounting to ₹ 10.84 crore (Schedule-03) was considered as expenditure.

As per the general accounting principles unless site was handed in fully developed shape with sale agreement, the expenditure has to be shown in Current Assets and sale should be shown in Current Liabilities. This had resulted in overstatement of Prior Period Income by ₹ 37.41 crore and understatement of Current Liabilities by ₹ 37.41 crore. It also resulted in overstatement of Expenditure and Prior Period Expenditure by ₹ 1.61 crore and ₹ 9.23 crore respectively and understatement of Current Assets by ₹ 10.84 crore.

4.2 Entry Fee on Parks (Schedule 07) ₹ 2.69 crore

This does not include an amount of ₹ 1.17 lakh receivable from Andhra Pradesh Tourism Development Corporation Limited (APTDC) towards entry fee of Kurusura Submarine upto March 2013. This has resulted in understatement of Income (entry fee on parks) (Schedule-07) and amounts receivable on the Assets side by ₹ 1.17 lakh. Consequently, excess of expenditure over income was overstated by the same extent.

4.3 Rents on Parks (Schedule 11) ₹ 1.17 crore.

The above does not include an amount of ₹ 27.66 lakh (₹ 2.47 lakh receivable towards gross collections, fixed license fee and site rent of rope way and ₹ 25.19 lakh towards gross collection of circular train at Kailasagiri Hill) for the month of March 2013. This has resulted in understatement of income (Rents on Parks) (Schedule-11) and Rents Receivable (Schedule-N) on the Assets side by ₹ 27.66 lakh. Consequently, excess of expenditure over income was overstated by the same extent.

4.4 Prior Period Income (Schedule- 13) ₹ 4.66 crore

- Sl. No.5 Prior Period Income ₹ 4.95 crore

a) The Board had taken a decision to close the accounts of some of the deposit works which were completed long back but being exhibited under the Schedules as credit balances, for which there is no amount to be refunded to them. Journal Vouchers were passed by debiting the work and crediting to Prior Period Income with an amount of ₹ 4.95 crore. As the JV has been passed based on the decision taken this year, these amounts should have been exhibited as income of this year. This had resulted in overstatement of Prior Period Income and understatement of Current Year Income by ₹ 4.95 crore.

b) The Authority paid an amount of ₹ 29.15 lakh as TDS. However, Prior Period Income was debited instead of Prior Period Expenditure (JV217). This resulted in understatement of Prior Period Income and Prior Period Expenditure by ₹ 29.15 lakh.

5. Notes on accounts

a) The Authority was exhibiting Gross Value of the Fixed Assets and Depreciation Reserve in their accounts upto 2010-11. However, the Authority exhibited Net Value of the fixed Assets after adjusting the depreciation reserve in 2012-13 in the balance sheet. The fact of the adjustment of depreciation reserve was not brought out in the Notes on Accounts.

b) No provision was made for remaining liability of ₹ 9.04 crore of Service Tax and fact of appealing with the authorities was not brought in the Notes on accounts.

6. General Observations.

The following are the general observations:

1. The Authority is not bifurcating the interest and principal amounts on house/sites installments received.
2. Reconciliation of subsidiary registers like advance register, statutory payment register etc with general ledger balances was not carried out.
3. Income Tax department raised tax liability for the past 4 years. The Authority is disputing the same. However, the payment made was shown as expenditure. The Authority did not indicate the dispute with Income Tax authorities in the notes forming part of accounts.

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 2012-13 is that there was understatement of Assets by ₹ 103.08 crore, Liabilities by ₹ 155.42 crore, Expenditure by ₹ 12.07 crore and overstatement of Income by ₹ 40.27 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, 2013; and
 - b. In so far as it relates to Income and Expenditure Account, of the deficit for the year ended on 31st March 2013.

On behalf of the Comptroller & Auditor General of India

Vaci

Prl. Accountant General (G&SSA)