

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS
OF KOLKATA MUNICIPAL CORPORATION FOR THE
YEAR ENDED 31ST MARCH 2014**

We have audited the Balance Sheet of the Kolkata Municipal Corporation (KMC) as at 31 March 2014 along with Income & Expenditure Account and Receipts & Payments Account for the year ended on that date under section 160 and 161 of the Kolkata Municipal Corporation Act, 1980. Preparation of these financial statements is the responsibility of the KMC Management. Our responsibility is to express an opinion on these financial statements based on our audit findings.

2 This Audit Report contains the comments of the Examiner of Local Accounts (ELA) on the accounting treatment with regard to classification, conformity with the best accounting treatment, accounting practices, accounting standards and disclosure norms, etc. Audit observation on financial transactions with regard to compliance with the Laws, Rules and Regulations (Propriety and Regularity Audit) and efficiency-cum-performance aspects, etc., are reported through Inspection Reports/ Audit Reports separately.

3 We have conducted our audit in accordance with the Auditing Standards generally accepted in India. These standards require that we plan and perform 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 disclosures 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. In our opinion, proper books of accounts and other relevant records have been maintained by the KMC as required under provision of the KMC Act 1980 in so far as it appears from our examination of such books and subject to the observations made below.

iii. We further report that -

A.1	Assets	
A.1.1	Fixed Assets (Sch-17)	
	Gross Block:	₹ 3936.28 crore
	Less: Depreciation:	₹ 2032.06 crore
	Net Block:	₹ 1904.22 crore

(A) The above Fixed Assets (Gross Block) did not include ₹ 14.38 crore being the cost of 420 numbers of dwelling units constructed and allotted at Garden Reach and Rajarghat under BSUP scheme of JNNURM project which were showing as capital work-in progress. This resulted in understatement of the fixed assets (Gross Block) to the extent of ₹ 14.38 crore with corresponding overstatement of capital work-in progress.

(B) Further as ascertained from Quarterly Progress Report of JNNURM, the above cost of ₹ 14.38 crore included an amount of ₹ 1.05 crore as contribution from KMC and Beneficiaries. This entails that the depreciation on assets created from municipal contribution for the year 2012-13 amounting to ₹ 0.02 crore (@ 2% p.a) should have been charged to Income & Expenditure Statement. Non-charging of depreciation resulted in overstatement of Fixed Asset (Net Block) amounting to ₹ 0.02 crore with corresponding understatement of expenditure (depreciation) as well as overstatement of surplus to that extent.

KMC replied vide BSR dated 19.08.2014 that Finance & Accounts department had not received Completion Certificate and the date of Put to Use of particular completed dwelling units, and hence transfer of such amount from CWIP to Fixed Assets was not considered in the Annual Accounts of 2012-13. It was reported by the concerned department that some issues still remain un-resolved in respect of completion of the project and its final payment. However, necessary accounting entries including depreciation would be accounted for on getting the appropriate information from the department in subsequent year.

Though repeated comments in the previous years' Audit Reports on Annual Accounts, the position remained unchanged.

A.1.2 Capital Work-in Progress (CWIP)
Commercial Project: ₹ 5.55 crore (Schedule – 18)

Above included ₹ 5.55 crore being the expenditure incurred towards Commercial Projects which had neither been capitalized even after lapse of more than 12 years nor been made any disclosure in the 'notes to accounts' clarifying the reasons for non capitalization. The future prospect of assets created out of the expenditure could not be assessed in audit due to non-availability of nature of assets. Therefore, necessary provision for loss of assets should have been made in the accounts. Non-provision of the same resulted in understatement of 'Current Liabilities – Provision' with the corresponding overstatement of surplus to the extent of ₹ 5.55 crore.

KMC replied vide BSR dated 19.08.2014 that the matter was placed before the Municipal Accounts Committee (A Committee formed Under Section 10 of the Kolkata Municipal Act, 1980) for examination. It was recommended by the Municipal Accounts Committee that "Concerned Department should take early action towards writing off such old CWIP as early as possible after observing all formalities and with the approval of the Corporation. In the previous report also the Committee has suggested to take appropriate action towards writing off the matter." The matter was also approved by the Corporation vide Resolution Item No. 2 dated 27/08/13 and Resolution Item No. 13 dated 24/12/13. All concerned departments had been directed to take further necessary action so, that the appropriate adjustment entries may be passed in the books of accounts.

Though repeated comments in the previous years' Audit Reports on Annual Accounts, the position remained unchanged.

B. Income & Expenditure A/C

B.1	Excess of Income over Expenditure	₹118.58 crore.
B.1.1	Interest on Loan from ADB – Assets transferred	₹192.54 crore.

Kolkata Environmental Improvement Project (KEIP) under KMC has taken Loan from State Government (ADB Loan) for the purpose of creating / acquiring assets for KMC. Interest on the loan is treated as overhead. It is apportion to different completed assets and transferred to KMC.

KEIP transferred different assets to KMC after the date of financial closure and not in the date of completion. KEIP capitalized interest on loan up to the date of financial closure. It is in violation of Accounting Standard 16 (Para 19 and 20).

The amount of interest on the assets for the period between the date of completion and the date of financial closure should be charged as prior period item to the Income and Expenditure Account for the year 2013-14.

But, in compliance of Audit report KEIP made adjustments and reduced the value of assets by ₹9.25 crore and CWIP was increased by the same amount.

Hence, Surplus is overstated by ₹9.25 crore and outstanding Interest on Loan from ADB – Assets transferred is understated by the same amount. Furthermore, CWIP as well as Project Fund was overstated by the same amount.

Depreciation on over capitalization amount of ₹9.25 should be adjusted.

C. General

C.1 Receivables from the Kolkata Port Trust:

The Kolkata Port Trust (KPT) collected Municipal Tax @20.25 % of rent from the tenant under their control and accounted that as their earnings till 2012-13. During the financial year 2013-14

the KPT authority changes their accounting policies and kept the collected Municipal Tax under Suspense account. As per Suspense Ledger 2013-14, KPT authority collected ₹25.25 crore. But KMC was paid ₹4.61 crore only and ₹20.64 crore kept under the suspense account of the KPT.

Further, as per KMC Act the maximum rate of Municipal Tax is 40.5%, but the KPT collected @20.25 % only. As a result, KMC should be compensated by KPT for the rest portion.

The amount of total tax receivable from KPT should be brought to the accounts of the KMC.

C.2 Fund Balances –Earmarked Funds (Grants & Contributions) (Sch.4) ₹178.86 crore

It has been noticed that Grants funds in respect of a number of schemes are shown in negative figure.

KMC replied vide letter dated 8th May, 2015 that for some grants such as Employment Generation for Tribal Category, State Finance Commission Earmarked Fund balance should be taken together with the Local Fund. Then there should not be any negative balance in this respect. For NGRBA negative balance arises as KMC get reimbursement of expenses. For other grants KMC have given assurance that it will be rectified in next financial year.

C.3 Statutory Liabilities (sch 13) ₹98.45 crore.

Various taxes use to be deducted in compliance of the provisions of the acts applicable such as Income-tax Act, 1961. These taxes is to be deposited with the concerned authority within due date. In these cases, KMC only deduct tax and later on deposit the same, if tax of the last month remains to be deposited that amount should be shown as liability.

But, Tax deducted at source from Contractors has been shown at ₹9,59,273/- as negative balance. Similarly, Employment tax has been shown at ₹13,10,594/- as negative balance.

KMC replied vide letter dated 7th May, 2015 that KMC is engaged to reconcile both the negative balances and necessary adjustment entries will be passed in the next financial year.

C.4 Expenditure on General Infrastructure (Schedule – 21): ₹45.76 crore

A reference is invited to the 'Notes to Accounts' on 'Expenditure on General Infrastructure Improvement not yet capitalized'. It was disclosed that the KMC was unable to capitalize the CUPD-III projects under construction and project under Stun Development for want of specific information from the appropriate authority. The assets as of present date assumed to stand depreciated fully.

KMC replied vide BSR dated 19.08.2014 that as these pertain to activities initiated long back and the supporting documents to clarify the status of these projects were not readily available. The

matter was placed before the Municipal Accounts Committee. In its recommendation the MAC stated that "Concerned Department should take early action towards writing off such old CWIP as early as possible after observing all formalities and with the approval of the Corporation. In the previous report also the Committee has suggested to take appropriate action towards writing off the matter." Such recommendation was placed before the Corporation and the recommendation was approved by the Corporation vide item No. 13 dated 24-12-2013. The respective department of KMC has been requested to take further appropriate steps in pursuance with the decision of MAC.

Moreover, the expenditure though of capital nature, has already outlived its economic life. As these amounts pertain to past periods, they do not have any impact on the operating results of the year under audit.

The concerned department of the KMC did not take any appropriate step in this regard though recommended by MAC. Mere disclosure is not sufficient, rather necessary accounting entries should have been passed for fair presentation in the accounts.

C.5 Accumulated Advances (Schedule – 29): ₹ 14.60 crore

A reference is also invited to Notes to Accounts on 'accumulation advance related to earlier years'.

It was disclosed that the KMC was not in a position to identify the exact nature of the above item (₹14.60 Cr.) for which the same was shown separately.

KMC replied vide BSR dated 19.08.2014 that this was raised in the audit report of previous year also. The matter was placed before the meeting of Municipal Account Committee and the Committee recommended that "the concerned department may initiate a proposal for writing off such old advances with the approval of the Municipal Corporation if there is no scope for getting it adjusted." All concerned departments had been requested to take early action in pursuance with the decision of MAC.

The concerned department of the KMC did not take any appropriate step in this regard though recommended by MAC. Mere disclosure is not sufficient, rather necessary adjustment entry should have been passed for such unidentified current assets.

C.6 Statutory Liabilities (Schedule 13) Provident Fund: - ₹79.74 crore

The Balance Sheet of KMC as on 31 March 2014 showed un-remitted liability of ₹79.74 crore towards Provident Fund (PF) Cell whereas the Balance Sheet of PF Cell as on 31 March 2014

indicated that ₹105.59 crore was receivable from KMC. Thus, there was a difference of ₹25.85 Cr. (₹105.59 crore minus ₹79.74 crore) which remained unreconciled.

KMC replied vide BSR dated 19.08.2014 that KMC had initiated departmental reconciliation i.e. reconciliation between Finance & Accounts department and Provident Fund Cell as the difference between the department carried forward from long back.

Further, vide reply dated 23rd April, 2015 KMC stated that PF Department had been asked to take appropriate action immediately and to prepare a reconciliation statement accordingly.

Despite repeated assurances made by KMC in previous years, no step was taken to reconcile the difference.

C.7 Earmarked Fund (Sch-4)

National Social Assistance Programme (NSAP) ₹12.39 Crore

(i) Above includes ₹12.39 Cr as balance of National Social Assistance Programme (NSAP) as on 31.03.14 whereas the Cash Book shows the balance of ₹19.17 Cr under above head. Thus there was a difference of ₹6.78 Cr which needs reconciliation.

KMC replied vide BSR dated 19.08.2014 that to maintain the Social responsibility, several times KMC has transferred funds through bank transfer to SW & UPA department against their receivables from the Government with proper approval of the authority. Generally, KMC has adjusted these fund transfers on receipts of funds from the Government and this is a continuous process. Out of the amount of ₹14.96 crore KMC had already received back ₹ 9.96 crore from SW & UPA department. The SW & UPA department had been directed to return back balance amount after getting the same reconciled.

Further, KMC accepted the fact and replied vide letter dated 23rd April, 2015 that ₹5.00 crore (out of ₹6.78 crore) was refunded by the concerned department in the financial year 2014-15. For the remaining amount of ₹1.78 crore, the department had been asked to prepare a reconciliation statement as early as possible.

(ii) The National Social Assistance Programme (NSAP) comprises of five components namely (1) Indira Gandhi National Old Age Pension Scheme (IGNOAPS, earlier NOAPS), (2) Indira Gandhi National Widow Pension Scheme (IGNWPS), (3) Indira Gandhi National Disability Pension Scheme (IGNDPS), (4) National Family Benefit Scheme (NFBS) and (5) Annapurna. But only a consolidated figure of ₹12.39 crore has been shown under the head of NSAP

KMC replied vide BSR dated 19.08.2014 that earlier NSAP consisted of NOAPS & NFBS only. Programme wise maintenance of fund account under NSAP was not mandatory though separate bank accounts were maintained. Accordingly, only one fund account namely NSAP was maintained in books of accounts of KMC where balance of NOAPS & NFBS were combined.

Later IGNOAPS, IGNWPS & IGNDPS has formed part of NOAPS. The fund balances can be shown separately from the next financial year. Some more time may be required to segregate NOAPS & NFBS fund as combined fund balance under NSAP were carried forward for a long period of time.

In the Annual Accounts for the year 2013-14 of the KMC, the opening fund balance, interest earned, receipt of Govt. grants, utilization of fund as well as the closing fund balance in respect of these five schemes were not shown separately.

C.8 Cash & Bank Balance (Sch. 30, 31 and 32): ₹ 650.42 crore

(i) The cash and bank balance include a considerable amount which was entered in the Cash Book prior to 31.12.2013 but not credited by banks as on 31 March 2014.

(ii) Similarly, the cash and bank balance includes a considerable amount of cheques issued to various parties prior to 31.12.2013 had already lost their validity. The amount was not written back.

(iii) Out of 176 bank accounts, KMC could not reconcile four bank accounts. The cash book balance as on 31 March 2014 in respect of those four bank accounts amounted to ₹ 4.66 crore (SBI A/C no. 51163 of ₹ 4.65 crore, and remaining in other bank accounts namely Bank of Baroda, Post Office Saving Bank and Allahabad Bank)

C.9 Fixed Deposits with Banks (Schedule-23) ₹175.27crore

This includes ₹ 2.92 Lakh deducted as TDS by bank from interest earned on Fixed Deposit of KMC during the period between 2007 and 2010 which was not refunded by the bank till now. The above fact was not enclosed in Notes to Accounts.

KMC replied vide BSR dated 19.08.2014 that the bank has been asked vide letter dated 14-07-2014 to refund the amount immediately.

C.10 Capital Work-in-Progress (CWIP) includes Mohit Moitra Mancha- ₹ 27425217 (2009-10), Gandhi Maidan WTP- ₹ 100968577 (2012-13), Shore Protection Work at IGWPT Palta- ₹ 96764564(2010-11), Vambay Works (Labour Quarter)- ₹ 7542352(2009-10) and Market Development project- ₹ 236430035(2009-10) which seems to be completed as no further funds have been allotted since last two to five years. Same should be capitalized and depreciation to be charged accordingly. No reply was received.

C.11 Internal Audit

The report of the Chief Municipal Auditor for the year 2012-13 as required under Section 157(2) of the KMC Act 1980 was not furnished.

C.12 Note regarding KMWSA:

It was pointed out in the last year audit report that a big amount was shown by the KMWSA as receivable from the KMC.

KMC informed that the management and maintenance of Garden Reach Water Works has been handed over to the KMC, but in the absence of any agreement in support of the claims of KWMSA KMC could not recognize it in the accounts.

KMC should at least disclose the fact in the notes to accounts.

C.13 Receivable – Government's Business type activities" included ₹20.05 Cr. Representing receivable towards advertisements (₹16.52 Cr.) and car parking (₹3.53 Cr.) which has been lying unrealized for more than three year. Effective steps need to be taken to realize /adjust the above huge long outstanding dues.

At least, adequate disclosure mentioning the reasons for non- realization of the above outstanding dues should have been made in the "Notes to Accounts"

It was replied by the KMC vide letter dated 23rd April, 2015 that the concerned departments have been requested to provide necessary information.

D. Accounting Policies & Notes to Accounts:

(i) Despite comments made in the last Audit Report, the Annual Accounts of the year under report also did not disclose stock/unutilized balance of Rice received under MDM scheme.

KMC replied vide BSR dated 19.08.2014 that the point is noted. It may be stated here that Accounts of Mid-day meal is prepared separately and also got audited by a Chartered Accountant firm. Report of the CA firm will be furnished by the education department to the audit for consideration.

Report of the CA firm was not furnished to audit.

(ii) The value of immovable property could not be confirmed due to non-receipt of physical verification report.

(iii) The land under encroachment was not disclosed in the accounts.

E. Effect of Audit Comments on Accounts

The net impact of the comments given in preceding Para is that the liability as on 31st March 2014 were understated by ₹ 5.55 Crore, assets overstated by ₹ 9.27 Crore and the surplus of income over expenditure for the year was overstated by ₹ 14.82 Crore (Working Sheet enclosed)

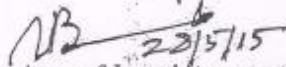
iv. Subject to our observations in the preceding paragraphs, we report that the Balance Sheet and Income and Expenditure Account and Receipts and Payment Account dealt with by this report are in agreement with the books of accounts.

v. In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the Accounting Policies and Notes on Accounts, and subject to the significant matters stated above 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 Kolkata Municipal Corporation as at 31st March, 2014 and

b) In so far as it relates to the Income & Expenditure for the year ended on that date.

Place: Kolkata
Date: 28. 05.2015


23/5/15
Examiner of Local Accounts
West Bengal