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REPORT ON REVIEW OF STANDALONE FINANCIAL STATEMENT

To,
The Municipal Commissioner,
Ahmedabad Municipal Corporation.

We have reviewed the Annual Accounts of the Ahmedabad Municipal Corporation prepared by Dharmendra & Khajanchi, Chartered Accountants, Ahmedabad which comprise the Comprehensive Annual Financial Statement [Combined Balance Sheet of all fund types] as on 31.03.2021 which comprises of General Fund, Capital Projects and Development Funds, Special Revenue Fund, Trust and Agency Funds, Statement of Revenue Expenditure and Changes in Fund Balances for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Accounting Standards for Local Bodies [ASLBs] issued by Institute of Chartered Accountants of India and other accounting principles generally accepted in India and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with Standard on Review Engagements (SRE) 2400 (Revised), Engagements to Review Historical Financial Statements. SRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with SRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.



Basis for Qualified Conclusion

1. The para 53 of ASLB 1 provides for following compliances to be made:

"Except when an ASLB permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information should be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements."

In this context, comparative figures of previous year have not been presented / disclosed.

2. The Para 129 of ASLB 1 requires disclosure of Cash Flow and Statement of Changes in Equity along with Balance Sheet.

In this context, Cash Flow Statement is not prepared.

3. Certain incomes and Expenditures are not recorded on accrual basis:

- 3.1 The Note A. 1 [ii] of Notes to Accounts mentions following:

"Income under heads other than Property Tax and related taxes, Vehicle Tax, Theatre Tax and Interest on Investment are accounted for on receipt basis."

- 3.2 The Note A 3 [iv] of Notes to Accounts discloses following:

"Prepaid expenses are not calculated as on 31.03.2021."

- 3.3 The Note A 8 of Notes to Accounts discloses following:

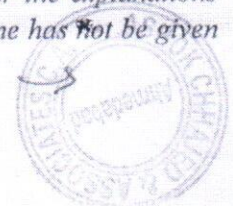
"Dues on account of gratuity and superannuation benefits are accounted for on cash basis. No actuarial valuation has been done to ascertain the liability."

Considering such aspects, accrual basis of accounting is not followed to that extent as well as ASLB 39 has not been followed.

4. Fixed Assets:

- 4.1 The Note A. 2 [ii] and Note A 10 of Notes to Accounts prescribes following:

"During the year Nagarpalikas including gram Panchayats within its jurisdiction were merged with AMC. The assets and liabilities of these local bodies have not been incorporated in this balance sheet. However, the assets of these Nagarpalikas also include certain infrastructures which were funded by AUDA (Ahmedabad Urban Development Authority) and are capitalized in the balance sheet of AUDA and hence not included in assets of AMC. As per the explanations given AUDA would initiate the process of transfer, however fix definite timeline has not be given for the same."



Under a notification dated 14.02.2006 issued by Urban Development & Urban Housing Development Department (UDUHD) of Government of Gujarat, following local bodies are merged with AMC:

- (1) Bodakdev
- (2) Makarba
- (3) New Odhav
- (4) Nikol
- (5) Vastrapur
- (6) New Naroda
- (7) Thaltej
- (8) Sarkhej
- (9) Vejalpur
- (10) Chandlodia
- (11) Ghatlodia
- (12) Jodhpur
- (13) Ranip

AMC merged 13 Nagarpalikas and 30 gram panchayats during the year. The Assets and Liabilities of these local bodies have not been merged in the Current balance sheet on the basis of data and information made available.

During the year 2017-18 AMC merged 3 more nagarpalika namely Kathwada, Chiloda and Bopal Ghuma. However The Assets and Liabilities of these local bodies have not been merged in the Current balance sheet on the basis of data and information made available."

4.2 The Note A. 2 [iii] of Notes to Accounts discloses following:

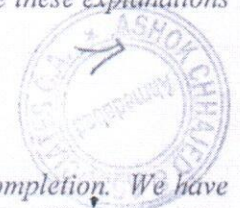
"Fixed Assets Registers of AMC have been collated and updated. Depreciation has been computed as per policy. However, this exercise is still ongoing and is likely to continue in next 2-3 years due to sheer volume in geographical spread of the assets. The data for fixed assets has been compiled based on information furnished by the various User Departments of AMC."

4.3 The Note A. 2 [xiv] of Notes to Accounts provides that:

"The addition to fixed assets includes Rs.3363.52 crores on account of revaluation of land. A detailed exercise was carried out by consultants to arrive at the valuation of land as per the latest available jantri rates of 2011 issued by Govt.of Gujarat. The report contains the methodology, underlying assumptions etc considered while carrying out the exercise. The report also mentions land value of Rs.1768.54 crores not considered in the above valuation as there were some litigations, dispute over possession, partial possession etc. Once these issues are resolved, this amount can also be added to the value of the land. There are issues raised regarding certain plots for which the explanation is pending from AMC. Once these explanations are received, the value of those plots will be incorporated in the valuation."

4.4 The Note A. 2 [iv] of Notes to Accounts states that:

"CWIP represents capital assets which are in the process of construction/ completion. We have not reviewed the bills for the financial year 2020-21 to arrive at the closing WIP as on 31st March 2021 in absence of specific data from concerned departments.



During the financial year 01/04/2020 to 31/03/2021 the total asset transferred to Fixed asset is Rs.10,666,39,70,849/- as on 31/03/2021. The WIP up to 31/03/2019 is identified and transfer to respective head of assets on 31/03/2021. Some of housing project has been under process of identification and the same has been transferred to Profit and loss account/inventory at the time of delivery of property to buyers."

In view of such facts, we are of the opinion that Accounting of Fixed Assets is incomplete to that extent; fixed assets are understated for which amount is not determinable.

5. Unreconciled Accounts / subject to correction / confirmation:

5.1 The Note A 3 [i] of Notes to Accounts regarding Unreconciled Bank mentions that:

"Cash & Bank Balances : - Bank Balances shown as on March 31, 2021 are taken as per the actual bank balances Opening balances as on April 1, 2020 have been taken as per actual bank balance. However the book balance and the bank balance are not reconciled. The reconciliation differences comprises of identifiable and unidentifiable entries. There are many bank accounts, which are non-operative out of which many accounts are also closed. There are balances, which were taken from the book record at the time of conversion of Fund Based Accounting System to Double Entry cash based accounting system in 1996. The entire unreconciled balance of all the banks amounting to Rs. 444,25,72,194/- are transferred to a separate "Unreconciled Bank Adjustment Account" which will be adjusted in coming years. This unreconciled amount is reflected in schedule of bank balance of general fund."

It further states that:

"Out of the unreconciled bank balance of Rs.444.25 crore the corporation has identified the which is as follows:

- 1) Bills of Rs.104.17 crore paid in the Month of March and the same has been cleared in the month of April-21*
- 2) Salary for the month of March-21 to the tune of Rs.82 crore has been passed in the bank and cleared in the month of April-21.*
- 3) Members contribution to the tune of Rs.43.92 crore received in bank but not entered in bank book.*

So out of 444.25 crore total 230.09 crore entry already been identified.

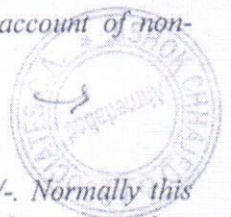
Moreover, Separate Bank Accounts are not maintained for some capital project, special revenue and trust and agency funds which are normally the practice. In such cases General Fund bank accounts are used to incur expenditure to these funds."

5.2 The Note A 3 [iii] [d] of Notes to Accounts regarding Inventory discloses as under:

"(d) There is a difference between physically stock and book stock on account of non-reconciliation & Accounting treatment in the past."

5.3 The Note A 3 [v] of Notes to Accounts provides as under:

"Loan to Employees Accounts reflects a credit balance of Rs. 2,65,59,588/-. Normally this account should not have a credit balance and however, in absence of previous data pertaining to loans given, the recovery from the employees results into a credit balance. The reconciliation of the same is pending."



5.4 The Note A 3 [vi] of Notes to Accounts mentions as under:

“Traveling advances of Rs.59,44,313/- reflects long outstanding amounts which were not booked to respective expenses in the absence of reconciliation of the same.”

5.5 The Note A 6 of Notes to Accounts regarding Loans from HUDCO, ICICI, NHB, State Government Loans, Loan of erstwhile Nagarpalikas, Open Market Borrowings (Public Loans), and Public Tax-Free Bonds & World Bank states as under:

“Loans are subject to reconciliation & confirmation. The amount due for repayment in case GMFB and State Government loans is deducted by State Government from the AMC's Share of grants payable to AMC in some cases.”

5.6 The Note A 7 (i) of Notes to Accounts provides as under:

“Corporation has an unpaid liability of Rs.10002988319/- towards security deposit and other deposits. This also includes unclaimed deposits outstanding since long and which is not identifiable. These deposits comprises of Earnest Money Deposit security deposits received from contractors, retention money deducted from payments made to contractors and various other deposits like octroi deposits, Water drainage connection deposit, certain charges of town planning as per General Development Control Regulation(GDCR) & various deposits. These are subject to reconciliation with various sub ledgers and are outstanding since long out of these payables some amount might not be payable which can be determined only after the reconciliation of these amounts are done with various sub ledger.”

5.7 The Note A 7 (ii) of Notes to Accounts discloses as under:

“GPF / CPF / GIS Payable represents the amount deducted from salaries and remaining payable as of March 31, 2021. The same are however subject to reconciliation with the actual balance in the GPF Module maintained separately independent of the accounting software.”

5.8 Salary advance is showing negative balance of Rs. 96855742.

5.9 Negative balances in advance to contractors Rs. 1899761053.

In this context, we would like to refer para 48 of ASLB 1 which stipulates that “Assets and Liabilities, and revenue and expenses, should not be offset unless required or permitted by an ASLB”.

- Hence in view of above, we are of the opinion that Inventory, Travelling Advance, Security Deposit & Other Deposits payable, GPF/CPF/GIS payable etc are overstated and Bank balances, Loan to Employees, Salary Advance to employees, Advance to the Contractors etc are understated as well as subject to reconciliation / confirmation along with Loans from HUDCO, ICICI, NHB, State Government Loans, Loan of erstwhile Nagarpalikas, Open Market Borrowings (Public Loans), Public Tax-Free Bonds, World Bank etc.

6 Provision for non-receivable loans / advances / receivables not made:

6.1 The Note A 4 of Notes to Accounts regarding Loans to AMTS states that:



"The public transport of Ahmedabad city is run by Ahmedabad Municipal Transport Service which receives a financial support from the corporation, such amount is reflected under the head "Loan to AMTS". No terms and conditions are stipulated for the repayment of such loan. Current year Receipts and Payments include income and expenses from running of CNG buses which are essentially incurred on behalf of AMTS. Hence the same have been excluded from the books of AMC and net amount is added to Loans to AMTS.

AMC has given advances of Rs.3413,66,72,773/- to AMTS which runs the public transport service in the city of Ahmedabad. These advances are used by AMTS to subsidize public transport service. AMTS is not generating revenue surplus from its operations so as to meet the operative expenses."

In view of this, the responsibility of such advance depends upon receipt of fiscal support from any other agency. In absence of this it is difficult to quantify the realizable amount and hence any provision for probable impairment is not provided in the books.

6.2 The Note A 4 of Notes to Accounts regarding Loans to Loans to Ahmedabad Janmarg Ltd for BRTS project mentions that:

"The BRTS corridor for public transportation is run by AMC through a SPV Ahmedabad Janmarg Ltd. The capital expenditure of the project amounting to Rs. 979,84,23,744/- is reflected as loan to BRTS in the Balance Sheet in pending decision regarding ownership of asset by the authorities.

AMC also gives a monthly loan to AJL meet the gap in the cash flows to run its operations. Such amount as on 31.03.2021 is Rs.433,16,00,680/-."

Considering such facts, the reliability of such advance depends upon receipt of fiscal support from any other agency. In absence of this it is difficult to quantify the realizable amount and hence any provision for probable impairment is not provided in the books.

6.3 The Note A 8 and 14 of Notes to Accounts provides as follows:

"Total Provision for Property Tax for Rs. 24096148591/- March 31, 2021 in accordance with the guidelines issued by National Municipal Accounts Manual."

In this context, provision for market rent receivable has not been made as the data is not available.

6.4 AMC had let out on rent many properties over the years for which no records are available. As a result of this the amount of rent receivable is not known and the same is accounted for on receipt basis.

In view of that AMC should initiate steps to identify the properties let out on rent. It will enable it to increase its rental income by proper follow up work.

Moreover, wherever there is doubt on recovery of above dues, provision for amount not receivable shall be made on logical basis.

7 The Note A 12 of Notes to Accounts regarding Contingent Liabilities discloses following:



“No estimate of the liability for unsettled claims has been reported. However, the contingent liability will have to be estimated by categorizing the various claims and applying a historical average percentage based primarily on actual settlements by type of claim on the basis of information provided by AMC’s legal department.”

In this context, the para 100 of ASLB 19 stipulates following:

Unless the possibility of any outflow in settlement is remote, an entity should disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable:

- (a) An estimate of its financial effect, measured under paragraphs 44 to 62;
- (b) An indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) The possibility of any reimbursement.

In view of above, we are of the opinion that, para 100 of ASLB 19 has not been complied with.

8 Further to above on reviewing the financials, we are of the opinion that Ahmedabad Municipal Corporation shall initiate following action to increase the revenue, incorporate all the unaccounted Properties, Plant & Equipment by way of strengthening internal financial controls in the organization:

- It is noticed that system audit is not being carried out at AMC though accounting system is being used at different wards / zones, data input of which is stored in central servers. Further, payments are being accepted online for numerous services involving huge amounts of income and affecting dues receivable. Hence, vulnerabilities / other system related control risks / weaknesses cannot be identified unless system audit is carried out by Qualified System Auditors.

In view of that, we are of the opinion that such System Audit shall be carried out periodically and for every change carried out in the established system.

- Total amount of professional tax collected during the year is observed to be Rs. 1671882360 which is miniature compared to the commercial activity carried out in Ahmedabad city.

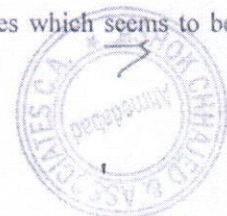
In view of that, we are of the opinion that, authentic sources shall be developed to derive amount recoverable on account of Professional Tax by obtaining GST registration data from Government / its portals and Membership details of different Trade and Commerce Bodies shall be sought, scrutinized and initiate action for broadening of tax payer base.

- Rental income under some of the heads seems to be very less as under:

Particulars	Amount
Rent From Offices, Shop & Stalls	88,02,922
Rent From Quarters (Labour, Slum & Others)	96,49,337
Other Rent	59,59,722
Total	2,44,11,981

In our opinion, AMC shall initiate the action to increase the rental income considering the quantum of properties of AMC.

- Total value of land as per latest revaluation is conveyed to be Rs. 3363.52 Crores which seems to be apparently of very low value considering the total area being administered by AMC.



We are of the opinion that all the properties / land shall be got GIS mapped / cross confirmed with ownership records, so that full data of own properties is available with the Corporation and consequently left out portion of land can be brought to Balance Sheet along with its income.

Qualified Conclusion

Based on our review, **except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph**, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view of (or do not *present fairly, in all material respects*) the financial position of Ahmedabad Municipal Corporation as at March 31, 2021, and of its financial performance for the year then ended in accordance with the accounting principles generally accepted in India.

For Ashok Chhajed & Associates
Chartered Accountants
FRN: 100641W

Naresh Bahroo
Partner

MN: 117743

UDIN: 22117743AIQKHT5278

Date: 03.05.2022

Place: Ahmedabad

