

# Audited Project Financial Statements

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Project Number: 42266-023  
Loan/Grant Number: 3053  
Period covered: 01 April 2014 – 31 March 2015

## IND: Kolkata Environmental Improvement Investment Program - Tranche 1

Prepared by Kolkata Municipal Corporation

For the Asian Development Bank  
Date received by ADB: 10 February 2016

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the Kolkata Municipal Corporation.



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INDIAN AUDIT AND ACCOUNTS DEPARTMENT  
O/o PRINCIPAL ACCOUNTANT GENERAL  
(GENERAL & SOCIAL SECTOR AUDIT), W.B.  
LOCAL AUDIT DEPARTMENT

No: SS-III/A/cs-KEIIP (2014-15)/15-16/5481(TB)

Dated: 08.02.2016

To  
The Project Director,  
Kolkata Environmental Improvement Investment Program,  
206, A. J. C. Bose Road,  
Kolkata-700017


**Sub: Audit Report on Financial Statements of KEIIP for the year 2014-15**

Sir,

Please find enclosed herewith the Audit Report on the Financial Statements of Kolkata Environmental Improvement Investment Program under Kolkata Municipal Corporation for the year ending 31<sup>st</sup> March 2015.

I draw your personal attention on the significant audit observations as mentioned in Audit Report of 2014-15 for remedial/corrective action.

Yours faithfully

  
8/2/16  
Examiner of Local Accounts  
West Bengal

Enclosures: As above

  
09/2/16

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF KOLKATA  
ENVIRONMENTAL IMPROVEMENT INVESTMENT PROGRAM FOR THE YEAR  
ENDED 31<sup>ST</sup> MARCH, 2015**

1. We have audited Balance Sheet of the Kolkata Environmental Improvement Investment Program financed under Asian Development Bank Loan No. 3053-IND, along with the Statement of Receipts and Payments and related notes for the year ended 2014-15 under section 160 of the Kolkata Municipal Corporation Act, 1980. Preparation of these statements is the responsibility of the KEIIP 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 KEIIP 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 Balance Sheet**

**A.1 Liabilities**

**A.1.1 Current Liability (Schedule 1) ₹1.10 crore**

**Under- statement of Current Liability as well as Assets to the extent of ₹3.00 Crore.**

KEIIP / KMC has taken over, on lease, a land measuring 2 Bigha – 5 Katha-6 Chatak-16.77 Sq.ft. (32686.77 Sq.ft.) within Joka Tram Depot on 24.06.2014 from The Calcutta Tramways Co. (1978) Ltd. for construction of combined pumping station for 30 years in consideration of ₹4,08,58,200/- (₹4.09 crore approx.) as salami (40 per cent of the assessed market value of land of ₹10,21,45,500/-) and 4 per cent of such salami as annual rent as per approval of MIC under Agenda Item No. M-72.1 dated 27.08.2014.

During the current FY 2014-15 KEIIP/ KMC paid ₹1,09,14,180/- (₹1.09 crore approx.) as salami and ₹40,85,820/- (₹0.41 crore approx) as Annual Rent.

The Calcutta Tramways Company (1978) Ltd. handed over the possession of land at Joka Tram Depot on lease to KEIIP / KMC on 24- June -2014.

Hence, KEIIP was to be paid remaining Salami of ₹3.00 crore (₹4.09 crore– ₹1.09 crore ) which was a certain liability with the amount being known to KEIIP. Later on, during the year 2015-16, KEIIP paid the full amount of salami in settlement of the claim of CTC Ltd. But despite the amount of liability being known (₹3.00 crore) and that was certainly to be paid, KEIIP did not make any provision for ₹3.00 crore. Therefore, Current Liability of KEIIP is understated by ₹3.00 Crore as well as Assets by the same amount.

The KEIIP authority did not furnish any reply in this regard.

**A.1.2 Contribution from Govt. of West Bengal ₹8.13 crore**

**Contribution from Govt. of West Bengal of ₹1.37 crore was not brought into account.**

Contribution from Government of West Bengal (GOWB) was shown at ₹8.13 crore whereas from available orders of GOWB contribution comes to ₹9.50 crore.

This resulted in understatement of contribution from GOWB by ₹1.37 crore- and understatement of receivable by the same amount.

**A.2 Assets**

**A.2.1 Other Unallocated Charges (Schedule 5) - ₹10.02 crore**

**Pre-paid Annual Rent of ₹28,60,074 understated and Other Unallocated Charges over stated by the same amount.**

As per Item No. 7 of the Notes to Accounts, FY 2014-15, the annual rent for the leased land mentioned above should be 4 per cent of salami. Salami was fixed at ₹4,08,58,200/- so,

annual rent comes to ₹16,34,328/-. The annual rent for the year 2014-15 calculated for 9 months (i.e. July, 2014-15 to March, 2014-15) comes to ₹12,25,746/- whereas ₹40,85,820/- was paid as Annual Rent. Hence, Balance amount (₹0.29 crore) may be treated as Pre-paid Annual Rent for the year 2014-15 which may be adjusted in FY 2015-16.

This resulted in understatement of Pre-paid expenses by ₹0.29 crore- and overstatement of lease rent by the same amount.

**A.2.2 Other Unallocated Charges (Schedule 5) ₹10.02 crore**

**Other Unallocated Charges included negative figure of bank interest and Misc. Receipt of ₹0.63 crore.**

Other Unallocated Charges included adjustment of interest earned and other Misc. Receipt against Work in Progress (WIP) which is not proper. It should be shown as payable to KMC in the liability side.

Thus, it understated the WIP-Others by ₹0.63 crore as well as understated the liability to the same extent.

**B. Receipts and Payments Accounts**

**Refund of ₹0.19 crore neither shown in Receipts and Payments Accounts nor disclosed in notes to accounts.**

It has been found that KEIIP refunded ₹0.19 crore received from I & W D with respect to payment of bill of Design & Supervision consultants (DSC) in connection with services rendered to I & WD works under KEIP through KMC for the period from 1.7.2013 to 15.09.2013. The above refund amounting to ₹0.19 crore was neither shown in Receipts & Payments Accounts nor disclosed in notes to accounts.

In reply the KEIIP authority stated that necessary correction would be made.

**C. General Comments**

**C.1 Cash at Bank (Schedule 8) ₹6.47crore  
Cash at Bank is understated by ₹2,670/-**

It was noticed during scrutiny of Bank Reconciliation Statement of Bank of India (A/c no. 401221110000005) that one cheque dated 13.11.2014 to Santanu Das of ₹2,670/- was lying with the party till 31.03.2015. The cheque was not encashed till date and it was lost its validity. Hence, the cheque amount should be added back.

This resulted in understatement of Cash at Bank Balance by ₹2,670/- and understatement of Liability by the same amount.

In reply the KEIIP authority stated that necessary correction would be made.

**D. Notes to Accounts**

**D.1 Capital Works in Progress – Others of KEIP included ₹8.87 crore relating to KEIP but was not included in KEIP**

It was pointed out by Audit during the Accounts audit of the KEIP that ₹8.87 crore being the expenditure incurred during the period from 2009-10 to 2013-14 on preparation of PDR, DPR etc. of KEIP should be shown separately for transfer to relevant project. But ₹8.87 crore was neither accounted for in the accounts of KEIP nor disclosed in the notes to accounts.

The KEIP authority did not furnish any reply in this regard.

**E. Effect of Audit Comments on Accounts**


The net impact of the comments given in preceding paras is that both the assets and liabilities as on 31 March 2015 were understated by ₹5.00 crore.

In addition, in our opinion;

- (a) Proceeds of the loan from ADB have been utilized for the purposes as per ADB Loan / Project Agreement
- (b) Financial covenants in the loan agreement No. 3053-IND have been complied with
- (c) (i)(a) With respect to SOEs, adequate supporting documentation has been maintained to support claims to the Asian Development Band for reimbursements of expenditures incurred; and (b) except for ineligible expenditures as detailed in the audit observations, if any, appended to this audit report, expenditures are eligible for financing under the Loan Agreement.
- (ii)(a) The Imprest Accounts give a true and fair view of the receipts collected and payments made during the year ended 2014-15 and (b) these receipts and payments support Imprest Account liquidations/replenishments during the year.

This report is issued without prejudice to CAG's right to incorporate the audit observations in the Report of CAG of India for being laid before Parliament / State of UT Legislature.

**Place: Kolkata**  
**Date: 02.2016**

  
**Examiner of Local Accounts**  
**West Bengal**

**Working Sheet on Net impact on Accounts of**

**Kolkata Environmental Improvement Investment Program (KEIIP) for 2014-15**

(₹ in crore)

Liability			Asset	
Ref No	U/S	O/S	U/S	O/S
A.1.1	3.00		3.00	
A.1.2	1.37		1.37	
A.2.1	0.00		0.29	0.29
A.2.2	0.63		0.63	
<b>TOTAL</b>	<b>5.00</b>	<b>0.00</b>	<b>5.29</b>	<b>0.29</b>

Liability understated by ₹ (5.00-0.00 ) crore = ₹5.00 crore

Asset understated by ₹(5.29-0.29 ) crore = ₹5.00 crore

U/S – Understatement

O/S – Overstatement



KOLKATA MUNICIPAL CORPORATION

# **KOLKATA ENVIRONMENTAL IMPROVEMENT INVESTMENT PROGRAM**



*Designing services for better delivery..*

**FINANCIAL STATEMENT  
for  
THE YEAR 2014-2015**



**KOLKATA ENVIRONMENTAL IMPROVEMENT INVESTMENT PROGRAM**  
Balance sheet as at 31st March, 2015

LIABILITIES	Schedule No.	As at 31st March'2015		As at 31st March'2014	
		Rs.	Rs.	Rs.	Rs.
<b>1 Contribution</b>					
<b>a Kolkata Municipal Corporation</b>					
As per last account		83,209,363.00		-	
Add: During the year		104,104,717.00		83,209,363.00	
		187,314,080.00		83,209,363.00	
Contribution for Other non-attributable expenses		1,603,350.00	188,917,430.00	-	83,209,363.00
<b>b Government of West Bengal</b>					
As per last account		-		-	
Add: During the year		81,345,000.00	81,345,000.00	-	-
<b>2 Loan</b>					
<b>Government of West Bengal</b>					
As per last account		-		-	
Add: During the year		278,382,238.00		-	
		278,382,238.00		-	
Interest Accrued on Loan		441,267.10	278,823,505.10	-	-
<b>3 Current Liabilities</b>					
Bills Payable	1	9,521,528.00		2,028,281.00	
Statutory dues	2	1,059,237.00		39,973.00	
Retention Money	3	4,985.00		-	
Taxes and Recovery of Statutory dues		271,153.00		203,645.00	
Earnest Money & Security deposit held		103,641.00	10,960,544.00	17,450.00	2,289,349.00
			560,046,479.10		85,498,712.00

ASSETS	Schedule No.	As at 31st March'2015		As at 31st March'2014	
		Rs.	Rs.	Rs.	Rs.
<b>1 Fixed Assets transfer to KMC</b>					
Project Fixed Assets	4		545,532.00		115,558.00
<b>2 Land - Salami</b>			10,914,180.00		-
<b>3 Other Unallocated Charges</b>	5		100,201,174.00		29,413,976.00
<b>4 Other Non-attributable Expenses</b>	6		1,603,350.00		-
<b>5 Consultancy charges for Microtunneling Works</b>			1,948,500.00		-
<b>6 Interest on Loan</b>			441,267.10		-
<b>7 Current assets</b>					
Advances	7	379,716,631.00		4,500.00	
Cash at bank	8	64,675,845.00	444,392,476.00	55,964,678.00	55,969,178.00
			560,046,479.10		85,498,712.00

Significant Accounting Policies and Notes to Accounts

9

*S. Samad Jaz*  
22.09.15  
Municipal Accountant

*[Signature]*  
22/09/15  
Dy. CMF&A(P)

*[Signature]*  
Dy. Municipal Commissioner  
(Finance)

*[Signature]*  
Project Director  
29/9/15

**Kolkata Environmental Improvement Investment Program**  
**206,A.J.C. Bose Road, Kolkata 700 017**

**Bills Payable**  
**Schedule-1**

Head	Supplier	As on 31.03.2015 Amount (Rs.)
Consultancy	Shah Technical Consultants Pvt. Ltd.	7,347,390.00
<b>Sub Total</b>		<b>7,347,390.00</b>
Miscellaneous		2,174,138.00
<b>Sub Total</b>		<b>2,174,138.00</b>
<b>Total</b>		<b>9,521,528.00</b>

**Kolkata Environmental Improvement Investment Program**  
**206,A.J.C. Bose Road, Kolkata 700 017**

**Statutory Dues**  
**Schedule-2**

Head	As on 31.03.2015 Amount (Rs.)
Income Tax	1,059,237.00
<b>Total</b>	<b>1,059,237.00</b>

**Kolkata Environmental Improvement Investment Program**  
**206,A.J.C. Bose Road, Kolkata 700 017**  
**Retention Money**  
**Schedule-3**

Head	Supplier	As on 31.03.2015 Amount (Rs.)
<b>Miscellaneous</b>	Superior Construction	4,985.00
<b>Total</b>		<b>4,985.00</b>

**Kolkata Environmental Improvement Investment Program**  
**206, A.J.C Bose Road, Kolkata 700 017**  
**Project Fixed Assets Transfer to KMC**  
**Schedule-4**

Head	Date of Transfer to KMC	As on 31.03.2015 Amount (Rs.)
<b>Project Fixed Assets</b>		
Furniture & Fixture	31.03.2014	115,558.00
Softwares	31.03.2015	214,303.00
Computer & Accessories	31.03.2015	215,671.00
<b>Total</b>		<b>545,532.00</b>

**Kolkata Environmental Improvement Investment Program**  
**206, A.J.C Bose Road, Kolkata 700 017**  
**Other Unallocated Charges**  
**Schedule-5**

Head	Expenditure Details	As on 31.03.2015 Amount ( Rs.)
<b>Other Unallocated Charges</b>	Advertisement Expenses	10,710,858.00
	Bank Charges & Copmission	3,071.00
	Consultancy Charges for Preparation of BID Documents	8,819,949.00
	Consultancy Charges - Other	1,176,947.00
	Car Hire Charges	2,837,947.00
	Telephone Charges	879,155.00
	Travelling & Conveyance	362,541.00
	Security Charges	2,325,003.00
	Sweeping & Cleaning	450,885.00
	Office Maintenance	2,198,737.00
	Repair & Maintenance	633,832.00
	Salary & Other Employee Benefit	35,721,692.00
	Electricity Charges	1,896,925.00
	Imprest Expenses	157,038.00
	Courier Charges	25,771.00
	AMC Charges	1,128,754.00
	Medical Expenses for Project Director	8,618.00
	Miscellaneous Expenditure	304,659.00
	Printing & Stationery	924,792.00
	Cartridge & Toner	823,449.00
Legal & Professional Charges	14,025.00	
Designing and Supervision consultant	22,886,664.00	
Project Management Consultant	8,161,320.00	
Lease Rent	4,085,820.00	
Miscellaneous Receipts	-552,980.00	
Bank Interest Received	-5,784,298.31	
<b>Sub Total</b>		<b>100,201,174.00</b>

**Kolkata Environmental Improvement Investment Program**  
**206, A.J.C Bose Road, Kolkata 700 017**  
**Other Non-attributable Expenses**  
**Schedule-6**

<b>Expenditure Details</b>	<b>As on 31.03.2015 Amount ( Rs.)</b>
Leave Encashment	375,550.00
Legal & Professional Charges	304,262.00
Lease Rent	923,538.00
<b>Total</b>	<b>1,603,350.00</b>

**Kolkata Environmental Improvement Investment Program**  
**206, A.J.C Bose Road, Kolkata 700 017**

**Advances**  
**Schedule-7**

Head	Supplier	Name of Packages	As on 31.03.2015 Amount ( Rs.)
<b>Mobilisation Advance</b>	Simplex-Krita JV	SD06	22,311,125.00
	TANTIA-MPPL (WILO) JV	SD05	104,734,932.00
	ITD-CEMINDIA JV	WS02	71,122,133.00
	Kirloskar Brothers Ltd.	WS03	32,099,880.00
	ITD-ITD-CEM JV.	WS&SD04	145,924,143.00
<b>Sub Total</b>			<b>376,192,213.00</b>
<b>Other Advance</b>	Miscellaneous		19,120.00
	Advance - Land		3,470,056.00
	Festival Advance to Office Staff		4,500.00
	Advance - Official Capacity		30,742.00
<b>Sub Total</b>			<b>3,524,418.00</b>
<b>Total</b>			<b>379,716,631.00</b>

**Kolkata Environmental Improvement Investment Program**  
**206, A.J.C Bose Road, Kolkata 700 017**

**Cash at Bank**  
**Schedule-8**

Name of the Bank	Branch Name	As on 31.03.2015 Amount ( Rs.)
Bank of India	Lindsay Street Branch	45,537,300.31
Union Bank of India	Dharamtalla Branch	19,138,545.00
<b>Sub Total</b>		<b>64,675,845.00</b>

KOLKATA ENVIRONMENTAL IMPROVEMENT INVESTMENT PROGRAM

206 A . J . C BOSE ROAD , KOLKATA-700017

RECEIPT & PAYMENT ACCOUNT FOR THE YEAR ENDED 31.03.2015



Amount (Rs.)

Particulars	RECEIPT						PAYMENT								
	Bank Of India		Union Bank Of India		KMC Bank	ADB Loan	Total	Particulars	Bank Of India		Union Bank Of India		KMC Bank	ADB Loan	Total
	Current	Flexi	Current	Flexi					Current	Flexi					
To Opening Balance :															
Cash at Bank / Cheques in Hand	55,964,677.63						55,964,677.63	By Payment for Land	19,393,594.00						19,393,594.00
							-	By Payment to Contractors							-
To KEIP- Govt. Contribution			81,345,000.00			81,345,000.00		Advances	88,614,867.00		1,690,000.00		278,382,238.00		368,687,105.00
To KEIP- KMC Contribution	80,000,000.00				25,708,067.00	105,708,067.00									-
							-	By Payment to Consultants:							-
To KEIP- Loan from State Govt.							278,382,238.00	PMC	7,345,188.00						7,345,188.00
							-	DSC	13,250,609.00						13,250,609.00
							-	Others	2,418,918.00						2,418,918.00
							-	By Others							-
							-	Courier Charges	8,458.00						8,458.00
							-	Car Hire Charges	2,154,266.00						2,154,266.00
To Receipts-Others							-	Telephone Charges	706,971.00						706,971.00
Misc. Receipts	19,700.00					19,700.00		Miscellaneous Expenses	195,136.00				7,792.00		202,928.00
Bank Interest	1,837,283.68		1,370,029.00			3,207,312.68		Medical Exp. To PD	2,000.00						2,000.00
Earnest Money & Security Deposit	102,191.00					102,191.00		Repair & Maintenance	563,134.00						563,134.00
							-	Sweeping & Cleaning	353,577.00						353,577.00
To Transfer of fund from:							-	Travelling Expenses	216,358.00			81,840.00			298,198.00
Bank of India -Flexi Deposit	256,350,000.00					256,350,000.00		Security Charges	1,710,302.00						1,710,302.00
Bank of India		256,350,000.00				256,350,000.00		Advertisement Expenses	1,251,041.00						1,251,041.00
Union Bank of India-Flexi Deposit			144,170,000.00			144,170,000.00		Annual Maintenance Charges	1,107,663.00						1,107,663.00
Union Bank of India	61,886,484.00			162,800,000.00		224,686,484.00		Electricity Charges	1,602,267.00						1,602,267.00
							-	Supply Computer Accessories	107,762.00						107,762.00
							-	Software	214,303.00						214,303.00
							-	Imprest Expenses	108,435.00						108,435.00
							-	Stationery Expenses	291,470.00						291,470.00
							-	Cartridge & Toner	498,996.00						498,996.00
							-	Office Maintenance	1,763,620.00						1,763,620.00
							-	Legal & Professional Charges	235,683.00						235,683.00
							-	Salary				21,742,434.00			21,742,434.00
							-	R B I-GI & GPF of AO & PD				152,600.00			152,600.00
							-	Bank Charges	3,071.00						3,071.00
							-	Refund of SD Money	16,000.00						16,000.00
							-	Statutory Dues from Salary				3,714,401.00			3,714,401.00
							-	Advance-Official Capacity	67,757.00						67,757.00
							-	Festival Advance to KMC Staff				9,000.00			9,000.00
							-	By Payment of TDS	10,053,456.00						10,053,456.00
							-	By Payment of WCT	13,601.00						13,601.00
							-	By Payment of LWC	4,533.00						4,533.00
							-	By Transfer of fund to:							-
							-	Bank Of India- Flexi Deposit	256,350,000.00						256,350,000.00
							-	Bank Of India		256,350,000.00	61,886,484.00				318,236,484.00
							-	Union Bank of india- Flexi Deposit			162,800,000.00				162,800,000.00
							-	Union Bank of india				144,170,000.00			144,170,000.00
							-	By Closing Balance :	45,537,300.31		508,545.00	18,630,000.00			64,675,845.31
<b>Total</b>	<b>456,160,336.31</b>	<b>256,350,000.00</b>	<b>226,885,029.00</b>	<b>162,800,000.00</b>	<b>25,708,067.00</b>	<b>278,382,238.00</b>	<b>1,406,285,670.31</b>	<b>Total</b>	<b>456,160,336.31</b>	<b>256,350,000.00</b>	<b>226,885,029.00</b>	<b>162,800,000.00</b>	<b>25,708,067.00</b>	<b>278,382,238.00</b>	<b>1,406,285,670.31</b>

S. Samadder  
22.09.15  
Municipal Accountant

Dy. CMF & A  
(Project)

Dy. Mpl. Commissioner  
(Finance)

Project Director  
22.09.15



## SIGNIFICANT ACCOUNTING POLICIES, FY 2014-2015

### **Basis of Preparation of Annual Financial Statements of Project**

Kolkata Municipal Corporation (KMC) prepared the Annual Financial Statements (AFS) of Kolkata Environmental Improvement Investment Program (referred hereinafter as "Project" or as "KEIIP") based on the Significant Accounting Policies adopted by Mayor-in-Council vide Agenda No: M-7.1 dated 11.08.2015 and to the extent applicable in compliance with the Generally Accepted Accounting Principles followed in India by entities similar to Kolkata Municipal Corporation.

### **Basis to Present Annual Financial Statements of Project**

Kolkata Municipal Corporation (KMC) presents the Annual Financial Statements (AFS) of the "Project" keeping in mind the understanding ability of the user of these annual financial statements. The following set of annual financial statements (AFS) prepared as part of the "KEIIP Project Accounting":

- (a) Statement of Affairs i.e. a statement of Assets and Liabilities or Balance Sheet as at the end of the financial year;
- (b) Receipts and Payments Account for the financial year;

### **Basis of Project Accounting**

The project accounts shall be maintained separately for each individual works contract and consultancy package to account for all relevant sums expended and separately account for loans/grants/contributions received for each contract and package. All expenses not attributable to any specific works contract and consultancy package shall be debited and general receipts not directly attributed any works contract and consultancy package shall be credited to "Other Unallocated Charges".

The primary basis of accounting shall be "accrual basis" if not provided otherwise and recognition of expenses at the time when bills are approved for payment regardless of when the related cash flows takes place. Receipts in the form of grants, loans, and contribution are recognized on "cash basis", if not provided otherwise.

Kolkata Municipal Corporation's (KMC) counterpart funding/contribution into the Project (as a condition of the Loan and On-Lending Agreement) shall be finally recognized in the Project Accounts and in the entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity) and expenses by the Project using this contribution would be debited to the head Capital Works-in Progress or Other Unallocated Charges, in the Project Accounts as the case may be.

### **Recognition, Allocation, and Accounting of Loan from Government of West Bengal as On-Lend from Asian Development Bank**

- (a) Recognition and Allocation of Loan under Asian Development Bank's funding as On-Lend by Government of West Bengal
  - i. The entire assistance out of Asian Development Bank's funding on-lend by Government of West Bengal shall be treated as Loan in the entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity);
  - ii. Asian Development Bank's assistance would be through the Multi-tranche Financing Facility and shall cover 70% of the value of the Project Cost;

- iii. Loan amount shall be allocated for each individual Works Contract and individual Consultancy Packages and shall be in the ratio as agreed between Asian Development Bank, Government of India, Government of West Bengal, and Kolkata Municipal Corporation;
- iv. Withdrawal of the fund under the loan assistance against each Works Contract and Consultancy Package shall follow either of the two options:
  - In case of withdrawal for payment of less than USD 100,000 all amounts shall be withdrawn by KMC under the **“reimbursement procedure”**, which shall mean that KMC pays the amount first and claims reimbursement later from Government of West Bengal, who claims from Government of India;
  - In case of withdrawal for payment of more than USD 100,000 all amounts shall be withdrawn by KMC under the **“direct payment procedure”**, which shall mean that KMC requests the amount from Asian Development Bank, and the Bank directly pays the dues/liabilities;
- v. The **date of recognition of the loan** under Asian Development Bank’s funding as On-Lend by Government of West Bengal shall be as below:
  - In case of loans withdrawn by KMC under the **“reimbursement procedure”**, such amounts shall be deemed to be lent on the dates on which the respective amounts were withdrawn from the KMC Loan Account with Government of West Bengal;
  - In case of loans withdrawn by KMC under the **“direct payment procedure”**, such amounts shall be deemed to be lent on the dates on which the respective amounts were withdrawn from the Asian Development Bank and recorded by Government of India in the Release Orders;
- vi. For recognition of the loan funds withdrawn and contributions received for each works contract and consultancy packages, the following dates shall be important:
  - “Financial Year” shall mean 01 April of a calendar year to 31 March of next calendar year;
  - “Commencement date” of allocation of loan for each works contract and consultancy packages shall be the date on which amount drew under the loan for that contract and/or package under any of the option mentioned above for the first time;
  - “Physical Closure date” of each works contract shall be the date of “Taking Over Certificate”;
  - “Financial Closure date” of each works contract shall be the date on which the KMC recognizes the loan against the **final** running account (RA) bill for that work contract along with the release of Retention Money (Retention Money may be released against Bank Guarantee as per the Standard Contract Document) for that works contract. [*That Bank Guarantee would be released after completion of Defect Liability Period for such work contract*].
  - “Transfer date and Date of Put to Use” of the final asset (***all interim or intermediate or sectional assets completed/created or put to use on different dates during the construction tenure would be considered as a single asset as on the “Transfer Date/Date of Put to Use”***) created under a particular works contract created by KMC under the KEIIP to the line department of KMC would be as below:
    - ✓ If the asset is transferred any day between 01 April and 30 September, then the **“Transfer Date/Date of Put to Use”** of such final composite asset would be 30 September of that financial year;

- ✓ If the asset is transferred any day between 01 October and 31 March, then the **“Transfer Date/Date of Put to Use”** of such final composite asset would be 31 March of that financial year;
- vii. Construction period and Post-Construction period for the asset: For the purpose of KEIIP Project accounting,
- “Construction period” would be the period when the construction of the asset is ongoing and until the “Financial Closure date”;
  - “Post-Construction period” for that assets would be the period immediately after the “Financial Closure date”;
- (b) Accounting of Loan under Asian Development Bank’s funding as On-Lend by Government of West Bengal
- i. All loan fund withdrawals under the “reimbursement procedure” and “direct payment procedure” shall be accounted under each individual works contract and consultancy packages separately in the Project Accounts;
  - ii. All loan fund withdrawals, along with the Contribution from Government of West Bengal, and Kolkata Municipal Corporation shall be shown as a liability in the Statement of Affairs of the Project Account with appropriate accounting and disclosure in the entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity);

#### **Accounting of Interest on Loan**

Interest on loans under Asian Development Bank’s funding as On-Lend by Government of West Bengal when withdrawn under the “reimbursement procedure” and “direct payment procedure” shall be accounted for each individual works contract and consultancy packages separately.

According to section 2.09 of Article II of On-lending Agreement, the KMC shall pay to the Government of West Bengal, interest on the principal sum withdrawn and outstanding from time to time, at the same rate as specified in Section 2.02 of Article-II of the Loan Agreement dated 03.03.2014 in compliance with G.O. No. 180-FB dated 22.05.2014 vide point no. II.1.(c)(iii)

According to Section 2.02 of Article-II of the Loan Agreement, the interest on the principal amount of the Loan withdrawn and outstanding from time to time **would carry a rate for each Interest Period** equal to the sum of:

- (a) London Interbank Offered Rate or **LIBOR**;
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.20% as provided by Section 3.03 of the Loan Regulations; and
- (c) a maturity premium of 0.20% as provided by Section 3.03 of the Loan Regulations;

According to Section 2.04 of Article-II of the Loan Agreement, Interest and other charges on the Loan **shall be payable semi-annually on 15 January and 15 July in each year.**

For the purpose of the loan, the **Interest Period** shall be:

- (a) 15 January to 14 July of that year; and
- (b) 15 July to 14 January of the immediately following year;



The 6-Months LIBOR rate would be available on the internet in a particular Bloomberg Screen. The rate that appears on this screen at 11:00 AM, two (2) business/working days prior the date on which Interest Payment Date is set (i.e. 15 January and 15 July), shall be the reference rate for that 6 month period.

The rate determined for 15 January shall be applicable for the outstanding balance on 15 January, and all disbursements made between 15 January and 14 July of that year. On 15 July, the KMC shall re-set the rate (**6 month LIBOR will be reset twice in each year**) following the principles stated above. The new rate applicable from 15 July shall apply from 15 July through to 14 January of the next year.

Interest shall be applied on both the outstanding balance on the start of the Interest Period plus any withdrawals during the interest period, on a pro rata basis.

Interest applicable on the loan funds available for the Works Contract, "**Interest on KEIIP - Works**", shall be accounted in the following manner:

- (a) "**Interest on KEIIP - Works**" relevant for the "Construction period" of the asset would be considered as a cost component of the asset and debited to particular head of Capital Works-in-Progress of that works contract in the Project Accounts;
- (b) "**Interest on KEIIP - Works**" relevant for the "Post-Construction period" of the asset would be considered as a finance charge and would be debited to entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity) and shall be ignored in the Project Accounts;

Interest applicable on the loan funds available for all Consultancy Packages, "**Interest on KEIIP - Consultancy**" shall be accounted in the following manner:

- (a) "**Interest on KEIIP - Consultancy**" relevant during the period the Consultancy Package and Works Contracts are on-going, shall be adjusted in the appropriate ratio in the Project Accounts with the cost of the Capital Work-in-Progress, when eligible for transfer as a fixed asset;
- (b) "**Interest on KEIIP - Consultancy**" relevant during the period the Consultancy Package is on-going but after the completion of the Works Contract, shall be considered as a finance charge and would be debited to entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity) and shall be ignored in the Project Accounts;
- (c) "**Interest on KEIIP - Consultancy**" relevant after the completion of the Consultancy Package would be considered as a finance charge and would be debited to entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity) and shall be ignored in the Project Accounts;

KMC in the entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity) would account for the non-capitalized portion of "**Interest on KEIIP - Works**" and non-capitalized portion of "**Interest on KEIIP - Consultancy**" in the Income & Expenditure Account and disclose the entire liability of "**Interest Payable to Government of West Bengal**" on the ADB Loan as On-Lend by Government of West Bengal, appropriately.

#### **Accounting for Deduction in Contract Value due to Delays and other Breach of Contract Terms**

When KMC deducts a penal value from the contract for any breach of contract terms like delays, then the final value of the asset eligible for transfer to KMC on the "Transfer date and Date of Put to Use" would be at the **gross value only** before deduction of any such penal charges. The Project Accounts shall account for all penal charges separately and shall account through a separate head of account so to ensure accounting of all penal charges for

each individual works contract. In the Project Accounts, the amount of entire charges would be shown as a liability in the Statement of Affairs of the Project. The liability account shall be adjusted differently under the following two situations:

- (a) When the Project is required to refund/adjust the penal value to the contractor, then Project shall settle the liability by using appropriate account head;
- (b) When the Project is no longer required to refund/adjust the penal value to the contractor, then the Project shall continue to show the same as a liability in the Statement of Affairs of the Project, which KMC would consider as a "non-recurring income" in the entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity) for that accounting year when the Project decides against refund of the penal value and as the "liability is no longer required";

#### **Accounting for Other Unallocated Charges and Interest on KEIP - Consultancy**

All expenses attributable to the Project used for the creation of project assets like consultancy fees for design-supervision, project management, publicity and social awareness, other technical assistance, expenses for project salaries and benefits, cost of tendering, advertisement, cost of establishments (including rent, electricity, water, fuel, repairs and maintenance for office, and such items), cost of security, travel expenses, expenses for meetings/conference, and similar expenses shall be debited to "**Other Unallocated Charges**" in the Project Accounts.

In addition, when loan funds are utilized for purposes other than works contract, then the Project shall separately debit such interest to "**Interest on KEIP - Consultancy**". The amount of such interest relevant for the creation of an asset that requires capitalization shall also be debited to Capital Works-in Progress along with "**Other Unallocated Charges**" head.

The project may earn interest on bank deposits during the normal course of project operation, which KMC considers a normal earning. This earning would be adjusted by a credit to the head "**Other Unallocated Charges**".

KMC shall apply the following principle to re-allocate the "**Other Unallocated Charges**" and "**Interest on KEIP - Consultancy**" in the Project Accounts:

- (a) On the "Transfer date and Date of Put to Use" of one particular asset, KMC shall distribute the entire balance standing in the "**Other Unallocated Charges**" and "**Interest on KEIP - Consultancy**" on that date among all individual works contract that are awaiting completion or transfer i.e. Capital Works-in Progress on a proportionate basis. Then in the Project Accounts, debit each individual works contract (shown as CWIP) on the date an asset transferred and put to use with the above value and credit "**Other Unallocated Charges**" and "**Interest on KEIP - Consultancy**". Upon passing the above accounting entry, in the Project Accounts, ensure that the balance in "**Other Unallocated Charges**" and "**Interest on KEIP - Consultancy**" stands at zero on that date of transfer.
- (b) In a situation, if there remains any unadjusted/unabsorbed balance in the "**Other Unallocated Charges**" and "**Interest on KEIP - Consultancy**" at the end of the project period, then KMC shall debit the amount to the entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity) without further debiting the value of assets already put into use;

### **Accounting of Contracts Terminated**

For any breach of contract terms, the Project is authorized to cancel or terminate any contract. The valuation of the work-in-progress as on the date of termination is important for true and fair disclosure of the project accounts. For that, the project would allocate the balance of “**Other Unallocated Charges**” and “**Interest on KEIP - Consultancy**” to the terminated contract until the date of termination. For that, the on the “Date of Termination” of one particular works contract, KMC shall distribute the entire balance standing in the “**Other Unallocated Charges**” and “**Interest on KEIP - Consultancy**” on that date among all individual works contract that are awaiting completion or transfer i.e. Capital Works-in Progress on a proportionate basis.

Then in the Project Accounts, debit each individual works contract (shown as CWIP) **including the terminated works contract** with the above value and credit “**Other Unallocated Charges**” and “**Interest on KEIP - Consultancy**”. Upon passing the above accounting entry, in the Project Accounts, ensure that the balance in “**Other Unallocated Charges**” and “**Interest on KEIP - Consultancy**” stands at zero on that date of termination of a particular contract.

### **Invocation of Bank Guarantees, Invoked sum held as Deposits, and Interest on Deposits caused thereon**

The Project is authorized to hold Bank Guarantees because of contract obligations of various contractors, which are usually of two types:

- (a) Bank Guarantee against Advance; and
- (b) Bank Guarantee as a Performance Security;

The Project shall maintain separate records/registers for all Bank Guarantees **held until invocation or return, whichever is earlier.**

For any breach of contract terms, the KMC shall authorize the Project to invoke the Bank Guarantees. **Upon such invocation**, the project may need to put the equivalent sum to bank deposits **until the settlement / decision of all legal procedures**, if any. The interest earned by the Project on such bank deposits is not during the normal course of project operation; hence, the Project would accrue the interest earned to the bank deposit account head only. In such situations, the Project shall hold such bank deposits and the interest earned on such bank deposits separately as an “Off Balance Sheet Item” and shall record them separately for each individual works contract or consultancy packages. The Project Accounts and the entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity) **shall not consider** the bank deposits held and the interest accrued thereon to form part of the Statement of Affairs of the Project and Balance Sheet of the KMC and instead shall disclose the same in the Notes to Accounts as below:

- Invoked amount of Bank Guarantee as a “Contingent Liability” until settlement of all legal procedures; and
- Bank Deposit held for invoked Bank Guarantee along with accrued interest thereon as a “Contingent Asset” until settlement of all legal procedures;

Settlement / Decision of legal procedures can be either (i) in favour of KMC, or (ii) against the KMC. The accounting policy in different situation at the time of settlement of legal procedures in the Project Accounts and the entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity) would be as below:

#### **(a) Bank Guarantee against Advance**

- Adjust the amount of bank deposits with the advance allowed to that contractor to the extent remaining unadjusted;

**(b) Bank Guarantee as a Performance Security**

- i. When legal procedure decides in favour of KMC
  - Project shall hold the bank deposits and in the Project Accounts, until its adjustment, such deposits along with interest accrued thereon shall be shown as an asset in the Statement of Affairs of the Project, with a corresponding liability of the means of financing for subsequent contracts to the incomplete/terminated contract. When the Project awards any subsequent contract to complete the incomplete works for which the Bank Guarantee invoked, then the fund comprising of the amount of deposits and interest accrued thereon would be utilized as the means of finance for that subsequent contract. **For this, there shall be no effect on the value of contract or the value of Capital Work-in-Progress;**
- ii. When legal procedure decides against of KMC
  - Create a liability favouring the contractor with the amount decided by the authority and settle the liability with the liquidated amount of the deposits and interest accrued thereon as was held against the invoked Bank Guarantee;
  - Any difference amount remaining after complete payment of the contractor shall be treated as a “non-recurring income” or a “non-recurring expenditure”. In the Project Accounts, such amount would be shown as a liability or asset, as the case may be in the Statement of Affairs of the Project, which KMC would consider as a “non-recurring income” or a “non-recurring expenditure” in the entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity) for that accounting year, when all settlements/decisions are completed;

**Fixed Assets**

KMC shall account for all expenditure concerning acquisition or construction of infrastructure and service assets by the Project using the loan funds, under the head “**Capital Work-in-Progress**” in the Project Accounts and account them as “**Fixed Assets Transferred to KMC**” only on the “**Transfer date and Date of Put to Use**”. Project Accounts shall not use the head “Fixed Assets” for such infrastructure assets and service assets and shall not provide for any depreciation on these assets.

Infrastructure or service assets constructed or created by the Project using the loan funds, are valued at the gross amount payable to the contractor against its running account bills and final bills, and would include share of the interest during the construction period i.e. “**Interest on KEIP - Works**”, share of “**Other Unallocated Charges**”, share of “**Interest on KEIP - Consultancy**”, and any other incidental expenses directly incurred for the bringing the asset to use until the “**Transfer date and Date of Put to Use**”.

KMC may utilize a certain portion of the loan funds for works not directly resulting to an infrastructure asset or a service asset. Expenditures like renovation/refurbishment of office building would qualify under this type of works. When KMC executes such works through the Project, the Project **shall not** use the head “Capital Work-in-Progress” for such works, and instead debit the head “**Deferred Revenue Expenditure - <<purpose of expenditure>>**” for all expenditures incurred for such works. All share of expenses concerning such works like the share of interest on the loan allocated for such works, i.e. “**Interest on KEIP - Works**”, share of “**Other Unallocated Charges**”, share of “**Interest on KEIP - Consultancy**”, and any other incidental expenses directly incurred for this work, shall also be debited to that deferred revenue expenditure head only. Upon completion of such works, the Project shall stop all



further debits to that head. KMC, thereafter shall amortize the “**Deferred Revenue Expenditure - <<purpose of expenditure>>**” as a charge to its Income and Expenditure Account over a reasonable period of time as it decides after completion of the works, commencing from the financial year in which it completes such work.

KMC shall account for all assets eligible as Office Equipments, Office Machinery, Office Building, Office Furniture and Fixtures, and similar office-related assets acquired under the Project for the use of project activities **without using the loan funds** shall account at cost of acquisition as “**Project Fixed Assets**” and recognize the same on the date of acquisition in the entity-wide annual financial statements of Kolkata Municipal Corporation (as a whole entity). No share of “**Other Unallocated Charges**”, “**Interest on KEIIP - Works**”, and “**Interest on KEIIP - Consultancy**” shall be debited for such Project Fixed Assets. Project Accounts shall not provide for any depreciation on these assets.

### **Employee Benefits**

Salary of employees deployed in the Project however, belonging to Government of West Bengal and KMC shall be debited under the head “Other Unallocated Charges” in the Project Accounts. All other benefits including pensions and related superannuation benefits payable to such employees shall be accounted in entity-wide annual financial statements of Government of West Bengal and Kolkata Municipal Corporation as the case may be. **Salary expenses for employees deployed in the Project shall be accounted on cash basis.**

### **Provisions**

Provisions shall be made for all liabilities pertaining to the financial year, which have been approved for payment by the end of that Financial Year.

### **Events Occurring after the Date of Statement of Affairs**

Events occurring after the Statement of Affairs date are those significant events that occur between the date of Statement of Affairs and the date on which the Financial Statements are approved by Project Director, KEIIP. All such events, if any and their accounting effects shall be generally and separately disclosed in the Annual Financial Statements of the Project and would be supported by appropriate notes.



## NOTES TO ACCOUNTS, FY 2014-2015

1. Kolkata Municipal Corporation adopted the Significant Accounting Policies for the Kolkata Environmental Improvement Investment Program (KEIP or Project) as approved by the Mayor-in-Council vide Agenda No: M-7.1 dated 11.08.2015 from the commencement of the Project on July, 2013. Hence, any amendments to classification, disclosures, groupings and re-arrangements required had been given effect in the annual financial statements (AFS) for the FY 2014-2015.
2. Kolkata Municipal Corporation is the Executing Agency for the Tranche-1 of the KEIP, funded under Asian Development Bank Loan 3053-IND. The Project Management Unit (PMU) implements the Project and is responsible to prepare the AFS for the Project for the FY 2014-2015.
3. Superannuation benefit of Leave Encashment paid to employee during the FY 2013-2014 amounting to ₹ 3,75,550/- shown under "other non-attributable expenses" during the current FY 2014-2015 in accordance to Significant Accounting Policies.
4. Legal & Professional charges amounting to ₹ 3,04,262/- (₹ 37,299/- related to FY 2013-14 and ₹ 2,66,963/- related to FY 2014-15) related to Project-KEIP shown under "other non-attributable expenses" during the current FY 2014-2015 in accordance to Significant Accounting Policies.
5. Lease Rent shown in Schedule-6 related to Project-KEIP for the period from 01.04.2014 to 31.03.2015 amounting to ₹ 9,23,538/- paid to Airport Authority of India for use of 5440.9 sqm. of land for laying of underground S&D pipelines through RCC Box Drain at Behala Flying Club shown under "other non-attributable expenses" in accordance to Significant Accounting Policies.
6. Software and Computer & Accessories acquired during the FY 2014-2015 for the Project, had been transferred to KMC at cost of acquisition without absorption of "Other Unallocated Charges", "Interest on KEIP-Works", and "Interest on KEIP-Consultancy" in accordance to the Significant Accounting Policies.
7. Land measuring 2 Bigha-5 Katha-6 Chatak-16.77 Sq. ft. within Joka Tram Depot has been taken over on lease by KEIP/KMC on 24.06.2014 from The Calcutta Tramways Co. (1978) Ltd. for construction of combined pumping station for 30 years in consideration of ₹ 4,08,58,200/- as salami (40% of the assessed market value of land of ₹ 10,21,45,500/-) and 4% of such salami as annual rent as per approval of MIC under Agenda Item No. M-72.1 dated 03.10.2013 and M-90.1 dated 27.08.2014. During the current FY 2014-2015 KEIP/KMC paid ₹ 1,09,14,180/- as salami and ₹ 40,85,820/- as annual rent.
8. According to section 2.04 of Article-II of the Loan Agreement, the interest on loan shall be payable semi-annually on 15<sup>th</sup> January and 15<sup>th</sup> July in each year. Interest payable on 15<sup>th</sup> July, 2014 was nil due to non-drawal of loan. Interest payable as on 15<sup>th</sup> January, 2015 has been calculated based on 6-Months LIBOR rate considering two business/working days prior the date on which interest payment date is set i.e. rates of 11 July 2014 from Bloomberg Screen. The amount of interest from 15<sup>th</sup> July, 2014 to 15<sup>th</sup> January, 2015 is ₹ 4,41,267.10.

S. Samadder  
22.09.15  
Municipal Accountant

B. Banerjee  
22/09/15  
Dy. CMFA(Project)

Accountant  
Dy. Municipal Commissioner  
(Finance)

Project Director  
22/9/15  
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## **Kolkata Environmental Improvement Investment Program**

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KOLKATA MUNICIPAL CORPORATION

