

# AUDITORS' REPORT

## To the Members of HOUSING & URBAN DEVELOPMENT CORPORATION LIMITED

1. We have audited the attached Balance Sheet of **Housing & Urban Development Corporation Limited**, as at 31<sup>st</sup> March, 2010, the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - i) *The Company has during the year changed its accounting policy from deferring borrowing cost such as brokerage charges, arranger fees, stamp duty etc. to treat these expenses as expenditure. As a result, the profit for the year is lower by Rs. 14.10 crore [refer Note 15 of Schedule-T].*
  - ii) *The Company has made an additional provision on loans amounting to Rs. 600 crore beyond National Housing Bank's norms. As a result, the profit for the year is lower by Rs. 600 crore [refer Note 5(b) of Schedule-T].*
  - iii) *The Company is accounting for application fees, front-end-fee, administrative fees and processing fees on loans on realization basis instead of accounting for on accrual basis, the effect of which has not been ascertained [refer Significant Accounting Policy 2 (b) of Schedule-S].*
  - iv) *Attention is further invited to the following :*
    - a) *Non confirmation/reconciliation of balances of Loan Accounts and consequential adjustments, if any. [refer Note 5(a) of Schedule-T]*
    - b) *Non-implementation of Default Resolution Package by Cochin International Airport Ltd. [refer Note 5(c) of Schedule-T]*
    - c) *In respect of disputes relating to Andrews Ganj Project undertaken by the Company on behalf of the Ministry of Urban Development, the ministry has intimated the Company that it cannot pass on the financial liability to the Government Account on account of various disputes. The Company on its part has refused to accept any liability on account of disputes. We are unable to comment upon the financial implication, if any. [refer Note 2(b) of Schedule-T]*
    - d) *The Company is not able to comply with National Housing Bank's credit concentration norms in respect of lending to some State Governments/State Governments Agencies. [refer Note 10 of Schedule-T]*

## 5. We further report that:

- a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
- c) The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, *except Accounting Standard (AS) 9 "Revenue Recognition" regarding accounting of application fees, front-end-fees, administration fees and processing fees on loans on realisation basis instead of accrual basis. [refer Significant Accounting Policy 2 (b) of Schedule-S]*.
- e) The requirements of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 relating to disqualification of directors are not applicable to the Company, being a Government Company, in terms of Notification No.G.S.R.829 (E) dated 21.10.2003 issued by Ministry of Finance, Department of Company Affairs.

*We further report that, without considering the observations made in paragraphs 4(iii) the effect of which has not been ascertained and 4(iv)(a) to 4(iv)(d) the effect of which could not be determined, had the observation made by us in paragraph 4(i) & 4(ii) above been considered, the Profit for the year would have been Rs. 1109.41 crore (as against the reported figure of Rs. 495.31 crore) and Reserves & Surplus would have been Rs. 3709.29 crore (as against the reported figure of Rs. 3095.19 crore). Subject to the foregoing, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Significant Accounting Policies and Notes to Accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:*

- a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2010;
- b) in the case of the Profit and Loss Account, of the profit for the year ended on that date and
- c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For Agiwal & Associates  
Chartered Accountants  
(Firm Registration No. 000181N)

Place : New Delhi  
Dated : 11<sup>th</sup> June, 2010

Sd/-  
V K Gupta  
Partner  
(Membership No. 81979)

**ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE ON THE ACCOUNTS OF HOUSING & URBAN DEVELOPMENT CORPORATION LIMITED FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2010**

- i)
  - (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
  - (b) As per information and explanations given to us, all the fixed assets were physically verified by the Company during the year. No material discrepancies were noticed on such verification.
  - (c) According to the information and explanations given to us, the Company has not disposed off a substantial part of its fixed assets during the year.
- ii) The Company does not have any inventory. Therefore, the provisions of clause 4 (ii) (a), (b) & (c) of the Order, are not applicable.
- iii) As informed to us, the Company has neither granted nor taken any loan, secured or unsecured, to/ from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, provisions of clause 4(iii) (a) to (g) of the Order are not applicable.
- iv) In our opinion and according to the information and explanations given to us, there are generally adequate internal control procedures commensurate with the size of the Company and nature of its business with regard to purchase of fixed assets. The Company's operations do not involve purchase of inventory and sale of goods. *In our opinion, monitoring mechanism in regional offices regarding loan schedule implementation, site inspection, reviewing of financial/ technical appraisal of the schemes and non-receipt of utilization certificates in respect of various grants and subsidies was inadequate and needs to be strengthened.*
- v) According to the information and explanations given to us, we are of the opinion that there are no transactions that need to be entered in the register required to be maintained under Section 301 of the Companies Act, 1956.
- vi) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Section 58A and 58AA and other relevant provisions of the Companies Act, 1956, the Companies (Acceptance of Deposits) Rules, 1975 and Housing Finance Companies (NHB) Directions with regard to deposits accepted from the public. No order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or NHB or any Court or any other Tribunal on the Company in respect of the aforesaid deposits.
- vii) According to the information and explanations given to us, the Company has an internal audit system; however, to make it commensurate with size and nature of its business, it requires to be further strengthened. In our opinion, the coverage of Internal Audit should be enlarged and submission of replies/ compliances needs to be expedited.
- viii) According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956.
- ix)
  - (a) According to the information and explanations given to us and according to the records produced before us for verification, the Company is generally regular in depositing, with appropriate authorities, the undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Income Tax, Wealth Tax, Service Tax and any other material statutory dues applicable to it.

Further, since the Central Government has till date not prescribed the amount of cess payable under Section 441A of the Companies Act, 1956, we are not in a position to comment upon the regularity or otherwise of the Company in depositing the same.

- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Wealth Tax, Service Tax and any other statutory dues were in arrears as at 31<sup>st</sup> March, 2010 for a period of more than six months from the date the date they became payable.
- (c) According to the information and explanations given to us, there are no dues of Income Tax, Wealth Tax and Service Tax which have not been deposited on account of any dispute except the following:

<b>Name of the statute</b>	<b>Nature of Dues</b>	<b>Financial Year to which the matter pertains</b>	<b>Forum where Matter is pending</b>	<b>Amount (Rs. in crore)</b>
Income Tax Act, 1961	Income Tax, Interest & Penalty	1996-1997, 1999-2000, 2000-2001, 2001-2002, 2003-2004, 2007-2008	Deputy Commissioner of Income Tax	32.43
Finance Act, 1994	Service Tax, Interest & Penalty	2004-2005, 2005-2006, 2006-2007, 2007-2008, 2008-2009	Commissioner of Service Tax	4.11

- x) The Company has no accumulated losses as at 31<sup>st</sup> March, 2010 and it has not incurred any cash losses during the financial year covered by our audit or in the immediately preceding financial year.
- xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.
- xii) We are of the opinion that the Company has maintained adequate documents and records where the Company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii) In our opinion, the Company is not a Chit Fund or Nidhi /Mutual Benefit Fund/Society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable.
- xiv) In our opinion the Company is not dealing or trading in shares, securities, debentures or other investments. Therefore, the provisions of clause 4 (xiv) of the Order are not applicable.
- xv) The Company has not given any guarantees for loans taken by others from banks or financial institutions. Therefore, the provisions of clause 4(xv) of the Order are not applicable.
- xvi) According to the information and explanations given to us, the term loans have been applied for the purpose for which they were raised.
- xvii) According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report that, prima facie, no funds raised on short-term basis have been used for long- term investment.
- xviii) According to the information and explanations given to us, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.



- xix) According to the information and explanations given to us, the Company has not issued any debentures, during the year. Therefore, the provisions of clause 4(xix) of the Order are not applicable.
- xx) The Company has not raised any money through public issue during the year.
- xxi) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year, although there have been few instances of loans becoming doubtful of recovery consequent upon fraudulent misrepresentation by borrowers, the amounts whereof are not material in the context of the size of the Company and the nature of its business and which have been provided for.

For Agiwal & Associates  
Chartered Accountants  
(Firm Registration No. 000181N)

Place : New Delhi  
Dated : 11<sup>th</sup> June, 2010

Sd/-  
V K Gupta  
Partner  
(Membership No. 81979)

**B. Annexure to the Auditors' Report**

Point No.(i)(a), (i)(b), (i)(c), (ii), (iii), (v), (vi), (viii), (ix)(a), (ix)(b), (x), (xi), (xii), (xiii), (xiv), (xv), (xvi), (xvii), (xviii), (xix), (xx) and (xxi)	No comments required.
Point No. (iv)	<ul style="list-style-type: none"> <li>▪ With a view towards having effective Monitoring Mechanism in Operations Wing, the Project Monitoring Cell is monitoring schemes for timely documentation, releases including site inspections and repayments, so as to avoid defaults. Accordingly, improved pre-completion and post-completion monitoring formats have been circulated to all Regional Offices for obtaining information in the prescribed format on monthly basis. Further duly filled formats are to be sent to the concerned Strategic Business Unit at Head Office on a monthly basis, with a copy to Executive Director (Operations). In case progress reports are not received in time, regular follow-up is being carried out with the agencies and regular site inspections are being conducted to ascertain actual progress at site. Further, in private sector schemes having loan amounts exceeding Rs. 25 crore, a lender auditor is appointed for verifying the utilisation of loan.</li> <li>▪ The utilisation certificates of grants / subsidies are constantly monitored at Regional Offices, Corporate Office and also periodically reviewed by the Ministry.</li> </ul>
Point No. (vii)	<p>Steps are being taken by the Company to strengthen Internal Audit Department.</p> <p>Coverage of Internal Audit has been increasing every year. It has been covering all Regional Offices &amp; main branches of Retail Finance and some of the Departments of Head Office. It is proposed to widen the coverage further by including some more Departments of Head Office as well.</p> <p>All the possible steps are being undertaken for early submission of replies/compliances to the Competent Authority.</p>
Point No. (ix)(c)	The matter has been taken up with Income Tax Department/Service Tax Department for rectification/deletion/adjustment of demand raised by them and orders from Income Tax Department/Service Tax Department are still awaited.

For and on behalf of the Board of Directors



T Prabakaran\*  
Chairman and Managing Director

Place : New Delhi  
Dated : 29<sup>th</sup> June, 2010

\* Dr. PK Mohanty, AS & Mission Director (JNNURM), MoHUPA, has been assigned the additional charge of the post of Chairman & Managing Director of HUDCO, w.e.f. 05.07.2010.

## COMMENTS OF THE C&AG

Annexure to the Directors' Report

### **COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF HOUSING AND URBAN DEVELOPMENT CORPORATION LIMITED, NEW DELHI, FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2010.**

(As conveyed vide letter सं. /No. /प्रति/2-5/2009-10/382 dated 28.06.2010 by the office of the Principal Director of Commercial Audit and Ex-officio Member, Audit Board – III, New Delhi.)

The preparation of financial statements of Housing and Urban Development Corporation Limited, New Delhi, for the year ended 31<sup>st</sup> March, 2010 in accordance with the financial reporting framework prescribed under the Companies Act, 1956, is the responsibility of the Management of the Company. The statutory auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956, are responsible for expressing opinion on these financial statements under Section 227 of the Companies Act, 1956, based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 11<sup>th</sup> June, 2010.

I, on behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 619(3)(b) of the Companies Act, 1956, of the financial statements of Housing and Urban Development Corporation Limited, New Delhi, for the year ended 31<sup>st</sup> March, 2010. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. On the basis of my audit, nothing significant has come to my knowledge, which would give rise to any comment upon or supplement to Statutory Auditors' report under Section 619(4) of the Companies Act, 1956.

For and on behalf of the  
Comptroller & Auditor General of India

Sd/-  
(MK Biswas)  
Principal Director of Commercial Audit  
& Ex-officio Member, Audit Board – III,  
New Delhi

Place : New Delhi  
Dated : 28<sup>th</sup> June, 2010