



लेखा परीक्षा), प.ब., स्थानीय लेखा परीक्षा विभाग



INDIAN AUDIT AND ACCOUNTS DEPARTMENT  
OFFICE OF THE PRINCIPAL ACCOUNTANT GENERAL  
(GENERAL & SOCIAL SECTOR AUDIT), W.B.  
LOCAL AUDIT DEPARTMENT

SS-III/A/c Arambagh M (10-11)/17-18/4210(MB)  
संख्या /No.

दिनांक / Dated: 13.11.2017

F.O.  
17.11


To  
The Chairman,  
Arambagh Municipality  
Arambagh Benepara Road  
P.O. Arambagh Dist-Hooghly  
Hooghly- 712601

Sub: Audit Report on Annual Financial Statement for the year 2010-11

Sir,

I am forwarding the Audit Reports and detailed comments on the AFS for the year 2010-11 under section 87 of West Bengal Municipal Act 1993 as amended till date and annexure containing specified information as per Sub-Rule 2 of Rule 22 of West Bengal Municipal Finance and Accounting Rules 1999 as amended in January 2007. I draw your kind attention to Section 88 of the Act ibid to place the Audit Report to the Chairman-in-Council to take remedial measures and report to the Director of Local Bodies with intimation to this office.

Yours faithfully

  
Examiner of Local Accounts  
West Bengal

Enclosure: As stated above

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF ARAMBAGH MUNICIPALITY FOR THE YEAR ENDED 31<sup>st</sup> MARCH, 2011**

1. We have audited the Balance Sheet of the Arambagh Municipality as at 31<sup>st</sup> March, 2011 along with Income & Expenditure Account and Receipts & Payments Account for the year ended on that date under section 86 of the West Bengal Municipal Act, 1993 as amended till date. Preparation of these financial statements is the responsibility of the Arambagh Municipality 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. The Balance Sheet and Income & Expenditure Account and Receipts and Payments Account dealt with by this report have been drawn up in the format prescribed under Accounting Manual for Urban Local Bodies (Part – 5 : Forms & Formats) subject to the observations made below.

iii. In our opinion, proper books of accounts and other relevant records have been maintained by the Arambagh Municipality as required under Accounting Manual for Urban Local Bodies (Part – 5 : Forms & Formats) in so far as it appears from our examination of such books and subject to the observations made below.

Management adhered to appropriate internal controls [Comments as per Sub-rule (2) (1) (d) of the Rule 22 of West Bengal Municipal (Finance & Accounting) Rules, 1999 (Amends) is enclosed (Annexure – 1)]



iv. We further report that-

**A. Balance Sheet:**

**A.1 Liabilities**

No comments.

**A.2 Assets**

**A.2.1 Sundry Debtors (Receivables) (Schedule B-15): ₹118.48 lakh**

**A.2.1.1 Interest Receivable : ₹ 0.00**

It did not include the accrued interest of 'Provident Fund of ₹816872.00 during the year 2010-11.

This resulted in understatement of 'Interest Receivable' under Sundry Debtors with corresponding to understatement of Provident Fund to the extent of ₹ 8.17 lakh.

The Municipality stated that Interest Receivable on "Provident Fund" calculated and credited by the P.F. Dept. and interest on P.F calculated by the ULB never matched, hence interest on P.F. credited on actual receipts basis. However, the Municipality noted the point for future guidance.

The reply was not tenable as the Municipality has the scope of making final adjustment entries on actual receipt of interest on Provident Fund from the Govt.

**A.2.1.2 Receivable towards Pension Relief Grant: ₹ 0.00**

It did not include the pension Relief Grant of ₹ 576340.00 [40% of (Basic Pension and Pension Relief) receivable pertaining to the year 2010-11.

Non inclusion of the above resulted in understatement of 'Pension Fund' (Sch B-2) with corresponding understatement of Sundry Debtors (Receivables) (Sch B-15) to the extent of ₹ 5.76 lakh.

In reply the Municipality stated that rectification would be made from the financial year 2014-15 onwards.

**A.2.2 Stock In Hand (B-14): ₹ 91.62 lakh**

Above included ₹ 29588.00 being the value of closing stock in respect of 'Stationary Store'.

As per para 3.3.2(e) of Accounting Manual for ULBs (Part-2), inventories of consumable supplies such as stationery, fuel shall be charged to revenue at the time of purchase. Hence there should not be any stock balance.

Thus, inclusion of stationery items to stock-in-hand balance resulted in overstatement of 'Stock-in-Hand' with the corresponding understatement of expenditure and overstatement of 'Surplus' to the extent of ₹ 0.30 lakh.

In reply the Municipality stated that rectification would be made from the financial year 2014-15 onwards.

## **B Income & Expenditure Account**

### **B.1 Income**

#### **B.1.1 Revenue Grants, contribution and subsidies (I-6): ₹ 892.33 lakh**

Above did not include ₹ 56700.00 (20% of ₹ 283500.00 paid towards Bonus to permanent employees)

The Municipality had to pay ad-hoc Bonus to its employees. However, as per Government norms, 20 *per cent* of ad-hoc Bonus payment was reimbursed by the Government on submission of claim. Therefore, the Municipality accrued assured income as soon as such payments were made. The Municipality paid 'Bonus' to its employees in the year 2010-11 and accrued an 'Income' of ₹ 56700.00 (20% of ₹ 283500.00 paid towards Bonus to permanent employees) towards 20% subvention of Ad-hoc bonus for the year 2010-11. This was required to be included as 'Income' for the year with creation of Receivables for the same amount but this accounting procedure was not followed by the Municipality.

Non-accounting of the above resulted in understatement of 'Income' under 'Revenue Grants, Contributions and Subsidies' as well as 'Surplus' by ₹ 0.57 lakh with consequent understatement of 'Sundry Debtors (Receivables)' by the same amount

The Municipality stated that Provision of income i.e. 20% of ₹ 283500.00 paid towards Bonus to permanent employee, is only possible when income is reasonably certain and hence, taken on the basis of actual receipts.

The reply was not tenable as there was reasonable certainty of reimbursement by Govt. of 20 per cent of ad-hoc Bonus paid as per Government norms.



**B.1.2 Interest earned (Sch I-8): ₹ 7.38 lakh**

**Bank Interest (Code: 1711001): ₹ 7.23 lakh**

Interest earned on the unutilized Govt. Grants amounting to ₹ 720854.00 was wrongly included as revenue income instead of crediting the same to the respective Grants (KUSP, UIDSSMT, HHW, IHSDP, 12/13<sup>th</sup> F.C., SJSRY Revolving Fund, HHW, IHSDP, Mid Day Meal, HUP, WBUES, NOAPS and Child Labour). Thus 'Bank Interest' under 'Interest Earned' was overstated by ₹ 7.21 lakh with the corresponding overstatement of 'Surplus' and understatement of Liabilities (Source of fund) to the same extent.

In reply, the Municipality stated that the Interest Earned (I-8) was noted and it would be taken into account from the F.Y. 2014-15 onwards.

**B.2 Expenditure**

No comments.

**C. Receipt & Payment Account**

No comments.

**D. General Comments**

**D.1** The reformed accounting in double entry system required close coordination amongst all the departments. There was no proper coordination with Accounts wing in providing appropriate data; reconciling figures generated by the respective line departments' viz. Cash, Establishment, Water-works, Collection departments etc in Arambagh Municipality. This was indicative of poor internalization of the reformed accounting system.

**D.2 System deficiencies**

The accounting software package 'Purohisab', used by Arambagh Municipality, was prepared based on Visual basic- front- end, Microsoft Access-backend. The security was based on "User role" (User name and password). However, authentication with the 'User Role' was not made mandatory in the system. Thus, the system was not secured enough and was exposed to unauthorized access.

There was also no locking arrangement with regard to date i.e. any voucher could be entered at a later date even after closing of a particular accounting year thereby leaving the system unsecured. Therefore, reliability of the figures at later date was not ensured.

**D.3** Stock register for Engineering articles was maintained in a perfunctory manner. The column meant for Balance of articles was left blank, the Opening balance and closing balance of different engineering items were not mentioned in the Stock Register, for which both opening stock and closing stock were not verified in audit and stock valuation could not be arrived at.

**D.4** As per Para 3.3.4 (n), Part-II, Accounting Manuals, All individual assets, whose cost is below Rs.5000/- shall be depreciated at 100% rate, Contravening the above accounting principle the Municipality calculated depreciation on the basis of life period of the asset.

**D.5 Journal Vouchers passed without authorization:** 900 number Journal vouchers amounting to ₹4948.02 lakh were passed without any authorization by the controlling officer and justifying primary documents during 2010-11.

**D.6 Improper maintenance of Demand Register:** - The Municipality did not maintain the Register of demand of the Income properly. Hence, it could not be ascertained during Audit whether Water Tax and Market Rent had been accounted for on accrual basis.

**D.7 Property Tax**

Age-wise receivable of Property Tax are not shown in Accounts.

In reply to points stated above, the Municipality stated that necessary action would be taken in future.

**D.8 Assigned Revenues and Compensations (I-2): ₹0.003 lakh**

As per para 3.1.5, part-II, Accounting Manuals, Assigned revenue passed by the Central/State/Government Agencies to the ULB like Entertainment Tax, Duty/Surcharge on transfer of immovable properties, shall be accounted during the year only upon actual collection. However, the Municipality credited ₹ 2976000.00 received during the year towards Entertainment Tax initially to 'Other Specific Purpose Grants' instead of crediting the same directly to Income under 'Assigned Revenues and Compensations (Sch I-2).

The Municipality stated that Assigned Revenues and Compensations (I-2) though not directly taken into Income & Expenditure account but it apportioned as per AS-12 and hence, there were no effect in the accounts. The reply was not tenable as Assigned Revenues were not Grants and should be credited to Income directly.



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

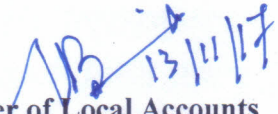
The net impacts of the comments given in preceding Para is that the assets as on 31<sup>st</sup> March 2011 were understated by ₹ 14.20 lakh, liability understated by ₹ 21.14 lakh and the surplus of income over expenditure for the year was overstated by ₹ 6.94 lakh (Working Sheet enclosed).

v) 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.

vi) 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 Arambagh Municipality as at 31<sup>st</sup> March, 2011 and
- b) In so far as it relates to the Income & Expenditure for the year ended on that date.

Place : Kolkata  
Date .11.2017

  
Examiner of Local Accounts  
West Bengal

**Working Sheet on Net impact on Accounts of Arambagh Municipality for 2010-11**  
(₹ in Lakh)

Ref No	Liability		Assets		Surplus	
	U/S	O/S	U/S	O/S	U/S	O/S
A.2.1.1	8.17		8.17			
A.2.1.2	5.76		5.76			
A.2.2				0.30		0.30
B.1.1			0.57		0.57	
B.1.2	7.21					7.21
<b>TOTAL</b>	<b>21.14</b>	<b>0.00</b>	<b>14.50</b>	<b>0.30</b>	<b>0.57</b>	<b>7.51</b>

Liability understated by ₹ (21.14 – 0.00) lakh = ₹ 21.14 lakh

Asset understated by ₹ (14.50 – 0.30) lakh = ₹ 14.20 lakh

Surplus of income over expenditure overstated by ₹ (7.51 – 0.57) lakh = ₹6.94 lakh

U/S – Understatement

O/S – Overstatement



## ANNEXURE - 1

**Audit comments on the information as asked under Sub rule 2 of Rule 22 of the West Bengal Municipal (Financial & Accounting) Rules, 1999 as amended in January, 2007**

### Arambagh Municipality for the year ended March, 2011

Sl. No	Item of information.	Audit comments.
1.	Whether all the expenditure incurred by the Municipality are authorized by appropriate provision in the sanctioned budget, whether made originally or subsequently and are in all cases such as are unauthorized by law.	Yes.
2.	Whether all sums due to and received by the Municipality have been brought to account within the prescribed time limits and are in all cases such as are authorized by law.	No deficiency was noticed in course of test check.
3.	Whether all transaction (income, expenditure, assets and liabilities) are correctly classified and stated in sufficient details?	Audit comment given in specific cases.
4.	Whether in respect of all bills for charges on accounts of all works and other expenditure proper certificates have been furnished in support of them*and that no deviation has been made from the sanctioned plans and the estimate without other sanction of the competent authority?	As per test check no deviation has been made from the sanctioned plans and the estimates.
5.	Whether the amounts received as specific grants have been utilized for the purposes as stated in the grant sanction order?	No, in some cases deviation was noticed..
6.	Whether the special funds, if any, have been created as per the provisions of relevant statutes and whether the special funds have been utilized for the purpose for which created?	Yes.
7.	Whether the Municipality is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets? Whether these fixed assets have been physically verified by the management at reasonable intervals? Whether any material discrepancy was noticed on such verification and if so, whether the same have been properly dealt with in the Books of accounts?	Records not maintained properly. But any material discrepancy was noticed..
8.	Whether physical verification has been conducted at reasonable intervals in respect of stores?	Physical verification of stores was not done.
9.	Whether the procedures of physical verification of store followed by the Municipality are reasonable and adequate, if not, the inadequacies in such procedures should be reported.	-do-
10.	Whether any material discrepancies have been noticed on physical verification as compared to books of records and if so whether the same have been properly dealt with in the books of accounts?	Discrepancy could not be ascertained as physical verification of stores was not done at all.

11.	Whether the valuation of stores is in accordance with the accounting principles laid down by the State Govt. from time to time? Whether the basis of valuation of stores is same as in the preceding year. If there is any deviation in the basis of valuation, the effect of such deviation, if materials, should be reported?	Yes.																								
12.	Whether the parties to whom the loans or advances in the nature of loans have been given by the Municipality, are repaying the principal amounts as stipulated and are also regular in payments of the interest and if not, whether reasonable steps have been taken by the Municipality for recovery of the principal and interest?	No major deficiency in this respect was noticed as per test check.																								
13.	Whether there exists an adequate internal control procedure for the purchase of store including components, plant and machinery, equipment and other assets?	Internal control system needs to be strengthened.																								
14.	Whether proper procedure are in place to identify any unserviceable or damaged stores and whether provision for the loss in this respect, if any has been made in the accounts?	No case of disposal of damaged/ unserviceable store was noticed as per test check.																								
15.	Whether the Municipality is regular in depositing Provident fund dues and Professional Tax deducted with the appropriate authorities and if not, the extent of arrears?	Yes.																								
16.	Whether the Municipality is regular in depositing deducted at source (Income Tax and Work contract tax) and other statutory dues, and if not, the nature and cause of such delay and the amount not deposited?	Yes.																								
17.	Whether any personal expenses have been charged to revenue accounts? If so the details thereof.	Not found during test check.																								
18.	Whether the total liabilities of the Municipality can be met out of the Municipal fund when falling due?	No, as calculated below. (₹ in lakh) <table border="1"> <thead> <tr> <th>Head</th> <th>Amount</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Earmarked funds</td> <td>112.20</td> <td></td> </tr> <tr> <td>Unspent grant-</td> <td>262.12</td> <td></td> </tr> <tr> <td>Loan</td> <td>98.90</td> <td>473.22</td> </tr> <tr> <td>Current assets</td> <td>288.40</td> <td></td> </tr> <tr> <td>Current liabilities</td> <td>-</td> <td></td> </tr> <tr> <td>Investment</td> <td>171.14</td> <td>459.54</td> </tr> <tr> <td><b>Excess of liability over cash strength</b></td> <td></td> <td><b>13.68</b></td> </tr> </tbody> </table>	Head	Amount	Amount	Earmarked funds	112.20		Unspent grant-	262.12		Loan	98.90	473.22	Current assets	288.40		Current liabilities	-		Investment	171.14	459.54	<b>Excess of liability over cash strength</b>		<b>13.68</b>
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Place: Kolkata  
Date .11.2017

AB 13/11/17  
Examiner of Local Accounts  
West Bengal