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भारतीय लेखा एवं लेखा परीक्षा विभाग
कार्यालय - प्रधान महालेखाकार (सामान्य एवं सामाजिक क्षेत्र
लेखा परीक्षा), प.बं., 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/10/11 Arambagh M (13-14)/12-18/5972 (TB)
संख्या / No.

दिनांक / Dated : 21.03.2018



To
The Chairman,
Arambagh Municipality,
Arambagh Benepara
PO- Arambagh,
Dist- Hooghly
Pin- 712601

Sub: Audit Report on Annual Financial Statement for the year 2013-14

Sir,

I am forwarding the Audit Reports and detailed comments on the AFS for the year 2013-14 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

IB 20/3/18
Examiner of Local Accounts
West Bengal

Enclosure: As stated above

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF ARAMBAGH
MUNICIPALITY FOR THE YEAR ENDED 31st MARCH, 2014**

We have audited the Balance Sheet of the Arambagh Municipality as at 31st March, 2014 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 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 (though not in proper formats) have been maintained by the 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 did not adhere 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 SOURCE OF FUNDS

A.1.1 Grants, Contribution for Specific Purposes (Sch.B-4): ₹ 443.26 lakh

(a) As per para 3.1.5, part-2, 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.

Above included ₹ 3670202.00 (₹ 310812.00 of Trade, Profession and Calling, ₹ 759390.00 of Tax on Vehicles and ₹ 2600000.00 of Entertainment Tax) being received as Assigned Revenues during the financial year 2013-14. As part of Assigned revenues, this should be credited under Assigned Revenues and Compensations (Sch.I-2) on actual receipt of the grant, but the same was credited in water logging/Road repair (320-20-10) and Other Specific Purpose Grants (3202006) under Grants, Contributions for Specific Purposes (Sch.B-4).

Wrong accounting of the above resulted in overstatement of Grants, Contributions for specific purposes (Sch.B-4) with the corresponding understatement of Income and thereby understatement of Surplus of income over expenditure to the extent of ₹ 36.70 lakh.

The Municipal authority admitted the fact and figures.

(b) Above did not include ₹ 4.00 lakh being Family Welfare Grant (Minority Destitute). The amount was credited in Income instead of the same being credited in Grants, Contributions for Specific Purpose. The above amount was not expended during the financial year 2013-14.

Wrong accounting of the above resulted in overstatement of Income as well as Surplus of income over expenditure with the corresponding understatement of Grants, Contributions for Specific Purposes (Sch.B-4) to the extent of ₹ 4.00 lakh.

In reply, the Municipality had stated that Revenue grant whether expended in the current year or subsequent year has to be recognized as Income.

The reply is not tenable in audit. As per para 3.4.1.c (part 2) of the Accounting manual for ULB, Grants received or receivable in respect of specific revenue expenditure shall be recognised as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.

A.1.2 Other Liabilities (Sundry Creditors): ₹ 106.96 lakh

Above did not include ₹ 581166.00 (₹ 118181.00 being the monthly consolidated remuneration in respect of contractual staff and ₹ 463285.00 being the monthly wages in respect of casual workers and other staff for the month of March) being the revenue expenditure incurred during the 2013-14 but not paid within the financial year.

Non-accounting of the above resulted in understatement of "Other liabilities (Sundry Creditors)" with the corresponding understatement of expenditure and thereby overstatement of Surplus of income over expenditure to the extent of ₹ 5.81 lakh.

In reply, the Municipal authority accepted the facts and assured to make necessary adjustment while finalising next accounts.

A.2 Application of Fund (Asset)

A.2.1 Sundry Debtors (Receivables): ₹ 174.28 lakh

Above Sundry Debtors (Receivable) did not include ₹ 1336832 being the interest on investment of Provident Fund for the year 2013-14 which was received in 2014-15.

Non-accounting of the above resulted in understatement of Sundry Debtors (Receivables) with the corresponding understatement of Provident Fund to the extent of ₹ 13.37 lakh.

In reply, the Municipal authority replied that they accounted the PF interest on actual receipts basis. The reply is not tenable in audit as Interest accrued on PF deposit has to be recognized as and when due.

B INCOME AND EXPENDITURE ACCOUNT

B.1 Income

B.1.1 Revenue Grants, Contribution and Subsidies (Sch.I-6): ₹ 1013.09 lakh

As per Government order, 20% of ad-hoc bonus payment is to be reimbursed by the Government on submission of claim in the following year. Therefore, income will be accrued as soon as ad-hoc bonus payment is made.

Above income head did not include ₹ 73200.00 (20% of ₹ 366000.00 paid as bonus to permanent employees during the year 2013-14) being the receivable bonus grant for the year 2013-2014.

Non-accounting of the above assured income resulted in understatement of 'Income' as well as 'Surplus' with the corresponding understatement of 'Sundry Debtors (Receivable) to the extent of ₹ 0.73 lakh.

In reply, the Municipal authority stated that 20% of the ad-hoc bonus is not certain. Hence the same is being treated on actual basis. The reply is not tenable in audit as Income is accrued as soon as the bonus payment is being made.

B.1.2 Interest Earned (Sch.I-8): ₹ 25.70 lakh
Bank Interest: ₹ 25.55 lakh

Above included of ₹ 1760992.00 being the interest earned from savings bank account of specific grants (IHSDP, NCLP, UIDSSMT, HHW, CENCUS Grant, MPLAD, and Revolving Fund).

As per Accounting Manual for ULBs (Part – 2 / Para 3.3.3 f) income on investments made from Special Fund and Grants under specific Scheme should be recognized and credited to Special Fund and Grants under Specific Scheme respectively, whenever accrued.

Thus, inclusion of above interest as income of the Municipality resulted in overstatement of income as well as ‘Surplus of income over expenditure’ with corresponding understatement of Grant, contribution for Specific Purpose (Sch.B-4) and Earmarked Fund to the extent of ₹ 17.61 lakh.

In reply, the Municipal authority accepted the facts and assured to make necessary adjustment while finalising next accounts.

B.2 Expenditure

No comments

C Receipts and Payments Accounts

No comments

D GENERAL OBSERVATION

D.1 Journal Voucher: 707 number of journal vouchers amounting to ₹ 4470.15 lakh were passed without any authorization by the controlling officer and justifying primary documents during 2013-14.

An amount of ₹ 83459859.00 was credited to “Income” and “Grants, Contributions for specific purposes” by debiting various “Grants” vide Journal voucher no.707, dated 31.03.2014. Details records/ primary source of documents of the above journal voucher had not furnished by the authority.

Further as per the Journal voucher no. 706, an amount of ₹12957911.00, was transferred to Grants against Fixed Assets (GAFA) by debiting 13th FC (3201015). But as per the calculation sheet of depreciation of fixed asset furnished by the Municipality, depreciation of ₹ 2842916.00 had been charged for the asset created from 13th FC fund. The reasons for such discrepancy had not been clarified to audit.

D.2 The reformed accounting in double entry accrual based 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.3 System deficiencies

The security of the accounting software package 'Purohisab, 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.4 As per Para 3.3.4 (n), Part-II, Accounting Manuals, All individual assets, whose cost is below ₹ 5000.00, shall be depreciated at 100% rate, contravening the above accounting principle the Municipality calculated depreciation on the basis of life period of the asset. It requires detail checking and rectification with proper accounting effect.

D.5 Grants against Fixed Asset:

Individual Assets created from Grant Fund for any particular date during the period not reflected in FA rather a total amount of Fixed Asset,(without any supporting documents) recorded in Grants against Fixed Asset on 31st March of each year.

D.6 Revenue income accounts for on cash basis:

Revenue income like market rent and other rental income have been accounted for on cash basis. However as per Accounting Manual for Urban Local Bodies it should be accounted for on accrual basis. The Municipality did not maintain the Register of demand for Rental income properly.

D.7 Leased out properties:

Register for properties put under lease was not submitted to audit. Income from leased out properties was accounted for on cash basis. However, as per Accounting Manual for Urban Local Bodies it should be accounted for on accrual basis based on the terms and conditions mentioned in the lease agreement.

D.8 Property Tax

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

E Effect of Audit Comments on Accounts

The net impact of the comments given in preceding paragraphs as on 31st March, 2014 is that the liabilities were understated by ₹ 4.09 lakh, assets understated by ₹ 14.10 lakh and the Surplus of Income over Expenditure understated by ₹ 10.01 lakh

v) Subject to our observation in the preceding paragraphs, we report that the Balance Sheet and Income and Expenditure Account and Receipts and Payments 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 and other matters mentioned in Annexure I to this Audit Report, do not 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 31st March, 2014 and

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

Place: Kolkata
Date: .03.2018


Examiner of Local Accounts,
West Bengal.

Working Sheet on Net impact on Annual Accounts of Arambagh Municipality for 2013-14

(₹ in lakh)

Ref No	Liability		Asset		Surplus	
	U/S	O/S	U/S	O/S	U/S	O/S
A.1.1a		36.70			36.70	
A.1.1b	4.00					4.00
A.1.2	5.81					5.81
A.2.1	13.37		13.37			
B.1.1			0.73		0.73	
B.1.2	17.61					17.61
Total	40.79	36.70	14.10	0.00	37.43	27.42

Liability understated by ₹ (40.79-36.70) lakh = ₹ 4.09 lakh

Asset understated by ₹ (14.10-0.00) lakh = ₹ 14.10 lakh

Surplus understated by ₹ (37.43-27.42) lakh = ₹ 10.01 lakh

U/S – Understatement

O/S – Overstatement

Annexure – I

Audit comments on the information as asked under Sub Rule sub-rule (2) (1) (d) of Rule 22 of the West Bengal Municipal (Finance & Accounting) Rules, 1999 as amended in January, 2007.

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 authorized by law.	During test check, no such deviation was found.
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 major 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 noticed 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 deficiency in this respect was noticed as per test check.
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?	Pension Fund and Provident Fund is being utilized for the purpose for which the same was created during the period of audit.
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?	The Municipality did not maintain updated Asset Register for the year 2013-2014. No physical verification of fixed assets had been done by the Management.
8.	Whether physical verification has been conducted at reasonable intervals in respect of stores?	Physical verification of stores was not done during the year 2013-2014.
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.	No. Physical verification of stores was not done.
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?	No deviations were found.																					
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 deviations were found.																					
13.	Whether there exists an adequate internal control procedure for the purchase of store including components, plant and machinery, equipment and other assets?	No. 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?	There was no proper procedure to identify any unserviceable and damaged store and no provision for the loss was made in the accounts.																					
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?	During test check, no such deviation was noticed.																					
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. During test check, no such deviation was noticed.																					
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>206.41</td> <td></td> </tr> <tr> <td>Unspent grant-</td> <td>443.26</td> <td></td> </tr> <tr> <td>Loan</td> <td>87.46</td> <td>737.13</td> </tr> <tr> <td>Current assets - Current liabilities</td> <td>284.22</td> <td></td> </tr> <tr> <td>Investment</td> <td>205.01</td> <td>489.23</td> </tr> <tr> <td>Excess of liability over cash strength</td> <td></td> <td>247.90</td> </tr> </tbody> </table>	Head	Amount	Amount	Earmarked funds	206.41		Unspent grant-	443.26		Loan	87.46	737.13	Current assets - Current liabilities	284.22		Investment	205.01	489.23	Excess of liability over cash strength		247.90
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West Bengal

20/3/18