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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 Arambagh M (17-18)/19-20/ 622
Dated: 09.05.2019


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

Sub: Audit Report on Annual Financial Statement for the year 2017-18

Sir,

I am forwarding the Audit Reports and detailed comments on the AFS for the year 2017-18 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 before 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 31st MARCH, 2018

We have audited the Balance Sheet of the Arambagh Municipality as on 31st March, 2018 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. 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 (though not in proper formats) 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 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 Liabilities

**A.1.1 Grants, Contributions for Specific Purposes (Sch B-4): ₹ 2171.18 lakh
Salary Grant (Code No 3202001): ₹ 16.41 lakh**

As per the Accounting Manual for ULBs (Para 3.4.1 c of Part 2) Grants received or receivable in respect of specific revenue expenditure shall be recognized as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.

Above schedule balance included an amount of ₹ 1641459.00 as unspent Salary Grant under Grants, Contribution for Specific Purposes (Sch. B-4). Since the expenditure on the salary was incurred within the accounting year, the entire salary grants received during the year should be recognized as income of that period.

Wrong accounting of the above resulted in overstatement of 'Grants Contribution for Specific Purposes' with the corresponding understatement of 'Income' as well as 'Surplus' to the extent of ₹ 16.41 lakh.

In reply, the Municipality stated that the salary amount was shown as liability and not as revenue expenditure. Hence the surplus was not affected. The reply is not tenable as the expenditure on salary for which the Salary Grant was received had already been incurred by the Municipality before the close of the financial year. Hence the entire grants towards salary should have been recognized as income instead of showing as unutilized balance.

**A.1.2 Grants, Contributions for Specific Purposes (Schedule B-4): ₹ 2171.18 lakh
Pension Relief Grants (Code No 3202004): ₹ 24.24 lakh**

Above Schedule balance included an amount of ₹ 2424486.00 as Pension Relief Grants. As the Pension fund was already created, the above amount should have been shown under that fund.

Wrong accounting of the above resulted in understatement of Pension fund under Earmarked Fund (Sch.B-2) with the corresponding overstatement of Grants, Contribution for Specific Purposes (Sch. B-4) to the extent of ₹ 24.24 lakh.

In reply, the Municipality admitted the fact and stated that proper accounting procedure would be followed in the next financial year.

A.1.3 Grants, Contributions for Specific Purposes (Sch. B-4): ₹ 2171.18 lakh
Scheme of Housing for the Urban Poor (Code No 3202012): ₹ 0.50 lakh

As per the Accounting Manual for ULBs (Para 3.4.1 e of Part 2) the capital grants received as nodal agency or as implementing agency for an intended purpose which does not result in creation of assets with ownership rights of the ULB shall be shown under Deposit Works.

Above Schedule included unutilized amount of ₹ 0.50 lakh of Scheme of Housing for the Urban Poor grant. As the said grants were received for creating assets belonging to the beneficiaries and the Municipality was only the implementing agency of the project, it was to be shown under Deposit Works (Sch.B-8).

Wrong accounting of the above resulted in overstatement of Grants Contribution for Specific Purposes (Sch. B-4) by ₹ 0.50 lakh with corresponding understatement of Deposit Works (Sch. B-8) to that extent.

In reply, the Municipality stated that the matter has been noted for future guidance.

A.2 Assets

No comments.

B Income and Expenditure Accounts

B.1 Income

B.1.1 Interest Earned (Sch. I-8): ₹ 2.03 lakh

B.1.1.1 Bank Interest (Code no 1711001): ₹ 1.81 lakh

As per Accounting Manual for ULBs (Para 3.3.3 f of Part 2) 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.

Above included ₹ 12460.00 (Interest from Pension Fund of ₹ 11572.00 + Interest from Project Fund of ₹ 888.00) being the Interest earned on various unutilized Government Grants and Special Fund deposited in various banks.

This resulted in understatement of Grants, Contributions for Specific Purposes (Sch. B-4) by ₹ 0.01 lakh and Pension Fund under Earmarked Fund (Sch. B-2) by ₹ 0.12 lakh with the corresponding overstatement of income and there by overstatement of Surplus of income over expenditure to the extent of ₹ 0.12 lakh.

In reply, the Municipality admitted the fact and stated that the matter has been noted for future guidance and it would be rectified in the next financial year.

B.2 Expenditure

B.2.1 Interest And Finance Charges (Schedule I-13): ₹ 0.81 lakh

B.2.1.1 Bank Charges (Code no 2407001): ₹ 0.57 lakh

As per Accounting Manual for ULBs (Para 3.3.3 f of Part 2) Profit/ loss, if any, arising on disposal of investments (net of selling expense such as commission, brokerage, etc) made from the Special Fund and Grants under specific Scheme shall be recognized and credited/debited to Special Fund Account and Grant under specific scheme Account respectively.

Above included ₹ 9939.11 being the bank charges of various Grants funds (14th FC, NSAP, MDM, HFA, UIDSSMT, HHW, IHSDP, NUHM, NULM, SJSRY Revolving Fund).

Wrong accounting of the above resulted in overstatement of Grants, Contributions for Specific Purposes (Sch. B-4) with the corresponding overstatement of expenditure and thereby understatement of Surplus of income over expenditure to the extent of ₹ 0.10 lakh.

In reply, the Municipality stated that the matter has been noted for future guidance and it would be rectified in the next financial year.

C Receipts and Payments Account:

No comments.

D General Comments

D.1 Water Supply Store (Code No 4301011): ₹ 53.55 lakh

Balance of 'Water Supply Store' as per FA package was ₹ 5354933.64 which did not tally with the actual closing balance of Water Supply Store as shown in the Stock Register i.e. ₹ 5205375.64. Thereby resulting in excess balance shown in FA package by ₹ 149558.00 (₹ 5354933.64 – ₹ 5205375.64). Necessary reconciliation is required.

In reply, the Municipality stated that the water supply stock had been issued for construction of Pipe line work and the work is in progress. The stock would be adjusted after completion of work.

D.2 Age- wise analysis of Receivable of Property Tax was not shown

The age-wise analysis of Receivable of Property Tax was not shown through 'Notes to Accounts'

In reply, the Municipality stated that the matter has been noted for future guidance.

D.3 Passing of rectification Journal vouchers

Scrutiny of journal book and other relevant documents revealed that rectification journals as and when required were passed without prior-approval of municipal authority.

In reply, the Municipality stated that the matter has been noted for future guidance.

D.4 Deficiencies/shortcomings in accounting software package 'Purohisab'

- a) The accounting software package 'Purohisab' has no locking arrangement in so far as accounting period is concerned i.e. any voucher can be entered at a later date after closing of a particular accounting year on real time basis thereby leaving the system unsecured.
- b) The accounting software package 'Purohisab' is unable to generate 'Bank Reconciliation statement' thereby rendering it ineffective as all the record/entries pertaining to Bank Reconciliation statement are being kept manually.
- c) The accounting software package 'Purohisab' did not generate any 'Grant Register', 'Fixed Assets Register', 'Cash Flow statement', etc. as per prescribed format.
- d) There was no scope to save any computer I.P. address against any transaction. Not even that, the name/designation of voucher entering and passing person was not reflected against the voucher posted/passed in any occasions. Hence, both the persons might be the same which frustrated the system of double checking of the vouchers. Moreover, the Municipality failed to furnish any password register or copy of the resolution indicating the persons authorized for posting the entries and passing the entries in the system leaving the total system unsecured.
- e) In case the accounting software package 'Purohisab' encounters any malfunction or crashes, the workability of data backup is not known.

In reply, the Municipality stated that the matter has been noted for future guidance.

D.5 Schedule forming part of Financial Statement

Schedules B-1, B-2, B-3, B-4, B-8, B-11, B-12, B-15 and B-18 attached to the Balance Sheet were incomplete and not conforming to the provisions of the Accounting Manual for ULBs. As a result, the extent of addition, deduction, capital expenditure, revenue expenditure, out of grant/ own resources, movement of fund was implicit in the Financial Statement.

In reply, the Municipality stated that the matter has been noted for future guidance.

D.6 Bank Reconciliation Statement: - Scrutiny of Bank Reconciliation Statement revealed that the Cash Book balance of Revolving Fund (A/c No. 17479/13201012823 HDC Co-operative Bank) had balance of ₹ 617.49 as on 31.03.2018 whereas as per Pass Book the balance stood at ₹ 15617.49 as on that date. Thus there was a difference of ₹ 15000.00 which was not reconciled.

In reply, the Municipality stated that the matter has been noted for future guidance.

D.7 An amount of ₹ 83.90 lakh as Loan from State Government showed under Secured Loans (Sch. B-6). Scrutiny revealed that interest against this loan was neither calculated nor it was disclosed through Notes to Accounts.

In reply, the Municipality stated that the matter has been noted for future guidance.

D. 8 A negative balance of ₹ 445.00 as TDS from Contractors showed under Other liabilities (Sundry Creditors) (Sch.B-9). This needs proper verification and reconciliation.

In reply, the Municipality stated that the matter has been noted for future guidance.

E Effect of Audit Comments on Accounts

The net impact of the comments given in preceding paras is that the liabilities were overstated by ₹ 16.39 lakh and the surplus was understated by ₹ 16.39 lakh.

v) Subject to our observation in the preceding paragraphs, we report that the Balance Sheet, Income, Expenditure Account, 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 subject to the observations of this report

(a) In so far as it relates to the Balance Sheet of the State of affairs of Arambagh Municipality as on 31st March, 2018 and

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

Place: Kolkata
Date: .05.2019


Examiner of Local Accounts
West Bengal

Working Sheet on Net impact on Accounts of Arambagh Municipality
for the year 2017-18

(₹ in Lakh)

Ref No	Liability		Asset		Surplus	
	U/S	O/S	U/S	O/S	U/S	O/S
A.1.1		16.41			16.41	
A.1.2	24.24	24.24				
A.1.3	0.50	0.50				
B.1.1.1	0.12					0.12
B.2.1.1		0.10			0.10	
Total	24.86	41.25	0.00	0.00	16.51	0.12

Liability overstated by ₹ (41.25 - 24.86) lakh = ₹ 16.39 lakh

Surplus understated by ₹ (16.51 - 0.12) lakh = ₹ 16.39 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 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 major 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?	Audit comment given in specific cases.
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?	Yes
8.	Whether physical verification has been conducted at reasonable intervals in respect of stores?	No
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.	N.A.
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?	N.A.

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?	During test check no such deviation was 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 major deficiency in this respect loan and advances 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																								
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" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Head</th> <th style="text-align: right;">Amount</th> <th style="text-align: right;">Amount</th> </tr> </thead> <tbody> <tr> <td>Earmarked funds</td> <td style="text-align: right;">288.57</td> <td></td> </tr> <tr> <td>Unspent grant</td> <td style="text-align: right;">2171.18</td> <td></td> </tr> <tr> <td>Loan</td> <td style="text-align: right;">90.94</td> <td style="text-align: right;">2550.69</td> </tr> <tr> <td>Current assets -</td> <td style="text-align: right;">310.49</td> <td></td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> </tr> <tr> <td>Investment</td> <td style="text-align: right;">244.42</td> <td style="text-align: right;">554.91</td> </tr> <tr> <td>Excess of liability over cash strength</td> <td></td> <td style="text-align: right;">1995.78</td> </tr> </tbody> </table>	Head	Amount	Amount	Earmarked funds	288.57		Unspent grant	2171.18		Loan	90.94	2550.69	Current assets -	310.49		Current liabilities			Investment	244.42	554.91	Excess of liability over cash strength		1995.78
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Place: Kolkata

Date: .05.2019


 Examiner of Local Accounts
 West Bengal