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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 (16-17)/18-19/ 2343

Dated: 24.07.2018

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

Sub: Audit Report on Annual Financial Statement for the year 2016-17

Sir,

I am forwarding the Audit Reports and detailed comments on the AFS for the year 2016-17 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

EO/AE/F.O/
Sms
Chairman
Arambagh Municipality

8, Kiran Sankar Roy Road, G.I. Press Building 2nd Floor, Kolkata-700001

iv. We further report that-

A. BALANCE SHEET

A.1 Sources of Funds

A.1.1 Earmarked Funds

Pension Fund (Sch.B-2): ₹ 5.94 lakh

Above did not include ₹ 2172697.00 being the reimbursement of total requirement of Basic Pension & Dearness Relief (at the rate of 40% of total expenditure incurred during 2016-17) for the year 2016-17 which was received during 2017-18.

Non accounting of the above resulted in understatement of 'Pension Fund' under Earmarked fund with the corresponding understatement of 'Sundry Debtors (Receivables)' to the extent of ₹ 21.73 lakh.

In reply the authority stated that 40% relief of Pension as calculated by the Municipality was not matched with the actual amount received and hence it was considered on actual receipt basis.

The reply was not tenable as the Municipality has the scope of making final adjustment entries on actual receipt.

A.1.2 Grants, Contributions for Specific Purpose (Sch.B-4): ₹ 1496.36 lakh

As per Accounting Manual for ULBs (Part-II Para 3.4.1-e) 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 included ₹ 3196216.00 and ₹ 1692673.00 as unutilized amount of 'Housing for all (1st phase) [(HFA-Urban) Code 3201022] and 'Scheme of Housing for the Urban Poor (Code 3202012)' respectively. As the said grant was received for creating assets belonging to the beneficiaries and the ULB was only the implementing agency of the project, it was to be shown under Deposit work.

The authority stated that store materials were issued to the particular site where capital work was in progress (CWIP). Effect of such issue of store in accounts would be made when the bill would be raised.

Wrong accounting of the above resulted in overstatement of stock in hand by ₹ 40.74 lakh (₹ 93.65 lakh - ₹52.91 lakh) with the corresponding understatement of CWIP/ 'Material issued to the contractors' to that extent.

A.2.4 Sundry Debtors (Receivables) (Sch.B-15): ₹ 229.71 lakh

Above did not include ₹ 1582932.00 being the accrued interest for the year 2016-17 on the P.F. balance deposited in the Treasury.

Non accounting of the above resulted in understatement of 'Sundry Debtors (Receivables)' with the corresponding understatement of 'Provident Fund' under Earmarked fund to the extent of ₹ 15.82 lakh.

In reply the authority stated that Interest calculated & shown under receivables for 'Provident fund' & credited by the P.F dept does never match. Hence, interest on P.F. was credited on actual receipt basis.

The reply is not tenable in audit as interest accrued on PF deposit has to be recognized as and when due. As per para 29.36 of the National Municipal Account Manual, the difference between the interest earned on provident fund investment and interest payable on PF contribution to the employees shall be contributed by ULB.

A.2.5 Sundry Debtors (Receivables) (Sch.B-15): ₹ 229.71 lakh

Above did not include ₹ 407895.00 (as per the statement furnished by the Municipality) which was the receivable of Water tax as on 31.03.17. Moreover, as against current demand of Water tax of ₹ 196580.00 for the year 2016-17 only ₹ 161285.00 was booked as income under the head 'water tax on residential buildings'(code 110-02-01).

This resulted in understatement of Sundry Debtors (receivables) by ₹ 4.08 lakh with the corresponding understatement of 'Income' as well as 'Surplus' to the extent of ₹ 0.36 lakh (₹ 1.97 lakh - ₹ 1.61 lakh) and understatement of Municipal fund to the tune of

AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF ARAMBAGH MUNICIPALITY FOR THE YEAR ENDED 31st MARCH, 2017

We have audited the Balance Sheet of the Arambagh Municipality as at 31st March, 2017 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 (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)].

A.2 Application of Funds

A.2.1 Accumulated Depreciation (Sch.B-11): ₹ 3137.25 lakh

Because of erroneous calculation of depreciation of two assets (Bight Sail Tanker-cess pull, Tata Ace BS III Car), created out of Grant fund and Municipal own fund, the depreciation was charged less by ₹ 0.35 lakh (Grant fund ₹ 10400.00 and Municipal fund ₹ 24954.84) by the Municipality.

Thus, wrong calculation of depreciation resulted in overstatement of 'Fixed Assets (Net block)' by ₹ 0.35 lakh with the corresponding overstatement of 'Grant Against Fixed Asset' to the extent of ₹ 0.10 lakh and understatement of expenditure as well as overstatement of Surplus to the extent of ₹ 0.25 lakh.

The authority accepted the audit observation & assured to make required rectifications in the next Balance Sheet.

A.2.2 Accumulated Depreciation (Sch.B-11): ₹ 3137.25 lakh

As per Para 3.3.4 (n), Part-2, 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.

Due to erroneous calculation of depreciation of various Fixed Assets (valuing less than ₹5000.00) purchased out of Grant fund (purchase of table, chair, board) and Municipal own fund (purchase of table, fiber chair, steel khat, rack), ₹ 27148.00 (Grant fund ₹ 15084.00 and Municipal fund ₹ 12064.00) was charged less depreciation by the Municipality.

Thus, wrong accounting of the above resulted in overstatement of 'Fixed Assets (Net block)' of ₹ 0.27 lakh with the corresponding overstatement of 'Grant Against Fixed Asset' to the extent of ₹ 0.15 lakh and understatement of expenditure and thereby overstatement of surplus to the extent of ₹ 0.12 lakh.

The authority accepted the audit observation & assured to make necessary rectifications in the next Balance Sheet.

A.2.3 Stock-in-Hand (Sch.B-14):

Water Supply Store (code 4301011): ₹ 93.65 lakh

Above stock value of ₹ 93.65 lakhs did not tally with the cost of store materials lying with the Engineering store of the municipality as on 31.01.2017. The cost of engineering materials, as furnished in a report by the engineering department, was ₹ 52.91 lakh (Grant fund).

D.4 Capital Work in Progress (Sch.B-11): ₹ 870.63 lakh

The Municipality did not prepare any 'Summary statement of status on CWIP' in Form N 141 (rule 175A of Finance & Accounting rules 1999) for the year 2016-17. As a result, exact status of CWIP in detail could not be checked in audit.

D.5 Unsecured Loans (Sch.B-6): ₹ 83.90 lakh

Above contained ₹ 83.90 lakh as closing balance of 'Loans from State government (3312001)' The Municipality did not produce any documents in support of the above figure. As such the veracity of the above liability could not be confirmed in audit.

D.6 Accumulated Provisions against Debtors (Receivables) (Sch.B-15)

Above contained balance of ₹ 90000.00 (code 432-10-04) as 'Property tax receivable on sick and closed industries' but no documentary evidence authorizing the provision was found on record.

D.7 Sundry Debtors (Receivables) (Sch.B-15)

Above contained balance of ₹ 273169.00 (code 431-40-01) as receivable from Rental income. This balance had remained unchanged since 31.03.2011. The municipality failed to produce documentary evidence pertaining to this value.

D.8 Property Tax receivable (Code 4311001, 4311002, 4311005, 4311006 & 4311011): ₹ 226.98 lakh

Above property tax receivable of ₹ 226.98 lakhs, as on 31.3.2017, did not tally with the figures of total outstanding property tax of ₹ 194.57 lakhs (as on 31.03.2017) as per the statement furnished by the Municipality. Reasons for the above difference had not been clarified to audit.

D.9 Primary records not furnished

The Municipality did not furnish primary records such as Appropriation Register, Unpaid Bill Register, Security deposit & Earnest money deposit register, IT & ST & Cess deduction register.

B Income & Expenditure Account

B.1 Income

B.1.1 Revenue Grants & Subsidies (Sch.I-6): ₹ 1186.42 lakh

As per prevailing 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 ₹ 89604.00 being the receivable bonus grant (20% of ₹ 448020.00) for the year 2016-17.

Non-accounting of the above assured income resulted in understatement of 'Income' as well as 'Surplus of income over expenditure' with the corresponding understatement of 'Sundry Debtors (Receivable from the Govt.) to the extent of ₹ 0.90 lakh.

In reply the authority stated that ad-hoc bonus payment is reimbursed by the government on submission of claim but many a times it does not match with the calculation made by ULB. Thus, it is accounted for as and when it is received.

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 recognized as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.

C Receipts and Payments Account

No Comments

D GENERAL OBSERVATION

D.1 Journal Vouchers

As per 'Purohisab' accounting software package, 932 no. of Journal Vouchers valuing ₹ 8130.72 lakh (2016-17) were passed while preparation of Annual Accounts for the above mentioned year, without any authorization of the Higher authority and justifying primary documents.

D.2 Physical verification of Store/Fixed Asset not conducted

No physical verification of movable as well as immovable assets was done by the Municipality at a regular interval.

D.3 Earmarked Funds (Sch.B-2): ₹ 218.26 lakh

As per Abstract of Provident Fund ledger balances, as on 31.03.17, the closing balance was ₹ 20688371.00 whereas the closing balance of Treasury Pass book of P.F. showed a closing balance of ₹ 20686570.61 on the same day. Thus there was a difference of ₹ 1800.39 between the two closing balances. Reasons for the above difference had not been clarified to audit.

D.11 Revenue Grants & Subsidies (Sch.I-6): ₹ 1186.42 lakh

As per Accounting manual 3.4.1(c) 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 & Expenditure Account.

As per the Journal Voucher no. 944, dated 31.03.2017, revenue grants for specific purposes expended and transferred to Grants contribution for specific purpose was ₹ 68528652.50. But as per the statement furnished by the Municipality total revenue expenditure incurred ₹ 59501224.00 from revenue grants for specific purposes.

In reply the authority stated that they would run a thorough check-up of the entries made with respect to 'Grant for any other purpose' and if any discrepancy is noted, as pointed by audit, necessary adjustments would be made.

D.12 Accumulated Depreciation (Sch.B-11): ₹ 3137.25 lakh

As per para 3.3.4, Part 2, of Accounting Manuals for ULB depreciation of Fixed Asset should be account for. But, the Municipality wrongly calculated the depreciation of CC road, during 2008-09 to 2011-12. It requires detail checking and rectification with proper accounting effect

The authority accepted the audit observation and assured to make required rectifications in the next Balance Sheet.

E Effect of Audit Comments on Accounts

The net impact of the comments given in preceding paras is that the liabilities as on 31st March, 2017 were understated by ₹ 41.02 lakh, the assets understated by ₹ 41.91 lakh and the Surplus was understated by ₹ 0.89 lakh (working sheet enclosed).


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, **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 the Arambagh Municipality as at 31st March, 2017 and

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

Place: Kolkata
Date: .07.2018


Examiner of Local Accounts
West Bengal