

SPUR-PMU (Samvardhan)

No. 1204

In Coming Date 23/02/17

Internal Audit Report –Nagar Panchayat- Areraj | F.Y- 2015-2016

INTERNAL AUDIT REPORT OF NAGAR PANCHAYAT- ARERAJ (EAST CHAMPARAN)

For the period from 01.04.2015 to 31.03.2016



Internal Audit Conducted by:

GK Sureka & Co.
Chartered Accountants

2nd Floor, Nathani Market, Sutapatty,

Muzaffarpur-842001 (Bihar).

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Audited conducted From: 02nd August, 2016 to 7th September, 2016

Report Issued on: 8th September, 2016

NAGAR PANCHAYAT – ARERAJ (EAST CHAMPARAN)

INTERNAL AUDIT REPORT OF F.Y.2015-16

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Internal Audit Report of Financial year 2015-2016

Section A: Audit Methodology and Approach

Audit Methodology

We have conducted the internal audit of Nagar Panchayat – Areraj (East Champaran), for the year ending on 31st March, 2016 (as per TOR). We familiarized ourselves with N.P. documents, the internal guidelines and circulars applicable during this period under review. We also reviewed the working of the Nagar Panchayat and evaluated the accounting systems and related controls of the N.P. in order to plan and perform our audit.

We reviewed transaction from April 01, 2015 to March 31, 2016. Our objective was to check all transactions and to design procedures to detect omissions. We also applied procedures to assess the adequacy of the N.P. financial management systems, including internal controls for entire audit period. We applied necessary tests and controls, as we considers necessary under the circumstances.

During the course of our audit we reviewed the below mentioned documents and registers:

- Subsidiary Cash Book for the period from 1st April 2015 to 31st March 2016 maintained manually in the N.P. ;
- Vouchers (Cash, Bank, Journal etc)along with supporting documents;
- Receipt Books
- Other necessary records and registers

The major observations, in respect of the N.P. have been discussed with the Executive Officer & Accountant of the N.P.

Audit Approach

Our approach to the internal audit started with an overview of activities through a study and documentation of the existing systems and procedures. We then identified, evaluated and tested the adequacy, efficiency and effectiveness of internal controls including standard policies and procedures laid down by the management (where applicable), for each of the areas included in the Scope of Work.

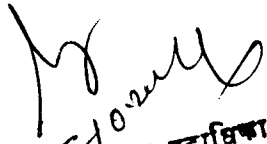
Testing of internal controls was carried out by checking a sample of transactions for the period covered by the audit.

Apart from the test of controls and samples we also carried out various types of analytical reviews to understand as well as highlight unusual or significant trends in the income & Expenditure.

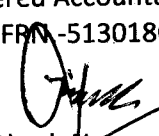


Our observations, resulting from the audit tests performed on a sample of transactions, are set out under "Part-A, Part-B & Part-C" of the audit report and include our recommendations for addressing these observations.

Place : Muzaffarpur
Date : September 08,2016


कार्यपालक पदाधिकारी
नगर पंचायत अरेराज
मधुवा जिला

For G.K.Sureka & Co.
Chartered Accountants
FPA-513018C


(CA. Dhruv Narayan)
Partner
M.N.- 501415



Executive Summary

1. Introduction

Name of the Municipality	N.P. Areraj (East Champaran)
Period Covered under Current Audit	01.04.2015 to 31.03.2016
Name of the Chief Municipal Officer for the period under Audit	Sh. Shiv Nath Thakur

2. Results and Findings

Strength observed during the audit engagement	<ul style="list-style-type: none"> ➤ Subsidiary Cash Book has been written. ➤ Staff Cooperation during the Audit period was very good.
Weakness observed in the functioning of office, maintenance of records etc. observed during the audit engagement.	<ul style="list-style-type: none"> ➤ Various taxes collected during the financial year 2015-16 amounting to Rs. 5,82,641 has not been deposited by the tax collector till the date of our audit . Details of such amount are given in Annexure attached with the report. ➤ As per Section 82 to Section 85 of the Bihar Municipal Act, 2007 budgets are required to be prepared and approved from the board on annual basis but we observed that budgets have not been prepared during the financial year 2012-2013, 2013-2014, 2014-2015 & 2015-2016. ➤ General Cash Book has not been prepared in Financial Year 2015-2016. ➤ There are lack of internal control w,r,t collection of taxes during F. Y. 2015-16. ➤ Demand collection Register has not been prepared hence it is not possible to ascertain total arrear of taxes. ➤ Holding tax is being collected on adhoc basis which is not a proper way. ➤ Amount collected by tax collector are not deposited on daily basis we observed significant delay in collection and deposit of taxes / other revenue which is not proper. As per Rule 27 of BMAR it should be deposited on daily basis otherwise a penalty up to Rs. 5000.00/- may be imposed for



	<p>delayed deposit.</p> <ul style="list-style-type: none"> ➤ Tower tax dues are not collected on time basis. ➤ Tender of Ghat, Crematorium, Gate, Palm trees and lands are not done on yearly basis. ➤ Grant Register is not being maintained hence it is difficult to find unutilized grant at any point of time. ➤ Bank Reconciliation Statement is not prepared hence it is difficult to monitor possible fraud, if any. ➤ Advance Register is not prepared hence it is difficult to monitor for advances given and adjustment thereof. ➤ There is lack of internal control on deduction and deposit of various taxes. On deduction of taxes liability is not created hence it is difficult to ascertain tax payable at any point of time. Taxes such as VAT, I.T.(TDS), Royalty, Labour Cess etc are collected from time to time but its payments are made on yearly basis which is not proper. Taxes should be remitted to the Govt. account on timely basis otherwise penal action may be taken by the concerned department for delayed deposit of taxes. <p>We observed that Income tax deducted during the F.Y. 2015-16 amounting to Rs. 1,41,898.00 has not been deposited till 31.08.2016. VAT for the F.Y. 2015-16 amounting to Rs. 4,09,877.00 has not been deposited up to 31.08.2016. Royalties for the F. Y. 2015-16 amounting to Rs. 70,166.00 has not been deposited up to 31.08.2016. Labour Cess for the F.Y . 2015-16 amounting to Rs. 13,152.00 has been not deposited up to 31.08.2016 and Provident Fund from the F.Y. 1992-93 to 2015-2016 amounting Rs. 1,38,614.00 has not been deposited up to 31.08.2016.</p> <p>Acknowledgement of E-filing of TDS return was not made available to us.</p> <p>Royalty and Labour Cess has not been deposited till the date of our audit.</p>
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3. Opinion

<p>Overall opinion of the Audit team about the functioning of the Municipality</p>	<p>The functioning of the Municipality is very weak due to following reasons:</p> <ul style="list-style-type: none"> 1 Most of the prescribed Books of accounts including General Cash Book are not maintained 1 Budgets have not been prepared and approved by the board during the F.Y. 2012-13, 2013-14, 2014-15 & 2015-16. 1 Internal Control w.r.t. collection of taxes, monitoring of grant, monitoring of advances, monitoring of schemes etc. is very poor. 1 Collection from own sources is very poor. 1 Holding tax has been collected against issue of HR on adhoc basis but the same has not been deposited at all. Details of such collection are given in Annexure. 1 Grant received for various purposes are not utilized on timely basis. 1 There are serious lapses in deduction and deposit of statutory dues such as TDS, VAT, Royalty, Labour cess etc. 1 Collection of holding tax should be started in systematic matter by preparing demand collection register. 1 Advertisement Tax is not being levied by the N.P as a result there is a loss to the N.P of advertisement tax amount. It is suggested to start levy of Advertisement tax.
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4. Audit Recommendations

<p>The recommendations of Audit team on the observed weakness</p>	<p>We recommend the followings:</p> <ul style="list-style-type: none"> ✓ Budget should be prepared and passed by the board on annual basis. ✓ Property tax Register should be prepared immediately and holding tax should be collected on immediate basis. ✓ All the prescribed books of accounts and Registers should be prepared on real time basis ✓ Bank reconciliation Statement should be prepared on
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	<p>monthly basis</p> <ul style="list-style-type: none"> ✓ Cashier Cash Book should be written on daily basis. ✓ Collection by tax collector should be deposited on daily basis. ✓ Grant Register should be prepared ✓ All the statutory dues should be deposited on timely basis and returns prescribed under the statute should also be deposited on timely basis. ✓ Demand Collection Register of all the wards should be prepared. ✓ Property tax register should be prepared as per new assessment. ✓ Collection from own sources should be improved.
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<p>5. Compliance of Terms of Contract as per scope of work</p>	<p>Terms of Internal Audit Contract as per scope of work has been complied with and a report of compliance of terms of the contract is attached in Annexure.</p>
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<p>6. Compliance of Previous Internal Audit Report</p>	<p>Audit report of F.Y. 2014-15 has been submitted after completion of the financial 2015-16 hence possibility of compliance of previous year's report in the current financial year does not arise.</p>
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7 Comments from Management

Comment from Management	The audit report has been discussed with us; we will try our best to remove the irregularities pointed out in the audit report. For Nagar Panchayat Areraj (Executive Officer)
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8 Acknowledgment

We thank Mr. Shiv Nath Thakur (Executive Officer), for his support during the period of our audit. We also thankful to Accountant, Tax Daroga and support staffs of the municipality for their cooperation extended to us during the period of our audit.

Shiv Nath Thakur
Place : Muzaffarpur
Date : September 08, 2016
शिवनाथ ठाकुर
नगर पंचायत अरेराज
मुख्य कार्यपालक

For G.K.Sureka & Co.
Chartered Accountants

FRN -513018C

(Signature)
(CA. Dhruv Narayan)
Partner

M.N.- 501415



Detailed Audit Report

1. Introduction

The Internal audit of N.P.- Areraj (East Champaran) covering period from 1st April 2015 to 31st March 2016 was conducted by following persons under guidance of CA. Dhruv Narayan

- i. Avinash Kumar
- ii. Purushotam Kumar

2. Administration

The present body of the ULB has taken charge on 9th September, 2014. The incumbency in the key administrative and executive position was as under:

Smt. Purnima Devi, Chairman from 09.06.2012 to till date, Shri Shiv Nath Thakur, Executive officer from 08.09.2015 to till date.

3. Review of outstanding audit paras : Status of Audit Observations are as under:

Sl.No.	Particulars of Audit and date of report	Total No. of Audit Paras.	Total No. of audit paras where necessary improvement/ corrective measure is required	Total No. of audit paras where recovery of cash is proposed	Total No. of audit paras where recovery has been made	Total amount of Recovery	Total No. of outstanding paras where no action has been taken	No. & date of Compliance report

No A.G. Audit has been conducted since the date of completion of our previous audit for the F.Y. 2014-15



I. Budgetary provisions and expenditure for the last three years

Year	2013-2014	2014-2015	2015-2016
Final/ Revised Budget	Budget not prepared	Budget not prepared	Budget not prepared
Actual Expenditure	2,07,52,513.00	3,92,88,187.50	8,27,07,804.75
Savings (+)/ Excess (-)	NA	NA	NA

II. Volume of transactions

Period	Budgeted	Previous year (For One year)	Corresponding period of previous year	Current Period	Cumulative for the current period
Opening Balance	NA	3,95,80,161.56	3,95,80,161.56	4,38,24,441.56	4,38,24,441.56
Receipts	NA	4,35,32,467	4,35,32,467	9,19,73,709.00	9,19,73,709.00
TOTAL	NA	8,31,12,628.56	8,31,12,628.56	13,57,98,150.56	13,57,98,150.56
Net Expenditure	NA	3,92,88,187.50	3,92,88,187.50	8,27,07,804.75	8,27,07,804.75
Closing Balance	NA	4,38,24,441.56	4,38,24,441.56	5,30,90,345.81	5,30,90,345.81

III. Bank Reconciliation

Details of Bank Accounts and their reconciliation position are as under:

Sl.No	Name of Bank	Account No.	Balance as on 31.03.2016	Name of Scheme	Reconciliation position
1	C. B. I.	3480936517	23,04,823.00	Swachh Bharat Abhyan	Un-reconciled
2	U. B. G. B.	1002091010007510	5,35,069.50	Various schemes	Un-reconciled
3	U. B. I.	572302010007975	1,53,724.00	Various schemes	Un-reconciled
4	C. B. I.	2238383632	7,16,056.50	Various schemes	Un-reconciled
5	P. L. A.		4,78,39,601.00	Various schemes	Un-reconciled



6	P. N. B.	1695002100002541	16,261.00	Various schemes	Un-reconciled
7	P. N. B.	1695002100002523	3,46,488.00	Various schemes	Un-reconciled
8	S. B. I.	11701004361	19,60,520.81	Various Schemes	Un-reconciled
9	P. N. B.	1695002100002532	26,461.00	Various Schemes	Un-reconciled
	TOTAL		5,38,99,004.81		
	Total as per C.B		5,01,87,464.81		
	Difference		37,11,540.00		

Bank Reconciliation Statements have not been prepared by the N.P. There is a difference of Rs. 37,11,540.00 between Cash Book and consolidated balance as per pass book of all accounts.

The N.P. is suggested to reconcile the above mentioned differences immediately and prepare B.R.S on monthly basis.



IV. Revenue Receipts

Period	Budgeted	Previous year (For One year)	Corresponding period of previous year	Current Period	Cumulative for the current period
a) Own Source					
Property Tax	NA	0	0	0	0
Assigned revenue	NA	489829	489829	1551029.00	1551029.00
Others (Fees & User Charges)	NA	28560	28560	722332.00	722332.00
(b) Administrative Grant	NA				
(c) Specific Grant				9540641.00	9540641.00
State Planning commission					
Grant for Construction of Road	NA	6976700	6976700	12024650.00	12024650.00
Grant for Construction of Drain	NA			3885600.00	3885600.00
13th Finance Commission Grant	NA	1226139	1226139	5913181.00	5913181.00
4th Finance Commission Grant	NA	9782310	9782310	10392435.00	10392435.00
Grant for Water Supply	NA			1804711.00	1804711.00
BRGF	NA	120000	120000		
SJSRY	NA	1062523	1062523		
Grant for construction of Building	NA	4676000	4676000		
Kabir Anthesthi Yojna	NA			192846.00	192846.00
Parivahan Grant	NA				
Grant for salary of City Manager	NA				
Grant for Sal & Allow. Of CWC & VCWC	NA	1165911	1165911	137932.00	137932.00



M.M.K.V.Y	NA	745000	745000		
Grant for Construction of Toilet	NA				
M.M.N.V.Y	NA				
Grant for Steet Light	NA			6000000.00	6000000.00
Grant for SECC	NA	5000	5000		
Grant for census	NA			288190.00	288190.00
Grant for pension	NA	12029800	12029800	9536600.00	9536600.00
Grant for Const. of Bus Stand	NA				
Bihar Handicap pension Scheme	NA				
State Social security Pension Scheme	NA				
Laxmibai Social Security Pension	NA				
Grant for E- Governace	NA	330000	330000	210000.00	210000.00
Swachh Bharat Abhiyan	NA			2830000.00	2830000.00

V. Status of Implementation of Double Entry Accounting System

Till date Double Entry Accounting System is not operational in the Nagar Panchayat.

Appointment of Chartered Accountant firms for implementation of Double Entry Accounting System in the Nagar Panchayat is in process but till date no C.A. firm has been appointed by the UD & HD.

VI. Status of Municipal Accounts Committee; if meeting held

As per section 98 of Bihar Municipal Act, 2007 it is necessary for the Municipality to constitute a Municipal Accounts Committee at its first meeting in each year or as soon as may be at any meeting subsequent thereto, but no Municipal Accounts Committee has been constituted by the N.P. till the date of our audit.



5. Audit Observations

I. PART- A

All audit objections/ irregularities which have monetary implication, particularly in following areas:

<p>a. Leakage of own source revenue either due to wrong assessment or non- levy of property tax, mobile tower tax, rent on municipal properties, advertisement tax fees etc.</p>	<p>Various taxes collected during the financial year 2015-16 amounting to Rs. 5,82,641 has not been deposited by the tax collector till the date of our audit . Details of such amount are given in Annexure attached with the report.</p> <p>HR No. 1 to 50 has been issued but no record is available about to whom the receipt has been issued .</p> <p>Tower tax dues of Rs. 10,23,750.00 has not been collected (Details of Tower Tax dues is annexed in Annexure)</p> <p>Late fine of Rs. 7,51,510.00 lacs has not been imposed on contractor for delayed completion of work.</p> <p>(Details of imposable late fine is enclosed in annexure)</p>
<p>b. Excess payment against bill, lack of prudence in payment against voucher, inefficiency in controls resulting loss to ULBs</p>	<p>We did not observe any excess payment against bill, lack of prudence against vouchers etc.</p>
<p>c. Report on findings of field survey of Property Tax of minimum 80 high value properties for the year</p>	<p>Field survey of 80 high value properties could not be conducted as neither property tax register nor demand collection Register has been prepared till date. As no data of holding is available, it is not possible to conduct field survey of property.</p>
<p>d. Statutory dues clear by ULB time to time.</p>	<p>TDS on Advertisement bill not deducted, and TDS deducted from contractors has not been deposited. PF amount has not been deposited.</p>



PART-B

All audit objections/ irregularities which have no monetary implication, but significant violation of Act, Rules & directives of UD & HD. Mention the reference Act & Rules wherein remedial measures is required. In this part auditor should report in respect of –

<p>a. Non- maintenance of books of accounts , subsidiary registers</p>	<p>As per Bihar Municipal Accounting Manual Following primary Books of accounts are required to be maintained :</p> <ol style="list-style-type: none"> 1. Cash Book (Form Gen-IA) 2. Bank Book (Form Gen-IB) 3. Journal Book (Form Gen-2) 4. Ledger (Form Gen-3) <p>In addition to above following other General Registers and forms are required to be maintained but the same are not being maintained.</p> <ol style="list-style-type: none"> 1 Receipt GEN-8 2 Receipt Register GEN-9 3 Statement on Status of Cheques Received GEN-10 4 Collection Register GEN-11 5 Memorandum of Collection GEN-12 6 Summary of Daily Collection GEN-13 7 Register of Bills for Payment GEN-14 8 Payment Order GEN-15 9 Cheque Issue Register GEN-16 10 Register of Advance GEN-17 11 Register of Permanent Advance GEN-18 12 Deposit Register GEN-19 13 Summary Statement of Deposits Adjusted GEN-20 14 Demand Register GEN-21 15 Bill for Municipal Dues GEN-22 16 Summary Statement of Bills Raised GEN-23 17 Register of Notice Fee, Warrant Fee, Other Fees GEN-24 18 Summary Statement of Notice Fee, Warrant Fee, Other Fees GEN-25 19 Register of Refunds, Remissions and Write-offs GEN-26 20 Summary Statement of Refunds and Remissions GEN-27 21 Summary Statement of Write-Offs GEN-28 22 Statement of Outstanding Liability for Expenses GEN-29 23 Documents Control Register/Stock Account of Receipt/Cheque Book GEN-30 24 Register of Immovable Property GEN-31 25 Register of Movable Property GEN-32
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	<p>26 Register of Land GEN-33 27 Function-wise Income Subsidiary Ledger GEN-34 28 Function-wise Expense Subsidiary Ledger GEN-35 29 Asset Replacement Register GEN-36 30 Register of Public Lighting System GEN-37</p> <p>The N.P. is maintaining only Cash Book/ Bank Book Journal Book and Ledger are not maintained.</p>
b. Irregularity in procurement process	No major irregularity observed
c. Non-compliance of directives by UD & HD , GOB	<p>We observed several non compliances of directives of UD & HD, GOB such as :</p> <ul style="list-style-type: none"> i. non collection of various taxes required to be collected ii. Non maintenance of prescribed books of accounts iii. Non submission of UC and other reports on timely basis etc.
d. Non Compliance of Act & Rules	<p>As per Section 127 of the Bihar Municipal Act , the Municipality can levy the following taxes:-</p> <ul style="list-style-type: none"> (a) property tax on lands and buildings. (b) surcharge on transfer of lands and buildings, (c) tax on deficit in parking spaces in any non-residential building, (d) water tax, (e) fire tax, (f) tax on advertisements, other than advertisements published in newspapers, (g) surcharge on entertainment tax (h) surcharge on electricity consumption within the municipal area, (i) tax on congregations, (j) tax on pilgrims and tourists, and (k) toll – <ul style="list-style-type: none"> (i) on roads, bridges, ferries and navigable channel and (ii) on heavy trucks which shall be heavy goods vehicles, and buses, which shall be heavy passenger motor vehicles, within the meaning of the Motor Vehicles Act, 1988, plying on a public street. (l) Tax on profession <p>We observed that no property tax has been levied till date.</p> <p>Only Trade license fee, Water tanker charges, Sauction machine chares etc. are being received in the N.P and all other</p>



	taxes are not being levied.
e. Lack of internal Control measures	<ul style="list-style-type: none"> ➤ There are lack of internal control w,r,t collection of taxes. ➤ Demand collection Register has not been prepared hence it is not possible to ascertain total arrear of taxes ➤ Taxes/user charges collected by tax collector are on deposited on daily basis we observed that it is being deposited after significant interval which is not proper. As per Rule 27 of BMAR it should be deposited on daily basis otherwise a penalty up to Rs. 5000/- may be imposed for delayed deposit. ➤ Tower tax dues are not collected on time basis. ➤ Tender of Ghat, Crematorium, Gate, Palm trees and lands are not done on yearly basis. ➤ Grant Register is not being maintained hence it is difficult to find unutilized grant at any point of time. ➤ Bank Reconciliation Statement is not prepared hence it is difficult to monitor possible fraud, if any. ➤ Advance Register is not prepared hence it is difficult to monitor for advances given and adjustment thereof. ➤ There is lack of internal control on deduction and deposit of various taxes. On deduction of taxes liability is not created hence it is difficult to ascertain tax payable at any point of time. Taxes such as VAT, I.T. Royalty etc are collected from time to time but its payments are made on yearly basis which is not proper. Taxes should be remitted to the Govt. account on timely basis otherwise penal action may be taken by the concerned department for delayed deposit of taxes.
f. Non-compliance of TDS, VAT and other relevant Statute	<p>Tax deducted at source of Income Tax, VAT & Royalty are deposited on yearly basis which is not proper it should be deposited within the due date prescribed under the respective statute. We observed that Income Tax, VAT, Royalty & labour cess for whole financial year has not been deposited till the date of our audit. Taxes should be remitted to the Govt. account on</p>



	timely basis otherwise penal action may be taken by the concerned department for delayed deposit of taxes
g. Deficiency in Pay-roll System	The pay-roll system does not contain leave details of employee. PF contribution and pension fund contribution of employees are deducted but municipal contribution is not being paid. PF account has not been opened with PF department all the deductions of PF contribution and pension fund contribution are being deposited in a separate account opened by the municipality.
h. Utilization of Grant and report on missing Utilization Certificates	Grant Register has not been prepared hence it is difficult to ascertain unutilized grant at any particular time. Details of UC sent to the Govt. are annexed in Annexure.
i. Physical verification of inventory/Stores	Store Register has not been prepared and physical verification of inventory/stores has also not been done.
j. Advances, their adjustment & recovery	Advance Register has not been prepared hence it is very difficult to monitor advances, their recovery and adjustment.
k. Any other matters as may be prescribed in due course.	Staff Strength needs to be increased.



PART- C

General Observations: Auditor should report the deficiencies noticed during their audit and recommend ULB Management to improve internal systems.

Whether the postings for the entries in the books of original entry have been correctly made in the respective ledger accounts	No, Ledger accounts have not been prepared by the N.P.
Whether all the books of accounts and supplementary registers that are prescribed in the Accounts Manual / other applicable regulations have been properly maintained by the ULB;	No, except Subsidiary Cash Book no other books of accounts have been maintained.
Whether the Quarterly Financial Statements have been compiled on the basis of the actual entries in the books of accounts;	No quarterly Financial Statements have been prepared by the N.P.
Whether the period-end and reconciliation procedures prescribed have been carried out.	No, period-end and reconciliation procedures as prescribed have not been carried out.
Whether the Bank Reconciliation statements have been prepared and are appropriate	No, Bank Reconciliation Statements have not been prepared by the N.P.
Whether all grants from Government have been accounted at gross value with proper entries to various accounts	Yes, all grants from Government have been accounted at gross value but all transactions are not correctly classified with sufficient details.
Whether all transactions (incomes, expenditures, assets and liabilities) are correctly classified and stated in sufficient detail;	No all transactions have been classified as incomes and expenditure only assets and liabilities have not been recognized.
Whether all grants sanctioned or received by the municipality during the year, have been accounted properly, and where any deduction is made out of such grants towards any dues of the ULB? Whether such deductions have been properly accounted;	Grant received during the year has been properly accounted for. Information about grant sanctioned and deductions made out of such grant is not available with the ULB.
Whether any Special Funds have been created as per the provision of any statute and whether the Special Funds have been utilized for the purposes for which they have been created;	No Special fund has been created by the ULB.

