

INTERNAL AUDIT REPORT OF NAGAR PANCHAYAT- BHAKHRI

For the Period from April-2015 to March - 2016

INTERNAL AUDIT CONDUCTED BY

THAKUR BHUWANESH & ASSOCIATES

Chartered Accountants
2nd Floor, Nathani Market
Sutapatti, Muzaffarpur
Bihar-842001

Audit Conducted from: 3rd October'16 to 6th October'16

NAGAR PARISHAD- BAKHRI (BEGUSARAI)**INTERNAL AUDIT REPORT FOR THE FINANCIAL YEAR 2015-16****INDEX**

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INTERNAL AUDITOR'S REPORT

Joint Secretary and
Additional Project Director
Urban Development & Housing
Department, Patna

We have conducted internal audit of the Books of Accounts and related document and vouchers of **Nagar Panchayat – Bakhri (ULB)** for the period of **1-4-2015 to 31-03-2016** in terms of agreement with UD&HD dated 21.03.2016. These Books of Accounts and related document and vouchers are the responsibility of Management. Our responsibility is to express an opinion on the Books of Accounts and related document and vouchers based on our audit.

We have conducted our audit in accordance with the **Standard on Internal Audit (SIA) formulated by ICAI**. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Books of Accounts and related document and vouchers are free from material misstatement. An audit includes examining, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our observations. The salient points of the scope covered by the internal audit are as follows:

1. The effectiveness of accounting system.
2. Compliance with the legal and statutory requirements.
3. Risk-based review and evaluation of the Internal Control.
4. Compliance of Bihar Municipal Act.
5. Compliance of Bihar Municipal Accounting Manual.

Moreover, our scope of examination also covered the requirements of the specific points as spelled out by the management of the Urban Development & Housing Department. The result and recommendations of our internal audit are set out in Scope, Observations and Annexure of our report.

The statutory auditor of the Urban Development & Housing Department expresses opinion as to the true and fair view of the financial statements. We have not expressed any opinion on the financial statements and accordingly, this report should not be constructed as our opinion on the financial statements.

For Thakur Bhuvanesh& Associates

Chartered Accountants.

FRN: 019690N



(CA. Rajesh Kumar Jha)

Partner

M.NO. 412318

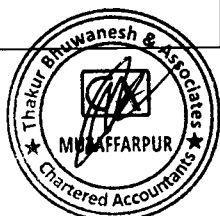
Date: 2nd November'2016

Executive Summary**1. Introduction**

Name of the Municipality	Nagar Panchayat Bakhri
Period covered under current audit	01.04.2015 to 31.03.2016
Name of Chief Executive Officer for the period under Audit	Arvind Paswan

2. Results and Findings

Strength observed during the audit engagement	<ul style="list-style-type: none"> • The following records are available: <ul style="list-style-type: none"> ✓ Cash Book with Subsidiaries ✓ Cheque receipt register ✓ Remittance Register ✓ Log Book of Vehicle ✓ Salary Register ✓ Daily collection Register of Taxes/user charges /Fees & Fines • Staff Cooperation during the Audit period is satisfactory. • Physical verification of movable Fixed Assets has been carried out during performance audit.
Weakness observed in the functioning of office, maintenance of records etc. observed during the audit engagement.	<ul style="list-style-type: none"> • Holding Tax collection up to year 2015-16 has not been started. • Property register is under preparation. • Demand collection Register has not been prepared. • Dues from Tower tax Rs. 558000.00 up to the year 2015-16 has not been collected till date of Audit. • Labour cess of Rs. 79254.45 not collected on the house plan approved. • Periodical checking of Books of accounts by Chairman or vice chairman has not been done. • There is lack of internal control on deposit of various taxes. Labour cess Rs. 471933.00 TDS contractor and supplier Rs. 449972.00 Sales Tax Rs. 2772191.00 and TDS – Employee Rs. 62962.00 deducted during the year but deposited on 19.03.2016. Quarterly TDS return not shown to us.



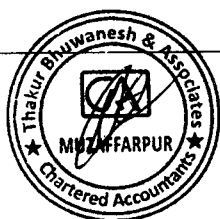
	<ul style="list-style-type: none"> • Grant Register is not being maintained hence it is difficult to find un-utilized grant at any point of time. • Bank Reconciliation Statement is not prepared hence it is difficult to monitor possible fraud, if any. • Advance Register is not prepared hence it is difficult to monitor for advances given and adjustment thereof.
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3. Opinion

<p>Overall opinion of the Audit team about the functioning of the Municipality</p>	<p>The overall functioning of the Municipality is under average to following reasons:</p> <ul style="list-style-type: none"> • Most of the prescribed Books of accounts are maintained but not in proper format. • Internal Control w.r.t. collection of taxes, monitoring of grant, monitoring of advances, monitoring of schemes etc. is very poor. • Collection from own sources is very poor. • Grant received for various purposes are not utilized on timely basis. • There are serious lapses in deduction and deposit of statutory dues such as TDS, VAT, Royalty, Labour cess etc.
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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"> ✓ All the prescribed books of accounts and Registers should be prepared on real time basis ✓ Bank reconciliation Statement should be prepared on monthly basis ✓ Cashier Cash Book should be maintained and written on daily basis. ✓ Collection by tax collector should be deposited on daily basis.
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	<ul style="list-style-type: none"> ✓ 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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5. Comments from Management

<p>Comment from Management</p>	<p>The audit report has been discussed with us; we will try our best to remove the irregularities pointed out in the audit report.</p> <p>For Nagar Panchayat – Bakhri (Executive Officer)</p>
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6. Acknowledgment

We thank Mr Arvind Paswan(Executive Officer) for their support during the period of our audit. We are also thankful to Tax Daroga and support staffs of the municipality for their cooperation extended to us during the period of our audit.

For Thakur Bhuwanesh & Associates

Chartered Accountants.

FRN: 019690N



(CA. Rajesh Kumar Jha)

Partner

M.NO. 412318



DETAILED AUDIT REPORT**1. Introduction**

The Internal audit of (N.P. Bakhri) covering the period from 01.04.2015 .to 31.03.2016 was conducted

by following persons under guidance of CA. Rajesh Kumar Jha

1. Amit kumar
2. Shashank Shekhar

2. Administration

The present body of the ULB has taken charge from 2014. The incumbency in the key administrative and executive positions was as under:

1. Smt. Geeta Devi Kushwaha, Chairman From 01.11.2014 to till date
2. Shri Arvind Paswan Executive officer From 25.10.2013 to till date

3. Review of outstanding audit paras: Status of Audit Observation is as under : AG audit 2014-15

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 para where no action has been taken	No. & dated of compliance report
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As informed to us AG audit has not been conducted on date.

4. FINANCE:**I. Budgetary provision and expenditure for the last three years**

Year	2013-14	2014-15	2015-16
Final/Revised Budget	730561280	1176763087.62	1241468472.00
Actual Expenditure	22697404	1241468472	96800793.56
Savings(+)/Excess(-)	707863876	-64705384.38	1144667678.44



II. Volume of transaction

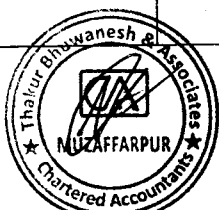
Period	Budgeted	Previous Year (2014-15)	Corresponding period of Previous year	Current Period (2015-16)	Cumulative for the current period
Opening balance	38957087	44597336.82	44597336.82	61146136.27	61146136.2
Receipts	1137806000	39246203.45	39246203.45	225318320.82	225318320.8
Total	1176763087	83843540.27	83843540.27	286464457.10	286464457.1
Net expenditure	1241468472	22697404.00	22697404.00	96800793.56	96800793.5
Closing balance	64705384.38	61146136.27	61146136.27	189663663.44	189663663.4

III. Bank Reconciliation

Preparation of Bank Reconciliation Statement is not in practice; however we have verified the cashbook balance and passbook balance and found the same in order.

IV. Revenue Receipts

Particulars	Budgeted	Previous Year (2014-15)	Corresponding period of Previous year	Current Period (2015-16)	Cumulative for the current period
a) Own source					
Property Tax	3200000			0.00	0.0
Assigned Revenue	13000000	1597437	1597437	1101875	110187
Others (Fee & User Charges)	9270000	3990849	3990849	1219409.50	1219409.5
(b) Administrative Grant					
General and dearness grants	12500000				
Kabir Antyesti Yojna	1000000				
Administrative Building	25000000				
State Plan	100000000				
Other Development	2000000	2030107	2030107	172705651	17270565
Other	1200000				
Social Security Pension Fund	10000000			367228	36722



Particulars	Budgeted	Previous Year (2014-15)	Corresponding period of Previous year	Current Period (2015-16)	Cumulative for the current period
BRGF	70000000	3268459	3268459	4593277	459327
BLADA Fund	100000000				
MPLAD	20000000				
Road and drainage repair scheme fund	525000000				
Receipt from 13 Finance commission	70000000	4286424	4286424		
CMUDF					
Receipt from 4 & 14 Finance commission	80000000	12723658	12723658	99213416	9921341
SRGY	10000000	461272	461272	1693600	169360
Matching Grants	10000000				
Renovation	50000000				
Mahadalit Grants	5000000				
Loans	3800000				
Swachh Bharat	0.00	0.00	0.00	5570000	557000

V. Status of implementation of Double Entry Accounting System

Double entry accounting system is being carried by Manmohan Singh & Co. CA firm being appointed by the organisation for the same but status of completion of books of accounts in tally is not known to Nagar Panchayat.

VI. Status of Municipal Account Committee; if meeting is held

As informed to us Municipal accounts committee has formed by the Nagar Panchayat, but no meeting is held till date.



5. Audit Observation

I. Part – A

All Audit objections/irregularities which has monetary implication, particularly in following area

<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>Holding Tax collection up to year 2015-16 has not been started</p> <p>Dues from Tower tax Rs. 558000.00 up to the year 2015-16 has not been collected till date of Audit. (Details as per annexure)</p> <p>Labour cess of Rs. 79254.45 not collected on the house plan approved. (Details as per 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 have checked the expenditure vouched all above Rs. 10000.00, few observation are following-:</p> <ol style="list-style-type: none"> 1. Iron rod cost inflated to Rs. 78.00 per kg which is very high in compare to market rate. (Details as per annexure) 2. Few vouchers are passed but no date or serial no. Are available on voucher. (Details as per annexure) 3. Completion date of scheme not mentioned on file. (Details as per annexure)
<p>c. Report on findings of field survey of Property Tax of minimum 20 high value properties</p>	<p>Field survey of 23 high value properties has been conducted by us a report thereon is attached in Annexure A (only list of 23 no. of property is with NP)</p>



II. Part – B

All Audit objections/ irregularities which has no monetary implication, but significant violation of Act, Rules & directives of UD&HD.

Sl. No.	Observation & Impact	Recommendation
a	<u>Non-maintenance of books of accounts, subsidiary registers</u>	
	<p>The Nagar Panchayat is maintaining only Cash Book/ Bank Book</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>Journal Book and Ledger are not maintained.</p> <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 	<p>All the register should be duly maintained.</p> <p>Bank Reconciliation shall be done on regular basis.</p> <p>These register shall be maintained for control purpose.</p>



Sl. No.	Observation & Impact	Recommendation
	<p>12 Deposit Register GEN-19</p> <p>13 Summary Statement of Deposits Adjusted GEN-20</p> <p>14 Demand Register GEN-21</p> <p>15 Bill for Municipal Dues GEN-22</p> <p>16 Summary Statement of Bills Raised GEN-23</p> <p>17 Register of Notice Fee, Warrant Fee, Other Fees GEN-24</p> <p>18 Summary Statement of Notice Fee, Warrant Fee, Other Fees GEN-25</p> <p>19 Register of Refunds, Remissions and Write-offs GEN-26</p> <p>20 Summary Statement of Refunds and Remissions GEN-27</p> <p>21 Summary Statement of Write-Offs GEN-28</p> <p>22 Statement of Outstanding Liability for Expenses GEN-29</p> <p>23 Documents Control Register/Stock Account of Receipt/Cheque Book GEN-30</p> <p>24 Register of Immovable Property GEN-31</p> <p>25 Register of Movable Property GEN-32</p> <p>26 Register of Land GEN-33</p> <p>27 Function-wise Income Subsidiary Ledger GEN-34</p> <p>28 Function-wise Expense Subsidiary Ledger GEN-35</p> <p>29 Asset Replacement Register GEN-36</p> <p>30 Register of Public Lighting System GEN-37</p>	
b	<u><i>Irregularity in procurement process</i></u>	



Sl. No.	Observation & Impact	Recommendation
	No such observation.	None.
c	<u>Non-compliance of directives by UD&HD, GOB</u>	
	Nagar Panchayat generally follows the directives issued time to time by GOB or UD&HD	None
d	<u>Non-compliance of Act & Rules</u>	
	<p>During course of Audit we observed that a significant numbers of Rules and Act are being violated by the Nagar Panchayat because of lack of knowledge or deliberately, they are as follows-</p> <p>i) As per Bihar Municipal Act 2007 u/s 82 (9) budget shall not deviate above 5% but there is more than 85% of deviation in 2014-15 budget.</p> <p>ii) As per Bihar Municipal Act 2007 u/s 98 Accounts committee shall have to be formed which is violated by Nagar Panchayat.</p> <p>iii) TDS has not being deposited in time also TDS return has not been submitted violating the Income tax Act.</p>	<p>Every rule and Act shall be followed.</p> <p>TDS collection and deposition shall be done on due time.</p> <p>TDS return not submitted till date which attract penalty Rs. 200.00 per day per return.</p>
e	<u>Lack of internal control measures</u>	
	<p>During course of audit we came across various loopholes in internal control, they are:-</p> <p>i) Cash collection and safe custody of cash is not proper.</p> <p>ii) Demand and collection register for holding is not being maintained by the NP.</p> <p>iii) Agreement files of shops/markets on lease are not maintained by NP.</p>	Proper care shall be made of internal control system.



Sl. No.	Observation & Impact	Recommendation
	iv) Advance Register is not kept by NP.	
f	<u>Non-compliance of TDS, VAT And other relevant statute</u>	
	<p>i) TDS, VAT, Royalty and Labour cess has been deducted but has deposited on 19.03.2016.</p> <p>ii) TDS deposited in f.y. 2015-16 but TDS return has not filed till date which will attract a late fine u/s 231 of IT act of Rs. 200/- per day per return.</p> <p>iii) Professional Tax of Ex. Engineer has not been deducted in any financial year.</p>	All the dues shall be accessed and payed on regular and timely basis to avoid the pena provisions.
g	<u>Deficiency in pay-roll system</u>	
	i) EPF deduction and deposition is not proper.	It should be deducted on prescribed rate and deposited to PF account of employees.
h	<u>Utilisation of Grant and report on missing Utilisation Certificates</u>	
	Grant Register has not been prepared hence it is difficult to ascertain unutilized grant at any particular time. As explained to us Utilization certificates up to 31.03.2015 has been sent to the Government but copy of the same could not be provided to us. Also as per head office various utilisation is pending till date.	N/A
i	<u>Physical verification of inventory / stores</u>	
	Inventory and store register is not kept by the NP and neither store verification is done.	Inventory and store register shall be kept by the NP and once in a month physical verification shall be done.
j	<u>Advances, their adjustment & recovery</u>	



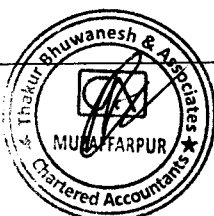
Sl. No.	Observation & Impact	Recommendation
	Advance register is not maintained, however as explained Salary advance is being adjusted through acutance.	Advance register shall be prepared and updated on regular basis.
k	<u>Any other matters as may be prescribed in due course.</u>	
	i) As observed that the cash collected by bill collector have significant exposure to risk of theft, robbery and misappropriation, insurance of Cash shall be taken by the Department. ii) There should be proper indemnity bond binding on bill collectors.	None



III. Part – C

General observations: Auditor should report the deficiencies noticed during their audit and recommendation ULB management to improve internal systems.

Particulars	Comments
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 General Cash Book and 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.
In respect of contracts that are in existence during the year, whether there are any deviations from the sanctioned plans and the estimates without the sanction of the competent authority;	On our test check we did not notice any major deviation.
Whether the ULB is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; whether these fixed assets have been physically verified at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same has been properly dealt with in the books of account;	No, record of fixed assets has not been maintained by the ULB. Physical verification of fixed assets has not been done during the financial year under audit.



Particulars	Comments
Whether in case of leasehold property given by the ULB, lease rentals are collected regularly by the ULB and that the lease agreements are renewed after their expiry;	As explained to us no property of the ULB has been given on lease.
Whether physical verification has been conducted by the ULB at reasonable intervals in respect of stores;	No, physical verification of stores has been conducted by the ULB at reasonable intervals.
Whether the procedures of physical verification of stores followed by the ULB are reasonable and adequate? If not, the inadequacies in such procedures should be reported;	No
Whether any material discrepancies have been noticed on physical verification of stores as compared to book records, and if so, whether the same has been properly dealt with in the books of account;	No physical verification has been carried out during the audit period.
Whether proper procedures 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 there is no procedures are in place to identify any unserviceable or damaged stores
Whether the valuation of stores is in accordance with the accounting principles laid down in the rules? 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 material, should be reported;	No valuation of stores has been done.
Whether the parties to whom loans or advances have been given by the ULB are repaying the principal amounts as stipulated and are also regular in payment of the interest and if not, whether reasonable steps have been taken by the municipality for recovery of the principal and interest?	There is no case loans and advances other than advance to staff for expenditure.
Whether advances given to municipal employees and interest thereon are being regularly recovered;	Advance Register has not been maintained so we are unable to verify whether it is being recovered regularly or not.
Whether there exists an adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets?	No there does not exist any internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets
Whether applicable procurement rules and procedures are being followed and if so, significant deviations should be identified and reported.	On our test check we did not notice any major deviation.
Whether the municipality is regular in depositing statutory dues including tax deducted at source, service tax, VAT, works contract tax, cess payable to the government etc., and if not, the nature and cause of such delay and the amount not deposited;	No, the municipality is not regular in depositing statutory dues including tax deducted at source, service tax, VAT, works contract tax, cess payable to the government etc.
Whether the municipality is regular in remittance of pension and leave encashment contributions or any other amounts which the municipality is liable to remit towards	The municipality is not giving contribution to P.F or pension Fund in prescribed rate and procedure.

