

# **INTERNAL AUDIT REPORT OF NAGAR PARISHAD - BIHAT**

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For the Period from April-2015 to March - 2016

INTERNAL AUDIT CONDUCTED BY

**THAKUR BHUWANESH & ASSOCIATES**

Chartered Accountants  
2<sup>nd</sup> Floor, Nathani Market  
Sutapatti, Muzaffarpur  
Bihar-842001

Audit Conducted from: 02<sup>th</sup> May'17 to 4<sup>th</sup> May'17

**NAGAR PARISHAD- BIHAT (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 – Bihat (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 Bhuwanesh & Associates**

Chartered Accountants.

FRN: 019690N

  
(CA. Rajesh Kumar Jha)

Partner

M.NO. 412318

Date: 9<sup>th</sup> May'2017

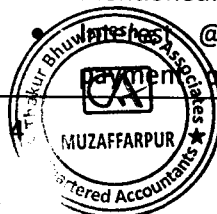


**Executive Summary****1. Introduction**

Name of the Municipality	<b>Nagar Parishad Bihat</b>
Period covered under current audit	<b>01.04.2015 to 31.03.2016</b>
Name of Executive officer for the period under Audit	<b>PrabhatRanjan</b>

**2. Results and Findings**

<b>Strength observed during the audit engagement</b>	<ul style="list-style-type: none"> <li>• The following records are available: <ul style="list-style-type: none"> <li>✓ Cash Book with Subsidiaries</li> <li>✓ Cheque receipt register</li> <li>✓ Remittance Register</li> <li>✓ Log Book of Vehicle</li> <li>✓ Salary Register</li> </ul> </li> <li>• Staff Cooperation during the Audit period is satisfactory.</li> <li>• Physical verification of movable Fixed Assets has been carried out during performance audit.</li> </ul>
<b>Weakness observed in the functioning of office, maintenance of records etc. observed during the audit engagement.</b>	<ul style="list-style-type: none"> <li>• Holding Tax collected Rs. 1729827.in financial year 2015-16 but was not deposited in Bank. (detail as per annex)</li> <li>• Rs. 1050000 on account of communication tower tax is yet to be collected. (detail as per annex)</li> <li>• Tax Collector generally deposits the collection amount with the interval of 3-7 days. As per Rule 27 of BMAR it should be deposited on daily basis otherwise a sum of Rs. 5000/- may be imposed for delayed deposit.</li> <li>• There is lack of internal control w.r.t collection of taxes.</li> <li>• Demand collection Register has not been maintained, cash collection is recorded in register.</li> <li>• Not available in any Log Book of Vehicle</li> <li>• Bill receipts are not properly filled; detail of property and assessment of tax is not mentioned.</li> <li>• @1.5% not imposed on delay of Tower registration fees and</li> </ul>



	<p>annual fees beyond 30 days. After 5 years there should be increase by 25% in renewal fee has not been demanded.</p> <ul style="list-style-type: none"> <li>• Periodical checking of Books of accounts by Chairman or vice chairman has not been done.</li> <li>• There is lack of internal control on deposit of various taxes. Due to cash basis accounting liability of Taxes has not been accounted.</li> <li>• Out of Rs2147930.00 VAT deducted only Rs. 1745991.00 deposited on 17-03-2017.</li> <li>• TDS Rs.549858.00, Labour cess 476565.00 and Royalty 476565.00 deducted but not deposited in 2015-16.</li> <li>• Grant Register is not being maintained hence it is difficult to find unutilized grant at any point of time.</li> <li>• Bank Reconciliation Statement is not prepared hence it is difficult to monitor possible mis-statement, if any.</li> <li>• Advance Register is not prepared hence it is difficult to monitor for advances given and adjustment thereof.</li> </ul>
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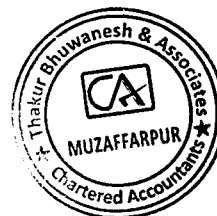
**3. Opinion**

<p><b>Overall opinion of the Audit team about the functioning of the Municipality</b></p>	<p>The overall functioning of the Municipality is very poor due to following reasons:</p> <ul style="list-style-type: none"> <li>• Most of the prescribed Books of accounts are maintained but not in proper format.</li> <li>• Internal Control w.r.t. collection of taxes, monitoring of grant, monitoring of advances, monitoring of schemes etc. is very poor.</li> <li>• Collection from own sources is very poor.</li> <li>• Grant received for various purposes are not utilized on timely basis.</li> <li>• There are serious lapses in deduction and deposit of statutory dues such as TDS, VAT, Royalty, Labour cess etc.</li> </ul>
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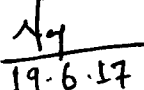



**4. Audit Recommendations**

<b>The recommendations of Audit team on the observed weakness</b>	<b>We recommend the followings:</b>
	<ul style="list-style-type: none"><li>✓ All the prescribed books of accounts and Registers should be prepared on real time basis</li><li>✓ Bank reconciliation Statement should be prepared on monthly basis</li><li>✓ Cashier Cash Book should be maintained and written on daily basis.</li><li>✓ Collection by tax collector should be deposited on daily basis.</li><li>✓ Grant Register should be prepared</li><li>✓ All the statutory dues should be deposited on timely basis and returns prescribed under the statute should also be deposited on timely basis.</li><li>✓ Demand Collection Register of all the wards should be prepared.</li><li>✓ Property tax register should be prepared as per new assessment.</li><li>✓ Collection from own sources should be improved.</li></ul>



**5. Comments from Management**

<p><b>Comment from Management</b></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 style="text-align: center;">               19-6-17              For Nagar Parishad – Bihat              (Executive Officer)         </p> <div style="text-align: right;">  </div>
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**6. Acknowledgment**

We thank Mr. Rajesh Kumar (Mayor) and Mr. Dhananjay Kumar Jha (Head Clerk) 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

Date: 10<sup>th</sup> May'2017



**DETAILED AUDIT REPORT****1. Introduction**

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

by following persons under guidance of CA. Rajesh Kumar Jha

1. DevashishJha
2. ShashankShekhar

**2. Administration**

The incumbency in the key administrative and executive positions was as under:

1. Shri Rajesh Kumar, Chairman From 06.06.2011 to till date
2. ShriPrabhatRanjan Executive officer From 01.09.2015 to till date

**3. Review of outstanding audit paras: Status of Audit Observation is 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 para where no action has been taken	No. & dated of complian report
1.	AG Audit-no. 1193/15-16 dated 26.02.16	28	28	5	1	92460.00	4	Not Sent yet.

**Details of outstanding paras where no action has been taken**

<u>Para No.</u>	<u>Particulars</u>
Para6	Miscellaneous Receipt amount could not be traced in Bank statement/cashbook Rs 5.14 Lacs.
Para 3	Excess Payment in Solar light Scheme Rs. 101065.00
Para 4	Irregular cleaning of Road and Drain recovery Rs. 117656
Para 13	Loss of government revenue Rs 13 lacs in the form of Registration renewal fee of communication tower.





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

Year	2013-14	2014-15	2015-16
Final/Revised Budget	332692130	178733772	382150000
Actual Expenditure	93155816	61515698	73403077
Savings(+)/Excess(-)	239536314	117218074	308746923

**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	67823320	124683687.9	124683687.9	114528603	114528603
Receipts	178610000	51360614	51360614	22875193	22875193
Total	246433320	176044301.9	176044301.9	137403796	137403796
Net expenditure	178733772	61515698	61515698	73403077	73403077
Closing balance	67699548	114528603.9	114528603.9	64000719	64000719

**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
<b>a) Own source</b>					
Property Tax	20000000	73241	73241		
Assigned Revenue	20200000	1543945	1543945	1960800	
Others ( Fee & User Charges )	3250000				
<b>(b) Administrative</b>					

Particulars	Budgeted	Previous Year (2014-15)	Corresponding period of Previous year	Current Period (2015-16)	Cumulative for the current period
<b>Grant</b>					
General and dearness grants					
Nagar Sarkar Bhawan		2083333	2083333		
sbm				13244100	13244100
2235 pension				12694500	12694500
Executive & Ward commissioner salary	2000000				
Ward commissioner Allowances		406800	406800		
Social Security Pension Fund	15000000				
BRGF	12500000	5150361	5150361		
RAY	100000000				
Renovation	10000000				
Road and drainage repair scheme fund	70000000				
5 <sup>th</sup> fin				29991160	29991160
4 <sup>th</sup> fin.	70000000				
13 <sup>th</sup> fin.	30000000	7689001	7689001	5725471	5725471
14 <sup>th</sup> fin.				17150193	17150193
Other	3000000				
E-governance	1500000				
Family Benefit Scheme	2500000				

#### **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 Tally accounting for the year 2014-15 is in process.

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

Municipal accounts committee is not formed by the Nagar Panchayat.



## 5. Audit Observation

### I. Part – A

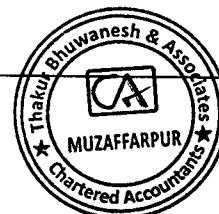
All Audit objections/irregularities which has monetary implication, particularly in following area

<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><b><u>Property Tax</u></b> Rs. 1729827.00 has been collected a Property tax but not deposited in Bank.</p> <p><b><u>Tower Tax</u></b> i) Total Rs. 1050000.00is pending a communication tower registration tax. ii) Rs. 15750.00 on account of penalty for late @1.5% is yet to be collected on Tower Tax.</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 but no any objectionable thing noticed.</p>
<p>c. Report on findings of field survey of Property Tax of minimum 20 high value properties</p>	<p>Field survey of 80 high value properties has been conducted by us a report thereon is attached in Annexure</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"> <li>1. Cash Book (Form Gen-IA)</li> <li>2. Bank Book (Form Gen-IB)</li> <li>3. Journal Book (Form Gen-2)</li> <li>4. Ledger (Form Gen-3)</li> </ol> <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"> <li>1 Receipt GEN-8</li> <li>2 Receipt Register GEN-9</li> <li>3 Statement on Status of Cheques Received GEN-10</li> <li>4 Collection Register GEN-11</li> <li>5 Memorandum of Collection GEN-12</li> <li>6 Summary of Daily Collection GEN-13</li> <li>7 Register of Bills for Payment GEN-14</li> <li>8 Payment Order GEN-15</li> <li>9 Cheque Issue Register GEN-16</li> <li>10 Register of Advance GEN-17</li> <li>11 Register of Permanent Advance GEN-18</li> <li>12 Deposit Register GEN-19</li> </ol>	<p>All the prescribed books shall be maintained.</p>



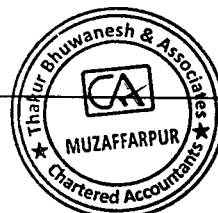
Sl. No.	Observation & Impact	Recommendation
	<p>13 Summary Statement of Deposits Adjusted GEN-20</p> <p>14 Demand Register GEN-21</p> <p>15 Bill for Municipal Dues GEN-22</p> <p>16 Summary Statement of Bills Raised GEN-23</p> <p>17 Register of Notice Fee, Warrant Fee, Other Fees GEN-24</p> <p>18 Summary 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>Irregularity in procurement process</u>	
	No such observation noticed during the audit.	None.



Sl. No.	Observation & Impact	Recommendation
c	<b><u>Non-compliance of directives by UD&amp;HD, GOB</u></b>	
	As explained to us there is no non-compliance of directives of UD &HD, GOB but related correspondence could not be provided to us.	NA
d	<b><u>Non-compliance of Act &amp; Rules</u></b>	
	<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 Accounting Rules, 2014 daily collection by bill collector shall be deposited to office before 04:30 on same day of collection and failure to this with attract a disciplinary action including fine of Rs. 5000.00 but this rule is regularly violated.</p> <p>ii) Daily summary of collection is not prepared in BMAR form no. 19 by the cashier and submitted to accountant, nor accountant verify the collection and deposit from Bank statement.</p> <p>iii) Custody of money is kept in single hand and that too in a Amirah safe.</p> <p>iv) As per Bihar Finance Rule 2005 any purchase shall be made through procurement Tender in newspaper, Nagar Panchayat has violated this rule while purchasing few assets. E.g. Hydraulic Tailor, suction Machine, Tractor Engine etc. a observed in AG report also.</p> <p>v) 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>vi) As per Bihar Municipal Act 2007 u/s 98 Accounts committee shall have to be formed which is violated by Nagar Panchayat.</p> <p>vii) TDS has not being deposited in time</p>	<p>Every rule and Act shall be followed.</p> <p>Bill collector shall be issued an order regarding this and on violation severe disciplinary action shall be taken.</p>



Sl. No.	Observation & Impact	Recommendation
	violating the Income tax Act.	
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) Daily collection is being kept by the bill collector for several days.</p> <p>iii) Cash is kept under single person custody.</p> <p>iv) Demand and collection register for holding is not being maintained by the NP.</p> <p>v) Agreement files of shops/markets on lease are not maintained by NP.</p> <p>vi) Advance Register is not kept by NP.</p>	Proper care shall be made of internal control system.
f	<u>Non-compliance of TDS, VAT And other relevant statute</u>	
	<p>i) Out of Rs.2147930.00 VAT deducted only Rs. 1745991.00 deposited on 17-03-2017.</p> <p>TDS Rs.549858.00, Labour cess 476565.00 and Royalty 476565.00 deducted but not deposited in 2015-16.</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>	<ul style="list-style-type: none"> <li>All the dues shall be accessed and payee on regular and timely basis to avoid the penal provisions.</li> </ul>



Sl. No.	Observation & Impact	Recommendation
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.	It should be maintained in prescribed format.
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 &amp; recovery</u>	
	Advance register is not maintained, Advance outstanding till 31.03.2015 was Rs. 853752.00. (Detail annexed)	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



**I. 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.

Particulars	Comments
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 ;	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.
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	our test check we did not notice any major

