

INTERNAL AUDIT REPORT OF NAGAR PARISHAD -KHAGARIYA

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: 20th October'16 to 25thOctober'16

Report Issued on 10th May 2017

NAGAR PARISHAD- KHAGARIYA (KHAGARIYA)**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 Parishad – Khagaria (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.

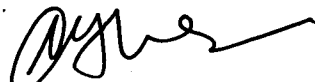
Moreover, our scope of examination also covered the requirements of the specific points as spelled out by the management of the Urban Development & Housing Department. The result and recommendations of our internal audit are set out in Scope, Observations and Annexure of our report.

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: 10th May'2017



Executive Summary

1. Introduction

Name of the Municipality	Nagar ParishadKhagaria
Period covered under current audit	01.04.2015 to 31.03.2016
Name of Chief Executive Officer for the period under Audit	Smt. PoonamKumari

2. Results and Findings

<p>Strength observed during the audit engagement</p>	<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.
<p>Weakness observed in the functioning of office, maintenance of records etc. observed during the audit engagement.</p>	<ul style="list-style-type: none"> • Rs. 7379303.00 collected against due of Rs 12532784.00for holding tax. • 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. • There is lack of internal control w.r.t collection of taxes. • Dues from Tower tax has not been collected on time. • Interest @1.5% not imposed on delay payment of Tower registration fees and annual fees beyond 30 days. After 5 years there should be increase by 25% in renewal fee has not been demanded. • Periodical checking of Books of accounts by Chairman or vice chairman has not been done.



	<ul style="list-style-type: none"> • There is lack of internal control on deposit of various taxes. • 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.
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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 very poor due to following reasons:</p> <ul style="list-style-type: none"> • Most of the prescribed Books of accounts are not maintained on 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
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	<ul style="list-style-type: none">✓ Cashier Cash Book should be maintained and 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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5. Comments from Management

Comment from Management	
	<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: right;"><i>Vikas Kumar</i> 24/06/17 For Nagar Parishad - Khagariya नगर परिषद, खगड़िया (Executive Officer)</p>

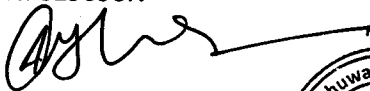
6. Acknowledgment

We thank Mrs Poonam Kumari (Executive Officer) and Mr. Vikash Kumar (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: 10th May'2017



DETAILED AUDIT REPORT

1. Introduction

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

by following persons under guidance of CA. Rajesh Kumar

1. Prakash Kumar
2. ShashiShekhar

2. Administration

The present body of the ULB has taken charge on 01.04.13. The incumbency in the key administrative and executive positions was as under:

1. Shri. Manoshar Kumar Yadav, Chairman From 01.04.13 to till date
2. Smt.PoonamKumariExecutive officer From 02.09.2015 to till date

3. Review of outstanding audit paras: Status of Audit Observation is as under : AG audit for the year 2013-14

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. 728/14-15	20	20	5	1	1060	6	

Details of outstanding paras where no action has been taken

Para No.	Particulars
Para 3	Excess Payment for Hand pump Installation Rs. 1.94 lacs
Para 14	Non realisation of Balanced Holding tax Rs. 2112380
Para 13	Non Preparation of Balance Sheet
Para 7	Irregular Payments for cleaning works
Para 11	Payment of Salary and wages for un Sanctioned posts Rs. 9.28 lacs
Para 15	Rent for market due Rs. 242291.00



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

Year	2013-14	2014-15	2015-16
Final/Revised Budget	Not Available	203022500	24092694
Actual Expenditure	47439708.00	61448673	21285738
Savings(+)/Excess(-)		141573827	2806956

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	74263015	78071608	78071608	74263015	74263015
Receipts	113502000	57640080	57640080	121940916	121940916
Total	856135015	135711688	135711688	196203931	196203931
Net expenditure	268650000	61448673	61448673	107729634	107729634
Closing balance	587485015	74263015	74263015	88474297	88474297

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	11000000	4649827	4649827	12532784	12532784
Assigned Revenue		1081137	1081137	1373029	1373029
Others (Fee & User Charges)	100000			15691428	15691428
(b) Administrative Grant					
Other Development	2030000			620398	620398
Death & Born	10000				

Particulars	Budgeted	Previous Year (2014-15)	Corresponding period of Previous year	Current Period (2015-16)	Cumulative for the current period
Social security	67250000			10174272	10174272
Public facility	7040000				
Sbm	3000000			3675000	3675000
Ward commissioner Allowances	3200000	128400	128400	285715	285715
Sjry				119263	119263
BRGF	20000000			2733236	2733236
Receipt from 13 th Finance commission	3000000	16043128	16043128	7669367	7669367
NULM	10000000			4559449	4559449
Receipt from 5 th Finance commission				20261249	20261249
Receipt from 4 th Finance commission	20000000	21851628	21851628	11740061	11740061
State Schemes	5000000	5253500	5253500	18125880	18125880
Special fund	7712000				
14 th fin.	10000000			5834309	5834309
Misc.		1218876	1218876	5952800	5952800
E-governance		560000	560000	922434	922434

V. Status of implementation of Double Entry Accounting System

Double entry accounting system is being carried by Mukherjee Vishwas&Pathak CA firm being appointed by the organisation and book of accounts has been completed upto December 2014.

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

Municipal accounts committee is formed. Members are as follows:-

- | | |
|-----------------------------|-------------------|
| 1) Smt. Uma Bharti | Ward Commissioner |
| 2) Shri Shiv Raj Yadav | Ward Commissioner |
| 3) ShriShyam Sunder Prashad | Ward Commissioner |

Meeting of the committee was held in 20/01/2015



5. Audit Observation

I. Part – A

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

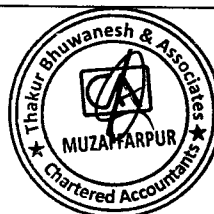
<p>a. Leakage of own source revenue either due to wrong assessment or non- levy of property tax, mobile tower tax, rent on municipal properties, advertisement tax fees etc.</p>	<p><u>Property Tax</u> i)Rs. 7379303.00 collected against due of Rs 12532784.00 for holding tax.</p> <p><u>Tower Tax</u> i) Total Rs. 1573000 is pending a communication tower registration tax. attached in Annexure ii) Rs. 23595.00 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"> 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 prescribed books shall be maintained.</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>Irregularity in procurement process</u>	

Sl. No.	Observation & Impact	Recommendation
	No Such observation noticed.	Nagar Panchayat shall follow prescribed guidelines for the procurement.
C	<u>Non-compliance of directives by UD&HD, GOB</u>	
	Our test check reveals that compliance of directive has been made duly.	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 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 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>v) As per Bihar Municipal Act 2007 u/s 98 Accounts committee shall have to be formed which is violated by Nagar Panchayat.</p> <p>vi) TDS has not being deposited in time violating the Income tax Act.</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
E	<u>Lack of internal control measures</u>	
	<p>During course of audit we came across various loopholes in internal control, they are:-</p> <ul style="list-style-type: none"> i) Cash collection and safe custody of cash is not proper. ii) Daily collection is being kept by the bill collector for several days. iii) Cash is kept under single person custody. iv) Demand and collection register for holding is not being maintained by the NP. v) Agreement files of shops/markets on lease are not maintained by NP. vi) Advance Register is not kept by NP. 	Proper care shall be made of internal control system.
F	<u>Non-compliance of TDS, VAT And other relevant statute</u>	
	<ul style="list-style-type: none"> i) 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. ii) VAT, Royalty and Labour cess late deposited. iii) Professional Tax of Ex. Engineer has not been deducted in any financial year. 	All the dues shall be accessed and payed on regular and timely basis to avoid the penalty 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 Utilization register is not being maintained by the NP.	It should be maintained in prescribed format.



Sl. No.	Observation & Impact	Recommendation
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>	
	Advance register is not maintained, Advance outstanding till 31.03.2015 was Rs. Rs. 853752.00.	Advance register shall be prepared and updated on regular basis.
K	<u>Any other matters as may be prescribed in due course.</u>	
	<p>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.</p> <p>ii) There should be proper indemnity bond binding on bill collectors.</p>	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 and demand collection register 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.

