

INTERNAL AUDIT REPORT

(SPUR-PMU/194/IA-140ULBs & SLMA/G-14/SJA/2016/134/39)

OF NAGAR PARISHAD MADHEPURA

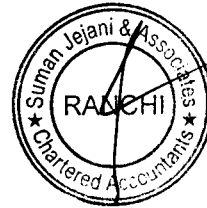
FOR THE F.Y. 2015-16



Conducted by:
SUMAN JEJANI & ASSOCIATES
502, Rishabh Tower, Old Vasundhara Cinema
Line Tank Road, Ranchi-834001
☎ 9431736555
E-Mail- casjejani@gmail.com

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AUDIT METHODOLOGY AND APPROACH

Audit Methodology

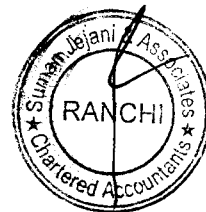
We have conducted the internal audit of Nagar Parishad - Madhepura, for the year ending on 31st March, 2016 (as per TOR). We familiarized ourselves with documents of Nagar Parishad, the internal guidelines and circulars applicable during this period under review. We also reviewed the working of the Nagar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

We reviewed transactions 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 Nagar Parishad's 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:

- 1) General Cashbook, all Subsidiary Cash Books for the period from 1st April 2015 to 31st March 2016 maintained manually in the Nagar Parishad..
- 2) Vouchers (Cash, Bank, Journal etc) along with supporting documents;
- 3) Receipt Books
- 4) Cheque Issue Register
- 5) Grant Register
- 6) Budgets prepared by the ULB
- 7) Other necessary records and registers

The major observations during the course of Internal audit have been discussed with the Executive Officer & Accountant of the Nagar Parishad.



Audit Approach

The purpose of defining the audit approach is to ensure that sufficient, appropriate audit evidence is collected to enable the drawing of a conclusion with respect to each of the audit objectives.

An effective approach will normally incorporate a variety of auditing tools and techniques. Different tools and techniques have various strengths and weaknesses.

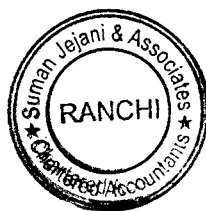
Our approach to the internal audit started with an overview of activities through a study and documentation of the existing systems and procedures in all the ULBs. We then identified, evaluated and tested the adequacy, efficiency and effectiveness of internal controls including standard policies and procedures laid down in the TOR and BMAM, 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 business.

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 : Ranchi
Date : 31-12- 2016

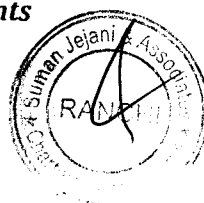
For Suman Jejani & Associates
Chartered Accountants
FRN.- 009650C



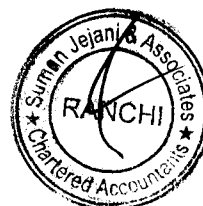

CA. Suman Modi
(Partner)
M.N.- 079078

Internal Audit Report –Nagar Parishad- Madhepura F.Y- 2015-2016

Name of Auditor: Suman Jejani & Associates		Name of ULB: Madhepura	
Sl. No.	Clause No.	Description	Compliance (Mention the para no & Page no of audit report)
1	4.1	Internal Audit should undertake risk-based review and evaluation of the internal control as discussed in Bihar Internal Control Manual. Internal Audit should devote particular attention to any aspects of the internal control environment affected by significant changes to the ULBs's risk environment.	Complied in Para no 2 of Part 2 of ... Executive Summary. at Page no 7
2	4.2& 4.3	<p>a) Internal Auditor should see the compliance of Bihar Municipal Act and specifically Chapter IX to XV and related rules and regulations as well as related directives by UD&HD. In its report there must be a separate section for non-compliance of rules/directives of UD&HD, GoB;</p> <p>b) Report on compliance of Bihar Municipal Accounting Manual, Bihar Municipal Accounts Rules,2014 and Bihar Municipal Budget Manual with special attention to following Rules of BMAR</p> <p><input type="checkbox"/> Rule 22: All moneys to be brought to account</p> <p><input type="checkbox"/> Rule: 27: Collections to be deposited into Bank on the same day</p> <p><input type="checkbox"/> Rule 69: Grant Related Compliance</p> <p><input type="checkbox"/> Rule 120-121: Monthly Receipt & Payment Account and Trial Balance</p> <p><input type="checkbox"/> Rule 130: Audit to be completed & reported within 6 month</p>	<p>Complied in para no 2,3 & 9of Part 2 Of Executive Summary at Page no 7.</p> <p>Complied in para no. 14, 15, 16 & 17of Part of Executive Summary at Page No. 7</p>
3	4.4& 4.5	<p>a) Report and quantify all major Own revenue losses and opportunities lost or missed including in the area of Property Tax, Mobile Transmission Towers Tax, Rental of Municipal properties, Advertisement Taxes/Fees, Sairatetc;</p> <p>b) Check on audit trail of all collection of Taxes and Non-Taxes either through staff or outsourced agency and report of any lapses in controls, if any and also advise recommendations to strengthen the prevailing processes;</p>	Complied in Para No 5,6 & 10 of Part 2 of Executive Summary at Page no 7



4	4.6	Report in a separate chapter on implementation of SAS of Property Tax in the ULB; internal auditor should witness some assessment procedures to check any in-consistencies in assessment. At least 20 high value properties in the city /town (irrespective of the fact that SASis received or not) must be surveyed and checked in each quarter and reported variations, if any, in PTRs and Actuals as per internal audits;	Complied in Para No 19 of Part 2 of Executive Summary at Page no 7
5	4.7	Vouch on all payments above Rs. 10,000 and report on adequacy and appropriateness of its documentation, approvals, compliance of procedures etc.	Complied in Para No 18of Part 2 of Executive Summary at Page no 7
6	4.8	Report on Procurement made including through E-Tendering and E-Auction indicating exceptions, if any and whether a register is kept for all Procurements with value above Rs. 15,000/-	Complied in Para No 20of Part 2. of Executive Summary at Page no 8
7	4.9	Internal auditor shall also report on presence or absence of a system of issuance of utilization certificate for the different schemes for any utilisation made during the reporting period; Where there is no system for issuance of U/Cs, the Internal Audit report shall prepare Utilisation Certificate for various schemes/grants as per the guidelines of such scheme available on the UD&HD website.	Complied in Para No 21of Part 2 of Executive Summary at Page no 8
8	4.10	Internal Audit can also, provide recommendations to help the ULB management improve the ULB's internal control environment;	Complied in Para No 4of Part Audit Recommendations of Executive Summary at Page no 8
9	4.11	Internal Audit should report instances of losses, failures or inefficiencies and recommendations and/or measures which can be taken to avoid their recurrence in future.	Complied in Para No Part A of Part Audit Observations of Main Audit Report at Page no 16



EXECUTIVE SUMMARY

1. Introduction

Name of the Municipality	Madhepura Nagar Parishad
Period Covered under Current Audit	1st Apr 2015 to 31st March 2016
Name of the Chief Municipal Officer for the period under Audit	Mr. Manoj Kumar Pawan
Audit Conducted on	26-27th July 2016

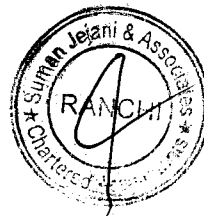
2. Result and Findings

➤ **Strength observed**

- The General Cash Book is being maintained by the ULB.
- Attendance Register of Staff was maintained properly.
- Salary Register maintained by the ULB.
- The ULB has sufficient infrastructure for operation.

➤ **Weakness observed**

1. There is a lack of internal control w.r.t collection of taxes.
2. Demand and collection register have not been prepared..
3. There is no proper cash handling neither any locker was kept by the ULB.
4. Taxes collected by tax collector are not deposited on daily basis.
5. Full dependency on the tax collectors for the information on dues and assesses ledgers.
6. Tower tax is not being collected at all.
7. There is a 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.
8. The ULB has not maintained the Log Book Register.
9. Bank Reconciliation Statement for any of the account is not prepared.
10. Statutory dues such as TDS, Royalty, Labour Cess have not been deposited on time..
11. Vouchers were not properly kept and arranged.
12. Deduction of PF, ESI has been made but payment has not been made.
13. Fixed Assets Register is not maintained by the ULB.
14. No, Collections have not been deposited into Bank on the same day.
15. Monthly Receipt & Payment Account and Trial Balance is not being made.
16. The process of audit to be completed and reported within 6 months is in progress.
17. Yes, All moneys to be brought to account.
18. On verification of vouchers on all payments above Rs. 10,000.00, we have found that these



- are appropriate and is in order with respect to documentation and approval etc.
19. No Self Assessment of property tax is being done.
 20. No, Register for E-tender & Auction is not been maintained by ULBs.
 21. Yes, there is a system of issuance of utilization certificate for the different schemes for any utilisation made during the reporting period.

3. Opinion

Overall opinion of the Audit team about the functioning of the Municipality

The functioning of the Municipality is very weak due to following reasons:

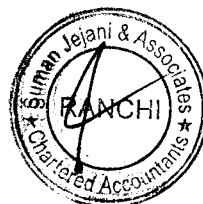
- Collection from own sources is very poor as demand register is not maintained.
- The procurement of fixed assets is not proper and Fixed Asset Register is not available so one cannot determine the value of assets owned by the ULB.
- BRS is not prepared on a monthly basis, so it is difficult to keep record of variances between Cash Book and Bank Passbook balances. Non preparation of BRS would lead to improper use of available funds.
- Most of the prescribed Books of accounts are not maintained.
- Internal Control w.r.t. collection of taxes, monitoring of grant, monitoring of advances, monitoring of schemes etc. is very poor.
- Grant received for various purposes are not utilized on timely basis.
- Maximum portion of fund received by the ULB from GoB is left unspent during the FY 2015-16, so the Closing Bank Balance is huge.
- Staffs were not co-operative during the Audit period.

4. Audit Recommendations

We suggest the followings:

The recommendations of Audit team on the observed weakness

- All the prescribed books of accounts and Registers should be prepared on real time basis.
- PF, ESI, Pension Fund should be deducted from salary, if applicable.
- Demand & Collection Register of all the wards should be prepared and calculation should be done as per new assessment.
- Collection from own sources should be improved.
- Collection by tax collector should be deposited on daily basis.
- All the statutory dues should be deposited on timely basis and returns prescribed under respective laws should also be filed on timely basis.
- Cashier and General Cash Book should be written and updated on daily basis.
- New staff are to be appointed by the management for smooth running of the ULB and they should be equipped with regular training to run the ULB smoothly.



COMMENTS FROM MANAGEMENT

NAGAR PANCHYAT/PARISHAD, *Madhepura*

We are trying regularly for correction and strengthen the system. We are also trying to develop internal control and internal check. So that resources can be at optimum level.

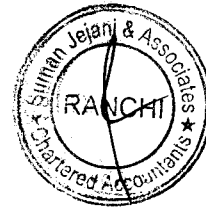
Date: *26/07/2016 & 27/07/2016*

Place: *Madhepura*

For Nagar Panchyat/Parishad

(Signature)
(Executive Officer)

27-7-16
नगर कार्यपालक पदाधिकारी
सुमर शरिबद मधेपुरा

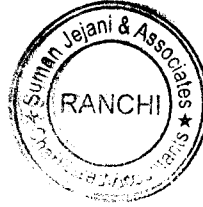


6. Acknowledgment

We thank Mr. Manoj Kumar Pawan (Executive Officer), for his support during the period of our audit. We are also thankful to Mr. Md Salam (Accountant), and support staffs of the municipality for their cooperation extended to us during the period of our audit.

Place : Ranchi
Date : 31-12- 2016

For Suman Jeani & Associates.
Chartered Accountants
FRN.- 009650C



A handwritten signature in black ink, appearing to be "Suman Modi".

CA. Suman Modi
(Partner)
M.N.- 079078

MAIN AUDIT REPORT

1. Introduction

The Internal audit of Nagar Parishad Madhepura covering period from 1st April 2015 to 31st March, 2016 was conducted by following persons under guidance of CA Suman Modi-

- i. CA Pankaj Mundhra
- ii. Suraj kumar singh
- iii. Vivek kumar

2. Administration

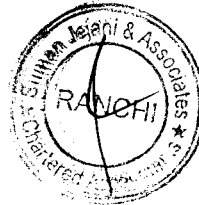
The present body of the ULB is functioning since 1973. The incumbency in the key administrative and executive position was as under:

1. Mr. Vishal Kumar Bablu, Chairman from 2014 to till date
2. Mr. Manoj Kumar Pawan, Executive officer from Aug 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
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Audit has been conducted by AG but the report has not been provided to us. So we are unable to comment upon the outstanding Audit Paras.



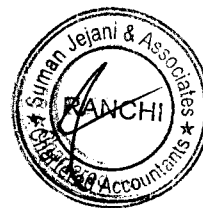
4. Finance

I. Budgetary provisions and expenditure for the last three years

<u>Year</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
Final/ Revised Budget	3,52,27,55,000.00	3,52,27,55,000.00	6,55,96,716.00
Actual Expenditure	16,66,90,120.98	26,39,75,006.00	Not provided to us
Savings (+)/ Excess (-)	3,35,60,64,879.02	3,25,87,79,994.00	Indeterminable

II. Volume of transactions

Period	Budgeted (15-16)	Previous year(14-15)	Correspon ding Period of Previous year (14-15)	Current Period (15-16)	Cumulative for the current period (15-16)
Opening Balance	13,43,89,599.16	16,33,29,380.86	16,33,29,380.86	13,43,89,599.16	13,43,89,599.16
Receipts	3,51,96,92,400.00	24,06,74,931.00	18,71,87,779.00	14,25,90,148.00	14,25,90,148.00
TOTAL	3,65,40,81,999.16	40,40,04,311.86	35,05,17,159.86	27,69,79,747.16	27,69,79,747.16
Net Expenditure	3,52,27,55,000.00	26,96,14,712.70	26,76,21,152.70	16,66,90,120.98	16,66,90,120.98
Closing Balance	13,13,26,999.16	13,43,89,599.16	13,43,89,599.16	11,02,89,626.18	11,02,89,626.18



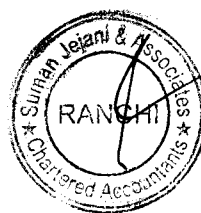
III. Bank Reconciliation

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

S.No	Name of Bank	Account No.	NAME OF SCHEME	Balance as on 31.03.2016	REMARKS
1	HDFC	XXXXXX6509	BRGF	66,26,193.15	*All the bank balances have been derived from summary of bank balances for the month of FEBRUARY, 2016 given at the end of main cash book provided by the accountant. Bank statements / passbooks not provided to us.
2	PNB	XXXXXX2437	SPUR -DFID	52,06,620.00	
3	PNB	XXXXXX4181	Own source	28,59,254.00	
4	PNB	XXXXXX1436	IHSDP Aawas Yojna	2,20,29,828.00	
5	PNB	XXXXXX1445	IHSDP infra	3,69,488.00	
6	UTTAR BIHAR GRAMIN BANK	XXXXXX5679	Caste Census	5,969.00	
7	PNB	XXXXXX6024	E-Governance	1,25,487.17	
8	ICICI	XXXXXX0098	Own source	1,43,325.00	
9	SBI	XXXXXX4737	Holding Tax, Security Deposit(own source)	88,359.90	
10	PNB	XXXXXX0889	Holding Tax(own source)	2,12,295.00	
11	PNB	XXXXXX1427	NLUM	1,05,45,723.00	
12	PNB	XXXXXX0852	13th & 14th finance	1,84,91,173.00	
13	SBI	XXXXXX9864	Kabir antysthi (vishesh)	2,14,898.00	
14	SBI	XXXXXX2307	Kabir antysthi (samanya)	81,919.00	
15	SBI	XXXXXX5219	Own source	10,23,539.00	
16	SBI	XXXXXX8103		5,92,180.00	
17	UBGB	XXXXXX0032		2,067.00	
18	UBGB	XXXXXX105		39,500.00	
12	Bank Details Not Provided		Draft Amount, security deposit, time extension, Looted Amount	8,61,506.00	
13	Treasury A/c.			2,92,64,928.96	
Total of Bank Balance				9,87,84,253.18*	
Total as per Cash Book				11,02,89,626.18	

Bank Reconciliation Statements have not been prepared by the Nagar Parishad.

The Nagar Parishad is suggested to Prepare Bank Reconciliation Statements on Monthly Basis.



IV. Revenue Receipts

Period	Budgeted (15-16)	Previous year (14-15)	Correspondin g Period of Previous year (14-15)	Current Period (15-16)	Cumulative for the current period (15-16)
a) Own Source					
Property Tax		13,97,519.00	13,97,519.00	44,00,814.00	44,00,814.00
Assigned revenue		4,30,896.00	4,30,896.00	10,26,600.00	10,26,600.00
Others (Fees & User Charges)	45,00,000.00	1,65,145.00	1,65,145.00	7,69,517.00	7,69,517.00
(b) Administrative Grant					
(c) Specific Grant (Scheme wise)					
13th Finance	1,00,00,000.00	53,61,531.00	53,61,531.00	39,92,325.00	39,92,325.00
E.O salary		5,01,722.00	5,01,722.00		
Admin building		20,83,333.00	20,83,333.00		
Parshad bhatta		3,85,200.00	3,85,200.00	2,85,715.00	2,85,715.00
honararium		1,46,000.00	1,46,000.00		
IHSDP		7,24,49,000.00	7,24,49,000.00	6,30,48,000.00	6,30,48,000.00
Pesakar		10,76,595.00	10,76,595.00		
NULM		1,06,75,393.00	1,06,75,393.00	1,00,000.00	1,00,000.00
4th Finance		2,21,44,502.00	2,21,44,502.00		
E-Governance		7,70,000.00	7,70,000.00	2,70,000.00	2,70,000.00
Bus stand		2,00,00,000.00	2,00,00,000.00		
Samrat Ashok Bhawan		10,00,000.00	10,00,000.00		
Social amenities		89,11,005.00	89,11,005.00	63,46,200.00	63,46,200.00
Kabir Antyesthi		2,31,000.00	2,31,000.00	10,03,000.00	10,03,000.00
Office expenses		66,328.00	66,328.00		
City manager salary		78,000.00	78,000.00		
BRGF		42,87,332.00	42,87,332.00		
Drinking water		7,98,69,400.00	7,98,69,400.00		
Stamp(mudrank)		86,45,030.00	86,45,030.00	1,00,32,120.00	1,00,32,120.00
Samajik Suraksha Pension				51,90,760.00	51,90,760.00
14th Finance				1,61,08,967.00	1,61,08,967.00
Samajik Suraksha Scheme				1,20,000.00	1,20,000.00
Swaksh Bharat Mission				40,00,000.00	40,00,000.00
5th finance				2,57,22,130.00	2,57,22,130.00

Census				1,74,000.00	1,74,000.00
Capital Grant for other Development	27,00,00,000.00				
Mukhmantri Sahri Payjal Yojana	52,00,00,000.00				
Capital Grant for Road	1,36,00,00,000.00				
Capital Grant for Sewerage & Drainage	1,20,00,00,000.00				
Various Scheme	15,51,92,400.00				
Total	3,51,96,92,400.00	24,06,74,931.00	24,06,74,931.00	14,25,90,148.00	14,25,90,148.00

* Full Details and bifurcation of budget not provided to us.

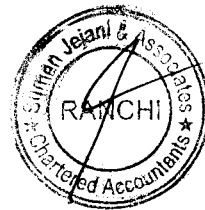
V. Status of Implementation of Double Entry Accounting System

Double Entry Accounting System has been started in the Nagar Parishad.

Appointment of Chartered Accountant firms for implementation of Double Entry Accounting System in the Nagar Parishad is done. A Chartered Accountant firm named **M/s Sarkar Gurumurthy & Associates** 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 Nagar Parishad till the date of our audit.



5. Audit Observations

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>	<ul style="list-style-type: none"> • <u>Holding & property tax collection: irregularity</u> Due to non availability of demand and collection register, unable to find total arrear and demand of holding tax. Full dependency on the tax collectors for the information on dues and assesses ledgers but during audit period tax collector was not a present there. • <u>Market shop /vendor rent collection: irregularity</u> Due to non collection of market shop/vendor and non imposition of late fine, is major revenue loss for the concerned ULB. Tax collector is also not present during the audit so no any data were provided to us. • <u>Mobile tower collection: irregularity**</u> Tower tax is taxes in communication tower & related structure as defined in BIHAR COMMUNICATION TOWERS AND RELATED STRUCTURE RULES,2012. During the audit no any information available regarding tax/fee of Tower tax. Non collection of Tower tax/fee is a major revenue loss for the ULB. • <u>Holding & property tax collection: irregularity</u> Due to non collection of property/holding tax there is a major operational revenue loss to ULB and there is no records/register available to know total current & arrear demand of holding tax. We are unable to provide an arrear of property tax on government building because tax collector is not present during the audit and Full dependency on the tax collector's for the information on dues and assesses ledgers. This happens due to non follow up and
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