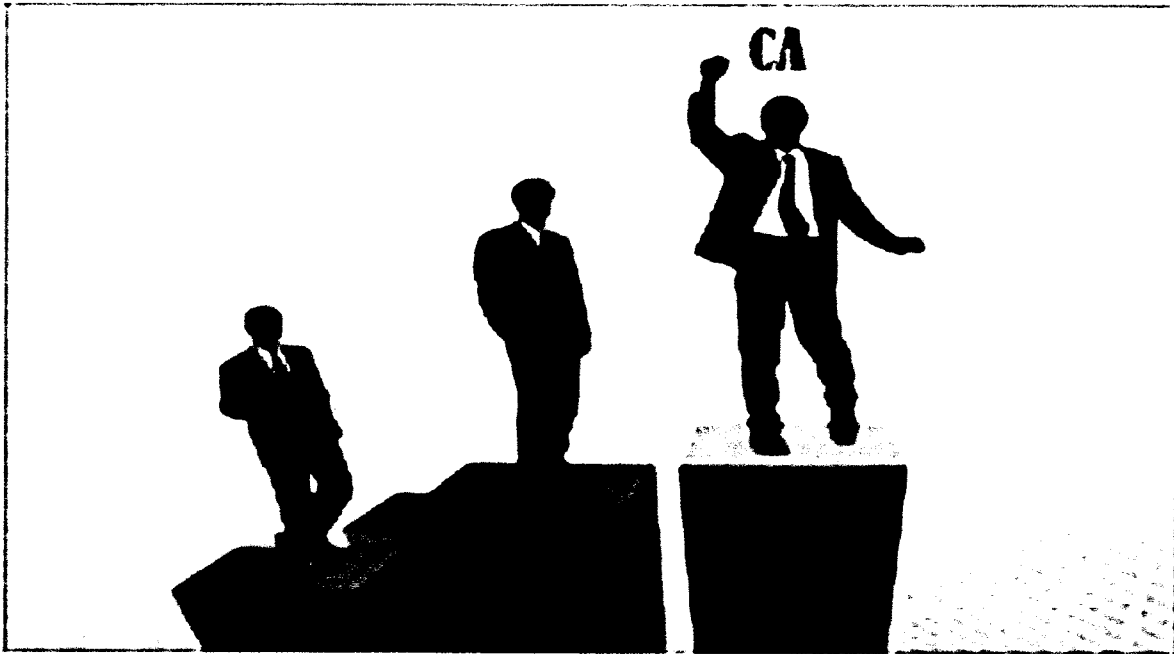


INTERNAL AUDIT REPORT

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

OF NAGAR PANCHAYAT MAHUA



FOR THE F.Y. 2015-16

Conducted by:

M/s R.SHAH & Co.

2ND FLOOR, VYAPAR BHAWAN

LALJI HIRJI, RANCHI-834001

06512227747, 9304828767

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AUDIT METHODOLOGY AND APPROACH

Audit Methodology

We have conducted the internal audit of Nagar Panchayat – Mahua, for the year ending on 31st March, 2016 (as per TOR). We familiarized ourselves with documents of Nagar Panchayat, the internal guidelines and circulars applicable during this period under review. We also reviewed the working of the Nagar Paanchayat and evaluated the accounting systems and related controls of the Nagar Panchayat 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 Panchayat's financial management systems, including internal controls for entire audit period. We applied necessary tests and controls, as we considers necessary under the circumstances.



Name of Auditor: M/s R. Shah & Co.		Name of ULB : Mahua	
Sl. No	Relevant Clause of Scope of Work of the Contract		Compliance (Mention the para no & Page no of audit report)
	Clause No.	Description	
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 ULB's risk environment.	Complied in of Part2(Result & Findings) of Executive Summary At Page no.. 3&4 .
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>a)Complied in para no 11,3,& 4 of Part 2 of Executive Summary at Page no ..6..</p> <p>b) Complied in para no 6,12 &7 of Part 2 of Executive Summary at Page no ..6..</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>	<p>Complied in Para no. Part A of Main Audit Report and 1, of Part 2 of Executive Summary at Page no ..13&6</p> <p>b) Complied in part A of Audit Observation of Main Audit Report at page no..13 &14.</p>



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 part A of Audit Observation of Main Audit Report at page no..14..
5	4.7	Voucher 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. 9 of Executive Summary and 9 of Audit Recommendation of Part 2of Executive Summary at Page no ..6&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. 13 of Part 2 of Executive Summary at Page no ..6..
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 10 of Part 2 of Executive Summary at Page no ..6.. and also attached UCs copy provided by the ULB.
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.5 of Executive Summary and also recommendation given in part A of Main Audit Report Report at Page no ..13..
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 Main Audit Report at Page no ..13&14.



EXECUTIVE SUMMARY**1. Introduction**

Name of the Municipality	Mahua Nagar Panchayat
Period Covered under Current Audit	1st April 2015 to 31st March 2016
Name of the Chief Municipal Officer for the period under Audit	Shri Hemant kumar
Audit Conducted on	24th July 2016,1st November 2016 & 11th January 2017

2. Result and Findings

The major Weaknesses and observations during the course of internal audit have been found & discussed with the Executive Officer & Accountant of the Nagar Panchayat.

1. Failed to Collect Mobile Tower Tax/Fees of Rs.506000.00 **List Attached**
2. Cash book for the 13th & 14th Finance are Combined maintained by ULBs.
3. Lacking of Internal Control on Collection of Taxes.
4. There is no proper cash handling neither any locker was kept by the ULB.
5. Non Maintenance of Prescribed books of account.
6. Yes, All moneys have been brought to account.
7. Monthly Receipt & Payment Account and Trial Balance is not being made.
8. No Self Assessment of property tax is being done.
9. 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.
10. Yes, there is no any system of issuance of utilization certificate for the different schemes for any utilisation made during the reporting period.
11. Nagar Parishad has failed to comply with certain rules and directives of UD & HD.
 - a). Directives relating to forming a "Municipal Accounts Committee" have not been complied till date.
 - b). Directives relating to prepare a practical budget have not been complied with
12. No, Collections have not been deposited into Bank on the same day.
13. No, Register for E-tender & Auction is not been maintained by ULBs.

3. Weakness observed in the functioning of office, maintenance of records etc. observed during the audit engagement

- I. There is a lack of internal control w.r.t collection of taxes.
- II. Tower tax is being levied but full recovery has not been done.
- III. There is no proper cash handling neither any locker was kept by the ULB.



IV. Fixed Assets Register is not maintained by the ULB.

4.Opinion

As referred above and detailed in Audit Report, we are of the opinion that The Functions of concerned ULB is confined to collection of Holding Tax. There are many other sources of Revenue which are not explored and taken care of by the ULB.

5.Audit Recommendation

The concerned officers should explore other areas of Revenue Generations by surveying their area has Tower Tax, Advertisement Tax, Holding Fee, Trade License Fees, Others Fees and Taxes. Record keeping should done properly that any document can traceable as and when required for any purpose. Procurement related documents and files should be made available for verification and transparency purposes. cash book should be maintained properly by making entries of balances of each Bank account separately. Internal Auditor and Accountant should have adequate coordination between them making the system perfect.

6. Fixed Assets Register

- I. The procurement of fixed assets is not proper and non-maintenance of Fixed Asset Register would lead to failure of determining the replacement cost.
- II. There is lack of knowledge in respect of maintaining fixed assets register amongst the ULB personals.
- III. The unit has not done the number mark for the assets physically lying with the unit.

7.Bank Reconciliation Statement:-

- I. Bank Reconciliation statement not prepared by ULB, because no difference between Bank book/subsidiary cash book with bank pass book.

8.Vehicle Log Book:- During the course of audit, vehicle log book not provided to us due to no any vehicle in the ULB.

9.Vouching:-in ULB there is no system of preparation of vouchers and payment has been done only though Bill/Invoices.

10. Opinion

We suggest the followings: Audit Recommendations

1. All the prescribed books of accounts and Registers should be prepared on real time basis.
2. TDS,PF & ESI should be deducted from salary, if applicable.
3. As early as possible Holding Tax should be collected by the N.P. and Demand & Collection Register of all the wards should be prepared as per BMAM format and calculation should be done as per new assessment.
4. Collection from own sources should be improved.
5. New staffs are required to be appointed by the management for smooth running of the ULB AND THEY should be equipped with adequate training to run the ULB smoothly.



Acknowledgment


We thank Mr.Hemant Kumar(Executive Officer), Mr. Veerchandra Kumar (Head Clerk) for their support during the period of our audit. We are also thankful to Mr. Ajeet Kumar (Accountant)& Mr. Sanjay Kumar(Computer Operator), and support staffs of the municipality for their cooperation extended to us during the period of our audit.

Place: Ranchi

Date:31-03-2017



For R Shah & Co.
Chartered Accountants
FRN No.-502010C


CA. Neetu Jeani
(Partner)
M.N.- 406561

COMMENTS FROM MANAGEMENT

Nagar Panchayat, Mahua

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:-

For, Nagar Panchayat/ Parishad

Place:-



[Handwritten signature]
11/1/17

(Executive Officer)

REC
11.1.17



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MAIN AUDIT REPORT**1. Introduction**

The Internal audit of Nagar Panchayat Mahua covering period from 1st April 2015 to 31st March, 2016 was conducted by following persons under guidance of CA Neetu Jejani.

- i. Rana Burha Gohain
- ii. Ajay Singh
- iii. Anjali Singh

2. Administration

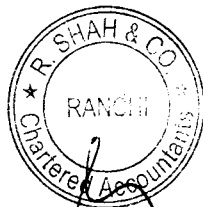
The present body of the ULB is functioning since December 2013. The incumbency in the key administrative and executive position was as under:

1. Mrs.Kaushalya Devi, Chairman from 05/12/2013 to till date.
2. Shri Hemant Kumar, Executive officer since Sept2015 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

As the Nagar Panchayat was formed on 05/12/2013,hence no AG or other Audit has been conducted till date of Audit.



4. Finance

I. Budgetary provisions and expenditure for the last three years

Year	2015-16	2014-15	2013-14
Final/ Revised Budget	41520356.00	Budget not prepared	ULB formed on 05/12/2013
Actual Expenditure	5387549.00	Nil	N.A*
Savings (+)/ Excess (-)	(+)36132807.00		

II. Volume of transactions

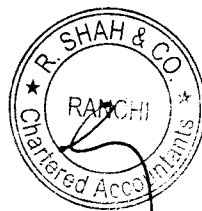
Period	Budgeted (15-16)	Previous year(14-15)	Corresponding Period of Previous year (14-15)	Current Period (15-16)	Cumulative for the currentperiod (15-16)
Opening Balance				2,76,000.00	2,76,000.00
Receipts	44468303.00	2,76,000.00	2,76,000.00	50395075.00	50395075.00
TOTAL	44468303.00	2,76,000.00	2,76,000.00	50671075.00	50671075.00
Net Expenditure	41520356.00	0.00	0.00	5387549.00	5387549.00
Closing Balance		2,76,000.00	2,76,000.00	45283526.00	45283526.00



III. Bank Reconciliation

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

Sl. No	Name of Bank	Account No.	Balance as on 31.03.2016	Name of Scheme	Reconciliation position
1	Axis Bank	XXXX6681	129488.00	Kabir Antyesthi	No Difference
2	Axis Bank	XXXX4101	3090645.00	13 th & 14 th Finance	No Difference
3	UBGB	XXXX5652	1587350.00	Swachh Bharat	No Difference
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
14	Treasury PL A/c		40476043.00	Various Schemes	No Difference
	Total Bank Balance		45283526.00		
	Total Cash Book Balance		45283526.00		
	Difference		Nil		



IV. Revenue Receipts

Period	Budgeted (15-16)	Previous year(14-15)	Corresponding Period of Previous year (14-15)	Current Period (15-16)	Cumulative for the current period (15-16)
a) Own Source					
Property Tax					
Assigned revenue					
Others (Fees & User Charges)					
(b) Administrative Grant				305070.00	305070.00
(c) Specific Grant (Scheme wise)					
14th State Finance				2982933.00	2982933.00
Admin Building					
Road Construction					
Drainage Construction					
IHSDP (House)					
IHSDP(Infra)					
13th&th Finance				2239486.00	2239486.00
BRGF					
SJSRY					
Nagrik Suvidha					
Swachh Bharat				2015000.00	2015000.00
Kabir Antyesthi				588800.00	588800.00
Various Schemes		276000.00	276000.00	42263786.00	42263786.00
TOTAL		276000.00	276000.00	50395075.00	50395075.00

Status of Implementation of Double Entry Accounting System:-Double Entry Accounting System is not operational in the Nagar Panchayat Mahua till date.

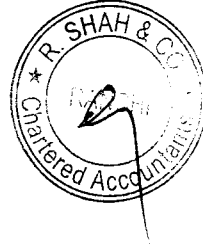
Appointment of Chartered Accountants firms for implementation of Double Entry Accounting System in the Nagar Panchayat is in process and C.A.Firm has been appointed by the UD & HD.

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, a Municipal Accounts Committee has ben constituted by the Nagar Panchayat on 01/10/2016.



Audit Observations

PART-A

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

Collection of Revenue (own source)

Holding & Property Tax Collection

Subject : Collection of Property Tax/Holding Tax by the Concerned ULB.

- We observed that no any tax have been collected during the F.Y.2015-16 due to newly formed ULB, but survey is going on.

Impact: Due to non Collection of Property/holding Tax there is huge operational Revenue Loss to ULB.

Cause: Due to newly formed ULB survey is going on.

Recommendation:

Survey Report should be prepared as soon as possible and should be prepared for construction of new Residential/Commercial building on Yearly basis also.

Mobile Tower Tax:

Subject: Collection of Mobile Tower Tax

- Tower Tax is taxes on communication Tower & related Structure Defined in **BIHAR COMMUNICATION TOWERS AND RELATED STRUCTURES RULES,2012**. As per the rules all operators are required to register with their concerned ULBs and pay registration Fee & renewal charges on Annual Basis for communication tower erected within municipal area.

Status/Condition: As per Details Provided to us there are total **11 (Eleven)** Mobile Towers registered with this ULB up to 31.03.2016 and **Rs.506000.00/-** is due to be recovered from these tower operators on account of Tower Tax.(Annexure-A)

Impact: Due to non collection of Tower Tax/Fees there is a revenue loss to ULB.

Cause: The ULBs does not have Proper mechanisms for Supervision and monitoring of the tower tax/rent due to which result in Revenue Leakage.

Recommendation:

There should be proper monitoring and further steps are required to be taken for collection of Tower Tax by concerned ULB.

Trade License:- As per section 342 of Bihar Municipal Act,2007,Trade license fee is to be collected from different types of Trader, who are trading in Concerned area not collected in F.Y.2015-16.



Survey for Assess of Trade License not provided to us during the course of audit.

Advertisement Tax:-chapter XVII of the Bihar Municipal Act,2007 requires license for advertisement of any hoarding, etc. as per the act Every Person who erects, exhibits, fixes or retains upon or over any land, building ,wall, boarding, frame, post, kiosk, structure, vehicle, neon-sign or sky-sign any advertisement, or display any advertisement to public view in any manner whatsoever (including any advertisement exhibited by means of cinematograph),visible from a public street a public place in any location in a municipal area including airport or a port or a railway station ,shall pay or every advertisement, which is so erected ,exhibited, fixed or retained or so displayed to public view, a tax calculated at such rate as may be determined regulations. it requires payment of certain fee for advertisement. No record regarding the same has been made available to us during the course of Audit.

Maintenance of Cash Book:-

Cash book is not closed on daily basis and signed by Accountant & officer on monthly basis.

Pay-Roll Register:- During the course of Audit the Pay-roll system is functioning satisfactorily but ESI, Pension Fund contribution, LTA have not been deducted from salary. Only TDS has been deducted from EO salary.

Inventory/Stores Register:-Inventory/Stores Register has not been maintained properly.

Grant Register & Utilization Certificates:- Grant Register has been maintained by the ULB and upon enquiry of status of Utilization certificate, the E.O. and Head Clerk has explained to us that all Utilization certificates relating to financial year 2015-16 and prior period has already been submitted to concerned office.

Summary of utilization certificates given to us, list attached.

Report on findings of field survey of Property Tax of minimum 20 high value properties

Since the ULB does not collect any property tax during FY 2015-16 due to newly formed ULB, but survey is going on. So question of 20 high value properties dose not arise.



PART-B

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

1. Non- maintenance of books of accounts , subsidiary registers

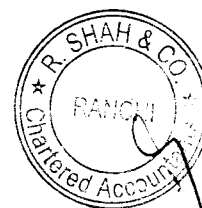
As per Bihar Municipal Accounting Manual Following primary Books of accounts are required to be maintained :

1. Cash Book (Form Gen-IA)
2. Bank Book (Form Gen-IB)
3. Journal Book (Form Gen-2)
4. Ledger (Form Gen-3)

The N.P. is maintaining General & Subsidiary Cash Books/ Bank Book.

In addition to above following other General Registers and forms are required to be maintained but the same are not being maintained or not properly maintained-

- 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. Register of Public Lighting System GEN-37
- 10 Register of Advance GEN-17
- 11 Register of Permanent Advance GEN-18
- 12 Deposit Register GEN-19
- 13 Summary Statement of Deposits Adjusted GEN-20
- 14 Demand Register GEN-21
- 15 Bill for Municipal Dues GEN-22
- 16 Summary Statement of Bills Raised GEN-23
- 17 Register of Notice Fee, Warrant Fee, Other Fees GEN-24
- 18 Summary Statement of Notice Fee, Warrant Fee, Other Fees GEN-25
- 19 Register of Refunds, Remissions and Write-offs GEN-26
- 20 Summary Statement of Refunds and Remissions GEN-27
- 21 Summary Statement of Write-Offs GEN-28
- 22 Statement of Outstanding Liability for Expenses GEN-29
- 23 Documents Control Register/Stock Account of Receipt/Cheque Book GEN-30



- 24 Register of Immovable Property GEN-31
- 25 Register of Movable Property GEN-32
- 26 Register of Land GEN-33
- 27 Function-wise Income Subsidiary Ledger GEN-34
- 28 Function-wise Expense Subsidiary Ledger GEN-35
- 29 Asset Replacement Register GEN-36
- 30 Register of Public Lighting System GEN-37

2. Irregularity in procurement process

No major irregularity observed during the audit.

3. Non-compliance of directives by UD & HD , GOB

There are certain directives which are not being comply by the concerned ULB regularly ,list of non Complied directives are following:

- Directives relating to forming a "Municipal Accounts Committee" have not been complied.
- Directives relating to not to hire any individual as a daily wages worker by the UD & HD through letter no.-04-U.H./1/99/1986/U.D.D25/06/01,but the concerned ULB has failed to comply this directives.

It has been observed during the audit that the concerned ULB has been failed to comply certain provisions of Bihar Municipal Act. with respect to Section 86 of Bihar Municipal Act,2007,Executive Officer of ULBs should prepare Income and Expenditure Accounts. Further as per Section 88, Executive Officer Should Prepare a financial statement Assets and Liabilities from the date of ending of Financial year. As per Section 89 he should prepare a comparative statement to "Standing Committee" for the approval ,but the concerned ULB has failed to do so.

4. Non Compliance of Act & Rules

Various books of accounts and records, as provided in the Bihar Municipal Accounting Act and Rules are not maintained.

5. Non-compliance of TDS, VAT and other relevant Statute

Rules and regulations as provided in the Income Tax Act, Sales Tax Act (VAT) are complied with by the ULB.

6. Deficiency in Pay-roll Systems

The pay-roll system is functioning satisfactorily. PF account has not been opened with PF department, All the deductions of PF contribution and pension fund contribution are being deposited in a separate account opened by the municipality.

6. Utilization of Grant and report on missing Utilization Certificates

Grant Register has been prepared by the N.P. As explained to us, details of unspent balance has been given to us and Utilization certificates up to 31.03.2016 has been sent to the Government. A Summary of Utilization certificate provided to us during the course of audit has been attached at the end of report.(List attached)



7. Physical verification of inventory/Stores

Store Register has been prepared but proper entry was not entered in proper way and physical verification of inventory/stores has not been done.

8. Advances, their adjustment & recovery

No advance has been given by the N.P. for the financial year 2015-2016..

9. Any other matters as may be prescribed in due course.

Staff strength in the accounts department needs to be increased. Accountant should be provided with necessary training to prepare the books, which can add value addition to the functioning of ULB.

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