



**CONTENTS**

S. No	Particulars	Page No.
1	Audit Methodology and Approach	3-4
2	Executive Summary	7-11
3	Main Audit Report	12-15
4	Audit Observations -- Part-A	16-17
5	Audit Observations – Part-B	18-20
6	Audit Observations – Part-C	21-23
7	Annexure A to D	24-27



## AUDIT METHODOLOGY AND APPROACH

### Audit Methodology

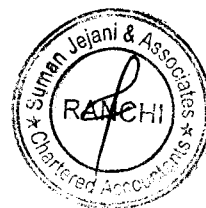
We have conducted the internal audit of Nagar Panchayat – Nirmali, for the year ending on 31<sup>st</sup> March, 2016 (as per TOR). We familiarized ourselves with documents of Nagar Panchayat, the internal guidelines and circulars applicable during this period under review. We also reviewed the working of the Nagar Panchayat 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.

During the course of our audit we reviewed the below mentioned documents and registers:

- 1) General cash book & all Subsidiary Cash Book for the period from 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016 maintained manually in the Nagar Panchayat.
- 2) Vouchers (Cash, Bank, Journal etc) along with supporting documents;
- 3) Demand & Collection Register
- 4) Stock Registers
- 5) Log Books
- 6) Advance Register
- 7) Receipt Book
- 8) Staff Attendance Register
- 9) Budgets prepared by the ULB
- 10) 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 Panchayat.



## 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.

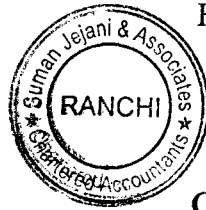
Our approach to the internal audit started with an overview of activities through a study and documentation of the existing systems and procedures in all the ULBs.

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.

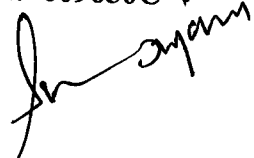
Our observations, resulting from the audit tests performed on a sample of transactions, are set out under “Part-A, Part-B & Part-C” of the audit report and include our recommendations for addressing these observations.

Place : Ranchi

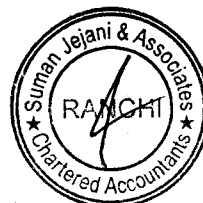
Date : 31-12-2016



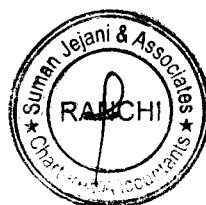
For Suman Jejani & Associates  
Chartered Accountants  
FRN.- 009650C

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

Name of Auditor : Suman Jejani & Associates.		Name of ULB : Nirmali	
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 para no. 02 of Part 2 (B) of Executive summary at Page no 07.
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&amp;HD. In its report there must be a separate section for non-compliance of rules/directives of UD&amp;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> <ul style="list-style-type: none"> <li>➤ Rule 22: All moneys to be brought to account.</li> <li>➤ Rule 27: Collections to be deposited into Bank on the same day.</li> <li>➤ Rule 69: Grant Related Compliance.</li> <li>➤ Rule 120-121: Monthly Receipt &amp; Payment Account and Trial Balance.</li> <li>➤ Rule 130: Audit to be completed &amp; reported within 6 month.</li> </ul>	<p>(a) Complied in para no. 06,08, 10 of Part 2(B) and para no. 01 of part no. 02(A) of Executive Summary at Page no.07 and 08.</p> <p>(b) Complied in para no. 08,11, 12,13. of Part.2(B). of Executive Summary. At Page no. 09.</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, Sairat etc;</p> <p>b) Check on audit trail of all collection of Taxes and Non-Taxes either through staff or outsourced agency and report</p>	Complied in para no. 05,07, 09,17,19 of Part no. 2(B). of Executive Summary. At Page no. 07 to 08.



		of any lapses in controls, if any and also advise recommendations to strengthen the prevailing processes;	
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 SAS is received or not) must be surveyed and checked in each quarter and reported variations, if any, in PTRs and Actual as per internal audits;	Complied in para no. 18 of Part no. 02(B) of Executive Summary . At Page no. 08.
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. 05 of Part no. 02(A).of Executive Summary . At Page no. 07.
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.20 of Part no. 2(B) of Executive Summary. At Page no. 08.
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 utilization made during the reporting period; Where there is no system for issuance of U/Cs, the Internal Audit report shall prepare Utilization Certificate for various schemes/grants as per the guidelines of such scheme available on the UD&HD website.	Complied in para no. 06 of Part no. 2(A) of Executive Summary at Page no. 07.
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. 01 to 09 of Part 04 of Executive Summary. At Page no.09
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 5 of Main Audit Report at Page no16 to 17.



**EXECUTIVE SUMMARY**

**1) Introduction**

<b>Name of the Municipality</b>	<b>Nirmali Nagar Panchayat</b>
<b>Period Covered under Current Audit</b>	<b>1<sup>st</sup> Apr 2015 to 31<sup>st</sup> March 2016</b>
<b>Name of the Chief Municipal Officer for the period under Audit</b>	<b>Sri Lakshman Prasad</b>
<b>Audit Conducted on</b>	<b>27th July &amp; 28<sup>th</sup> July 2016</b>

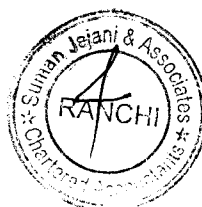
**2) Result and Findings**

**A. Strength Observed**

1. General Cash Book, Subsidiary Cash Books and Cashier Cash Book have been maintained by the ULB.
2. Attendance Register of Staff were maintained properly.
3. Salary Register maintained by the ULB.
4. Staffs were cooperative during the Audit period.
5. On verification of on all payments above Rs. 10,000.00, we have found that these are appropriates and is in order with respect to documentation and approval etc.
6. Yes, there is a system of issuance of utilization certificate for different schemes for any utilization made during the reporting period.

**B. Weakness Observed**

1. There is no Accountant employed in the ULB.
2. Fixed Assets Register is not maintained by the ULB.
3. Deduction of PF, ESI has been made but payment has been made after due date.
4. Budget is not prepared properly. Actual figure of last year is not mentioned in budget.
5. There is a lack of internal control w.r.t collection of taxes. .New holding assessment has not been done since yr.1998.
6. Demand and collection register have not been prepared in a proper manner hence it seems difficult to ascertain total tax dues.



7. There is no proper cash handling neither any locker was kept by the ULB.
8. Taxes collected by tax collector are not deposited on daily basis as par rule no.69.
9. Tower tax is not collected (case has been filed in Supreme Court.)
10. Books of accounts are not verified by E.O and other assigned officials on time to time basis.
11. Yes, all money have been brought to the account as par rule no. 22.
12. Grant Register is not being maintained hence it is difficult to find unutilized grant at any point of time as par rule no. 69.
13. Receipts & payment account and train balance not prepared by ULB as par rule no.120-121
14. Bank Reconciliation Statement for any of the account is not prepared.
15. Advance Register is maintained but there is no proper monitoring for advances given and adjustment thereof.
16. There is 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.
17. Taxes such as Sales Tax (VAT), Royalty, and Labour Cess etc are collected from time to time but payments were pending till the date of audit. However cheque has been sent to Treasury department in the month of May 2016. (Details in Part B).
18. Self assessment of property tax is not being done.
19. There are serious lapses in deposit of statutory dues of Sales Tax Rs. 7,86,213.00, TDS Rs. 2,12,855.00 Royalty Rs. 1,54,848.00 Labour cess Rs. 1,57,243.00 .
20. No register for E-Tender, security deposit & Auction is not been maintained by the Nagar Panchayat.

### 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:**

1. The procurement of fixed assets is not proper and non-maintenance of Fixed Asset Register would lead to failure of determining the replacement cost.
2. BRS is not prepared on a monthly basis, so it is difficult to keep record of variances between Cash Book and Bank Passbook balances.
3. Most of the prescribed Books of accounts are not maintained. **reported in Part B(a).**





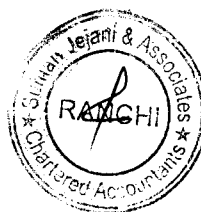
4. Internal Control w.r.t. collection of taxes, monitoring of grant, monitoring of advances, monitoring of schemes etc. is very poor.
5. Grant received for various purposes are not utilized on timely basis.

**4) Audit Recommendations**

**The recommendations of Audit team on the observed weakness;**

**We suggest the followings:**

1. All the prescribed books of accounts and Registers should be prepared on real time basis.
2. TDS should be deducted from salary, if applicable.
3. Bank reconciliation Statement should be prepared on monthly basis.
4. Grant Register should be prepared.
5. Demand & Collection Register of all the wards should be prepared and calculation should be done as per new assessment.
6. Collection from own sources should be improved.
7. Collection by tax collector should be deposited on daily basis.
8. All the statutory dues should be deposited on timely basis and returns prescribed under respective laws should also be filed on timely basis.
9. Accountant should be employed and provided with necessary training to prepare the books, which can help in smooth functioning of ULB.



5)

## COMMENTS FROM MANAGEMENT

NAGAR PANCHYAT/PARISHAD, NIRMALI

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: 28/07/16

For Nagar Panchyat/Parishad

Place: NIRMALI

28/7/16  
कार्यवाहक वकीलकारी  
नगर पंचायत, निर्मली



6) Acknowledgment

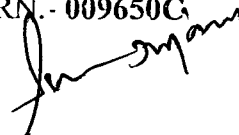
We thank Mr. Lakshman Prasad (Executive Officer), for his support during the period of our audit. We are also thankful to Mr. R.K. Singh (Head Clerk-Bada Babu) and support staffs of the municipality for their cooperation extended to us during the period of our audit.

Place: Ranchi

Date : 31-12-2016



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

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

**MAIN AUDIT REPORT**

**1. Introduction**

The Internal audit of Nagar Panchayat Nirmali covering period from 1<sup>st</sup> April 2015 to 31<sup>st</sup> March, 2016 was conducted by following persons under guidance of CA Suman Modi-

- i. Sujit Kumra
- ii. Prashant Kumar

**2. Administration**

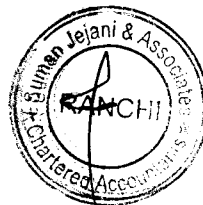
The present body of the ULB is functioning since 1963. The incumbency in the key administrative and executive position was as under:

- 1. Smt. Swastika Devi, Chairman from 29/06/2012 till date
- 2. Shri Lakshman Prasad, Executive officer from Sept 2015 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 report has not been received till date.  
Hence Compliance will be made after receiving the report.



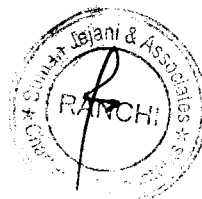
**4. FINANCE**

**I. Budgetary provisions and expenditure for the last three years**

Year	2015-16	2014-15	2013-14	
Final/ Revised Budget	6,88,47,000.00	5,44,45,600.00	Not provided to us	No
Actual Expenditure	6,24,53,790.00	2,78,49,901.00	84,40,215.00	
Savings (+)/ Excess (-)	63,93,210.00	2,65,95,699.00	Undetermined	

**II. Volume of transactions**

Period	Budgeted (15-16)	Previous Period (14-15)	Previous Period (14-15)	Current year(15-16)	Corresponding Period of Current year (15-16)
Opening Balance	3,37,43,346.90	3,59,80,998.90	3,59,80,998.90	3,37,43,346.90	3,37,43,346.90
Receipts	6,88,81,500.00	3,25,47,844.00	3,25,47,844.00	11,12,03,338.00	11,12,03,338.00
<b>TOTAL</b>	10,26,24,846.90	6,85,28,842.90	6,85,28,842.90	14,49,46,684.00	14,49,46,684.00
Net Expenditure	6,88,47,000.00	2,78,49,901.00	2,78,49,901.00	6,24,53,790.00	6,24,53,790.00
Closing Balance	3,37,77,846.90	4,06,78,941.90	4,06,78,941.90	8,24,92,894.00	8,24,92,894.00



**III. Bank Reconciliation**

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

S.No	Name of Bank	Account No.	Balance as on 31.03.2016	Name of Scheme	Reconciliation position
1	SBI	XXXX4626	7,75,610.00	BRGF	No Difference
2	CBI	XXXX2449	32,78,122.00	Pension	No Difference
3	CBI	XXXX0484	1,55,723.00	4th Finance	Un-reconciled
4	SBI	XXXX3940	26,650.00	13th Finance	Un-reconciled
5	CBI	XXXX2831	18,16,153.00	13th Finance	Un-reconciled
6	CBI	XXXX8500	19,33,000.00	SAWCH BHARAT MISSION	Un-reconciled
7	CBI	XXXX7318	22,73,150.00	SJSRY	No Difference
8	..	.....	5,33,00,403.00	RAJYA YOJNA	No Difference
9	SBI	XXXX9869	1,62,623.00	General Fund	Un-reconciled
10	HDFC	XXXX6871	9,48,678.00	General Fund	Un-reconciled
11	CBI	XXXX2122	30,43,866.45	General Fund	Un-reconciled
12	Treasury PL A/c		1,50,13,084.00		
	<b>Total of Bank</b>		8,27,27,065.09		
	<b>Total as per Cash Book</b>		8,24,92,894.90		
	<b>Difference</b>		2,34,170.19		

Bank Reconciliation Statements have not been prepared by the Nagar Panchayat. There is a difference of Rs.2,34,170.19 between Cash Book and Consolidated Balance as per Pass Book of all accounts and Treasury PL Account.

The Nagar Panchayat is suggested to reconcile the above mentioned differences immediately and prepare B.R.S on monthly basis.



## IV. Revenue Receipts

Period	Budgeted (15-16)	Previous year (14-15)	Corresponding Period of Previous year (14-15)	Current Year (15-16)	Cumulative for the current period (15-16)
<b>a) Own Source</b>					
Property Tax	17,01,500.00			27,144.00	27,144.00
Assigned revenue	24,80,000.00	3,88,403.00	3,88,403.00	20,61,900.00	20,61,900.00
Others (Fees & User Charges)	90,00,000.00	67,25,213.00	67,25,213.00	54,67,182.00	54,67,182.00
<b>(b) Administrative Grant</b>					
<b>(c) Specific Grant (Scheme wise)</b>					
4th Finance	1,00,00,000.00	82,16,890.00	82,16,890.00	8,15,103.00	8,15,103.00
B.R.G.F	30,00,000.00	0.00	0.00	7,40,108.00	7,40,108.00
PENSION				54,35,788.00	54,35,788.00
Admin. Building	50,00,000.00				
13th Finance	65,00,000.00	19,76,323.00	19,76,323.00	15,43,796.00	15,43,796.00
14th Finance				43,27,288.00	43,27,288.00
Rajya Yojana Kabir Antiyosthi	1,50,00,000.00	84,88,900.00	84,88,900.00	8,77,89,600.00	8,77,89,600.00
Sawch bhart mission		306000.00	306000.00	3,33,000.00	3,33,000.00
Slum Area Scheme	1,50,00,000.00			25,75,000.00	25,75,000.00
S.J.S.R.Y		0.00	0.00	0.00	0.00
Citizens Welfare	12,00,000.00	64,46,115.00	64,46,115.00	86,895.00	86,895.00
				0.00	0.00
<b>TOTAL</b>	<b>6,88,81,500.00</b>	<b>3,25,47,844.00</b>	<b>3,25,47,844.00</b>	<b>11,12,03,338.00</b>	<b>11,12,03,338.00</b>

**V. Status of Implementation of Double Entry Accounting System**

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

Appointment of Chartered Accountant firms for implementation of Double Entry Accounting System in the Nagar Panchayat 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 Panchayat till the date of our audit.**

**5. Audit Observations**

**PART-A- All audit objections/ irregularities which have monetary implication, particularly in following areas:**

- 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.**

Taxes such as health cess, sanitation tax, education cess etc. have not been collected till date

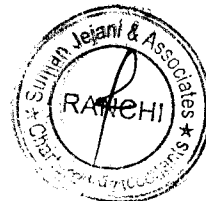
**HOLDING & PROPERTY TAX COLLECTION : IRREGULARITY**

As there is no record/register is maintained by the ULB regarding Demand & Collection of Holding & Property Tax.

**MARKET SHOP/ VENDOR RENT COLLECTION : IRREGULARITY**

No record or register is provided to us for verification . A lum sum amount is given of demand & collection of Shop rent.

**( ANNEXURE- B ATTECHED)**





**MOBILE TOWER COLLECTION : IRREGULARITY**

Tower tax is taxes in communication tower & related structure as defined in BIHAR COMMUNICATION TOWERS AND RELATED STRUCTURE RULES,2012.

As per details provided to us there are total 05 Mobile towers is registered with this ULB up to 31.03.2016 and Rs. 4,18,000.00 is due to be recovered from these towers operators on account of Tower tax.

(ANNEXURE- A ATTECHED)

A case has been filed against Tower Co. by ULB for non payment of their dues.

**IMPACT** : Due to non collection of tower tax/ there is revenue loss of ULB.

**CAUSES** : The ULB does not have proper mechanisms for supervision and monitoring for the tower tax/ rent due to which result in revenue leakage.

**RECOMMENDATION** : There should be proper monitoring and further step and required to be taken for collection of tower tax by the concerned ULB.

- b) **Excess payment against bill, lack of prudence in payment against voucher, inefficiency in controls resulting loss to ULBs;**

During the course of audit, we did not observe any excess payment against bill, lack of prudence against vouchers etc.

**IMPACT** : Due to irregularity of vouching or accounting on monthly basis. and there is no arrange of voucher is a major losses to ULB.

**CAUSES** : Due to non follow up and monitoring to of activities of vouching and accounting by the concern accountant.

**RECOMMENDATION** : There should be day to day monitoring on vouching or accounting on weekly or monthly basis.

- c) **Report on findings of field survey of Property Tax of minimum 20 high value properties;**

Field survey of 20 high value properties is attached herewith but it is not as per new assessment. List of Rest 60 high value property tax payer will be attached with the supplementary report.

( ANNEXURE-D ATTECHED)

**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 Municipal area not collected in F.Y.2015-16.

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

