

FINANCIAL YEAR 2017-18

INTERNAL AUDIT REPORT OF SAHARSA MUNICIPAL COUNCIL For The Period 2017-18



Audit Conducted From 24-04-2019 to 29-04-2019

Report Issued on 17-04-2019



INTERNAL AUDIT CONDUCTED BY

M/s Tibrewal Chand & Co., Chartered Accountants

1ST Floor, KK-5 Civil Township, Rourkela – 769 004, Ph.: (0661) 6450741

Executive Summary

1. Introduction:

| | |
|--|---------------------------|
| Name of the Municipality | Saharsa Municipal Council |
| Period covered under current audit | 01-04-2017 to 31-03-2018 |
| Name of Chief Municipal Officer for the period under audit | Mr. Prabhat Ranjan |

2. Results and Findings:

➤ **Strengths observed during the audit engagement:**

In the existing system as prevailing in the Municipal Council, day to day work is in progressive manner in respect of collection of revenue and execution of the project.

➤ **Weaknesses observed in the functioning of office, maintenance of records etc. during the audit engagement: -**

1. Non preparation of financial statements resulting in weakness in control over accounts.
2. Non preparation of bank reconciliation statements.
3. Lack in follow-up procedure in collection of huge arrear dues in relating to property and other taxes.
4. Non-Performing the variance analysis between budget and actual expenditure for a particular period resulting in short comings in budgetary control.
5. Non-Maintenance of assets register in complete manner resulting in chances of mis-utilization of assets.

3. Opinion:-

The management has to take stringent effort in forming accountability at various levels of the ULB, introducing reforms in financial management and accounting systems, development of strong internal control and organizational design of Municipalities, ensuring capacity building of the municipal personnel and other matter incidental thereto for overall improvement of the ULB.

4. Audit Recommendations:-

1. Books of accounts should be prepared under double entry system and accrual basis should be followed.
2. ERP software should be implemented in the ULB for preparation of financial statements and other necessary information as and when required by the



management. Employees of all departments will be trained with the software for entering day to day transactions.

3. Stringent follow up is necessary for recovering arrear dues relating to property tax and other sources of income.
4. Bank statements or treasury statement shall be collected and bank reconciliation statement should be prepared on monthly basis. Balance confirmation certificate to be obtained from the respective bank treasury periodically.
5. Fixed assets register has to be prepared for all fixed assets owned by the ULB, assets will be numbered, whenever applicable and location of assets should be mentioned in such register? Physical verification of such fixed assets has to be conducted by appointing external professional agency at such year end.
6. Stock/store register has to be updated in all respect. Purchase, issue and balance of each items has to be maintained separately.
7. Timely deposit of Taxes is must for The ULB.

5. Comments from Management:-

Point wise management replies have been provided in signed discussion note of our Report.

6. Acknowledgement:-

Considering the physical environment, accessibility, literacy of the human resources, communication facilities and so many other hindrances, we are in opinion that, the working of the unit has a deep impact on the electronic and & social aspects and values of the inhabitants of the demarcated area and the unit specifically dedicated for the development of Municipal Council in the state of Bihar according to plan and for matters ancillary thereto.

We convey our heartfelt thanks to the entire human resources of the “Saharsa Municipal Council” for rendering there help for smooth completion of this assignment.

For Tibrewal Chand & Company
Chartered Accountant



CA ROSHAN JAIN
Partner

Detailed Audit Report

1. Introduction: -

The Internal audit of Saharsa Municipal Council covering the period from 01st April 2017 to 31st March 2018 was conducted by following persons under guidance of CA Sourabh Mittal.

- i. CA Sajjan Kumar
- ii. Bhaskar Kumar

2. Administration: -

The Present governing body of the ULB has taken charge on 09-06-2012. The incumbencies in the key administrative and executive positions are as under:

- Miss Renu Sinha, Chairman from 09-06-2012 to till the date of Audit.
- Md. Prabhat Ranjan Executive officer from 22-01-2019 to till the date of Audit.

3. Review of outstanding Audit Paras :

Status of Audit observations is as under:

| Sl. No. | Particulars of audit and date of report | Total no. of Audit paras. | Total no. of Audit Paras where necessarily 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 |
|---------|--|---------------------------|---|---|---|--------------------------|---|---------------------------------|
| 1 | Previous Internal Audit Report and AG Audit Report comment on outstanding Audit Paras are given in Annexure "A" of our Report. | | | | | | | |

4. FINANCE:

- i. Budgetary provisions and expenditure for the last three years :-

| Year | 2017-18 | 2016-17 | 2015-16 |
|------------------------|----------------|----------------|----------------|
| Final / Revised Budget | 2,37,59,23,058 | 3,43,34,29,500 | 2,40,95,61,516 |
| Actual Expenditure | 19,30,86,834 | 21,33,46,434 | 44,20,93,041 |
| Savings / Excess | 2,18,28,36,224 | 3,22,00,83,066 | 1,96,74,68,475 |

ii. Volume of Transactions :-

| Period | Budgeted | Previous year(17-18) | Previous year(16-17) |
|-----------------|----------------|----------------------|----------------------|
| Opening Balance | - | 48,22,02,836 | 24,14,82,351 |
| Receipts | 2,29,21,90,138 | 19,27,01,749 | 45,40,66,918 |
| Total | 2,29,21,90,138 | 67,49,04,585 | 69,55,49,269 |
| Net expenditure | 2,37,59,23,058 | 19,30,86,834 | 21,33,46,434 |
| Closing Balance | - | 48,18,17,751 | 48,22,02,835 |

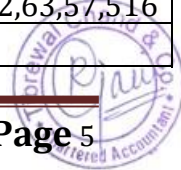
iii. Bank Reconciliation :-

Un-reconciled balance between bank book and bank statement as on 31-03-2018 has been shown below:

| Project | Bank Name | A/c Type | Account No | Balance as per Bank | Balance as per Cash Book |
|---------|------------|----------|-----------------|---------------------|--------------------------|
| SBM | BoI | SB | 581010110003770 | 2,56,44,234 | 2,34,44,745 |
| SBM | Union Bank | SB | 698902010004337 | 0.00 | 60,744 |

iv. Revenue & Capital Receipts :-

| Income Details | | | |
|----------------|----------------------------|-----------------------|--------------|
| Sl No | Details | Amount (Rs.) | |
| | | 2017-18 (9 Months) | 2016-17 |
| | Total Receipts (A+B) | 19,27,01,749 | 45,40,66,918 |
| A | Revenue Receipts (1+2+3) | 12,64,30,489 | 22,63,57,516 |
| 1 | Own Revenue Receipts (a+b) | 86,57,293 | |



| | | | |
|------|--|--------------|--------------|
| | | | 7,43,10,423 |
| a) | Tax Revenue (Levied & Collected By municipal Body) | 82,04,083 | 7,11,69,378 |
| i) | Property Tax | 39,64,653 | 52,35,488 |
| ii) | Other Tax (Levied & Collected By municipal Body) | 42,39,430 | 6,59,33,890 |
| b) | Non Tax Revenue (Levied & Collected By municipal Body) | 4,53,210 | 31,41,045 |
| i) | Fess & Fines | - | - |
| ii) | User Charges | 4,53,210 | 4,52,999 |
| iii) | Other Non-Tax Revenue (Levied & Collected By municipal Body) | - | 26,88,046 |
| 2 | Other Revenue Receipts | 5,00,000 | 9,55,033 |
| a) | Income from interest/Investments | 5,00,000 | 9,45,033 |
| b) | Other Revenue Income | - | 10,000 |
| 3 | Transfers/grants/Assigned Revenues | 11,72,73,196 | 15,10,92,060 |
| a) | State Assigned Revenues | - | - |
| b) | State Finance Commission (SFC) Grants/Devolution | - | - |
| c) | Octroi Compensation | - | - |
| d) | Other State Government transfers | - | - |
| e) | Central Finance Commission (CFC) Grants | - | - |
| f) | Other Central Government transfers | - | - |
| g) | others | 11,72,73,196 | 15,10,92,060 |
| B | Capital Receipts | 6,62,71,260 | 22,77,09,402 |
| 1 | Sale of Municipal Land | - | - |
| 2 | Loan (From state Govt or Banks etc.) | - | - |
| 3 | State Capital Account Grant (Under state Scheme etc.) | 3,27,51,260 | 15,78,98,601 |
| 4 | Central Capital Account Grant (Under central Scheme etc.) | 2,45,89,860 | 5,89,98,890 |
| 5 | Other Capital Receipts | 89,30,140 | 1,08,11,911 |



v. Revenue & Capital Expenditure Information :-

| Expenditure Details | | | |
|----------------------------|---|-------------------------------|----------------|
| Sl No | Details | Amount (Rs.) | |
| | | 2017-18 (9 Months) | 2016-17 |
| | Total Expenditure (1+2) | 19,30,86,834 | 21,33,46,434 |
| 1 | Revenue Expenditure | 7,34,49,049 | 10,06,35,867 |
| 1.1 | Administrative Expenses, Establishment & Salaries (All Departments regular & contractual staff) | 12,17,532 | 1,60,44,546 |
| 1.2 | Operation & Maintenance (O & M) | 5,09,93,987 | 4,92,16,180 |
| 1.3 | Loan Repayment (Interest Payments) | - | - |
| 1.4 | Others (any other revenue Expenditure which is not salaries, O&M & or interest payment) | 2,12,37,530 | 3,53,75,141 |
| 2 | Capital Expenditure | 11,96,37,785 | 11,27,10,567 |
| 2.1 | All developmental works under central/state specific schemes | 11,96,37,785 | 11,27,10,567 |
| 2.2 | Loan Repayments | - | - |
| 2.3 | other capital expenditure | - | - |

vi. Status of implementation of double entry accounting system: Double entry accounting system in not yet implemented by the ULB's

vii. Status of Municipal Accounts Committee: if meeting is held: Meeting of Municipal Accounts Committee has not been held during the year 2017-18 as Municipal accounts committee is not in existence at the Municipality.

5. Audit Observations: -

I. Part-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, fee etc.



- a. Very small sum was collected as Advertisement Tax (Code 110-11), holding tax, mobile tower tax and rent on municipal properties during the financial year 2017-18. List of unrealized all taxes can't be prepared due to non-production of demand register.
- b. Demand Register for collection of holding/property tax for the financial year 2017-18 is not yet prepared.
- c. As per notification of Bihar Government, The Governor of Bihar made the rules for the mobile tower under the Act. Operator of the mobile has to apply to the ULB for operation of the mobile tower in the concerned area with the Requisite fees of Rs. 40,000/- per Tower and the Renewal fee is Rs. 10000/- per year. As per verification of records and document during the course of audit and according to the cash book produced by the ULB, it was found that only few amounts have been collected. Details not provide to us.
- d. Demand Register for collection of Trade License for the financial year 2017-18 is not yet prepared.

Report on Findings of the field survey of property tax of minimum 20 high value properties.

- a. Report on Findings of the field survey of property tax of minimum 20 high value properties is given here:-

| SAS FORM NO | OWNER NAME | WARD NO | ADDRESS | BUILTUP AREA AS PER SAS FORM |
|-------------|-------------------|---------|-----------------|------------------------------|
| 4980 | Sabita Rani | 16 | Pratap Nagar | 2100 |
| 4933 | Hira Mishra | 23 | Krishna Nagar | 1900 |
| 4975 | baby choudhary | 16 | Head Gewar Road | 475 |
| 1587 | rekha devi | 10 | D.B. road | 900 |
| 4959 | ashok kumar singh | 16 | Vidyapati nagar | 1200 |
| 1599 | puja soni | 20 | Purani gali | vacant land |

| | | | | |
|-------|------------------|----|-------------------|-------------|
| 16078 | minakshi devi | 16 | Gangjala | 1200 |
| 1578 | usha devi | 16 | Pratap nagar | 1425 |
| 1580 | shiwani mishra | 16 | Veer kunwar singh | vacant land |
| 1561 | nunuday singh | 23 | Krishna nagar | 900 |
| 1570 | chanda devi | 13 | shivpuri | 700 |
| 1558 | lalanand jha | 23 | Krishna nagar | 1900 |
| 4954 | pramod kumar | 14 | simraha | 665 |
| 1574 | lalita devi | 11 | shivpuri | 1425 |
| 1540 | s kumar | 16 | gangjala | 1000 |
| 4970 | pinki devi | 16 | satya nagar | 950 |
| 1516 | meena jha | 16 | gangjala | 1700 |
| 16069 | chhotelal thakur | 22 | Krishna nagar | 1400 |
| 16072 | dezy singh | 16 | satya nagar | 3000 |
| 16070 | manoj poddar | 14 | shivpuri | 208 |

Part B: Audit objections/regularities which has no monetary implications, but significant

However due to engagement of ULB team in elections physical verification can't be carried out. Further on being enquired it was observed that tax is being collected on the basis of details filled in SAF, these should be checked out physically too.

Non-maintenance of books of accounts, subsidiary registers: -

We observed that following registers which are given below has not been maintained by the ULBs.

- Cash Book was not maintained in the specified format of BMAR
- Cheque Issue Register not maintained in the specified format of BMAR
- Fixed Assets register was not maintained by the ULB
- Demand Register.
- Stores register was not updated
- Non-updation of daily collection register on daily basis

Irregularities In procurement Process:-



Few procurement were checked on test basis and no major irregularities was observed in procurement process.

Non-compliance of directives by UD &HD, Government of Bihar-

As per the records made available during the audit, delays were observed between date of collection made by the tax collector and the deposit of the same to the cashier. Which are shown below?

| Date of Collection | | Delay in days |
|--------------------|------------|-------------------|
| From | To | |
| 05-04-2017 | 09-05-2017 | 5 days to 32 days |
| 15-08-2017 | 17-09-2017 | 7 days to 27 days |
| 14-11-2017 | 25-12-2017 | 3 days to 34 days |
| 10-02-2017 | 19-03-2017 | 7 days to 30 days |

Non compliance of Act & Rules.

The municipality is not in practice to prepare BRS on monthly basis or even on quarterly basis.

At the time of making of payment remaining amount under that particular budget head is not mentioned so that budget variance can't be measured.

Lack of internal control measures:

- i. The municipality is continuing with a single demand and collection register and cashier cash book since 2014-15.
We suggested to maintained separate registers yearly. It is observed that register is turned.
- ii. There is no cash vault in the cash department for safety measure.
- iii. Vouchers are not filed serially and kept in loose form. Those need to be filed properly and date wise sequentially.
- iv. The cash kept in the locker is not insured against theft & fire which is very vital issue. It can be seen that huge amount of cash is kept for quiet a no of days. So, it is necessary to keep the physical under insurance cover.
- v. In demand collection register, in most of the cases, nor there is any signature of the tax collector, neither signature of the cashier or other competent authorities

collecting the cash from the tax collector. Date of deposit is also not mentioned in most of the pages. It is advice to maintain the records in DCR clearly and sequentially.

Non-compliance of TDS, VAT and other relevant statute

- i. We observed that ULB is not in practice to deduct TDS on Advertisement Bill payment and salary payment to employee.
- ii. We observed that ULB is not in practice to Deposit the deducted TDS on stipulated time.
- iii. Copy of TDS returns has not been shown to us.
- iv. The Saharsa Nagar Parisad is not complying with the provisions of EPF with regards to Contractual and permanent Employee. It may lead to imposition of Penalty by the Authority in this Regards.

Deficiency in pay-roll system: Proper records with regards to Labor presence is required to be maintained and it should be signed on daily basis by sanitary inspector, city manager/EO.

Utilization of grant and report on missing Utilization Certificates: As per the orders issued by the UD&HD department it is required to submit the copy of cash book along with utilization certificate as a proof of payment the same was not provided for verification.

So, we are unable to comment in this regard.

Physical verification of Fixed Assets/inventory/stores

Fixed assets register was not produced for audit by Nagar Parishad

Stock register has not been properly maintained. All the article of stock has been entered at same page in register. Issue quantity and balance quantity has not been shown properly in stock register.

Advances, their adjustment & recovery

Advance Register not shown to us. So, we are unable to comment in this regard.

Any other matter as may be prescribed in due course. No Matter

Part C

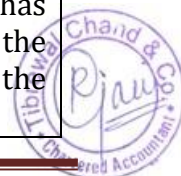
General Observation

| | |
|---|--|
| Whether the postings for the entries in the books of original entry have been correctly made in the respective ledger accounts. | No, only entries related to cash/bank/PL A/C are made in the Cash books maintained by the Accountant. Other Ledger accounts have not been prepared according to BMAR by the ULB. |
| 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 Primary Books of Accounts, no other books of accounts as prescribed in Accounting Manual have been maintained. |
| 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. Even the Bank Reconciliation Statement for all bank accounts has been prepared. |
| Whether the Bank Reconciliation statements have been prepared and are appropriate. | No, Bank Reconciliation Statements have not been prepared by the ULB. |
| Whether all grants from Government have been accounted at gross value with proper entries to various accounts | Yes, all transactions are 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 Receipts and Payment only. Income, Expenditure, 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; | Yes, Grant received during the year has been properly accounted for and all deductions have been properly accounted for. |
| 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, we have not observed any Special fund that 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 | We did not notice any major deviation. |

| | |
|--|--|
| plans and the estimates without the sanction of the competent authority; | |
| 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 registers are maintained but properly record of fixed assets has not been maintained by the ULB. Physical verification of fixed assets has not been done during the financial year under audit. |
| Whether in case of leasehold property given by the ULB, lease rentals are collected regularly by the ULB and that the lease agreements are renewed after their expiry; | As explained to us no property of the ULB has been given on lease. |
| Whether physical verification has been conducted by the ULB at reasonable intervals in respect of stores; | No, physical verification of stores has been conducted by the ULB at reasonable intervals. |
| Whether the procedures of physical verification of stores followed by the ULB are reasonable and adequate? If not, the inadequacies in such procedures should be reported; | No, ULB has maintained store register but not properly. |
| Whether any material discrepancies have been noticed on physical verification of stores as compared to book records, and if so, whether the same has been properly dealt with in the books of account; | No, we have conducted the physical verification of stores on the basis of cash book entries only and we have not notice any material discrepancies during our audit. |
| Whether proper procedures are in place to identify any unserviceable or damaged stores and whether provision for the loss in this respect, if any, has been made in the accounts; | No there is no procedures are in place to identify any unserviceable or damaged stores |
| Whether the valuation of stores is in accordance with the accounting principles laid down in the rules? Whether the basis of valuation of stores is same as in the preceding year? If there is any deviation in the basis of valuation, the effect of such deviation, if material, should be reported; | No, valuation of stores is not in accordance with the accounting principles laid down in BMR. |
| Whether there exists an adequate internal control procedure for the purchase of | No, there does not any internal control procedure for the purchase of stores, |



| | |
|---|---|
| stores, including components, plant and machinery, equipment and other assets? | including components, plant and machinery, equipment and other assets. |
| Whether applicable procurement rules and procedures are being followed and if so, significant deviations should be identified and reported. | We did not notice any such deviation. |
| Whether the municipality is regular in depositing statutory dues including tax deducted at source, service tax, VAT, works contract tax, cess payable to the government etc., and if not, the nature and cause of such delay and the amount not deposited; | No, municipality deposits its statutory dues but not timely basis. User ID and pass word of TDS return have not been produced to us. So, we could not able verify any penalty and Interest levied on the ULB. |
| Whether the municipality is regular in remittance of pension and leave encashment contributions or any other amounts which the municipality is liable to remit towards the retirement dues of its employees, including employees on deputation; | The municipality has not been giving any contribution to P.F or pension Fund. |
| Whether any personal expenses have been charged to the municipality' s accounts; if so, the details thereof; | We did not notice any such expenses. |
| Whether all the expenditure incurred by the Municipality are authorized by appropriate provision in the sanctioned budget, whether made originally or subsequently and are in all cases such as are authorized by law; | Yes, on our test check we observed that all the expenditure incurred by the Municipality are authorized by appropriate provision in the sanctioned budget. |
| Whether all revenue has been properly assessed, accounted for, collected and recovery action taken on timely basis; | No, all revenues from own sources have not been properly assessed, accounted for and collected. |
| Whether all sums due to and received by the Municipality have been brought to account within the prescribed time limits and are in all cases such as are authorized by law; | No, tax collected by the tax collector are not deposited on daily basis . |
| Whether in respect of all bills for charges on account of all works and other expenditure, proper certificates have been furnished in support of them and that no deviation has been made for the sanctioned plans and the estimates without the sanction of the competent authority; | Yes, on our test check we observed that all bills for charges on account of all works and other expenditure, proper certificates have been furnished in support of them and that no deviation has been made for the sanctioned plans and the estimates without the sanction of the competent authority. |



| | |
|--|---|
| | |
| Whether the amounts received as specific grants have been utilized for the purposes as stated in the grant sanction order; | Yes, on our test check we observed that amounts received as specific grants have been utilized for the purposes as stated in the grant sanction order. |
| Whether bio-metric devices and payroll software are used at the ULB. If not whether there is satisfactory system of pay-roll accounting; otherwise mention the key deficiencies of the system; | No, bio-metric devices and payroll software are not used at the ULB. Pay roll system of the municipality is deficient as it does not contain leave records, details of deductions made etc. |
| Whether the grievance redresses mechanism for the ULB is sufficient; | We did not observe any grievance redresses cell functioning at the ULB. |

Annexure "A"

Point raised During AG Audit for 2013-14 to 2015-16.

| Si.No | Point Raised By AG | Comment By Management |
|--------------|---|---|
| 1 demand | Not Deposit Amount Rs 14.87 Lacks. | Deposit Amount Rs 776885. |
| 2 | Non collection of holding tax on government building. | In Process |
| 3 | No collection of stamp duty on Sairat. | In Process |
| 4 | Excess payment in IHSDP Yojna Rs 2.32 Lacks | Amount collected. |
| 5 | Payment to advocate Rs 4.72 lacks. | - |
| 6 | Irregular payment Rs 191 lacks in repair of highmast light. | Board approval was obtained. |
| 7 | Irregular payment Rs 150.96 lacks in daily waorkers | Due to shortage of workers, extra workers were hired. |
| 8 | Not collection of tower tax | In Process |
| 9 | Irregular Payment under electricity bill. | Not irregular. |



3. Opinion.

| | |
|---|---|
| Overall opinion of the audit team about the functioning of the municipality | Weakness:- <ol style="list-style-type: none"> 1. No Financial Statements such Balance Sheet, Income & Expenditure A/c and Receipts & Payments A/C have been prepared by the ULB. 2. Most of the Books of Accounts as prescribed by BMAR are not maintained. 3. ULB does not follow DEAS. 4. Collection of Own Sources is very poor. 5. Fixed assets Register is not maintained. 6. Stock Register is not maintained. 7. Log Book in respect of Petrol and Diesel expense is not maintained. |
|---|---|


4. Audit Recommendations:-

| | |
|--|--|
| The Recommendation of audit team on the observed weakness. | Recommendation:- <ol style="list-style-type: none"> 1. Financial Statement for every year such as Balance Sheet, Income & Expenditure A/C, and Receipts & Payments A/C should be prepared. 2. Fixed Assets Register should be prepared. 3. Stock Register should be prepared. 4. Grant wise Utilization Certificate should be prepared. 5. BRS should be prepared on Monthly basis. 6. ULB should follow DEAS as soon as possible and should maintain books of accounts and register as prescribed by BMAR. |
|--|--|

5. Comment from management:-

The audit report has been discussed with us; we will try our best to remove the irregularities pointed out in the audit report.

For Nagar Parishad, Saharsha


 Executive Officer
 Nagar Parishad, Saharsha
 (Executive Officer)
 8/11/5/19