

INTERNAL AUDIT REPORT

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

OF NAGAR PANCHAYAT SHEOHAR

FOR THE F.Y. 2015-16



Conducted by:

R.SHAH & CO.

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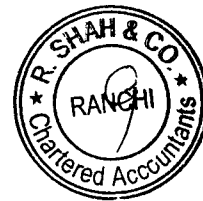
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AUDIT METHODOLOGY AND APPROACH

Audit Methodology

We have conducted the internal audit of Nagar Panchayat – Sheohar, 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 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 Cashbook, all Subsidiary Cash Books for the period from 1st April 2015 to 31st March 2016 maintained manually in the Nagar Panchayat..
- 2) Vouchers (Cash, Bank, Journal etc) along with supporting documents;
- 3) Receipt Books
- 4) Cheque Issue Register
- 5) Budgets prepared by the ULB
- 6) 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

Once the audit objectives, scope and criteria have been clearly established, the auditor needs to design an approach to carrying out the audit that will provide the most meaningful result in the most cost-effective manner.

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.

Using professional judgment, the auditor develops the approach and methodology based on the nature and extent of evidence needed to reach a conclusion with a high degree of assurance and the most appropriate and cost-effective mix of audit tests and procedures to gather that evidence. An effective approach will normally incorporate a variety of auditing tools and techniques. Different tools and techniques have various strengths and weaknesses. For example, one may require a high degree of technical skill while another a high degree of interpersonal skill; one may be expensive but reliable, another inexpensive but less reliable.

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 : 31-03-2017



For R.Shah & Co.
Chartered Accountants
FRN.- 502010C


C.A. Neetu Jeani
(Partner)
M.N.- 406561

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Name of Auditor: R. Shah & Co.		Name of ULB: Sheohar	
SI 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 2(Result & findings) 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>a) Complied in para no X , XI & XII of Part 2. of Executive summary at Page no 7&8.</p> <p>b) Complied in para no IV,XII,XVI, XVII of Part 2 of Executive summary at page no. 7&8</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>a)Complied in para no X,XIV,& XV of Part 2 of Executive Summary at Page no .7&8.</p> <p>b) Complied in para no XIV,XVIII of Part 2 and</p>



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		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;	para V,VI,VII of Part 4 of Executive Summary at Page no .7,8,& 9.
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 Actuals as per internal audits;	Complied in Annexure B of Part A of Audit Observation at Page no 15.
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 VI of 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 XXIII of 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 XXIV of 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...I to IX of Part.4. of Audit Recommendations at Page no ..9&10.
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 Main Audit Report of at Page no.15



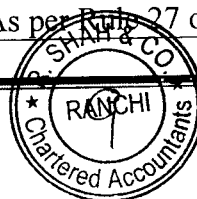
EXECUTIVE SUMMARY

1. Introduction

Name of the Municipality	Sheohar Nagar Panchayat
Period Covered under Current Audit	1st Apr 2015 to 31st March 2016
Name of the Chief Municipal Officer for the period under Audit	Shri Randhir Lal
Audit Conducted on	30/12/2016,20/01/2017 & 22/02/2017

2. Result and Findings

<p>Strength observed during the engagement</p>	<p>I. The General Cash book & all the Subsidiary Cash Books have been maintained by the ULB.</p> <p>II. Attendance Register of Staff were maintained properly.</p> <p>III. Salary Register maintained by the ULB.</p> <p>IV. All money have been brought to the bank account as per rule no. 22.</p> <p>V. All the Books & Register have been verified by Executive Officer on monthly basis</p> <p>VI. On verification of vouchers 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.</p> <p>VII. Staffs were cooperative during the Audit period.</p>
<p>Weakness observed in the functioning of office, maintenance of records etc. observed during the audit engagement</p>	<p>VIII. There is a lack of internal control w,r,t collection of taxes.</p> <p>IX.Fixed Assets Register is maintained by the ULB but not proper.</p> <p>X.Demand and collection register have not been prepared in a proper manner hence it seems difficult to ascertain total tax dues. No penalty/ surcharge have been imposed for non-payment of demand.</p> <p>XI.Nagar Parishad has failed to comply with certain rules and directives of UD & HD.</p> <p style="padding-left: 20px;">a). Directives relating to forming a "Municipal Accounts Commitee" have not been complied till date.</p> <p style="padding-left: 20px;">b). Directives relating to prepare a practical budget have not been complied with</p> <p>XII. There is no proper cash handling neither any locker was kept by the ULB.</p> <p>XIII. Taxes collected by tax collector are not deposited on daily basis. As per Rule 27 of BMAR it should be deposited</p>



on daily basis otherwise a sum of Rs. 500/- per day may be imposed for delayed deposit.

XIV. Tower tax collected Rs.16000/- for F.Y.2015-16.Outstanding Rs.926000/- as on 31/03/2016 (As per Annexure -- A)

XV. Advance Register is not prepared hence it is difficult to monitor for advances given and adjustment thereof.

XVI. Bank Reconciliation Statement for any of the account is not prepared hence it is difficult to monitor possible fraud, if any.

XVII. Grant related compliance has not been made by the ULB as per municipal rule no.6

XVIII. Monthly Receipt & Payment Account and Trial Balance is not being made,

XIX. 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.

XX. The ULB has not maintain the Log Book Register.

XXI. No ESI, Pension Fund have been deducted from the salary of the employees.

XXII. Taxes such as Sales Tax(VAT), TDS, Royalty, and Labour Cess etc are collected from time to time but payments are made on yearly basis which is not proper. TDS,VAT,Royalty,Labour Cess for F.Y.2015-16 Rs.84792/-,143030/-,27229/-& Rs. 28605/- deposited on 15/03/2016.Taxes should be remitted to the Govt. account on timely basis otherwise delayed interest charges may be imposed.

XIII.No any register for E- Tender & Auction has been maintained by the ULB.

XIV. There is lacking a system of issuance of Utilization Certificate for the different scheme for any Utilization made during the Audit period.



3. Opinion

<p>Overall opinion of the Audit team about the functioning of the Municipality</p>	<p>The functioning of the Municipality is very weak due to following reasons:</p> <ul style="list-style-type: none"> • Collection from own sources is poor. • The procurement of fixed assets is not proper and non properly maintenance of Fixed Asset Register would lead to failure of determining the replacement cost. • 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 poor. • Grant received for various purposes are not utilized on timely basis. • There are serious lapses in deduction and deposit of statutory dues such as TDS, Sales Tax(VAT), Royalty, Labour cess etc. • Maximum portion of fund received by the ULB from GoB is left unspent during the financial year. So the Closing Bank Balance is huge.
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4. Audit Recommendations

<p>The recommendations of Audit team on the observed weakness</p>	<ol style="list-style-type: none"> I. We suggest the followings: II. All the prescribed books of accounts and Registers should be prepared on real time basis. III. PF & ESI should be deducted from salary, if applicable. IV. Bank reconciliation Statement should be prepared on monthly basis. V. Demand & Collection Register of all the wards should be prepared and calculation should be done as per new assessment. VI. Collection from own sources should be improved. VII. Collection by tax collector should be deposited on daily basis. VIII. All the statutory dues should be deposited on timely basis and returns prescribed under respective laws should also be filed on timely basis. IX. New staff are to be appointed by the management for smooth running of the ULB
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and they should be equipped with regular training to run the ULB smoothly.

5. Comments 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 Sheohar Nagar Panchayat
(Executive Officer)

6. Acknowledgment

We thanks Shri Randhir Lal (Executive Officer), for his support during the period of our audit. We are also thankful to Shri Amarnath Choudhary(Accountant), Tax Daroga and support staffs of the municipality for their cooperation extended to us during the period of our audit.

Place : Ranchi
Date : 31-3-2017

For R.Shah & Co.
Chartered Accountants
FRN.-


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





Nagar Panchayat, Sheohar

COMMENTS FROM MANAGIMANT



To whom it may Concern

The points and issues raised by the audit Team has been redressed properly for correction and strengthening the system. To develop internal control and internal checks, the suggestions given by the Audit Team are fully complied for the optimum resource development.

Date :

Place : Sheohar




29/8/16
Executive Officer
Nagar Panchayat, Sheohar.
~~Executive Officer~~
Nagar Panchayat
Sheohar

29.8.16

MAIN AUDIT REPORT

1. Introduction

The Internal audit of Nagar Panchayat Sheohar 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 May 2012. The incumbency in the key administrative and executive position was as under:

- 1. Smt Chandrakala Devi, Chairperson from 09/06/2012 to 02/05/2015 & Smt. Neelam Sinha, Chairperson from 30/05/2015 till date
- 2. Shri Randhir Lal , Executive officer Since September 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
1.	AG Audit Dated (22/07/2015)	29		10	0	0	18	9,07/10/2015



4. Finance

I. Budgetary provisions and expenditure for the last three years

Year	2015-16	2014-15	2013-14
Final/ Revised Budget	99860911.00	106796729.00	86881396.00
Actual Expenditure	110506071.00	67609413.00	75497090.00
Savings (+)/ Excess (-)	(-) 10645160.00	(+) 39187316.00	(+) 11384306.00

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 current period (15-16)
Opening Balance		98759390.69	98759390.69	119822730.69	119822730.69
Receipts	106922495.00	88672753.00	88672753.00	109401737.93	109401737.93
TOTAL	106922495.00	187432143.69	187432143.69	229225338.62	229225338.62
Net Expenditure	99860911.00	67609413.00	67609413.00	110506071.00	110506071.00
Closing Balance	7061584.00	119822730.69	119822730.69	118719267.62	118719267.62



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
1	SBI	XXXX8707	626495.17
2	SBI	XXXX8694	127893.11
3	SBI	XXXX8718	857407.06
4	SBI	XXXX8607	8070.02
*5	CBI	XXXX7441	33870.00
*6	CBI	XXXX4822	159341.00
*7	CBI	XXXX9543	2582406.93
*8	CBI	XXXX4038	14130.00
*9	Canara Bank	XXXX1298	15429.00
*10	Canara Bank	XXXX1299	6566035.00
*11	Canara Bank	XXXX4362	240363.00
12	BOI	XXXX1227	2615829.00
13	BOI	XXXX0014	1438188.93
14	PNB	XXXX4315	122933.31
*15	CBI	XXXX6440	4985299.80
16	CBI	XXXX1142	193768.00
17	CBI	XXXX9594	117518.00
18	CBI	XXXX5524	8161549.00
19	BOI	XXXX6540	30364.75
20	UBGB	XXXX0018	72801.00
21	UBGB	XXXX0636	58276.00
22	UBGB	XXXX0643	116.00
23	BOB	XXXX2007	443534.00
*24	Canara Bank	XXXX5164	4032534.00
25	PLA		84635583.50
	Total of Bank		118139735.58



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	Total as per Cash Book	118719267.62
	Difference	579532.04

Bank Reconciliation Statements have not been prepared by the Nagar Panchayat. There is a difference of Rs. 579532.04 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 Period (15-16)	Cumulative for the current period (15-16)
a) Own Source					
Property Tax	2481816.00			105670.31	105670.31
Assigned revenue	21067137.00				
Others (Fees & User Charges)	359209.00			5680169.00	5680169.00
(b) Administrative Grant	1869289.00			137932.00	137932.00
(c) Specific Grant					
Admin Building				14894775.00	14894775.00
Jalapurti Yojana	24862055.00			23755662.65	23755662.65
4th Finance	8969584.00			4082463.00	4082463.00
14th Finance				5379251.00	5379251.00
Pool And Road Contruction	10895649.00			7176105.94	7176105.94
Samajik Suraksha Pension	12670336.00			1752400.00	1752400.00
BRGF	1370452.00			1365991.00	1365991.00
13 th Finance	3909133.00				
Various Schemes	18467835.00	127372245.00	127372245.00	45071318.03	45071318.03
TOTAL	106922495.00	127372245.00	127372245.00	109401737.93	109401737.93

V. Status of Implementation of Double Entry Accounting System

Double Entry Accounting System is not operational in the Nagar Panchayat Sheohar till date.

C.A. firm has been appointed by the UD & HD for implementation of Double Entry Accounting System in the Nagar Panchayat.

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, a Municipal Accounts Committee has been constituted by the Nagar Panchayat, but no meeting held each year.

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>	<p>We observed that no mobile tower tax, advertisement tax have been collected during the year 15-16. Outstanding Shop rent Rs.17350/- as on 31.03.2016.</p> <p><i>New Assessment has been done since 2009 and the processes of self assessment of property are in progress but at a slow rate.</i></p>
<p>b) Excess payment against bill, lack of prudence in payment against voucher, inefficiency in controls resulting loss to ULBs</p>	<p>During the course of audit, we did not observe any excess payment against bill, lack of prudence against vouchers etc.</p>
<p>c) Report on findings of field survey of Property Tax of minimum 20 high value properties</p>	<p>As per Annexure - B</p>



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 –

a) Non- maintenance of books of accounts , subsidiary registers	<p>As per Bihar Municipal Accounting Manual Following primary Books of accounts are required to be maintained :</p> <ol style="list-style-type: none">1. Cash Book (Form Gen-IA)2. Bank Book (Form Gen-IB)3. Journal Book (Form Gen-2)4. Ledger (Form Gen-3) <p>The N.P. is maintaining General & Subsidiary Cash Books/ Bank Book.</p> <p>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-</p> <ol style="list-style-type: none">1 Receipt GEN-82 Receipt Register GEN-93 Statement on Status of Cheques Received GEN-104 Collection Register GEN-115 Memorandum of Collection GEN-126 Summary of Daily Collection GEN-137 Register of Bills for Payment GEN-148 Payment Order GEN-159. Register of Public Lighting System GEN-3710 Register of Advance GEN-1711 Register of Permanent Advance GEN-1812 Deposit Register GEN-1913 Summary Statement of Deposits Adjusted GEN-2014 Demand Register GEN-2115 Bill for Municipal Dues GEN-2216 Summary Statement of Bills Raised GEN-23
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	<p>17 Register of Notice Fee, Warrant Fee, Other Fees GEN-24</p> <p>18 Summary Statement of Notice Fee, Warrant Fee, Other Fees GEN-25</p> <p>19 Register of Refunds, Remissions and Write-offs GEN-26</p> <p>20 Summary Statement of Refunds and Remissions GEN-27</p> <p>21 Summary Statement of Write-Offs GEN-28</p> <p>22 Statement of Outstanding Liability for Expenses GEN-29</p> <p>23 Documents Control Register/Stock Account of Receipt/Cheque Book GEN-30</p> <p>24 Register of Immovable Property GEN-31</p> <p>25 Register of Movable Property GEN-32</p> <p>26 Register of Land GEN-33</p> <p>27 Function-wise Income Subsidiary Ledger GEN-34</p> <p>28 Function-wise Expense Subsidiary Ledger GEN-35</p> <p>29 Asset Replacement Register GEN-36</p> <p>30 Register of Public Lighting System GEN-37</p>
b) Irregularity in procurement process	No, there is no irregularity observed during Audit
c) Non-compliance of directives by UD & HD , GOB	<p>There are certain directives which are not being comply by the concerned ULB regularly, list of non-complied directives are following :</p> <ol style="list-style-type: none"> 1. Directives relating to prepare a practical budget, where budgeted and actual figures has not been deviated more than 10%, But the concerned ULB is failed to comply this directive. 2. Directive relating to not to hire any individual as a daily wages worker by the UD & HD through letter No.04-uO vO/1/99/1986/uO fOO fOO 25/06/01, but the concerned ULB has failed to comply this directive.
d) Non Compliance of Act & Rules	Various books of accounts and records, as

