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INDIAN AUDIT AND ACCOUNTS DEPARTMENT

O/o PRINCIPAL ACCOUNTANT GENERAL

(GENERAL & SOCIAL SECTOR AUDIT), W.B.

LOCAL AUDIT DEPARTMENT

Act
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31/08/15

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No. SS-III/ A/cs Midnapore M(08-09)/15-16/ 2145

Dated: 26.08.2015

To,

The Chairman
Midnapore Municipality,
PO-Midnapur,
Paschim Medinipur,
Pin- 72101

Sub: Audit Report on Annual Financial Statement for the year 2008-09

Sir,

I am forwarding the Audit Reports and detailed comments on the AFS for the year 2008-09 under section 87 of West Bengal Municipal Act 1993 as amended till date and annexure containing specified information as per Sub-Rule 2 of Rule 22 of West Bengal Municipal Finance and Accounting Rules 1999 as amended in January 2007. I draw your kind attention to Section 88 of the Act ibid to place the Audit Report to the Chairman-in-Council to take remedial measures and report to the Director of Local Bodies with intimation to this office.

Yours faithfully

NB 25/8/15
Examiner of Local Accounts
West Bengal

Enclosure: As stated above

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF MIDNAPORE
MUNICIPALITY FOR THE YEAR ENDED 31st MARCH, 2009**

We have audited the Balance Sheet of the Midnapore Municipality as at 31 March, 2009 along with Income & Expenditure Account and Receipts & Payments Account for the year ended on that date under section 86 of the West Bengal Municipal Act, 1993 as amended till date. Preparation of these financial statements is the responsibility of the Midnapore Municipality Management. Our responsibility is to express an opinion on these financial statements based on our audit findings.

2. This Audit Report contains the comments of the Examiner of Local Accounts (ELA) on the accounting treatment with regard to classification, conformity with the best accounting treatment, accounting practices, accounting standards and disclosure norms, etc. Audit observation on financial transactions with regard to compliance with the Laws, Rules and Regulations (Propriety and Regularity Audit) and efficiency-cum-performance aspects, etc., are reported through Inspection Reports/Audit Reports separately.

3. We have conducted our audit in accordance with the Auditing Standards generally accepted in India. These standards require that we plan and perform audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

4. Based on our audit, we report that:

i. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit subject to the observations made below.

ii. The Balance Sheet and Income & Expenditure Account and Receipts and Payments Account dealt with by this report have been drawn up in the format prescribed under Accounting Manual for Urban Local Bodies (Part – 5 : Forms & Formats) subject to the observations made below.

iii. In our opinion, proper books of accounts and other relevant records have been maintained by the Midnapore Municipality as required under Accounting Manual for Urban Local Bodies (Part – 5 : Forms & Formats) in so far as it appears from our examination of such books and subject to the observations made below.

Management adhered to appropriate internal controls [Comments as per Sub-rule (2) (1) (d) of the Rule 22 of West Bengal Municipal (Finance & Accounting) Rules, 1999 (Amends) is enclosed (Annexure – 1)]

iv. We further report that-

A. Balance Sheet

A.1. Liabilities

A.1.1 Grants, Contribution for Specific Purpose (Schedule B-4): ₹2514.38 Lakh

Above included Fixed Grant of ₹ 540011.39

As per Accounting Manual for ULBs (Part-2, Para 3.4.1 a), General Grants, which are of revenue nature, received basically for non specific purpose, shall be recognized as income on actual receipt.

This resulted in overstatement of Grants, Contribution for Specific Purpose with the corresponding overstatement of 'Deficit of income over expenditure' to the extent of ₹5.40 lakh.

Municipal authority admitted the observation and noted for future guidance.

**A.1.2 Other Liabilities (Sundry Creditors) (Schedule-B-09) : ₹537.88 lakh
Gratuaty Payable: ₹0.00 lakh**

Above did not include ₹ 1499130 (as per statement submitted by the Municipality) being the Gratuity payable to the retired (retired in earlier years)/ death employees as on 31.03.2009.

Non-accounting of the above resulted in understatement of 'Other liabilities (Sundry Creditors)' with the corresponding understatement of prior years expenditure thereby understatement of 'Deficit' to the extent of ₹ 14.99 lakh.

In reply, Municipal authority admitted the observation and noted for future guidance.

A.2 Assets

A.2.1. Cash & Bank Balance: ₹569.71 lakh

Above did not include ₹ 31360.00 being the money value of 15 no. of issued cheques which lost their validity (became stale cheques) as on 31st March 2009 but the same stale cheques were not written back or rectified in the accounts for the year 2008-09.

Non accounting of the above resulted in understatement of Cash & Bank Balance with the corresponding understatement of Other Liabilities (Dundry Creditors) to the extent of ₹0.31 lakh.

The Municipality admitted the facts

B INCOME & EXPENDITURE ACCOUNT

Nil

C RECEIPT & PAYMENT ACCOUNT

The Receipt and Payment Accounts was not prepared in prescribed heads of account and form. As a result, the actual inflow and outgo of funds under specific head was not readily available and therefore did not satisfy the objective of the account. It was noticed that certain unwarranted heads of account 220, 320, 340, 350, 430, 431, 450, 460 under the Receipt side and 130, 140, 160, 320, 340, 350, 410, 430, 450, 460 in payment side were shown in the Receipt and

Payment Accounts. Those entries were not relevant to the respective sides. Such system-generated erroneous statement with unusual receipts and payments were not commensurate with the Accounting Standards applicable for the purpose

Municipal authority noted the observation for future guidance.

D General Observation

D.1 Journal Vouchers

As per 'Purohisab' accounting software package, Journal Vouchers were passed while preparation of Annual Accounts for the year 2008-09, without any authorization of the Higher authority and justifying primary documents.

D.2 Capital work in progress: ₹ 38.09 lakh (B-11)

The Municipality did not prepare any 'Summary statement of status on CWIP' in Form 141(as per para 5 of Accounting Manual of ULBs) for the year 2008-2009. Moreover, no schedules of capital work in progress was attached to the accounts. As a result, exact status of CWIP could not be checked in audit.

D.3 Physical verification of Store/Fixed Asset not conducted

No physical verification of movable as well as immovable assets was done by the Municipality at a regular interval, as a result the Municipal authority could not ensure whether all the assets accounted for in the Stock Register/Assets Register were physically available or not.

D4 Stock in Hand: ₹ 269.05 lakh

The store department of the Municipality did not prepare any statement of closing stock in form 147 as required (as per para 5 of Accounting Manual of ULBs) for which the actual position of store as on 31.03.2009 and its valuation could not be verified in audit.

D.5 Primary Documents

The Municipality did not maintained the basic/primary records like Authorized printed Cash book, Grant register, Unpaid Bill Register, work register, Loan register, Investment Register, records in details of Sundry creditors, etc. As a result, the figures as depicted in the annual accounts could not be properly verified in audit.

D.6 Deficiencies/ shortcomings in accounting software package 'Purohisab'

- a) The accounting software package 'Purohisaab' has no locking arrangement in so far as accounting period is concerned i.e. any voucher can be entered at a later date after closing of a particular accounting year on real time basis thereby leaving the system unsecured.
- b) The accounting software package 'Purohisaab' is unable to generate 'Bank Reconciliation statement' thereby rendering it ineffective as all the record/entries pertaining to Bank Reconciliation statement are being kept manually.

A. Balance Sheet

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The Receipt and Payment Accounts was not prepared in prescribed heads of account and form. As a result, the actual inflow and outgo of funds under specific head was not readily available and therefore did not satisfy the objective of the account. It was noticed that certain unwarranted heads of account 220, 320, 340, 350, 430, 431, 450, 460 under the Receipt side and 130, 140, 160, 320, 340, 350, 410, 430, 450, 460 in payment side were shown in the Receipt and

- c) The accounting software package 'Purohisaab' did not generate any 'Grant Register', 'Fixed Assets Register', 'Cash Flow statement', etc. as per prescribed format.
- d) Narration in most of the payment voucher was absent.
- e) There was no scope to save any computer I.P. address against any transaction. Not even that, the name/designation of voucher entering and passing person was not reflected against the voucher posted/passed in any occasions. Hence, both the persons might be the same which frustrated the system of double checking of the vouchers. Moreover, the Municipality failed to furnish any password register or copy of the resolution indicating the persons authorized by the B.O.C. for posting the entries and passing the entries in the system leaving the total system unsecured;
- f) The Receipt and Payment vouchers were not maintained by the Municipality in Form no. 97 and 98.(as per part 5 of the Accounting Manual for ULBs)

D.7 Schedule forming part of Financial Statement

Schedules B-1, B-2, B-3, B-4, B-8, B-11, B-12, B-15 and B-18 attached to the Balance Sheet were incomplete and not conforming to the provisions of the Accounting Manual for ULBs. As a result, the extent of addition, deduction, capital expenditure, revenue expenditure, out of grant/ own resources, movement of fund was implicit in the Financial Statement.

D.8 Unsecured Loan: ₹ 154.44 lakh

As per para 3.4.2 (ULB accounting manual part-2) a provision shall be made for the interest accrued between the date of last payment of interest and the date of financial statements and shall be charged to the current's period Income and Expenditure Statement, But no such provision has been created by the municipality despite having unsecured interest bearing loan amounting to ₹ 154.44 lakh.

D.9 Deposit Works (Sch. B-8): ₹9.67 lakh

Above included ₹967031 in respect of unspent grant of BEUP. If that amount was received for development schemes of the Municipality, the same should be shown under 'Grant, Contribution for specific purposes (B-4)' as per Accounting Manual.

D.10 Sundry Debtors (Receivables) (Sch:B 15) ₹337.15 lakh

Above included ₹25128533.73 being the property tax receivables. But as per the Transaction Audit Report 2008-10 property tax receivables as on 31.03.2009 was ₹77.26 lakh.

In reply municipal authority stated that as on 01.04.2007 no arrear demand has been received by the concerned department. At the time of preparing opening balance sheet as on 01.04.2007 accounts department in their own initiative prepared age wise analysis of property

tax and reached the figure which was stated in the accounts . For that reason it was not tallied with the figure mentioned in transaction audit report 2008-10, supplied by concerned department. However necessary reconciliation will be made in future.

E. Notes to Accounts.

The fact that salary paid by the Government of West Bengal through different Departmental Budget to the Executive Officer, Finance Officer of the Municipality with quantification was not disclosed.

The Municipality admitted the observation and noted for future guidance.

F. Effect of Audit Comments on Accounts.

The net impact of the comments given in preceding paras is that the liabilities as on 31st Mar 2009 were understated by ₹9.90 lakh, Assets were understated by ₹0.31 lakh and the Deficit of income over expenditure for the year was understated by ₹9.59 lakh.

v) Subject to our observations in the preceding paragraphs, we report that the Balance Sheet and Income and Expenditure Account and Receipts and Payments Account dealt with by this report are in agreement with the books of accounts.

vi) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the Accounting Policies and Notes on Accounts, and subject to the significant matters stated above and other matters mentioned in Annexure - I to this Audit Report, does not give a true and fair view in conformity with accounting principles generally accepted in India:

(a) In so far as it relates to the Balance Sheet of the State of affairs of the Midnapore Municipality as at 31st March, 2009 and

(b) In so far as it relates to the Income and Expenditure for the year ended on that date.

Place: Kolkata
Date: 08.2015


Examiner of Local Accounts
West Bengal

**Working Sheet on Net impact on Annual Accounts of Midnapore Municipality for
2008-09**

(₹ in Lakh)

Ref No	Liabilities		Assets		Deficit	
	U/S	O/S	U/S	O/S	U/S	O/S
A.1.1		5.40				5.40
A.1.2	14.99				14.99	
A.2.1	0.31		0.31			
Total	15.30	5.40	0.31	0.00	14.99	5.40

Liability understated by ₹ (15.30-5.40) lakh = ₹9.90 lakh

Asset understated by ₹ (0.31-0.00) lakh = ₹ 0.31 lakh

Deficit understated by ₹(14.99-5.40) lakh = ₹9.59 lakh

U/S – Understatement

O/S - Overstatement

Annexure – I

**Audit comments with reference to sub-rule (2) (1) (d) of Rule 22 of the West Bengal
Municipal (Finance & Accounting) Rules, 1999**

Sl. No	Item of information.	Audit comments.
1.	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 unauthorized by law.	During test check, no such deviation was found.
2.	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 deficiency was noticed in course of test check.
3.	Whether all transaction (income, expenditure, assets and liabilities) are correctly classified and stated in sufficient details?	Audit comments given in specific cases.
4.	Whether in respect of all bills for charges on accounts of all works and other expenditure proper certificates have been furnished in support of them and that no deviation has been made from the sanctioned plans and the estimate without other sanction of the competent authority?	As per test check, no deviation was found from the sanctioned plans and the estimates.
5.	Whether the amounts received as specific grants have been utilized for the purposes as stated in the grant sanction order?	No deviation was noticed as per test check.
6.	Whether the special funds, if any, have been created as per the provisions of relevant statutes and whether the special funds have been utilized for the purpose for which created?	Provident Fund is being utilized for the purpose for which the same was created. Pension was not created.
7.	Whether the Municipality is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets? Whether these fixed assets have been physically verified by the management at reasonable intervals? Whether any material discrepancy was noticed on such verification and if so, whether the same have been properly dealt with in the Books of accounts?	The Municipality though maintained Asset Register but the details of work and measurement were not recorded. Physical verification of Fixed Assets has not been made any time.
8.	Whether physical verification has been conducted at reasonable intervals in respect of stores?	No physical verification of Stores was done.
9.	Whether the procedures of physical verification of store followed by the Municipality are reasonable and adequate, if not, the inadequacies in such procedures should be reported.	No physical verification of Stores was done.
10.	Whether any material discrepancies have been noticed on physical verification as compared to books of records and if so whether the same have been properly dealt with in the books of accounts?	Material discrepancies were not detected during the year 2008-09.

11.	Whether the valuation of stores is in accordance with the accounting principles laid down by the State Govt. from time to time? 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 materials, should be reported?	Deviation are commented.																											
12.	Whether the parties to whom the loans or advances in the nature of loans have been given by the Municipality, are repaying the principal amounts as stipulated and are also regular in payments of the interest and if not, whether reasonable steps have been taken by the Municipality for recovery of the principal and interest?	No major deficiency in this respect was noticed as per test check.																											
13.	Whether there exists an adequate internal control procedure for the purchase of store including components, plant and machinery, equipment and other assets?	Internal control system needs to be strengthened.																											
14.	Whether proper procedure 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																											
15.	Whether the Municipality is regular in depositing Provident fund dues and Professional Tax deducted with the appropriate authorities and if not, the extent of arrears?	Yes except Provident Fund deposit. Commented.																											
16.	Whether the Municipality is regular in depositing deducted at source (Income Tax and Work contract tax) and other statutory dues, and if not, the nature and cause of such delay and the amount not deposited?	Yes																											
17.	Whether any personal expenses have been charged to revenue accounts? If so the details thereof.	Not found during test check.																											
18.	Whether the total liabilities of the Municipality can be met out of the Municipal fund when falling due?	No, as calculated below. (₹ in lakh) <table border="1"> <thead> <tr> <th>Head</th><th>Amount</th><th>Amount</th></tr> </thead> <tbody> <tr> <td>Earmarked funds</td><td>307</td><td></td></tr> <tr> <td>Unspent grant-</td><td>2514.38</td><td></td></tr> <tr> <td>Loan</td><td>154.44</td><td></td></tr> <tr> <td></td><td></td><td>2975.82</td></tr> <tr> <td>Current assets -</td><td>1663.73</td><td></td></tr> <tr> <td>Current liabilities</td><td></td><td></td></tr> <tr> <td>Investment</td><td>473</td><td>2136.73</td></tr> <tr> <td>Excess of liability over cash strength</td><td></td><td>839.09</td></tr> </tbody> </table>	Head	Amount	Amount	Earmarked funds	307		Unspent grant-	2514.38		Loan	154.44				2975.82	Current assets -	1663.73		Current liabilities			Investment	473	2136.73	Excess of liability over cash strength		839.09
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Place: Kolkata
Date: .07.2015

NB 25/2/15
Examiner of Local Accounts
West Bengal