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भारतीय लेखा एवं लेखा परीक्षा विभाग
कायोलय - प्रधान महालेखाकार (सामान्य एवं सामाजिक क्षेत्र
लेखा परीक्षा), प.वं., स्थानीय लेखा परीक्षा विभाग

INDIAN AUDIT AND ACCOUNTS DEPARTMENT
OFFICE OF THE PRINCIPAL ACCOUNTANT GENERAL
(GENERAL & SOCIAL SECTOR AUDIT), W.B.

LOCAL AUDIT DEPARTMENT

SS-17) AFS Midnapore M(12-13)/16-17/2952
संख्या / No.

दिनांक / Dated : 11.11.2016

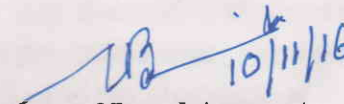
The Chairman
Midnapore Municipality,
PO-Midnapur,
Paschim Medinipur,
Pin-721101

Sub: Audit Report on Annual Financial Statement for the year 2012-13

Sir,

I am forwarding the Audit Reports and detailed comments on the AFS for the year 2012-13 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


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, 2013

We have audited the Balance Sheet of the Midnapore Municipality as at 31st March, 2013 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): ₹ 2163.23 lakh

(a) Above included negative balance of ₹ 316081.00 in respect of HUDCO Fund. Negative balance indicated excess expenditure over the grant received and the same was incurred out of Municipal own fund. Therefore, expenditure to the extent of grant received should only be recognized as income in the accounting period. However, the Municipality credited total expenditure (incurred out of Grants and Municipal fund) in the Income & Expenditure Account.

Wrong accounting of the above resulted in understatement of 'Grants, Contribution for Specific Purpose' with the corresponding overstatement of income and thereby overstatement of surplus of income over expenditure to the extent of ₹ 3.16 lakh.

In reply the Municipal authority admitted the fact and assured that appropriate action would be taken in coming years and rectifications would be reflected in the subsequent Balance Sheet.

(b) 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.

Above included Other Fixed Grant of ₹ 1661902.00 being a revenue nature General Grant.

This resulted in overstatement of Grants, Contribution for Specific Purpose with the corresponding understatement of 'surplus of income over expenditure' to the extent of ₹16.62 lakh.

In reply the Municipal authority admitted the fact and assured that appropriate action would be taken in coming years and rectifications would be reflected in the subsequent Balance Sheet.

A.2 Assets

A.2.1 Cash and Bank Balance (Schedule B-17): ₹ 667.28 lakh

Above did not include ₹232251.00 being the value of 13 nos. cheques (12 of Municipal Fund and 01 of Grants Fund)) issued by the Municipality which lost their validity prior to 31.03.2013. The above stale cheques should have been written back by crediting the liability to that extent.

This resulted in understatement of 'Cash and Bank Balance' with the corresponding understatement of 'Other liability' to the extent of ₹ 2.32 lakh.

The Municipal authority admitted the fact and stated that some of the stale cheques

B INCOME & EXPENDITURE ACCOUNT

B.1 Income

B.1.1 Interest earned (Sch.I-8): ₹ 8.48 lakh.

As per Accounting Manual for ULBs (Para 3.3.3 f of Part 2) income on investments made from Special Fund and Grants under specific Scheme should be recognized and credited to Special Fund and Grants under Specific Scheme respectively, whenever accrued.

Above included ₹313215.00 being the interest earned from savings Bank Account of IHSDP. However, instead of crediting the above interest to the respective grant, it was wrongly taken as operating income of the Municipality.

1896 This resulted in overstatement of 'Income' as well as 'Surplus of income over expenditure' with the corresponding understatement of 'Grants, Contribution for Specific Purpose' to the extent of ₹ 3.13 lakh.

In reply the Municipal authority admitted the fact and assured that it would be rectified in the next financial year.

B.2 Expenditure

B.2.1 Establishment Expenses (Sch.I-10): ₹ 1244.07 lakh

Pension contribution: ₹ 24.00 lakh

As per Govt. order, 6% of the basic pay was to be contributed to this fund. The matching Pension Fund amount should be kept separately under 'Investment'. All basic pension payment should be made through 'Pension Fund'. Above did not include ₹ 442486.08 (6% of total basic salary of ₹47374768.00- ₹2400000.00 as pension contribution for the year 2012-13) as Pension contribution to the Pension fund.

This resulted in understatement of 'Expenditure' and there by overstatement of 'Surplus of Income over expenditure' with the corresponding understatement of 'Pension Fund (Earmarked fund) to the extent of ₹ 4.42 lakh and overstatement of Cash and Bank Balance with the corresponding understatement of Investment Other Fund by the same extent.

In reply the Municipal authority stated that some part of total pension contribution had been deposited in the pension fund and actual amount of pension was paid from Municipal Fund and the amount had been reflected in the Income & Expenditure statement. The Municipal authority assured that if there any shortfall, necessary action would be taken in due course.

C RECEIPT & PAYMENT ACCOUNT

No comments

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 2012-13, without any authorization of the Higher authority and justifying primary documents.

D.2 Capital work in progress(Sch.B-11): ₹ 156.24 lakh

The Municipality did not prepare any 'Summary statement of status on CWIP' in Form 141(rule 175A) for the year 2012-2013. 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: ₹ 429.53 lakh

The store department of the Municipality did not prepare any statement of closing stock in form 147 as required under rule ibid for which the actual position of store as on 31.03.2013 and its valuation could not be verified in audit.

D.5 Primary Documents

Though the Municipality did finalize the Annual accounts for the 2012-13 but not maintained/furnished 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 properly be 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.
- c) The accounting software package 'Purohisaab' did not generate any 'Grant Register', 'Fixed Assets Register', 'Cash Flow statement', etc. as per prescribed format.
- d) 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

B.O.C. for posting the entries and passing the entries in the system leaving the total system unsecured;

e) The Receipt and Payment vouchers were not maintained by the Municipality in Form no. 97 and 98. Narration in most of the payment voucher was absent.

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 Other Liabilities (Sundry Creditors): ₹ 873.67 lakh

Employee Liabilities (code 35011): ₹ 154.13 lakh

Above included ₹15413183.00 being the Provident Fund subscription of the employees as well as un-deposited amount of recovery of loan taken from Provident Fund which was deducted but not deposited in to P. F Treasury account till date. It requires to segregate the actual amount of P F payable, P F subscription and P F loan with proper accounting effect.

E Effect of Audit Comments on Accounts.

The net impact of the comments given in preceding paras is that the liabilities as on 31st March 2013 were overstated by ₹ 3.59 lakh, Assets were understated by ₹ 2.32 lakh and the Surplus of income over expenditure for the year was understated by ₹ 5.91 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, 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, 2013 and

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

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**Working Sheet on Net impact on Annual Accounts of Midnapore Municipality for
2012-13**

(₹ in Lakh)

Ref No	Liabilities		Assets		Surplus	
	U/S	O/S	U/S	O/S	U/S	O/S
A.1.1(a)	3.16					3.16
A.1.1(b)		16.62			16.62	
A.2.1	2.32		2.32			
B.1.1	3.13					3.13
B.2.1	4.42		4.42	4.42		4.42
Total	13.03	16.62	6.74	4.42	16.62	10.71

Liability overstated by ₹ (16.62-13.03) lakh = ₹ 3.59 lakh

Asset understated by ₹ (6.74-4.42) lakh = ₹ 2.32 lakh

Surplus understated by ₹ (16.62-10.71) lakh = ₹ 5.91 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.	Yes.
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.	Yes.
3.	Whether all transaction (income, expenditure, assets and liabilities) are correctly classified and stated in sufficient details?	Yes.
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?	Yes.
5.	Whether the amounts received as specific grants have been utilized for the purposes as stated in the grant sanction order?	Yes.
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?	Yes.
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?	Yes.
8.	Whether physical verification has been conducted at reasonable intervals in respect of stores?	Physical verification was not done at reasonable intervals.
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.	Physical verification was not done at reasonable intervals.
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?	Physical verification was not done at reasonable intervals.
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.	Yes.

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?	Yes.																											
13.	Whether there exists an adequate internal control procedure for the purchase of store including components, plant and machinery, equipment and other assets?	Yes.																											
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?	Reply/Information not furnished.																											
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?	PF and Professional Tax were not deposited regularly. Irregularities noticed was mentioned in the Audit Report																											
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>363.76</td><td></td></tr> <tr> <td>Unspent grant-</td><td>2163.23</td><td></td></tr> <tr> <td>Loan</td><td>179.65</td><td></td></tr> <tr> <td></td><td></td><td>2706.64</td></tr> <tr> <td>Current assets -</td><td>1915.30</td><td></td></tr> <tr> <td>Current liabilities</td><td></td><td></td></tr> <tr> <td>Investment</td><td>548.24</td><td>2463.54</td></tr> <tr> <td>Excess of liability over cash strength</td><td></td><td>243.10</td></tr> </tbody> </table>	Head	Amount	Amount	Earmarked funds	363.76		Unspent grant-	2163.23		Loan	179.65				2706.64	Current assets -	1915.30		Current liabilities			Investment	548.24	2463.54	Excess of liability over cash strength		243.10
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Place: Kolkata
Date: .11.2016

Examiner of Local Accounts
West Bengal