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Accountant
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भारतीय लेखा एवं लेखा परीक्षा विभाग
कार्यालय - प्रधान महालेखाकार (सामान्य एवं सामाजिक क्षेत्र
लेखा परीक्षा), प.ब., 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-12/11/18 Midnapore (13-14)/11-18/5369 (TB)

संख्या / No.

दिनांक / Dated : 31.01.2018


To
The Chairman,
Midnapore Municipality,
PO- Midnapore
Paschim Midnapore,
PIN- 721 101

Sub: Audit Report on Annual Financial Statement for the year 2013-14

Sir,

I am forwarding the Audit Reports and detailed comments on the AFS for the year 2013-14 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,


31/1/18
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, 2014

We have audited the Balance Sheet of the Midnapore Municipality as at 31st March, 2014 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.

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. SOURCE OF FUNDS (Liabilities)

A.1.1 Earmarked Funds (Schedule No. B – 2): ₹ 463.96 lakh

Provident Fund: ₹ 463.18 lakh

Above did not include loss of interest amounting ₹ 1148849.23 (₹ 991970.60 for the period 2012-13 and ₹ 156878.63 for the period 2013-14) on Provident Fund subscriptions and recoveries of P.F advance deducted from the salary of employees which was not deposited to Treasury, for the month of May'2012 to June'2013 (as per statement furnished by the Municipality), till March 2014.

Non-accounting of the said liability resulted in understatement of 'Provident Fund' under "Earmarked Funds" by ₹ 11.49 lakh with corresponding overstatement of Municipal Fund to the extent of ₹ 9.92 lakh and understatement of expenditure as well as deficit by ₹ 1.57 lakh.

The Municipality did not furnish any reply.

A.1.2 Grants, Contribution for Specific Purpose (Sch-B-4): ₹ 2254.99 lakh

As per Accounting Manual for ULBs (Part-2, Para 3.4.1a), 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 ₹ 1152752.00 being a revenue nature General Grant.

Wrong accounting of the above resulted in overstatement of "Grants, Contributions for Specific Purpose" with the corresponding understatement of income thereby overstatement of 'Deficit' to the extent of ₹ 11.53 lakh.

The Municipality did not furnish any reply.

A.1.3 Other Liabilities (Sundry Creditors), (Sch. No. B – 9): ₹ 957.03 lakh

A.1.3.1 Expenses Payable: ₹ 423.53 lakh

Above did not include outstanding electric bills amounting ₹ 54202804.72 for the periods prior to 31.03.2014 (against Consumer ID 942102100 for the period from August 1999 to January 2000, March 2000 to April 2002, June, July 2002, August 2003 to February 2005, April 2005 to April 2006, June 2006 to August 2006, October 2006, December 2006 to January 2007, March 2007 to September 2009 and November 2009 and Consumer ID 942109500 for the period from August 2005 to April 2006, June, July 2006, October 2006 to January 2007, March 2007 to September 2009, November 2009 to July 2010, September 2010

to June 2012, October , November 2012, January 2013, April 2013 to December 2013, total liability ₹ 104725156.72).

The Municipality had made a provision under the Head 'Expenses Payable' under 'Other liabilities (Sundry Creditors) of ₹ 42353352.00 (details of expenses payable had not been furnished). Further, State Govt. had paid an amount of ₹ 8169000.00 to WBSEDCL from 13th FC Grants towards outstanding electric bills vide Sanction Order No.539 (Sanction)/MA/N/C-3S-21/2010 Pt. dated 31.03.2014. But the municipality had not accounted for the said transaction.

Thus the minimum amount for which Provision had not been made under 'Other Liabilities (Sundry Creditors) was ₹ 54202804.72 (₹ 104725156.72 - ₹ 8169000.00 - ₹ 42353352.00)

Non accounting of the above resulted in understatement of 'Expenses Payable' under 'Other Liabilities (Sundry Creditors)' to the extent of ₹ 542.03 lakh with the corresponding understatement of 'deficit' to the same extent (understatement of 'Expenditure' by ₹ 623.72 lakh and understatement of Income by ₹ 81.69 lakh).

The Municipality did not furnish any reply.

A.2 Assets (Application of Fund)

A.2.1 Stock in Hand (Sch. B-14) ₹ 528.08 lakh

As per para 3.3.2(e) of Accounting Manual for ULBs (Part-2), inventories of consumable supplies such as stationery, fuel shall be charged to revenue at the time of purchase. Hence there should not be any stock balance.

Above included ₹ 29085.00 being the value of closing stock in respect of 'Stationery Store'.

Wrong accounting resulted in overstatement of 'Stock-in-Hand' with the corresponding understatement of expenditure thereby understatement of 'Deficit' to the extent of ₹ 0.29 lakh.

The Municipality did not furnish any reply.

A.2.2 Cash and Bank Balance (Sch No. B-17): ₹ 1075.79 lakh

Above did not include ₹ 350713.00 being the value of 05 cheques (cheque no.119552, dated 12.11.12; cheque no.140802, dated 03.06.2013; cheque no.140896, dated 10.08.2013; cheque no.701981, dated 06.07.2013; cheque no. 857372, dated 16.07.2013) issued by Municipality which lost their validity prior to 31.03.2014. The above stale cheques should have been written back by crediting liability to that extent.

Non accounting of the above resulted in understatement of 'Cash and Bank Balance' with corresponding understatement of 'Other liability' to the extent of ₹ 3.51 lakh.

The Municipality did not furnish any reply.

A.2.3 Sundry Debtors (Receivables): ₹ 537.08 lakh

As per Government norms, 40% of total requirement (Basic Pension + Dearness Relief) of pension payment is reimbursed by the Govt. on submission of claim in the following year. Therefore, income will be accrued when pension payment is made.

Above receivables did not include ₹ 7127015.00 being the receivable reimbursement of 40% of total requirement (Basic Pension + Dearness Relief) for the year 2013-14.

Non-accounting of the above resulted in understatement of Pension Fund with corresponding understatement of 'Sundry Debtors (Receivable from the Govt.) to the extent of ₹ 71.27 lakh.

The Municipality did not furnish any reply.

B. INCOME AND EXPENDITURE ACCOUNTS

B.1 Income

**B.1.1 Rental Income from Municipal Properties [Sch No. I-3] (Code:130) : ₹ 57.21 lakh
Rent from Markets [Code: 1301001] ₹ 13.41 lakh**

As per demand and collection statement furnished by the municipal authority total Current Demand of Market rent during 2013-14 was ₹ 1227264.00. But as per AFS, "Rent from Markets" [code 1301001] under 'Rental Income from Municipal Properties' (Sch. I-3) was ₹ 1341264.00. The Municipality did not clarify the existing discrepancy of ₹ 114000.00 (₹ 1341264.00 - ₹ 1227264.00).

Pending reconciliation resulted in overstatement of Receivables by ₹ 114000.00 with the corresponding overstatement of 'Rental Income from Municipal properties' and understatement of deficit by ₹ 1.14 lakh.

The Municipality did not furnish any reply.

B.1.2 Revenue, Grants, Contributions & Subsidies (Sch.I-6): ₹ 1371.39 lakh

As per Government norms, 20 per cent of ad-hoc Bonus payment was reimbursed by the Government on submission of claim. Therefore, the Municipality accrued assured income as soon as such payments were made.

The Municipality paid 'Bonus' to its employees in the years 2012-13 and 2013-14 and accrued an 'Income' of ₹ 171600.00 and ₹ 186600.00 respectively towards 20% subvention of Ad-hoc bonus. However, the Municipality accounted the same on actual receipt during 2015-16.

Non-accounting of the above resulted in understatement of 'Income' as well as overstatement of 'Deficit' by ₹ 1.87 lakh and understatement of Municipal Fund by ₹ 1.72 lakh with corresponding understatement of 'Sundry Debtors (Receivables)' by ₹ 3.59 lakh.

The Municipality did not furnish any reply.

B.1.3

Interest earned (I-8): ₹ 19.71 lakh

Bank Interest (1711001): ₹ 15.85 lakh

Above included the amount of ₹ 1228871.00 being the interest earned from Savings Bank Accounts of various unutilized Govt. Grants/Govt. Scheme Funds/Deposit Works (ILCS, IHSDP, BRGF, BEUP, IGNWPS, NOAPS, SJSRY, IGNDPS, HUP, MDM, SSK, NFBS) vide voucher no 1075, 1076, 1085, 1086, 1087, 1140, 1149, 1150, 1160, 1161, 1162, 1167, 1169, 1177, 1250, 1809, 1811, 1812, 1815-20.

As per Accounting Manual for ULBs (Part – 2 / Para 3.3.3 f) 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.

Wrong accounting of the above resulted in overstatement of 'Income' and understatement of 'Deficit' with the corresponding understatement of 'Grants, Contributions for Specific purposes' and 'Deposit works to the extent of ₹ 12.29 lakh

The Municipality did not furnish any reply.

B.2 Expenditure

B.2.1 Establishment Expenses (Sch.I-10): ₹ 1287.04 lakh

B.2.1.1 Pension contribution: ₹ 0.00 Lakh

Above did not include ₹ 2950419.96 (6% of total basic of ₹ 49173666.00 for the year 2013-14) as Pension Contribution to the Pension fund. As per Govt. order, 6% of the basic pay was to be contributed to this fund. All basic pension payment should be made through 'Pension Fund'.

Non accounting of the above resulted in understatement of 'Expenditure' and there by understatement of 'Deficit of Income over expenditure' with the corresponding understatement of 'Pension Fund (Earmarked fund) to the extent of ₹ 29.50 lakh.

D GENERAL OBSERVATION

D.1 Negative balance of ₹ 316081.00 was still reflected under "Grants, contributions for specific purpose" despite the same being pointed out by the previous audit.

D.2 Establishment Expenses (Schedule No. I – 10): ₹ 1287.04 lakh

Above included amount of ₹ 22784281.00 being the expenditure incurred towards payment of 'Pension' during the year 2013-14. Since a separate Pension Fund was operated by the Municipality, each and every transaction relating to pension should be made through the Pension Fund.

D.3. Age-wise analysis of Receivables of Property Tax was not shown

The age-wise analysis of Receivables of Property Tax was not shown through 'Notes to Accounts'.

D.4 Journal Vouchers

No records for the approval of the Journal Vouchers was produced to audit.

D.5. 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) Despite having the provision to generate 'Bank Reconciliation statement' through accounting software package 'Purohisaab', all the records/entries pertaining to Bank Reconciliation statement are being kept manually by the Municipality.
- c) The accounting software package 'Purohisaab' did not generate any 'Grant Register', 'Fixed Assets Register', 'Cash Flow statement', etc. as per prescribed format.
- d) The names/designations of persons entering vouchers and passing vouchers were not reflected in any occasion. 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;

The Municipality did not furnish any reply to the above observations.

D.6 The Municipality furnished Action Taken Report on the Audit Reports related to the financial years 2010-11, 2011-12 and 2012-13.

D.7
2013-14.

The Municipality did not furnish the Provident fund abstract for the period

F. Effect of Audit Comments on Accounts.

The net impact of the comments given in preceding paragraphs is that the liabilities were understated by ₹ 650.36 lakh, assets understated by ₹ 76.94 lakh and the Deficit of Income over Expenditure understated by ₹ 573.42 lakh as on 31st March, 2014.

v) Subject to our observation 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, do 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, 2014 and

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

Place: Kolkata
Date: .01.2018


Examiner of Local Accounts,
West Bengal

Working Sheet on Net impact on Annual Accounts of Midnapore Municipality for 2013-14

(₹ in lakh)						
	Liability		Asset		Deficit	
Ref No	U/S	O/S	U/S	O/S	U/S	O/S
A.1.1.1	11.49	9.92			1.57	
A.1.2		11.53				11.53
A.1.3.1	542.03				542.03	
A.2.1				0.29	0.29	
A.2.2	3.51		3.51			
A.2.3	71.27		71.27			
B.1.1.1				1.14	1.14	
B.1.2	1.72		3.59			1.87
B.1.3.1	12.29				12.29	
B.2.1.1	29.5				29.5	
Total	671.81	21.45	78.37	1.43	586.82	13.40

Liability understated by ₹ (671.81-21.45) lakh = ₹ 650.36 lakh

Asset understated by ₹ (78.37-1.43) lakh = ₹ 76.94 lakh

Deficit of Income over Expenditure understated by ₹ (586.82-13.40) = ₹ 573.42 lakh

U/S – Understatement

O/S – Overstatement