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INDIAN AUDIT AND ACCOUNTS DEPARTMENT

O/o PRINCIPAL ACCOUNTANT GENERAL
(GENERAL & SOCIAL SECTOR AUDIT), W.B.

LOCAL AUDIT DEPARTMENT

No. SS-III/ A/cs Purulia M (12-13)/18-19/ 264/15

Dated: 05.05.2018

To
The Chairman,
Purulia Municipality,
543, G.N.Mukherjee Street,
Purulia, 723101

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 PURULIA
MUNICIPALITY FOR THE YEAR ENDED 31st MARCH, 2013**

We have audited the Balance Sheet of the Purulia 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 Purulia 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 Purulia 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)].

We further report that-

A Balance Sheet

A.1 Liability

A.1.1 Grants contribution for specific purpose (Sch. B-4): ₹ 1821.92 lakh

Scheme of Housing for the Urban Poor: ₹ 33.36 lakh

As per Accounting Manual for ULBs (Part-II Para 3.4.1(e)) the capital grants received as nodal agency or as implementing agency for an intended purpose which does not result in creation of assets with ownership rights of the ULB shall be shown under Deposit Works.

Above include unutilized amount of the Beneficiary contribution for the scheme of House for Urban Poor – JNNURM of ₹ 3336321.00. As the said fund was received for creating assets belonging to the beneficiaries and the ULB was only the implementing agency of the project, it was to be shown under Deposit work (Schedule B-8).

Wrong accounting of the above resulted in overstatement of Grants contribution for Specific Purpose by ₹ 33.36 lakh with the corresponding understatement of Deposit work to that extent.

In reply the authority accepted the audit observation.

A.1.2 Other Liabilities (Sundry Creditors) (Sch. B-9): ₹ 327.31 lakh

A.1.2.1 Gratuity Payable: ₹ 11.39 lakh

During test check, it was revealed that 14 (fourteen) employees were retired on superannuation / death during the year 2012-13. As per Accounting Manual for ULBs, Gratuity shall be calculated upon retirement of the employees and will be due then.

As per statement furnished by the ULB on the basis of Gratuity Register, a sum of ₹ 5407969.00 being the Gratuity payable to the retired/ death employees did not tally with the figures shown in the Accounts of ₹ 1139269.00 as on 31.03.13. So, a difference of ₹ 4268700.00 (₹ 5407969.00 - ₹ 1139269.00) between two sets of Accounts was noticed.

Wrong accounting of the above resulted in understatement of 'Other liabilities' with the corresponding understatement of 'Expenditure' and thereby overstatement of 'Surplus' to the extent of ₹ 42.69 lakh.

The Municipal authority admitted the observations.

Assets

A.2.1 Stock-in-Hand (Sch-B-14) ₹ 181.05 Lakh

Stationary Store: ₹ 0.42 lakh

Above included ₹ 41535.00 being the closing stock value in respect of Stationary Store. As per Accounting Manual Part-2 para 3.3.2 (e) Inventories of consumable supplies such as stationery, fuel shall be charged to revenue at the time of purchase and hence should not be booked under Stock-in-hand.

Wrong accounting of the above resulted in overstatement of Stock-In-Hand with corresponding understatement of expenditure which resulted in overstatement of Surplus to the extent of ₹ 0.42 Lakh.

In reply the municipal authority accepted the audit observation.

A.2.2 Sundry Debtors (Sch.B-15) ₹ 858.67 lakh

A.2.2.1 Receivable on pension Relief Grant: NIL

It did not include the pension Relief Grant of ₹ 3995256.00 - for the year 2012-13. As per Government order 40% of total requirement (Basic pension + Dearness Relief) of pension to the pensioners are allotted in regular basis in every year.

Non incorporation of the Grant resulted in understatement of pension fund with corresponding understatement of 'Receivable on pension Relief Grant' under Sundry Debtors to the extent of ₹ 39.95 lakh.

The municipal authority stated that a separate bank account for pension and gratuity was being maintained in the Central Bank of India.

A.2.3 Cash and Bank Balance (Sch. B-17): ₹ 1506.52 lakh

A.2.3.1 Cash in Hand: NIL

Above did not included cash in hand of ₹ 88045.00 as per the Cashier's Cash Book balance as on 31.03.2013.

The cash balance of ₹ 88045.00 (₹ 66782.00 was deposited to Purulia Treasury vide Challan No. 4905 dated 02.04.2013 and ₹ 21263.00 was deposited on 02.04.2013 to Central Bank, Purulia A/C No. 1349959633) was deposited after 31.03.2013.

This resulted in understatement of 'Cash and Bank Balance' with the corresponding overstatement of Expenditure as well as understatement of 'Surplus' to the extent of ₹ 0.88 lakh.

In reply the authority accepted the audit observation.

A.2.3.2 Above did not include ₹ 130175.00 being the value of 8 Nos. cheques in respect of Treasury (Purulia) L.F. Accounts 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 & Bank Balance with the corresponding understatement of Other Liability to the extent of ₹ 1.30 lakh.

In reply the authority accepted the audit observation.

B Income & Expenditure Statement

B.1 Income

B.1.1 Revenue, Grant and subsidies (I-6): ₹ 930.02 lakh

The Municipality had to pay ad-hoc Bonus to its employees. As per Government order 20% of ad-hoc bonus payment is to be reimbursed by the Government on submission of claim in the following year. Therefore, income will be accrued as soon as ad-hoc bonus payment is made.

Above income head did not include ₹ 106080.00 being the receivable bonus grant at 20% of the ad-hoc bonus of ₹ 530400.00 (vide G.O. no. 392(Sanction)/MA/N/C-2 / 1G -11 /2008 (Pt-1) dated, Kolkata 21.01.14) paid by the Municipality during the year 2013-14.

Non-accounting of the above assured income resulted in understatement of 'Income' as well as 'Surplus' with the corresponding understatement of 'Sundry Debtors (Receivables) to the extent of ₹ 1.06 lakh.

The municipal authority accepted the observation.

B.1.2 Interest earned (Sch. I-8): ₹ 3.27 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 income of ₹ 20322.00 being the Interest earned from Saving Bank on unutilized Government Grants of Group Gratuity.

Thus, inclusion of above interest as income of the Municipality resulted in understatement of Grant, Contribution for Specific Purpose (Sch.B-4) with the corresponding overstatement of income and thereby overstatement of Surplus of income over expenditure to the extent of ₹ 0.20 lakh.

In reply the authority accepted the audit observation.

Expenditure

5.2.1 Establishment Expenses (Sch.I-10): ₹ 852.49 lakh

Pension contribution: Nil

Above did not include ₹ 1904278.00 (6 % of ₹ 31737970.00) as Pension contribution to the Pension fund. As per Govt. order, 6% of the basic pay was to be contributed to this fund. So, the provision of pension contribution of the Municipality was not made for the year 2012-13.

Non-accounting of the above resulted in understatement of 'Expenditure' and overstatement of 'Surplus' with the corresponding understatement of 'Pension fund (Earmarked fund)' to the extent of ₹ 19.04 lakh. Further, 'Cash and Bank balance' was also overstated with the corresponding understatement of 'Investment' of ₹ 19.04 lakh.

The Municipal authority admitted the observations.

C Receipts & Payments Account

No comments.

D GENERAL OBSERVATION

D.1 Journal Voucher passed without authorization by the higher officer

As per 'Purohisab' accounting software package, 186 no. of Journal Vouchers valuing ₹ 3793.34 lakh were passed while preparation of Annual Accounts for the year 2012-13.

Journal Vouchers were passed and incorporated in the Annual Accounts without any authorization by the higher officer and without justifying primary documents.

D.2 Provident Fund (Sch.B-2): ₹ 405.82 lakh

No Abstract of PF ledger was maintained by the Municipality. The Balance Sheet exhibited total fund of ₹ 390.74 lakh as on 31.03.13 which could not be verified in audit.

D.3 Grants, Contribution for Specific Purposes (Sch. B-4): ₹ 1821.92 lakh

Above Grants included contribution for IHSDP of ₹ 123.76 lakh comprised of grants obtained from State/ Central Government and the contribution from beneficiaries for construction of dwelling houses. As per the Accounting manual of ULB, the fund meant for construction of assets, which would not belong to the ULB, was to be shown under Deposit Works (Sch. B-8) while the amount of fund for the purpose of creation of assets belonging to ULB was to be shown under Grants, Contribution for Specific Purpose (Sch. B-4). Although the IHSDP grant, were meant for both purposes, the total amount was wrongly shown under Sch. B-4. However in absence of primary record, the amount could not be quantified in audit.

D.4 Capital Work in Progress (Sch.B-11): ₹ 422.71 lakh

The Municipality neither furnished any 'Register of works' and 'Unpaid Bill Register' nor prepared any 'Summary statement of status on CWIP' in Form 141(rule 175A) to audit. Thus opening balance, addition/ disposal, total cost and depreciation in respect of fixed asset could not be ascertained. Moreover, no schedules of capital work in progress were attached to the accounts. As a result, exact status of CWIP could not be checked in audit.

D.5 Sundry Debtors (Receivable) (Sch.B-15): ₹ 858.67 lakh

No age-wise receivables of Property Tax was prepared and attached to accounts as per provision of para 3.1.4 (d) of the Accounting Manual for Urban Local Bodies (Part -2 of Accounting Principles). Further, the Property Tax Receivable (Schedule B-15) was not segregated into Residential Buildings and Nonresidential Buildings.

D.6 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.

D.7 Employees' Provident Fund

In terms of notification No. S.O. 30(E), dated 8th January, 2011 of the Ministry of Labour & Employment, the Employees' Provident Fund & Miscellaneous Provisions Act., 1952 was made applicable in the Municipalities / Municipal Corporations. Thus, the ULB was expected to deduct EPF contribution at applicable rates from the contractual / casual employees and the same along with matching contribution from the ULB was to be deposited with the EPF organization. However, the same was not implemented by the Municipality till close of the audit. The ULB should have made necessary accounting of the above in the Accounts of 2012-13.

D.8 Register of suit not maintained

The Municipality did not maintain any 'Register of Suit'. As a result, details of court case pending with the legal authority and its financial implication in the Annual accounts could not be derived in audit.

D.9 Deficiencies/shortcomings in accounting software package 'Purohisab' and other irregularities

a) The accounting software package 'Purohisab', used by the Municipality, was prepared based on Visual basic- front- end, Microsoft Access-backend. The security was based on "User role" (User name and password). However, authentication with the 'User Role' was not made mandatory in the system. Thus, the system was not secured enough and was exposed to unauthorized access.

Due to 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) Code wise searching for any transaction was not possible in the above package. Further, the package leaves no scope for preparing account code wise periodical abstract of the Cash Book entries.

c) The accounting software package 'Purohisaab' did not generate any 'Grant Register', 'Fixed Assets Register', 'Cash Flow statement', 'Bank Reconciliation statement' etc. as per prescribed format.

d) Narration against each entries made in the ledger were too short for which the details of the expenditure could not be ascertained in audit.

e) The Receipt and Payment vouchers were not maintained by the Municipality in Form no. 97 and 98.

D.10 Schedule forming part of Financial Statement

Schedules B-1, B-2, B-3, B-4, B-8, B-9, 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.11 Poor Internalization of the Reformed Accounting Procedure

The reformed accounting in double entry system required close coordination amongst all the departments. During scrutiny of the Annual Accounts for the year 2012-13 it was observed that there was no proper coordination with Accounts wing in providing appropriate data, reconciling figures generated by the respective line departments viz. Cash, Establishment, Water-works, Collection departments, etc. This was indicative of poor internalization of the reformed accounting system.

D.12 Action Taken report

The Action taken report on the Audit Reports for the year 2006-07 to 2008-09 were not made available to audit.

The Municipal authority admitted all the above observations.

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 understated by ₹ **103.18 lakh**, the assets understated by ₹ **41.01 lakh**, and the Surplus was overstated by ₹ **62.17 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, **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 Purulia Municipality as at 31st March, 2013
- (b) in so far as it relates to the Income and Expenditure for the year ended on that date.

Place: Kolkata
Date: .05.2018

**Examiner of Local Accounts
West Bengal**

Working Sheet on Net impact on Accounts of Purulia Municipality for 2012-13

(₹ in lakh)

Ref. No.	Liability		Asset		Surplus	
	U/S	O/S	U/S	O/S	U/S	O/S
A.1.1	33.36	33.36				
A.1.2.1	42.69					42.69
A.2.1				0.42		0.42
A.2.2.1	39.95		39.95			
A.2.3.1				0.88		0.88
A.2.3.2	1.30		1.30			
B.1.1			1.06		1.06	
B.1.2	0.20					0.20
B.2.1	19.04					19.04
Total	136.54	33.36	42.31	1.30	1.06	63.23

Liability understated by ₹ (136.54 – 33.36) lakh = ₹ 103.18 lakh

Asset understated by ₹ (42.31 – 1.30) lakh = ₹ 41.01 lakh

Surplus overstated by ₹ (63.23 – 1.06) lakh = ₹ 62.17 lakh

U/S – Understatement

O/S - Overstatement

ANNEXURE – 1

Audit comments on the information as asked under Sub rule 2 of Rule 22 of the West Bengal Municipal (Financial & Accounting) Rules, 1999 as amended in January, 2007

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 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 transactions (income, expenditure, assets and liabilities) are correctly classified and stated in sufficient details?	Audit comment 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 has been made 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 major deficiency in this respect 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?	Pension Fund and Provident Fund were being utilized for the purpose for which the same was 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?	Not Done. No physical verification of fixed assets had been done by the Management.
8.	Whether physical verification has been conducted by the Municipality at reasonable intervals in respect of stores?	Physical verification of stores was not done during the year.
9	Whether the procedures of physical verification of store followed by the Municipality are reasonable and adequate?	No. Physical verification of stores was not 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?	Discrepancy could not be ascertained as physical verification of stores was not done at all.

Sl. No.	Item of Information	Audit Comments																					
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?	Deviations 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 such loan is given.																					
13	Whether there exists an adequate internal control procedure for the purchase of stores 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?	<p>Yes, as calculated below (₹ in lakh)</p> <table border="1"> <thead> <tr> <th>Head</th> <th>Amount</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Earmarked funds</td> <td>405.82</td> <td></td> </tr> <tr> <td>Unspent grant-</td> <td>1821.92</td> <td></td> </tr> <tr> <td>Loan</td> <td>0.00</td> <td>2227.74</td> </tr> <tr> <td>Current assets – Current liabilities</td> <td>1998.24</td> <td></td> </tr> <tr> <td>Investment</td> <td>372.94</td> <td>2371.18</td> </tr> <tr> <td>Excess of cash strength over liability</td> <td></td> <td>143.45</td> </tr> </tbody> </table>	Head	Amount	Amount	Earmarked funds	405.82		Unspent grant-	1821.92		Loan	0.00	2227.74	Current assets – Current liabilities	1998.24		Investment	372.94	2371.18	Excess of cash strength over liability		143.45
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Place: Kolkata
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