



भारतीय लेखा एवं लेखा परीक्षा विभाग

कार्यालय - प्रधान महालेखाकार (सामान्य एवं सामाजिक क्षेत्र
लेखा परीक्षा), प.बं., 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-11/A/CS Hooghly-Chinsurah (12-13)/12-18
संख्या / No. 6096 (TR)

दिनांक / Dated: 28.03.2018

To
The Chairman,
Hooghly-Chinsurah Municipality,
Mahendra Mitra Road,
P.O & Dist.-Hooghly
PIN-712201

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

UB 27/3/18
Examiner of Local Accounts
West Bengal

Enclosure: As stated above

*Maybe forwarded to
Fno. 27/3/18*

*Ex. O.S.
27/3/18*

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF HOOGHLY-
CHINSURAH MUNICIPALITY FOR THE YEAR ENDED 31st MARCH, 2013**

1. We have audited the Balance Sheet of the Hooghly-Chinsurah 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 Hooghly-Chinsurah 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 Hooghly-Chinsurah 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 Other Liabilities (Sundry Creditors) Sch. B-9: ₹ 1328.41 lakh

A.1.1.1 Gratuity Payable (3501106): ₹ 215.95 lakh

An amount was ₹ 21595114.00 was shown as 'Gratuity Payable' (3501106) in the annual accounts whereas as per statement furnished by the ULB on the basis of Gratuity Register, a sum of ₹ 27115468.00 was payable as Gratuity in respect of retired/ dead employees as on 31.03.2013 which resulted in a difference of ₹ 5520354.00 between the two figures.

Wrong accounting of the above resulted in understatement of 'Other liabilities' (Sundry Creditors) with the corresponding understatement of 'Expenditure' and thereby understatement of 'Deficit' to the extent of ₹ 55.20 lakh.

In reply, the Municipality stated that the Gratuity Register would be scrutinized.

A.1.1.2 Other Liabilities (Sundry Creditors) (Sch. B-9): ₹ 1328.41 lakh

Above did not include ₹ 351725.00 being the unpaid bill of revenue expenditure such as supply of different materials payable to Suppliers, Training Programme and Electricity bill payable to WBSSEDCL as on 31.3.2013.

Non accounting of the above resulted in understatement of Other Liabilities (Sundry Creditors) with corresponding understatement of 'expenditure' and thereby understatement of 'Deficit' to the extent of ₹ 3.53 lakh.

In reply, the Municipality stated that the above amount had been included under Head 'Expenses Payable' (Code 3501003) as on 31.03.2013.

The reply was not tenable because payments of the above amounts had been made during the following financial year 2013-14 through expenditure codes 2205101, 2206007 and 2305003 thereby showing that they had not been included in the liabilities for the year 2012-13.

A.2 Assets

A.2.1 Stock-In-Hand (Sch. B-14): ₹ 78.20 lakh

Above included ₹ 146245.24 being the value of closing stock in respect of 'Stationary Store'.

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.

Thus, inclusion of stationery items to stock-in-hand balance resulted in overstatement of 'Stock-in-Hand' with the corresponding understatement of expenditure and understatement of 'Deficit' to the extent of ₹ 1.46 lakh.

In reply, the Municipality stated that items relating to Stationery for the year 2012-13 had been totally charged to consumption (i.e. revenue) account and at the end of the year, stationery in hand had been credited to consumption account and again, on the next day i.e. in the next financial year 2013-14 consumption (i.e. revenue) account had been debited again.

The reply was not tenable as the procedure followed by the Municipality was in contravention of the provision of the Accounting Manual for ULBs as stated above.

A.2.2. Cash and Bank Balance (Sch. B-17): ₹ 1015.68 lakh

Above did not include ₹ 99534.00 being the value of 8 Nos. of Cheques in respect of (SBI Current A/c No.11055219370, Axis Bank Current A/c No.546010200000019, Axis Bank SB A/c No.912010016072751 & UBI Current A/c No. 0154050021042) issued by 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 Liabilities (Sundry Creditors)' to the extent of ₹ 1.00 Lakh.

In reply, the Municipality accepted the audit observation.

B Income & Expenditure Account

B.1 Income

B.1.1 Interest Earned (Sch. I-8): ₹ 7.26 lakh

B.1.1.1 Bank Interest: ₹ 2.84 lakh

Above included ₹ 5957.00 being the interest earned from Saving Bank Accounts maintained for the purpose of Pension. As per Govt. order, Pension Fund should be created and pension contribution at the rate of 6% of the basic salary of the Employees was to be made by the Municipality to the Pension Fund. All basic pension payment should be paid from Pension Fund.

Also, 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 shall be recognised and credited to Special Fund and Grants under Specific Scheme respectively, whenever accrued.

Therefore, the above interest should have been credited to Pension Fund.

Thus 'Bank Interest' under 'Interest Earned' was overstated by ₹ 0.06 lakh with the corresponding understatement of 'Deficit' and understatement of Liabilities (Source of fund) to the same extent.

In reply, the Municipality accepted the observation.

B.2 Expenditure

B.2.1 Establishment Expenses (Sch. I-10): ₹ 1209.79 lakh

B.2.1.1 Pension contribution: NIL

Above did not include ₹ 2894521.20 (6% of total basic salary ₹ 48242020.00) as Pension contribution to the Pension fund. As per Govt. order, Pension Fund should be created and pension contribution at the rate of 6% of the basic salary of the Employees was to be made by the Municipality to the Pension Fund. All basic pension payment should be made through Pension Fund.

This resulted in understatement of 'Expenditure' and thereby understatement of 'Deficit' with the corresponding understatement of 'Pension fund (Earmarked fund) to the extent of ₹ 28.95 lakh.

In reply, the Municipality stated that not less than 60% of the pensioner liabilities were met from their own fund and to facilitate the payment, pensioners were paid from their current or SB account with the Axis Bank.

However, the Municipality did not comment on the non-contribution to Pension Fund as per Govt. order that was pointed out in the audit observation.

C. Receipt & Payment Account

No comments.

D. General Comments

D.1 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 of Hooghly Chinsurah Municipality 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 departments. This was indicative of poor internalization of the reformed accounting system.

D.2 Property Tax

Property Tax income and property tax receivable were not tallied with the figures as depicted in the Abstract of Demand & Collection Register furnished by the concerned department of the municipality. Necessary rectification with proper accounting was required to be made.

Besides, no age-wise analysis of receivables of Property tax was prepared and attached to accounts in compliance with the provision of para 3.1.4 (d) of the Accounting Manual for ULB (Part -2 Accounting Principles)

D.3 Land and Assets Register

The Municipality could not submit the Land & Assets Registers to the Audit for verification.

D.4 Deficiencies/Shortcomings in the accounting software package 'Purohisaab'

a) The Accounting Software package 'Purohisaab' had no locking arrangement as far as the accounting period is concerned (i.e. any voucher could be entered at a later date after the closing of a particular accounting year on real time basis thereby leaving the system insecure.

b) In absence of any password policy in respect of the accounting software package 'Purohisaab', any password could be created using only numeric/alphabet characters that too of desired length rendering the password strength weak. In an IT environment, password being an integral part of logical access control, must be maintained as per standard password policy and should preferable be alphanumeric as well as containing special character. Besides the above, there was no restriction on the unauthorized log-in attempts i.e., unlimited/ unrestricted number of unauthorized log-in attempts could be made to enter the accounting software package 'Purohisaab', rendering the security of entire system vulnerable.

D.5 Journal Vouchers

As per 'Purohisab' accounting software package, 440 no. Journal vouchers valuing ₹ 6401.13 were passed while preparation of the Annual Accounts for the year 2013-14. However, the authorization of the Higher authority and primary documents justifying the journal vouchers passed during the year was not made available.

D.6 Physical verification of 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 Assets Register were physically available or not.

D.7 Primary Documents

Though the Municipality prepared the Annual accounts for the year 2012-13 but did not maintain the basic/primary records like Lease Register, Stock verification report, Grant register, Unpaid Bill Register, work register, Loan register, records in details of Sundry creditors, Register of Tools and Plants, Advance Register etc. As a result, the figures as depicted in the annual accounts could not properly be verified in audit.

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

D.8 Grants, Contributions for Specific Purposes (Sch. B-4): ₹ 1318.61 lakh

Above included ₹ 90961.00, being the unutilized amount under 'Scheme of Housing for the Urban Poor'. Information was not available whether the scheme was executed through the beneficiaries or by the Municipality itself. If the scheme was executed by the Municipality it was to be shown under Deposits Works (Sch. B-8).

In reply, the Municipality stated that they accounted the said grant as prescribed in the 'Chart of Accounts' provided by CMU.

However, 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. The matter should be taken up with the Govt. for giving proper accounting effect.

D.9 Investment General Fund (Sch. B-12): ₹ 30.11 lakh

State Government Securities: ₹ 5.00 lakh

The details of the above State Government Securities justifying their inclusion in 'Investment' were not furnished to Audit.

E. Effect of Audit Comments on Accounts.

The net impacts of the comments given in preceding Para is that the assets as on 31st March 2013 were overstated by ₹ 0.46 lakh, liability understated by ₹ 88.74 lakh and the deficit of income under expenditure for the year was understated by ₹ 89.20 lakh (Working Sheet enclosed).


v) Subject to our observations in the preceding paragraphs, we report that the Balance Sheet and Income and Expenditure Account and Receipts and Payment 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 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 Hooghly-Chinsurah Municipality as at 31st March, 2013 and

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

Place : Kolkata
Date .03.2018


27/3/18
Examiner of Local Accounts
West Bengal

Working Sheet on Net impact on Accounts of Hooghly-Chinsurah Municipality for 2012-13
(₹ in Lakh)

	Liability		Asset		Deficit	
Ref No	U/S	O/S	U/S	O/S	U/S	O/S
A.1.1.1	55.20				55.20	
A.1.1.2	3.53				3.53	
A.2.1				1.46	1.46	
A.2.2	1.00		1.00			
B.1.1.1	0.06				0.06	
B.2.1.1	28.95				28.95	
Total	88.74	0.00	1.00	1.46	89.20	0.00

Liability understated by ₹ (88.74 – 0.00) lakh = ₹ 88.74 lakh

Asset overstated by ₹ (1.46– 1.00) lakh = ₹ 0.46 lakh

Deficit of income under expenditure understated by ₹ (89.20– 0.00) lakh = ₹ 89.20 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 had 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 was not created. Provident Fund was 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?	No. 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.
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	Deficiencies are commented.

Sl. No.	Item of Information	Audit Comments																					
	same as in the preceding year?																						
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 stores including components, plant and machinery, equipment and other assets?	No. 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.																					
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> <tr> <th>Head</th><th>Amount</th><th>Amount</th></tr> <tr> <td>Earmarked funds</td><td>549.27</td><td></td></tr> <tr> <td>Unspent grant-</td><td>1318.61</td><td></td></tr> <tr> <td>Loan</td><td>711.01</td><td>2578.89</td></tr> <tr> <td>Current assets – Current liabilities</td><td>-346.70</td><td></td></tr> <tr> <td>Investment</td><td>556.14</td><td>209.44</td></tr> <tr> <td>Excess of liability over Cash Strength</td><td></td><td>2369.45</td></tr> </table>	Head	Amount	Amount	Earmarked funds	549.27		Unspent grant-	1318.61		Loan	711.01	2578.89	Current assets – Current liabilities	-346.70		Investment	556.14	209.44	Excess of liability over Cash Strength		2369.45
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Place : Kolkata
Date .03.2018


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