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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 Bankura M(07-08)/13-14/ 50 34(TB)

Dated: 28.02.2014

To  
The Chairman,  
Bankura Municipality,  
P.O & Dist- Bankura

Sub: Audit Report on Annual Financial Statement for the year 2007-08

Sir,

I am forwarding the Audit Reports and detailed comments on the AFS for the year 2007-08 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 you 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

No. SS-III/ A/cs Bankura M(07-08)/13-14/ 50 34(TB) Dated: 28.02.2014

Copy forwarded to the Director of Local Bodies, West Bengal, Purta Bhawan, Salt Lake, Kolkata - 700 091 with a copy of the Audit Reports and detailed comments for necessary action

Examiner of Local Accounts  
West Bengal

DESPATCHED

28/2/14

19.2.14

F.C. Completed

27/02/14

8, Kiran Sankar Roy Road, G.I. Press Building 2<sup>nd</sup> Floor, Kolkata-700001



**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF BANKURA  
MUNICIPALITY FOR THE YEAR ENDED 31<sup>st</sup> MARCH, 2008**

We have audited the Balance Sheet of the Bankura Municipality as at 31 March, 2008 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 Bankura 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 Bankura 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) (i) 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 Liabilities (Source of Fund)
- A.1.1 Reserve Sch- B-3
- A.1.1.1 Grant Against Fixed Assets ₹ 342.16 lakh

As per Accounting Manual for ULB (Part- 2 Para 3.4.1d), when Capital Grants are received, it shall be treated as liability (Grants, Contributions for specific purpose) and on construction/acquisition of a fixed asset out of grants so received, the extent of capitalized value of the asset shall be treated as capital receipt and transferred from the respective specific grants account to the 'Grant against Fixed Assets' accounts.

The Municipal authority, however, wrongly transferred the value of Capital-Work-in-Progress' amounting to ₹.34.08 lakh to the 'Grants against Fixed Assets.

Wrong accounting treatment of the above resulted in overstatement of 'Grant against Fixed Assets' with the corresponding understatement of 'Grants, Contribution for Specific Purpose' to the extent of ₹34.08 lakh.

Municipal authority admitted the observation and assured to rectify the entry with the incorporation in the Annual Accounts of 2008-09.

- A.1.2 Grants, Contribution for Specific Purpose (Sch. B-4) ₹ 725.75 lakh

Above included negative balance (-) of ₹96636 in respect of Basic Minimum Service (BMS) grant. Negative balance indicated excess capital expenditure over the grants received and the same was incurred out of Municipal own fund. Therefore, <sup>excess expenditure of</sup> ~~unutilised~~ grants should not be exhibited as negative balance and the capital expenditure for the creation of fixed asset to the extent of grant received should only be transferred to 'Grants against Fixed Asset'.

Wrong accounting of the above resulted in understatement of 'Grants, Contribution for Specific Purpose' with the corresponding overstatement of 'Grants against Fixed Asset' to the extent of ₹ 0.97 lakh.

In reply, Municipal authority admitted the audit observation and stated that the rectification would be done and incorporated in the Annual Accounts for the year 2008-09.



A.1.3. Other Liabilities (Sundry Creditors) Sch. B-9

A.1.3.1 Employees liabilities ₹ 136.67 lakh

(a) Above included ₹ 35,66,821 being the Provident Fund subscription (November '99 to April 2002) ₹ 33,00,000, February '08 ₹ 1,24,101 and March '08 – ₹ 1,42,720) of the employees which was deducted but not deposited into Treasury PF Account till 31.03.2008.

As per Accounting Manual [Part-6, para 5.6(2)] for ULBs provident fund deduction of the employees are to be directly credited to the 'Provident Fund' instead of showing it as 'PF payable' under other liabilities.

Misclassification of the above resulted in overstatement of 'Other liabilities' with the corresponding understatement of 'Provident Fund' to the extent of ₹ 35.67 lakh.

However non-remittance of PF subscription as on the balance sheet date should be disclosed in detail in the Notes to Accounts.

Municipal authority admitted the observation and assured to rectify the entry with the incorporation in the Annual Accounts for the year 2008-09.

(b) Above 'Employee Liabilities' included ₹ 58,98,664 being the gratuity payable to the retired employees instead of actual gratuity of ₹ 66,66,357 payable as on 31.03.2008.

Wrong accounting of the above resulted in understatement of 'Other liabilities' with the corresponding understatement of 'Expenditure' as well as 'Deficit of income over expenditure' to the extent of ₹ 7.67 lakh.

Municipal authority admitted the above observation and assured to rectify the entry with the incorporation in Annual Accounts of 2008-09.

(c) Above 'Employee liability' included ₹ 33,17,507 being the arrear pension payable to the retired employees of the Municipality as on 31.03.2008. As per Accounts Manual (Part-2, Para 3.2.1e) for ULBs, Pension is to be recognised on actual payment basis only. Therefore, no liability for pension is required to be provided in the Accounts.

Wrong accounting of the above resulted in overstatement of 'Expenditure' as well as 'Deficit of income over expenditure' to the extent of ₹ 33.18 lakh.

While admitting the above observation, Municipal authority assured to rectify the entry with the incorporation in Annual Accounts of 2008-09.



A.2 Assets (Application of Fund)  
 A.2.1 Current Assets, Loan & Advances  
 A.2.1.1 Cash & Bank balance Sch. B-17 ₹ 1023.92 lakh

Above included ₹ 269.66 lakh being the balance of Provident fund contribution of the employees in the Treasury Account. This is not a current asset of the Municipality and it should be shown under investment.

Similarly, Pension fund balance of ₹ 11.60 lakh deposited in the UBI was shown under Cash & Bank balance instead of proper head of 'Investment'.

Misclassification of the above resulted in overstatement of 'Cash & Bank balance' with the understatement of 'Investment' to the extent of ₹ 281.26 lakh.

While admitting the above observation, Municipal authority assured to rectify the entry with the incorporation in the Annual Accounts of 2008-09.

A.2.2 Sundry Debtors (Receivable) Sch. 15 ₹ 209.26 lakh

Above did not include ₹ 22,23,075 being the interest accrued during the year 2007-08 on the provident fund deposited in the Treasury.

Non-accounting of the above resulted in understatement of 'Sundry debtors (Receivable from State Govt.)' with the corresponding understatement of 'Provident fund' to the extent of ₹ 22.23 lakh.

Municipal authority admitted the observation and assured to rectify the entry with the incorporation in the Annual Accounts of 2008-09.

B. Income & Expenditure Statement

B.1 Expenditure

B.1.1 Establishment expenditure Sch. I-10 ₹ 811.12 lakh

Above included an amount of ₹ 80,68,233 being the expenditure towards payment of pension/family pension to the retired employees during the year 2007-08. Since, a separate Pension Fund of ₹ 11,59,735 was operated by the Municipality, the expenditure to the extent of ₹ 11,59,735 should have been adjusted against the above fund and the excess of fund (₹ 69,08,498) was only required to be shown in the Income & Expenditure Statement.

Wrong accounting of the above resulted in overstatement of 'Expenditure' as well as 'Deficit of Income over Expenditure' with the corresponding overstatement of 'Pension fund' to the extent of ₹ 11.60 lakh.

Municipal authority, in their reply, assured to rectify the entry with the incorporation in the Annual Accounts of 2008-09.



C. **GENERAL OBSERVATION**

C.1 **Un-reconciled Bank account**

In the Bank reconciliation statement(BRS), the pass book balance of HUDCO Loan Recovery C-5050 was shown as ₹.24958 against the actual pass book balance of ₹.24873 and the pass book balance of BDCCL A/c 0013 was shown as ₹122632 against the actual pass book balance of ₹ 124632. Due to discrepancies in the BRS in respect of above two bank accounts, the Bank balance of ₹ 1023.92 lakh was not treated as reconciled and confirmed.

C.2 **Discrepancies in accounts and primary records**

There were discrepancies in valuation of store items between stock register and accounts while the arrear property tax as per the records maintained for property tax was not tallied with the amounts of accounts. The Advance Register being the primary record of Advances were not maintained. Due to above reasons the amount shown under above heads could not be confirmed.

C.3 **Provident Fund (Sch. B-2) ₹ 269.66 lakh**

Above balance of ₹ 269.66 lakh under Provident Fund could not be ascertained in absence of Abstract & PF Ledger. Since, PF subscription deducted from the employees during the period Nov. 99 to Apr. 02 was not deposited into Treasury P.F. A/c till date, actual loss of P.F. interest that was to be charged to the I & E a/c can not be ascertained. The fact of non-deposit of P.F. subscription of employees during the period should invariably be disclosed in 'Notes to Accounts' (Sch B-21).

*Deficiencies/shortcomings in accounting software package 'Purohisaab'*

C.4 (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) In absence of any password policy in respect of the accounting software package 'Purohisaab', password can be created using only numeric/alphabets characters that too of desired length rendering the password strength weak. In IT environment, password being an integral part of logical access control, must be maintained as per standard password policy and should preferably be unauthorized log-in attempt can be made to enter the accounting software package 'Purohisaab', rendering the security of entire system vulnerable.

**Schedule forming part of Financial Statement**

The 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 ULB.

**D. Effect of Audit Comments on Accounts.**

The net impact of the comments given in preceding paras is that the <sup>assets</sup> ~~liabilities~~ as on 31<sup>st</sup> March, 2008 were understated by ₹.22.23 lakh, the liability overstated by ₹.14.88 lakh, and the deficit of income over expenditure for the year was overstated by ₹.37.11 lakh. (working sheet enclosed)

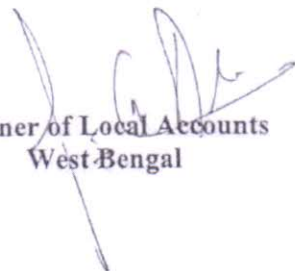
i) Subject to our observations in the preceding paragraphs, we report that the Balance Sheet and Income and Expenditure Account and Receipts and Payments Account dealt with by this report are in agreement with the books of accounts.

ii) 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:

- in so far as it relates to the Balance Sheet of the State of affairs of the Bankura Municipality as at 31<sup>st</sup> March, 2008 and
- in so far as it relates to the Income and Expenditure for the year ended on that date.

Place: Kolkata

Date:

  
Examiner of Local Accounts  
West Bengal

  
19.2.14.



**Working Sheet on Net impact on Annual Accounts of Bankura Municipality for  
2007-08**

(₹ in Lakh)

Ref. No.	Liabilities		Assets		Deficit	
	U/S	O/S	U/S	O/S	U/S	O/S
A.1.1.1	34.08	34.08				
A.1.2	0.97	0.97				
A.1.3(a)	35.67	35.67				
A.1.3(b)	7.67				7.67	
A.1.3(c)		33.18				33.18
A.2.1.1			281.26	281.26		
A.2.2	22.23		22.23			
B.1.1		11.60				11.60
Total	100.62	115.50	303.49	281.26	7.67	44.78

Liability overstated by ₹ (115.50-100.62) lakh = ₹ 14.88 lakh

Asset understated by ₹ (303.49-281.26) lakh = ₹ 22.23 lakh

Deficit of income over expenditure overstated by ₹ (44.78-7.67) lakh = ₹ 37.11 lakh

U/S – Understatement

O/S - Overstatement



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**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?	No, comments given in draft Audit Report .
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?	No.
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	No physical verification of Fixed Assets is done by Municipality. Fixed Asset Register was not maintained.



	verification and if so, whether the same have been properly dealt with in the Books of accounts?	
8.	Whether physical verification has been conducted at reasonable intervals in respect of stores?	No.
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.	Does not arise as no physical verification was done by Municipality.
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?	Discrepancies were noticed in closing balance of store items and incorporated in draft AR.
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?	Valuation of store was done as per FIFO method as prescribed in Manual. Deviation in quantity as well as valuation of store items from Stock Register has been 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?	Advance of ₹ 5.36 lakh given since 1989-90 not adjusted till date. Advance Register not maintained by Municipality.
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 procedure 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 procedure in place to identify damaged stores by ULB.



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?	Not deposited ₹ 33.00 lakh P.F subscription of employee deducted for the period Nov'99 to Apr'2002. Not deposited regularly.		
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.	No.		
18. Whether the total liabilities of the Municipality can be met out of the Municipal fund when falling due?	Yes, as calculated below. (₹ in lakh)		
	Head	Amount	Amount
	Earmarked funds	281.26	
	Unspent grant-	725.75	
	Loan	0.00	1007.01
	Current assets	272.39	
	Current liabilities		
	Investment	28.26	301.01
	Excess of liability over cash strength		706.00

Place: Kolkata  
Date:

Examiner of Local Accounts  
West Bengal