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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 Midnapore M/(07-08)/13-14/1176(TB)

Dated: 25.07.2013

To
The Chairman,
Midnapore Municipality
Midnapore

Subject: Audit Report on Annual Financial Statements (AFS) for the year 2007-08

Sir,

I am forwarding the Audit Report 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 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

Enclosures: As stated above

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF MIDNAPORE
MUNICIPALITY FOR THE YEAR ENDED 31st MARCH, 2008**

We have audited the Balance Sheet of the Midnapore Municipality as at 31 March, 2008 along with Income & Expenditure Account and Receipt & Payment Account for the year ended on that date under section 86 of the West Bengal Municipal Act, 1993 as amended till date. The Balance Sheet has been drawn up based on the opening balance as on 01-04-2007 approved and adopted by the Board of Councilors (BOC) of the Midnapore Municipality. As the Opening Balance Sheet has not been audited by us, we do not express any opinion thereon. 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 Liabilities

A.1.1 Earmarked Fund (Sch B-2)

Provident Fund – ₹ 268.016 lakh

A) Above did not include ₹19,18,894/- being the interest for the year 2007-08 on the Provident Fund of the employees deposited in Treasury Provident Fund Account as already allotted by the State Government on 06.01.2009.

Non-accounting of the above resulted in understatement of 'Provident Fund' with the corresponding understatement of 'Sundry Debtors – Receivable from State Govt. ' to the extent of ₹19.19 lakh.

Municipal authority admitted the audit observation and stated that the required rectification/adjustment would be made in the Balance Sheet for the year 2008-09.

B) Above did not include ₹ 34,624.21/- being the accrued interest on non-deposited Provident fund subscription for the year 2007-08. The interest should be shown as expenditure in the Income & Expenditure Statement.

Non-accounting of the above resulted in understatement of 'Provident Fund' with the corresponding understatement of 'Expenditure' as well as overstatement of 'Gross surplus of income over expenditure' to the extent of ₹ 0.35 lakh.

Municipal authority while admitting the above observation stated that the required rectification/adjustment would be made in the Balance Sheet for the year 2008-09.

A.1.2 Grants, Contribution for Specific Purpose (Sch B-4) ₹ 2209.57 lakh

Above include ₹(-) 316081.00/- being the debit balance of HUDCO Grant (code 3203002) as on 31.03.2008. The debit balance indicated excess Capital expenditure incurred over the grant received and the same was also transferred to 'Grant against Fixed Assets' under 'Reserve'.

Wrong accounting of the above resulted in understatement of 'Grants Contribution for Specific Purposes' with the corresponding overstatement of 'Reserve' by ₹ 3.16 lakh.

Municipal authority, in their reply, stated that the required rectification/adjustment would be made in the Balance Sheet for the year 2008-09.

A.1.3 Unsecured Loans (Sch B-6) ₹143.40 lakh

Above did not include ₹5,54,434/- being the accrued interest for the period from 01.04.07 to 31.03.08 on the loan of ₹47.42 lakh taken from the Government Accrued interest (₹ 95.98 lakh) on the above loan up to 31.03.2007 was taken into account in the Opening Balance Sheet (01.04.2007)

Non-accounting of interest for the period 2007-08 resulted in understatement of liability (Unsecured loan) by ₹5.54 lakh with the corresponding understatement of expenditure as well as overstatement of 'Gross surplus of income over expenditure' to the same extent.

Municipal authority admitted the above observation and stated that the required rectification would be made in the Balance Sheet for the year 2008-09.

A.2 Assets

A.2.1 Loan, Advance and Deposit (Sch B-18) ₹938.195 lakh

Above included ₹44, 19,950/- being the Provident Fund loan advance of employees as on 31.03.2008. Since, the Provident Fund is the deposit of the employee and the Municipal authority is only the custodian of the same, the loan of the employee from their own deposit should not be shown as 'Loan' in the Accounts of Municipality, rather the Provident Fund liability of the Municipality should be reduced to the extent of the loan amount.

Improper accounting of the Provident Fund loan resulted in overstatement of 'Loan, Advances and Deposit' with the corresponding overstatement of ' Provident Fund' to the extent of ₹44.20 lakh.

Municipal authority admitted the audit observation and stated that required rectification would be made in the Balance Sheet for the year 2008-09.

A.2.2 Cash & Bank Balance (Sche B-17) ₹1106.61 lakh

Above included ₹17603.80 being the Pension Fund balance, deposited at Bank of India, as on 31.03.2008. The deposits against earmarked fund are not the current assets as the same will not be utilized for other purpose. Therefore, it should be shown under 'Investment' instead of 'Cash & Bank balance'.

Improper exhibition of the above resulted in overstatement of 'Cash & Bank Balance' with the corresponding understatement of 'Investment' to the extent of ₹0.18 lakh.

B. Income & Expenditure Statement

No comments

C. Receipt & Payment Account

No comments

D General Comments

D.1 967 no. Journal Vouchers were passed and incorporated in the Annual Accounts for the year 2007-08 without any authorization by the higher authority justifying primary documents.

D.2 Irregularities in maintenance of Stores

Stock Register was not maintained in prescribed format. Date of receiving of stock items and corresponding voucher entry was missing. Besides, valuation of closing balance of any of the store items was not done. As such, closing balance of ₹76, 61,312/- of Stores (Sch-B-14), as shown in Accounts, could not be verified in audit.

No Physical verification of stock was done during 2007-08.

D.3 Deficiencies in accounting software package 'Purohisab'

a) The accounting package 'Purohisab', used by Midnapore Municipality, has no locking arrangement in so far as date is concerned i.e. any voucher can be entered at a later date even after closing of a particular accounting year thereby leaving the system unsecured. Therefore, reliability of the figures at later date is not ensured.

b) In absence of any password policy in respect of the accounting software package 'Purohisab', 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 alphanumeric as well as containing special character. Besides, there is no restriction on the unauthorized log-in attempts i.e. unlimited/unrestricted number of unauthorized log-in attempts can be made to enter the accounting software package 'Purohisab', rendering the security of entire system vulnerable.

c) The accounting software package 'Purohisab' is unable to generate accurate 'Bank Reconciliation statement' thereby rendering it ineffective as all the record/entries pertaining to Bank Reconciliation statement are being kept manually.

d) The accounting software package 'Purohisab' doesn't have 'Appropriation Register', 'Fixed Assets Register', and Schedules etc as per prescribed format.

e) In case the accounting software package 'Purohisab' encounters any malfunction or crashes, the workability of data backup is not known.

D.4 Year wise break-up of outstanding Property Tax amounting to ₹254.74 lakh as on 31.03.2008 was not disclosed in Accounts.

E. Effect of Audit Comments on Accounts.

The net impact of the comments given in preceding Para is that the assets as on 31st Mar 2008 were overstated by ₹25.01 lakh, liability overstated by ₹19.12 lakh and the surplus of income over expenditure for the year was overstated by ₹ 5.89 lakh (Working Sheet enclosed)

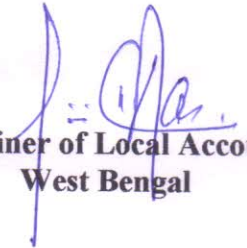
v) Subject to our observations in the preceding paragraphs, we report that the Balance Sheet and Income and Expenditure Account and Receipts and Payment Account dealt with by this report are in agreement with the books of accounts.

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 give a true and fair view in conformity with Accounting Principles generally accepted in India.

i) In so far as it relates to the Balance Sheet of the State of affairs of the Midnapore Municipality as at 31st March, 2008 and

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

Place : Kolkata
Date : .07.2013


Examiner of Local Accounts
West Bengal

Working Sheet on Net impact on Accounts of Midnapore Municipality for 2007-08

(₹ in Lakh)

Liability			Asset			Surplus		
Ref No	U/S	O/S	Ref No	U/S	O/S	Ref No	U/S	O/S
A.1.1(A)	19.19		A.1.1(A)	19.19				
A.1.1(B)	0.35					A.1.1(B)		0.35
A.1.2	3.16	3.16						
A.1.3	5.54					A.1.3		5.54
A.2.1		44.20	A.2.1		44.20			
			A.2.2	0.18	0.18			
TOTAL	28.24	47.36	TOTAL	19.37	44.38	TOTAL	-----	5.89

Liability overstated by ₹ (47.36 – 28.24) lakh = ₹19.12 lakh

Asset overstated by ₹ (44.38-19.37) lakh = ₹25.01 lakh

Surplus of income over expenditure overstated by ₹ 5.89lakh

U/S – Understatement

O/S - Overstatement

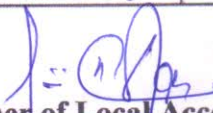
ANNEXURE – 1

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

Midnapore Municipality for the year 2007-08

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.	No (Rs. in lakh)			
		Head of Accounts	Budgeted expenditure	Actual expenditure	Excess
		Revenue	985.97	857.67	NIL
		Capital	989.71	324.71	NIL
2	Whether all sums due to are in all cases such as are authorized by law.	Yes			
3.	Whether all transactions (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 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 verification and if so, whether the same have been properly dealt with in the Books of accounts?	Though, Assets Register has been maintained but physical verification of the same was done up to 31.03.2007.			
8.	Whether physical verification has been conducted by the Municipality at reasonable intervals in respect of stores?	No physical verification of Stores was done by the Municipality during 2007-08.			
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.			
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?	Does not arise, as no physical verification was done during 2007-08.			

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. If there is any deviation in the basis of valuation, the effect of such deviation, if materials, should be reported?	First-in-First-out (FIFO) method was applied for valuation of stores.																								
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?	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?	Provident fund deposit was not regular.																								
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?	No. Provident Fund deduction of Rs. 20.99 lakh and Bank loan deduction of Rs. 27.41 lakh made from salary bills of employees not deposited into Bank/Treasury.																								
17	Whether any personal expenses have been charged to revenue accounts? If so the details thereof.	No such case was noticed.																								
18	Whether the total liabilities of the Municipality can be met out of the Municipal fund when falling due?	<p>No, as calculated below -</p> <table> <tr> <th colspan="3">(₹ in Lakh)</th></tr> <tr> <th>Head</th><th>Amount</th><th>Amount</th></tr> <tr> <td>Earmarked funds</td><td>268.19</td><td></td></tr> <tr> <td>Unspent grant-</td><td>2209.57</td><td></td></tr> <tr> <td>Loan</td><td>143.40</td><td>2621.16</td></tr> <tr> <td>Current assets - Current liabilities</td><td>1828.16</td><td></td></tr> <tr> <td>Investment</td><td>298.82</td><td>2621.98</td></tr> <tr> <td>Excess of liability over cash strength</td><td></td><td>₹494.18 lakh</td></tr> </table>	(₹ in Lakh)			Head	Amount	Amount	Earmarked funds	268.19		Unspent grant-	2209.57		Loan	143.40	2621.16	Current assets - Current liabilities	1828.16		Investment	298.82	2621.98	Excess of liability over cash strength		₹494.18 lakh
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