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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 Madhyamgram M (15-16)/18-19/
Dated: .06.2018

To
The Chairman,
Madhyamgram Municipality,
Madhyamgram,
Dist.-North 24 Parganas,
West Bengal, PIN-700129

Sub: Audit Report on Annual Financial Statement for the year 2015-16

Sir,

I am forwarding the Audit Reports and detailed comments on the AFS for the year 2015-16 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,

R. Sankar
Examiner of Local Accounts
West Bengal

Enclosure: As stated above

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF MADHYAMGRAM
MUNICIPALITY FOR THE YEAR ENDED 31ST MARCH 2016**

1. We have audited the Balance Sheet of the Madhyamgram Municipality as at 31st March 2016 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 Madhyamgram 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 Madhyamgram 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 Fund (Liabilities)

A.1.1 Other liabilities (Sundry creditors) (Sch. B-9): ₹ 169.44 lakh

(i) Above did not included value of ₹ 312137.00 for various items (almirah, chairs, photocopy machines) which were received within 31.03.2016 (paid through PV no. 204 dated 12.04.2016, PV no. 56 dated 05.04.2016 and PV no. 57 dated 05.04.2016) but were not booked as asset and for which contractor/supplier liability was also not booked resulting in understatement of Other Liabilities-sundry Creditor (Sch. B-9) to the tune of ₹ 3.12 lakh with corresponding understatement of asset as on 31.03.2016 by the same amount. The depreciation is also required to be adjusted.

In reply the Municipality accepted the facts.

(ii) Above did not included value of ₹ 1475600.00 for various items that were received in store within 31.03.2016 (paid through PV no. 205, dated 12.04.2016, PV no. 347, dated 18.04.2016, PV no. 348 dated 18.04.2016 and PV no. 541, dated 04.05.2016) but were not booked as contractor/supplier liability or in electric store resulting in understatement of Other Liabilities-sundry Creditor (Sch. B-9) with corresponding understatement of Stock-in-hand as on 31.03.2016 by the same amount.

In reply the Municipality accepted the facts.

(iii) Above did not included value of ₹ 89586.00 for various items that were received in store within 31.03.2016 but were not booked as contractor/supplier liability or in water supply store resulting in understatement of Other Liabilities-sundry Creditor (Sch. B-9) with corresponding understatement of Stock-in-hand as on 31.03.2016 by the same amount.

In reply the Municipality accepted the facts.

A.2 Assets

A.2.1 Fixed Assets (Sch. B-11): ₹ 14740.11 lakh

Accumulated Depreciation (Sch. B-11): ₹ (-) 6949.36 lakh

(i) Depreciation on assets is to be charged as per Accounting Manual. However the municipality had charged depreciation on some assets by considering expected life as 30 years in place of 20 years or 10 years (as mentioned in the manual). This wrong calculation of depreciation resulted in charging of lesser depreciation of ₹ 11980.62 thereby overstatement of fixed assets with corresponding to overstatement of grants against fixed assets (GAFA) by the same amount.

In reply the Municipality accepted the facts.

(ii) Depreciation on assets is to be charged as per Accounting Manual. However the municipality had charged depreciation on some assets by considering expected life as 30 years in place of 20 years or 10 years (as mentioned in the manual). This wrong calculation of depreciation resulted in charging of lesser depreciation of ₹ 100163.00 thereby understatement of expenditure with corresponding understatement of deficit of income over expenditure and overstatement of fixed assets by the same amount.

In reply the Municipality accepted the facts.

A.2.2 Cash and Bank Balance (Sch. B-17): ₹ 3727.82 lakh

Treasury – Barasat (GPF FUND): ₹ 291.50 lakh

Investments- Other Fund (Sch. B-13): ₹ 437.03 lakh

Above Cash and Bank Balance included Treasury Provident Fund of ₹ 28435560.00 being the General Provident Fund balance at Treasury.

As per updated chart of Accounts the Treasury GPF balance was to be shown as Treasury General Provident Fund (4218005) under Investment- Other Fund (Schedule B-13) instead of showing the same under Cash and Bank Balance (Schedule B-17).

Thus the Cash and Bank balance was overstated with the corresponding understatement of Investment Other Fund by ₹ 291.50 lakh.

In reply the Municipality stated that the GPF at Treasury – Barasat could not be accounted for under Investment –Other Fund (Sch. B-13) since deposit under Investment- Other Fund is treated as investment when Municipality as the owner and when Municipality earns from the investment.

The reply of the Municipality was not tenable. As per Updated Chart of Account, GPF Treasury account should be shown under Investment –Other Fund (Sch. B-13) under the code 4218005.

B INCOME & EXPENDITURE STATEMENT

No comments.

C Receipt and Payment Account

Unusual entries in the receipts and payment Accounts

The Receipt and Payment Accounts was not prepared in prescribed heads of account and form. As a result, the actual inflow and outgo of funds under specific head was not readily available and therefore did not satisfy the objective of the account. It was noticed that certain unwarranted heads of account i.e. 431, 450, 460 under the Receipt side and 311, 320, 340, 450 in payment side were shown in the Receipt and Payment Accounts. Those entries were not relevant to the respective sides. Such system-generated erroneous statement

with unusual receipts and payments were not commensurate with the Accounting Standards applicable for the purpose.

D General Observation

D.1 Sundry Debtors (Receivables) (Sch. B-15): ₹ 633.25 lakh

D.1.1 Property Tax Receivable on Sick and Closed Industries: ₹ 1.77 lakh

As per Accounting Manual for ULBs (Part-2) para 3.1.4(d), provision on arrears of income for Property Tax on Sick/Closed Industries shall be made by the ULBs for 100 percent of the due property tax. Property tax receivables (arrears) against sick and closed industries had been shown in the accounts as ₹ 177332.17 (previous year amount of ₹ 167088.05, ₹ 10244.12 debited during 2015-16). As per the aforesaid provision of the ULB manual provision against sick and closed industries should have been ₹ 1.77 lakh but the same had not been shown under Accumulated Provisions against Debtors (Receivables).

In reply the Municipality stated that the Municipality had provided 100 percent provision on Property Tax Receivable on Sick and Closed Industries for ₹ 1.77 lakh but the same was wrongly accounted under head 'Property Tax Receivable on Residential Buildings' (Code 4321001) instead of the head 'Property Tax Receivable on Sick and Closed Industries'.

The reply of the Municipality was not tenable as it was noticed that the Municipality had booked ₹ (-) 13.95 lakh as provision under 'Property Tax Receivable on Residential Buildings' (Code 4321001) head whereas accumulated balance of ₹ 1.77 lakh was shown under 'Property Tax Receivable on Sick and Closed Industries' under Sundry Debtors (Sch. B-15).

This requires proper checking and accounting.

D.1.2 Sundry Debtors (Receivables) (Sch. B-15): ₹ 633.25 lakh

Above did not include the demand of Rent from Markets although the same for 2015-16 was ascertained by the Municipality. The accounting of rents should be done in accrual basis.

D.2. Property Tax

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 Urban Local Bodies (Part 2). Arrear Property tax as per tax department was not tally with the accounts.

D.3 Property tax receivable on commercial Building

It is an established fact that there must be some commercial holdings in the municipal area but the municipality showed Property tax receivable on commercial building as nil. As the municipality did not maintain list of commercial holdings, the above could not be verified in audit. The matter needs proper verification and necessary rectification.

D.4 Advertisement Tax

No demand was created. No register was maintained, so the above could not be verified by audit. The matter needs proper verification and necessary rectification.

D.5 Depreciation

While calculating the depreciation on certain fixed assets (source: Register of buildings) expected life of the assets was not considered as mentioned in the accounting manual. As a result, less depreciation was charged in case of certain assets.

D.6 Physical verification of fixed asset not conducted

Assets register maintained by the municipality is only list of capital expenditure arranged in category. It is impossible to ascertain number of streets / road and their respective valuation. Physical verification of movable as well as immovable assets was not conducted at a regular interval, as a result it was not ensured in audit whether all the assets reflected in the Asset register were physically available or not.

D.7 Physical verification of store not conducted

Physical verification of store was not conducted at a regular interval, as a result the Municipal authority could not ensure whether all the assets accounted for in the Stock register were physically available or not.

D.8 Primary Documents

Though Municipality finalized the Annual accounts for the year 2015-16 but not maintained the basic/ primary records like Assessment Register, Summary Statement of Bills raised in form N-128, Yearly abstract of Demand & Collection Register, Summary of Daily collection form N-105, Head-wise collection of Property & other Taxes as per Form N-130, Register of Dishonored Cheque & Drafts N-103, Register of Remission order Form-21, Summary statement of remission and refunds in form N-115, Register of Advertisement Tax form 28, Deposit Register N-69, Receipt Register N-101, Unpaid salary register N-151, Register of Advance N-67, Cheque issue register N-107, Register of Disbursement of Cash drawn on cheques in favour of Chairman form 82, Register of Bill for payment N-79, Register of Employees loans and Advance N-149, Establishment Check Register form 89, Pension Register N-153, Stores ledger-N-146, Deposit Work Register N-143, Approval note by the Chairman or any other competent authority regarding decision to write off the store when the same become obsolete, Investment register N-157, Grant Register form N-75, Loan

Register N-72, Subsidiary Cash Book of Grant, Cashier Cash book, Appropriation Register (Govt.), Appropriation Register (Own Fund), Contingency Register.

As a result, the figures as depicted in the annual accounts could not properly verified in audit.

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

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

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

c) There was no scope to save any computer I.P. address against any transaction. Not even that, the name/designation of voucher entering and passing person was not reflected against the voucher posted/passed in any occasions. 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 for posting the entries and passing the entries in the system leaving the total system unsecured.

E Notes to accounts

No Such observations.

F Effect of Audit Comments on Accounts

The net impact of the comments given in preceding paras is that the liabilities as on 31st March 2016 were understated by ₹ 18.65 lakh, Assets were understated by ₹ 17.65 lakh and the deficit of income over expenditure for the year was understated by ₹ 1.00 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, 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 Madhyamgram Municipality as at 31st March, 2016 and

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

R. Saha

Annexure - I

Audit comments on the information as asked under Sub Rule sub-rule (2) (1) (d) of Rule 22 of the West Bengal Municipal (Finance & 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 authorized 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?	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 created as per the provisions of relevant statutes and whether the special funds have been utilized for the purpose for which created?	Yes.
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?	Yes.
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.	No.
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?	No.

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?	Yes.																								
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?	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?	Yes.																								
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.																								
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>615.22</td> <td></td> </tr> <tr> <td>Unspent grant-</td> <td>1906.29</td> <td></td> </tr> <tr> <td>Loan</td> <td>703.05</td> <td>3244.56</td> </tr> <tr> <td>Current assets -</td> <td>3891.97</td> <td></td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> </tr> <tr> <td>Investment</td> <td>886.38</td> <td>4778.35</td> </tr> <tr> <td>Excess of cash strength over liability</td> <td></td> <td>1533.79</td> </tr> </tbody> </table>	Head	Amount	Amount	Earmarked funds	615.22		Unspent grant-	1906.29		Loan	703.05	3244.56	Current assets -	3891.97		Current liabilities			Investment	886.38	4778.35	Excess of cash strength over liability		1533.79
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Place: Kolkata
Date: .06.2018

R. Sarkar.
Examiner of Local Accounts
West Bengal

**Working Sheet on Net impact on Annual Accounts of Madhyamgram
Municipality for the year 2015-16**

(₹ In lakh)

Ref No	Liabilities		Assets		Deficit	
	U/S	O/S	U/S	O/S	U/S	O/S
A.1.1(i)	3.12		3.12			
A.1.1(ii)	14.76		14.76			
A.1.1(iii)	0.89		0.89			
A.2.1(i)		0.12		0.12		
A.2.1(ii)				1.00	1.00	
A.2.2	291.50	291.50				
Total	310.27	291.62	18.77	1.12	1.00	0.00

Liability understated by ₹ (310.27-291.62) lakh = ₹ 18.65 lakh

Asset understated by ₹ (18.77-1.12) lakh = ₹ 17.65 lakh

Deficit understated by ₹ (1.00-0.00) lakh = ₹ 1.00 lakh

U/S – Understatement

O/S - Overstatement