

INTERNAL AUDIT REPORT
OF
RAIGARH MUNICIPAL CORPORATION

(For the period ended 31st March, 2018)



SUBMITTED TO:

The Commissioner
Raigarh Municipal Corporation
(Raigarh, Chhattisgarh)

SUBMITTED BY:

Internal Auditor:
Borkar & Muzumdar
(Chartered Accountants)

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PROJECT BACKGROUND

The Central and State Governments, as also other agencies, have been providing the ULBs large sums of money to enable them to effectively discharge their duties and functions. The national reforms agenda for the urban sector includes reforms in municipal accounting practices and strengthening of financial discipline. As a step in this direction, it is proposed to introduce a system of pre-audit of the 169 ULBs' books of accounts by internal auditors. The entities have been clubbed into 5 clusters and we have been appointed as the internal auditor of 1 cluster, namely Bilaspur cluster.

To improve municipal accounting practices and strengthening of financial discipline in the urban local bodies, it is vital requirement to introduce a system of Pre-audit of the ULBs books of account by internal auditors. Our firm of Chartered Accountants has been appointed as internal auditor to conduct the audit of 46 urban local bodies of Bilaspur Cluster which Includes Raigarh Municipal Corporation.

PURPOSE OF PRE AUDIT

- To improve the state of check of accounts in ULB.
- To facilitate quick and accurate finalization of annual report at the end of the financial year.
- To ensure transparency in local governance.
- To help the government to track proper and use of grants released to ULB
- To ensure correctness and compliance of all the rules and regulation followed in all the day to day activities.
- To ensure non-diversion of fund in its ultimate end –use.

UNDERSTANDING EXISTING PROCESS

During our audit we discussed about current accounting scenario of the Raigarh Municipal Corporation with each department and following things was covered:



- Procedure of Technical and Admin Approval
- Procedure of Tenders
- Procedure of Agreement and work order
- Procedure of contractors payment and files movement
- Procedure of Consultancy payments
- Procedure for office expenses and miscellaneous expenses
- Procedure of Salary payment
- Details of Resources of Internal Revenue
- Procedure of revenue collection
- Procedure of Release of EMD/TDR/FDR
- Procedure for payment of Retirement benefits

The process involves the verification of following points:

1. Registers Maintained at Raigarh Municipal Corporation:

During the inception visit we asked the accountants and other employee of corporation to produce all register maintained at Raigarh Municipal Corporation

for recording of receipt, Payment and daily transaction like cash books, grant register, demand register, register of statutory deductions, salary register etc.

2. Bank Account Details and Bank Reconciliation Statement:

We have collected details of all bank accounts maintained at the ULBs. It is noticed that various bank accounts in-operative from a long time but not closed by the ULB. It is also noticed bank reconciliation statement has not been prepared.

3. Status of Statutory Compliances:

We have discussed with the accountant in regard to statutory compliances which are applicable to the ULBs like TDS, Commercial Tax, Labour Welfare Cess, Royalty etc. It is noticed that ULBs staff are not well aware about the statutory compliances and not regular in payment and return filling, which may lead a huge revenue loss to the ULBs in the future.

4. Audit conducted in previous years at ULB:

We have discussed with the Raigarh Municipal Corporation official about audit conducted in previous year and a report on the same. We observed that various observations given in the report but no action has been taken by the ULB.

5. Knowing other Processes:

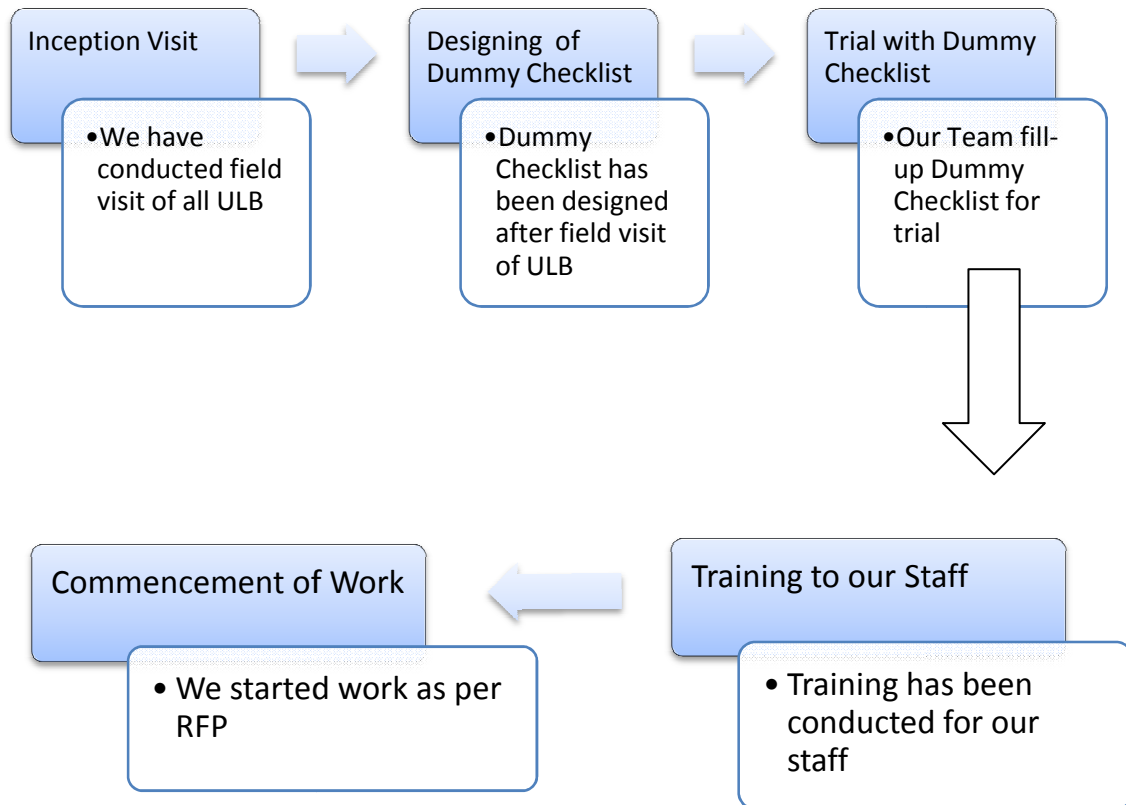
Other than above mentioned things, we have discussed about various things which are as below:

- ☐ Process of Advance to contractor and their refund
- ☐ Process of employee advance and their refund
- ☐ Grants allocation and their use
- ☐ Other

APPROACH ADOPTED

Inception Visit of Raigarh Municipal Corporation: We have conducted field visit of Raigarh Municipal Corporation in the month of November, 2015.

Activities carried out during Inception Visit were:



- Covered all the payment related to contracted works, purchase bills, advances refund of all kind of work related deposits , all kinds of Consultancy fees and contingent bill of ULB according to the rules and regulation as per Municipal Corporation Act 1956, Municipality Act 1961, Municipal Accounts manual & Rules;
- Ensured that in each payment the terms & conditions of tenders and rate offers should be according to procurement law and policies.
- Ensured that expenditure incurred is within the Budget provision allocated to particular head.

- Inquired & listed the fixed deposit and other funds currently available & whether in Nationalized banks/Approved financial institution earning maximum interest.
- Ensured that all the expenditure i.e. Construction work, Material procurement, Diesel, Petrol, Grease, Vehicle bill, house rent etc. are covered under pre-audit.
- All recurring expenditures like establishment, electricity, telephone, etc. are advised for payment after pre-audit.
- Ensured that all revenue receipts should be pre-audited and entries have been reconciled with bank & cash book.
- List of all unpaid bills and missing bills have been included.
- Ensured that all the sanctioned advances covered under pre-audit and then advised for payment to disbursement officer.
- Ensured that all kinds of tax deductions are deducted from the payment as applicable and deposited properly.
- Ensure proper store accounting and physical verification of goods & material every six months. Ensured proper accounting of revenue and postal stamps.
- Prepared Bank reconciliation statement on a monthly basis, since November 2015 (i.e. as per work order).
- Inquired and verified about the outstanding liabilities as on the closing date of the respective months.
- Inquired and verified advance given and period of advance from which the advance is due.
- Verified and summarized the remaining balance available in the different funds at the end of the month.
- No queries have been received by us from any local fund auditors / A G Office / CAG, etc.
- Ensured that all observations and findings during the course of internal audit have been furnished monthly to ULB/J.D.O./SUDA.
- All other areas/reporting/certification required and directed by ULB/J.D.O./SUDA.

INTERNAL CONTROL

A built in internal control mechanism to ensure effectiveness in carrying out the traditional functions and the transferred functions by the Urban Local Bodies (ULBs) is provided in the Municipal Corporation Act 1956, rules made there under and Government Orders and guidelines. The internal control system in ULBs was very weak as rules regarding various control measures were not complied with the system could not ensure efficiency and economy of operation & there would be chances of loss & misappropriation.

Audit findings

The audit findings are grouped under the following sections.

- Observance of internal controls
- Adequacy of internal controls
- Internal audit
- Man power
- Monitoring and evaluation

Observance of internal controls

Specific internal control measures were prescribed in the Municipal Corporation Act 1956, orders and guidelines issued by the State Government. These controls intended to utilize the resources of ULBs in the best possible way avoiding risks of infructuous expenditure, loss, manipulations, mistakes, etc. thereby increasing the efficiency and performance standards of ULBs. However, the ULBs failed to implement the internal controls prescribed in the Act, Rules.

Weakness found in Internal control System:-

- There is no proper system of purchase from Government E Marketplace. As per the rule laid down purchase needs to be done from GeM portal but in many cases we observed that these rules not followed.

- No Control over issuing Completion Certificate, In many cases we observed that completion certificate is issued without taking the measurement of work. In many cases Form 91 issued even 1 year prior to measurement.
- No Proper Control over TDR release, Register of TDR is not maintained regularly, Even no safeguarding of TDR. Many TDR has been released by the corporation even without application of contractor for such release. Also in Many cases we observed that old TDR is submitted by the contractor.
- Poor Maintenance of Grant registers which may result in fund diversion. Grant register is not maintained on regular basis.
- Poor control while levying penalty- Many work is delayed but due to improper authorization and time extension penalty is not levied.
- Poor Technical Estimation- many estimate exceeds while doing the actual work which results in extra cost over estimate.
- Too much delay in taking measurement- it is observed that there is too much delay in taking the measurement of the civil work done.
- Poor Control over tender procedure- Many times it is observed that tender has been bifurcated to override many statutory requirements.
- Poor Control over letter inward and outward register – It is observed that many pages and no. left intentionally in the Inward and outward register to send or receive letter or documents in previous dates.
- Poor Control over Municipal Fixed Assets- Very poor internal control is exercised to safeguard the assets of the Corporation. Also we observed that even if the goods is in guarantee period, that guarantee benefit is not used by corporation. No proper documents are maintained for guarantee papers.

- Leakage of Revenue from Shop Rents- Collection of Shop rents is Very Poor, Many shops of Municipal Corporation is not giving rents from long time.
- No proper assessment and of property – Many New Commercial and Non Commercial property is not included by Corporation in property Tax Slab. Proper assessment needs to be done to increase the existing tax base.

OUR FINDINGS AND OBSERVATIONS

A. Specific Observations:

- **Tender of Rs. 2.04 lacs for C.C Drain Construction is done even Technical Estimate for that work is of only Rs. 0.80 Lacs:**
C C Drain Construction work at ward 38 Tiwari House to Sharma house – Tender and other process is done by taking basis of Rs. 2.04 lacks but for that work technical estimate is of only 0.80 lacks .
- **Not following GeM Purchase Rules and Bhandar Kyay Niyam-**
As per Government of India rule for purchase from GeM, Central Government Establishment or PSU can purchase the goods upto the value of Rs. 30 lacs from Current L1 supplier by direct purchase (without doing Bid). But as per Chhattisgarh Gem Purchase rules, only goods value upto Rs. 1 Lac can be purchased by direct method. In Raigarh Municipal Corporation they purchased goods worth Rs. 2.5 Lacs by direct purchase, by manipulating the L1 supplier, they entered such specifications, for that only one supplier is available and accordingly that supplier became L1.
- In one bid for purchase of furniture at Raigarh Municipal Corporation we observed that when the bid is opened L1 was M/s Radhey Radhey enterprises of Delhi, whose offered rate was Rs. 296000 and ULBs ordered on the basis of same and purchase the goods from M/s Radhey Radhey Enterprise (as in the case of bid we can order from L1 only) in audit we observed that - On gem portal L1 is changed to M/s Chhattisgarh Industry.

B. General Observation

(1) List of non-performing contractors:

The local bodies does not have list of contractors, who had left the work in mid or not initiated the assignment. There are many instances where final bill of the projects are pending since long, as major portion of the contract amount is being reimbursed in various running bills, hence the contractor are not financially bound to raised final bill (generally raised for less than 10% amount), as raising of final bill requires „Work Completion Certificate“, „Royalty Clearance Certificate“ and other such compliance. Apparently it is being felt that there may be non-compliance on any of such issue. As this trend is being continuously followed by contractor there may be below financial implication

- Loss of Royalty to Mining Department
- Contractor may quote their prices by inflating project cost by the amount which is not going to claim.

(2) Tendency to not compare measurement book with SOR:

In various cases we found that an actual comparison between SOR referred at the time of estimate and measurement book is not being made, causing extra payment to contractors. Certainly files in which payment is not being processed now will not be subject to audit and remain undiscovered. In this regard it is recommended that:

- A training to account department, how to check/ compare MB with SOR should be imparted.
- Necessary instruction should be raised by department

(3) Calculation Error:

Calculation error like summation error, etc in estimation are observed in majority of the construction files.

(4) Improper Documentation:

In contract work there were many files which were reached to payment stage without compliance of requisite process (e.g. technical/ admin approval not obtained, quotation were not called).

(5) Loss of interest on amount remain deposited in saving/ current account:

In every ULB there is huge balance which remains unspent and deposited in saving, current account yield 4% p.a. and 0% p.a. interest respectively. If the amount above any prescribed limit may be transferred auto sweep facility, it will generate huge interest income for ULB.

(6) Issue observed from field visit:

- Fulfillment of statutory compliance is a big issue. Generally ULB does not have filled copy of periodical return as required for TDS etc. Over dependency on consultant may lead to financial implication.
- Bank reconciliation statement for all bank accounts was not found.
- ULBs official are not updated about the recent regulations and that's why there are many files which has been returned.
- Outcome based budget is not maintained at the ULB Level.
- Budget control register is not maintained at ULB Level.
- Statutory compliances are not proper.
- Vouchers do not have budget head information against which payment is being made.
- Separate bank account for each grant has not been maintained.
- In the cash book, closing balance is not bifurcated bank account wise. A consolidated closing balance of all bank accounts shown in the cash book. Bank reconciliation statements are not prepared by the ULBs.

(7) EPF & ESI are deducted but not deposited timely.

- (8) **Actual date of commencement & completion of projects are not maintained:** We have noted that the concerning engineer does not maintain the actual date of commencement, actual date of completion, project updates deadline delays in their workings. Due to non-availability it is difficult to determine the project delay period & applicability of penal provision, etc.
- (9) **Vehicle Log books are not being maintained:** In most of ULBs it was found that either log books are not available with concerning driver or not maintained in complete respect.
- (10) **Material used by contractors in most of the cases differs as per sanctioned estimate without any permission.**
- (11) **Agreements are presented without signature and stamp.**
- (12) **News paper criteria are not being followed as per work amount.**
- (13) **In few of the cases of store procurement, invoices submitted by vendors consist of cash bill or credit memos instead of retail invoice. These invoices do not contain seal of the supplier entity. This is in violation of CG Saashan Bhandar Kraya Niyam. Rule 4.9, which states that Goods must be purchased from GST registered dealer only.**
- (14) **Drafting of agreements is poor: Following basic conditions are found missing in agreement entered:**
- Percentage above SOR or below SOR
 - Signature of Commissioner
 - Date of execution of the agreement
 - Seal of the contractor.
- In this regard it is recommended that: All the ULBs should be encouraged using similar / common formats for making any agreement.

(15) **No proper maintenance of Stock Register:-** Entry on stock register is not made on timely basis, and there is lot of mistake found in stock register while carry forwarding the previous year stock.

(16) **Compliance with Penal provisions is not proper:** - many works is much delayed and without any sufficient reason penalty is not deducted which is required to be deducted as per the term and condition of tender and agreement.

(17) **Many Small work is done without Work Order:-** in the process of our audit found that many small work is done without giving the work order

(18) **File No. is not mentioned on file.**

(19) **Index of files is not maintained.**

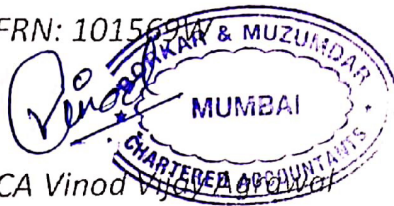
RECOMMENDATION FOR THE COMING PERIOD

1. ULB's personnel are not aware about recent regulations and due to much practical issue; there remain few lacunae in almost every files. As the internal audit has been commended recently, number of rejection/ returning of files are very high. No doubt it is creating resistance/ disturbance among ULB staff. Training session at least once a month for ULB's accountants and managerial persons should be conducted which will lead to capacity building in them.
2. A CAP on Payment to be made in running bill (Say 80% of total project cost) should be made.
3. List of black-listed/ non-performing contractors may be prepared and circulated at department level.
4. New Budget Format may be implemented in FY 2018-19.
5. A Separate bank account for each payable head may be opened and relevant portion may be deposited and paid there from
6. All register should be timely updated like demand registers, Advance register etc.
7. Statutory compliances should be proper and according to law.
8. Separate Register for Security deposit should be maintained.
9. If, ULBs covers in reverse charge mechanism than service tax should also to be implemented
10. Grant wise bank account should be maintained.
11. Monthly actual progress of revenue and expenses should be prepared in context of Budget.
12. ULB must maintain revenue report by bifurcating tax and non-tax revenue for better understanding of performance.
13. The ULB must take steps to improve efficiency.
14. Prepare a Defaulter list of every type of revenue on weekly basis and shall provide to every a demand notice to every defaulter.

15. Maintain Proper records regarding demand raised, recovered and outstanding with complete details of every person from which revenue has been collected.
16. Calculate the revenue of particular month after excluding arrears of past month for better and accurate understanding.
17. A separate account need to be opened for Security Deposits, Performance Guarantee etc. and amount to be deposited accordingly.


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Raigarh Municipal Corporation