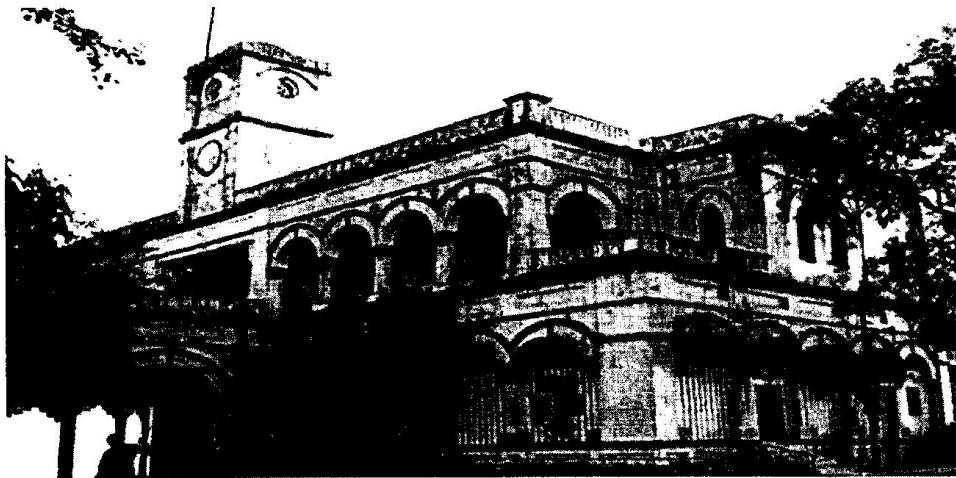


**INTERNAL AUDIT REPORT
OF
RAIGARH MUNICIPAL CORPORATION**

(For the period ended 31st March, 2017)



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.


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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:

Engineering Section

Revenue Section

Accounts Section

- 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

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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:

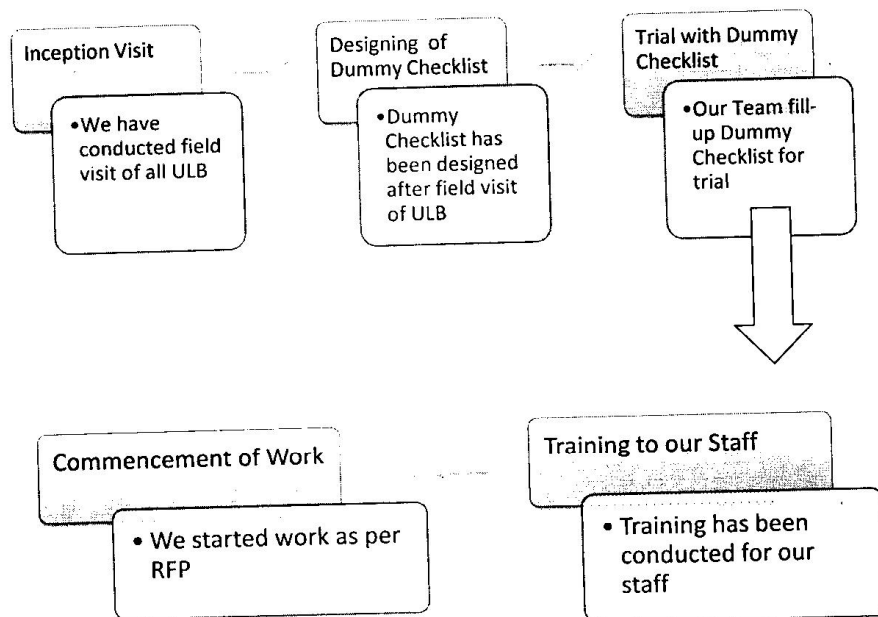
Other than above mentioned things, we have discussed about various things which are as below:

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



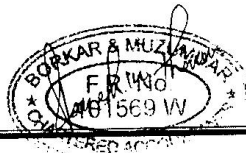
APPROACH ADOPTED

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:



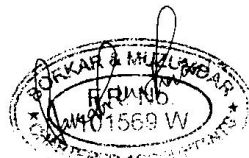
- Covered all the payment related to contracted works, purchase bills, advances refund of all kind of work related deposits, all kinds of Consultancy fees and contingent bill of ULB according to the rules and regulation as per Municipal Corporation Act 1956, Municipality Act 1961, Municipal Accounts 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.

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- 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 entry have been reconciled with bank & cash book.
- List of all unpaid bills and missing bills have been included.
- Ensured that all the sanctioned advances cover under pre-audited and then advised for payment to disbursement officer.
- Ensured that all kind 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 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 fund 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 observation 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.

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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 in the following sections.

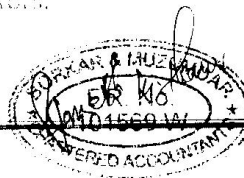
- Observance of internal controls
- Adequacy of internal controls
- Internal audit
- Man power
- Monitoring and evaluation.

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.

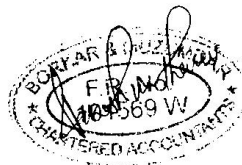
Weakness found in Internal control System:-

- There is no proper system of TDR releasing, No proper register is maintained to record all TDR, No Safeguarding of such TDR. Many TDR is released without even the application of the concerned contractors.

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- Poor Maintenance of Grant registers which may result in fund diversion.
- Poor control while levying penalty- Many work is delayed but due to improper authorisation 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.
- Poor attendance system- as per the SUDA directives attendance must be maintained on electronic system, but much time manual attendance was provided.
- Too much delay in work measurement- it is observed that there is too much delay in taking the measurement of the civil work done.
- Poor Control over tendering procedure- Many times it is observed that tendering process is initiated to override many statutory requirements.
- Poor Control over Aawak Jaawak – It is observed that many pages and no. left intact in the Aawak-Jaawak register to send or receive letter or document in previous dates.
- Poor Control over Fixed Assets- Very poor internal control is exercised over the assets of the Corporation.
- Leakage of Assets- Rents- Collection of Shop rents is Very Poor, Many municipal corporation is not giving rents from 1984 till

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COMPLAINTS AND OBSERVATIONS

A. Specific Observations

➤ **Opening tender for within 5 days from the date of advertisement in paper :**

Beautification and Uthkal Panchayat, Name of Agency- arvind Trading Company- The file for audit has been presented to us – we found following major query-

- Estimate divided into parts of below 20 Lacs and tender has been done to override the requirements of e-tendering.
- Tender is published in 2015 in newspaper and tender opened on 30-04-2015 less than 5 days – as per rule this time gap not allowed.

➤ **Not following tender procedure**

A flexi work of Rs. 1,57,000/- done without tender – as per rule for the work costing more than Rs. 50,000/- tender is needed. Name of agency- AVM Company.

➤ **No separate tender for different works**

Constructions of Road at different places in ward no. 6 is to be done with separate tender but has been done with a single tender. Agency – M/s Virat construction.

➤ **Non- deposit of Security Deposit of Rs. 1,00,00,000.00 into Security Deposit Account-**

In the financial year 2014-15, amount of Rs. 1,00,00,000.00 is deducted which amount is Rs. 1,00,00,000.00 and this amounts need to be deposited in security deposit account no. 0926010011526 ICICI Bank Raigarh but that amount is not deposited.

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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. As a result it is being felt that there may be non-compliance on any of such issues, as this trend is being continuously followed by contractor there may be below final bill submission

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

(2) Tendency to not compare MB with SOR:

In various cases we found that comparison between SOR referred at the time of estimate and present MB is not being made, causing extra payment to contractors. In such cases in which payment is not being processed now will not be able to find audit and remain undiscovered. In this regard it is recommended that

- A training to accountants should be imparted to check/ compare MB with SOR should be imparted.
- Necessary instruction should be issued by department

(3) Calculation Error:

Calculation error like rounding off error in estimation are observed in majority of the construction work.

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(4) Improper Document

In contract work there were many bills which were reached to payment stage without compliance of required documents (e.g. technical/ admin approval not obtained, quotation were not submitted).

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

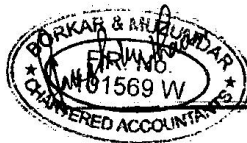
In every ULB there is huge bill which remains unspent and deposited in saving, current account yielding 0% p.a. interest respectively. If the bill is transferred auto sweep facility, it will generate huge interest income.

(6) Issue observed from:

- Fulfillment of statutory requirement: ULBs have not filled copy of prescribed forms. It is a big issue. Generally ULB does not follow the requirement for TDS, VAT, PF etc. Over the long run it has financial implication.
- Bank reconciliation: Bank reconciliation statement of all bank accounts was not found.
- ULBs official are not aware of recent regulations and that's why they are not following.
- Outcome based budgeting: Not followed at the ULB Level.
- Budget control system: Not followed at ULB Level.
- Statutory compliance: Not followed.
- Vouchers do not have proper supporting information against which payment is being made.
- Separate bank account for petty cash: Not been maintained.
- In the cash book, petty cash is not bifurcated bank account wise. A consolidated closing balance is shown in the cash book. Accounts shown in the cash book are not prepared by the ULBs.

(7) EPF & ESI are deducted from salary of employees.

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(8) **Actual date of completion maintained:** We found that the actual date of completion of projects is not maintained. We found that the project updates do not contain the actual date of completion. It is difficult to determine the delay period & applicability of penal provision, etc.

Actual date of completion of projects are not maintained. The concerned engineer does not maintain the actual date of completion, which is a violation of CG Saashan provision. Due to non-availability of actual date of completion, the delay period & applicability of penal provision, etc.

(9) **Vehicle Log book:** We found that either log book is not maintained in copy or it is not maintained in copy.

Vehicle Log book: In most of ULBs it was found that either log book is not maintained in copy or it is not maintained in copy.

(10) **Material used by contractor:** We found that the material used by contractor differs as per sanctioned estimate without any justification.

Material used by contractor: The material used by contractor differs as per sanctioned estimate without any justification.

(11) **Agreements and contracts:** We found that the agreements and contracts are not properly maintained.

Agreements and contracts: The agreements and contracts are not properly maintained.

(12) **News paper criteria:** We found that the news paper criteria are not properly maintained.

News paper criteria: The news paper criteria are not properly maintained.

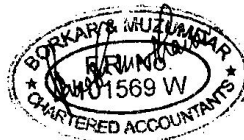
(13) **In few of the contracts, the invoices consist of cash and do not contain serial number. Bhandar Kraya is not maintained. Goods must be purchased from approved vendors.**

In few of the contracts, the invoices consist of cash and do not contain serial number. Bhandar Kraya is not maintained. Goods must be purchased from approved vendors. These invoices are in violation of CG Saashan provision. It is in violation of CG Saashan provision that Goods must be purchased from approved vendors.

(14) **Drafting of agreements:** We found that the drafting of agreements is not properly maintained. The following conditions are found missing in agreements:
➤ Percentage above/below
➤ Signature of Contractor
➤ Date of execution
➤ Seal of the contractor
In this regard, the ULBs should be encouraged to use similar / copy agreement.

Drafting of agreements: The drafting of agreements is not properly maintained. The following conditions are found missing in agreements:

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CHARTERED ACCOUNTANTS
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(15) No proper
made on time
while carry for

- Entry on stock register is not
found in stock register

(16) Compliance
delayed and
required to
agreement.

- many works is much
deducted which is
tion of tender and

(17) Many Small
audit found

- in the process of our
the work order

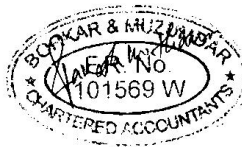
(18) File No. is

(19) Index of file



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RECOMMENDATIONS

FOR THE COMING PERIOD

1. ULB's personnel are not aware of recent regulations and due to much practical issue; there is a need for training. Almost every file. As the internal audit has been commenced, the number of rejection/ returning of files are very high. No doubt there is a need for training session at least for the staff. This will lead to capacity building in them.
2. A CAP on Payment of bills should be made. (Say 80% of total project cost)
3. List of black-listed/ non-compliant contractors may be prepared and circulated at department level.
4. New Budget Format may be prepared for FY 2017-18.
5. A Separate bank account may be opened and relevant portion may be deposited.
6. All register should be maintained including demand registers, Advance register etc.
7. Statutory compliance should be maintained according to law.
8. Separate Register for maintenance should be maintained.
9. If, ULBs covers in revenue service tax should also to be implemented.
10. Grant wise bank account should be maintained.
11. Monthly actual performance and expenses should be prepared in context of Budget.
12. ULB must maintain records of tax and non-tax revenue for better understanding of revenue.
13. The ULB must take steps to increase revenue.
14. Prepare a Defaulted list of revenue on weekly basis and shall provide to every a department.

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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.

For Borkar & Muzumdar
(Chartered Accountants)

FRN: 101569W

Vinod

CA Vinod Vijay
(Partner)

M. No. 404449



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