



**RAJNANDGAON
MUNICIPAL
CORPORATION
INTERNAL AUDIT REPORT**

For the period ended 31st march 2017.

Submitted by:

**Internal Auditor
S PODDAR & Co**



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PROJECT BACKGROUND



Local Body is a form of Public administration, which exists as the lowest tier of administration within a given state. They work as an intermediary between the state government and the general public. All the programmes initiated by the state government are later on carried by the local bodies. So by this it can be easily understandable the key role that is being played by the local bodies for the development of the state and the nation on the whole.

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 audit of the ULBs' books of accounts by internal auditors.



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To improvise municipal accounting practices and strengthening of financial discipline in the urban local bodies, it is vital requirement to introduce a system of audit of the ULBs books of accounts by Internal Auditors. Our firm of Chartered Accountants has been appointed as internal auditor to conduct the audit of Municipal Corporation Rajnandgaon for the year 2016-17.



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PURPOSE OF AUDIT



As Local bodies are performing such an important work, so it is a need to keep an eye on their working and functions performed. This fosters the assessment of external and internal factors, financial performance, internal control and other risks. So by this the objective of our audit is briefly divided in the following major heads: -

➤ **Accounting check**

- i. To improve the state of check of accounts in ULBs
- ii. To facilitate quick and accurate finalization of Annual Report at the end of the financial year
- iii. Identifying the risk of material error in the financial statement at the system level

➤ **Governance Check**

- I. To ensure transparency in local governance
- II. To ensure correctness and compliance of all the rules and regulation followed in all the day to day activities.
- III. To keep an eye on the internal control of the system

➤ **Vision of Audit**

- I. To help the Government to track proper end-use of grants released to the Local Bodies for transparency.



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- II. To ensure non-diversion of fund in its ultimate end -use
- III. To make the local bodies Self Sustained.

➤ **Accounting Records**

- I. To keep proper books of accounts like cash book, bank book etc.
- II. To avoid unnecessary expenditure and disburse only as per budget set.
- III. To encourage the sources of revenue
- IV. To ensure statutory compliances .



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Understanding the existing process

The government is investing a huge sum of money for the development of the state through the local bodies. So, this huge sum of money comes with a baggage of responsibility and accountability. But in spite of this, it is clearly evident at many occasions that the responsibility is not duly met. A few irregularity noticed were:-

- Excess payment
- In-appropriate payment
- Diversion of fund
- Necessary documents not filed up
- Payment without proper authentication
- Less collection against target of revenue taxes

Because of above irregularity the local body may end up in financial crisis.

A watchdog is needed to keep a check on the functioning of the local body so that they can perform their functions in a better way.



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Approach adopted for Internal Audit

As Per the requirement of the audit Checklist & Supporting reference has been obtained for the purpose of improvement of Existing Process & better conduct of Audit.

Staffs are well trained and keeps on updating themselves with notification, Circulars and Instructions if any by the higher authority.

ULBs are well co-ordinated by our team Leaders for any issues & for efficient & Effectively conduct of Audit. In case of Any issue it is intimated to higher authority immediately

- I. Internal Audit has covered that 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;
- II. We ensure in each payment that terms & conditions of tenders and rate offers are in according to procurement law and policies.
- III. We ensure that the fixed deposit and other funds are in Nationalised banks/Approved financial institutions and earned maximum interest at their gestation period.
- IV. We ensure that all the expenditure i.e. Construction work, Material Procurement, Electric Bill, Telephone Bill, Diesel, Petrol, Greece, Vehicle



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Bill, House Rent etc. is advised for payment only after the process of audit. We ensure that all the payment orders are made, bills are cleared and cheques are issued only when we certifies that the payment is in accordance with the Municipal Corporation Act 1956, Municipalilty Act 1961, Municipal Accounts manual & Rules, scheme guidelines of instructions, G.Os., Circulars, order of Directorate of Urban Administration & Development or Commissionerate.

- V. We ensure that all the expenditure related with establishment i.e. Salary, Travel expenditure, travel advance etc. is advised for payment only after the process of audit.
- VI. We ensure that the resolution of Governing Body, which violate rule or guideline etc., the same shall be immediately brought to the notice of the concerned Commissioner/Chief Municipal Officer of ULB.
- VII. We ensure that all the sanctioned advances has been audited and then advised for payment to disbursement officer.
- VIII. We ensure that all the security deposit and earnest money deposited in tender/agreement process has been deposited in the bank immediately. Similarly refund of these security deposit and earnest money deposit are made on time.
- IX. We ensure that all kind of tax deductions i.e. Commercial tax, Income tax, provident fund etc. are deducted from the payments as applicable, and then deposited properly. Further, it is also properly recorded in appropriate ledgers.
- X. We ensure for proper accounting of revenue and postal stamps.
- XI. We are reporting revenue achieved against the target.
- XII. We ensure that all reports are updated monthly in the department.



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Internal Control & Weakness in 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 is provided in the Municipal Corporation Act 1956, rules made there under and government orders and guidelines . Internal Control system in the ULBs was very big as rules regarding various control measures were not complied with the system could not ensure efficiency and economy of operation and 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 & evaluation



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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 utilise the resources of ULBs in the best possible way avoiding risks of in fructuous 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.



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Finding & Observation**❖ Rajnandgaon Municipal Corporation**

- **Excess rate charged:** - In construction of Boundry wall at patwari training centre diff in rates in estimates has been observed also rates has been overwritten in estimates. (Voucher No-2502 to 2504)(October 2016)
- **Excess payment:-** Excess placemnt employees has been appointed in the Corporation without prior permission of SUDA which leads to Excess expences of Rs. 20 Lacs(November 2016)
- **Excess Billing:-** In newspaper advertisement Area has been specified as 2.15 to 30 CM but bill has been presented for 15 by 120 CM (Voucher no-4851)(March 2017)



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➤ **Tender related issue : -**

- For construction of PCC road estimated amount of Rs.50000 & above tender has process has not been complied(Voucher No1410 &1417)(July-2016)
- For Cleanliness work no agreement has been made after completion of old agreement , hence new contract has been assigned on the basis of old tender & agreement.(Voucher no-1476,1487,1488)(July-2016)
- For Construction of CC road at ward no 19 Quotation has been called for same work twice instead of calling tender (Voucher no -2699-2701)(October-2016)

➤ **Others:-**

- As per municipal rules penalty should be deducted in delay completion of work same has not been done (Voucher no-502,503,504,505)
- Form 90 is not being presented as a proof of work completion for release of SD(Voucher no-2397)(October 2016)
- Running bill has been presented in excess of 85%, where as payment must not exceed 85% before final billing.(Voucher no-3012-3014)(November-2016)
- During physical verification of stock audit diff has been observed as of Books & actual quantity.
- Premium & rent of 24 Shop at Gola bazaar has not been received hence Rs 61,55,876 is due.(December 2016)



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Observation on Physical Verification



Inventory Management :

During audit procedure our team conducted physical verification of Rajnandgaon Municipal Corporation twice in F.Y. 2016-2017 . During physical verification some observations were found by our audit team are cited below:

1. Material was found scattered and was not kept properly.
2. Unused materials were kept in the stores which leads to damage of good stock.
3. Stores are not kept neat & clean hence its difficult to verify stock.
4. Stock register are not updated from time to time.
5. We goods are issued , receivers sign is not found in the registers.



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Recommendation

Recommendations



- All the data related to collection of taxes should be updated in an online software. This helps in transparency and planning.
- Target for the collection of the revenue taxes should be given to the Revenue Officers / Revenue Inspectors with some incentive on the completion of target.
- The scrap materials in the ULB must be auctioned.
- The shop rent must be revised as in many places it was fixed a long ago. And also, register for all the shops must be made so that we can keep a check on the same. As in many places due to unavailability of the register rent collection percentage is very low.



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- All registers must be timely updated like cash book, demand registers.
- Statutory Compliance must be proper and according to law.
- ULBs must maintain revenue report by bifurcation tax and non-tax revenue for better understanding of performance.

For and on the behalf of
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