

CHAPTER II

ACCOUNTING PROCEDURES AND FINANCIAL MANAGEMENT

An Urban Local Body (ULB) is required to present the budget estimate before the Board of Councillors (BOC) for adoption after discussion. Within six months of the close of a year, a financial statement consisting of the Balance Sheet, Income and Expenditure Account, Receipts and Payments Account and Fund Flow Statement has to be prepared in the form and manner prescribed and presented before the Board of Councillors. The succeeding paragraphs bring out the deficiencies in the system of accounting noticed during audit of 50 ULBs conducted during the period from June 2008 to March 2009.

2.1 Budget Provisions

Rule 27 of the West Bengal Municipal (Finance and Accounting) Rules, 1999, states that the departmental heads of a municipality, under the direction of the Member-in-Charge in the Chairman-in-Council, shall prepare their estimated receipts and expenditure of the following year in consultation with the Borough Committees or the Ward Committees, as the case may be, and report the same to the Chairman. The Accounts Department shall, in consideration of the departmental requirements and having regard to the probable financial resources, prepare the Draft Annual Budget Estimate for the following year which shall be finalized by the Chairman with the help of the officers.

According to Section 82 of the West Bengal Municipal Act, 1993, no deficit shall be shown in the budget estimate so prepared.

After necessary consideration by the Chairman-in-Council, the said draft Annual Budget Estimate shall be placed before the Board of Councillors at a meeting specially convened for the purpose as provided under the law.

2.1.1 Budgeting

In 22 ULBs, there were persistent savings in the budget provisions over the last three years, indicating unrealistic estimates and absence of definite work plans. The overall budget provision and the expenditure of these ULBs for the years 2006 – 07, 2007 – 08 and 2008 – 09 are given in the following table, while the unit-wise position is detailed in **Appendices 3A, 3B and 3C**.

Year		Budget Provision	Actual Expenditure	Savings (-) Excess (+)	Percentage of variation
		(Rupees in crore)			
2006 – 07	Revenue	252.76	194.65	(-) 58.11	(-) 23
	Capital	100.61	56.67	(-) 43.94	(-) 44
2007 – 08	Revenue	332.32	248.61	(-) 83.71	(-) 25
	Capital	193.58	92.48	(-) 101.10	(-) 52
2008 – 09	Revenue	367.28	289.66	(-) 77.62	(-) 21
	Capital	210.46	132.29	(-) 78.17	(-) 37

It would be seen from the above table that there were substantial savings in the both the revenue (21 to 25 *per cent*) and the capital (37 to 52 *per cent*) heads during 2006 – 09.

Uttarpara – Kotrung and Barasat municipalities stated (October-December 2009) that the variations between provisions and expenditure were due to shortfall in revenue collection, delay in receipt of grant from Government and “incorrect apprehension”. Siliguri Municipal Corporation stated (October 2009) that the reasons for variation were receipt of funds at the end of the year and shortfall in receipt of funds. Other ULBs did not furnish any reason for such variation.

As per section 69 (2) of the West Bengal Municipal Act, 1993, no payment of any sum shall normally be made out of Municipal Fund unless such expenditure is covered by a current budget grant and a sufficient balance of such budget grant is available for the purpose.

It was seen that 12 ULBs had incurred excess revenue expenditure of Rs.39.95 crore and nine ULBs had incurred excess capital expenditure of Rs.38.52 crore vis-à-vis the budget provisions during 2006 – 09 as shown in **Appendices 4A & 4B**.

The above expenditure violates the provision of section 69 (3), *ibid*, which stipulates that whenever any sum is paid for the purposes not covered by the budget grant, the matter shall forthwith be communicated to the Chairman-in-Council who shall take such action under the provisions of the Act, as may appear to it to be feasible and expedient for covering the amount of such payments. However, no action has been taken by any ULB to regularize the expenditure by obtaining sanction of the respective Board of Councillors for the excess of expenditure over the grant.

2.2 Preparation of Annual Accounts

Out of total of 293 Annual Accounts⁵ of 126 ULBs pertaining to the year up to 2008 – 09, 19 ULBs submitted 24 Annual Accounts⁶ till December 2009.

2.3 Observations on accounting software

To expedite the switch over to double entry accounting system, Government of West Bengal constructed accounting software PUROHISAB and distributed to all the ULBs, except Kolkata Municipal Corporation. Test check showed that :

- The software has no locking arrangement. Any voucher can be inserted at a later date even after closing of a particular accounting year. Therefore, sanctity of accounting figures incorporated in the Annual Financial Statement as adopted by the Board of Councillors has chances to get vitiated at later date.
- The exporting of data from this package to another programme like MS – Word or MS – Excel was not possible. Thus audit fails to take evidence of its observations.
- The users have no fire proof back up of financial data.

⁵ 41 for 2006 – 07, 126 for 2007 – 08 and 126 for 2008 – 09

⁶ For 2006 – 07 by 17 ULBs, 2007 – 08 by six ULBs and 2008 – 09 by one ULB

2.3.1 Annual accounts of Municipalities

Twelve Audit Reports on annual accounts in respect of 10 ULBs⁷ were issued till December 2009. Main audit observations common to these Annual Accounts were :

1. Property Tax receivable remaining un-recovered over five years was not segregated and provided in the accounts.
2. Journal Vouchers were not signed by Competent Authority and were not supported with primary papers / documents / basis.
3. Advance given to employees / contractors, etc. were not appropriately recorded to identify period of non-adjustment.
4. No physical verification of cash as well as stock of stores was done.
5. Drawals of money for various payments were booked as expenditure before actual disbursement resulting in unaccounted for municipal money in the hand of cashier.
6. There was absence of internal control. Thus, figures generated by the functional departments did not tally with that of finance.

2.3.2 Annual accounts of Municipal Corporations

The Kolkata Municipal Corporation (KMC) had submitted its accounts for the year ending 31 March 2008 on 25 November 2008. The significant audit observations on the annual accounts of KMC were as follows:

- Section 163 (3) of the KMC Act, 1980 requires publication of the Auditor's Reports together with the report of the Municipal Accounts Committee and the decision of the Corporation thereon. But, the Corporation did not bring out the said reports for the year 2007 – 08.
- There was understatement of liability of Rs. 10.52 crore and overstatement of net assets of Rs. 189.75 crore. Consequently the Municipal Fund and Surplus of Income over Expenditure for the year were overstated to the extent of Rs. 200.27 crore.

The other five Municipal Corporations, namely, Asansol, Chandernagore, Durgapur, Howrah and Siliguri had not submitted the annual accounts till December 2009.

2.4 Diversion of funds

Four ULBs diverted Rs. 93.60 lakh sanctioned for specific purposes. This defeated the very purpose of the grants and deprived the beneficiaries of intended benefits, as shown below :

⁷ Bally (06 – 07), Barrackpore (06 – 07 & 07 – 08), Panihati (06 – 07), Naihati (06 – 07), Gayeshpur (06 – 07), Bansberia (06 – 07), Kamarhati (06 – 07), Hooghly – Chinsurah (06 – 07 & 07 – 08), Madhyamgram (06 – 07) and Baranagar (06 – 07).

Sl. No.	Name of ULB	Period	Purpose of the grant	Diverted for	Amount (Rupees in lakh)
1.	Arambagh	2006-07	General purpose and payment of outstanding electricity charges.	Construction/improvement of road and cost of material.	4.94 ⁸
2.	Bishnupur	2006-08	Implementation of schemes.	Payment of salary, wages, terminal benefits and office expenses.	72.43
		2006-07	National Old Age Pension Scheme.	Payment of salary.	1.80
3.	Dalkhola	2007-08	Infrastructure of drainage scheme.	Construction of road.	13.43
4.	Rampurhat	2007-08	Urban Infrastructure Development Scheme.	Clearing the area of the municipality.	1.00
Total					93.60

Thus, due to unauthorized utilization of funds for administrative, maintenance and works not specified under the schemes, the intended objectives could not be achieved.

2.5 Increasing indebtedness

Twenty ULBs did not repay outstanding loan and interest accrued thereon resulting in accumulation of huge liability amounting to Rs.61.55 crore as of March 2008 as shown in the **Appendix – 5**.

According to Section 72 (3) of the West Bengal Municipal Act, 1993, sinking funds were to be created for each loan for debt servicing. Non compliance with the Act, has created additional charge on revenue fund of the ULBs.

2.6 Non adjustment of advances

In terms of Rule 189 of the West Bengal Municipal (Finance & Accounting) Rules, 1999, different accounts in the advance ledger shall be balanced quarterly and signed by the Executive Officer, Finance Officer or any other authorized officer, who shall also satisfy himself that steps were being taken to recover or adjust the advances outstanding for more than three months.

It was observed that advances aggregating Rs.3.71 crore granted by nine ULBs to chairmen, councillors, employees, contractors and organizations for execution of

⁸ There was huge amount of outstanding electricity charge to the tune of Rs. 71.77 lakh (excluding late payment surcharge).

works remained unadjusted till March 2008 (**Appendix – 6**). This is indicative of weak internal control mechanism. As a result, the extent of execution of works and benefits derived could not be ensured in audit.

2.7 Loss of interest on Provident Fund

Provident Fund subscriptions are required to be credited to the fund account in the treasury within 15 days of the next month to avoid loss of interest. The subscription towards Provident Fund was collected by nine ULBs by deduction at source but not remitted into the treasury within the stipulated date. The delay in remittance resulted in loss of interest of Rs.96.83 lakh accrued (**Appendix – 7**) during the intervening period, thereby creating an additional burden on the ULBs as the same was not payable by the Government. Further four ULBs did not deposit Provident Fund subscriptions of Rs.1.93 crore⁹ into the treasury. The loss on interest could not be computed in absence of detailed information regarding delay in remittance of subscriptions.

2.8 Loss of materials due to theft, misappropriation etc.

Cases of theft and misappropriation of materials were noticed in the following two ULBs as shown below :

Name of ULB	Period	Particulars	Amount (Rupees in lakh)
Durgapur	June 2008	Theft of 97 Ductile Iron (DI) pipes from the stock kept within the boundary wall of Sidhu-Kanu-Indoor Stadium.	5.14
North Dum Dum	April 2007 to July 2008	Embezzlement of medicine from the store.	1.77
Total			6.91

It was observed that Durgapur Municipal Corporation reported the matter of theft of DI pipes to the Police authority in June 2008.

North Dum Dum Municipality confirmed the facts and figures and stated (July 2008) that the matter would be placed before the Chairman-in-Council (CIC) after thorough investigation for necessary action. Disciplinary action would be taken accordingly.

2.9 Poor monitoring of Property Tax collection

The position of current demand, collection and outstanding property tax (including service charge on Central Government properties) in respect of 23 ULBs during 2006 – 09 is detailed below :

⁹ Bhadreswar: Rs.12.70 lakh, Chandernagore: Rs.53.67 lakh, Kanchrapara: Rs.38.99 lakh and Ranaghat: Rs.87.55 lakh

(Rupees in crore)

Year	Demand			Collection			Total outstanding dues	Percentage of collection
	Arrear	Current	Total	Arrear	Current	Total		
2006 – 07	63.38	58.70	122.08	11.16	29.24	40.40	81.68	33
2007 – 08	80.42	67.56	147.98	17.26	33.14	50.40	97.58	34
2008 – 09	97.40	67.03	164.43	17.41	35.59	53.00	111.43	32

Unit-wise details are given in **Appendix – 8A, 8B and 8C**.

It was observed that on an average only 33 *per cent* of the total demand was collected during 2006 -09 thereby further raising the arrear demand at the close of the each year. The collection out of current demand was around 50 *per cent*, resulting in increase in the arrears. Only three ULBs could collect upto 50 *per cent* or more of the total dues (property tax) during the period. Other reasons for accumulation of huge tax arrear were non payment of property tax / service charge by the Government holdings, litigated properties, closed and sick industries.

Section 147 of the West Bengal Municipal Act, 1993 provides that any tax levied under the Act may be recovered in accordance with the following procedure :

- (a) by presenting a bill, or
- (b) by serving a demand notice, or
- (c) by distraint and sale of a defaulter's movable property, or
- (d) by attachment and sale of a defaulter's immovable property, or
- (e) by attachment of rent due in respect of land or building, or
- (f) as a public demand under the Bengal Public Demands Recovery Act, 1913.

Section 149 of the Act provides that when a property tax becomes due on any land or building, the Chairman shall cause to be presented to the owner or the occupier thereof a bill for the amount due. As per section 150 (2) such tax shall be payable in quarterly instalments and every such instalment shall be deemed to be due in the first day of the quarter in respect of which it is payable.

The procedures prescribed under section 147 were not followed properly by the ULBs to ensure prompt recovery of municipal dues. Reasons for the difference of Rs.1.26 crore and Rs.0.18 crore in the closing balance of the outstanding dues in March 2007 and March 2008 and the opening balance of the arrear demands in April 2007 and April 2008 respectively, were not furnished by the concerned ULBs.

2.10 Non remittance of Government dues

As per provisions, tax deducted at source shall be credited to the Government account in the succeeding month. It was, however, seen that Contai Municipality deducted at source Sales Tax (Rs.3.08 lakh), Income Tax (Rs.2.11 lakh) and Professional Tax (Rs.3.46 lakh) up to 31 March 2008. The Municipality did not deposit the amounts to Government account as of 24 June 2008. This was a gross violation of Government norms and the Municipality had been made liable to pay the penalties for non-remittance of dues at the cost of Municipal revenues.

2.11 Deficiencies in maintenance of Cash Book

Test check of records of 25¹⁰ ULBs, revealed several deficiencies in the maintenance of Cash Book. The number of pages of the Cash Books, entries of transaction and correctness were not authenticated. Pages were left blank in between. The transactions were not recorded on the day of occurrence. The daily cash balances were not computed and certified. The monthly closing cash balances were not reconciled. No physical verification of closing balances was made. As a result, actual book balances were not ascertainable.

2.12 Non-maintenance of basic records

One or more prescribed basic records *viz.* Work Register, Investment Register, Loans Register, Register of Un-paid Bills, Self Cheque Register, Deposit Ledger, Asset Register, Register of Tools and Plant, Register of Civil Suits, Demand and Collection Register of different revenue, Appropriation Register, Remission Register, Mutation Register, Assessment Register, Stamp Register, Register of Security Deposit, Register of Adjustment, Register of Lands, Register of Disbursement of cash drawn on cheques, Annual Financial Statement, Prosecution Register, Scheme Register, Advance Ledger, etc. were not being maintained by 20 ULBs ¹¹ test checked.

2.13 Internal Audit

In terms of Section 91 of the West Bengal Municipal Act, 1993, the State Government may by rules provide for internal audit of the day to day accounts of a Municipality in such manner as it thinks fit.

Rule 24 of the West Bengal Municipal (Finance and Accounting) Rules, 1999 stipulates that the Chairman-in-Council (CIC) of the Municipality shall cause a checking of accounts of the Municipal Fund, at least once in every month. In course of such checking, the officer authorized in this behalf shall identify the errors, irregularities and illegalities, if any, in the matter of maintenance of accounts and make notes of the same. The CIC shall also cause the preparation of report on checking of accounts of the Municipal Fund for every quarters of financial year which shall be placed before the Municipal Accounts Committee and the Director of Local Bodies, for examination and report.

¹⁰ Maheshtala, Dalkhola, Rampurhat, Memari, Bally, Beldanga, Rajpur-Sonarpur, South Dum Dum, Chadrakona, Raniganj, Bansberia, Arambagh, Uluberia, Kharar, Islampur, Jamuria, Kamarhati, Siliguri, Nalhati, Jangipur, Raghunathpur, Khardah, Kanchrapara, Baranagar and Taherpur.

¹¹ Maheshtala, Dalkhola, Bishnupur, Rampurhat, Barasat, Taherpur, Contai, Bally, South Dum Dum, Arambagh, Gobardanga, Uluberia, Kharar, Islampur, Jamuria, Nalhati, Budge Budge, Raghunathpur, Khardah and Kanchrapara.

It was noticed that 26¹² ULBs did not conduct any internal audit during the period 2006 – 08 while 11¹³ ULBs conducted internal audit during this period.

2.14 Conclusion

There was lack of budgetary control and absence of reliable budget formulation. Although the ULBs dealt with substantial sums, a full fledged accounts wing with skilled staff continued to be lacking in most of the ULBs to ensure proper budget preparation and accuracy in accounts. Most of the ULBs failed to present accounts in time. Increasing liability on unpaid loan, non adjustment of huge advances, loss of interest on provident fund and irregular maintenance of cash book indicated inadequate internal control and monitoring to ensure proper accounting of substantial public funds spent by the ULBs. Non preparation of balance sheet was indicative of lack of transparency of assets and liabilities in the management of public funds besides non implementation of the provisions of Acts.

Cases of theft and misappropriation of materials worth Rs. 6.91 lakh were noticed in Durgapur Municipal Corporation and North Dum Dum Municipality.

2.15 Recommendations

To bring about more transparency to the financial transactions of ULBs it is recommended to :

- Strengthen Management Information System (MIS) for oversight by the BOC and other statutory committees.
- Incur expenditure according to budget estimates.
- Strengthen internal control in the ULBs.
- Ensure timely preparation of annual accounts.
- Remit Government dues in time and fix responsibility in case of default.
- Report and take action on all cases of embezzlement, theft, etc. in accordance with the Municipal laws.

¹² Maheshtala, Dalkhola, Bishnupur, Rampurhat, Kharagpur, Uttarpara-Kotrung, Chadrakona, Chakdaha, Raniganj, Bansberia, Arambagh, Gobardanga, Kharar, Birnagar, Kulti, Islampur, Jamuria, Nalhati, Jangipur, Raiganj, Raghunathpur, Nabadwip, Beldanga, Haldia, Contai and Baduria.

¹³ North Dum Dum, Rajpur-Sonarpur, Uluberia, Panihati, Memari, Chandernagore, Kamarhati, Budge Budge, Khardah, Barrackpore and Kanchrapara.