

CHAPTER-III

Internal Control Mechanism

3.1 Internal Controls

Effective Internal Control System has to provide reasonable assurance of adherence to laws, rules, regulations and orders, safeguards against fraud, abuse and mismanagement and ensures reliable financial and management information to higher authorities. The control activities include documentation, system of authorization and approval of payments, segregation of duties, reconciliation & verification, inspection and audit, review of operating performance and monitoring.

3.2 Maintenance of Accounts by ULBs

Under Section 87 of BMA, 2007, the State Government is required to prepare and maintain a manual containing details of all financial matters and procedures relating thereto in respect of Municipality. This manual is under preparation. Section 88 and 89 *ibid*, provides for preparation of Annual Financial Statements containing Income and Expenditure Account and Balance Sheets in the formats to be notified by the Government of Bihar. These statements are yet to be prepared by ULBs, rather all the ULBs are maintaining records as per provisions contained in old BMAR, 1928.

The ULBs are maintaining basic records per provisions contained in BMAR, 1928 and MAR (Recovery of Taxes), 1951. The Budget and Accounting Formats prescribed by the C&AG of India though accepted by the State Government, has neither been operationalised so far nor has the database on the finances of ULBs been developed. However, a MoU has been signed between the UD & HD, Government of Bihar and Planning & Resources on Urban Development Affairs (PRUDA) of All India Institute of Local Self Government for preparation of Municipal Accounts Code and training and implementation of Accrual Based Double Entry Accounting System in 49 ULBs on 05.12.2007. The work is still under progress.

As per Rules 82 to 84 of BMAR, 1928, every ULB is required to prepare Annual Accounts. But, out of 95 ULBs test checked in audit, none of the ULBs except Munger Nagar Nigam prepared Annual Accounts for the period under audit. Due to non-preparation of Annual Accounts/Balance Sheet, head wise receipts and expenditure could not be authenticated and financial status of ULBs could not be ascertained.

3.3. Preparation of Budget

Under Section 71 of B&OMA, 1922, the Commissioners at a meeting held at least two months before close of the year, shall prepare detailed budget estimates showing probable receipt and expenditure for ensuing year and this is to be sanctioned by the Municipal Board Under Section 82 of the BMA, 2007, the Chief Municipal Officer shall prepare the budget which

shall be presented by the Chief Councilor to the Municipalities on the 15th day of March in each year and a copy of that shall be endorsed to the State Government who shall return this before 31st day of March with or without modification. No payment is to be made out of Municipal Fund unless covered by budget grant vide Section 75 of the Act *ibid*.

Out of 95 ULBs test checked, 32 ULBs did not prepare budget estimates for varying periods. Without preparation of budget estimates, 28 ULBs incurred expenditure of ₹ 46.06 crore and figure of expenditure of 4¹⁴ ULBs could not be ascertained.

The position of 23¹⁵ ULBs regarding preparation of budget could not be ascertained due to non production of records. The budget estimates prepared by remaining 40 ULBs contained many shortcomings. Some of them are as follows:-

1. Budget was not prepared in prescribed format.
2. Time schedule for budget preparation and its passing by the Board and onward transmission to Government was not adhered to.
3. Wide variation between actual receipts and expenditure and budget estimates was observed.

The Executive Officers of the ULBs are primarily responsible for preparation of budget and assisting the Board in scrutinizing and approving the same. The above position indicates that the Executive Officers in these ULBs failed to effectively discharge their responsibilities.

3.4 Upkeep of Records

The prescribed basic records as contained in BMAR, 1928 and MAR (Recovery of Taxes), 1951 viz. Government Grant Register, Loan Register, Loan Appropriation Register, assets Register, Demand and Collection Register, Sarkar's Ledger, 'K' progress statement, 'L' list of outstanding taxes, Advance Ledger, Adjustment Register, Work Register, Audit Register, unpaid Bill Register etc. were either not being maintained or improperly maintained by the 95 test checked ULBs.

Due to non-maintenance of above records and registers actual financial status of ULBs could not be ascertained.

3.5 Maintenance of Cash-book

During test check of cash books of 95 ULBs following deficiencies were noticed:

¹⁴ **Nagar Panchayat**- Dhaka, Koilwar, Makhdumpur, Rosera

¹⁵ **Nagar Nigam**-Biharsharif, **Nagar Parishad**-Araria, Bagha, Begusarai, Katihar, Khagaria, Lakhisarai, Masaurhi, Motihari, Narkatiyaganj, Nawada, Raxaul, Siwan **Nagar Panchayat**-Amarpur, Bikramganj, Chakia, Dalsinghsarai, Ghoghardiha, Gogri Jamalpur, Jagdishpur, Jamhore, Janakpur Road and Tekari.

1. Transactions were not classified under relevant heads of accounts.
2. Entries of the cash book were not authenticated by the competent authority.
3. Closing Balance was not analyzed.
4. Cash in chest was never verified by the competent authority and certificate of cash verification had not been recorded in cash book.
5. A centralized cash book was not maintained depicting the transactions of several cash books and due to this the position of total receipts and payments was not evident.
6. Receipt side was not entered in the cash book of Patna Municipal Corporation since 1988-89.
7. Opening Balance and closing Balance were not arrived at Bettiah since 2002-03.
Due to irregular maintenance of cash books, possibilities of misappropriation/fraud/embezzlement could not be ruled out.

3.6 Common Lapses in Maintenance of Records relating to Execution of Works

The ULBs are executing works against grants received under 12th F.C., SGSRY, MP/MLA/MLC Fund, BRGF, etc.. The audit of execution of schemes in 95 ULBs showed the following shortcomings:

1. The work completion certificate was not furnished by the ULBs in most of the cases for any of the works executed by it.
2. Photographic records of the works of the various stages of implementation and display boards as required under various schemes were not kept.
3. The Advance Ledger was not properly maintained by the ULBs.
4. The completion of work was not in due time.

3.7 Reconciliation

Reconciliation is the process to detect the difference between cash book balance with that of treasury/bank pass book balance at the end of each financial year. Due to non-reconciliation of cash book balances the cases of wrong credit and debit, interest and commission charged by the bank etc. remained unascertainable. Misappropriation of municipal finances could also not be ruled out.

The system of reconciliation was found lacking in ULBs. Instead of one cash book and account in Treasury or Bank, various sets of cash books along with separate bank accounts were maintained and funds were lodged in several bank accounts but the reconciliation of balances of each cash book was not done with all bank accounts. In most of the ULBs, the Treasury pass book/ Bank Statements were not updated and this created another problem in reconciliation because the position of uncashed cheques and deposit against total cheques and drafts could not be known.

The Cash Book balance of 18 ULBs test checked were not reconciled with those of Treasury/Bank Pass Books. As on 31st March 2010, the unreconciled difference stood at ₹ 5.79 crore .¹⁶

3.8 Verification

As per Rule 20 of BMAR, 1928, the vice-chairman or secretary shall, once at least in every week, examine the cashier's cash book, together with the pass-book so as to satisfy himself that all moneys received has really been remitted to the treasury without delay, and that the cashier does not retain in hand a sum of money in excess of the security He shall further, once at least in every fortnight, examine the cashier's or the accountant's cash book with all the subsidiary forms and registers in which receipts are given or collections recorded, with the view of testing whether all sums received is actually brought to account.

As per Rule 66 of BMAR, 1928, the cash book shall be balanced at the close of every month, and signed by the chairman, vice-chairman or secretary in token of the correctness of every entry made therein.

As per rule 130 of BMAR, 1928, physical verification of stock and store should be made half yearly and balanced return should be furnished. But no such report was found in any of the 95 ULBs test checked during audit.

In absence of verification, the possibility of any deficiency occurring might not be ruled out.

3.9 Segregation of Duties

To reduce risk of error, waste, or wrongful acts and risk of not deleting such problems, no single individual or team should control all key stages of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

However, scrutiny of accounting and payment system in ULBs revealed that Municipal Commissioner/Executive Officer was acting as DDO alongwith passing of bills and issue of pay order. Thus, occurrence of irregularities cannot be ruled out.

3.10 Monitoring

Monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. There are provisions for various levels of monitoring of works and schemes in ULBs.

¹⁶ Amarpur, Areraj, Bakhtiyarpur, Begusarai, Dalsinghsarai, Dhaka, Janakpur Road, Kanti, Kateya, Koilwar, Marhoura, Makhdumpur, Nasriganj, Phulwarisharif, Rosera, Saharsa, Siwan and Sonapur.

Rule 20 of BMAR, 1928 provides that Vice- Chairman or Secretary shall, once at least in every week, examine the cashier’s cash book, together with the pass-book. Also, Rule 64 ibid states that the accountant shall compare and verify the entries in pass-book received from treasury with the cashier’s cash-book. These checks were prescribed in order to have proper control in the maintenance, co-ordination and also avoid irregularities in the municipal accounts. However, the Executives failed to exercise these checks due to which lots of irregularities were noticed as discussed in following paragraphs:

- **Incomplete works due to lack of monitoring**

The ULBs executed schemes out of Finance Commission Grants, NSDP, SJSRY, IDSMT, MP/MLA Fund etc. On the basis of figures of execution of schemes made available to audit, it was noticed that 5224¹⁷ schemes were undertaken for execution in 58 ULBs during various period ranging from 2001-02 to 2008-09, but only 3819 schemes got completed and 1632 schemes remained incomplete despite incurring expenditure of ₹ 22.64 crore. Details are given in Table below:

Table-11

(₹ in Lakh)

Sl.No	Status as on	Number of ULBs	No. of schemes taken	No. of complete schemes	No. of incomplete schemes	Amount involved in incomplete schemes
1.	31.03.2008	42	3852	2781	1171	1746.83
2.	31.03.2009	17	1372	1038	462	517.06
	Total	59	5224	3819	1633	2263.89

It was rendered possible due to weak monitoring and supervision by the Executives of the ULBs.

- **Advance of ₹ 62.26 Crore remained unadjusted**

In violation of Rule 76 of BMAR, 1928, the authorities of ULBs continued to pay second, third and fourth advance to a work without ensuring adjustment of first or earlier advance. In test check of 52 ULBs during 2008-09 and 28 ULBs during 2009-10 it was noticed that none of the said ULBs maintained advance ledger and adjustment register, due to which the actual position of outstanding advances was not ascertainable. However, from the cash books, related work files and vouchers so far made available to audit, it was observed that the advances aggregating to ₹ 41.63 crore granted to 52 ULBs and ₹ 20.63 crore granted to 28 ULBs for

¹⁷ This did not include the figure of 4 ULBs (Areraj, Barh, Lalganj and Nabinagar) because the position of total schemes undertaken for execution was not available. One scheme abandoned in Muzaffarpur.

various purposes are yet to be adjusted/recovered. The laxity in adjustment of advances resulted in blocking of fund.

3.11 Internal Audit

Sections 96 & 97 of the BMA, 2007 lays down provisions for special audit and internal audit of ULBs in order to impose appropriate control in the maintenance and co-ordination of municipal accounts. But no manuals or rules under these provisions have been prepared. Also, no such reports in token of such internal check/audit were made available.

3.12 External Audit

The State Government has entrusted (November 2007) the audit of ULBs to ELA.

The ELA submits audit reports to each ULB within two months after completion of audit in compliance to Section 8 of LFA Act, 1925. The ULBs have to send compliance of the Audit Report to the ELA within three months. But the Executives of ULBs did not take any initiative to settle the outstanding paras despite issue of reminders. Under Section 91 (6) of BMA, 2007, the Empowered Standing Committee shall consider the report and shall, if necessary, take prompt action thereon but none of the Standing Committees of test checked ULBs either discussed the Audit Report or took steps for settlement of paras. Besides, the State Government has constituted three tier committees- Chief Secretary Level, Departmental Secretary Level and District Level to deal with the reports and compliance thereof. But no fruitful results have come up.

The position of settlement of outstanding paras of Audit Reports of ULBs was not satisfactory as would be evident from the figures shown in the table below:

Table-12

Position of Outstanding Paras in ULBs for last 3 years

Year	Opening Balance		Settled		Closing Balance	
	A/R	Para	A/R	Para	A/R	Para
2007-08	43	1485	-	242	43	1243
2008-09	64	2215	-	272	64	1943
2009-10	43	1483	-	111	43	1372