

## CHAPTER-II

### ACCOUNTS AND FINANCIAL MANAGEMENT

An efficient and disciplined Financial Management System is required for smooth functioning of ULBs. As such, the State Government enacted various Acts and made Rules for this purpose. Sections 66 and 71 of the JMA, 2000, Sections 87 and 92 of RMC Act, 2001, Rules 2, 20, 64, 66, 83 and 105 of Bihar Municipal Accounts Rules, 1928; and Rule 30, 31 and 39 of Municipal Accounts (Recovery of Taxes) Rules, 1951 provide effective tools for Financial Management of ULBs. According to the provisions of these Sections/Rules, the ULBs, at least two months before the close of the year, should prepare budget estimates of probable receipts and expenditure which should be approved by the State Government. No expenditure should be incurred without making provisions in the budget. Every local body should prepare an Annual Account of actual receipt and expenditure at the end of each year. The cash and account branches of each municipal office should be kept distinct from each other. All sums received on account of the municipal fund should be credited intact to a treasury and should not be appropriated towards expenditure. The Cash book should be balanced at the close of every month and should be signed by the Executives. All corrections and alterations in accounts should be neatly made in red ink and attested by the Executives. Physical verification of Stock & Stores should be conducted each half yearly. The Advance Ledger should be balanced quarterly and signed by the Vice-chairman or Secretary. He should satisfy himself that steps are being taken to recover or adjust advances outstanding for more than three months. Further, ULBs are also required to maintain 86 types of Forms and Accounts as per Acts and Rules. Audit scrutiny revealed that these provisions of Acts/Rules were not followed by the Officers/Executives of the ULBs. Non-carrying out of the prescribed supervisory checks and non-adherence to the provisions resulted in a number of deficiencies, which were reported to the Government/ULBs through previous Reports also. These deficiencies continued to exist in the ULBs as discussed in succeeding paragraphs.

## 2.1 Irregular lodgment of Municipal Fund

Rs 20.14 crore was irregularly lodged in 77 additional Bank accounts of ULBs.

According to Section 66 of the JMA, 2000 and Section 87 of RMC Act, 2001, all sums received on account of Municipal Fund should be paid into a Government Treasury or into any Bank used as Government Treasury. But in contravention to the said provision, 12 ULBs maintained 85 additional Bank accounts during 2007-09 without approval of the Government and Rs 20.14 crore, as detailed below, was lying in 77 additional Bank accounts of the ULBs. The balances of eight Bank accounts of three ULBs were not available.

**Table-5**

(Rs in lakh)

Sl. No.	Name of ULBs	As on 31 March	No. of additional Bank Accounts maintained	No of Bank Accounts whose balances were not available	Balance
1.	Deoghar	2009	04	-	1213.31
2.	Dumka	2009	08	-	78.51
3.	Medininagar	2009	10	-	52.24
4.	Madhupur	2009	06	-	21.38
5.	Jugsalai	2009	12	-	47.53
6.	Chaibasa	2009	04	01	12.61
7.	Jhumri Tilaiya	2009	06	06	25.23
8.	Jamshedpur	2009	14	-	383.11
9.	Lohardarga	2009	07	-	63.41
10.	Adityapur	2009	01	-	8.01
11.	Gumla	2009	10	01	81.66
12.	Kodarma	2009	03	-	26.99
<b>TOTAL</b>			<b>85</b>	<b>08</b>	<b>2013.99</b>

Maintenance of more than one account was not only in contravention of the Act but also implied lack of proper control over finances of the ULBs.

## 2.2 Non-preparation of Budget Estimates

As provided under Section 71 of JMA, 2000 and Section 94 of RMC Act, 2001, the Budget estimates showing details of probable receipts and expenditure should be prepared and placed before the Municipal Boards/Standing Committees in their meetings to be held at least two months before close of the year. Further, the budget estimates should be approved by the Municipal Body and copies thereof submitted to the Government. As the Municipal Bodies remained superseded during the period under test check, responsibility for preparation of budget estimates was on Administrator/ Special Officer appointed by the State Government.

Seven ULBs didn't prepare budget estimates whereas other ULBs utilized only 2.00 to 42.00 per cent of the provision.

As the budget proposals for these Local Bodies were to be the reflection of the aspirations of the people of those areas, utmost care in preparing budget proposals was needed to be taken. It was, however, noticed in audit that there was total absence of control over the budget formulation. There was no provision for citizens' involvement and/or bottom-up budgeting. Test check of records of 14 ULBs revealed that six ULBs had not prepared budget estimates at all, whereas, remaining ULBs had utilized only 2.00 per cent to 42.00 per cent of the budget provisions during 2007-09, rendering them unrealistic as detailed below:

**Table-6**

Sl. No.	Name of ULBs			Percentage of Actual Expenditure	(Rs in crore) Saving (+)
		Budget Estimate	Actual Expenditure		
<b>2007-08</b>					
1.	Dumka	66.90	12.79	19.12	54.11
2.	Sahebganj	12.60	1.99	15.79	10.61
3.	Madhupur	3.86	1.58	40.93	2.28
4.	Jugsalai	29.11	1.44	4.95	27.67
5.	Lohardarga	37.50	5.28	14.08	32.22
6.	Adityapur	10.83	1.22	11.26	9.61
7.	Pakur	15.39	4.43	28.78	10.96
<b>2008-09</b>					
1.	Dumka	57.05	18.61	32.62	38.44
2.	Sahebganj	12.60	1.58	12.54	11.02
3.	Medininagar	95.43	1.91	2.00	93.52
4.	Madhupur	3.15	1.32	42.00	1.83
5.	Jugsalai	33.35	8.37	25.10	24.98
6.	Lohardarga	57.71	3.56	6.17	54.15
7.	Adityapur	8.64	1.28	14.81	7.36
8.	Pakur	31.78	2.38	7.49	29.40

From above, it was clear that Budgets were either not prepared or prepared in an unrealistic manner without assessing the actual requirements which was indicative of weak and ineffective budgetary control. Moreover, people were deprived of the benefits of the development schemes through the budgetary provisions.

### **2.3. Unauthorized/Irregular expenditure without Budget provision**

Rs 63.09 crore was incurred without preparation of budget estimates by seven ULBs.

Section 76 of JMA, 2000 stipulates that no expenditure should be incurred without making provisions in the budget. Audit scrutiny revealed that out of 14 ULBs test checked, seven ULBs incurred expenditure of Rs 63.09 crore during 2007-09 without preparing budget estimates in contravention of the provisions of JMA, 2000 as detailed below:

**Table-7**

(Rs in crore)

Sl. No.	Name of ULBs	Period for which Budget was not prepared	Expenditure
1.	Deoghar	2007-09	20.35
2.	Medininagar	2007-08	1.31
3.	Chaibasa	2008-09	2.91
4.	Jhumri Tilaiya	2007-09	3.59
5.	Jamshedpur	2007-09	26.44
6.	Gumla	2007-09	7.04
7.	Kodarma	2007-09	1.45
<b>Total</b>			<b>63.09</b>

Thus, seven ULBs incurred unauthorized/irregular expenditure of Rs 63.09 crore during 2007-09. Non-preparation of Budget led to complete failure of budgetary control system in the said ULBs. Reasons for non-preparation of budget estimates were not on record.

#### **2.4 Non-preparation of Annual Accounts**

Rs 130.97 crore was incurred without preparation of Annual Accounts by 14 ULBs.

The benchmark of a good accounting system is the production of timely accurate accounts. Good accounting should appropriately reflect the transactions and balances of the entity, should adequately disclose all items that have a material impact on the financial status of the entity. Good accounting comprises provision of appropriate information with three broad purposes:-

- (a) Effectively record all transactions and balances of the urban local body;
- (b) Facilitate budgeting and planning of revenues, expenditures, and debt management; and
- (c) Help the local government be accountable to the public.

The three purposes reflect the progressive stages in the accounting spectrum, moving from routine recording of transactions to management decision making to accountability. To ensure progress in the three purposes, it is required that financial information should be complete, accurate, timely, and meaningful. The systems should generate information in a user-friendly way, and is integrated with the budgeting process. It should be prepared in accordance with accepted policies of accrual accounting and follow good practices on municipal accounting.

As per Section 83 of Bihar Municipal Accounts Rules, 1928, every Municipal body should prepare an Annual Account of actual receipt and expenditure at the end of each year but not later than 15 April. But scrutiny of records revealed that

none of the 14 ULBs had prepared Annual Accounts for the different periods as detailed below:

**Table-8**

(Rs in crore)			
Sl. No.	Name of Municipal Fund	Period for which Annual Accounts not prepared	Expenditure incurred during the said period
1.	Deoghar	2007-09	20.35
2.	Dumka	2007-09	31.40
3.	Sahebganj	2007-09	3.57
4.	Medininagar	2007-09	3.46
5.	Madhupur	2007-09	2.91
6.	Jugsalai	2007-09	9.81
7.	Chaibasa	2008-09	2.91
8.	Jhumri Tilaiya	2007-09	3.59
9.	Jamshedpur	2007-09	26.44
10.	Lohardaga	2007-09	8.84
11.	Adityapur	2007-09	2.49
12.	Gumla	2007-09	7.04
13.	Pakur	2007-09	6.71
14.	Kodarma	2007-09	1.45
<b>Total</b>			<b>130.97</b>

For want of the Annual Accounts, head wise receipt/expenditure, variation, if any and the financial performance of ULBs could not be ascertained.

## 2.5 Government Grants and Loans

Grant/Loan  
Appropriation  
Register and  
Loan Register  
were not  
maintained

The State Government releases Recurring Grants and Loans at the rate of 30 per cent and 40 per cent respectively of total Pay and Allowances admissible/payable to the regular employees (appointed within sanctioned strength) on the basis of annual demand furnished by the ULBs. Further, Non-Recurring Grants and Loans for specific purposes were suo-moto sanctioned by State Government or were sanctioned based on individual requests by the ULBs.

Despite repeated comments in successive audit reports, the ULBs failed to maintain grant/loan appropriation register showing the position of grants/loans received and spent during the year and balance of unutilized grants/loans at the end of the financial year. In absence of grant/loan appropriation register, audit checks were confined to grant/loan files, scheme registers and scheme files, to the extent produced before audit.

Further, none of the 14 test checked ULBs maintained Loan Register. As such, up to date position in respect of loans received, payable instalments along with interest accrued and amount repaid during the years could not be ascertained.

### 2.5.1 Poor utilization of Government specific Grants and Loans

Only 48.86 per cent of Government specific Grants and Loans was utilised.

Non-recurring Grants and Loans released by the State Government to the ULBs for execution of specific schemes were required to be utilized during the respective years. In absence of Grant/Loan appropriation register, it was not feasible to ascertain the exact utilization. However, the utilization was computed on the basis of the audit scrutiny of the Cash Books, Scheme Registers etc., and/or on the basis of information furnished by the ULBs. Accordingly, the utilization of Grants and Loans received for development purposes in respect of 14 test checked ULBs during the period 2007-09 was as under:

**Table-9**

(Rs in crore)						
Opening balance	Grant received	Loan received	Total	Grant and loan spent	Closing balance	Percentage of utilization
93.68	79.81	66.32	239.81	117.15	122.66	48.86

ULB wise and year wise details are given in *APPENDIX-V*

Non-recurring Grants and Loans amounting to Rs 122.66 crore were lying unutilized in 14 ULBs. Poor utilization of funds by the ULBs was mainly due to non-execution of schemes. Thus, delay in utilization of funds deprived the targeted beneficiaries of the desired benefits. This happened partially due to release of non-recurring Grants and Loans at the fag end of the year by the State Government and due to lack of monitoring by the executives of the ULBs in execution of development schemes.

### 2.5.2 Unspent balance of Government specific Grants and Loans not refunded

Six ULBs did not refund Rs 69.95 lakh of old unspent Grants and Loans to the sanctioning authority

Under Rule 14 B of Bihar Municipal Accounts Rules, 1928, unspent balance of Government Grants and Loans received for specific purposes, if not required, should be refunded to the sanctioning authority. Scrutiny revealed that six ULBs, as detailed below, did not refund the old unspent balances of Government specific Grants and Loans of Rs 69.95 lakh to the sanctioning authority and instead kept the same in their Municipal fund which was in violation of codal provisions.

**Table-10**

(Rs in lakh)

Sl. No.	Name of ULBs	Period	Old unspent balance		Total	Spent	Balance	Purpose
			Grants	Loans				
1.	Deoghar	2000-01	17.36	6.07	23.43	Nil	23.43	Various Purposes
2.	Dumka	1997-99	1.04	Nil	1.04	Nil	1.04	XIth Finance Commission Grant
3.	Lohardaga	Prior to 2004-05	6.99	Nil	6.99	Nil	6.99	Various Purposes
		Prior to 2008-09	10.75	Nil	10.75	1.86	8.89	SJSRY
		<b>Total</b>	<b>17.74</b>	Nil	<b>17.74</b>	<b>1.86</b>	<b>15.88</b>	
4.	Gumla	2007-08	6.56	19.68	26.24	22.03	4.21	Installation of Chapakal
5.	Pakur	Prior to 2007-08	22.94	Nil	22.94	Nil	22.94	SJSRY
6.	Koderma	Prior to 2000-01	2.45	Nil	2.45	Nil	2.45	SJSRY, TFC Grant, Balika Samridhi Yojna
<b>Total</b>			<b>68.09</b>	<b>25.75</b>	<b>93.84</b>	<b>23.89</b>	<b>69.95</b>	

## 2.6 Internal Control Mechanism

Provisions of internal controls were not followed by the Officers of the ULBs

Internal control system is an integral part of the functioning of an organization to govern its activities effectively to achieve its objectives. It is intended to provide reasonable assurance of proper enforcement of Act, Rules & bye-laws. Various internal control measures in financial and operational activities are built into the departmental rules and manuals and their strict adherence will minimize the risk of errors and irregularities. Audit scrutiny revealed that the provisions of internal controls such as Supervision, Documentation, Segregation of duties, Reconciliation, Physical Verification, Adjustment of advances etc were not effectively implemented by the officers of the ULBs, as discussed in the succeeding paragraphs.

### 2.6.1 Supervisory Checks

The supervisory checks prescribed in the Acts/Rules of the ULBs are important tools of internal control mechanism. Audit scrutiny, however, revealed that the following checks were not exercised by the concerned officers in any of the 14 test checked ULBs:

Supervisory checks, an important control tool, were not exercised as required under Acts and Rules.

- Rule 20 of Bihar Municipal Accounts Rules, 1928 provides that the Administrator/Special Officer/Chairman should, at least once, in every week, examine the Cashier's Cash Book together with the pass book so as to satisfy himself that all moneys received have really been remitted into the treasury without delay. He should further, at least once, in every fortnight, examine the Cashier's or the Accountant's Cash Book with all

the subsidiary forms and registers in which deposits are given or collections recorded, to check whether all sums received are actually brought to account;

- Under Rule 64 *ibid*, the Accountant should compare and verify the entries in pass book with the Cashier's Cash Book to ensure that all remittances have been duly brought to account;
- Rule 66 *ibid*, stipulates that the Cash Book should be balanced and signed by the Administrator/Special Officer/Chairman. Further, the balance of the Cash book should agree with that of the Bank/Treasury pass book;
- Under Rule 105 *ibid*, the 'Register of Rents' should be checked and signed by the authorities;
- Rule 126 *ibid*, provides for the checking of 'Register of Works' by the Accountant;
- Under Rule 30 of Municipal Accounts (Recovery of Taxes) Rules, 1951, the Tax-Daroga should check the Daily Collection Registers of collecting Sarkars by comparing the credits with duplicate receipts;
- Rule 31 *ibid*, stipulates that the Administrator/ Special Officer/Chairman would be responsible for ensuring that the postings of collection in Demand and Collection Register do not fall into arrears; and
- Under Rule 39 *ibid*, the Administrator/Special Officer/ Chairman should periodically and always at the end of every half-year, cause a list of outstanding on account of taxes of current and previous years to be prepared from the Demand and Collection Register. The purpose of the list is to check the entries with Sarkars' Ledger and Progress Statement and to reconcile the differences by tracing the error or recovering from the Tax Daroga or Sarkar and to detect any embezzlement in the collection.

Due to not carrying out of the prescribed supervisory checks, cases of misappropriation and embezzlement made by the collecting staff/cashier could not be detected by the authorities. Besides, delay in execution of schemes and heavy outstanding revenues could not be minimized as discussed elsewhere in the report.



**2.6.2 Non-maintenance of Records/ Registers**

The ULBs maintained 10 to 25 Forms and Accounts only against provision of 86.

Maintenance of records, registers and accounts is also one of the important tools of internal control mechanism. As per Rule 4-A of Bihar Municipal Accounts Rules, 1928 and Rule 9 of Municipal Accounts (Recovery of Taxes) Rules, 1951, the ULBs were required to keep and maintain 86 types of Forms and Accounts against which ULBs maintained very few, ranging from 10 to 25 only.

Even the prescribed basic records having serious financial implications were not maintained by most of the ULBs as detailed below:

**Table-11**

Sl. No.	Records/Registers not maintained	Implication
1.	Advance Ledger	The purpose, age and amount of advance to be realized /adjusted as of 31 March each year could not be ascertained. Due to this there is always probability of loss to the ULBs.
2.	Grant / Loan Appropriation Register	Grant/loan received, purpose & date of receipt, appropriation made from time to time and amount lying unutilized in respect of a particular grant/loan as on 31 March 2007 could not be ascertained.
3.	Loan Register	The date of receipt, amount, condition attached and overdue instalment of loan with interest could not be ascertained.
4.	Demand & Collection Register	Demand, collection and balance for a particular year could not be ascertained. In absence of posting of the collection money in the register, the detection of fraud and embezzlement becomes difficult.
5.	Work Register	In absence of work Register, schemes taken up, estimated cost, agency, the progress of work and its details viz. value of work done, payment made, materials issued, date of completion, works not completed/ suspended, outstanding amount to be paid against the work executed could not be ascertained. Any excess payment, in terms of cash/ material, is difficult to be detected.
6.	Unpaid bill Register	In absence of Unpaid Bill register, the amount of claims along with the reasons for withholding the payment and the actual liability of the ULBs could not be ascertained.
7.	Annual Report	The workings as well as functions of the ULBs with regard to the proper utilization of grants were not ascertainable.
8.	Deposit Ledger	Amount of the deposits and their adjustment could not be ascertained and therefore possibility of misappropriation and embezzlement of money could not be ruled out.
9.	Register of lands/ Register of Revenue Resources/Asset Register	Identification and valuation of assets, proper record of all lands, sites of buildings, tanks, ponds, ferries etc. could not be ascertained.

Some specific cases as noticed during audit are discussed later in this Report. Provision for preparation of Balance Sheet (Assets & Liabilities) has not been made in the Municipal Act and Account Rules. As such, position of Assets and Liabilities were not depicted in the accounts of ULBs. The National Municipal Accounts Manual provides for preparation of Balance Sheet by the ULBs. But, the Government has not adopted it as yet. Thus, complete financial picture of the ULBs and their Assets and Liabilities could not be ascertained.

### 2.6.3 Non-preparation of Bank Reconciliation statements

Difference of Rs 8.37 crore between Cash book and Bank balances was noticed

Cash Book and Bank /Treasury Pass Book balances at the end of the year were not reconciled by eight ULBs, though there was a difference of Rs 8.37 crore as detailed below:

**Table-12**

(Rs in lakh)

Sl. No.	Name of ULBs	As on 31 st March	Balance as per Cash Book	Balance as per Pass Book	Difference
1.	Deoghar	2009	2406.53	2469.39	62.86
2.	Dumka	2009	1404.52	1423.27	18.75
3.	Jugsalai	2009	34.80	32.49	2.31
4.	Chaibasa	2009	4.81	2.37	2.44
5.	Jhumri Tilaiya	2009	22.45	23.45	1.00
6.	Jamshedpur	2009	2405.17	1665.53	739.64
7.	Lohardaga	2009	734.39	737.31	2.92
8.	Kodarma	2009	20.30	26.99	6.69
<b>Total</b>					<b>836.61</b>

Due to non-reconciliation, possibility of financial irregularities could not be ruled out. The authenticity of balances appearing in Cash Books also remained doubtful in the absence of reconciliation with Bank/Treasury balances. In case of two ULBs (Jugsalai and Gumla), difference between two sets of balances could not be worked out due to non-maintenance/ non-production of Treasury Pass Books.

### 2.6.4 Deficiencies in maintenance of Cash Books

Due to lack of internal controls, Cash Books had several deficiencies in all the test-checked ULBs as below:

A number of deficiencies was noticed in maintenance of Cash books

- Particulars of payment, voucher nos., cheque no., classification etc. were not indicated in the payment side of the Cash Book.
- Cash Book was not closed at the end of every month and signed by the Officer authorized.
- Deletion and overwriting were frequently made.
- Heads of receipts and expenditure were not allocated.
- List of uncashed cheques was not recorded in the Cash Book.
- Cash Book balances were not reconciled with the balances of Treasury/Bank in most of the ULBs.

### 2.6.5 Cash and Accounts branches not kept distinct from each other

Cash & Accounts branches were not kept distinct from each other in four ULBs

As per Rule 2C of Bihar Municipal Accounts Rules, 1928, the cash and accounts branches of each Municipal office should be kept distinct from each other and under distinct officer, who, for the purpose of this rule, would be termed Tax Daroga/Cashier and Accountant. In no case, the same person should compile the municipal accounts and superintend the collection of the rates and other municipal income.

However, in violation of the above provisions, the cash and accounts branches were not kept distinct and the same person compiled the municipal account and made/ superintended the collection of the rates and other municipal income in four ULBs (Medininagar, Chaibasa, Gumla and Kodarma). This rendered the system vulnerable to financial irregularity.

### 2.6.6 Non-verification of Stock & Stores

Physical verification of Stock & Stores were not conducted

Rule 127 of the Bihar Municipal Accounts Rules, 1928 prescribes that the closing balance of the Stock & Stores Register should be physically verified half yearly but, in contravention of the said provision, physical verification of Stock & Store was not conducted by any of the 14 test checked ULBs. Stock and Store account was also not maintained properly by most of the ULBs. Reason for non-verification of Stock & Store was not furnished to audit.

Due to improper maintenance of Stock Registers and non-conducting of physical verification of Stock & Stores, irregularities/loss of Store items could not be ruled out.

### 2.6.7 Payment vouchers not produced before Audit

Vouchers worth Rs 1.93 crore for the period 2007-09 were not produced by 10 ULBs

In case of 10 ULBs, 343 payment vouchers (Establishment as well as Schemes) worth Rs 1.93 crore pertaining to the period 2007-09 were not made available to audit for scrutiny as detailed below:

**Table-13**

(Rs in lakh)

Sl. No.	Name of ULBs	Period of audit	No. of Vouchers not produced	Amount involved
1.	Deoghar	2007-09	67	22.74
2.	Sahebganj	2007-09	12	1.56
3.	Medininagar	2007-09	13	5.45
4.	Madhupur	2007-09	25	0.41
5.	Jugsalai	2007-09	21	1.40
6.	Jamshedpur	2007-09	66	62.03
7.	Lohardaga	2007-09	50	22.50
8.	Adityapur	2007-09	21	16.94
9.	Gumla	2007-09	64	58.89
10.	Pakur	2007-09	04	0.87
<b>Total</b>			<b>343</b>	<b>192.79</b>

Due to non-production of the vouchers to audit, the genuineness of payment could not be ascertained in audit and the expenditure could not be vouchsafed. Thus, non-production of payment vouchers rendered the system vulnerable to fraud and corruption.

#### **2.6.8 Non-adjustment of Advances**

Advances aggregating Rs 6.89 crore were outstanding against Staff/Contractors/Engineers of 13 ULBs

Advance Ledger for the period under audit (2002-09) was either not maintained or maintained improperly by the ULBs. Deficiencies noticed during audit are listed below:

- i) Entries in the Ledger were not certified by any authority.
- ii) Break-up of opening balance brought forward from the previous year was not recorded.
- iii) Category wise and year-wise analysis of outstanding advances at the end of the year was not prepared by any ULB.
- iv) Quarterly list of outstanding advances as required under Rule 78 (Form XVA) of BMA Rules, 1928, was not prepared.
- v) Second and subsequent advances for the same purpose were made without adjustment of previous ones.
- vi) Advances were made for meeting immediate and urgent nature of work but the same were not adjusted promptly.

Thus, Rules 74 to 78 of the BMA Rules, 1928 were not followed strictly.

During Audit scrutiny, it was observed that the advances aggregating to Rs 6.89 crore (**APPENDIX-VI**) granted to employees, suppliers, contractors and engineers

for various purposes up to 2007-09 by 13 ULBs were yet to be adjusted (March 2010).

Laxity in adjustment of advances over the years had encouraged undesirable practice of blocking of institutional funds for indefinite period and was fraught with the risk of defalcation/misappropriation of Government money. It was also indicative of weak internal control mechanism.

## **2.7 Internal Audit**

Internal audit is a vital component of all controls to enable an organization to assure itself that the prescribed systems are functioning reasonably well. But, there is no specific provision either in the JMA, 2000, RMC Act, 2001 or in the Municipal Accounts Rules made thereunder for internal audit of accounts of ULBs. As such, no ULB has internal audit wing.

## **2.8 Conclusions**

- The focus of the State Legislative Act seems to be on compliance rather than encouraging autonomy and self-sustainability of the ULBs, but penalties for nonperformance are not provided. Thus, enforcement mechanisms are weak. Although time schedules are prescribed for preparation of budgets, finalization of accounts, and submission of annual reports, there is no penalty or deterrence in case of delays. It is, perhaps, for this reason that accounts of all ULBs were outstanding for up to 10 years. The ULBs in Jharkhand are characterized by weak cash management and treasury/banking systems. This is primarily due to poor budget preparation, poor grant utilization, lack of a single bank/treasury account, and delayed reporting of expenditure. Bank reconciliations are generally in arrears, and cash management is limited to making payment out of receipts of ULBs. Non-preparation of Budget Estimates and Annual Accounts in contravention of the provisions of the Jharkhand Municipal Act rendered the expenditure incurred by the ULBs irregular/ unauthorized.
- Out of 86 Forms and Accounts, prescribed under the Rules, ULBs maintained only 10 to 25. Maintenance of primary accounting records was in complete disarray. Cash Books were not reconciled with the bank statements. Due to non-maintenance of basic records viz. Asset Register, Grant/Loan Appropriation Register, Advance Ledger,

Demand & Collection Register, Work register, Unpaid bill Register, true & fair view of accounts of ULBs could not be ascertained. Non/improper maintenance of records led to several administrative/financial deficiencies as discussed in various paragraphs of the report.

- Advances given by the ULBs were found to have been lying unadjusted since long. Advance Ledger did not contain the required details and adjustments were not monitored on regular basis.
- Non-remittances of Government money collected by the ULBs, excess and irregular payments, misappropriation of collection money etc indicated that the internal control system was weak and non-functional. Non-utilization of grants/loans, diversion & blockade of funds indicated weak operational control.

## **2.9 Recommendations**

An improved Public Financial Management and Accountability (PFMA) environment is crucial to better urban governance and performance. All urban local bodies stand to gain from better PFMA in the form of improved governance and accountability, realistic and participatory planning of expenditures, and consequently stronger revenue flows and provision of better services. It is, therefore, recommended that:-

- The number of additional bank accounts should be minimized by the ULBs. Every deposit and withdrawal should be made after authorization of Competent Authority. Entry in the Cash Book may also depict Bank name, Account no. etc.
- Budget Estimates and Annual Accounts should be prepared every year on time. Budget planning should be used as an exercise for efficient resource allocation, supported by appropriate policy direction, participation by people, and realistic estimates. Focus of budgets should be on results achieved and not merely money spent by the Urban Local Body.
- The share from State taxes, Grants and Loans from Central and State Government should not be released without preparation and approval of the Budget of the ULB.
- Supervisory checks as prescribed in the Acts/Rules should be exercised invariably.

- Accounts/Records prepared/maintained by the ULBs should be as per the provision of the Acts/Rules.
- Reconciliation of Cash Book with the Treasury/Bank Pass Book should be carried out on a monthly basis.
- Cash book should be maintained as per codal provisions.
- Cash and accounts branches should be kept distinct from each other to avoid loss, misappropriation.
- Physical verification of Stocks and Stores should be conducted regularly.
- Laxity on the part of ULBs in respect of timely monitoring and adjustment of advances should be viewed seriously and proper maintenance of records/adjustment of advances be ensured.
- The provision for Internal Audit should be made to ensure compliance to the Internal Controls in all ULBs. For this, Internal Audit Wing should also be established through State enactment for audit of ULBs
- Vigilance mechanism should also be established in the Department.