

CHAPTER II

ACCOUNTING PROCEDURES AND FINANCIAL MANAGEMENT

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All Urban Local Bodies (ULBs) are required to present the budget estimate before the Board of Councillors (BOC) for discussion and subsequent adoption. 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 within six months from the annual closing of the year. The succeeding paragraphs bring out the deficiencies in the system of accounting noticed during audit of 59 ULBs.

2.1 Budget Provision

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.

2.2 Inadequacy in Budgeting and control thereof

In 28 ULBs, there were persistent savings in the budget provisions over the last three years, indicating unrealistic estimates and absence of definite work plans.

The budget estimate and the expenditure of these ULBs for the years 2008 – 09, 2009 – 10 and 2010 – 11 are given in **Table 3** while the unit-wise position is detailed in **Appendices 2A, 2B and 2C**.

Table 3 : Budget estimate and expenditure for the years 2008 – 09 to 2010 – 11

Year		Budget estimate	Actual expenditure	Savings (-) Excess (+)	Percentage of variation
		(₹ in crore)			
2008 – 09	Revenue	320.97	274.55	(-) 46.42	(-) 14
	Capital	657.59	335.59	(-) 322.00	(-) 49
2009 – 10	Revenue	419.77	351.56	(-) 68.21	(-) 16
	Capital	708.08	347.86	(-) 360.22	(-) 51
2010 – 11	Revenue	576.81	433.69	(-) 143.12	(-) 25
	Capital	947.91	374.28	(-) 573.63	(-) 61

(Source: furnished by the ULBs)

It would be seen from the above table that there were substantial savings in both the revenue (14 to 25 *per cent*) and the capital (49 to 61 *per cent*) heads during 2008 – 11.

Chakdaha, Konnagar and North Dum Dum municipalities stated that the variations between provisions and expenditure were due to shortfall and delay in receipt of grant from Government and capital works not completed on time. 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.

Audit found that fifteen ULBs had incurred excess revenue expenditure of ₹ 17.75 crore and three ULBs had incurred excess capital expenditure of ₹ 4.23 crore *vis-à-vis* the budget provisions during 2008-11 as shown in **Appendices 3A & 3B**.

The above expenditure violated 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.

2.3 Preparation of Annual Accounts

Out of 419 total Annual Accounts⁹ of 126 ULBs pertaining to the year upto 2009-10, 45 ULBs submitted 67 Annual Accounts¹⁰ till 31 July 2011. 352 Annual Accounts were not submitted as of July 2011.

2.3.1 Observations on Accounting Software

To expedite the switch over to double entry accounting system, the Government of West Bengal had developed the accounting software PUROHISAB¹¹ and distributed it 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, integrity of accounting figures is unreliable.
- Code wise searching for any transaction is not possible in the software.

2.3.2 Annual accounts of Municipalities

Ten Audit Reports on annual accounts in respect of 10 ULBs¹² (in addition to Kolkata Municipal Corporation) were issued during 24 December 2010 to 31 July 2011. Out of 10 Annual Accounts, seven accounts were qualified, two accounts gave true and fair view and in one case Audit was unable to give any opinion. The major audit observations common to these Annual Accounts are as follows:

1. It was noticed that 4225 Journal Vouchers were passed and incorporated in Annual Accounts by 8 ULB¹³, without any authorization of the Competent Authority. The vouchers also were not supported by primary papers / documents.
2. No physical verification of cash as well as stock of stores was done.
3. Figures generated by the functional departments did not tally with the finance department's figures.

⁹ 41 for 2006-07, 126 for 2007-08, 126 for 2008-09 and 126 for 2009-10.

¹⁰ Twenty-six ULBs submitted Annual Accounts for the year 2006 – 07, Thirty-two ULBs for 2007–08, Six ULBs for 2008–09 and three ULBs for 2009-10.

¹¹ Accounting Manual for ULBs was released on 16.02.2006.

The accounts are being maintained from 1.4.2006 in Kolkata Metropolitan Area (KMA) and from 1.4.2007 in non-KMA.

¹² Arambagh (2007-08), Basirhat (2007-08), Burdwan (2008-09), Gayeshpur (2007-08), Gobardanga (2007-08), Haldia (2007-08), New Barrackpore (2006-07), North Dum Dum (2007-08), Pujali (2007-08) and Rajarhat –Gopalpur (2007-08).

¹³ Arambagh (644), Basirhat (411), Burdwan (182), Gayeshpur (453), Gobardanga (244), New Barrackpore (1696), Pujali (268) and Rajarhat-Gopalpur (327).

4. The Provident Fund Accounts were understated by Gayeshpur and Rajarhat-Gopalpur Municipalities by ₹ 7.55 lakh and ₹ 3.87 lakh respectively due to non-inclusion of interest accrued during 2007-08. Similarly, the Provident Fund liability of Haldia Municipality was understated by ₹ 12.40 lakh due to non receipt of interest on the fund for the period from November 1986 to October 1994.

2.3.3 Annual accounts of Municipal Corporations

The Kolkata Municipal Corporation (KMC) had submitted its accounts for the year ending 31 March 2010 on 31 December 2010. The account was certified to be non-qualified subject to the comments summarized as under. There was understatement of liability of ₹ 40.69 crore, net overstatement of assets of ₹ 76.62 crore. Consequently, the Municipal Fund and surplus of Income over Expenditure for the years were overstated to the extent of ₹ 117.31 crore.

The Municipal Corporations, namely, Chandernagore (since 2006-07) and other three municipal corporations viz., Asansol, Durgapur and Siliguri (since 2007-08) had not submitted the annual accounts till July 2011.

2.4 Diversion of funds

Seven ULBs diverted grants amounting to ₹ 5.56 Crore sanctioned for specific purposes as shown below:

Table 4 : Diversion of funds in respect of seven ULBs

Sl. No.	Name of the ULB	Period	Purpose of the grant	Expended for	Amount (₹ in lakh)
1.	Bidhannagar	2009-10	12 th Finance Commission	SJSRY Revolving Fund	5.00
2.	Dalkhola	2008-09	IDSMT	Construction of Road, Maintenance of Street Light, Hire charge of vehicles, Purchase of electrical items	4.02
3.	Midnapore	1999-2010	Various Schemes	Office establishment	227.35
4.	Rajpur-Sonarpur	2009-10	BRGF	BSUP	38.89
5.	Rishra	2008-09	School	BSUP	15.00
6.	Suri	2008-10	BRGF	Payment of Pension, street light maintenance charge, contribution in UIDSSMT scheme, extra labour wages, tractor hire charge	26.72
7.	Taherpur	2008-10	UDISSMT	IHSDP	70.05
			SSA	IHSDP	50.00
			BEUP	IHSDP	50.00

Sl. No.	Name of the ULB	Period	Purpose of the grant	Expended for	Amount (₹ in lakh)
			HHW	IHSDP	4.23
			EGS	IHSDP	10.00
			A & OE Account	IHSDP	10.00
			Improvement of Metal Road	Construction of Park	45.00
Total					556.26

Thus due to unauthorized utilization of funds for administrative expenses, maintenance and works not specified under the schemes, the objectives of scheme could not be achieved and the target groups were deprived of the intended benefits.

2.5 Accumulation of outstanding liability of ₹ 10.17 crore towards pension and gratuity

As per Government Circular dated 5 May 1982, municipalities should create 'Special Fund' for payment of retirement / terminal benefits.

Test check of records of the following 10 municipalities revealed that due to non-creation of 'Special Fund' for payment of terminal benefits or inadequate contribution to the said fund, the municipalities could not pay the dues to the retired personnel. This resulted in accumulation of outstanding liability amounting to ₹ 10.17 crore as of March – June 2010 as shown below:

Table 5 : Outstanding liability towards pension & gratuity

Sl. No.	Name of the ULB	As of	Liability on account of	Amount of liability (₹ in lakh)
1.	Bansberia	March 2010	Gratuity	65.45
2.	Barasat	March 2010	Gratuity	11.69
3.	Berhampore	March 2010	Pension and gratuity	184.78
4.	Bhatpara	March 2010	Pension and gratuity	312.72
5.	Champdani	March 2010	Pension and gratuity	161.94
6.	Khardah	June 2010	Pension and gratuity	14.19
7.	Midnapore	April 2010	Pension and gratuity	62.81
8.	Nabadwip	March 2010	Pension and gratuity	124.23
9.	Sainthia	March 2010	Gratuity	4.98
10.	Suri	March 2010	Pension and gratuity	74.25
Total				1017.04

Thus, the above municipalities failed to discharge their obligatory responsibility and deprived the retired employees of their legitimate dues.

2.6 Increasing indebtedness

27 ULBs did not repay the outstanding loan and interest accrued thereon resulting in accumulation of huge liability of ₹ 503.51 Crore (**Appendix- 4**).

According to the Act sinking funds were to be created for each loan for debt servicing. Non-compliance to the Act led to indefinite liability creating additional burden on revenue fund of the ULBs.

2.7 Liability towards outstanding water charges

South Dum Dum municipality did not have adequate water works to cater to the need of general public. Municipality procures water from KMDA. However, municipality did not pay water charges amounting to ₹ 22.31 crore to KMDA till November 2010.

2.8 Loss of fund due to theft, defalcation, misappropriation etc.

Cases of theft, defalcation and misappropriation of funds were noticed in the following ULBs as detailed below:

Table 6

Name of ULB	Period	Particulars	Amount (₹ in lakh)
Howrah	2008-09	One computer worth ₹ 30,500/- was reported missing from the stock.	0.31
Suri	2007-10	Non-deposit of stall rent collected from 63 nos. of municipal stalls vide book no. 41-140 bearing serial no. 4,572-14,000	2.08
Total			2.39

In terms of Rule 26 of the West Bengal Municipal (Finance and Accounting) Rules, 1999, in case of loss of money by embezzlement, theft, or otherwise, the Chairman or the Vice-Chairman or the Executive Officer or the Secretary should lodge a first information report (FIR) in the local police station, and promptly report the matters to the Chairman-in-Council. When the matter has been fully enquired into, he shall submit a complete report showing the total sum of money lost, the manner in which it was lost and the steps taken to recover the amount and the action taken, if any. It was observed that Howrah Municipal Corporation had not initiated any action against the missing stock. In case of Suri Municipality, ₹ 1,44,000/- was recovered from the accused (Sri Lutfar Rahaman, Joint-in-Charge of Stall Rent Collection) and ₹ 64,782/- was unrealized as on December 2010 but legal and administrative action was not taken against the defaulter.

2.9 Unwarranted expenditure

In terms of a notification dated 15 April 1992 by the Government of West Bengal, all primary schools under the municipalities stood transferred to the District Primary School Council (DPSC) together with their lands, buildings and other properties and all teachers and staff were deemed to be employed by DPSC from that date.

Despite the above arrangement, 14 ULBs had incurred a total expenditure of ₹ 6.90 crore towards salary of employees and maintenance of primary schools during the period 1992-2010 as shown below:

Table 7

Name of ULB	Year	No. of schools	Amount (₹ in lakh)
Bally	2008-2009	5	17.50
Berhampore	2007-2010	NA	256.13
Bhadreshwar	2008-2010	5	92.15
Bhatpara	2008-2010	1	10.23
Champdani	1992-2010	3	84.87
Dum Dum	2008-2010	1	29.22
Kalna	2007-2010	1	4.52
Naihati	2008-2010	3	15.30
Old Malda	1994-2010	3	27.18
Rishra	2002-2010	5	77.42
Serampore	2008-2010	2	28.07
South Dum Dum	2008-2010	2	9.88
Suri	2005-2010	NA	21.66
Uttarpara-Kotrung	2008-2010	2	15.59
Total			689.72

The Government has reimbursed ₹ 271.61 lakh, ₹ 1.19 lakh, ₹ 72.94 lakh and ₹ 12.28 lakh to Champdani, Naihati, Old Malda and South Dum Dum Municipalities against expenditure of ₹ 356.48 lakh, ₹ 76.49 lakh, ₹ 100.12 lakh and ₹ 22.16 lakh respectively. No ULB had taken up the matter with the Government for handing over the schools. Thus, the ULBs were incurring expenditure which should have been used for providing municipal services to the people.

2.10 Non-recovery / non-payment / delay in payment of electricity charges

Four ULBs¹⁴ paid ₹ 65.27 lakh for electricity charges in respect of tenants of stallholder and quarters but did not recover the same from the occupants till the close of the year 2009-10. Bhadreshwar and North Dum Dum Municipalities also paid the electricity bill for the staff quarters and stallholders but did not recover the same from the occupants.

¹⁴ Bally (₹ 4.29 lakh till March 2009), Kharagpur (₹ 5.10 lakh till December 2010), Konnagar (₹ 11.55 lakh till March 2010) and Uttarpara-Kotrung (₹ 44.32 lakh till March 2010).

Eight ULBs¹⁵ did not pay electricity charges amounting to ₹ 14.01 crore till the end of 2010, though adequate funds were available which created avoidable additional burden on account of surcharge / penalty. Three ULBs¹⁶ failed to avail the facility of rebate on electricity bill by making payment on time and led to avoidable expenditure of ₹ 8.03 lakh.

2.11 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 are being taken to recover or adjust the advances outstanding for more than three months.

It was observed that advances aggregating ₹ 28.88 crore granted by 27 ULBs to Chairpersons, Councillors, employees, suppliers, contractors and Government organizations for various purposes remained unadjusted till March, 2010 (**Appendix - 5**). This is indicative of weak internal control mechanism to follow up regular adjustment of advances resulting in blocking of institutional funds.

2.12 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 14 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 ₹ 3.05 crore accrued (**Appendix –6**) during the intervening period, thereby creating an additional burden on the ULBs as the same was not payable by the Government. Further three ULBs¹⁷ did not deposit Provident Fund subscriptions of ₹ 3.36 crore into the treasury till March 2010.

2.13 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 28 ULBs during 2008 – 11 is detailed below:

¹⁵ Baidyabati (₹ 392.95 lakh till March 2010), Bansberia (₹ 263.12 lakh till March 2010), Berhampore (₹ 125.69 lakh till March 2010), Gangarampur (₹ 4.14 lakh till March 2010), Kulti (₹ 98.53 lakh till July 2009), Panihati (₹ 51.65 lakh till March 2010), Purulia (₹ 424.00 lakh till March 2009) and Sonamukhi (₹ 41.02 lakh till February 2010).

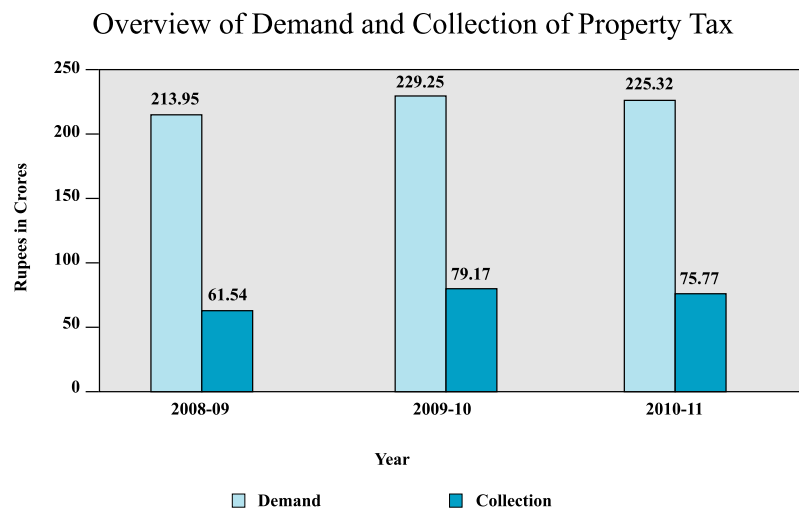
¹⁶ Bansberia (₹ 4.01 lakh), Dalkhola (₹ 0.22 lakh) and Kulti (₹ 3.80 lakh).

¹⁷ Bally (₹ 64.09 lakh till March 2009), Berhampore (₹ 194.40 lakh till March 2010) and Champdany (₹ 77.62 lakh till March 2010).

Table 8

Year	Demand			Collection			Total outstanding dues
	Arrear	Current	Total	Arrear	Current	Total	
2008 – 09	141.48	72.47	213.95	23.45	38.09	61.54	152.41
2009 – 10	154.57	74.68	229.25	37.61	41.56	79.17	150.08
2010 – 11	146.94	78.38	225.32	22.32	53.45	75.77	148.71

(Source: Figures as furnished by the ULBs)



Unit-wise details are given in **Appendices – 7A, 7B and 7C**.

It was observed that on an average only 29 to 35 *per cent* of the total demand was collected during 2008 – 11 thereby further raising the arrear demand at the close of the each year. The collection out of current demand was around 55 to 68 *per cent* during the period, resulting in increase in the arrears. Only five 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, 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:

- by presenting a bill, or
- by serving a demand notice, or
- by distraint and sale of a defaulter's movable property, or
- by attachment and sale of a defaulter's immovable property, or
- by attachment of rent due in respect of land or building, or
- 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 installments and every such installment 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 ₹ 2.16 crore and ₹ 3.14 crore in the closing balance of the outstanding dues in March 2009 and March 2010 and the opening balance of the arrear demands in April 2009 and April 2010 respectively were not furnished by the concerned ULBs. Closing balance in 2010-11 is less than the difference between demand and collection by the amount of ₹ 0.84 crore due to the difference of the same in the Bally, Gayeshpur, Pujali and Mathabhanga municipalities. The municipalities did not furnish any reason for such difference.

2.14 Non remittance of Government dues

As per provisions, tax deducted at source shall be credited to the Government account in the succeeding month. Five ULBs¹⁸ deducted Labour Cess amounting to ₹ 84.91 lakh at source during 2007-10, but did not deposit the amounts to Government account till the closure of audit¹⁹. Berhampore Municipality also did not deposit the Income Tax amounting to ₹ 17.74 lakh and the Sales Tax amounting to ₹ 17.74 lakh deducted at source during 2007-10. This was a strict violation of Government norms and it would also increase the liability of the ULBs in the shape of penalty for non-deposition of cess, tax, etc.

2.15 Deficiencies in maintenance of cash book / stock register

Test check of records of 10 ULBs²⁰, 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.

2.16 Non-maintenance of basic records

Prescribed basic²¹ records *viz.*, Work Register, Investment Register, Loans Register, Register of Un-paid Bills, Self Cheque Register, Deposit Ledger, Asset

¹⁸ Barasat (₹ 60.52 lakh during 2007-10), Bhadreswar (₹ 6.29 lakh during 2008-10), Dalkhola (₹ 2.25 lakh during 2008-10), Howrah (₹ 15.67 lakh during 2009-10) and Mekliganj (₹ 0.18 lakh during 2008-09).

¹⁹ Barasat till 24.06.2010, Bhadreswar till 13.10.2010, Dalkhola till 12.05.2010, Howrah till 31.05.2010 and Mekliganj till 20.02.2010.

²⁰ Dalkolha, Dianhat, Dum Dum, Kamarhati, Khardah, Old Malda, Rishra, South Dum Dum, Taherpur and Uluberia.

²¹ As per West Bengal Municipal (Finance and Accounting) Rule, 1999.

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 nine ULBs²² test checked.

2.17 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 accounts of a Municipality in such manner as it thinks proper.

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 a report on checking of accounts of the Municipal Funds for every quarter which shall be placed before the Municipal Accounts Committee and the Director of Local Bodies, for examination and report.

Out of 52 ULBs test checked, it was noticed that 48 ULBs²³ did not conduct any internal audit during 2007-10. Four ULBs viz., Barrackpore, Dainhat, Howrah and North Dum Dum conducted internal audit for 2008-09, 2007-10, 2008-09 and 2009-10 respectively but only Dainhat Municipality furnished the copy of the report of internal audit.

2.18 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

²² Bidhannagar, Dalkolha, Dum Dum, Khardah, Kulti, Mekliganj, Old Malda, Rishra and Taherpur.

²³ Asansol, Baidyabati, Bally, Baranagar, Barasat, Berhampore, Bhadreswar, Bhatpara, Bidhannagar, Chakdaha, Champdani, Dalkhola, Dubrajpur, Dum Dum, English Bazar, Gangarampur, Haldia, Kaliaganj, Kalna, Kamarhati, Kanchrapara, Kharagpur, Khardah, Kulti, Madhyamgram, Maheshatala, Mathabhanga, Mekhliganj, Midnapore, Nabadwip, Naihati, North Barrackpore, Old Malda, Panihati, Panskura, Pujali, Purulia, Rajarhat- Gopalpur, Rajpur-Sonarpur, Rishra, Sainthia, Serampore, Siliguri, Sonamukhi, South Dum Dum, Taherpur, Tarkeshwar and Uttarpara- Kotrang.

cash book indicated inadequate internal control and monitoring to ensure proper accounting of substantial public funds spent by the ULBs.

2.19 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.