

## CHAPTER-II

### AUDIT OF TRANSACTIONS

#### 2.1 NON MAINTENANCE OF ACCOUNTS/ RECORDS/REGISTERS

The ULBs maintained very few Forms and Accounts against provision of 86.

Maintenance of records, registers and accounts is one of the important tools of the internal control mechanism to bring in transparency and accountability. As per Rule 4-A of Bihar Municipal Accounts Rules, 1928 and Rule 9 of Municipal Accounts (Recovery of Taxes) Rules, 1951, the ULBs are required to keep and maintain 86 types of Forms and Accounts against which ULBs maintained four to nine only.

Scrutiny of the records of the test-checked ULBs revealed that even the prescribed basic records were not maintained by most of the ULBs as detailed below:

**Table-4**

Sl. No.	Records/Registers not maintained	Prescribed Rule/Acts/Sections	Name of the ULB	Implication
1.	Advance Ledger	Rule 74 (Form XV) of Bihar Municipal Accounts Rules, 1928	Hussianabad, Mihijam, Rajmahal, Garhwa, Latehar, Dhanbad, Fusro, Ranchi	The purpose, age and amount of advance to be realised /adjusted as of 31 March each year could not be ascertained. Due to this there was always probability of loss to the ULBs.
2.	Grant / Loan Appropriation Register	Rule 14 A and Rule 89 (Form XXIA) of Bihar Municipal Accounts Rules, 1928	Ranchi, Hussianabad, Mihijam, Rajmahal, Dhanbad, Fusro	Grant/loan received, purpose & date of receipt, appropriation made from time to time and amount lying unutilised in respect of a particular grant/loan could not be ascertained.
3.	Loan Register	Rule 88 (Form XXI) of Bihar Municipal Accounts Rules, 1928	Ranchi, Hussianabad, Mihijam, Rajmahal, Dhanbad, Fusro	The date of receipt, amount, condition attached and overdue instalment of loan with interest could not be ascertained.
4.	Works Register	Rule 126 (Form XXXIX and XL) of Bihar Municipal Accounts Rules, 1928	Ranchi, Rajmahal	In absence of Works 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, was difficult to detect.
5.	Unpaid bill Register	Rule 33 (Form V) of Bihar Municipal Accounts Rules, 1928	Rajmahal, Ranchi	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.
6.	Annual Report	Rule 14 Appendix-K of Bihar Municipal Accounts Rules, 1928	Hussianabad, Mihijam, Garhwa, Latehar, Dhanbad,	The working as well as functions of the ULBs with regard to the proper utilisation of grants was not ascertainable.
7.	Deposit Ledger	Rule 79 (Form XVI) of Bihar Municipal Accounts Rules, 1928.	Ranchi, Hussianabad, Latehar, Garhwa	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.
8.	Register of lands/ Register of Revenue Resources/Asset Register	Rule 100 (Form XXIXA) of Bihar Municipal Accounts Rules, 1928.	Ranchi, Hussianabad, Mihijam, Rajmahal, Garhwa, Latehar, Fusro.	Identification and valuation of assets, proper record of all lands, sites of buildings, tanks, ponds, ferries etc. could not be ascertained. Provision for preparation of Balance Sheet (Assets & Liabilities) has not been made in the Municipal Act and Account Rules.

Source: Information provided by the ULBs

**2.2.1 Non-preparation of Annual Accounts**

₹ 9.89 crore was incurred without preparation of Annual Accounts by ten ULBs.

As per Rule 83 of Bihar Municipal Accounts Rules, 1928, every ULB should prepare an Annual Account of actual receipt and expenditure at the end of each year but not later than 15 April.

Scrutiny of records revealed that none of the 10 test-checked ULBs prepared Annual Accounts for different periods as detailed below:

**Table-5**

(₹ in lakh)

Sl. No.	Name of ULBs	Period for which Annual Accounts not prepared	Expenditure incurred during the said period
1	Bundu	2007-09	97.11
2	Dhanbad	2006-08	NA
3	Fusro	2007-09	NA
4	Garhwa	2007-09	170.04
5	Hussainabad	2007-09	102.26
6	Khunti	2007-09	305.60
7	Latehar	2007-09	158.04
8	Mihijam	2007-09	155.70
9	Rajmahal	2007-09	NA
10	Ranchi	2009-10	NA
<b>Total</b>			<b>988.75</b>

Source: Prepared by audit parties from the records of ULBs

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

On this being pointed out between May and October 2011, the ULBs replied that Annual Accounts for the upcoming period shall be prepared.

**2.2.2 Irregular deposit of Municipal Fund in more than one bank account**

₹ 180.31 crore was irregularly lodged in 34 additional Bank accounts of four ULBs.

As per Section 66 of the JMA, 2000 and Section 87 of RMC Act, 2001, unless the State Government otherwise directs, all sums received on account of the Municipal fund shall be paid into a Government Treasury, or into any bank or branch bank used as a Government Treasury in or near the Municipality. However, in contravention to the said provision, four ULBs maintained 34 additional bank accounts without approval of the Government and ₹ 180.31 crore, as detailed in the following table, was lying in these accounts. The balance in one Bank account of Garhwa Nagar Parishad was not made available.

**Table-6**

(₹ 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	Bundu	2009	6	0	118.47
2	Garhwa	2009	6	1	18.52
3	Khunti	2009	8	0	54.34
4	Ranchi	2010	14	0	17839.93
<b>TOTAL</b>			<b>34</b>	<b>1</b>	<b>18031.26</b>

(Source: Information provided by the ULBs)

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

On this being pointed out between May and August 2011, three ULBs replied that effective measures will be taken to minimise the bank accounts while no reply was furnished by Bundu, Nagar Panchayat.

### 2.2.3 Government Grants and Loans

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 the State Government or were sanctioned based on individual requests by the ULBs.

As per Rule 14 A and Rule 89 (Form XXIA) of Bihar Municipal Accounts Rules, 1928, ULBs shall maintain grant/loan appropriation register, showing the position of grants/loans received and spent during the year and balance of unutilised grants/loans at the end of the financial year. Scrutiny of records revealed that six<sup>1</sup> ULBs failed to maintain grant/loan appropriation register. 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 six test checked ULBs maintained the 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.

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

Under Rule 14 C of Bihar Municipal Accounts Rules, 1928, unspent balance of Government Grants and Loans received for specific purposes, if remaining unspent for more than three complete financial years including the year in which such grants are received, shall be refunded to the sanctioning authority. Scrutiny

<sup>1</sup> Dhanbad, Fusro, Hussainabad, Mihijam, Rajmahal, Ranchi.

Grant/Loan  
Appropriation  
Register and  
Loan Register  
were not  
maintained

One ULB did not  
refund ₹ 4.71 lakh  
of old unspent  
Grants and Loans  
to the sanctioning  
authority

Hussainabad Nagar Panchayat did not refund the old unspent balances of Grants and Loans to the sanctioning authority and instead kept the same in their Municipal fund which was in violation of codal provisions. The position is detailed below:

**Table-7**

(₹ in lakh)

Sl. No.	Name of ULB	Period	Grant/ Loan received	Spent	Balance	Purpose
1.	Latehar	1988-89 to 2004-05	91.38	85.09	4.71	National Slum Development Programme, water supply, Construction of milk booth, Purchase of stabilizer

The Executive Officer replied that action would be taken to utilise the unspent amount of schemes.

The reply of the Executive Officer is not in consonance with the codal provisions.

## 2.3 REVENUE RECEIPTS

### 2.3.1 Misappropriation of revenue collected

As per instructions of the Government under Rule 22 of Bihar Municipal Accounts Rules, 1928, all moneys received on account of Municipal Fund should be remitted into the treasury as soon as can be conveniently managed. Rule 20 of Bihar Municipal Accounts Rules, 1928 provides that the vice-chairman or secretary shall, once at least in every week, examine the Cashier's cash book, together with the pass book to satisfy himself that all moneys received have been remitted intact into the treasury without delay. He should further, at least once in every fortnight, examine the Cashier's or the Accountant's Cash Book to check whether all sums received is actually brought to account.

We observed in audit that in contravention of the above rules, staff of two ULBs did not remit the collected revenue (Holding tax + Miscellaneous receipt) amounting to ₹ 1.94 lakh into the treasury. This indicates that the required checks were not exercised by the concerned offices.

At the instance of Audit ₹ 0.16 lakh was recovered out of undeposited money amounting to ₹ 1.83 lakh from the staff of Hussainabad Nagar Panchayat on March 03, 2011.

**Table-8**

(₹ in lakh)

Sl. No.	Name of ULBs	Period	Amount of Non/Short Credit	Recovered at the instance of Audit	Balance
1	Hussainabad	2007-09	1.83	0.16	1.67
2	Rajmahal	2007-09	0.11	0.00	0.11
Total			1.94	0.16	1.78

Staff of two ULBs misappropriated ₹1.94 lakh; the authorities recovered ₹0.16 lakh at the instance of Audit.

was still lying (October 2012) with the officials concerned.

The ULBs replied in October and November 2012 that action is being taken for recovery of rest of the amount.

### 2.3.2 Receipt Books not produce before audit

84 Receipt Books not made available to audit by four ULBs

During scrutiny of the Stock Register of ULBs, 84 Money Receipt Books of different types, as detailed in *APPENDIX-III*, were not produced before audit by four ULBs due to which actual collection made by the collecting agents could not be quantified:

**Table-9**

Sl.No	Name of ULBs	Period	No. of Books not produced
1	Dhanbad	2006-08	37
2	Khunti	2007-09	33
3	Rajmahal	2007-09	12
4	Garhwa	2007-09	02
Total			84

Owing to non-production of Receipt Books, the accounting of actual collection of revenues could not be ascertained which was fraught with the risk of leakage of revenue.

On this being pointed out between May to October 2011, the ULBs replied that receipt books will be produced in future.

### 2.3.3 Short realisation of Settlement amount

Short realisation of bid money of ₹ 5.29 lakh by two ULBs

Note below Rule 103 of Bihar Municipal Accounts Rules, 1928 provides that each source of miscellaneous revenue, when not managed should ordinarily be leased by auction to the highest bidder after due publication of the auction either by the chairman or the vice-chairman who should for important leases obtain from the lessee a registered *Kabuliyat* (agreement) and for petty leases should mention on the receipt the terms and conditions of the lease. Accordingly, the ULBs derive their non-tax revenues by settlement of Bus Stand, *Sairats* (properties to be settled annually or to be leased out) and *Hats* etc. every year.

Scrutiny of records revealed that two ULBs failed to collect the bid amount in full, which resulted in short realisation of bid money of ₹ 5.29 lakh as detailed below:

**Table-10**

(₹ in lakh)

Sl. No.	Name of the ULBs	Period	Settlement Amount	Amount realised	Unrealised Amount
1	Dhanbad	2006-08	3.09	2.03	1.06
2	Garhwa	2007-09	9.96	5.73	4.23
Total			13.05	7.76	5.29

on of amount, the availability of fund to be spent on providing the residents was reduced with ULBs.

The ULBs replied in September, 2012 that action is being taken to realise the outstanding amount from the bidders.

### 2.3.4 Education and Health cess

Education cess and Health cess at the prescribed percentage is to be levied and collected by the ULBs under the Bihar Primary Education (Amendment) Act, 1959 and Bihar Health Cess Ordinance, 1972 in the Municipal areas from 1 April 1959 and 4 May 1972 respectively. The cesses are collected for providing better health and education services to the inhabitants.

The State Government fixed 50 per cent of Holding tax as Health cess with effect from 01 April, 1982. The proceeds of the cess are to be credited by the ULBs into the State revenue after deducting 10 per cent as collection charge.

#### 2.3.4.1 Non collection of Health cess

Loss of ₹ 3.58 lakh due to non collection of Health cess by two ULBs.

Audit scrutiny revealed that two ULBs did not collect Health cess amounting to ₹ 3.58 lakh resulting in loss of ₹ 3.24 lakh to State revenue and ₹ 0.34 lakh to the ULBs as 10 per cent collection charges which form part of Municipal revenue, as detailed below:

**Table-11**

(₹ in lakh)

Sl. No.	Name of ULBs	Period	Holding Tax realized	Health cess to be realised @50% of Holding Tax	Amount of Health cess actually realised	Short realisation of cess.
1	Bundu	2007-09	1.15	0.58	Nil	0.58
2	Khunti	2007-09	6.01	3.00	Nil	3.00
<b>Total</b>				<b>3.58</b>	<b>Nil</b>	<b>3.58</b>
Less 10% as collection charges (loss to ULBs)						0.34
Loss to State Revenue						3.24

Source: Information provided by the ULBs

This reflects failure on the part of the Collection Officers of the ULBs as per Government Orders.

The ULBs replied in October 2012 that action for collecting the cess shall be initiated.



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### Education cess not credited into Government Account

₹ 41.91 lakh on account of Health & Education cess not remitted into Government account by four ULBs.

Audit scrutiny revealed that ₹ 46.55 lakh was collected on account of Health cess and Education cess by four ULBs. Hence, ₹ 41.91 lakh was to be credited to State revenue after retaining 10 per cent as collection charges, but the same was not done and the ULBs retained Health and Education cess collected for meeting their administrative expenses. This was in violation of Government Orders as the amount should have been credited to State revenue.

**Table-12**

(₹ in lakh)

Sl. No.	Name of ULBs	Period	Amount of Cess collected			Less 10 percent as collection charges	Amount to be remitted to Government Treasury
			Health cess	Education cess	Total		
1	Dhanbad	2006-08	23.13	18.50	41.63	4.16	37.47
2	Garhwa	2007-09	1.92	1.92	3.84	0.38	3.46
3	Hussainabad	2007-09	0.42	0.42	0.84	0.08	0.76
4	Mihijam	2007-09	0.12	0.12	0.24	0.02	0.22
<b>Total</b>					<b>46.55</b>	<b>4.64</b>	<b>41.91</b>

(Source: Information provided by the ULBs)

Three ULB<sup>2</sup>s stated in September 2012 that due to their poor financial status, share of the State Government was not deposited. However, Mihijam Nagar Panchayat stated that necessary action would be taken for crediting the amount into Government account.

### 2.3.5 Outstanding tax

Rule 37 of Jharkhand Financial Rules prescribes that subject to any special arrangement that may be authorised by the competent authority with respect to any particular class of receipts it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realised and duly credited in the Public Account. Further, Rule 39 of Rules *ibid* postulates that no amount due to Government should be left outstanding without sufficient reason.

#### (A) Holding Tax

Proper steps were not taken for realisation of outstanding Holding tax of ₹ 33.83 crore.

Scrutiny revealed that a total amount of ₹ 33.83 crore remained outstanding against the ULBs. The position of Demand, Collection and Outstanding Holding tax in respect of 10 ULBs was as under:

<sup>2</sup> Dhanbad, Garhwa and Hussainabad

**Table-13**

(₹ in lakh)

Sl. No.	Name of ULBs	Period	Arrear Demand	Current Demand	Total Demand	Collection	Arrear	Average percentage of yearly collection to total demand	
1	Bundu	2007-09	15.21	7.86	23.07	1.14	21.93	2.47	
2	Dhanbad (Dhanbad Circle)	2006-08	218.06	196.16	414.22	151.50	262.72	18.24	
		(Sindri Circle)	2006-08	10.43	55.08	65.51	34.46	31.05	26.30
3	Fusro	2007-09	Not Imposed as assessment was not done						
4	Garhwa	2007-09	25.34	7.06	32.40	3.82	28.58	5.90	
5	Hussainabad	2007-09	5.67	2.22	7.89	1.84	6.05	11.66	
6	Khunti	2007-09	35.73	17.82	53.55	6.01	47.54	5.61	
7	Latehar	2007-09	Not Imposed as assessment was not done						
8	Mihijam	2007-09	3.88	3.16	7.04	1.93	5.11	13.69	
9	Rajmahal	2008-09	5.10	0.47	5.57	0.83	4.74	7.45	
10	Ranchi	2009-10	NA	NA	3566.28	590.82	2975.46	16.57	
<b>Total</b>							<b>3383.18</b>		

(Source: Information provided by the ULBs)

Half yearly list of outstanding taxes as required under Rule 39 of Municipal Accounts (Recovery of Taxes) Rules, 1951 was not prepared by the ULBs. Hence, year-wise break up of arrear demand could not be vouched. Due to the failure of ULBs in taking prescribed action for collecting arrear taxes, a huge sum of ₹ 33.83 crore remained unrealised in eight ULBs.

**(B) Taxes against Government Buildings**

₹ 5.96 crore was outstanding as Municipal taxes against Government buildings in seven ULBs.

Section 82 of the Bihar and Orissa Municipal Act 1922, provides for imposition of taxes on holdings situated within the municipality. Taxes outstanding against Government Buildings are payable by the concerned departments of the State Government. In seven ULBs, taxes of ₹ 5.96 crore were outstanding against Government Buildings as detailed below:

**Table-14**

(₹ in lakh)

Sl. No.	Name of ULBs	As on 31st March	Outstanding Tax on Government Buildings
1	Bundu	2011	0.90
2	Dhanbad (Dhanbad circle only)	2008	156.98
3	Garhwa	2009	13.41
4	Hussainabad	2009	1.02
5	Khunti	2009	0.21
6	Rajmahal	2009	2.44
7	Ranchi	2010	420.89
<b>Total</b>			<b>595.85</b>

(Source: Information furnished by ULBs)

The ULBs made no effort to recover these dues from concerned departments/authorities of the State Government.



not take any of the following steps, prescribed in the Act, for  
ing dues:

- If the tax was not paid within fifteen days from the presentation of the bill and within fourteen days from the date on which it became due, the local body should issue demand notice under Section 205 and 123 of RMC Act and JMA respectively,
- If the tax was not paid within twenty one/ fifteen days after receipt of the notice, *ibid*, the local body should issue warrant for distress and sale of property under Sections 206 and 124 of RMC Act and JMA respectively,
- ULBs may take action under Jharkhand and Orissa Public Demand Recovery Act, 1914 (earlier known as Bihar and Orissa Public Demand Recovery Act, 1914) for recovery of the arrear as public demand under Section 218 and 129 A of RMC Act and JMA respectively, and
- ULBs may bring suit in any civil court of competent jurisdiction for recovery of the arrears under Sections 219 and 130 of RMC Act and JMA respectively.

ULBs replied (October 2012) that action would be taken to recover the outstanding Holding Tax.

### (C) *Water Tax*

₹ 26.35 lakh was realisable as water tax against 499 holders in Latehar Nagar panchayat

As per Section 82 of JMA, 2000, Commissioner of ULBs may impose water tax on the annual value of holdings.

Scrutiny of records revealed that ₹ 26.35 lakh was outstanding against 499 numbers of water connection holders of Latehar Nagar Panchayat area as water tax as on March 31, 2009 as communicated by the Nagar Panchayat. Further, Demand & Collection register of water tax was not being maintained by the Nagar Panchayat.

On this being pointed out, Executive Officer of the Nagar Panchayat stated in October 2012 that efforts would be initiated to realise all outstanding water taxes and register shall be maintained accordingly.

### 2.3.6 *Outstanding rent of Municipal Properties*

₹ 18.83 lakh was outstanding as rent of Municipal shops & stalls in six ULBs

As per Section 275 of the Jharkhand Municipal Act, 2000, the ULBs may charge rent, tolls and fees for the right to expose goods for sale in such markets and for the use of shops, stalls and standing therein.

Records of six ULBs revealed that a sum of ₹ 18.83 lakh was outstanding on account of rent of Municipal shops and stalls to be realised from the allottees as detailed below:

**Table-15**

(₹ in lakh)

Sl. No.	Name of ULBs	As on 31st March	Outstanding Shop Rent
1	Garhwa	2009	2.60
2	Hussainabad	2009	9.24
3	Khunti	2009	2.86
4	Latehar	2009	3.35
5	Mihijam	2009	0.06
6	Rajmahal	2009	0.72
<b>Total</b>			<b>18.83</b>

Source: Information provided by the ULBs

Non-realisation of rent from tenants deprived the ULBs of revenue. Action taken such as issue of warrants, filing of certificate cases, if any, to realise outstanding rent was not on record.

On being pointed out, the ULBs replied that efforts would be taken to realise all outstanding amount from the defaulters.

## 2.4 *Infructuous expenditure*

### 2.4.1 *Infructuous expenditure on loan application fee for construction of slaughter house*

Due to hasty decision of RMC regarding funding for the project of construction of slaughter house at Ranchi, expenditure of ₹ 2.02 lakh towards payment of loan application fee to HUDCO proved infructuous.

A modern slaughter house was proposed (March 2006) to be constructed by RMC as per the order of Honourable High Court, Ranchi (March 2006). To implement the project a DPR was prepared for estimated cost of ₹ 19.58 crore. As per prescribed standards 25 per cent of the estimated cost was to be covered from grants and for the rest amount financial tie up with HUDCO was sought (June 2007). HUDCO, while accepting the proposal demanded application fee of ₹ 2.02 lakh (₹ 1.80 lakh as application fee plus service tax @12.36% for total financial assistance of ₹ 17.53 crore) in June 2007. RMC remitted a cheque for the same amount in July 2007 to HUDCO.

The Corporation had invited Expression of Interest in December 2007 for construction and maintenance of Slaughter House, but no one turned up. The Corporation informed the State Government and requested for grant of ₹ 11.40 crore in January 2008. In the month of February 2008, the Corporation requested the Ministry of Food Processing Industries, Government of India for Grant of ₹ 8.93 crore.

sanctioned loan of ₹ 12.83 crore only for the project.

However, in November 2008 the Standing Committee of RMC decided that availing of loan from HUDCO was not in the interest of RMC and the slaughter house would be installed by RMC on its own.

To forward the recommendations of the State government to Central Government for this project, RMC proposed sources of finance which included, *inter alia*, State's share, Term Loan and Grant/Assistance from Ministry of Food Processing Industries etc. Considering the proposal, UDD, Jharkhand accorded sanction to the scheme in January 2009 at a cost of ₹ 18.67 crore.

Ministry of Food Processing Industries, Government of India (GOI) approved contribution of ₹ 8.65 crore and released the first instalment of ₹ 86.46 lakh in May 2010.

Accordingly, tender was invited (July 2010) but the same was not finalised till November 2011 due to objections raised by the Councillors regarding genuineness of bidders.

Without exhausting Government Channels/ Sources hasty decision of RMC regarding funding of the project, expenditure of ₹ 2.02 lakh towards payment of loan application fee to HUDCO proved infructuous.

RMC replied (March 2012) that in the interest of work and on the basis of decision taken on that time, the loan application fee was paid to HUDCO.

Further, Chief Executive Officer, Ranchi Municipal Corporation submitted a status report to the Ministry in December 2012 stating that the work for construction of Slaughter House was allotted to M/s Narsaria Construction, Gumla and work of boundary wall is in progress.

## **2.5 Internal Control Mechanism**

Internal control system is an integral part of the functioning of an organisation to govern its activities effectively to achieve its objectives. It is intended to provide reasonable assurance of proper enforcement of Act, Rules & bye-laws.

### **2.5.1 Internal Audit**

Internal audit is a vital component of the internal controls mechanism which enables an organisation to assure itself that the prescribed systems are functioning reasonably well. However, 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 an internal audit wing.

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

The supervisory checks prescribed in the Acts/Rules of the ULBs are important tools of the internal control mechanism. Audit scrutiny, however, revealed that the following checks were not exercised by the concerned officers in any of the 10 test checked ULBs:

- Rule 20 of Bihar Municipal Accounts Rules, 1928 provides that 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. 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, to check whether all sums received are actually brought to account;
- Under Rule 64 *ibid*, the Accountant shall compare and verify the entries in the 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 shall be balanced and signed by the chairman/vice-chairman/secretary. Further, the balance of the cash book should agree with that of the Bank/Treasury pass book; and
- Rule 31 of Municipal Accounts Rules (Recovery of Taxes), 1951, stipulates that the Chairman shall be responsible for seeing that the postings of collection in Demand and Collection Register do not fall into arrears.

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.

## **2.6 Conclusion**

- Maintenance of primary accounting records was poor. 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.
- Non-imposition of Municipal taxes, short realisation of tax and misappropriation of revenue collected, huge outstanding tax & rent were indicative of non-compliance with the provision of Acts.

of Government money collected by the ULBs, excess and  
ts, misappropriation of collection money etc. indicated that  
the internal control system was weak.

## 2.7 Recommendations

An improved Public Financial Management and Accountability (PFMA) environment is crucial for better urban governance and performance. ULBs 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:-

- State Government/ULBs should ensure strict enforcement of the provisions of the Bihar Municipal Accounts Rules, 1928, Bihar Municipal Accounts (Recovery of Taxes) Rules, 1951 along with other acts/rules/regulations/orders applicable to them.
- 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 ULBs.
- Overall financial management needs to be strengthened by improving collection of revenues including through legal recourse in case of arrears and preventing leakage of revenue due to delay in assessment/revision of assessment list and rates of taxes.
- Cases of gross financial irregularities and misappropriation should be investigated on priority and recovery made from the persons concerned.
- Supervisory checks as prescribed in the Acts/Rules should be exercised invariably.
- 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.