

CHAPTER II

ACCOUNTING PROCEDURES AND FINANCIAL MANAGEMENT

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All Urban Local Bodies (ULBs) are required to present the budget estimates before the Board of Councillors (BOC) for examination 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 BOC 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 68 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 BOC at a meeting specially convened for the purpose as provided under the law.

2.1.1 Budgeting and control thereof

Out of 68 ULBs audited, 32 ULBs did not furnish information on budget to Audit. In the remaining 36 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 2010-13 are given in **Table 2** while the unit-wise position is detailed in **Appendices-2A, 2B and 2C**.

Table 2: Budget estimate and expenditure in respect of 36 ULBs

Year		Budget estimate	Actual expenditure	Savings	Savings in per cent
		(₹ in crore)			
2010-11	Revenue	479.70	454.51	25.19	5
	Capital	1055.41	473.22	582.19	55
2011-12	Revenue	586.59	484.19	102.40	17
	Capital	1265.61	491.16	774.45	61
2012-13	Revenue	686.66	561.57	125.09	18
	Capital	1153.64	523.21	630.43	55

(Source: Figures as furnished by ULBs)

There were substantial savings under the capital heads (55 to 61 *per cent*) during 2010-13, against 5 to 18 *per cent* under revenue heads. Eleven ULBs⁸ stated that the savings were due to shortfall and delay in receipt of grant from State Government. Other ULBs did not furnish any valid reason for such variations.

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

It was, however, noticed in audit that 15 ULBs had incurred excess revenue expenditure of ₹ 56.63 crore and seven ULBs incurred excess capital expenditure of ₹ 40.52 crore over and above the budget provisions during 2010-13 as shown in **Appendices-3A & 3B**.

Further, section 69 (3) of the Act *ibid*, stipulates that whenever any sum is paid for purposes not covered by 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 feasible and expedient for covering the amount of such payments. However, action has not been taken by any ULB to obtain the sanction of the respective BOC for regularizing the excess expenditure.

⁸ Alipurduar, Barasat, Berhampore, Coopers' Camp, Haldibari, Jalpaiguri, Kalyani, Kharagpur, North Dum Dum, Purulia and Tamluk.

2.2 Annual Accounts of ULBs

2.2.1 Preparation of Annual Accounts

Out of 675⁹ Annual Accounts of 127 ULBs¹⁰ pertaining to the year upto 2011-12, 58 ULBs submitted 98¹¹ Annual Accounts till 31 March 2013. 577 Annual Accounts were pending as of 31 March 2013. The Accounts of 83 ULBs are pending for five (72 ULBs) to six years (11 ULBs). Accounts of only Kolkata Municipal Corporation have been finalized upto the year 2011-12 (October 2013).

2.2.2 Audit of Annual Accounts of ULBs

Thirty one Separate Audit Reports on annual accounts in respect of 20 ULBs were issued during 1 June 2012 to 31 March 2013 as per the details given in **Appendix-4**. Out of 31 Annual Accounts, audit certified 30 Accounts as ‘true and fair’ but in case of the Accounts of Howrah Municipal Corporation (2007-08), Audit was unable to express any opinion due to non-furnishing of sufficient records by the ULB.

Effects of audit comments on accounts are given in **Appendix-5** and summarized as under:

- Liability in 17 ULBs was understated by ₹ 45.98 crore while this was overstated in two ULBs by ₹ 49.36 crore.
- Asset in 15 ULBs was understated by ₹ 27.63 crore while this was overstated by ₹ 127.66 crore in seven ULBs.
- Surplus of income over expenditure in two ULBs was understated by ₹ 4.23 crore while this was overstated in 14 ULBs by ₹ 24.72 crore. Similarly deficit of income over expenditure in three ULBs was understated by ₹ one crore while this was overstated in two ULBs by ₹ 75.23 crore.

The major audit observations were as follows:

1. Fourteen ULBs passed and incorporated 14309 Journal Vouchers in Annual Accounts without authorization of the competent authority as

⁹ 41 for 2006-07, 126 for 2007-08, 127 for 2008-09, 127 for 2009-10, 127 for 2010-11 and 127 for 2011-12.

¹⁰ Excluding Kolkata Municipal Corporation.

¹¹ Thirty ULBs submitted Annual Accounts for the year 2006-07, 43 ULBs for 2007-08, 16 ULBs for 2008-09, seven ULBs for 2009-10 and two ULBs for 2010-11.

detailed in **Appendix-6**. Vouchers were also not supported by primary documents.

2. Accounting software PUROHISAB¹² had no locking arrangement. Vouchers could be incorporated at a later date after closing of a particular accounting year, which renders the system unreliable. Search based on code was not enabled.
3. Physical verification of cash as well as stock of stores was not being done regularly.
4. Figures generated by the functional departments did not tally with the Finance Department's figures.

2.3 Utilisation of funds

Central and State Governments give specific grants from time to time to ULBs for specific purposes, which are required to be spent for the purposes specified as per orders or scheme guidelines. It was noticed in audit that 20 ULBs diverted grants amounting to ₹ 24.87 crore, sanctioned for specific purposes, for other expenditure on administration, maintenance, etc. as shown in **Appendix-7**.

Thus, by diverting the scheme funds for meeting other expenditure, the ULBs deprived the targeted groups of the schemes from availing the desired benefits.

2.4 Outstanding loans

Outstanding loans and interest accrued against 28 ULBs were ₹ 794.49 crore (**Appendix-8**). According to the Act *ibid*, sinking funds were to be created for each loan for debt servicing which, however, was not created in any of these ULBs. Besides non-compliance with the Act, it would also lead to indefinite liability creating additional burden on revenue of the ULBs.

2.5 Cases of theft / defalcation / misappropriation reported

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 matter to the Chairman-in-Council. When the matter has been fully

¹² Accounting software developed for expediting switch over to double entry accounting system by all ULBs except Kolkata Municipal Corporation which was already following the double entry accounting system.

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. Cases of theft / defalcation / misappropriation reported by the ULBs are detailed below:

Table 3

Name of ULB	Period	Particulars	Amount (₹ in lakh)
Dinhata	2012-13	Municipal authority detected a case of defalcation of ₹ 5000. FIR was lodged on 22 February 2012 and the case is pending (December 2013).	0.05
Kalyani	2010-11	Municipality procured 50 solar street lights with accessories during May to August 2010 by incurring an expenditure of ₹ 9.50 lakh. Meanwhile municipal authority lodged an FIR on 23 July 2010 regarding theft of 50 batteries. Municipality recovered 47 light poles and 32 solar cells in December 2011, which however were found defunct.	9.45
Mal	2006-07	Tax collectors of ward no. V and VI of the municipality collected ₹ 25000 (approx.) against receipt books nos. 43 and 44 issued to them on 29.08.2006 and 04.09.2006 respectively but did not deposit the same with the municipality. An FIR was lodged by municipal authority on 12.07.2007.	0.25
Murshidabad	2010-11	A sum of ₹ 31842 was stolen from a casual employee of levy collection office. As per BOC resolution dated 31.12.2010, ₹ 2000 per month would have to be realized from his monthly wages till recovery of the entire amount. However, no evidence of such recovery was produced to audit.	0.32
Rajpur-Sonarpur	2010-11	Eleven Bitumen drums, costing ₹ 69322, were stolen from the godown and a complaint was lodged in May 2010.	0.69
Total			10.76

Delay in settlement of these cases may result in postponement of recoveries/non-recovery and officers/officials responsible for irregularities going unpunished.

2.6 Unwarranted expenditure

In terms of notification dated 15 April 1992 of 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, nine ULBs incurred total expenditure of ₹ 3.70 crore from municipal funds towards salary of primary school employees and maintenance of primary schools during the period 2007-12 as shown below:

Table 4

Name of ULB	Year	No. of schools	Total Expenditure	Expenditure reimbursed by State Government	Expenditure borne by ULB
			(₹ in lakh)		
Baidyabati	2011-12	7	24.79	-	24.79
Burdwan	2007-11	7	298.37	253.61	44.76
Dum Dum	2002-11	NA	158.82	106.82	52.00
Durgapur	2007-11	2	109.09	-	109.09
English Bazar	2007-12	3	115.18	97.90	17.28
Naihati	2010-12	3	79.40	67.25	12.15
Santipur	2009-12	5	83.25	-	83.25
Serampore	2010-12	2	24.90	-	24.90
South Dum Dum	2010-11	2	12.15	10.16	1.99
Total					370.21

No recorded reasons were available for not transferring the schools to the DPSC. Only Durgapur Municipal Corporation had taken up the matter with the State Government for handing over the schools and the decision of State Government was awaited. Thus, ULBs were incurring expenditure on behalf of State Government which otherwise could have been used for providing municipal services to the people.

2.7 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 advances outstanding for more than three months.

Scrutiny of records revealed that advances aggregating ₹ 15.12 crore granted by 21 ULBs to Chairpersons, Councillors, employees, suppliers, contractors, etc. for various purposes remained unadjusted as of March 2013 (**Appendix-9**). Out of these, ₹ 2.26 crore was outstanding for more than 10 years. Further it was noticed

that Chakdaha, Ghatal and Kalyani granted fresh advances to the same holder without obtaining adjustment of the previous advances.

The advance register of Maheshtala municipality for 2009-10 was reported to have been misplaced and not shown to audit. However, it was observed in audit that outstanding advance of ₹ 122.45 lakh as on March 2009 did not find place in the opening balance of the Advance register for the period 2010-11. Adjustment of advance of ₹ 122.45 lakh as on March 2009 could not, therefore, be verified in audit.

This was indicative of weak internal control mechanism in following up regular adjustment of advances resulting in blocking up of institutional funds and chances of misuse.

2.8 Timely credit of Provident Fund subscription in the treasury

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. It was, however, observed in audit that the subscription towards provident fund collected by 12 ULBs, by deduction at source, was not remitted into the treasury within the stipulated date. The delay in remittance resulted in loss of interest of ₹ 46.74 lakh accrued during the intervening period as shown in **Appendix-10**.

2.9 Monitoring of Property Tax collection

The information on property tax was furnished by only 37 ULBs and the position of current demand, collection and outstanding property tax (including service charge on Central Government Properties) therein during 2010-13 is detailed below:

Table 5 : Demand and Collection of Property Tax

(₹ in crore)

Year	Demand			Collection			Total outstanding dues	Percentage of collection
	Arrear	Current	Total	Arrear	Current	Total		
2010 – 11	128.03	54.40	182.43	16.89	29.67	46.56	135.87	26
2011 – 12	138.28	56.04	194.32	18.17	31.72	49.89	144.43	26
2012 – 13	131.18	60.24	191.42	19.26	34.03	53.29	138.13	28

(Source: Figures as furnished by ULBs)

Unit-wise details are given in **Appendices-11A, 11B and 11C**.

Collection out of the current demand was around 55 to 57 *per cent* during the period, resulting in increase in arrears and collection out of total demand was only

26 to 28 *per cent*. Only seven¹³ ULBs collected upto 50 *per cent* or more of the total dues (property tax) during the period 2012-13. Non-payment of property tax / service charge by Government holdings, closed and sick industries also resulted in accumulation of tax arrears.

Section 147 of the West Bengal Municipal Act, 1993, provides that 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 *ibid* 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 on the first day of the quarter in respect of which it is payable.

The ULBs did not enforce the above provisions to ensure prompt recovery of municipal dues resulting in accumulation of outstanding dues. It is also evident from the Table 5 that there is a difference between the closing balance of a financial year and opening balance of the succeeding year. This difference of ₹ 2.41 crore and ₹ 13.25 crore in opening balance for 2010-11 and 2011-12 was due to difference in the figures of closing balance and opening balances furnished by 13 ULBs¹⁴ indicating need for proper reconciliation thereof.

2.10 Collection of Labour cess and remittance thereof

In terms of Section 3 of the Building and Other Construction Workers' Welfare Cess Act, 1996, a cess shall be levied and collected at such rate not exceeding two *per cent*, but not less than one *per cent*, of the cost of construction incurred by an employer. ULBs shall collect the cess through demand draft alongwith the

¹³ Barrackpore, Chandernagore, Egra, Kaliyaganj, Maheshtala, North Dum Dum and Ramjibonpur.

¹⁴ Barasat, Berhampore, Bhatpara, Coopers' Camp, Dinhata, English Bazar, Kalyani, Kamarhati, Maheshtala, Purulia, Raiganj, Rishra and South Dum Dum.

application for sanction of building plan. Proceeds of cess so collected shall be paid by the local authority to the Board¹⁵ after deducting the cost of collection within thirty days of collection.

The State Government further stipulated (December 2007) that every local body, construction contractor and individual, who employ such workers in any building or construction works in relation to his own residence, shall be liable to pay a cess at the rate of one *per cent* of the cost of construction incurred by them, if the cost exceeds ₹ 10 lakh.

Information received from 33 ULBs revealed that these ULBs had not collected/short collected the cess of ₹ 11.09 crore while approving building plans and contracts exceeding the estimated cost of ₹ 10 lakh as detailed in **Appendix-12**. Thus, ULBs not only violated the Government orders by not collecting cess amounting to ₹ 11.09 crore but also deprived workers of the intended benefits as envisaged in the Act. ULBs also lost revenue of ₹ 11.09 lakh towards cost of collection at the rate of one *per cent* of total cess collected.

Seven ULBs deducted cess at source but did not deposit the amount of ₹ 2.69 crore to Government Account till March 2013. Details are given below:

Table 6

Name of ULB	Period	Cess deducted at source	Cess credited in government account	Amount lying with ULB
		(₹ in lakh)		
Asansol	2007-12	82.67	70.42	12.25
Bhatpara	2009-12	14.63	-	14.63
Bidhannagar	2010-12	88.79	-	88.79
Chandernagore	19.06.2008-31.03.2011	34.18	-	34.18
Kalyani	01.04.2007-25.12.2011	48.57	41.19	7.38
Maheshtala	01.04.2010-31.01.2012	70.31	-	70.31
Rajpur-Sonarpur	01.04.2009-30.09.2011	245.35	204.00	41.35
Total				268.89

The ULBs stated that they would impose Labour cess after approval of the BOC. The ULBs should have taken timely action for obtaining the requisites approvals based on the December 2007 order of the State Government.

¹⁵ West Bengal Building and Other Construction Workers' Welfare Board constituted under the Labour Department Notification No. 1182 – IR, dated 20 September 2005.

2.11 Maintenance of cash book / stock register

Test check of records in 16 ULBs¹⁶, revealed several deficiencies in maintenance of cash book and stock register. Number of pages of the cash books and transaction were not authenticated. Pages in between were left blank. Transactions were not recorded on the day of occurrence. Daily cash balances were not computed and certified. Monthly closing cash balances were not reconciled. Physical verification of closing balances was not done. As a result, actual Cash book balances were not ascertainable.

2.12 Maintenance of basic records

One or more prescribed basic records viz., work register, investment register, loans register, register of un-paid bills, self cheque register, deposit ledger, asset register, register of tools and plant, register of civil suits, demand and collection register of different revenue, appropriation register, remission register, mutation register, assessment register, stamp register, register of security deposit, register of adjustment, register of lands, register of disbursement of cash drawn on cheques, annual financial statement, prosecution register, scheme register, advance ledger, etc. were not being properly maintained by 12 ULBs¹⁷ test checked.

2.13 Internal Audit

In terms of Section 91 of the West Bengal Municipal Act, 1993, the State Government may by rules provide for internal audit of the 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 note 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

¹⁶ Alipurduar, Beldanga, Coochbehar, Coopers' Camp, Dum Dum, Dhupguri, Egra, Jiagunj-Azimgunj, Kharagpur, Kurseong, Murshidabad, North Dum Dum, Panihati, Siliguri, South Dum Dum and Taherpur.

¹⁷ Berhampore, Coochbehar, Gangarampur, Jiagunj-Azimgunj, Kurseong, Murshidabad, Naihati, North Barrackpore, Purulia, Taherpur, Uluberia and Uttarpara-Kotrung.

shall be placed before the Municipal Accounts Committee and the Director of Local Bodies, for examination and report.

Test check of 68 ULBs revealed that 60 ULBs¹⁸ did not conduct any internal audit during 2008-12. Alipurduar, Bolpur, Kalyani and Rajpur-Sonarpur conducted internal audit for 2009-11 each, while Bhatpara conducted internal audit for 2011-12. Three ULBs viz., Bally, Bidhannagar and Uluberia did not provide any information on internal audit conducted.

2.14 Conclusion

Lack of budgetary control was evident. Although ULBs dealt with substantial sums, budget preparation and accuracy in accounts continued to be lacking in most of the ULBs. Most ULBs failed to present accounts in time. Increasing liability of unpaid loan, non-adjustment of advances, loss of interest due to delay in deposit of provident fund subscription into the treasury and irregular maintenance of cash book indicated inadequate internal control and lack of monitoring to ensure proper accounting of substantial public funds spent by the ULBs.

2.15 Recommendations

To bring about more transparency in the financial transactions of ULBs, it is recommended that:

- Budget should be prepared realistically based on the trends of expenditure in the previous years and savings over a period of time to enable proper allocation and utilisation of funds.
- Arrear in Accounts to be cleared.
- Timely action in case of defalcation/misappropriation of funds by tax collectors and employees/casual employees should be ensured to act as deterrent.

¹⁸ Asansol, Ashoknagar-Kalyangarh, Baidyabati, Balurghat, Barasat, Barrackpore, Basirhat, Beldanga, Berhampore, Bhadreswar, Burdwan, Chakdaha, Chandernagore, Cooch Behar, Coopers' Camp, Darjeeling, Dhupguri, Dinhata, Dum Dum, Durgapur, Egra, English Bazar, Gangarampur, Gayeshpur, Ghatal, Haldibari, Halisahar, Howrah, Jalpaiguri, Jiyaganj-Azimganj, Kaliyaganj, Kalyani, Kamarhati, Kharagpur, Kolkata, Kulti, Kurseong, Madhyamgram, Maheshtala, Mal, Mekhliganj, Mirik, Murshidabad, Naihati, North Barrackpore, North Dum Dum, Old Malda, Panihati, Purulia, Raiganj, Ramjibonpur, Rishra, Serampore, Shantipur, Siliguri, Sonamukhi, South Dum Dum, Taherpur, Tomluk and Uttarpara-Kotrung.

- Timely remittance of funds to the treasury should be ensured.
- Collection of Government dues and cess as per the various stipulations should be ensured.
- Internal audits to be conducted as stipulated and follow up action on the reports of the internal audit may be ensured.