

CHAPTER- II

ACCOUNTING PROCEDURES AND FINANCIAL MANAGEMENT

2.1. *Budget Estimates*

As provided under Section 71 (Rule 8 to 14 of Bihar Municipal Accounts Rules, 1928) of Jharkhand Municipal Act, 2000 and Section 94 of Ranchi Municipal Corporation Act, 2001, the budget estimates showing details of probable receipts and expenditure shall be prepared and placed before the Municipal Board/Standing Committee in their meeting to be held at least two months before close of the year. The budget estimates shall be approved by the Municipal Body/Corporation and copies thereof shall be submitted to the State 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 As the Municipal Bodies remained superseded during the period under test check, responsibility for preparation of budget estimates was on Administrator/ Special Officer appointed by the State Government.

As the budget proposals for these local bodies are to be the reflection of the aspirational needs of the people of these areas, utmost care in preparing budget proposals needs to be taken. It was, however, noticed in audit that there was total absence of control over the budget formulation rendering them unrealistic. Test check of 13 ULBs revealed that while six ULBs were not preparing budget estimates, the seven ULBs had utilized only 21.52 per cent and 64.58 per cent of the budget provisions during 2004-05 and 2005-06 respectively as detailed on the next page:

(Rs in lakh)

<i>Year</i>	<i>Budget Estimate</i>	<i>Actual Expenditure</i>	<i>Saving (+) Excess(-)</i>	<i>Per centage of overall utilization</i>
2004-05	24959.61	5373.44	19586.17	21.52
2005-06	18715.15	12085.86	6629.29	64.58

(ULB- wise details in Appendix-3)

It was further noticed that five ULBs could utilise between 6.27 and 31.85 per cent of respective provisions and two ULBs utilized only between 62.77 per cent and 88.99 per cent during 2004-05. During 2005-06, while one ULB exceeded the provision by 0.78 per cent, six ULBs could utilise between 7.26 and 60.72 per cent. Huge savings in both the years would affect the quality of services rendered to the people of the respective ULBs.

2.2. **Unauthorised/Irregular expenditure**

2.2.1 Section 76 of Jharkhand Municipal Act, 2000 stipulates that no expenditure shall be incurred without making provisions in the budget. Audit scrutiny revealed that out of 13 ULBs test checked, seven ULBs incurred expenditure of Rs 31.57 crore during 2004-05 to 2005-06 without preparing budget estimates in contravention of the Municipal Act as detailed below:

(Rs in lakh)

<i>Sl.No.</i>	<i>Name of Municipal Bodies</i>	<i>Amount incurred</i>		<i>Total</i>
		<i>2004-05</i>	<i>2005-06</i>	
1	Daltonganj	494.47	685.41	1179.88
2	Lohardaga	Nil	489.23	489.23
3	Chaibasa	120.71	252.17	372.88
4	Chas	235.63	220.96	456.59
5	Adityapur	165.69	226.80	392.49
6	Khunti	16.52	106.34	122.86
7	Bundu	55.98	87.35	143.33
	Total	1089.00	2068.26	3157.26

2.2.2 Ranchi Municipal Corporation incurred an expenditure of Rs 9906.24 lakh against budget provision of Rs 9829.42 lakh without making a provision for the excess expenditure of Rs 76.82 lakh by revision of budget estimates as required under Section 76 of Jharkhand Municipal Act. This was in contravention of the provisions of the Act. This resulted in failure of budgetary control of the Municipal Corporation, Municipality and Notified Area Committee.

2.3 **Annual Accounts**

During audit it was seen that 12 ULBs did not prepare Annual Financial Statements for the period 2001-02 to 2005-06 as detailed below:

<i>Sl.No.</i>	<i>Name of ULB</i>	<i>Period for which Annual Accounts not prepared</i>	<i>Expenditure incurred during the said period (Rs in lakh)</i>
1	Ranchi	2001-02 to 2005-06	8519.43
2.	Deoghar	2001-02 to 2005-06	1940.97
3.	Hazaribagh	2005-06	778.15
4.	Dumka	2004-05 to 2005-06	464.43
5.	Daltonganj	2001-02 to 2005-06	1918.87
6.	Chaibasa	2001-02 to 2005-06	585.26
7.	Jugsalai	2001-02 to 2005-06	623.54
8.	Chas	2001-02 to 2005-06	296.44
9.	Mihijam	2001-02 to 2005-06	195.01
10.	Adityapur	2004-05 to 2005-06	392.48
11.	Khunti	2001-02 to 2005-06	629.95
12.	Bundu	2001-02 to 2005-06	207.44
		Total	16551.97

For want of the Annual Accounts, estimated and actual expenditure of Rs 165.52 crore incurred during 2001-2006 by there local bodies under different budgeted heads could not be ascertained and scrutinized.

2.4. **Utilisation of development grants/loans**

Grants and Loans released by the State Government to the ULBs for execution of specific schemes are required to be utilized during the respective year. During 2004-06, utilisation of grants and loans received for development purposes in respect of 13 test checked ULBs was as under:

(Rs in lakh)

<i>Opening balance</i>	<i>Grant received</i>	<i>Loan received</i>	<i>Total</i>	<i>Grant and loan spent</i>	<i>Closing balance as on 31-03-2006</i>	<i>% of utilization</i>
6854.21	5450.55	5369.72	17674.48	8317.01	9357.47	47.05

(ULB wise and year wise details are given in Appendix-4.)

The poor utilization of funds by the ULBs was mainly due to non-execution of schemes. The delay in utilisation of funds deprived benefits reaching to the targeted beneficiaries.

2.5 **Non-maintenance of accounts in new format**

The Comptroller and Auditor General of India in March 2004 had suggested appropriate budget and accounting formats for the ULBs, which was circulated by the Ministry of Urban Development to all States for uniform adoption.

Accordingly, the State Government, U.D.D. was requested repeatedly for adoption and creation of database in new formats. Meetings of the Accountant General with the Secretary and Chief Secretary to the Government were also held on 03.08.05 and 15.06.06 respectively for that purpose, but the State Government/ULBs had not prepared the accounts in the prescribed format without stating any reason.

2.6 Annual Reports

As required Under Rule 14B of Bihar Municipal Accounts Rules, 1928, local bodies are required to prepare an Annual Report on the working of the municipality showing all grants already made but not fully spent.

None of the test checked ULBs prepared the said report. Due to non preparation of the Annual Report, the workings as well as functions of the local bodies with regard to the proper utilization of grants were not ascertainable.

2.7.1 Assets & Liabilities

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 are not depicted in the accounts of ULBs. Thus, the complete financial picture of the ULBs and their Assets and Liabilities could not be ascertained.

National Municipal Accounts Manual (NMAM), prepared by Ministry of Urban Development and Comptroller & Auditor General of India, prescribes for preparation of Balance Sheet by the ULBs. The preparation of State Municipal Accounts Manual by the State Govt. on the basis of NMAM is under process vide letter no. 821 dated 16 March 2007.

2.7.2 Municipal Properties

To have a proper record of all lands, including road lands on road-sides, sites of buildings, tanks etc. in possession of the Municipality, 'Register of Lands' in prescribed Form XXIX-A is required to be maintained under Rule 100 of the Municipal Account Rules, 1928. Further, under Rule 103, a separate register in Form XXX showing details of each source of revenue, viz. municipal pounds, ferries, buildings, lands etc shall be maintained by each ULB.

The ULBs did not maintain the aforesaid registers to depict their assets and properties. In the absence of assets registers, identification and valuation of assets could not be ascertained in audit.

2.7.3 *Deposit Ledger*

Rule 79 of Municipal Account Rules, 1928 mandates ULB to maintain a Deposit Ledger wherein all money received by way of security from contractors or others and all sums received which are not the properties of the municipality, and have been placed with the municipal authorities for a temporary purpose only, shall be entered.

None of the sample checked ULB maintained the aforesaid register.

Due to non maintenance of deposit ledger, the veracity of the deposits received by the ULBs and their adjustments could not be ascertained and therefore possibility of misappropriation and embezzlement of money cannot be ruled out.

2.8 *Internal Audit*

Provision for Internal Audit was not made in the Jharkhand Municipal Act, 2000, Ranchi Municipal Corporation Act, 2001 or in the Municipal Accounts Rules made there under. The Government needs to make a provision for Internal Audit so as to safeguard Government money.

Had the internal audit been conducted at the regular interval the following irregularities pointed out in the Report would have been avoided:

- (i) Collection money amounting to Rs. 28.98 lakh not deposited into Municipal Fund in 12 ULBs during 99-2006 (vide para 3.5)
- (ii) Outstanding property tax accumulated to Rs. 692.30 lakh upto 31 March 2006 could have been restricted to some extent (vide para 3.1)
- (iii) Irregularities/delay in implementation of schemes, mentioned in chapter VI of the Report, could have drawn the attention of the authorities beforehand.

2.9 *Supercession and Non-holding of election.*

Under Section 16 of the Ranchi Municipal Corporation Act, 2001 and Section 29 of Jharkhand Municipal Act, 2000, the term of elected bodies of Municipal Corporation and Municipalities would be of five years. After expiry of the said period, the State Government, in exercise of powers conferred upon it under Section 530 of Patna Municipal Corporation Act, 1951 and Section 385 of Bihar Municipal Act, 1922, dissolved all local bodies during the period 1986 to 1995. Since then, the State Government had not issued notification for holding fresh elections.

Due to non-holding of elections to municipal bodies, State Government did not receive Rs 46.49 crore upto 2005-06 in the shape of grants from Central Government on the recommendations of the Eleventh and Twelfth Finance Commission.

2.10 *Non adjustment of Advances*

Advances aggregating to Rs 30.05 crores granted by 13 ULBs to employees, suppliers, contractors and engineers for various purposes up to 2005-06 were yet to be adjusted. Laxity in adjustment of advances over the years has encouraged undesirable practice of blocking of institutional funds for indefinite period (Appendix -5) and is fraught with the risk of defalcation/misappropriation of Government money. The ULBs had also not maintained the ledger accounts properly.

2.11 *Loss of interest on Provident Fund*

Provident Fund subscription collected by deduction from salary is required to be credited to the fund accounts at Bank between the first and fourth of the next month to avoid loss of interest payable to the subscribers. However, it was noticed that Rs.20.29 lakh deducted from salary during 1989-90 to 2005-06 in respect of five ULBs was not remitted into banks till March 2006.

Hence, the employees sustained a loss of interest of Rs 6.09 lakh upto March 2006 due to non-deposit of P.F. money (Appendix-6).

2.12 **Bank Reconciliation statement not prepared**

Difference between Cash Book and Bank statement /Treasury Pass Book balances at the close of 2005-06 was not reconciled by five ULBs and showed a difference of Rs 1.21 crore as detailed below:

(Rs in lakh)

<i>Sl.No.</i>	<i>Name of Municipal fund</i>	<i>Balance as per Cash Book</i>	<i>Balance as per Treasury</i>	<i>Difference</i>
1.	Deoghar	859.02	913.79	54.77
2.	Dumka	694.75	697.27	2.52
3.	Chaibasa	275.54	329.23	53.69
4.	Jugsalai	227.03	217.09	9.94
5.	Chas	359.64	359.34	0.30
Total				121.22

Due to non-reconciliation of the two sets of balances, possibility of financial irregularities could not be ruled out. The authenticity of balances appearing in Cash Books of five ULBs, also remained doubtful in the absence of reconciliation with Bank Statement.

2.13 **Deficiencies in maintenance of Cash Books**

The ULBs did not maintain their Cash Books as per instructions under Rules 63 to 66 of Bihar Municipal Accounts Rules, 1928. Some of the irregularities in the maintenance of the Cash Books noticed are :

- The Cash Book of RMC was maintained in loose computerized sheets without providing the prescribed columns and not in the prescribed form in Bound volume as required under Rule 63 of Bihar Municipal Accounts Rules, 1928.
- Entries in the Pass Book and in the Cashier's Cash book were not verified while writing the receipt side of Accountant Cash Book as required under rule 64 of Bihar Municipal Accounts Rules, 1928.

- In many ULBs, particulars of payment, voucher nos., cheque no., classification etc. were not indicated in the payment side of the Cash Book.
- It was not balanced at the close of every month and signed by the Special Officer.

2.14 Non- maintenance of basic records

The prescribed basic records as detailed below were not being maintained by most of the ULBs. The implications of non-maintenance of these records are as under:

<i>Sl. No.</i>	<i>Records/ registers not maintained</i>	<i>Implication</i>
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, amount lying unutilized in respect of a particular grant/loan as on 31 March 2006 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 alongwith the reasons for withholding the payment and the actual liability of the ULB could not be ascertained.

2.15 **Supervisory Check**

The supervisory checks prescribed in the following Acts/Rules of the ULBs were not exercised by all the 13 ULBs:

- Rule 20 of Bihar Municipal Accounts Rules, 1928 provides that the Administrator/Special Officer/Chairman 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 in 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 deposits 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 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 Administrator/Special officer/Chairman. Further, the balance of the cash book shall agree with that of the Bank/Treasury pass book;
- Under Rule 105, *ibid*, the 'Register of Rents' shall 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 Account (Recovery of Taxes) Rules, 1951, the Tax-Daroga shall 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 shall be responsible for seeing 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 shall periodically and always at the end of every half year, cause a list of outstandings on account of taxes of current and previous years to be prepared from the Demand and Collection Register.

Due to nonobservances of above Rules, possibility of short credit, non-credit of collection money and non-maintenance or improper maintenance of the account records etc can not be ruled out.