

Chapter –V

5 Accounting Procedures and Financial Management

According to the Gujarat Municipalities Act, Bombay provincial Municipal Corporations Act and Rules made their under ULBs are required to prepare the budget estimates and maintain accounts in the prescribed forms within stipulated time. The succeeding paragraphs bring out the deficiencies noticed during test - check of records of ULBs conducted during the period from April 2009 to July 2010.

5.1 Unauthorized payment of ₹ 20.66 Crore

As per Section 49 of Gujarat Municipality Act read with para 38 of Municipal Account Code, the Chief Officer of NP should sign the bill for payment order before issue of cheque.

Scrutiny of records of Amreli NP for the period 2003-04 to 2005-06 revealed that 6759 bills amounting ₹ 20.66 Crore pertaining to expenditure on establishment, Works and contingent expenditure etc. as mentioned in table No.5 below were passed for payment without obtaining order /consent of the Chief Officer, resulting in unauthorized payment of ₹ 20.66 Crore during 2003-06.

Table No.5 (₹ in Crore)

Voucher No.	Audit Period	Total amount of payment
1 to 2622	2003-04	6.20
1 to 2342	2004-05	6.77
1 to 1795	2005-06	7.69
Grand Total		20.66

The CEO while accepting the audit observation stated (May 2007) that the bills were submitted to the Ex-Chief Officer to obtain the signature but the bills were not signed by the Ex-Chief Officer. Fact remained that payment was made unauthorisedly which calls for regularization /investigation.

5.2 Outstanding water charges of GWSSB, ₹ 35.94 crore

As per section 87 C of Gujarat Municipalities Act, 1963, in the sphere of Public health and sanitation for preventing danger to the health of the inhabitants from the insufficiency or unwholesomeness of the existing supply, a proper and sufficient supply of water can be obtained at a reasonable cost and provided to inhabitants.

As per Rule 99 (i), Chapter – VII of Municipal Taxation Rules, imposition of taxes on the basis of general water rate or a special water rate or both for water

supplied by the municipality, which may be imposed in the form of a tax assessed on buildings and lands or in any other form. If, a prudent policy was adopted, no unit would incur the losses on Water Supply Schemes operated by them.

During the course of audit for the year 2004-05 to 2006-07, it was observed that expenditure on providing water by the NP, Gandhidham increased every year and had accumulated to ₹ 35.94 crore at the end of the year 2006-07. However, no additional tax was imposed to cover the huge expenditure. Further it was observed that as on 31 March 2007, outstanding recovery of NP stood to ₹ 9.29 crore of which outstanding water tax was to the extent of ₹ 4.91 crore.

Gandhidham NP (GNP) procures water at ₹4 per thousand litre from Gujarat Water Supply & Sewerage Board (GWSSB) and supplied at fixed rate varying from ₹ 25 to ₹ 300 per month depending on end use and size of water pipe line. Due to this, during the year 2007-10 the loss sustain by GNP was ₹ 1.72 crore (2007-08: ₹ 1.49 crore 2008-09: ₹ 0.08 crore and 2009-10: ₹ 0.15 crore).

The Chief Officer, GNP stated (May 2009) that water tax was revised in March 2008 but due to increase of water supply charges and over billing by GWSSB, the liabilities on water charges have increased. On the intervention of GoG, GWSSB has agreed in April 2006 that NP would pay annually ₹ 20 lakh each year to liquidate the liabilities.

However, fact remained that as of 31 March 2007 there was liability of ₹ 35.94 crore and outstanding tax recovery mounted to ₹ 9.29 crore which indicated weak monitoring by the NP.

5.3 Improper maintenance of Cash book

As per codal provisions every ULB should maintain Cash Book in the prescribed Performa. Each financial transaction, receipt as well as expenditure, should invariably be entered in the cash book immediately on its occurrence. The cash book is vital record to establish correctness and transparency of financial transactions of the institute; therefore, it should be maintained correctly, neatly and with self contained information.

Scrutiny of cash books of Kheda, Jambusar and Harij NP for the period 2005-07 revealed following general defects in maintenance of cash books.

- (i) Prior to utilisation of cash books, the number of pages in Cash Book should be counted and certificate of head of office / Branch Officer to that effect should be recorded on the first page of the Cash Book. However, it was not found obtained.
- (ii) Daily closing was not found signed by the Chief Officers.
- (iii) Summary of receipt & expenditure at the end of month was not prepared.

- (iv) Details of cheques issued for payment were not recorded.
- (v) Monthly surprise checking/verification of cash book transactions were not made.
- (vi) Amount of Security Deposit / Tax Deducted at Source etc deducted from the bills was not properly adjusted in cash book.
- (vii) Names of Banks with available balance at the credit as per daily/monthly closing were not recorded.

The concerned Chief Officer stated (October-December 2009) that hence forth the cash book would be updated by recording necessary entries.

5.4 Un reconciled difference between Cash Books and Bank Pass Book

As per para 44 of Municipal Account (MAC) code, at the end of each month, amount of receipt and expenditure as recorded in cash book is required to be reconciled with bank Pass Book and difference, if any, should be set right with detailed explanatory foot note.

During test check of records of Dharampur NP (DP Valsad) and Nadiad NP for the period 2005-06, it was noticed (July 2010) that the balance of bank Pass books was not reconciled with that of cash books. As a result, there was unreconciled difference of ₹ 44.73 lakh between the cash book and bank pass book (Dharampur ₹ 1.36 lakh and Nadiad ₹ 46.10 lakh) as on 31st March 2009. In the absence of reconciliation of cash balance, authenticity and correctness of the accounts of these local bodies could not be verified in audit and probability of fraud/misappropriation of funds could not be ruled out.

On this being pointed out, it was replied (July 2010) by the Chief Officers that the difference would be reconciled as per audit instructions.

5.5 Unrealistic Budget

Section 76 of Gujarat Municipalities Act, 1963, read with para 24 of Municipal Code and Para 126 of Gujarat Budget Manual Vol-1 provide that the budget should be prepared in a realistic manner taking into consideration all the vital factors. Variation between the budgeted and actual receipts & expenditure entails financial indiscipline. It is, therefore, essential to take utmost care in preparing budget giving due attention to the prioritized needs of the people.

Review of the records of seven²⁸ NPs for the period 2003-06 revealed that in over all, there was huge difference between estimated and actual receipt & expenditure as shown in Table No. 6 below:

²⁸ Jambusar, Talaja, Vapi, Dharampur, Bilimora, Limbdi and Borsad

Table No. 6**(₹ in crore)**

Year	Receipt			Expenditure		
	Estimated	Actual	Variation Percentage	Estimated	Actual	Variation Percentage
2003-04	43.29	20.64	22.65 (52 %)	40.41	18.95	21.46 (53 %)
2004-05	59.53	33.99	25.54 (42 %)	56.89	27.68	29.22 (52%)
2005-06	59.21	47.31	11.91 (20 %)	58.30	40.96	17.34 (30%)

As could be seen from the Table that the variation between estimated and actual receipts ranged from 20 *per cent* (2005-06) to 52 *per cent* (2003-04). Further the variation between estimated and actual expenditure ranged from 30 *per cent* (2005-06) to 53 *per cent* (2003-04). Huge variation between estimation and actual were due to less receipt of fund and to that extent less execution of works/schemes also. This reflected that budget estimates framed were unrealistic.

In the test checked NPs the variation between estimated and actual receipts ranged from 18 *per cent* (Limbdī: 2004-05) to 72 *per cent* Jambusar: 2004-05) and variation between estimated and actual of expenditure ranged from 19 *per cent* (Bilimora: 2003-04) to 76 *per cent* (Vapi: 2005-06). Variations between estimation and actuals, thus, reflected that budget estimates framed were unrealistic.

5.6 Outstanding Advances - ₹ 3.83 crore

According to Gujarat Financial Rules (GFR), advance paid to any individual, contractor, suppliers etc, are required to be recouped within a financial year. While sanctioning the advance and temporary advances it should be ensured that it should be recovered by the end of respective financial year.

Scrutiny of records of nine²⁹ NPs (**Appendix-XI**) revealed that an amount of ₹ 3.83 crore was outstanding as of March 2009 out of which ₹ 37.62 lakh was outstanding against the contractors and suppliers for purchase of material for execution of departmental works for the period ranging from four to 15 years.

Further, scrutiny of records revealed that in Limbdī NP, advance of ₹ 63.10 lakh was outstanding as of 31st March 2010, out of which an amount of ₹ 19.75 lakh was outstanding against five officials of the NP pertaining to the period 1995-96 to 2005-06. It was also noticed that huge advances were given to these five employees routinely without insisting on adjustment /recovery of previous outstanding advances. Non recovery or adjustment of advances from employees

²⁹ Limbdī, Dharampur, Mandvi, Borsad, Jambusar, Kheda, Talaja, Balasinor and Nadiad.

since long indicated undue favour / financial aids by NP and the amounts might have been utilized by the officials for their own benefit. For want of full details Audit could not ascertain the genuineness of the expenditure of amount released.

Huge outstanding advances is indicative of weak internal control mechanism and monitoring which may lead to misuse /misappropriation and non / doubtful recovery of advance resulting in ultimate loss to the Institution.

5.7 Poor recoveries of Taxes.

The ULBs generate revenues by collecting taxes, rent, fees etc from public under their jurisdiction. Revenue from the tax collection is the main source of income of the ULBs to meet with expenditure incurred for providing basic facilities to the inhabitants. Deficit in collection of revenue materially affects the developmental works.

Scrutiny of records for the year 2005-06 revealed that in eight³⁰ NPs, the collection of Tax against the demand raised was very poor as given in Table No 7 below:

Nature of Taxes	O/s as on 1.4.05	Tax due for 05-06	Total	Recovery during the year	Recovery O/s as on 31.3.06	% of recovery
House Tax	313.00	300.29	613.29	312.31	300.98	51
Other Tax	16.70	16.19	32.89	13.03	19.86	40
Safai Tax	2.35	0.61	2.96	0.58	2.38	20
Light Tax	6.85	62.76	69.61	35.55	34.06	51
Water Tax	129.16	163.84	293.00	108.19	184.81	37
Spl Water Tax	91.40	104.05	195.45	56.19	139.26	29
Gutter Tax	113.26	126.69	239.95	116.73	123.22	49
Sanitation Tax	3.44	6.99	10.43	5.20	5.23	50
Prop & Spl Water Tax	82.03	170.29	252.32	145.97	106.34	58
Total	758.19	951.71	1709.90	793.75	916.15	46

It could be seen from the above table that, over all recovery of dues was 46 *per cent* only ranging from 20 *per cent* (Safai Tax) to 58 *per cent* (property & special Water Tax) of the total demand raised. Out of this ₹4.43 crore was outstanding in Nadiad NP forming 48 *per cent* of total outstanding of ₹ 9.16 crore. Outstanding tax recovery indicated poor monitoring in collection of taxes against the demand raised by the NPs.

³⁰ (1) Nadiad, (2) Kheda, (3) Limbdi ,(4) Bilimora ,(5) Borsad,(6) Jambusar,(7) Dhandhuka and (8) Balasinor

5.8 Conclusion

Preparation of budget proposals and financial accounting were found to be defective and not as per provisions of Gujarat Municipality Act. There was lack of budgetary control and absence of reliable budget formulation. Irregular maintenance of cash books and non reconciliation of bank book balances with that of cash book balances, payment without approval of competent authority, non-adjustment of huge advances, etc. indicated that internal control mechanism was not adequate to ensure proper accounting of substantial Public funds dealt with by the ULBs.

5.9 Recommendations

- Budget should be prepared taking inputs from constituent divisions /Wards, Governmental Departments/organisations and targets there against;
- Maintenance of a comprehensive data base for all tax payers, licensees, tenants for watching issue of demand in time and prompt collection of revenues and
- Accountability of expenditure and internal check system.